THE ECONOMIC TIMES
CORPORATE DOSSIER, 19 Dec 2003

Globalisation's Double Edged S

What makes a globalised company? Is it a global market presence or supply chain? A global capital base? Or is it a global mind-set? At a time when Indian companies are going global, we present a series by globalisation guru **Anil K Gupta**. *An alumnus of IIT Kanpur and IIM Ahmedabad, Gupta worked with HLL before moving on to Harvard to do a PhD. He's currently the Ralph J. Tyser Professor of Strategy and Organisation at the Smith Business School, University of Maryland, and the co-author of 'The Quest for Global Dominance' and 'Smart Globalisation'*

Anil K. Gupta

From the widget maker to the local cafe, everyone's going global these days. And that's the way it should be. But there are a few pitfalls along the way that need to be cautiously navigated...

guru speak

BY VIRTUALLY every measure - growth in international trade, foreign direct investment, and cross-border flows of technology - globalisation is becoming increasingly pervasive. Many of the barriers that kept the industries and economies of different countries relatively isolated from one another are either declining or vanishing.

Witness, for example, the world-wide ideological shift from the state to the market (look at Russia, China, and India); the emergence of regional free-trade zones such as the EU, ASEAN, NAFTA, and Mercosur; the creation of the World Trade Organisation and its acceptance by virtually every major country; the globalisation of currencies (for example, the emergence of the euro and the nascent dollarization movement in South America); the globalisation of media such as CNN, BBC, Yahoo, Time, Newsweek, Financial Times; and revolutionary changes in the cost and effectiveness of international communications and transportation technologies.

Given these trends, it is not surprising that globalisation is no longer confined to enterprises in a few industries such as electronics, pharmaceuticals, automobiles, or branded consumer goods. In the last decade, a global footprint has become a reality even for companies that own and manage, for example, local supermarkets (Netherlands-based Royal Ahold) or even the neighbourhood café (US-based Starbucks). For most midsize to large companies in almost any industry, globalisation is beginning to appear a strategic imperative rather than a discretionary option.

Nevertheless, it can be perilous for managers to overlook the fact that globalisation is a double-edged sword. Although a global or globalising enterprise can reap many benefits from the vast potential of a larger market arena, scale and location-based cost efficiencies, and exposure to new product and process ideas, globalisation also exposes the firm to numerous strategic and organisational challenges emanating from a dramatic increase in diversity, complexity, uncertainty, and the fixed cost base of doing business. How managers address these challenges determines whether globalisation yields competitive advantage or disadvantage.

In this, the first of a series of articles for The Economic Times, I summarise the most common mistakes that companies make in the quest for spreading their wings over the global landscape.

Mistake 1: Viewing Globalisation as an Escape from Domestic Weakness

Global expansion almost always requires up-front investment of capital and the leveraging of technological, cost, or other strengths from the home base to foreign markets. Domestic strength gives the company these resources and enables it to ride out the rough learning curve that it is likely to encounter during the early years in foreign markets. However, domestic weakness not only deprives the company of any financial, managerial, and organisational slack, it also adds unneeded complexity and distraction at a time when the focus should be on fixing the home market problems. The outcome is that escapism often ends up looking like jumping from the frying pan into the fire.

Gateway, the US-based computer company, provides a good example of such a mistake. Similar to Dell Computer, the most successful PC company in the world, Gateway also follows a direct sales and distribution model whereby customers configure and order their machines over the telephone or the web. However, a persistent problem for Gateway has been that they are smaller and operationally less savvy than Dell. Given this competitive scenario, Gateway has never been more than an also-ran and has run into financial difficulties on a periodic basis. Global expansion proved to be an utter failure for Gateway and, by 2001, the company had announced a complete shutdown of virtually all operations outside the US

Mistake 2: Overlooking - or Becoming a Prisoner of - Cross-Border Diversity

Notwithstanding the homogenising influences of global media, narrowing income gaps across many countries, and widespread fluency in the English language, diversity along multiple dimensions – consumer behaviour and buying power, distribution systems, national cultures, language, regulatory regimes, cost structures, and resource availability — is likely to remain an enduring feature of humanity for a very long time. Ignoring it or assuming that it does not matter can be ruinous to corporate health.

The US-based Lincoln Electric Company, the clear leader in the welding equipment and supplies market, learned this lesson the hard way. Lincoln is well known for its piece rate based incentive system, which provides almost no cushion on the down side but also no bounds on the up side. This system has worked extremely well in the US where individualism and financial incentives are some of the core elements of the national culture. Lincoln tried to apply the same system to several of its acquisitions in Europe and almost came to the brink of corporate-wide financial collapse.

It is important to remember that, while sensitivity to cross-border diversity is crucial, it can be equally hazardous to become a prisoner of diversity. Smart globalisation requires that managers undertake a fine-grained analysis of diversity in order to make more discriminating decisions: Which elements of diversity are market or operational imperatives and thus necessitate adapting what the company sells and how it operates in a country? Which elements of diversity can be leveraged global-

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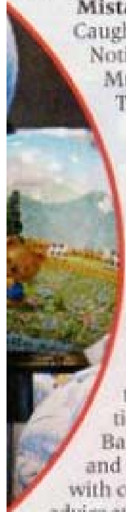
ly? Which must be treated as fundamental barriers to conducting business within the particular country? And, which are likely to be short-lived?



Mistake 3: Getting Caught Up with Simplistic Notions Such As Multinational vs. Transnational

Some of the popular literature on global strategy suggests that globalising companies should pick a clear strategy to define who they are and what they want to become: multinational vs. international vs. transnational and so on. Based on my research and consulting work with companies, I find this advice at best simplistic and at worst misleading. Every company – be it Intel, Coca-Cola, or Ranbaxy – consists of multiple activities in the value chain, including research, product development, sourcing, production, distribution and after sales service. No matter what the industry or company, some activities need to be centralised globally, some need to be globally co-ordinated but operationally decentralised, while others need to be decentralised and best left uncoordinated. Consider Yahoo. It is clear that technology development and brand management are examples of activities that Yahoo must manage on a centralised basis. Yet, people go to Yahoo for navigation and content, most of which is very local in nature. Thus, decisions regarding content acquisition need a high degree of decentralised management. In essence, some activities within Yahoo are best managed on a globally centralised basis, others on a co-ordinated transnational basis, and yet others on a decentralised multinational basis. Yahoo is not any one of these; it is all of these. To sum up, simplistic classifications may be good for cocktail conversations; however, they can be very costly when used for decision-making in the boardroom.

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