

Adopting a Global Perspective



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Key questions

- Why should an enterprise engage in international transactions?
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- Does this engagement mean the nature of strategy must change?

A global world

- A world government
- An effective world law and order framework
- Multilateral institutions for overseeing the implementation of business rules
- A common language
- A common culture
- Fully integrated markets
- No barriers to trade or investment
- No transport or communications costs

Definition

- “Globalization is the movement towards a ‘global world’”
- The concept encapsulates for many the defining features of the modern era
- It is perceived by different people as both good and bad

Benefits of globalization

- Accelerated technical change
- Increased competition = lower costs
- Reduction in home country bias
- Faster growth = more jobs
- Higher standard of living ■
- Reduction in poverty
- Broader access to consumer goods
- Widespread dissemination of information
- Undermining of traditional hierarchies
- "Democratisation"

Losses from globalization

- Loss of national sovereignty
- More uneven income distribution
- Damage to the environment
- Erosion of health and safety standards
- Erosion of local cultures
- More cultural imperialism
- Loss of independent decision-making
- Increased power of large companies
- Increased power of international organizations

Four different views of globalization

- A change of mental perspective
- A change in behaviour
- Increasingly institutionalized patterns of global interaction
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- The imposition of a new discipline on existing behaviour – the notion of ‘hyper-competition’

Five main elements of globalization

- The integration of world markets and the world economy
- Accelerated diffusion of new technology
- The loss of national sovereignty
- The homogenisation of a global culture
- The democratisation of key activities

Is globalisation new?

- Long history of an increase in international interactions – trade and investment
 - 5,000 B.C to the 1600s *incipient* globalization
 - 1600s to 1970s *bridging* globalization
 - 1970s to present: *accelerated* globalization
- Reversals followed by recoveries – for example 1914 – 1945 reversal, 1945 – 1970s recovery.

Integration of markets

- Supra-nationalisation v. Internationalisation
- The capital market leads the way
- Reduction in barriers to trade and investment
- Reduction in transport and communication costs

Accelerated diffusion of new technology

- The communications revolution
- Vastly improved access to information
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- Price convergence in various markets
- More rapid spread of technical knowledge

Loss of national sovereignty

- The 'golden straitjacket'
- Who sets the rules of the game?
- Multilateral and multinational institutions
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- Country risk
- Increase in number of nation states
- Cultural conflict (Huntington thesis)

Homogenisation of culture

- The role of language
- Cultural imperialism, from fast food to pop music
 -
- Few global brands
- Local resistance

Democratisation

- Control of fertility
- Decentralisation of energy and transport – electricity and the motor car
- Access to travel
- Access to finance
- Access to information

Cultural clusters (1)

- Latin America
- Western Europe
- Eastern Europe
- The Arab ■
- Sub-Saharan Africa
- Sinitic or Confucian
- South Asian
- The Anglo

Cultural clusters (2)

- Areas of fragmentation
 - South-east Asia
 - Oceania
- Border areas ■
 - the Balkans
- Outliers
 - Brazil
 - Israel

Home country bias

- In key economic decisions:
 - Purchase of consumer goods
 - Use of savings
 - Location of investment■
 - Employment
- In nature of multinational enterprises

Removal of the bias

- Reduction in transport and communication costs
- More information, less ignorance and uncertainty ■
- Removal of fluctuations in the level of country risk
 - Floating exchange rates
 - Government action

A convergent world

- What does convergence mean? By choice or by compulsion
- The 'end of history'
 - Economic – the market system
 - Political – representative democracy
 - Social – global tastes and global brands
- Price convergence - commodities
 - Interest rates converge
 - Systematic economic fluctuations occur
 - Economic structures become similar

Global players

- Multilateral organizations – from the WTO to Greenpeace
- Regional organizations – from the EU to APEC
- The main national players
 - The Triad: North America, the EU and Japan
- Multinational enterprises and organizations from Wal-Mart to the state of California

Multilateral organizations

- The United Nations and its agencies
- The World Bank and its agencies
- World Trade Organization
- International Monetary Fund
- Bank of International Settlements
- Greenpeace
- Red Cross
- Amnesty
- Oxfam

Regional organizations

- Regional development banks, e.g. Asian Development Bank
- European Union and its agencies, e.g. European Central Bank
- Free Trade Areas, such as NAFTA, ASEAN or Mercosur
- Others: APEC or OPEC

National Players

- The Triad – North America, the European Union and Japan
- North America is a little bigger than the European Union
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- Both are something like three times the size of Japan
- Together with China, South Korea and Singapore the Confucian countries are a little bit smaller again

United States	9,781
China	5,027
Japan	3,246
India	2,913
Germany	2,078
United Kingdom	1,431
France	1,425
Italy	1,422
Brazil	1,219
Russia	995

Purchasing power parity GNI (2001) – in US\$ billions

Multinationals

- By definition those companies engaged in FDI
- Growing in number
- Still concentrated on the Triad but becoming more diverse
 -
- Different ways of defining size – by use of factors of production such as assets or employment, by capitalization or by revenues

Wal-Mart	220
Exxon Mobil	192
General Motors	177
British Petroleum	174
Ford	162
Enron	139
Daimler Chrysler	137
Royal Dutch /Shell	132
General Electric	126
Toyota	121

Revenues of 10 largest corporations \$bill (2001).

The impact of globalization on strategy

- Think globally and act locally
- Differing operating contexts
- Greater complexity
 - of value creating chain
 - of markets
 - of management team and labour force
 - of legal and political contexts

Globalization drivers

- Lure of markets
- Prospect of reduced costs
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- Persistence of government policies which favour some kinds of globalisation
- Forces of competition

Global opportunities and risks

- Nature of the opportunities
- How to exploit the opportunities
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- Need for leadership
- Complexity of risk

The Airlines

- Of its nature a global industry
- A strong case of home country bias - protection of the flag carriers
- Deregulation talked about, and to some degree pursued
- Fast growth but low profit industry
- Highly vulnerable to shocks
- Consolidation and strategic alliances
- 'No-frills' airlines

Swissair

- Limited domestic base
- Ambitious strategy
 - Large route network
 - Minority interests
 - Non-airline business
- New Strategic Course Jan 1 2001
- Debt and bankruptcy late 2001
- Reconstruction as Swiss International Airlines
- Further problems in 2003
- Future? Take-over by Lufthanza

Qantas

- Strong domestic base
- Bankruptcy of Ansett
- Rides the shock well
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- Problems
 - Further shocks – Bali and SARS
 - Competition from no frills airlines, Virgin Blue
 - Ageing fleet
 - High costs

British Airways

Starting from their slogan 'One World', the intent of BA is to become a global airline, serving a global market and a global customer.

In the past they had attempted to access the 'low-cost' flight market (with Buzz) but it did not fit with the company culture-customer Buzz was eventually sold.

Over the last 10-15 years they have promoted a less British profile and amplified a different, world-wide, brand image (as the flags on the plane tails testify)