

# Global Strategy. . . In a World of Nations?

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THIS ARTICLE gives a detailed framework for evaluating whether—and how—to globalize an individual firm's corporate strategy. The author stresses the opportunities for gaining competitive advantage and provides examples of companies that have exploited globalization drivers and strategy levers. He also discusses the relative merits of *global* and *multidomestic* strategies in various strategic situations. *Ed.*

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**W**HETHER TO GLOBALIZE, and how to globalize, have become two of the most burning strategy issues for managers around the world. Many forces are driving companies around the world to globalize by expanding their participation in foreign markets. Almost every product market in the major world economies—computers, fast food, nuts and bolts—has foreign competitors. Trade barriers are also falling; the recent United States/Canada trade agreement and the impending 1992 harmonization in the European Community are the two most dramatic examples. Japan is gradually opening up its long barricaded markets. Maturity in domestic markets is also driving companies to seek international expansion. This is particularly true of U.S. companies that, nourished by the huge domestic market, have typically lagged behind their European and Japanese rivals in internationalization.

Companies are also seeking to globalize by integrating their worldwide strategy. Such global integration contrasts with the multinational approach whereby companies set up country subsidiaries that design, produce, and market products or services tailored to local needs. This multinational model (also described as a “multidomestic strategy”) is now in question.<sup>1</sup> Several changes seem to increase the likelihood that, in some industries, a global strategy will be more successful than a multidomestic one. One of these changes, as argued forcefully and controversially by Levitt, is the growing similarity of what citizens of different countries want to buy.<sup>2</sup> Other changes include the reduction of tariff and

nontariff barriers, technology investments that are becoming too expensive to amortize in one market only, and competitors that are globalizing the rules of the game.

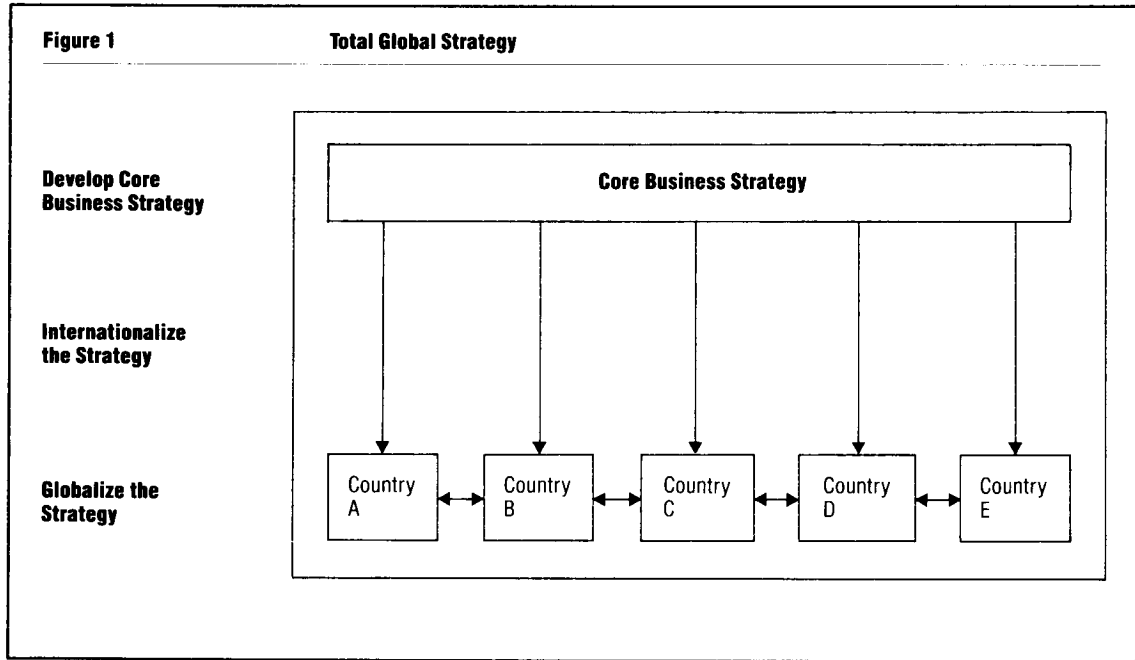
Companies want to know how to globalize—in other words, expand market participation—and how to develop an integrated worldwide strategy. As depicted in Figure 1, three steps are essential in developing a total worldwide strategy:

- Developing the core strategy—the basis of sustainable competitive advantage. It is usually developed for the home country first.
- Internationalizing the core strategy through international expansion of activities and through adaptation.
- Globalizing the international strategy by integrating the strategy across countries.

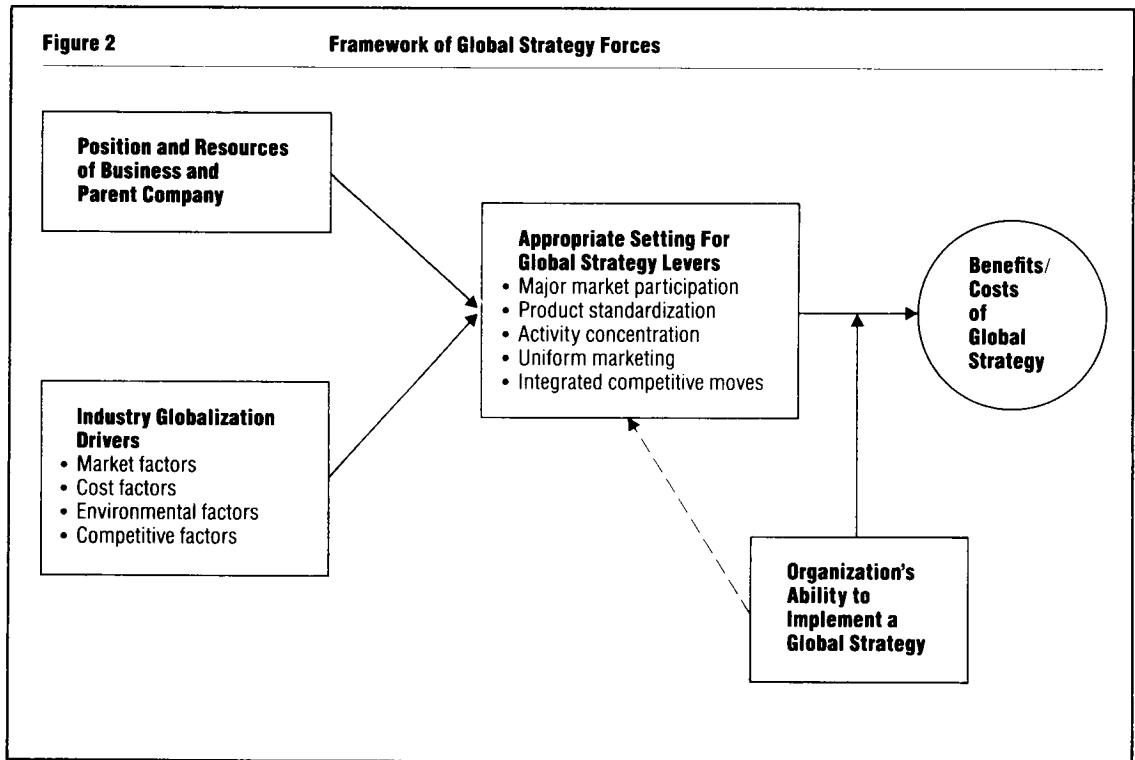
Multinational companies know the first two steps well. They know the third step less well since globalization runs counter to the accepted wisdom of tailoring for national markets.<sup>3</sup>

*This article makes a case for how a global strategy might work and directs managers toward opportunities to exploit globalization.* It also presents the drawbacks and costs of globalization. Figure 2 lays out a framework for thinking through globalization issues.<sup>4</sup>

*Industry globalization drivers* (underlying market, cost, and other industry conditions) are externally determined, while global strategy levers are choices available to the worldwide business. Drivers create the potential for a multinational business to achieve the benefits of global strategy. To achieve



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these benefits, a multinational business needs to set its *global strategy levers* (e.g., use of product standardization) appropriately to industry drivers, and to the position and resources of the business and its parent company.<sup>5</sup> The organization's ability to implement the strategy affects how well the benefits can be achieved.

## What Is Global Strategy?

Setting strategy for a worldwide business requires making choices along a number of strategic dimensions. Table 1 lists five such dimensions or "global strategy levers" and their respective positions under a pure multidomestic strategy and a pure global

strategy. Intermediate positions are, of course, feasible. For each dimension, a multidomestic strategy seeks to maximize worldwide performance by maximizing local competitive advantage, revenues, or profits; a global strategy seeks to maximize worldwide performance through sharing and integration.

### **Market Participation**

In a multidomestic strategy, countries are selected on the basis of their stand-alone potential for revenues and profits. In a global strategy, countries need to be selected for their potential contribution to globalization benefits. This may mean entering a market that is unattractive in its own right, but has global strategic significance, such as the home market of a global competitor. Or it may mean building share in a limited number of key markets rather than undertaking more widespread coverage. A pattern of major share in major markets is advocated in Ohmae's USA-Europe-Japan "triad" concept.<sup>6</sup> In contrast, under a multidomestic strategy, no particular pattern of participation is required—rather, the pattern accrues from the pursuit of local advantage. The Electrolux Group, the Swedish appliance giant, is pursuing a strategy of building significant share in major world markets. The company aims to be the first global appliance maker. In 1986, Electrolux took over Zanussi Industries to become the top producer of appliances in Western Europe. Later that year, Electrolux acquired White Consolidated Industries, the third largest American appliance manufacturer.

### **Product Offering**

In a multidomestic strategy, the products offered in each country are tailored to local needs. In a global strategy, the ideal is a standardized core product that requires minimal local adaptation. Cost reduction is usually the most important benefit of product standardization. Levitt has made the most extreme case for product standardization. Others stress the need for flexibility, or the need for a broad product portfolio, with many product varieties in order to share technologies and distribution channels.<sup>7</sup> In practice, some multinationals have pursued product standardization to a greater or lesser extent.<sup>8</sup> Differing worldwide needs can be met by adapting a standardized core product. In the early 1970s, sales of the Boeing 737 began to level off. Boeing turned to developing countries as an attrac-

tive new market, but found initially that its product did not fit the new environments. Because of the shortness of runways, their greater softness, and the lower technical expertise of their pilots, the planes tended to bounce a great deal. When the planes bounced on landing, the brakes failed. To fix this problem, Boeing modified the design by adding thrust to the engines, redesigning the wings and landing gear, and installing tires with lower pressure. These adaptations to a standardized core product enabled the 737 to become the best selling plane in history.

### **Location of Value-Added Activities**

In a multidomestic strategy, all or most of the value chain is reproduced in every country. In another type of international strategy—exporting—most of the value chain is kept in one country. In a global strategy, costs are reduced by breaking up the value chain so each activity may be conducted in a different country. One value chain strategy is partial concentration and partial duplication. The key feature of a global position on this dimension is the strategic placement of the value chain around the globe.

Many electronics companies now locate part or all of their manufacturing operations in Southeast Asia because of that region's low-cost, skilled labor. In addition, a key component (the semiconductor chip) is very cheap there. Under the United States-Japan Semiconductor Agreement, the Japanese agreed not to sell chips in the United States below cost. But in an industry plagued by overcapacity, the chips had to go somewhere. The agreement resulted in Japanese chips being sold below cost in Southeast Asia. The lower cost of chips

**Table 1** Globalization Dimensions/Global Strategy Levers

<b>Dimension</b>	<b>Setting for Pure Multidomestic Strategy</b>	<b>Setting for Pure Global Strategy</b>
<b>Market Participation</b>	No particular pattern	Significant share in major markets
<b>Product Offering</b>	Fully customized in each country	Fully standardized worldwide
<b>Location of Value-Added Activities</b>	All activities in each country	Concentrated—one activity in each (different) country
<b>Marketing Approach</b>	Local	Uniform worldwide
<b>Competitive Moves</b>	Stand-alone by country	Integrated across countries

combined with the lower labor cost has attracted many manufacturers of computers and other electronic equipment to Southeast Asia.

### Marketing Approach

In a multidomestic strategy, marketing is fully tailored for each country, being developed locally. In a global strategy, a uniform marketing approach is applied around the world, although not all elements of the marketing mix need be uniform.<sup>9</sup> Unilever achieved great success with a fabric softener that used a globally common positioning, advertising theme, and symbol (a teddy bear), but a brand name that varied by country. Similarly, a product that serves a common need can be geo-

graphically expanded with a uniform marketing program, despite differences in marketing environments.

### Competitive Moves

In a multidomestic strategy, the managers in each country make competitive moves without regard for what happens in other countries. In a global strategy, competitive moves are integrated across countries. The same type of move is made in different countries at the same time or in a systematic sequence: a competitor is attacked in one country in order to drain its resources for another country, or a competitive attack in one country is countered in a different country. Perhaps the best ex-

**Figure 3** **How Global Strategy Levers Achieve Globalization Benefits**

	<b>Benefits</b>				<b>Major Drawbacks</b>
<b>Global Strategy Levers</b>	<b>Cost Reduction</b>	<b>Improved Quality of Products and Programs</b>	<b>Enhanced Customer Preference</b>	<b>Increased Competitive Leverage</b>	<b>All Levers Incur Coordination Costs, Plus</b>
<b>Major Market Participation</b>	Increases volume for economies of scale		Via global availability, global serviceability, and global recognition	Advantage of earlier entry Provides more sites for attack and counter-attack, hostage for good behavior	Earlier or greater commitment to a market than warranted on own merits
<b>Product Standardization</b>	Reduces duplication of development efforts Allows concentration of production to exploit economies of scale	Focuses development and management resources	Allows consumers to use familiar product while abroad Allows organizations to use same product across country units	Basis for low-cost invasion of markets	Less responsive to local needs
<b>Activity Concentration</b>	Reduces duplication of activities Helps exploit economies of scale Exploits differences in country factor costs Partial concentration allows flexibility vs. currency changes, and vs. bargaining parties	Focuses effort Allows more consistent quality control		Allows maintenance of cost advantage independent of local conditions	Distances activities from the customer Increases currency risk
<b>Uniform Marketing</b>	Reduces design and production costs of marketing programs	Focuses talent and resources Leverages scarce, good ideas	Reinforces marketing messages by exposing customer to same mix in different countries		Reduces adaptation to local customer behavior and marketing environment
<b>Integrated Competitive Moves</b>				Provides more options and leverage in attack and defense	Local competitiveness may be sacrificed

ample is the counterattack in a competitor's home market as a parry to an attack on one's own home market. Integration of competitive strategy is rarely practised, except perhaps by some Japanese companies.<sup>10</sup>

Bridgestone Corporation, the Japanese tire manufacturer, tried to integrate its competitive moves in response to global consolidation by its major competitors—Continental AG's acquisition of GenCorp's General Tire and Rubber Company, General Tire's joint venture with two Japanese tire makers, and Sumitomo's acquisition of an interest in Dunlop Tire. These competitive actions forced Bridgestone to establish a presence in the major U.S. market in order to maintain its position in the world tire market. To this end, Bridgestone formed a joint venture to own and manage Firestone Corporation's worldwide tire business. This joint venture also allowed Bridgestone to gain access to Firestone's European plants.

## Benefits of a Global Strategy

Companies that use global strategy levers can achieve one or more of these benefits (see Figure 3):<sup>11</sup>

- cost reductions;
- improved quality of products and programs;
- enhanced customer preference; and
- increased competitive leverage.

### Cost Reductions

An integrated global strategy can reduce worldwide costs in several ways. A company can increase the benefits from economies of scale by *pooling production or other activities* for two or more countries. Understanding the potential benefit of these economies of scale, Sony Corporation has concentrated its compact disc production in Terre Haute, Indiana, and Salzburg, Austria.

A second way to cut costs is by *exploiting lower factor costs* by moving manufacturing or other activities to low-cost countries. This approach has, of course, motivated the recent surge of offshore manufacturing, particularly by U.S. firms. For example, the Mexican side of the U.S.-Mexico border is now crowded with "maquiladoras"—manufacturing plants set up and run by U.S. companies using Mexican labor.

Global strategy can also cut costs by *exploiting flexibility*. A company with manufacturing locations

in several countries can move production from location to location on short notice to take advantage of the lowest costs at a given time. Dow Chemical takes this approach to minimize the cost of producing chemicals. Dow uses a linear programming model that takes account of international differences in exchange rates, tax rates, and transportation and labor costs. The model comes up with the best mix of production volume by location for each planning period.

An integrated global strategy can also reduce costs by *enhancing bargaining power*. A company whose strategy allows for switching production among different countries greatly increases its bargaining power with suppliers, workers, and host governments. Labor unions in European countries are very concerned that the creation of the single European market after 1992 will allow companies to switch production from country to country at will. This integrated production strategy would greatly enhance companies' bargaining power at the expense of unions.

### Improved Quality of Products and Programs

Under a global strategy, companies focus on a smaller number of products and programs than under a multidomestic strategy. This concentration can improve both product and program quality. Global focus is one reason for Japanese success in automobiles. Toyota markets a far smaller number of models around the world than does General Motors, even allowing for its unit sales being half that of General Motors's. Toyota has concentrated on improving its few models while General Motors has fragmented its development funds. For example, the Toyota Camry is the U.S. version of a basic worldwide model and is the successor to a long line of development efforts. The Camry is consistently rated as the best in its class of medium-sized cars. In contrast, General Motors's Pontiac Fiero started out as one of the most successful small sports cars, but was recently withdrawn. Industry observers blamed this on a failure to invest development money to overcome minor problems.

### Enhanced Customer Preference

Global availability, serviceability, and recognition can enhance customer preference through reinforcement. Soft drink and fast food companies are, of

course, leading exponents of this strategy. Many suppliers of financial services, such as credit cards, must have a global presence because their service is travel-related. Manufacturers of industrial products can also exploit this benefit. A supplier that can provide a multinational customer with a standard product around the world gains from worldwide familiarity. Computer manufacturers have long pursued this strategy.

### ***Increased Competitive Leverage***

A global strategy provides more points from which to attack and counterattack competitors. In an effort to prevent the Japanese from becoming a competitive nuisance in disposable syringes, Becton Dickinson, a major U.S. medical products company, decided to enter three markets in Japan's backyard. Becton entered the Hong Kong, Singapore, and Philippine markets to prevent further Japanese expansion.<sup>12</sup>

### **Drawbacks of Global Strategy**

Globalization can incur significant management costs through increased coordination, reporting requirements, and even added staff. It can also reduce the firm's effectiveness in individual countries if overcentralization hurts local motivation and morale. In addition, each global strategy lever has particular drawbacks.

A global strategy approach to *market participation* can incur an earlier or greater commitment to a market than is warranted on its own merits. Many American companies, such as Motorola, are struggling to penetrate Japanese markets, more in order to enhance their global competitive position than to make money in Japan for its own sake.

*Product standardization* can result in a product that does not entirely satisfy *any* customers. When companies first internationalize, they often offer their standard domestic product without adapting it for other countries, and suffer the consequences. For example, Procter & Gamble stumbled recently when it introduced Cheer laundry detergent in Japan without changing the U.S. product or marketing message (that the detergent was effective in all temperatures). After experiencing serious losses, P&G discovered two instances of insufficient adaptation. First, the detergent did not suds up as it should because the Japanese use a great deal of fabric

softener. Second, the Japanese usually wash clothes in either cold tap water or bath water, so the claim of working in all temperatures was irrelevant. Cheer became successful in Japan only after the product was reformulated and the marketing message was changed.

A globally standardized product is designed for the global market but can seldom satisfy all needs in all countries. For instance, Canon, a Japanese company, sacrificed the ability to copy certain Japanese paper sizes when it first designed a photocopier for the global market.

*Activity concentration* distances customers and can result in lower responsiveness and flexibility. It also increases currency risk by incurring costs and revenues in different countries. Recently volatile exchange rates have required companies that concentrate their production to hedge their currency exposure.

*Uniform marketing* can reduce adaptation to local customer behavior. For example, the head office of British Airways mandated that every country use the "Manhattan Landing" television commercial developed by advertising agency Saatchi and Saatchi. While the commercial did win many awards, it has been criticized for using a visual image (New York City) that was not widely recognized in many countries.

*Integrated competitive moves* can mean sacrificing revenues, profits, or competitive position in individual countries, particularly when the subsidiary in one country is asked to attack a global competitor in order to send a signal or to divert that competitor's resources from another country.

### **Finding the Balance**

The most successful worldwide strategies find a balance between overglobalizing and underglobalizing. The ideal strategy matches the level of strategy globalization to the globalization potential of the industry. In Figure 4 both Business A and Business C achieve balanced global and national strategic advantage. Business A does so with a low level of strategy globalization to match the low globalization potential of its industry (e.g., frozen food products). Business C uses a high level of strategy globalization to match the high globalization potential of its industry (e.g., computer equipment). Business B is at a global disadvantage because it uses a strategy that is less globalized than the potential

offered by its industry. The business is failing to exploit potential global benefits such as cost savings via product standardization. Business D is at a national disadvantage because it is too globalized relative to the potential offered by its industry. The business is not tailoring its products and programs as much as it should. While there is no systematic evidence, executives' comments suggest that far more businesses suffer from insufficient globalization than from excessive globalization. Figure 4 is oversimplified in that it shows only one overall dimension for both strategy and industry potential. As argued earlier, a global strategy has five major dimensions and many subdimensions. Similarly, the potential of industry globalization is multidimensional.

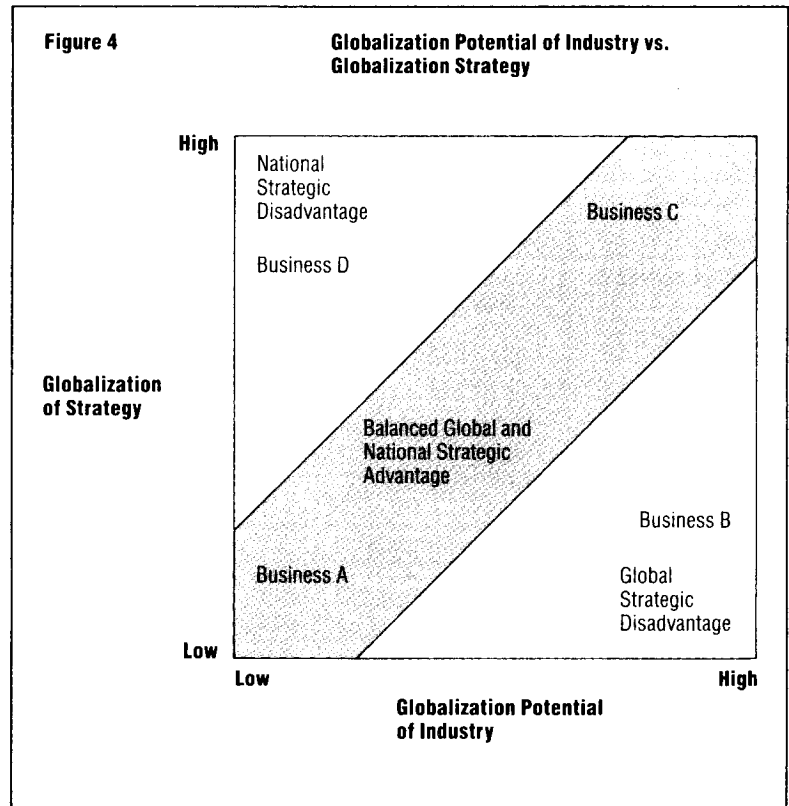
### Industry Globalization Drivers

To achieve the benefits of globalization, the managers of a worldwide business need to recognize when industry globalization drivers (industry conditions) provide the opportunity to use global strategy levers. These drivers can be grouped in four categories: market, cost, governmental, and competitive. Each industry globalization driver affects the potential use of global strategy levers (see Figure 5).

#### Market Drivers

Market globalization drivers depend on customer behavior and the structure of distribution channels. These drivers affect the use of all five global strategy levers.

- **Homogeneous Customer Needs.** When customers in different countries want essentially the same type of product or service (or can be so persuaded), opportunities arise to market a standardized product. Understanding which aspects of the product can be standardized and which should be customized is key. In addition, homogeneous needs make participation in a large number of markets easier because fewer different product offerings need to be developed and supported.
- **Global Customers.** Global customers buy on a centralized or coordinated basis for decentralized use. The existence of global customers both allows and requires a uniform marketing program. There are two types of global customers: national and multinational. A national global customer searches the world for suppliers but uses the purchased prod-



uct or service in one country. National defense agencies are a good example. A multinational global customer also searches the world for suppliers, but uses the purchased product or service in many countries. The World Health Organization's purchase of medical products is an example. Multinational global customers are particularly challenging to serve and often require a global account management program. Companies that implement such programs have to beware of global customers using the unified account management to extract lower global prices. Having a single global account manager makes it easier for a global customer to negotiate a single global price. Typically, the global customer pushes for the lowest country price to become the global price. But a good global account manager should be able to justify differences in prices across countries.

- **Global Channels.** Analogous to global customers, channels of distribution may buy on a global or at least a regional basis. Global channels or middlemen are also important in exploiting differences in prices by buying at a lower price in one country and selling at a higher price in another country. Their presence makes it more necessary for a business to rationalize its worldwide pricing.

**Figure 5**

**Effects of Industry Globalization Drivers on the Potential Use of Global Strategy Levers**

Industry Drivers	Strategy Levers				
	Major Market Participation	Product Standardization	Activity Concentration	Uniform Marketing	Integrated Competitive Moves
<b>Market</b>					
Homogeneous needs	Fewer varieties needed to serve many markets	Standardized product is more acceptable			Allows sequenced invasion of markets
Global customers			Marketing process has to be coordinated	Marketing content needs to be uniform	
Global channels			Marketing process has to be coordinated	Marketing content needs to be uniform	
Transferable marketing	Easier to expand internationally			Allows use of global brands/advertising, etc.	
<b>Cost</b>					
Economies of scale and scope	Multiple markets needed to reach economic scale	Standardization needed to reach economic scale	Concentration helps reach economic scale	Uniform marketing cuts program development and production costs	Country interdependence affects overall scale economies
Learning and experience	Multiple markets accelerate learning	Standardization accelerates learning	Concentration accelerates learning		
Sourcing efficiencies			Centralized purchasing exploits efficiencies		
Favorable logistics	Easier to expand internationally		Allows concentrated production		Allows export competition
Differences in country costs & skills			Exploited by activity concentration		Increase vulnerability of high-cost countries
Product development costs	Multiple markets needed to payback investment	Standardization reduces development needs	Concentration cuts cost of development		
<b>Government</b>					
Favorable trade policies	Affects nature/extent of participation	May require or prevent product features	Local content rules affect extent of concentration possible		Integration needed to deal with competitive effects of tariffs/subsidies
Compatible technical standards	Affects markets that can be entered	Affects standardization possible			
Common marketing regulations				Affects approaches possible	
<b>Competitive</b>					
Interdependence of countries	More participation leverages benefits	Accept tradeoffs to get best global product	Locate key activities in lead countries	Use lead country to develop programs	Integration needed to exploit benefits
Competitors globalized or might globalize	Expand to match or preempt	Match or preempt	Match or preempt	Match or preempt	Integration needed to exploit benefits

ing. Global channels are rare, but regionwide channels are increasing in number, particularly in European grocery distribution and retailing.

- **Transferable Marketing.** The buying decision may be such that marketing elements, such as brand names and advertising, require little local adapta-

tion. Such transferability enables firms to use uniform marketing strategies and facilitates expanded participation in markets. A worldwide business can also adapt its brand names and advertising campaigns to make them more transferable, or, even better, design global ones to start with. Offsetting

risks include the blandness of uniformly acceptable brand names or advertising, and the vulnerability of relying on a single brand franchise.

### **Cost Drivers**

Cost drivers depend on the economics of the business; they particularly affect activity concentration.

- **Economies of Scale and Scope.** A single-country market may not be large enough for the local business to achieve all possible economies of scale or scope. Scale at a given location can be increased through participation in multiple markets combined with product standardization or concentration of selected value activities. Corresponding risks include rigidity and vulnerability to disruption.

In the past few years, the economics of the electronics industry have shifted. As the cost of circuits has decreased, the economic advantage has gone to companies that can produce the lowest-cost components. Size has become a major asset. Thomson, the French electronics firm, understands the need to have a worldwide presence in an industry characterized by economies of scale. In 1987, Thomson greatly increased both its operating scale and its global coverage by acquiring the RCA television business from General Electric.

- **Learning and Experience.** Even if economies of scope and scale are exhausted, expanded market participation and activity concentration can accelerate the accumulation of learning and experience. The steeper the learning and experience curves, the greater the potential benefit will be. Managers should beware, though, of the usual danger in pursuing experience curve strategies—overaggressive pricing that destroys not just the competition but the market as well. Prices get so low that profit is insufficient to sustain any competitor.

- **Sourcing Efficiencies.** Centralized purchasing of new materials can significantly lower costs. Himont began as a joint venture between Hercules Inc. of the United States and Montedison Petrochimica SpA of Italy, and is the leader in the global polypropylene market. Central to Himont's strategy is global coordination among manufacturing facilities in the purchase of raw materials, particularly monomer, the key ingredient in polypropylene production. Rationalization of raw material orders significantly strengthens the venture's low-cost production advantage.

- **Favorable Logistics.** A favorable ratio of sales

value to transportation cost enhances the company's ability to concentrate production. Other logistical factors include nonperishability, the absence of time urgency, and little need for location close to customer facilities. Even the shape of the product can make a crucial difference. Cardboard tubes, such as those used as cores for textiles, cannot be shipped economically because they are mostly air. In contrast, cardboard cones are transportable because many units can be stacked in the same space.

- **Differences in Country Costs and Skills.** Factor costs generally vary across countries; this is particularly true in certain industries. The availability of particular skills also varies. Concentration of activities in low-cost or high-skill countries can increase productivity and reduce costs, but managers need to anticipate the danger of training future offshore competitors.<sup>13</sup>

Under attack from lower-priced cars, Volkswagen has needed to reduce its costs. It is doing so by concentrating its production to take advantage of the differences in various country costs. In Spain, hourly labor costs are below DM 20 per hour, while those in West Germany are over DM 40 per hour. To take advantage of this cost differential, the company moved production of Polos from Wolfsburg to Spain, freeing up the high-wage German labor to produce the higher-priced Golf cars. Another example of this concentration occurred when Volkswagen shut down its New Stanton, Pennsylvania, plant that manufactured Golfs and Jettas. The lower end of the U.S. market would be served by its low-wage Brazilian facility that produced the Fox. The higher end of the product line (Jetta and Golf) would be exported from Europe. This concentration and coordination of production has enabled the company to lower costs substantially.

- **Product Development Costs.** Product development costs can be reduced by developing a few global or regional products rather than many national products. The automobile industry is characterized by long product development periods and high product development costs. One reason for the high costs is duplication of effort across countries. The Ford Motor Company's "Centers of Excellence" program aims to reduce these duplicating efforts and to exploit the differing expertise of Ford specialists worldwide. As part of the concentrated effort, Ford of Europe is designing a common platform for all compacts, while Ford of North America is developing platforms for the replace-

ment of the mid-sized Taurus and Sable. This concentration of design is estimated to save “hundreds of millions of dollars per model by eliminating duplicative efforts and saving on retooling factories.”<sup>14</sup>

### *Governmental Drivers*

Government globalization drivers depend on the rules set by national governments and affect the use of all global strategy levers.

- **Favorable Trade Policies.** Host governments affect globalization potential through import tariffs and quotas, nontariff barriers, export subsidies, local content requirements, currency and capital flow restrictions, and requirements on technology transfer.<sup>15</sup> Host government policies can make it difficult to use the global levers of major market participation, product standardization, activity concentration, and uniform marketing; they also affect the integrated-competitive-moves lever.

National trade policies constrain companies’ concentration of manufacturing activities. Aggressive U.S. government actions including threats on tariffs, quotas, and protectionist measures have helped convince Japanese automakers and other manufacturers to give up their concentration of manufacturing in Japan. Reluctantly, Japanese companies are opening plants in the United States. Honda has even made a public relations virtue out of necessity. It recently gave great publicity to the first shipment of a U.S.-made Honda car to Japan.

The easing of government restrictions can set off a rush for expanded market participation. European Community regulations for banking and financial services will be among those harmonized in 1992. The European Community decision to permit the free flow of capital among member countries has led European financial institutions to jockey for position. Until recently, the Deutsche Bank had only fifteen offices outside of Germany, but it has recently established a major presence in the French market. In 1987, Deutsche Bank also moved into the Italian market by acquiring Bank of America’s one hundred branches there. Other financial organizations, such as J.P. Morgan of the United States, Swiss Bank Corporation, and the S.P. Warburg Group in Britain have increased their participation in major European markets through acquisitions.

- **Compatible Technical Standards.** Differences in technical standards, especially government-

imposed standards, limit the extent to which products can be standardized. Often, standards are set with protectionism in mind. Motorola found that many of their electronics products were excluded from the Japanese market because these products operated at a higher frequency than was permitted in Japan.

- **Common Marketing Regulations.** The marketing environment of individual countries affects the extent to which uniform global marketing approaches can be used. Certain types of media may be prohibited or restricted. For example, the United States is far more liberal than Europe about the kinds of advertising claims that can be made on television. The British authorities even veto the depiction of socially undesirable behavior. For example, British television authorities do not allow scenes of children pestering their parents to buy a product. And, of course, the use of sex is different. As one extreme, France is far more liberal than the United States about sex in advertising. Various promotional devices, such as lotteries, may also be restricted.

### *Competitive Drivers*

Market, cost, and governmental globalization drivers are essentially fixed for an industry at any given time. Competitors can play only a limited role in affecting these factors (although a sustained effort can bring about change, particularly in the case of consumer preferences). In contrast, competitive drivers are entirely in the realm of competitor choice. Competitors can raise the globalization potential of their industry and spur the need for a response on the global strategy levers.

- **Interdependence of Countries.** A competitor may create competitive interdependence among countries by pursuing a global strategy. The basic mechanism is through sharing of activities. When activities such as production are shared among countries, a competitor’s market share in one country affects its scale and overall cost position in the shared activities. Changes in that scale and cost will affect its competitive position in all countries dependent on the shared activities. Less directly, customers may view market position in a lead country as an indicator of overall quality. Companies frequently promote a product as, for example, “the leading brand in the United States.” Other competitors then need to respond via increased market participation, uniform marketing, or integrated

competitive strategy to avoid a downward spiral of sequentially weakened positions in individual countries.

In the automobile industry, where economies of scale are significant and where sharing activities can lower costs, markets have significant competitive interdependence. As companies like Ford and Volkswagen concentrate production and become more cost competitive with the Japanese manufacturers, the Japanese are pressured to enter more markets so that increased production volume will lower costs. Whether conscious of this or not, Toyota has begun a concerted effort to penetrate the German market: between 1984 and 1987, Toyota doubled the number of cars produced for the German market.

• **Globalized Competitors.** More specifically, matching or preempting individual competitor moves may be necessary. These moves include expanding into or within major markets, being the first to introduce a standardized product, or being the first to use a uniform marketing program.

The need to preempt a global competitor can spur increased market participation. In 1986, Unilever, the European consumer products company, sought to increase its participation in the U.S. market by launching a hostile takeover bid for Richardson-Vicks Inc. Unilever's global archrival, Procter & Gamble, saw the threat to its home turf and outbid Unilever to capture Richardson-Vicks. With Richardson-Vicks's European system, P&G was able to greatly strengthen its European positioning. So Unilever's attempt to expand participation in a rival's home market backfired to allow the rival to expand participation in Unilever's home markets.

In summary, industry globalization drivers provide opportunities to use global strategy levers in many ways. Some industries, such as civil aircraft, can score high on most dimensions of globalization.<sup>16</sup> Others, such as the cement industry, seem to be inherently local. But more and more industries are developing globalization potential. Even the food industry in Europe, renowned for its diversity of taste, is now a globalization target for major food multinationals.

### ***Changes over Time***

Finally, industry evolution plays a role. As each of the industry globalization drivers changes over time, so too will the appropriate global strategy

change. For example, in the European major appliance industry, globalization forces seem to have reversed. In the late 1960s and early 1970s, a regional standardization strategy was successful for some key competitors.<sup>17</sup> But in the 1980s the situation appears to have turned around, and the most successful strategies seem to be national.<sup>18</sup>

In some cases, the actions of individual competitors can affect the direction and pace of change; competitors positioned to take advantage of globalization forces will want to hasten them. For example, a competitor with strong central manufacturing capabilities may want to accelerate the worldwide acceptance of a standardized product.

### **More Than One Strategy Is Viable**

Although they are powerful, industry globalization drivers do not dictate one formula for success. More than one type of international strategy can be viable in a given industry.

*Industries vary across drivers.* No industry is high on every one of the many globalization drivers. A particular competitor may be in a strong position to exploit a driver that scores low on globalization. For example, the dominance of national government customers offsets the globalization potential from other industry drivers, because government customers typically prefer to do business with their own nationals. In such an industry a competitor with a global strategy can use its other advantages, such as low cost from centralization of global production, to offset this drawback. At the same time, another multinational competitor with good government contacts can pursue a multidomestic strategy and succeed without globalization advantages, and single-country local competitors can succeed on the basis of their very particular local assets. The hotel industry provides examples both of successful global and of successful local competitors.

*Global effects are incremental.* Globalization drivers are not deterministic for a second reason: the appropriate use of strategy levers adds competitive advantage to existing sources. These other sources may allow individual competitors to thrive with international strategies that are mismatched with industry globalization drivers. For example, superior technology is a major source of competitive advantage in most industries, but can be quite independent of globalization drivers. A competitor with sufficiently superior technology can use it to

offset globalization disadvantages.

*Business and parent company position and resources are crucial.* The third reason that drivers are not deterministic is related to resources. A worldwide business may face industry drivers that strongly favor a global strategy. But global strategies are typically expensive to implement initially even though great cost savings and revenue gains should follow. High initial investments may be needed to expand within or into major markets, to develop standardized products, to relocate value activities, to create global brands, to create new organization units or coordination processes, and to implement other aspects of a global strategy. The strategic position of the business is also relevant. Even though a global strategy may improve the business's long-term strategic position, its immediate position may be so weak that resources should be devoted to short-term, country-by-country improvements. Despite the automobile industry's very strong globalization drivers, Chrysler Corporation had to de-globalize by selling off most of its international automotive businesses to avoid bankruptcy. Lastly, investing in nonglobal sources of competitive advantage, such as superior technology, may yield greater returns than global ones, such as centralized manufacturing.

*Organizations have limitations.* Finally, factors such as organization structure, management processes, people, and culture affect how well a desired global strategy can be implemented. Organizational differences among companies in the same industry can, or should, constrain the companies' pursuit of the same global strategy. Organization issues in globalization are a major topic, and cannot be covered in the space here.<sup>19</sup> ■

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