The INSEAD–Wharton Alliance on Globalizing

Strategies for Building Successful Global Businesses

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WITH ROBERT E. GUNTHER

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1 *Globalization and its challenges*

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WHILE debates about globalization rage in the media, at international conferences, and in the streets, managers still have work to do. They need to create profitable businesses and generate returns for investors by entering global markets, compete against international rivals, make investments, and find opportunities in the shifting tableau of a world in continuous transformation. And they need to do this in a way that is environmentally and socially responsible. The global arena is where the extraordinary opportunities lie, but it is also where complexity and risk abound.

Although some government leaders may feel they have a choice about whether to participate in this process of globalization, it is not a matter of choice for businesses. All but the most insular business leaders recognize that in a world in which markets are global, they need to be actors on the world stage. In fact, apart from a few wealthy individual investors, firms are the economic entities that *must* create value across national boundaries. Firms are responsible for producing and delivering the goods and services that benefit the people of the world. And firms are the actors that can create new opportunities for sustainable economic development.

Even as the political debate continues between proponents of *globalization* and its "discontents,"[1] companies are wrestling day-to-day with the process of *globalizing*. The debate over globalization is itself part of the context for world business, but managers of global corporations face other complex problems. They need to lead and govern far-flung international enterprises, enter diverse international markets, and manage risks and uncertainties that range from global supply chains to financial risks to geopolitical risks.

Our objective in this book is to illuminate and understand more fully the challenges that confront managers today in firms that are globalizing. To this end, faculty from Wharton and INSEAD probe deeply

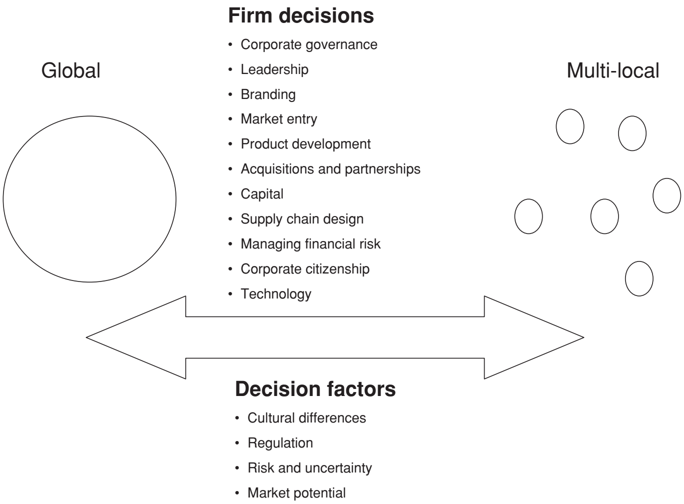

Figure 1.1. Globalizing decisions.

into issues of leadership, finance, marketing, operations, mergers and acquisitions, and entrepreneurship that are encountered as firms globalize.

Decisions without borders

To consider just one dimension of globalizing, managers need to decide whether to pursue a global or multilocal strategy in a variety of business areas, as summarized in Figure 1.1. Should the company develop global brands or tailor branding to the quirks of individual markets? To what extent can the company create more uniform global products? What are the opportunities and risks of establishing global supply chains? How can the company successfully complete a merger that joins together diverse organizational and national cultures? How can the company be a good "corporate citizen" when it is expected to be a citizen of so many different nations? How should its leadership be tailored to the demands of individual cultures while addressing the concerns of global investors? Among the factors that might influence such decisions are the extent of cultural differences across regions in which the company operates, the regulatory regimes that apply, perceptions of risk and uncertainty, and estimates of market potential. These and many other factors in the environment and within the organization will shape the choice of strategy for globalizing.

As complex as the decisions presented in Figure 1.1 may be, the figure itself is a heuristic that necessarily oversimplifies the reality that managers face. In practice, they are faced with a wide array of options, from creating a wholly owned subsidiary to becoming a small shareholder with one partner.[2] They may create a portfolio of brands and products, some of which are global and others of which are local, depending on factors such as the specific products, cultures, and targeted segments. Furthermore, decisions about globalizing occur within the context of broader business considerations such as ensuring returns on investment, recognizing organizational constraints, or addressing competitive threats.

Global challenges represent complex and interwoven puzzles. Although each of the following chapters of this book focuses on a different set of decisions, in practice these decisions are closely linked. Leadership and governance, for example, cannot be separated from regulation. Product development must go hand-in-hand with supply chain design and management. Listing the firm on different international exchanges affects the role of investors in shaping governance. Advances in telecommunications and other technologies have facilitated the rise of global outsourcing, with an estimated 3.3 million white-collar jobs and $136 billion in wages being expected to move from the United States to other countries by 2015.[3] As security has become a greater national priority for the United States and other nations, the "Washington Consensus" of the 1990s, which promoted increasing globalization and the establishment of a "new world order," has begun to unravel (accelerated by the tragic events of September 11, 2001). The emerging "new world disorder" has increased political, economic, and financial risks,[4] raising the importance of companies' tactical, globalizing decisions in areas such as market entry, branding, or operations.

To add further to the complexity, the global environment is not static. For example, once a company has made a decision to enter a specific market, managers might then need to rethink their decisions about other issues such as product development, supply chain and financial risks, or corporate citizenship. There are dynamic changes in the environment, including economic crises, new regulations, or political rebellions that can have a significant impact on these decisions over time. Regulatory changes such as the passage of Sarbanes–Oxley in the United States, for example, have had significant, and often unexpected, impacts on firms in Europe and other parts of the world.

Understanding the process of globalizing

The process of "globalization," which has grabbed the headlines, refers to the big-picture process that draws products, services, and markets around the world closer together. It is a process that involves a complex array of actors and institutions, including firms, governments, NGOs, and consumers. This process is typically analyzed at the macroeconomic level, where the country is the unit of analysis. The primary focus of the often strident and heavily rhetorical debates about globalization has been on macroeconomic policies, as exemplified by the discussions on the Tobin tax, on the role of international institutions in influencing these policies, and on what some see as the exploitation of underdeveloped countries and their labor forces (or, from another perspective, the threats of outsourcing from these countries to domestic economies).

Globalizing, in contrast, refers to the process by which a given firm becomes increasingly global in its objectives and operations. Few, if any, firms are truly "global"; many, however, are globalizing. In our view, globalizing is a process that unfolds not at the level of the country but at the level of the firm, and consists of the actions firms have to take as they become more engaged in that process. This book focuses on the business side of the global challenge: managing the process of globalizing in today's increasingly interconnected, fast-moving international environment.

Globalization creates the context for globalizing

To understand the process of globalizing, we certainly cannot ignore the broader process of globalization. Our global political and economic systems create the context for our business enterprises. As Thomas Friedman writes in *The Lexus and the Olive Tree*, "the slow, fixed, divided Cold War system that had dominated international affairs since 1945 has been firmly replaced by a new, very greased, interconnected system called globalization."[5] This global system is quite different from the period of globalization that preceded World War II. In contrast to the pre-war global economy based on shipping, the current era of globalization is facilitated by technology and has made the flow of information and capital nearly frictionless. As Friedman points out, the post-Cold War global economy is also different politically, because it is based on an open international trading system. Technological advances combined with political openness have forged a dramatically different environment for business. While the process of globalization that Friedman chronicles has changed the world in significant and, sometimes, irreversible ways, recent political shifts may have begun to slow or even reverse what once appeared to be a rapid and relentless march to greater economic integration.

With the maturing of a global economy, there remains a basic mismatch between global financial markets and our political institutions, a gap that places deeper demands on business leaders to fill in the missing pieces. As George Soros notes in his book *On Globalization*, "the development of our international institutions has not kept pace with the development of international financial markets."[6] He points out, for example, that while capital can move freely around the globe, people cannot. As a result of this mismatch between regional regulation and global economic activity, current institutions such as the World Trade Organization have come under attack from both the left, where activists protest the destructive impact of globalization on local economies and cultures, and the right, where there are worries about the impact of these global institutions on restricting open markets.

This lack of global infrastructure also means that companies sometimes have to step into the gaps to create their own infrastructure or policy, or work as partners with global organizations and governments to create conditions in which they can conduct business. The relationships between government, NGOs, international agencies, and companies can be quite complex, particularly in the developing world. For example, the Chad–Cameroon oil pipeline project in Africa was developed through the cooperation of the World Bank, national governments, NGOs concerned about impact on the environment and indigenous cultures, and a consortium of major oil companies, who compete fiercely against one another in this region and other parts of the world.

Companies can and do influence the process of globalization in a variety of ways, although the extent of their impact is debatable. The highly visible success of global firms such as McDonald's and Disney has been a lightning rod for protesters concerned about cultural dominance and economic imperialism by US multinationals. Because firms can profit from globalization, they may contribute to the pressures on governments and international organizations to liberalize exchanges, a criticism that has been made of the influence of American lobbies especially on the negotiations of the World Trade Organization.[7] However, as we will see, other forces are probably more significant.

While the concept of giant multinationals practicing global corporate imperialism may be appealing to the popular imagination, these firms still depend upon a democratic process of attracting consumers who are free to vote with their dollars, rupees, euros, roubles, or yuan. Unless these global companies bring benefits to local markets and populations, their long-term prospects will be limited. Even as protesters around the world were targeting the storefronts of Western megabrands, consumers in these countries were continuing to purchase US products. For example, while students were protesting the US-led war in Iraq in 2003, they still headed to the theater in the evening, driving overseas box office receipts for American movies to near-record highs.[8] And although there will inevitably be highly visible instances where a firm's managerial practices clash with local cultures, part of the success of global firms is derived from the application of management practices developed elsewhere (and ideally adapted to local circumstances). Questions about the protection of a culture may fall largely into the political domain, but firms must take these cultural differences into account in the development of their strategies and in managing their operations. Adapting and responding to local markets is not only good global citizenship; it is good business.

This global context is dynamic and uncertain. The breakdown of WTO negotiations in Cancun and the vote in Sweden against adopting the euro have a significant impact on integration of global and European markets. The agreements that are forged at these meetings, or fail to be forged, not only affect the progress of individual nations but can also rapidly improve or limit the prospects for specific and even local global firms.

Global economic interdependencies and opportunities continue to increase with the rapid rise of offshoring of service operations. Through business process outsourcing (BPO), companies are shipping out call centers, transaction processing, claims processing, data entry, MIS reporting, cash-flow forecasting and insurance yield and risk analysis.

Gartner Research estimates that offshore business process outsourcing services will grow from $1.3 billion to $24.3 billion from 2002 to 2007, an 80 percent compound average growth rate.[9]

These shifts have tremendous impacts both at home and abroad. As Marcus Courtney, an organizer with the Washington Alliance of Technology Workers, an affiliate of the Communications Workers of America, told *Knowledge@Wharton*, "America's leading high-tech companies such as Microsoft and IBM are exporting our country's best-paying high skilled jobs in order to slash labor costs. This trend will only increase job insecurity, lower wages and mean fewer benefits for America's white-collar professionals."[10]

Even if businesses are not actively engaged in the debates over globalization themselves, they cannot ignore them. In this book, we explore how firms can best respond to the opportunities offered by the globalization of world markets for the good of the people of the world as well as for their own sustainable economic development. We also discuss how firms must take into account the implications of less positive trends such as the highly visible and sometimes violent reactions of protest groups, even if these reactions are frequently more directed at governments and international organizations like the IMF than at individual firms. To understand the context for globalizing decisions, we begin with an analysis of some of the forces that are driving globalization in general.

Forces driving globalization

To understand the dynamic unfolding of globalization, we need to consider the complex forces that are driving this process. While recent writings on globalization have focused more narrowly on the proactive role of international organizations such as the IMF or the WTO in the liberalization of markets,[11] many other factors are impelling or impeding this process of globalization, including:[12]

- *Liberalization of capital markets:* With the digitization of capital, investments have flowed ever more freely across international borders. Much of the attention has focused on problems resulting from this liberalization, such as financial crises in Asia in 1997, the Russian crisis, and the Argentinian crisis of 2002, which sparked criticism of IMF policies. Opponents of liberalization criticized the free movement of capital across countries and, most particularly, the hot money characterized by short-term speculative cross-currency movements. Proposals such as the Tobin tax or the Chilean tax on short-term capital have been made to limit these speculations. Without in any way denying the problems of speculation and the macroeconomic remedies that may be applicable, there have also been benefits from this liberalization. For example, one of the benefits of liberalization is greater access to funds for individual entrepreneurs or small and medium-sized firms. Outside of the United States, banks are very often under the control of governments that favor lending to institutions they control more or less directly or formally.[13] This has been the case in South Korea,[14] and also in France, as the scandals of the Crédit Lyonnais during the 1980s illustrated. While more government controls may be placed in the future, as recommended by highly respected economists, it will be difficult, considering economic history over the long term and the increased flow of goods and services across nations, to prevent further liberalization of the capital markets. This liberalization of capital markets has clearly created many opportunities for investment, but also increased risks from currency fluctuations and interlinked financial markets.

• *Advances in technology and accelerating information flows:* Rapid technological progress has had direct and indirect impacts on globalization. Among its direct impacts has been the shift to manufactured products from agriculture, especially for the developing countries that have difficulty in competing in food products with heavily subsidized rivals from the United States and Europe (receiving 20 percent to 35 percent subsidies, respectively).[15] Communication and information technologies have facilitated exchanging information and conducting transactions quickly and cheaply, diminishing the barriers of distance and international borders. These changes have spawned new industries and created new opportunities, as well as sparked debate about legislation to control them. The flow of information, in turn, accelerates the diffusion of innovation between countries. Diffusion occurs at different rates in different countries, and business leaders need be concerned about the rate of transfer of technologies between countries to manage cross-border innovation, develop new products and services for a global market, and protect intellectual property. They also need to look at the potential opportunities and threats created by the Internet and other technologies, particularly their second-order and third-order effects in transforming business models and markets. The costs and risks of moving too slowly or too quickly can be enormous, as telecom companies found in sky-high bidding for G3 wireless licenses in Europe at a time when the industry was retrenching.

• *Mobility of people:* While people, at present, remain for the most part bound to their homeland, we can expect a sharp increase in labor movement over the coming decades. The movement for a free labor market started with the unification of Germany and the dismantling of the Communist bloc.[16] Several factors support a continuation of this trend. The populations of industrialized countries are getting older, creating a demand for labor, while poorer countries with young, active populations have a labor supply growing beyond what they can absorb. Moreover, these cheaper workers in some emerging countries have received the best education, which makes them competitive in the world labor market. The populations of the most industrially advanced countries are more diverse than ever. Migration is increasing, driven by factors such as wars and political dissent as well as economic opportunities. Some have argued that an increase in the freedom of labor movement freedom will be indispensable in the future.[17] A smaller, but nevertheless critical phenomenon is a significant increase in passenger traffic for business and tourism. Increasing movements of people around the globe have obvious implications for human resources decisions of companies, and also affect the diffusion of products, ideas, and culture.[18]

• *Mobility of products:* Barriers to trade are falling, in large part because of the role of the GATT and the World Trade Organization. There are still limitations, mostly due to the effects of lobbies, either for business or for cultural protectionism or both. Nevertheless, in general, the possibility of selling any product anywhere in the world is becoming a reality. This creates opportunities for businesses to enter diverse markets more easily. But competitors have the same opportunities so it has led to new threats from aggressive global competitors who can move much more easily into an established firm's markets at home and abroad. Competition can come from unexpected quarters.

• *Decline in transportation costs:* Part of the reason for the mobility of people and goods is the decline in transportation costs. Increased capacities and new technologies have reduced costs to the point that materials that were too bulky to transport long distances are now manufactured in a single location and shipped to the rest of the world. The new Beetle, produced in Puebla, Mexico for export around the world is a good example. Reduced transportation costs have major implications for the localization of manufacturing facilities and global sourcing. As long as energy costs are low, this trend is likely to continue.

• *Global regulatory harmonization:* Two major factors motivate a greater harmonization of regulations. First, as firms transact more across country boundaries and compete on a global basis, the need for homogeneous regulation increases, as seen in the standardization of international accounting rules. Second, greater diffusion of concerns about environmental issues such as the emission of toxic gases in industrialized countries and deforestation in developing countries is leading to greater harmonization of global regulations in this area. Businesses often feel the greatest impacts of these regulations, both positively and negatively. On the one hand, clear and uniform regulations can help reduce uncertainty and level the playing field across international markets. On the other hand, new regulations can restrict a business or destroy it, or impose significant additional costs, from environmental compliance or from taxation, on companies.

• *Cultural convergence (cultural context and identity):* Similarities among cultures can be expected to increase in the future on account of sharing of products, experiences, travel, and communications, and the use of the English language as an international mode of communication. This does not mean, however, that all cultures will move towards a single culture. While globalization is sometimes accused of leading to cultural hegemony, or at least homogenization, it is not clear what is the cause and what is the effect.[19] There are clearly a number of factors which explain cultural convergence – such as economic development, urbanization, and mass media coverage – that have nothing to do with globalization. History and languages are also intimately linked to cultures and are very resilient. There may also be greater differences among groups of people within countries than across. For example, rural populations in a given country may be more similar to rural dwellers in other nations than urban populations in the same country. Increasing uniformity can facilitate the development of mass markets, while awareness of cultural differences can help companies identify niche opportunities. Cultural convergence is also a key concern of critics of globalization, and companies need to be aware of and respond to these concerns about respect for local cultures as they build global businesses.

• *Emerging markets and economic development:* During the last two decades, a number of countries have reached levels of development that place them well within the set of industrialized countries. Mauro Guillén cites South Korea as an example of a country that went from a "backward developing country" to an "export and foreign investment power" with fourteen Korean firms within the Fortune Global 500 list published in the mid nineties.[20] The end of the Communist regimes in Russia and in Eastern Europe as well as the opening of China to a market economy have created a new set of opportunities for development within these countries and in collaboration with the rest of the world. The impact of opening markets is not uniform. China's revenue per inhabitant has continuously increased while Russia's economic situation is critical, with a GDP currently inferior to what it was under the Communist regime. These emerging markets are heterogeneous, and to be successful, businesses must understand the peculiarities of each, as demonstrated by the experience in China. Economic development in these countries can open significant new markets and also create new players in global markets, as has been seen in electronics, automobiles, and other industries.

• *Increased interdependency:* The utility derived from a particular product may depend on network effects across countries. For example, the utility of the telephone increases with the number of users in all countries. As mobility and communication increases, these global externalities become greater at the international level. This has clear implications for the production and marketing of products such as telecommunications that depend upon these network effects, and these effects also serve to increase the interdependency of different parts of the world.

• *Global consolidation:* Through mergers and acquisitions, we have seen the rapid consolidation of businesses across borders. As firms compete more in multiple geographical markets and face the same competitors, size has become a critical factor. Coordination also is important, so relevant information about markets must be transmitted to managers in different countries. To achieve this coordination, companies that once had arm's-length relationships with local companies are now seeking ownership (as well as strategic alliances and joint ventures). Business leaders face many challenges in managing these organizations that span diverse organizational and ethnic cultures and face multiple and sometime conflicting business and regulatory environments.

• *Corporate social responsibility:* Concern about corporate social responsibility, which has been on the business agenda for at least a decade or two, has been raised to a new level in global markets. This is due, in large part, to the failure of the international organizations (especially the IMF and the World Trade Organization) to provide balanced economic development to poorer countries. For balanced globalization to become a reality, government leaders would need to agree to some international principles, such as the proposal by Tina Rosenberg for "nine new rules" for the global economy.[21] These agreements will necessarily focus on a number of controversial issues such as mobility of people and environmental protection. Business leaders need to recognize and respond to these new demands for global corporate responsibility. In addition to working with governments and other firms to tackle broader issues, companies also need to address individual responsibilities such as designing policies for local compensation and benefits to avoid exploitation.

While these driving forces are propelling the world toward greater globalization, we also see some countervailing trends moving the world toward greater separation. Concerns about security, cultural and religious differences, and protests against the process of globalization itself are among the forces that are driving in the opposite direction. While the overall trend may be toward greater globalization, there are times when these countervailing forces will slow the trend or reverse it, particularly in certain regions or time periods.

How can managers chart a course through these driving forces of globalization? What challenges do these forces create for managers engaged in globalizing their firms? At times, corporate leaders, like sailors, can use the crosswinds of globalization to propel their businesses forward. At other times, they need to avoid being blown off course.

Charting a course through the crosswinds of globalization

What do we know about the process of globalizing? Business researchers have been working with leaders of global firms to explore global challenges and best practice for decades. Much of this research, however, has focused on a single aspect of the overall process – such as entering new markets or considering financial risks. This book takes a broader view, drawing upon the experience and research of experts from diverse disciplines and perspectives to address many key management challenges faced by firms as they become more global. It offers a multifaceted perspective on the processes and strategies for success.

The following chapters examine a number of strategic issues facing firms as they globalize. The authors offer both broad perspectives and practical insights to any manager involved in global business as well as to students, policymakers, leaders of NGOs, and others seeking to understand better the complex challenges facing business leaders. Our objective in publishing the book is to stimulate informed dialogue among those who are key actors in the unfolding story of globalization and managers facing the immediate struggles of globalizing their businesses. In particular, the following chapters explore management responses in three broad areas that cut across typical management functions:

(1) Leading the global organization
(2) Global market participation
(3) Managing risk and uncertainty.

Leading the global organization

- *The changing international corporate governance landscape*
- *Corporate governance and leadership in a globalizing equity market*
- *Leadership in a global organization: a cross-cultural perspective*
- *The globalization of business education*

Part I of the book examines corporate governance and leadership in the global context. In the first chapter, Mauro Guillén and Mary O'Sullivan look at the challenges of corporate governance. In a world of poorly developed global governmental structures, business leaders are directly exposed to the challenge of global governance in all its dimensions. The leadership of such companies is critical and complex. In the wake of recent scandals, there has been intense discussion in nations around the world about the role of corporate governance and best practices for boards. But how do these practices need to differ internationally and are they converging to a uniform model? How do companies that compete in multiple markets need to design their corporate governance to meet the challenges of globalization and diverse standards? Is there one best answer to the question of governance? The best approach may depend on a variety of factors related to its strategy and the structure and pace of change in its industry, as well as its global context. There is not a one-size-fits-all approach to governance.

In the second chapter of this part, Mike Useem explores the impact of globalization of equity markets and the new demands of leadership, particularly from institutional investors. In the last two decades, equity markets have been transformed from markets dominated by orphans and widows to markets dominated by professional money managers. In the process, stockholders have taken the upper hand in the relationship with publicly held companies, giving investors more power over the destiny of companies. There has also been an increasing movement of equity investments across national borders. This chapter examines some of the implications of these changes, through stories of companies such as Vivendi Universal, Daimler Chrysler, and Toyota. Useem points out that the combination of these changes in ownership influence and global capital flows has made leadership and governance more important at all levels of the organization, increased the attention of investors to these issues, demanded that leaders focus more attention on equity markets, and moved governing boards in many parts of the world to greater transparency and greater independence.

What kind of leadership is needed for global firms? Former General Electric CEO Jack Welch commented that "The Jack Welch of the future cannot be me . . . The next head of General Electric will be somebody who spent time in Bombay, Hong Kong, in Buenos Aires. We have to send our best and brightest overseas . . ." In the third chapter in this part, Mansour Javidan, Günter Stahl, and Robert House examine the role of leadership in a global context, based on insights from one of the most extensive studies of global leadership. The Global Leadership and Organizational Behavior Effectiveness (GLOBE) project started in 1993 with funding from the National Science Foundation to examine the way effective leadership in different countries and cultures is similar or different. The project has involved 160 researchers from 62 countries, and 18,000 middle managers in food processing, banking, and telecomms. Based on this research, the authors consider examples of the different attributes of leadership needed in Singapore, Denmark, Argentina, and the United Kingdom.

Finally, the last chapter in this part offers insights from the deans of Wharton and INSEAD on the globalization of business education. The authors examine different models business schools have used to globalize, providing perspectives for managers on organizing or expanding global knowledge networks.

Global market participation

- *Globalization through acquisitions and alliances: an evolutionary perspective*
- *Developing new products and services for the global market*
- *Managing brands in global markets*
- *Global marketing of new products*
- *Global equity capital markets for emerging growth firms: patterns, drivers, and implications for the globalizing entrepreneur*

In his famous discussion of global marketing in the 1980s, Theodore Levitt foresaw a world of global brands and global products. The world was moving toward convergence, he contended, and companies that tailored their products and services to local markets were following misguided marketing research. He urged companies to organize according to a global model. The world that has since emerged is much more complicated than this initial vision. In Part II of the book, authors explore the complex terrain of global market entry, branding, and capital markets.

Companies need to make alliances or acquisitions to move into global markets, but the success rate, globally and domestically, continues to hover around 40 percent. Yet some companies do much better. The first chapter in this part, by Harbir Singh and Maurizio Zollo, explores the choice of acquisition or alliance and the capabilities needed for success, particularly in a global context. They consider the different approaches used by companies such as Hewlett Packard, Corning, Cisco, and Nationsbank to manage and structure alliance and acquisition capabilities. The authors point out the importance of post-acquisition integration and find that companies with better relational capabilities not only have higher success rates but also have more positive market reactions to their transactions – as much as $40 million in added return for companies with strong relational capabilities.

When Levitt urged managers to create global products, he pointed to Japanese companies such as Honda as an example of the opportunities. But, as Reinhard Angelmar points out in Chapter 7, the irony is that Honda ultimately moved away from its standardized global products after it ran into trouble using this approach. When Honda tried to please everyone with its 1994 Accord, it ended up pleasing no one. The model turned out to be too small for Americans and not stylish enough for the Japanese. In 1996, Honda remodeled the car for the US market, where it was a great success; but it was less successful in its home market. The company then did exactly what Levitt had advised against, developing three very different models – one for the United States, another for Japan, and a third for Europe. Angelmar examines how the development of new products needs to be tailored to diverse national markets, based on customer distinctiveness (how customers perceive things differently) and commonality inside the product (how much of the product is based on common parts and processes). Different companies have very different migration paths. Some move to sets of products that are very different technologically, but not highly differentiated by customers. Others have products that appear to be quite different to customers but actually share many common parts and processes. The chapter explores the reasons for different migration paths and the tradeoffs between distinctive product features and the cost and complexity of design and manufacturing.

In the next chapter in this part, George Day and David Reibstein paint a similarly multifaceted picture of another aspect of Levitt's philosophy: the creation of global brands. The authors note that contrary to Levitt's expectations that brands would become more global – with consistent names, identities, positionings, and target markets in every country – two decades of experience show that this is often not the case. The authors conclude that there are very few truly global brands, and that the forces promoting globalization and standardization are being blunted by countervailing forces that encourage adaptation and local identity. They explore how global companies are managing their brands, and how organizational innovations are facilitating the coordination process.

Once you have a new product, you could sell anywhere in the world. How do you roll it out? In the next chapter in this part, Hubert Gatignon and Christophe Van den Bulte explore the complex decisions about market entry, such as order of entry, and marketing mix strategies in different countries. Decisions about the selection and order of countries to enter with new products may be based on different views of segmentation and a consideration of diffusion patterns. The authors consider conditions that favor using a "waterfall" strategy (rapid and aggressive market entry across multiple markets) rather than a "sprinkler" strategy (a slower rollout across global markets).

As capital markets have become global, managers face a richer set of options in financing entrepreneurial ventures, as discussed by Raphael Amit and Christoph Zott in the final chapter of Part II. About 9 percent of new issues on the US Nasdaq exchange in the period 1998–2001 were for non-US firms and about 17 percent of the issues on the German Neuer Markt in the period 1997–2001 were for non-German companies. The expansion of global capital markets raises some very complex questions for managers financing new ventures. What are the advantages of non-US companies in listing on the US Nasdaq? What are the benefits for a US firm in listing on the German Neuer Markt? Drawing on an extensive database of offerings on exchanges in the United States and Germany, the authors explore the implications of globalizing capital markets and the implications of global capital markets for entrepreneurial firms.

Managing risk and uncertainty

- *Cross-border valuation: the international cost of equity capital*
- *Managing risk in global supply chains*
- *Global recombination: cross-border technology and innovation management*
- *From corporate social responsibility to global citizenship*
- *Colliding forces: domestic politics and the global economy*
- *Global implications of information and communication technologies (ICT)*

With the complexity of global markets come greater risk and uncertainty, which is the focus of Part III of the book. One of these risks comes from cross-border valuation of the international cost of equity capital, as examined by Gordon Bodnar, Bernard Dumas, and Richard Marston in Chapter 11. Managers have traditionally used the Capital Asset Pricing Model (CAPM) for valuation, which allows for a systematic comparison of the costs of equity in various traded securities. But international markets present many more dimensions of risk than can be captured by the CAPM. In this chapter, the authors examine these other sources of risk and explore new models that incorporate them into an assessment of the global cost of equity capital. The authors consider the implications of home vs. world stock market risk, currency risk, and political risk. The authors propose a "hybrid" CAPM containing several risk premia for home and world risks.

Sourcing in the global context provides many options for the international firm, especially with low cost transportation, but it also increases risks as supply chains are stretched around the globe. In Chapter 12, Paul Kleindorfer and Luk Van Wassenhove investigate the opportunities and challenges raised by global sourcing. One set of risks global supply chains face comes from mismatches between supply and demand, which are especially important in capital-intensive industries where short-term scalability is impossible and where utilization is a central driver of profitability. Another set of risks relates to disruption of the supply chain through major accidents or economic disruptions such as strikes or terrorist acts. The authors examine two ways to manage these risks and capitalize on the emerging upside opportunities of global supply chain revolutions: the design of the supply chain and contractual innovations. The authors also explore risk analysis for global supply chains, a process including identifying underlying sources of risk, determining the pathways by which such risks can materialize, estimating the potential consequences of those risks under various scenarios, and providing the means for mitigating and coping with these consequences.

Just as the supply chain is stretched across borders, so is R&D, intellectual property, and the flow of new ideas. How can companies manage cross-border technology and innovation knowledge, when it flows across national borders as well as across companies? In Chapter 13, Philip Anderson and Lori Rosenkopf examine how business leaders can understand and better design and manage knowledge networks to facilitate the diffusion of innovations across the organization and around the world.

Global businesses answer to a complex set of stakeholders, including government regulators and citizens of the home countries in which they operate, non-governmental organizations (NGOs), investors, partners, and customers. Companies are expected to demonstrate "corporate citizenship," but these stakeholders may have very different views of what this means. Further, because national citizenship still matters very much, companies very often find themselves wrestling with "multiple citizenship" as they try to meet different regulations and expectations in different countries. In Chapter 14, Eric Orts examines the meaning of global citizenship and its implications for managers and their firms. What does it mean to be a global corporate *citizen* in contrast to earlier discussions of corporate social *responsibility*? How much should companies identify with their local markets and how much should they consider themselves global?

Government actions sometimes create the greatest risks and uncertainties for business. Changes in regulations or regimes, and international agreements on issues from trade to the environment can reshape the competitive playing field for companies. In Chapter 15, Ethan Kapstein and Steve Kobrin explore the impact of government in shaping the business environment by looking at two cases. The first case considers issues related to global pharmaceuticals and the tension between the desire of governments in emerging economies to provide vital medicines to their populations and the need for companies to protect intellectual property to support future innovations. The second case examines the challenges of divergent privacy legislation around the world, particularly the gulf between the United States and European nations on regulations related to data privacy and personal information. Multinational companies that operate in Europe and the United States are subject to both sets of rules. If European privacy regulations were strictly enforced, for example, a US visitor might not be able to use an American bank card in a European ATM.

Finally, one of the key sources of uncertainty and global change is the spread of information and communications technology, particularly the rise of the Internet. In Chapter 16, Arnoud De Meyer explores the importance of web-related technologies in the global economy and the potential of these technologies for creating new business models and service innovations. Among the opportunities are the facilitation of "overnight globalization," creating geographically independent knowledge-based services, making the customer the locus of innovation, and enabling peer-to-peer communities.

Implications and conclusions

- *Globalization and its many faces: the case of the health sector*
- *The continuing process of globalizing*

How do all these complex forces and management responses fit together? What can we expect in the future? The concluding part of the book, draws together insights in an integrative case and discusses some of the future prospects for globalization and the challenges for managers in continuing to globalize their firms.

In Chapter 17, Lawton Burns, Thomas D'Aunno, and John Kimberly look at the interrelated challenges of globalizing business through the lens of the healthcare industry. This is an industry that is especially global from the universal nature of the needs it satisfies, but also because of the scale of the operations from R&D to marketing, and because of the fundamental human rights that it addresses in determining the life and death of entire populations. They point out that diverse players at various points in the value chain experience different rates of globalization. The authors consider some of the common forces shaping healthcare, some leading to increasing globalization – such as rising costs and payer concerns with cost containment – and others leading to greater local divergence. How can managers make decisions about their global organizations in the context of this complex and rapidly changing industry?

Finally, in the closing chapter of the book, we consider some of the challenges of the ongoing process of globalizing. This chapter provides reflections on key insights from throughout the book and identifies some of the future challenges for managers and researchers in addressing the unfolding challenge of globalizing.

The Importance of globalization

Our subject matter is hardly academic. The fates and fortunes of companies hang upon decisions about globalizing, particularly as large portions of the developing world come rapidly online. For example, decisions by the People's Republic of China about wireless communications standards could shake the largest global telecommunications firms to their foundations given the size of the Chinese market. Markets such as China become the tail that wags the dog of global business, and participation is not merely a question of growth but of survival for some firms. Yet while the risks of *not* participating may be great, there are also very significant risks of participating in these markets. The choices for acting in these markets can be quite complex. Companies neither want to be left behind nor find themselves on the "bleeding edge" of developing these new markets.

The following chapters propose a multifunctional perspective of managerial responses to globalizing. Even though some of the chapters may appear to reflect traditional management functions, they are treated from interdisciplinary perspectives and address the complex drivers of globalization described above. While typical international management books concentrate on single management functions (e.g. global marketing, international finance, the global organization), the Alliance between INSEAD and Wharton offers the possibility of presenting the expertise of specialists in diverse disciplines from different parts of the world within the same book. We hope that this volume will help you better meet the challenges of designing, improving, and managing globalizing enterprises.

Notes

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