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DYNAMIC GLOBALIZATION IN INTERNATIONAL BUSINESS

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As globalization has been accelerating in recent years, there have been debates on whether business people must follow global standards or not. This paper discusses some related models and proposes a new perspective on global standards. Unlike other studies, this paper views global standards in a dynamic rather than static way. One important implication of this study is that global firms add values to the product and thereby global consumers rather than just to exploit global market. This paper also suggests that global managers should be careful not to overemphasize the local characteristics of product if they want to make the product truly competitive in the global market.

1. INTRODUCTION

Henry Ford was selected as Fortune magazine's Businessman of the Century among the four finalists including Alfred Sloan or General Motors, Thomas Watson of IBM, and Bill Gates of Microsoft (Fortune, November 1999). Henry Ford (1863-1947) did not invent the automobile, but he invented the automobile business. He changed the fussy, unreliable, and costly novelties to simple, solid, and inexpensive necessities. Ford introduced the Model T, which would remain in production until 1927 as its price fell from $850 to $290. The Model T had an immeasurable impact on American life. It was an American standard and also global standard.

Globalization has been accelerating in recent years and causing the business environment to change dramatically. In this globalizing business environment in which global firms introduce products and management techniques of global standards, there have been debates on whether business people must follow global standards or not. This paper will deal with global strategy, global standards, and their implications.

Although there have been significant efforts in conceptualizing global strategies, few frameworks have been developed to measure the relative globalness of firms. Porter (1986a) proposed a specific framework of coordination and configuration for this purpose. However, Porter's original work was not complete (Moon 1994). This paper introduces a new framework of global strategy by extending Porter's original framework. The conceptual clarification of this article will be useful in understanding different types of firms that are pursuing a global strategy.

Porter's (1986a) original model and its extended model (Moon 1994) are useful in measuring the relative globalization of firms but not appropriate to explain the strategic implications of global standards, which can be defined as the standardization of the best product and management in a competitive global market. Firms usually prefer a standardization strategy that minimizes production and management costs but may also prefer a customization strategy that responds to local differences, thereby increasing the local market share. Standardization and customization are thus two conflicting forces or tradeoffs that firms must consider simultaneously.

The standardization of market strategies has been a continuing topic of debate and research since Levitt's (1983) article. Debates over standardization vs. customization (or segmentation) strategy in the world market are documented well in scores of articles (e.g., Levitt, 1983; Douglas and Wind, 1987; Bartlett and Ghoshal, 1989; Varadarahan, Clark and Pride, 1992; McCutcheon, Raturi and Meredith, 1994). Based on these debates, this paper proposes a new perspective of dynamic globalization, which leads to a global standard, on a global-local diagram. Some implications with respect to the global standard will then be discussed.

2. A GLOBAL STRATEGIC MODEL

Global strategy has become a very popular area of research in the field of international strategic management. Despite this enthusiasm, however, there exists a great deal of conceptual ambiguity about what a "global" strategy really means and how it can be actually measured. Porter (1986a) was probably the first scholar who introduced a systematic framework for global strategy.

As shown in Figure 1, Porter presented the choices in a single diagram, with coordination of activities on the vertical axis and configuration of activities on the horizontal axis. The configuration of a firm's activities is the geographic location where each activity in the value chain is performed, and coordination refers to how activities performed in different countries are coordinated with each other (Porter, 1986a: 23).

To illustrate, if a firm employs a very dispersed configuration, placing an entire value chain in every country in which it operates, and coordinates activities very little across countries, the firm is said to be competing with a country-centered strategy. The domestic firm, operating in only one country, is the extreme case of a firm with a country-centered strategy. As we move from the lower left-hand corner of the figure up or to the right, the strategies become increasingly global. The final destination is the simple global strategy in the upper-right corner (Porter, 1986a: 28, figure 1.5) or a purist global strategy (Porter, 1986b: 19, figure 5). For example, the global strategy adopted by Toyota is to concentrate

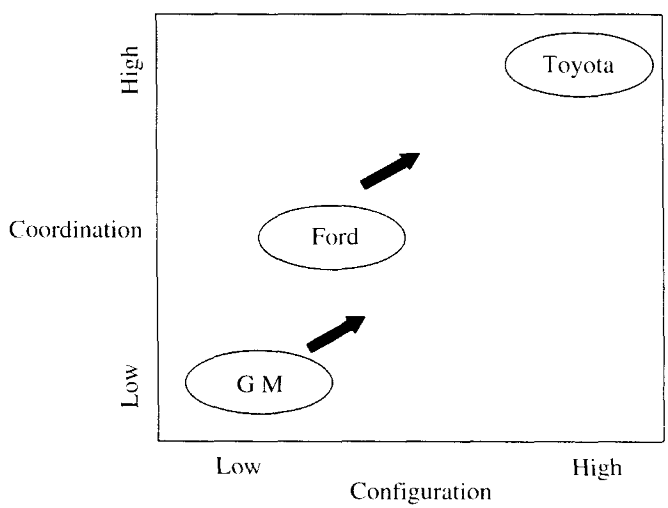

Figure 1. Coordination-Configuration Framework

as many activities as possible in one country, serve the world from this home base, and tightly coordinate through standardization those activities that must inherently be performed near the buyer. In contrast, General Motors (GM) has historically competed with a country-centered international strategy with separate manufacturing facilities and even separate brand names in different regions, but Ford has practiced only regional coordination (Porter, 1986a: 26-28).

One problem with this framework concerns the configuration issue. Suppose, for example, that Toyota in Figure 1 invests in an Asian country such as China for offshore production. Suppose further that Toyota invests in China to lower the production costs for serving not the Chinese market, but the world market. Does this investment imply more globalization or less globalization?

According to Porter's framework, the investment by Toyota in China means less globalization because production activities take place in two countries (Japan and China). Toyota's configuration of activities is now geographically more dispersed. Porter's framework, therefore, leads to the conclusion that more international operations such as offshore production lead to less globalization, which is obviously not true.

Another problem of Porter's framework is that it does not consider service industries such as the airline industry. Most international airlines are integrating world airline systems that are predictably reliable in terms of schedule, operational integrity, equipment, and passenger service standards, not a series of loosely connected regional areas of airline service. The coordination of activities is very high in this service industry. As for the configuration, the international airlines consider themselves more global as they fly to more international destinations. According to Porter's framework, however, this again means less globalization because more destinations mean being geographically more dispersed.

The confusion arises because Porter mislabels the horizontal axis. The labels of "geographically dispersed" and "geographically concentrated" should be switched. This new configuration is seen in the revised frameworks in Figures 2 and 3. In the new

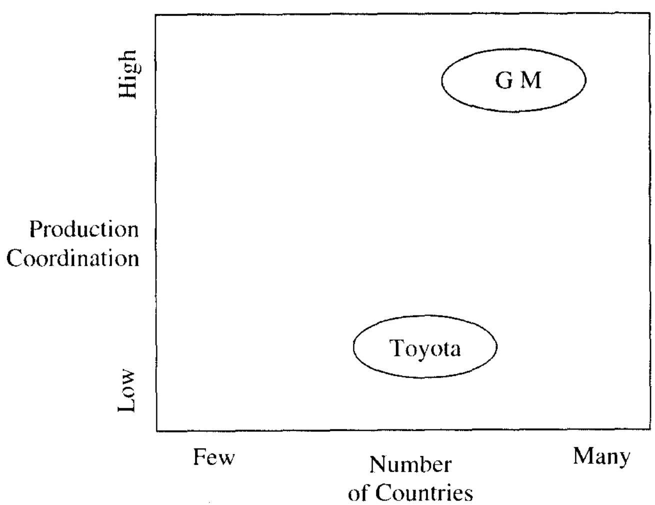

Figure 2. Production-seeking Global Strategy

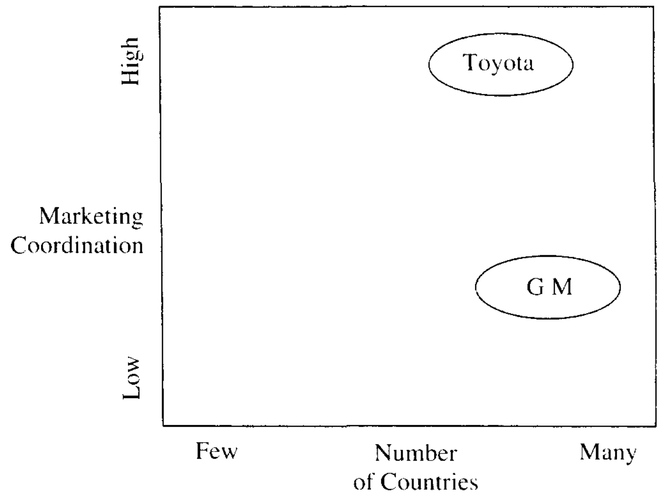

Figure 3. Market-Seeking global Strategy

framework, however, the horizontal axis measures the number of countries (one through many) instead of configuration (concentrated to dispersed).

How could Porter have mislabeled the horizontal axis? There appear to be two reasons for his misunderstanding. One reason is that Porter over-emphasized the benefits of scale economies. In other words, he might argue that in order to achieve maximum scale economies, production in a single country is superior to production in several countries. However, when flexible manufacturing is possible, or when the firm can achieve a minimum efficient scale in its production in each of several countries, production in a single country need not be a necessary condition for globalization. Rather, as long as these conditions (flexible manufacturing and/or minimum efficient scale) are met, the firm will diversify its production locations to make use of the various benefits from multiple sourcing.

Another source of the misunderstanding is the possibility that Porter may be preoccupied with the success of Japanese automakers, specifically the experience of Toyota in the 1970s. He then appears to extrapolate the Japanese strategy as a model for global strategy. As Porter (1986a: 36-37) points out, however, Japanese firms are now rapidly dispersing activities, that is, from exporting to direct investment abroad, due to some changing economic factors including protectionist pressures. This change thereby shifts their strategic positions to the left from the upper right corner in his framework. Therefore, Porter has to conclude that Toyota is becoming less globalized.

Porter's framework is in fact a specific, not a general framework. It is geared toward a manufacturing industry, with configuration of the production side and coordination of the marketing side. The typical model of his global framework is Toyota in the 1970s that was characterized by concentrated production in its home country and coordinated marketing in the global market. His framework is useful in explaining a global firm for which production scale economies are critically important and exporting is a major strategy in entering foreign markets. The best examples are Japanese firms, like early Toyota.

However, Porter's framework does not explain the global behavior of firms from other home countries, in different periods, and in divergent industries.

Moon (1994) introduced a more generalized framework encompassing these different situations. In this new framework, foreign operations are categorized into two main types, production-based operations and market-based operations. To illustrate the difference, for example, U.S. operations have generally been the former type and Japanese operations have been the latter type. Because U.S. firms have enjoyed a large domestic market, the major concern of American managers has been to seek cheap resources abroad, such as labor or raw materials, to obtain more efficient or lower-cost production. In contrast, the domestic market of Japan is too small to achieve a desirable level of scale economies. Their main concern, therefore, has been to seek foreign markets.

The different strategies of the firms from the United States and Japan are well represented by GM and Toyota. Both GM and Toyota are shown to be global firms in Figure 2 and 3, respectively. The difference is that GM's strategy focuses on the efficient use of global resources, while Toyota's strategy concentrates on the efficient penetration of the global market. However, the strategies of both firms are really semi-global because their strategies are oriented toward only one of the two different scopes: production and marketing. In this view, a purely global firm can be defined as the firm that operates in as many countries as possible and coordinates its activities as much as possible on a global basis, for a maximum efficiency in production and for a maximum market share.

2. A GLOBAL-LOCAL MODEL

Global strategic model (Porter 1986a, Moon 1994) deals mainly with marketing and production coordination and is useful for measuring the relative globalness of firms. However, these models are not adequate to consider global standards where global integration forces and local responsiveness forces should be equally treated. This paper develops a new Global-Local model, based on the Integration-Responsiveness (I-R) framework, which is very popular in the area of international marketing. The main issue on global standard, with regard to the Global-Local model, is to decide which strategy, standardization or customization, is appropriate in international markets.

According to Levitt (1983), companies must learn to operate as if the world were one large market, ignoring regional and national differences. Historical differences in national tastes or modes of doing business will disappear. An emerging similarity of global customer preferences will be triggered by developments in both production technology and in communication and transportation networks. Such conditions in turn lead to standardization strategies for product and other marketing mix elements, as well as manufacturing. Companies that are able to push costs and prices down while pulling quality and reliability up will inevitably attract customers to the firm's globally available and standardized products. Levitt believed that multinational corporations would have minimal need for local adaptation in the evolving "global village."

In contrast, Quelch and Hoff (1986), for example, challenged the "standardization imperative" for global managers. Despite the promised economies and efficiencies to be gained with marketing standardization strategies, many managers appear reluctant to take the global marketing plunge. These managers see customers and competitive conditions differing significantly across national boundaries. This perception represents the basis for much of the skepticism about standardized marketing strategies.

Levitt's argument was further criticized by Douglas and Wind (1987). They questioned three of Levitt's assumptions: (1) that consumer tastes are becoming homogeneous worldwide; (2) that consumers are willing to sacrifice personal preferences in return for lower prices; and (3) that economies of scale (EOS) are significant with standardization. It is useful to examine Douglas and Wind's criticisms on Levitt' assumptions. Counter-arguments will then be discussed.

Homogeneous Market

Douglas and Wind claimed that evidence is lacking to show that consumer tastes are becoming more similar globally. Indeed, they contended that the world market is probably becoming more diverse. For example, Coca Cola markets Georgia Coffee, a canned coffee drink, in Japan, but the product is not accepted by the U.S. nor other buyers around the globe. However, this is one of a few examples of customization. Many other products are easily transferable across countries. Keegan, Still and Hill (1987) reported that multinational firms selling consumer packaged goods perceived few problems in transferring products between markets as dissimilar as the U.S. and developing countries. They found that about 1200 (54.4%) of the 2200 products sold by 61 subsidiaries had been transferred from home-country markets (U.S. or U.K.) into developing countries. This means that over half the items in developing countries lines are "international products"—that is, their commercial appeal extends over multiple markets.

While there may be a lack of substantive evidence of movement towards a more homogeneous global market, the same is true in support of an increasingly heterogeneous global market. Despite the lack of empirical data, more scholars seem to agree with the homogenization trend. Sheth (1986), for instance, argued that there is evidence of increasing international standardization of both product quality and product safety standards. Porter (1986a) also noted a change towards more homogenization of needs internationally.

Sacrifice of Personal Preference

A low price appeal resulting from standardization offers no long-term competitive advantage to the firm, according to Douglas and Wind. They saw the inevitable vulnerability of this pricing strategy stemming from these factors: a) new technological developments that lower costs; b) attacks from competitors with lower overhead and lower operating or labor costs; and c) frequent government subsidies paid for emerging country competitors. Any or all of these, they claimed, may undermine the effectiveness of low price strategy.

What they did not consider, however, is that a low price strategy linked to reduced average cost which results from the firm's technological advantage *does* endure. Standardization, thereby, offers a long-term competitive advantage. In fact, Levitt emphasized both low price and high quality. He suggested that if a company could push costs and prices down and at the same time pull quality and reliability up—thereby maintaining reasonable concern for buyer suitability—customers would prefer its world-standardized products. Therefore, an important issue of standardization is not to give up quality, but to serve the global market with a recognized and branded product.

Benefits from Economies of Scale

Douglas and Wind pointed out three weaknesses in Levitt's EOS justification for standardization: a) flexible factory and automation enable EOS to be achieved at lower as well as higher levels of output; b) the cost of production is only one and often not the critical component in determining the total product cost and c) strategy should be not only product-driven but should take into account other components of the marketing mix.

The arguments of Douglas and Wind are true in particular industries. However, there are still many industries where the benefits of EOS are significant with standardization. An example of the magnitude of EOS is found in the paper industry. In the production of uncoated paper for printing, an expansion from 60,000 to 120,000 tons brings with it a 28 percent drop in fixed costs per ton. For this same expansion, labor costs can be reduced 32 percent as new technical opportunities for production open up (Oster, 1990). Prolonged benefits from EOS are significant in many mature industries such as steel and automobiles. In addition, EOS are not restricted to production, although Levitt focused mostly on production economies. It is clear that gains from scale-like economies may also occur in marketing.

3. A DYNAMIC GLOBALIZATION MODEL

In evaluating standardization strategy, Levitt focused on perceived and real similarities, while Douglas and Wind stressed the perceived and real dissimilarities. The correct strategy for any particular firm appears to be highly empirical and circumstantial in determination. The more challenging issue is whether we can predict which of the two strategies, standardization or segmentation, would be appropriate, given stated conditions and industries.

The preference for a standardization strategy identified by previous research is determined mainly by the type of product or industry. Bartlett (1986), for example, offered a model as shown in Figure 4 to illustrate how forces for global integration strategy versus national responsiveness strategy may vary from one industry to the next. Bartlett (1986) and also Ghoshal (1987) suggested that the consumer electronics industry (radio and TV) is characterized by low responsiveness benefits and high integration benefits. The reasoning is that EOS in electronics product development and manufacturing are important sources of competitive advantage. In contrast, for branded packaged foods firms may experience variations in local (foreign) tastes, buying habits, distribution channels, and promotional media. Food industry firms would, as a result, possibly benefit by use of country-differentiated strategies. Douglas and Wind (1987) also pointed out that standardization may be more appropriate for industrial than for consumer goods, and for consumer durables than for nondurables.

However, there are several problems with these traditional views. Firstly, Bartlett's model, for example, is not clear in distinguishing product standardization from the standardization of the other marketing mix elements, i.e., distribution, promotion, and pricing. The distribution and promotion strategies of Coca Cola, Co. may differ across national borders, but the basic product is standardized. From this viewpoint, at the least, product strategy can often be efficiently standardized over multiple markets. Simon-

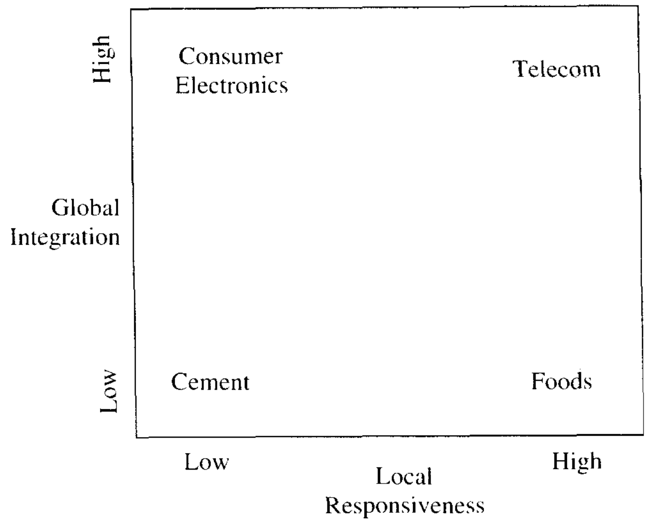

Figure 4. Global-Local Framework

Miller (1986) also argued that where the product itself is standardized or sold with only minor modifications globally, its branding, positioning, and promotion may reflect local conditions.

Secondly, what is more important is the firm's strategy, not the industry condition. Bartlett (1986) argued that within any industry companies can and do respond in many different ways to diverse and often conflicting pressures to coordinate some activities globally, and to differentiate others locally. In his example of the auto industry, Toyota had a world-oriented strategy with a standardized product, while Fiat built its international operations on various governments' interest in developing national auto industries. If this is true, i.e., if different firms have different strategies in a single industry, then an industry-based framework such as Figure 4 may not be very useful. Therefore, a new framework is needed to explain why and how a firm (not industry) pursues a standardization strategy, while others in the same industry may not. Why, for example, is Kentucky Fried Chicken more standardized and globally accepted than other competing products in the "same" (fast foods) industry?

Finally, the strategic recommendations of previous researchers are based on static rather than dynamic conditions, whether these are either for the choice of the two strategies of standardization or customization, or a compromise of the two. Bartlett and Ghoshal (1989) found that managers in most worldwide companies recognize the need for simultaneously achieving global efficiency, national responsiveness, and the ability to develop and exploit knowledge on a worldwide basis. To achieve these multiple goals, they suggested transnational strategy. However, it is doubtful whether this strategy is really optimal and desirable. Wouldn't more astute managers seek to implement a global strategy, focusing on transnational similarities rather than differences? The global strategist, recognizing the risks but being aware of the trade-offs, would seek to offset consumer resistance with his or her extended product package, rather than customize the product to meet precisely those local consumer needs.

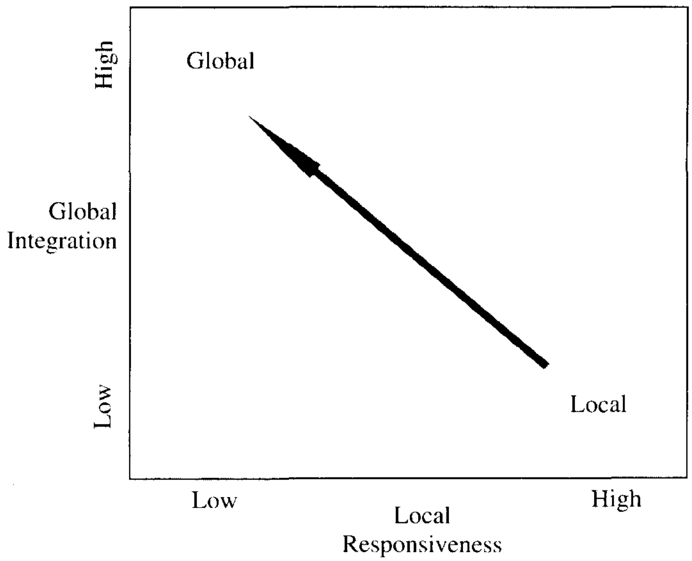

Figure 5. Dynamic Globalization

Products can be classified into two categories: global and country-specific. The global product is output efficiency-based, more easily standardized, and universally offered, and accepted by consumers worldwide. Examples are industrial products and consumer durables. The country-specific product is quite sensitive to environmental factors. Sales are more closely tied to political, economic and cultural forces, meaning that localized or national strategies seem preferable. Processed food and clothing items are examples.

In a dynamic setting, local products may become candidates for global products as shown in Figure 5. This is where both industry and firm are driven by the search for higher technological content and stricter quality control. Coca-Cola, McDonald's, Kentucky Fried Chicken, and Levi Strauss, for example, all offer products which are more acceptable globally than parallel products with country-of-origin other than the U.S. However, note that these products—food and clothes—are all ethnic products which may be positioned in the lower right-hand corner where forces for local responsiveness is high in Figure 4.

The above examples show that successful global firms can move the local strategy in a more global direction if they can make the perceived benefits of better quality and reasonable price outweigh the need for buyers to satisfy their localized specific preferences. Therefore, the most important strategic implication is that the real issue of globalization is not the forced choice between the two extremes, nor a compromise of these two, but rather how to increase the degree of standardization. A high level of technology and quality control may redirect the firm's strategic choice away from local responsiveness towards higher global standardization.

One more important thing is that a global firm can pursue a strategy of product diversity only if the introduction of a new or customized product does not hurt the overall efficiency. An example is the product lines of Coca-Cola: Coke, Diet Coke, Classic Coke, New Coke, and so on. The product strategy of Coca-Cola is not completely segmented, since the formulae for Coca-Cola products are not without overlap or similarity. The firm makes only slight changes in the basic ingredients for all. The availability of flexible manufacturing enables the firm to produce and market slightly differentiated products to different target market groups, without sacrificing the benefits of global EOS. Coca-Cola would not have introduced New Coke or Classic Coke if development of this product were to significantly impede the company from achieving its global efficiency. Benefits from standardizing the basic product and principal business functions should be emphasized first for a successful global firm.

In the Global-Local framework, several different international strategies can be contrasted as shown in Figure 6. According to Levitt (1993), the global corporation operates at low relative cost as if the entire world were a single entity; it sells the same things in the same way everywhere. Levitt's global strategy is thus located in the upper left corner (high integration and low responsiveness). In contrast, Douglas and Wind (1987) proposed that the responsiveness strategy is more common than the integration strategy because international markets are more heterogeneous than homogeneous. Their strategy is thus located in the lower right corner (low integration and high responsiveness). This type of firm can be called a multinational (Douglas and Wind, 1987) or multidomestic firm (Porter, 1986b; Moon, 1994). According to Moon (1997), however, multinational firms have a variety of entry modes in international markets. On the other hand, Bartlett and Ghoshal (1989) suggested the need for simultaneously achieving global integration and local responsiveness. To achieve global competitive advantage, costs and revenues have to be managed simultaneously, efficiency and innovation are both important, and innovations can arise in many different parts of the organization. Therefore, instead of centralizing or decentralizing assets, the transnational firm makes selective decisions. They call this the transnational solution, which can be located in the upper right (high integration and high responsiveness).

However, none of these strategies adequately explain the dynamic nature of global

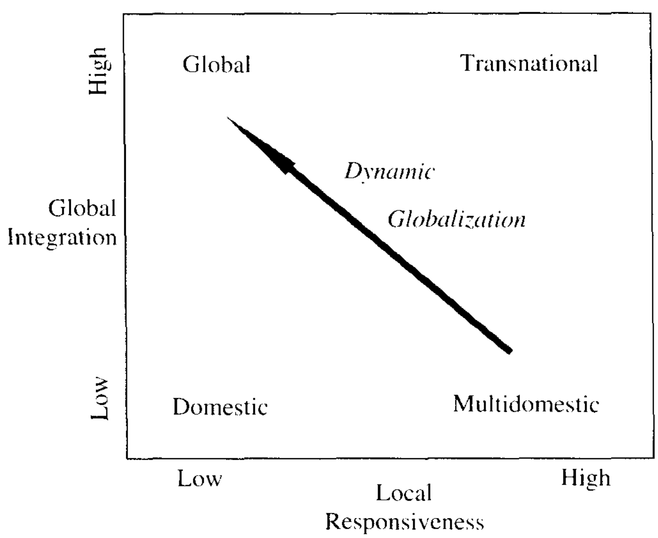

Figure 6. Types of International Strategies

firms that improve local products to global products with value-added activities. This strategy implies the dynamic shift from multidomestic firm to global firm as the arrow indicates in Figure 6. In other words, the global managers should be able to add values to their products and management techniques, thereby change the heterogeneous local market to homogeneous global market.

4. CONCLUSION

Two important issues on globalization are whether to globalize and how to globalize. As international business environment is rapidly globalized, most people agree that benefits may outweigh costs with globalization. However, there has been no consensus on how to globalize. Two important forces that a global manager has to consider are global integration and local responsiveness. Exiting studies argue that a global manager has to choose one of these two forces, or compromise the two. In contrast, this studies shows that the most important task of a global manager is to dynamically shift local responsiveness to global integration.

A global product is characterized by low cost and/or high quality, thereby competitive in the global market. In contrast, a local product is characterized mostly by personal or local tastes, thereby may not be competitive in terms of cost and/or quality in the global market. By raising local to global product, therefore, the global firm can add values to the product and consumers. We can thus view that the global firm may contribute to the world economy by adding values rather than just exploit world resources and markets.

A very important implication can be derived. Firms, particularly those from developing countries, often over-emphasize the unique characteristics of their home countries in their products when they sell them in the global market. However, it should be noted that global consumers would prefer universal values such as cost, quality, and other differentiated features of the product to local values such as traditions of a specific country. For example, the Italian design is very popular in the global market not because it is Italian, but because it is well acceptable in the global market. In fact, overemphasis on local characteristics may negatively affect the globalness of the product.

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