

1.2: How Global Are We?

In 1983, Theodore Levitt, the late Harvard Business School professor and editor of the *Harvard Business Review*, wrote a controversial article entitled “The Globalization of Markets.” In it, he famously stated, “The globalization of markets is at hand. With that, the multinational commercial world nears its end, and so does the multinational corporation... The multinational operates in a number of countries, and adjust its products and processes in each, at high relative cost. The global corporation operates with resolute constancy... it sells the same things in the same way everywhere” (Levitt (1983, May–June)).

Levitt both overestimated and underestimated globalization. He did not anticipate that some markets would react against globalization, especially against Western globalization. He also underestimated the power of globalization to transform entire nations to actually embrace elements of global capitalism, as is happening in the former Soviet Union, China, and other parts of the world. He was right, however, about the importance of branding and its role in forging the convergence of consumer preferences on a global scale. Think of Coca-Cola, Starbucks, McDonald’s, or Google. (Ghemawat (2007a), p. 9).

More than 20 years later, in 2005, Thomas Friedman, author of *The World is Flat: A Brief History of the Twenty-First Century*, had much the same idea, this time focused on the globalization of production rather than of markets. Friedman argues that a number of important events, such as the birth of the Internet, coincided to “flatten” the competitive landscape worldwide by increasing globalization and reducing the power of states. Friedman’s list of “flatteners” includes the fall of the Berlin Wall; the rise of Netscape and the dot-com boom that led to a trillion-dollar investment in fiber-optic cable; the emergence of common software platforms and open source code enabling global collaboration; and the rise of outsourcing, offshoring, supply chaining, and in-sourcing. According to Friedman, these flatteners converged around the year 2000, creating “a flat world: a global, web-enabled platform for multiple forms of sharing knowledge and work, irrespective of time, distance, geography and increasingly, language.” (Friedman (2007), p. 50). And, he observed, at the very moment this platform emerged, three huge economies materialized—those of India, China, and the former Soviet Union, and “three billion people who were out of the game, walked onto the playing field.” (Friedman (2007), p. 205).

Taking a different perspective, Harvard Business School professor Pankaj Ghemawat disputes the idea of fully globalized, integrated, and homogenized future in his *Laws of Globalization and Business* (2017). He identifies two general patterns : *the law of semiglobalization* and *the law of distance*.

1. **Law of semiglobalization:** differences between countries and cultures are larger than is generally acknowledged and that “*semiglobalization*” is the real state of the world today and is likely to remain so for the foreseeable future.
2. **Law of distance:** borders and distance still matter and that it is important to take a broad view of the differences they demarcate, to identify those that matter the most in a particular industry, and to look at them not just as difficulties to be overcome but also as potential sources of value creation. Geography, administration, and culture are impacted by *economic distance* as well as physical distance.

Ghemawat cites the 2017 Brexit vote as a source of support for these general patterns, noting that while globalized industry and movement of people motivated the design and approval of Brexit by voters in the United Kingdom, in fact the U.K. economy is largely driven by regional trade within Europe. At the time Brexit was being developed and approved, exports made up approximately one-third of U.K. GDP. and 45% of its imports came from the European continent. In a fully globalized economy, 96% of the GDP would need to be considered international in production and distribution. (Ghemawat 2017).

Moore and Rugman also reject the idea of an emerging single world market for free trade and offer a regional perspective. They note that while companies source goods, technology, information, and capital from around the world, business activity tends to be centered in certain cities or regions around the world, and suggest that regions—rather than global opportunity—should be the focus of strategy analysis and organization. As examples, they cite decisions by DuPont and Procter & Gamble to roll their three separate country subsidiaries in the United States, Canada, and Mexico into one regional organization. (Moore and Rugman (2005a); see also Moore and Rugman (2005b)). Regional trade agreements such as USMCA in North America (formerly NAFTA) and ASEAN in Southeast Asia and the Asian continent follow trade patterns and formalize regional trade by incentivizing companies to work regionally.

The histories of Toyota, Wal-Mart, and Coca-Cola provide support for the diagnosis of a semiglobalized and regionally divided world. Toyota’s globalization has always had a distinct regional flavor. Its starting point was *not* a grand, long-term vision of a fully integrated world in which autos and auto parts can flow freely from anywhere to anywhere else. Rather, the company anticipated expanded free-trade agreements within the Americas, Europe, and East Asia but not across them. This reflects a vision of a

semiglobalized world in which neither the bridges nor the barriers between countries can be ignored. The Toyota, Wal-Mart, and Coca-Cola examples are taken from Ghemawat (2007a), chap. 1.

The globalization of Wal-Mart illustrates the complex realities of a more nuanced global competitive landscape (see the Wal-Mart minicase). It has been successful in markets that are culturally, administratively, geographically, and economically closest to the United States: Canada, Mexico, and the United Kingdom. In other parts of the world, it has yet to meet its profitability targets. The point is not that Wal-Mart should not have ventured into more distant markets, but rather that such opportunities require a different competitive approach. For example, in India, which restricts foreign direct investment in retailing, Wal-Mart was forced to enter a joint venture in 2007 with an Indian partner, Bharti, that operated the stores, while Wal-Mart dealt with the back end of the business. Twenty superstores were built in major cities, and yet in 2013 the partnership was dissolved. Forbes reported on the story, citing Scott Price, President and CEO of Walmart, who indicated that their hope was to spark a liberalization of the Indian market which did not happen, and thus the relationship no longer served the Wal-Mart corporation. (*Wal-Mart: What Happened in India?* Walter Loeb, 2013: forbes.com/sites/walterloeb/2013/10/16/walmart-what-happened-in-india/?sh=263c4de07d1c, accessed 2021)

Consider the history of Coca-Cola, which, in the late 1990s under chief executive officer Roberto Goizueta, fully bought into Levitt's idea that the globalization of markets (rather than globalization of production) was imminent. Goizueta embarked on a strategy that involved focusing resources on Coke's megabrands, an unprecedented amount of standardization, and the official dissolution of the boundaries between Coke's U.S. and international organizations. Fifteen years later and under new leadership, Coke's strategy looks very different and is no longer always the same in different parts of the world. In big, emerging markets such as China and India, Coke has lowered price points, reduced costs by localizing inputs and modernizing bottling operations, and upgraded logistics and distribution, especially rurally. The boundaries between the United States and international organizations have been restored, recognizing the fact that Coke faces very different challenges in America than it does in most of the rest of the world. This is because per capita consumption is an order of magnitude that is higher in the United States than elsewhere.

COVID-19 Impact on Globalization of Business

The long-term impacts of COVID-19 on internationalized businesses are being studied and discussed broadly by economists, corporate leaders, and politicians (as well as international business students!) During the first months and years of the global pandemic, it has been clear that supply chains have been impacted across the spectrum of production and distribution. Steven Altman of the Harvard Business Review pointed out that international flows respond to macroeconomic patterns - as economies grow, international flows grow faster and stronger, and as they shrink, the global indicators decline more rapidly and drastically (*Will COVID-19 Have a Lasting Impact on Globalization?* Steven Altman, 2020: hbr.org/2020/05/will-covid-19-have-a-lasting-impact-on-globalization, accessed 2021). He points to five factors that will influence the rebound of international trade and cooperation:

1. Global Growth Patterns: the pandemic will need to subside for many international exchanges to resume, but the act of engaging internationally to develop strong health support services, medical supplies, and technology improves the likelihood that the pandemic will be controlled more thoroughly and completely at a faster rate.
2. Supply Chain Policies: companies will either turn to diversifying their trade partners to limit disruption to their supply chain, or will rely more on domestic supply chains.
3. Governmental Relationships: global superpowers have delicately-balanced relationships that impact international trade agreements, sourcing, and delivery or distribution lines. The global pandemic has increased nation-state power over policy (moving away from business-led policy) and thus the relationships between nation-states plays a greater factor in international business success than pre-pandemic.
4. Technology Developments: the pandemic has provided a great space for accelerated innovation and technological developments. The impacts of robotics, Artificial Intelligence (AI), and remote work platforms can influence businesses internally and externally. Developments may change the international labor market and impact cross-border recruitment or production decisions. The pace of production and distribution may be impacted by efficiencies introduced by technological advances.
5. Public Opinion: the global transfer of COVID-19 spiked fears about international travel and exchange, and also highlighted vulnerabilities in the international supply chain. Protectionist policies may gain popularity, and awareness of corporate actions around social issues has become core to consumer and labor views of businesses.

This pandemic is unlike any pandemic in recent history because of the unique state of globalized trade, travel, and technological advancement that inarguably creates a more closely connected world. While the final results aren't in yet, international businesses and policies will necessarily consider the impacts of COVID-19 in their decision-making processes.

✓ Minicase: The Globalization of Wal-Mart

This mini case study was first published in de Kluyver and Pearce (2009), chap. 8.

In venturing outside the United States, Wal-Mart had the option of entering Europe, Asia, or other countries in the western hemisphere. It realized that it did not have the resources—financial, organizational, and managerial—to enter all of them simultaneously and instead opted for a carefully considered, learning-based approach to market entry. During the first 5 years of its globalization (1991 to 1995), Wal-Mart concentrated heavily on establishing a presence in the Americas: Mexico, Brazil, Argentina, and Canada. This choice was motivated by the fact that the European market was less attractive to Wal-Mart as a first point of entry. The European retail industry was already mature, which meant that a new entrant would have to take market share away from an existing player. There were well-entrenched competitors such as Carrefour in France and Metro AG in Germany that would likely retaliate vigorously. Moreover, European retailers had formats similar to Wal-Mart's, which would have the effect of reducing Wal-Mart's competitive advantage. Wal-Mart might have overcome these difficulties by entering Europe through an acquisition, but the higher growth rates of the Latin American and Asian markets would have made a delayed entry into those markets extremely costly in terms of lost opportunities. In contrast, the opportunity costs of delaying acquisition-based entries into European markets were relatively small. Asian markets also presented major opportunities, but they were geographically and culturally more distant. For these reasons, as its first global points of entry, Wal-Mart chose Mexico (1991), Brazil (1994), and Argentina (1995), the countries with the three largest populations in Latin America.

By 1996, Wal-Mart felt ready to take on the Asian challenge. It targeted China, with a population of more than 1.2 billion inhabitants in 640 cities, as its primary growth vehicle. This choice made sense in that the lower purchasing power of the Chinese consumer offered huge potential to a low-price retailer like Wal-Mart. Still, China's cultural, linguistic, and geographical distance from the United States presented relatively high entry barriers, so Wal-Mart established two beachheads as learning vehicles for establishing an Asian presence. From 1992 to 1993, Wal-Mart agreed to sell low-priced products to two Japanese retailers, Ito-Yokado and Yaohan, that would market these products in Japan, Singapore, Hong Kong, Malaysia, Thailand, Indonesia, and the Philippines. Then, in 1994, Wal-Mart formed a joint venture with the C. P. Pokphand Company, a Thailand-based conglomerate, to open three Value Club membership discount stores in Hong Kong.

Once Wal-Mart had chosen its target markets, it had to select a mode of entry. It entered Canada through an acquisition. This was rational because Canada was a mature market—adding new retail capacity was unattractive—and because the strong economic and cultural similarities between the U.S. and Canadian markets minimized the need for much learning.

For its entry into Mexico, Wal-Mart took a different route. Because there were significant income and cultural differences between the U.S. and Mexican markets about which the company needed to learn, and to which it needed to tailor its operations, a greenfield start-up would have been problematic. Instead, the company chose to form a 50-50 joint venture with Cifra, Mexico's largest retailer, counting on Cifra to provide operational expertise in the Mexican market.

In Latin America, Wal-Mart targeted the region's next two largest markets: Brazil and Argentina. The company entered Brazil through a joint venture, with Lojas Americana, a local retailer. Wal-Mart was able to leverage its learning from the Mexican experience and chose to establish a 60-40 joint venture in which it had the controlling stake. The successful entry into Brazil gave Wal-Mart even greater experience in Latin America, and it chose to enter Argentina through a wholly owned subsidiary. This decision was reinforced by the presence of only two major markets in Argentina.

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