

Global, Local or Regional?

Debate rages over whether companies are really becoming more global, or whether local or indeed regional pressures remain strong.

Ted Levitt, Harvard Business School professor and former non-executive director of the international advertising firm Saatchi & Saatchi, has provocatively made the case for deep commitment to global strategies in all kinds of markets. He argues that modern communications technologies are creating homogeneous market needs, while manufacturing technologies are increasing the benefits of scale. Given the cost advantages of scale, and the diminishing importance of consumer differences, companies that commit to truly global strategies will be able to use low prices to sweep out all competitors still focused on local needs. He argues: 'The global company will seek to standardize its offering everywhere. . . . Companies that do not adopt to the new global realities will become victims of those that do.' He cites Coca-Cola, Rolex, Sony and McDonald's as exemplars of the trend. Companies should not hanker over detailed differences left over from the past, but recognise the big picture of coming globalisation.

Levitt's sweeping argument brought a spirited response from American academics Gerry Wind and Susan Douglas, warning of 'the Myth of Globalisation'. They challenge both the trend to homogenisation and the growing role of scale economies. Even apparently global companies adapt to country needs: for example, Coca-Cola sells local products in Japan alongside its classic Coke, and its Dasani bottled water is a success in the USA, but a failure in Europe. As to scale, new flexible automation technologies may even be reducing economic order sizes, allowing short production runs adapted to local needs. Besides, as the world gets richer, consumers will be less price sensitive and more ready to spend on indulging their local tastes. Wind and Douglas warn that blind confidence in the inevitability of globalisation will surely lead to business disappointment. Between the two poles of global and local there is a third position: regional. Pankaj Ghemawat points out that most international trade is intra-regional. European countries trade predominantly with each other. The trend towards intra-regional trade is actually growing, from about 40 per cent of all trade 40 years ago to 55 per cent at the beginning of the twenty-first century. This is reflected in the nature of multinational companies as well. Alan Rugman calculates that in the early years of the twentyfirst century over 300 out of the world's largest corporations still have more than half their sales in their home region. An apparently global company like McDonald's is effectively bi-regional, with 80 per cent of its sales concentrated in North America and Europe. Established multinationals such as General Electric and Procter and Gamble have 60 per cent and 55 per cent of their sales respectively back home in North America.

Ted Levitt might be impatient with these empirical details. The essential issue for him is: where are things going in the future? Certainly there are still local differences in taste, but are these declining overall? Maybe there is a growth of intra-regional trade, but is this just the result of transitional events such as the creation of the North American Free Trade Agreement or the sucking-in of imports by China? We should not be distracted by temporary blips on the grand highway to global integration.

Sources: T. Levitt, 'The globalization of markets', Harvard Business Review, May-June (1983), pp. 92-102; S. Douglas and G. Wind, 'The myth of globalization', California Journal of World Business, vol. 22, no. 4 (1987), pp. 19-30; P. Ghemawat, 'Regional strategies for global leadership', Harvard Business Review, December (2005), pp. 98-108; A. Rugman, The regional multinationals, Cambridge University Press, 2005.