1 Introduction

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KEY THEMES OF THIS BOOK

The world’s largest 500 companies are often called multinational enterprises (MNEs), i.e. they produce and/or distribute products and/or services across national borders. These MNEs have repeatedly been identified as the drivers of globalization. Yet, very few are “global” firms, with a “global” strategy, defined as the ability to sell the same products and/or services around the world. Instead, nearly all the top 500 firms are regionally based in their home region of the “triad” of North America, the EU, or Asia. It follows that a firm can be internationally active across its home-region market but not be global.

A large firm can have what appears to be an international “global” strategy within its home region. This occurs if the firm’s successful strategy includes selling the same products and/or services in the same manner within its home region of the triad, allowing the firm to gain all the potential economies of scale and scope and/or differentiation advantages within its home region market. The data presented in this book show that there appear to be no additional scale, scope, or differentiation advantages to be gained by going global.

If firms have exhausted their growth in their home region of the triad and still go into other regions, they then face a liability of foreignness and other additional risks by this global expansion. In other words, the advantages of standardization can be achieved within the home region of the triad, especially if the home-region government pursues policies of an internal market such as social, cultural, and political harmonization (as in the EU) or economic integration (as in NAFTA and Asia).

A related point is that inter-block business is likely to be restricted by government-imposed barriers to entry. The EU and the United States are now fighting trade wars and are responsive to domestic business lobbies seeking shelter in the form of subsidies and/or protection, as in the case of the steel and agricultural sectors. There will remain cultural and political differences between members of the triad, but there will be fewer of these within each triad block. Increasingly, there will be European firms, North American firms, and Asian firms. They will continue to have 70% or more of their sales in their home region of the triad. There are only a handful of purely "global" MNEs in the world's largest firms. Globalization will remain a mirage in that regionalism will continue to dominate international business strategy.

In *The End of Globalization* (Random House, 2000) I developed evidence for this regional triad theme mainly at aggregate level for the core triad of the United States, EU, and Japan. The intra-regional trade and FDI across the "broad" triad of North America (NAFTA), Europe, and Asia (including Oceania) were also examined and twenty cases of the regional strategies of multinationals were analyzed. In this book, new database at the firm level for the world's 500 largest companies and calculate their sales across the regions of the broad triad. This is discussed in detail in chapter 2. The new database is a unique contribution which then permits new analysis of the strategies of these 500 companies, arranged by industry sector, size, and region. Chapter 5 examines the 49 largest retail firms in the world; chapter 6 the world's largest financial institutions; chapter 7 the pharmaceutical firms; and chapter 8 the automobile companies. Chapter 9 looks at strategies of twenty-two other large firms. Theoretical discussion of the regional nature of international business strategy is developed in chapters 3, 4, 10 and 12, with the public policy implications of regional multinationals discussed in chapter 11.

In summary my research suggests that both globalization and the use of global strategy is a myth. Far from taking place in a single global market, most business activity by large firms takes place within regional blocks. Government regulations and cultural differences segment the world into the broad triad regions of North America, the EU, and Asia-Pacific. Rival multinational enterprises from the triad compete for regional market share and so enhance economic efficiency. As a result, top managers now need to design triad-based regional strategies, not global ones. Global markets are not becoming homogenized, nor is there a trend towards globalization. Rather there is a trend, over the last quarter century, towards regionalization and increased intra-regional economic activity. Only in a few sectors, such as consumer electronics is a global strategy of economic integration viable. For most other manufacturing, (such as automobiles, chemicals, energy, etc.) and for all services, (such as retail, banking, etc.) regional strategies are required. The implications of this for corporate strategy and public policy are discussed in chapters 10, 11, and 12.

THE EMPIRICAL CONTRIBUTION OF THE BOOK

In this book, the top 500 firms are examined, both across sectors and in a set of individual case studies arranged by triad regions. Data are presented on the percentage intra-regional sales for all of the 500 firms for which data can be obtained. No data are available for 120 firms. Virtually all of these are extremely domestic (home country) in their sales, e.g. the US Post Office (ranked at 29) and the Central Japan Railway (ranked at 460). Of the remaining 380, the vast majority (320) are home-region based, having less than 50% of their sales in the other two parts of the triad. For another fifteen there are insufficient data. Twenty five are "bi-regional", with at least 20% of their sales in two parts of the triad, and less than 50% in their home triad. Eleven are host-region based with more than 50% of their sales in a foreign region. Only nine of the 500 are truly "global", with at least 20% of their sales in all three parts of the triad, but less than 50% in one region of the triad. This is a picture of regionalization, not globalization. As such, the 500 largest MNEs in the triad need a regional solution to strategy.

A powerful indicator of triad/regional economic activity is the concentration of the world's largest firms in the core triad of the United States, EU and Japan. In 2001, of the world's largest 500 firms, 428 were in these core triad regions, see table 1.1. In 1996, it was 443; in 1991 it was 410, and back in 1981 it was 445. Over the last twenty years the trend has shown a decrease in the proportion of US firms, from 242 in 1981 to as few as 157 in 1991, but up to 162 in 1996, and 197 in 2001. The EU number is very consistent, being 141 for the old EEC members in 1981 but up to 155 for the enlarged EU in 1996, and down to 143 again by 2001.

Those 500 firms dominate international business. They account for over 90% of the world's stock of FDI and nearly 50% of the world trade. These firms are the "unit of analysis" for research in international business. They are the key vehicles for both FDI and trade. Furthermore, research presented in this book reveals that the majority of their sales, on average, are intra-regional, and for

Table 1.1. The world's largest 500 multinational enterprises

Country	1981	1991	1996	2001
United States	242	157	162	197
European Union	141	134	155	143
Japan	62	119	126	88
Canada		9	6	16
South Korea		13	13	12
China			3	11
Switzerland		10	14	11
Australia		9	5	6
Brazil		1	5	4
Others	55	48	11	12
Total	500	500	500	500
Triad total	445	410	443	428

Source: Fortune, 'The *Fortune* Global 500," July 22, 2002.

Table 1.2. Classification of the world's largest 500 firms

Type of firm	No. of firms
home-region oriented	320
bi-regional	25
host-region oriented	11
global	9
insufficient data	15
no data	120
Total	500

the great majority of them this intra-regional trade is concentrated in their home region of the triad. Very few of these 500 large firms actually have any significant presence in all three regions of the triad. (In fact only a handful, such as IBM, Coca Cola, and LVMH qualify as "global" firms.) A somewhat larger subset of the 500 have a strong presence in at least one other part of the triad in addition to their home region. These four types of firms are:

(i) firms in their home region of the triad: these are labeled home-based MNEs, or home-region oriented firms;
(ii) firms in two regions of the triad: these are labeled "bi-regional" firms;
(iii) firms in a foreign region of the triad; these are "host-region oriented firms";
(iv) firms in all three regions of the triad: these are labeled "global" firms.

It should be noted that firms in all groups may be "international", but not necessarily global. Only group (iv) firms are actually "global", but group (ii) bi-regional firms may be regarded as partly global. Clearly, group (i) and group (iii) firms are not global by any definition.

THE REGIONAL SALES DATA IN THE BOOK

In this study of the 500 largest firms in the world, shown in table 1.2, the intra-regional sales of these firms across the three regions of the triad can be calculated for 380 firms, based on information in the annual reports and web pages. The 380 firms in table 1.1 can then be classified according to those that are global, bi-regional, and domestic. There are no data for 120 firms (most of which are entirely domestic) and insufficient data for another fifteen firms. The main results are:

(a) home-region oriented: of the top 500 firms, 320 have at least 50% of their sales in their own region of the triad;
(b) bi-regional: only 25 of the 500 firms are bi-regional, with over 20% of their sales in at least two parts of the triad plus less than 50% of sales in their home region;
(c) host-region oriented: 11 host-region oriented firms with over 50% of sales in a triad region other than their own;
(d) global: only nine of the top 500 MNEs are global, defined as having sales of 20% or more in each of the three regions of the triad, but less than 50% in any one region.

Of these classifications, the intra-regional average sales for each group is:

- 80.3% for the 320 home region oriented firms;
- 42.0% for the 25 bi-regional MNEs;
- 30.9% for the 11 host-region ranked firms;
- 38.3% for the nine global MNEs;

The average intra-regional sales for all 380 firms with available data is 71.9%.

The book’s tables (especially in chapter 2) include notes on individual companies and their different reporting systems. Of the 380 companies with data on regional sales, 200 are service companies and 180 are manufacturing companies. There are sixteen broad industry categories, with nine manufacturing categories and seven service categories. All of these points are discussed in detail in chapter 2. These data indicate that the top 500 MNEs operate on a home-region basis for 320 of 380 cases of MNEs for which data are available. This is very strong evidence of regional/triad activity. There are few “global” MNEs – indeed so few as to render the concept of “globalization” meaningless. “Global” strategy is a special case, not the general case.

These data confirm in a robust manner the analysis of Rugman (2000) on the myth of global strategy and the nature of triad-based business activity rather than globalization. These data also confirm the study of the 49 retail MNEs in the 500, in Rugman and Girod (2003). In that study, only one retail MNE was found to be global, namely LVMH. This result is evident across all industry sectors except for electronics, which includes seven of the nine global firms in the set.

THE REGIONAL AND GLOBAL CASE STUDIES IN THE BOOK

In this book I analyze up to sixty firms in detail, as can be seen in chapters 4 through 9. This study of individual firms, whose operations are often described as global, shows that most are mainly dependent on their home region of the triad for their revenue stream. Some of the well-known companies discussed in this book are:

McDonald’s
Nike
Wal-Mart
Carrefour
Volkswagen
Toyota
Honda

In fact, Wal-Mart derives over 94% of its revenue from its home-region of North America. Over 80% of Carrefour's revenues are in its home region of Europe. McDonald's and Nike are bi-regional in Europe and North America. Toyota is bi-regional in Japan and North America. Finally, Honda is a host-region oriented company with over 50% of its sales in the North American market. Not one of these, traditionally thought of as global companies, is, in fact, global.

Of the 500 companies studied, nine are global companies with over 20% of their sales deriving from each of triad regions. Of these, the five most relevant cases are included in this book.

1. IBM
2. Canon
3. Coca-Cola
4. Flextronics
5. LVMH

Seven of the nine global companies in the top 500 are in the computers, office, and electronics industry. IBM, Canon, and Flextronics illustrate the nature of this highly mobile manufacturing industry. IBM is the largest and one of the most global companies in the world. Of the other global companies, Coca-Cola is the only global food manufacturer, while LVMH is a manufacturer and luxury retailer and the only service provider with a global scope.

SUMMARY OF THIS BOOK

It is widely accepted that multinationals drive globalization. The top 500 multinationals dominate international business, accounting for over 90% of the world's FDI and nearly half its trade. But globalization, as commonly understood, is a myth. Far from taking place in a single global market, business activity by most large multinationals takes place within any one of the world's three great regional blocks – North America, Europe, and Asia-Pacific.

Of the world's largest 500 multinationals in 2001, 428 were in the USA, the EU, and Japan. Only a handful – nine – were by my definition truly global. These took at least a fifth of their sales from each of the three regions but less than half from any one region. Most – 320 out of 380 – were stay-at-home multinationals, deriving on average four-fifths of their sales from their home regions. There were 25 "bi-regional" multinationals, deriving less than half of their sales from their home region but over a fifth from one other region. Eleven "host-country" oriented multinationals derived over half their sales from a region other than their own.

There is no discernible trend towards either global branding or standardization. Only a few multinational brands, with Coca-Cola leading the way, are global. Even McDonald's is bi-regional, not global. In terms of the value chain, a few multinationals outsource offshore. Nike has 99% of its production outside of the United States, almost all of it in Southeast Asia. Yet its brand name drives sales on a regional basis: most of its sales are in North America and Europe.

International manufacturing is dominated by large multinationals in location-bound clusters. The best example is the automobile industry. The data on foreign sales of the world's largest automobile multinationals shows that the majority of these sales were made in their home regions. GM at 81% and Ford at 61% have most of their sales in North America. In contrast BMW and VW have most of their sales in Europe. Assembly and production of vehicles, however, is generally carried out regionally in each market served.

The service sectors are even more regional. In retail, only one of the largest forty-nine retail firms was global – LVMH. In banking, all the companies had the vast majority of their assets in their home regions. Citigroup had 80% of its assets in North America. Insurance is even more local. Even knowledge-intensive services industries are largely local. For example, professional service firms are located locally with partners largely immobile and their networks, at best, regionally based.

Most R&D is undertaken by the world's largest 500 multinationals in their back yards. Patents, for instance, are registered in local regions. Active multinationals first attempt to register at the US Patent Office. To overcome regulatory barriers to marketing and distribution pharmaceutical R&D then spreads through separate national patents. Similarly, health care is not global but delivered locally, subject to local regulations. Global markets, therefore, are not becoming homogenized. Only in a few sectors, such as consumer electronics, is a global strategy of economic integration viable.

It is possible that the "back end" production of the value chain is more globalized than the "front end" of sales. However, even there we find a picture of regionally based production clusters and networks similar to the automobile sector. Only in electronics is production likely to be globalized, as transportation costs are low relative to assembly. Otherwise, production in chemicals, resources, and services is likely to be highly localized. In retailing, a few multinationals, such as Nike and Wal-Mart, outsource a significant part of their products from other regions; but, again, most production is localized in order to address national preferences.

All of this has major implications for business. Managers need to design regional strategies, not global ones. Only in a few sectors does a global strategy make sense. For most other sectors, strategies of national responsiveness are required.

However, there is nothing to stop a multinational pursuing a "global" strategy within its home region. By this, a multinational will sell the same product or service in the same way across all the countries of its home region, allowing it to gain economies of scale. Only when a multinational exhausts the possibilities for growth in its home region, does it need to venture into other regions.

In other words, all the advantages of global homogeneity can be achieved regionally, especially if the governments of that region pursue internal market policies such as social, cultural, and political harmonization (as in the EU) or economic integration (as in NAFTA and in Asia).

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Alan M. Rugman
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More information

2 Regional multinationals: the data

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The world’s 500 largest firms derive most of their revenue from their home-region markets. For instance, most European firms derive over 50% of their revenues from their marketing operations in European countries. The same can be said for companies in the North American and Asia-Pacific regions. Indeed, in 2001, the average intra-regional revenue for the 380 firms for which data was available was 71.9%. These 380 companies account for 76% of the world’s 500 largest firms and 79.2% of their revenues. The following methodology describes how the data were gathered and categorized.

METHODOLOGY

Data on the “Regional Nature of Global Multinational Activity” (the RNGMA database) used in this book were collected from official documents of the world's 500 largest companies according to *Fortune*, "The *Fortune* Global 500" (2002). Wherever possible the annual report and, in the case of United States companies and those with large operations in the United States, SEC filings were used to obtain data on regional sales. Companies failing to publish this information were contacted directly. For companies that did not disclose the information, relevant information (number of stores, net income, etc.) was used to estimate regional revenue. Of the largest 500 firms, intra-regional sales data were obtained for 380 companies.

Throughout this chapter, companies are classified as home-region oriented; bi-regional; host-region oriented; or global. Home-region oriented companies derive at least 50% of their revenues from their home region. Bi-regional companies derive at least 20% of their revenues from two regions (including their own) but less than 50% in any one region. For host-region oriented companies, a foreign region must account for at least 50% of sales. A global company derives at least 20% of its sales from each of the three main regions of North America, Europe, and Asia-Pacific, but less than 50% in any one region.

Each company defines regional segmentation based on its organizational structure and not by a universal definition of region. The database includes notes on individual companies and their different reporting systems.

To calculate intra-regional sales in Europe, data on Europe as a whole were given preference. For companies that only reported data for the EU, this number was used to estimate Europe as a whole. Wherever there is a superscript "m", Europe refers to Europe, the Middle East, and Africa (the EMEA region). For a small number of companies, only information on the UK is available. These companies are recognized by a "u" superscript.

For the purpose of this study, Asia-Pacific refers to Asia and Oceania. It does not include Pacific countries in the Americas. Many companies only report sales in the Japanese market. These companies are recognized by a superscript "j". A small number of companies report their Asian figures include Africa. These companies can be recognized by a superscript "f".

The database defines North America as the members of the North American Free Trade Agreement: Canada, Mexico, and the United States. When a company does not report sales in NAFTA, the next best alternative is used. For companies that only report sales in the US the superscript "z" has been used. If the company defines North America as Canada and the United States we use the superscript "a". In the case of the Royal Bank of Canada, which only reports revenues in Canada, the superscript "c" has been used. If there is no entry for North America, but instead there is an entry for the Americas, this number is used to estimate the region and is denoted by the superscript "l".