3 Adopting a global perspective

Globalization 'is not a single, unified phenomenon, but a syndrome of processes and activities.' (MITTELMAN, *2000: 4*)

Rather than being a world within our control it seems to be an erratic, dislocated world. If you like a runaway world. (GIDDENS, *1999: 2*)

The dilemma that we face as we enter the 21st century is that markets are striving to become global while the institutions needed to support them remain by and large national. (RODRIK, *2001: 19*)

Learning objectives

After reading this chapter you will be able to:

- understand the term 'globalization'
- recognize the degree to which the world is not global and has continued to have a home country bias
- recognize the degree of uniformity attained in the world
- distinguish the main players in the global economy
- understand the ways in which globalization influences strategy making

Key strategic challenge

How will 'going global' change the strategy of my enterprise?

Strategic dangers

That the process of globalization offers opportunities and poses threats that are ignored at the cost of the future viability and profitability of the enterprise; that failing to go global causes a loss of competitive advantage which may threaten the very existence of the enterprise.

Case Study Scenario The airlines and the integration of global markets

'Air transport has always been a global industry, but one served by national firms. Some airlines now want to become global firms, but to do so they may in the end have to lose their nationalities.' *Hanlon, 1999: 2*

Since most airlines are involved in moving people and freight internationally, they are a critical part of globalization. There are forces encouraging increased globalization in the airline industry:

- *The deregulation of the airline industry by governments, involving:*
  - the replacement of bilateral agreements by regional or multilateral agreements on traffic rights, even by 'open skies' agreements
  - privatization of state airlines
  - relaxation of foreign ownership rules
  - privatization of airports
  - free entry of airlines into any country or any route
  - free entry of airlines into any airport through open access to gates and the associated terminus
  - self-regulation of safety
  - removal of government subsidies and intervention in the industry
- *The use of new technology, mainly communications technology for air traffic control and booking systems*
- *Increased competition*
- *Increased demand for international air travel*

There are constraints:

- *Vulnerability to external shocks, including recession, accidents, terrorist attacks and hijackings*
  These shocks reduce the number of travellers and raise costs by pushing up insurance rates, creating a need for increased security measures and disrupting normal travel.
- *A tendency to reregulate*
  Any event which reduces profit and pushes the airlines into loss making encourages increased government intervention. Governments intervene to save national airlines, such as Swissair or Air New Zealand. Nearly all American airlines have been heavily subsidized since September 11, 2001. The existence of subsidies corrupts competition by allowing subsidized lines to reduce prices on competitive routes, forcing others to imitate. Different bankruptcy arrangements may favour certain countries, such as the Chapter 11 mechanism in the USA, which allows an airline to continue trading even if insolvent and reduce costs in a summary fashion, for example by tearing up employment agreements.
- *A tendency to oligopoly*
- *Persistent home country bias*
  All airlines remain tied to their countries of origin, for which many are flag carriers. Government policy still determines who flies what routes. The airlines have been heavily regulated in the interests of retaining domestic markets for domestic airlines and of international routes radiating from the relevant country for national flag carriers. The main mechanism is the control of traffic rights negotiated by bilateral air service agreements, usually encapsulating a reciprocal granting of rights by two governments. Countries with considerable traffic and large airlines are in a stronger position in such negotiations. There have also been severe restrictions on foreign ownership. Governments and customers prefer their own, especially at a time of crisis. A pronounced increase in home country bias results from crises such as terrorist attacks or hijackings.

  Government policy now favours a competition policy which outlaws discrimination in favour of domestic lines. There has been an attempt to deregulate the industry and open it to competition. The transition is occurring at different rates in different countries, more slowly in Europe, but fastest in the USA. The American market is largely deregulated, although foreigners are restricted by the limitation on foreign ownership and voting rights to 25% and travel on foreign airlines by public officials. Some large players, such as Pan Am or TWA, have disappeared.

Increased competition with surplus airline capacity leads to either:

- the absorption of some airlines by others, constrained by ownership restrictions (49% in the EU) and the persistence of bilateral agreements, since specific traffic rights are vulnerable if an airline is taken over by a foreign airline, or
- the substitution of worldwide networks for such consolidations. Airlines have used franchising, code sharing and bloc spacing together with worldwide alliances to gain the effects of increased concentration without actually concentrating.

There are two relevant features of the industry:

1. Between 1945 and 1960, the average annual rate of growth, in passenger kilometres, was 12%, but dropping thereafter to 9% a year. In the 1990s, the rate of growth slowed further, to between 5 and 7%, slower if the recession years are factored in.

The airline industry has an S-shaped demand curve – slow growth during infancy, fast growth during adolescence and slow growth again at maturity. Some countries, such as African countries, are still in slow-growth infancy. Others such as the East Asian and most European nations, are in the adolescent, rapid-growth stage. The United States is in the mature, slow-growth stage. The overall movement of the industry reflects a balance of countries at different stages.

2. The industry is low profit, the return on capital typically less than half the general average. Profitability is highly vulnerable to a downturn in the economy since the income elasticity of demand for airline services is high. The participants in the industry are increasingly vulnerable to serious loss making during recessions.

The industry is vulnerable to any shock. Accidents can destroy the reputation for safety of individual airlines. A major terrorist attack involving hijacking and a threat to lives, or a major outbreak of disease, can destroy general confidence. In 1991, as a consequence of the combined effect of recession and the threat of hijacking arising from the Gulf War, passenger traffic dropped by 3%.

On September 11, 2001 four planes were hijacked and flown into prominent targets in the USA. This shock hit an industry already in recession, causing a jolt to confidence which reduced the number of passengers dramatically and raised costs significantly. Some routes were more badly affected than others, such as transatlantic routes and routes within the USA. In most markets passenger numbers fell by at least a quarter. While there was a steady recovery from the bottom, in the middle of 2002 demand again declined. The ability of airlines to ride the shocks differs greatly, as the experiences of Swissair and Qantas, discussed in the case study at the end of the chapter, show.

There are two questions which define the subject matter of this chapter:

1. Why should an enterprise engage in global transactions, or, why should it have a strategy which deliberately moves it from the domestic to the international?
2. Do global transactions differ sufficiently from domestic transactions to require a different kind of strategy?

The meaning of globalization

Globalization can be simply defined as a process of movement towards a 'global world'. In this book there is no speculation about how long it will take to reach a global world, if it is ever reached. It is the process which is the focus of interest and whose nature needs to be explored.

The term globalization encapsulates for many the perceived uniqueness of the

Focus on Theory
A global world

Characteristics of a global world:

- A world government
- World law and order
- A common language
- A common culture
- A common currency
- No transport or communications costs
- No national boundaries
- Multilateral economic institutions to oversee implementation of the business rules
- Fully integrated markets
- No barriers to trade and investment

present. The current world is a global world, the current era a global era. Every generation thinks that there is something exceptional about the nature of the world in which it lives and the particular environments it faces. The commentators from any generation like to choose a label which highlights the exceptional features of their world and describes that world. 'Global' is currently that label. Depending upon one's view of the world and the changes occurring in it, the term can be used as a compendium of either positive or negative features, or, alternatively and more realistically, a combination of both such qualities. This means that the reaction to the label, as to the process, is as much emotional as it is rational, and as much concerned with values as with knowledge. It is certainly not neutral.

Unfortunately, while it may not be all things to all people, the term 'global' is certainly many things to many people. Its exact meaning is unclear. Consequently it seldom fails to elicit an emotional response, both positive and negative. It brings together a variety of changes, experienced differently by every person, some attractive, some unpleasant. The term is therefore by its nature an ambiguous one, bringing to mind a myriad of different outcomes.

Focus on Theory

The benefits and losses from globalization

There are many outcomes imputed to globalization, both positive and negative. The following lists illustrate the point, but are not claimed as exhaustive. Others might wish to switch an item from the positive list to the negative or vice versa. What are advantages to one are disadvantages to another.

Benefits
- A positive stimulus given to technical change
- Gains from increased competition, in lower costs and raised productivity
- A more efficient allocation of world resources as the result of a reduction in home country bias
- Faster growth, creating more jobs
- A higher standard of living in most countries
- A reduction in poverty in some parts of the world
- A broader access to consumer products at lower prices
- Widespread dissemination of information and knowledge
- Undermining of traditional social hierarchies in many parts of the world
- 'Democratization' – both more choice and more informed choice, in a whole series of different areas

Losses
- A loss of sovereignty by the nation state
- More uneven income distribution in most countries
- Damage to the environment
- Erosion of health and safety standards
- Erosion of regional, national and local cultures
- Local unemployment
- More cultural imperialism
- Loss of independent decision making
- Increased power of large companies
- Increased power of international organizations

Different viewpoints on globalization

There are four different ways of viewing globalization as a process:

1. A significant expanding of mental horizons and viewpoints, stimulated by a stronger consciousness of the global world towards which globalization is taking everyone. It is possible to characterize the process as an increasing tendency for key actors to look beyond the nation state at the wider world. In this sense globalization is a *change of mental perspective*, one that could be seen either as deliberately chosen or imposed upon the relevant actors. Modern communications allow all, even compel them, to view instantaneously what is happening on the other side of the globe. In such a global world a single event such as the act of terrorism of September 11 has an immediate and powerful global impact.

2. A change of perspective, but one focused on the changing nature of individual behaviour. The changing viewpoints are translated into *changing behaviour*, including such activities as international travel, international trading or investment activity and employment abroad. Such behaviour changes its orientation, from the domestic to the global level.

3. Increasingly institutionalized patterns of global interaction, sometimes amounting to a *real integration* at the international level – whether political, economic or cultural – and sometimes simply an increased interaction between existing national units. The world becomes one space. By most accounts, the advent of a global world has changed the perspective of strategy making for all enterprises and organizations.

4. A new *discipline*, which dictates that in a global world you behave in a particular way in order to survive or remain competitive. Open economies have exposed domestic enterprises and organizations to the forces of global competition. In the words of Bryan and Rafferty (1999: 12):

   > Globalization is about businesspeople having to consider international investment and international borrowing, whether they end up engaging in it or not. It is also about consumers having to consider imported products and satellite television whether they purchase them or not, about domestic wages being constrained by what companies may have to pay equivalent workers in other countries, whether they are migrant workers or not.

   The competition need not be actual, it is enough that it is potential. The potential threat of competition exerts the discipline; it is summarized in the use of the term **hyper-competition**, the notion than a much more intensive and heightened level of competition characterizes a global world. The disciplined have no choice but to behave in a certain way. This viewpoint can be summarized in the simple assertion that a global world is a much more competitive world.

For most commentators globalization is rather more than simply a change in mental perspective or an imposition of increased discipline, comprising at the very least a marked change in behaviour and institutional structures.

The five main elements of globalization

This following section selects five main elements which qualify as parts of any definition of globalization and discusses each of them in turn.

1 The integration of world markets and the world economy

On one understanding, probably the most popular one, globalization is the integration of the world economy and its markets. Integration in this context means the creation of a genuinely global economy, one which is no longer tied to the nation state. It involves the appearance of global enterprises, global products and global markets which have no specific location. In this conception markets are no longer tied to a particular place or time, which become irrelevant.

How far down this road the world has gone is contentious. There is less integration than often claimed, although the tendency is for more rather than less. The market, which once played an important role in integrating national economies, is now actively integrating the global economy. The most significant movement has been made in the market for finance capital in which there is some evidence of a genuine integration.

Globalization, when it occurs, usually involves interaction between national units and not the full integration of those units, although there may be some element of the latter. The *supranational* is only one view of the globalization process. There is an alternative view that it is a process of increasing interaction between existing national units, with all their differing political, economic and cultural characteristics. Integration in the sense of increased interaction between different national units is what is usually meant when integration is discussed. A fully integrated world is better described as a supranational world in order to distinguish it from what is commonly meant by global in current commentary. The former does not really exist, because of the persistence of national boundaries and the differences associated with the existence of national units, whereas the latter clearly does. The interpretation based on integration exaggerates the extent to which full integration has been achieved and ignores the host of differences from one region to another, differences which are both substantial and persistent and which prevent a full integration, putting a break on the process of globalization understood in this way.

There are two kinds of globalization, what can be called supranationalization (literally beyond the national), something which may exist in the future and towards which the world may be headed, and internationalization which already has a long history. There is a need to identify clearly what it is that is different about an allegedly global world from what has gone before. Many of the elements which constitute globalization are not new; the present global world is not so different from previous worlds, nor is the process often referred to as globalization different from the process of internationalization. There are three possibilities:

1. Globalization is not new: it originated many centuries ago and will continue into the future
2. Globalization is a phenomenon specific to the present era, and no other
3. Globalization is new but will continue into an indefinite future.

There are arguments which could be put in favour of each of these three positions. The position argued here is closest to the first.

Mittelman (2000: 19) talks in terms of a period of *incipient globalization,* which began with the origins of civilization, 5,000 years ago; a period of *bridging globalization*, which stretched over the last four centuries when capitalism and the market took root; and finally *accelerated globalization* since the 1970s. In this chronology the term internationalization could be substituted for globalization. What is currently understood as globalization is then what Mittelman calls accelerated globalization. Many of the tendencies which are significant today were important in previous periods. The extension of commodity markets beyond political boundaries and the growth of international trade have happened over many centuries. International investment across international boundaries is not new. Both grew greatly during the nineteenth century. In this sense most global markets have become much more integrated, over a long period of time but with many temporary reversals.

The ratio of exports to GDP or foreign investment to total world investment are little higher today than before 1914. There is less migration today than before 1914. Global integration does not apply to labour markets although there is considerably more short-term international travel by businesspeople and tourists than in the past. One further simple statistic summarizes the situation; almost 90% of the American economy produces goods and services for the domestic market rather than for export markets, a situation which is typical of large economies. Smaller economies do trade more but not usually more than half their GDP. There is much empirical evidence of a marked reluctance to engage in international transactions, which is true of all areas of economic life.

The process of internationalization is reversible, as past history has shown. There have been many significant periods of reversal, the last as recently as the Great Depression in the 1930s, and there is no guarantee that this will not happen again. There was a significant reduction in the level of economic integration as a result of two world wars, when trade and investment ratios declined dramatically. The recovery was a result of:

- continuing technical and organizational change, catching up on an enormous backlog of innovations which had not been implemented in the period of reversal, and the resulting increased incomes
- relative political stability in the second half of the twentieth century, which made possible the removal of significant barriers to the free international movement of products and factors of production.

Recovery may carry the world well beyond the levels of internationalization achieved before 1914 – it has not yet done so. On the other hand, political instability could return and the pace of technical change slow, particularly when the full implications of the communications revolution have worked themselves out.

2 The accelerated diffusion of new technology

The communications revolution is said to have compressed time and place, so much so that space has completely replaced place; in cyberspace location has allegedly lost its meaning. At the level of simple communication the impact is both obvious and dramatic; the price of a three-minute telephone call from New York to London has fallen from $244.65 in 1930 to $31.58 in 1970 and to $3.32 in 1990. In the future the cost will approach zero.

There are two specific influences of the communications revolution, one relating to the nature of contemporary technical change and the other to the impact of technical change on the rate of diffusion of new technical knowledge. The first involves the impact of the new technologies at the core of the communications revolution in directly encouraging other global tendencies – integration of markets, loss of national sovereignty, homogenization of culture and democratization of key activities. This draws out one strong characteristic of globalization, that each of the elements is interconnected with and reinforces the others. The second comprises the role of the communications systems in accelerating the rate at which any new techniques are diffused throughout the world economy. Again the process is encouraged and accelerated by the extension and deregulation of the market.

Innovation in communications is not new; the telegraph previously had the same kind of effect. There has been a steady acceleration over the last 250 years in the speed at which information has moved. At the birth of Australia a message would take more than a year to make the round trip from Britain to the colony of New South Wales. The advent of the clipper reduced the time to less than a year. The telegraph reduced this dramatically to several days. The communications revolution is part of globalization seen as a continuing process of internationalization, even an acceleration in internationalization. The communications revolution has carried the acceleration to a higher level, so that communication is now virtually instantaneous. Improved technology has also enabled a simultaneous transfer of vast amounts of information.

The revolution has gone further by making possible the storage and processing of information on a massive scale. In doing this it has had an enormous impact on the rate of technical change, both by enabling the processing of large amounts of information and encouraging the widespread diffusion of technical knowledge, particularly that concerning new technology. It has allowed some inventions and innovations to occur, since they require an ability to process enormous amounts of information, such as in mapping the human and other genomes, called bioinformatics. The computer has eased one of the constraints inherent in bounded rationality, the limited ability of the human mind to process large amounts of information. It has done this by linking networks of researchers located across the world.

The revolution has vastly improved the accessibility of information. The mechanisms for the international diffusion of new information have been immensely strengthened. This has created an a priori case for the more rapid take-up of new ideas, provided information can be converted into knowledge that is recognized as relevant to the strategy making of an enterprise. Whether this potential becomes reality depends on the nature of the incentives to exploit the relevant information.

In the modern world, history is largely made by the interactions of the governments of nation states. During difficult times, such as war or economic depression, the interaction between these national strategies dominates all other interactions. This also applies when there are global shocks which have to be dealt with at an international level. The general environment in which all international business activity occurs is one in which the governments of countries pursue separate political, economic and military strategies, which are themselves continually being translated into specific policies of a great variety. The particular groupings of nation states which are relevant to any particular problem may change but the general interaction continues. Strategic alliances are not new, nor limited to the business world.

A subsidiary theme, one growing in significance recently, has been the interaction between large multinational enterprises and between those enterprises and governments. In peaceful and more stable times this subsidiary theme rises in importance. The interconnections created appear very brittle when bad times return. It was once argued that war was impossible when international business connections were strong. That was on the eve of World War I, possibly the most damaging war of all time. The argument is being repeated today.

Probably the most common definition of globalization refers to a reduction in the sovereignty of the nation state, both actual and potential. At the core of this reduction is the rise of a global economy, defined in its transnational sense. It involves the alleged reduction in the significance of location-specific factors in influencing business decisions, in particular the factors which are specific to national sovereignties and national territories. It also involves the disciplining or controlling of government policies in order to make them fit the requirements of a global polity or economy, in the currently fashionable terminology of the economist, to fit the requirements of an international competition policy. Thomas Friedman (1999) has referred to this as the 'golden straitjacket' because it simultaneously promotes an improvement in prosperity and limits significantly the scope of government policy.

National boundaries continue to create imperfections in global markets, some arising spontaneously as a result of such factors as the uneven distribution of natural resources, cultural differences, transport and communication frictions. Others are government-induced, either consciously or unconsciously, as governments pursue their own strategies and frame distinctive policies. In practice there has been little overall reduction in such imperfections.

In some areas of policy there has been a clear reduction. The dominant economic power has always had an interest in promoting free trade and the extension of integrated free markets. This usually means the removal of tariffs. Britain aimed to do this in the nineteenth century and the USA tries today; others, the followers, have a compensating interest in resisting such policies. This applies in particular to the commodity and capital markets. It applies both to tariffs and non-tariff barriers. Curiously labour markets have become more, rather than less, regulated. Immigration laws are strictly applied by governments, arguably with less effect as the number of illegal migrants snowballs.

Achieving common action at the international level is very difficult, whether the action relates to economic affairs or other areas. Multinational institutions are still weak, reflecting the interests of the most powerful nation states in their policies. They have supported the push to adopt certain rules of the game. The so-called 'Washington Consensus' is an example. The 'Washington Consensus' represents a set of policies imposed on states in economic crisis – fiscal rectitude, monetary restraint, an open economy, market deregulation and a diminished public sector. Competition policy is the clearest expression of this point of view. The present war against terrorism is another. However, persuading several hundred countries to move quickly in a common direction is impossible. The new Doha round of trade negotiations is likely to take anything up to a decade to complete.

The bilateral approach to international relations is still far more significant than the multilateral. A compromise is to adopt a regional approach, which has become increasingly popular, under the influence of the success of the European Union. In the step-by-step movement towards economic and political unification there is an imperative to harmonize a series of policies, notably commercial, fiscal and monetary policies, and to withdraw from certain types of government intervention in the economy, such as industry or income policies. Ultimately even defence and foreign policy are harmonized but this is a long way down the track in most parts of the world.

Some areas of government policy are very slow to see significant harmonization, including environmental and health and safety rules. Local planning and control of crime are other areas of difference. More important, from an economic perspective, are policies on education, health and social services, including superannuation. There is still an enormous area of discretion for government policy. A genuinely transnational world would be one in which policy differences disappear in preparation for the dissolution of nation states and their governments and their replacement by a world government.

The number of nation states has risen inexorably, although many of the newer ones are small. The dissolution of multinational states, particularly within Europe, such as the USSR and Yugoslavia, has been the main story of the twentieth century. All the colonial European empires have now disappeared, although many of their multinational creations survive, some showing distinct signs of wear and tear, such as Indonesia, but most surprisingly resilient, such as India or Brazil. In many cases, the political boundaries created have been resistant to change, maybe a lasting legacy of the effectiveness with which the colonial empires broke up the existing political structures.

The resilience of the nation state is displayed in the significance of country risk (see Chapter 14). Governments remain as important economic actors, often actively encouraging the process of globalization, but also, through the linked existence of multiple currencies and multiple sovereignties, creating country risk. Country risk stands in the way of an increased interaction between nation states, but such an increased interaction does not necessarily subvert those states.

4 The homogenization of culture

Some believe that the important divisions in the world today relate to culture, not to ideology or nationality as defined by political boundaries (Huntingdon, 1996). Some cultural links extend beyond the nation state, for example the use of a common language in the English- or Spanish-speaking worlds or the sharing of a religion such as Islam or Christianity. Commonalities of language and religion have a particular strength and create loyalties which are supranational. Commonly the world is divided into at least ten main cultural clusters, with some areas of distinct independence.

Focus on Theory
Cultural clusters in the world

The Anglo	Outliers
Latin American	Brazil
Germanic	Israel
Nordic	Japan
Latin European	India
Near Eastern	
The Arab	
Far Eastern	

Source: Ronen and Shenkar, 1985.

This particular division is based on divergences in attitudes, values and behavioural patterns. The classification is controversial. Huntingdon has placed more emphasis on religious difference, reducing the clusters to seven by making a single division of Europe between the West and East, the dividing line being the boundary between Catholic Europe and Orthodox Europe, and by adding another cluster, sub-Saharan Africa. It is also possible to add Polynesia.

There may also be subcultures within national cultures, some regional, some socioeconomic and some belonging to those who reject the prevailing culture, such as criminal fraternities. Often significant minorities live within a dominant culture and have loyalties beyond that culture, such as the Parsi community in India, Jewish communities in the USA and Australia, parts of the Chinese and Indian diaspora throughout the world.

The norm is for culture to reinforce national difference. There is a continuing interchange between political, social and economic systems within particular countries which reinforces difference. Patterns of behaviour, even economic or business behaviour, have roots which are deeper and broader than the narrowly economic. They have persisted over long period of time.

One element in the supranationalism of globalization is the 'alleged' breakdown of these cultural divisions, the sharing of a common culture which transcends all boundaries, both political and cultural. The communications revolution has assisted in promoting this, through the medium of radio, gramophone and their more sophisticated antecedents, television and film. As a counterweight to cultural difference there is without doubt in certain areas a growing homogeneity of culture, resisted bitterly in some cases but one which imposes itself on all groups, often unconsciously. Increasingly, for example, the world plays the same sports.

However, homogenization affects most strongly the young. English is rapidly becoming the only international language of business, its spread aided by its use in the media. English is simultaneously the language of international business and international popular culture. Consequently English is almost everyone's preferred second language and is taught as such throughout the world from an early age.

British economic dominance until 1914, followed by American dominance up to the present, first established the dominance of English. Through the medium of fast food, film and popular music, American culture is sweeping the world. The way the world eats, the way the world sings, the way the world entertains itself has largely been determined by American pioneers. Interestingly the way it plays has stronger roots in Britain. There is also a growing but still limited number of internationally branded commodities, mainly American such as McDonald's, Coca-Cola, Nike and Disney. It is hard to resist the encroachment of these products. They are very visible manifestations of a tendency to homogeneity, but not necessarily of the dominance of one culture. Perhaps the market is becoming more standardized but this remains to be proved.

5 The democratization of key activities

Paradoxically, some have argued that another aspect of globalization is the increased scope for individuals to be involved in the process of decision making at all levels. Put more broadly it refers to a greater scope for choice. There is, it is true, a massive potentiality for decentralized decision making which goes largely unrecognized. The cult of choice and the identification of choice with freedom encourage this emphasis. There has been a steady increase in the ability of individuals, or individual households, to make informed decisions and exercise choice in a growing number of different areas. This has several aspects – ease and low cost of access to information, and an increasing capacity to exercise a decision-making capacity. Such choice applies both to consumption and economic activity, and to more basic life choices.

This extended choice is partly a result of higher incomes. It is also a result of changing technology, particularly increased flexibility in energy sources and transport. The innovations of electricity and the motorcar were critical in making possible an early decentralization of decision making. The individual can in theory choose to work where he or she wishes, at home or abroad, provided of course he or she has saleable skills. The Internet also opens choice as a global phenomenon; for the individual it gives an unrivalled access to information and entertainment, commodities and capital in a way never previously experienced. In 1990 only one million people were connected, by 1995 50 million and by 2001 490 million. Individual households therefore have easy access to cheap energy, cheap transport, and now cheap capital and cheap information.

Choice increasingly extends to all, to women as well as men, to those living in undeveloped economies as well as developed. Already the emancipation of women and the availability of items of consumption competing for discretionary income have led to a fall in fertility rates, as women have exercised their option to reduce the number of children in a family and promote their own careers at the same time as they enjoy the fruits of increased consumption.

Perhaps this democratization still remains only a possibility for most, an actuality for few. The problem is that not all individuals are capable of exercising this choice, since they lack the means. There are also those who make the wrong choice and finish as losers in the market game.

The global tendencies described above bring to individuals, enterprises and countries both benefits and losses. Some see globalization as an opportunity, others as a threat, depending on the exact perspective adopted and the exact position in the global world of the individuals concerned. There may well be a conflict between two powerful tendencies, the one constraining the scope for choice by the individual, the other expanding that range of choice:

- For neoliberals, the term globalization involves *the empowerment of the individual*, as indicated below. Clearly globalization is seen by many as reflecting the growing dominance of global markets and the corresponding decline of state power; it is beloved by neoliberals who advocate the further extension of market power.
- For others, the reverse is true and globalization is associated with *the increasing helplessness of the individual* before the increasing power of global institutions, notably the multinational enterprises, which fill the global void in the absence of genuine transnational institutions, and the multilateral financial institutions. Worse, it places more power and more wealth in the hands of the few.

Globalization is clearly not a concept free of preconceptions about the desired nature of the world, and arguments about where the world is actually headed. The term is inevitably and unavoidably value-laden. The balance of opportunity and threat and the formation of interests groups for and against globalization on the basis of the outcomes of the process ensure that governments will continue to retain a considerable discretion in decision making and make policy which has a significant effect on business decisions. The impact of globalization on the mix of decision making by governments, enterprises and individuals is unclear and therefore controversial. What is clear is that the nation state remains the most powerful decision maker in the world, as the case studies in this chapter clearly show. The business world has some features of a global world, but they are limited.

Home country bias

From a business perspective, the most persuasive argument for the continuing importance of international borders, and the need to take proper account of them in making strategy, is the continuation of a significant and universal home country bias. There is a general aversion on the part of most decision makers to economic transactions which cross international boundaries. Consumers consume the products of their own domestic producers; managers and workers prefer to work in their own countries; investors build plant and equipment at home rather than abroad; and savers prefer to hold the financial assets of their own countries. Government policy often validates and reinforces these preferences.

Home country bias is a general tendency at the international level, illustrated by the analysis of the airline industry in the case study. Bryan and Rafferty (1999: 3–33) point out that in the mid-1990s OECD production devoted to exports made up less than 10% of total production; foreign direct investment made up only 5% of world investment (20% if all sources of investment finance used to finance multinational enterprises, including domestic sources, are considered); multinational enterprises contributed just 6% of world production; around 2.3% of the world population had 'migrated'; and another 1.5% of the world's workforce worked outside their country of citizenship. None of this speaks of a high level of globalization, and it says nothing about the direction or the rate of change, or the movement of these key magnitudes. The position varies somewhat from country to country but not by very much. Smaller countries are forced to be more international.

The bias is most dramatically manifested with respect to equity investment, despite the alleged integration of world financial markets. In theory capital can be moved without any transport cost. However, savings pools are still separated by national frontiers. Savings do not flow freely to where there is investment demand and the return is highest, or at least higher than in the domestic economy. Perhaps the most powerful argument for this is the strong relationship between the level of national savings and that of national investment in each economy throughout the world. This suggests, but does not prove conclusively, that domestic investment is almost invariably financed by domestic savings. Furthermore, when there is an increase in savings, it tends to raise domestic investment directly. There are therefore pronounced constraints on the integration of international capital markets. Finance and asset markets have retained a distinctly national flavour, despite the tendency to focus on so-called international markets.

This is easily illustrated. Americans hold only 8% of their financial portfolios in foreign equities, despite the fact that such foreign equities – for this purpose equities which are not American – represent well over half the world's total equities. It is not only America and large economies which are characterized by this home country bias. Small countries share the bias. Australian citizens own 2% of the world's corporate shares. In a world of perfectly mobile capital, two things should follow. The 2% would be evenly spread across the world and foreigners would own 98% of Australian shares. Neither is true. Australian shareholding is heavily concentrated on certain economies with which Australia has a close connection. Foreigners own only 31% of Australian shares.

The reasons for a home country bias

'Irrational' preferences for one's own affect most business decisions, whether they take the form of the decision where to work and live, where to place one's savings or from whom to purchase both goods and services. But are these preferences so irrational?

In the past the costs of international participation were high and a major deterrent to international business activity, whatever the form of transaction considered. These included transport and communication costs, and even more the costs of dealing with the inhabitants of a foreign country. These costs are very much lower today and much less of a barrier to entry.

Often the argument put today rests on the volatility of exchange rates in a world of floating rates, as opposed to the stability of a world of fixed exchange rates. This is said to discourage foreign investment because nobody can be certain of what will be the return in the domestic currency. Moreover, hedging can only cover some of the transfer risk, rather more in trading than in investment. Such investment is typically over the long term, rather than the short term covered by hedging.

Ignorance is still a significant factor. It is expensive both to gain and process the required information in order to dissipate this ignorance, and there exist major constraints on the capacity to process such information. Everyone still knows much more about their own world than that of the other. This is called asymmetrical information, and applies to political, economic and social systems.

Home country bias also reflects the overwhelming importance of separate political sovereignties. Within these sovereignties, policies affecting business can change in unexpected ways. Foreign governments are difficult to read right. They can unexpectedly change their membership and their strategies. They are answerable to a different constituency which it is difficult to identify and understand. A sense of lost control is implicit in *political risk* unless the country concerned has political, economic, cultural and social systems similar to those of the country of origin. Otherwise there is a pronounced nervousness about international business connections which is fully justified, for example if the legal system does not protect intellectual property rights or foreign governments favour their own, as is often the case.

Cultural difference itself presents a serious barrier, particularly where there is a need to cooperate, even negotiate, with foreign partners. The risk of something going wrong increases across international boundaries. Thus the bias often has cultural roots, reflecting the socialization of individuals into particular cultures.

Globalization is seen by many as both undermining political sovereignties and moderating cultural difference. It has not yet done so to any significant extent. Much of the apparent change is superficial. It is possible for different cultures to absorb and adapt foreign entrants without changing the basic culture, and in a way which misleads outside observers.

The concept of country risk embraces those factors which deter foreign involvement and encourage a home country bias. From a business perspective, a global strategy requires a change of approach, the deliberate overcoming of home country bias. This applies both to the initial decision makers and those who have to implement the decisions.

The removal of the bias

There are two possible mechanisms for the removal of the bias:

1. The voluntary ceding of sovereignty to international institutions which fix the rules of the game in a way which is easily understood by all. There is some movement in the direction of a uniform set of informal rules but it is unlikely that the formal rules will change dramatically in this way. At present the rules of the game differ from country to country and from culture to culture.
2. The development of multinational enterprises which have outgrown their country origins. The multinational enterprise can be the agent of globalization. However, most enterprises, and indeed most individual managers, remain with roots firmly planted in particular national soils. It is difficult to sever completely these roots (see the point made in the Strategy in Action on Nestlé in Chapter 15). The breaking of the home country bond would create what are genuinely global, or transnational, enterprises. Such enterprises do not currently exist.

The global environment in which enterprises operate is a complex one. It is impossible to ignore the intermeshing of the political and the economic. Most recent history has tended to confirm that the political dominates the economic. Governments set their own objectives and to achieve them frequently intervene in markets and work upon local prejudices. Sudden shocks or risk-creating events can have the effect of reinforcing such a home country bias or suddenly undoing, or threatening to undo, any movement in the opposite direction (see the case study on the airlines, particularly the section on Swissair at the end of the chapter).

This book makes a clear distinction between a global world and a transnational world:

- A global world involves a significantly heightened level of transactions between national units. These transactions are of various kinds but may also comprise some genuinely transnational elements, which are growing in importance. The growth of such transactions is not inconsistent with a strong and persisting home country bias.
- A transnational world involves forms of organization and strategy that have no national focus. This would mean the ending of home country bias.

A convergent world

Convergence can occur in any area of human activity – in political or economic systems or in culture. In *The End of History* (1992), Francis Fukuyama saw a convergence of the world on a common political and economic system, one centred on representative democracy and the market. The world can converge or become homogeneous in two principal ways, by a process of individual or even group choice or one which is in some sense 'forced'.

The citizens of the world can choose to become more like each other by adopting common patterns of behaviour, whether these are political, economic or simply social. They can engage in consumption of goods and services which are genuinely global, available everywhere and consumed in the same form everywhere. This tendency might result from exposure at an early age to common influences or stimuli, such as the global media and a dominant culture, often seen as the American one. The communications revolution has reputedly democratized choice by giving everyone the same information and exposing them to the same influences. As a result, the world could adopt a common culture which removes differences of taste, even attitudes, values and behavioural patterns. If this were to happen, there would be just one market for consumer goods and one market for managers or workers.

This is inevitably a gradual process, likely to take a long period of time. There is also at present considerable resistance to such voluntary homogenization, particularly on the basis of a dominant culture. The evidence of existing markets is that there is a tendency for increased differentiation of product and service. Cultural difference persists, which is why there are so few genuinely global brands and so few standard products at the global level.

Alternatively the world might be forced to become homogeneous by the operation of political or market forces. There may be a ruthless process of weeding out what is different. In the economic sphere cost differences and the actions of large multinational enterprises could be the instrument for doing this. How far is the market likely to play such role?

Evidence of homogenization

A homogeneous world is an integrated world, and one in which national units have ceased to have importance. If the world is not integrated, it is extremely unlikely that it will become homogeneous. It has been argued already that world markets are not as integrated as often thought. An integrated world is a notional world in which the integration of markets produces a set of predictable outcomes. The existence of these outcomes would indicate that integration was really occurring. There are severe limitations on how far this process has gone.

The first outcome is what economists call 'factor price equalization', in particular a world in which interest rates or the rates of return on investment are equalized everywhere – there is one uniform price for capital. There is some tendency for this to happen in short-term financial flows as a result of the normal process of arbitrage, or the operation of what is known as the law of one price. There is evidence that covered interest rate parity, an expression of the law of one price for the price of capital, holds in certain restricted financial markets. There is no evidence that rates of return have been equalized throughout the world for major long-term investments. There is a very good reason for this – the differing risk premiums required from investment in different countries. Some of the differences are very marked; they also fluctuate significantly over time

The second outcome would be for an international convergence of national business cycles. This is a highly dubious proposition which has been asserted as true since the Industrial Revolution. Only in extreme circumstances does the whole world economy move together. On the contrary, it is unusual for the three main centres of the world economy to be at the same stage of the cycle, except in exceptional circumstances. This is fortunate for the relative stability of the world economy.

The third outcome is for certain structural changes to occur in economies on the basis of specialization at the global level. This reflects the particular circumstances of the specific economies. For example, a high wage economy with small markets might find it very difficult to compete in selling labour-intensive manufactured goods. Creating more integrated and open markets might push such an economy in the direction of a reduced manufacturing share, but this might happen in any event, since it is part of the transformation which occurs with a rise in income levels and the associated rise in wage costs. Disentangling those structural changes which are part of the process of market integration and those which result from rising GDP is difficult.

The world may be moving in the direction of integration and homogeneity but it is a long way from this ultimate destination, and there are powerful forces slowing the movement. The dramatic reduction in costs of and acceleration in transport and communications have shrunk the world, creating new opportunities but also generating new threats. It is impossible and undesirable to isolate a country, let alone an enterprise, from global markets. There will be more interaction. The multinational enterprise will be at the vanguard of this movement but it has to make the movement with the greatest care.

Global players

There are three main ways of 'playing' globally:

- multilateral relations through global organizations
- regional relations within such units as the European Union
- bilateral relations, which can comprise both direct country to country interactions and interactions between governments and multinational enterprises, including interactions among the latter.

Multilateral organizations

The main candidates are the World Trade Organization, the World Bank and the International Monetary Fund. Given the emphasis on globalism, it is perhaps surprising to note the continuing weakness of all multilateral institutions, including the ones above, but not all surprising in view of the continuing strength of the nation state. Multilateral institutions which straddle different regions can take many different forms.

Focus on Practice
Multilateral organizations

- The UN and its agencies
  - United Nations Conference on Trade and Development
- World Bank and its agencies
  - International Development Association
  - International Finance Corporation
  - Multilateral Investment Guarantee Agency
  - The International Centre for Settlement of Investment Disputes
- World Trade Organization (WTO)
- International Monetary Fund (IMF)
- Bank of International Settlements (BIS)

- Greenpeace
- Red Cross
- Amnesty
- Oxfam

Some multilateral institutions, which were important in the past and aspired to a reach beyond the nation state, have lost their influence, such as the various churches. Some weak echo of past influence survives as a cultural legacy, that is all. Islam has more influence than Catholicism and does still influence particular nation states, including their political and legal systems, such as Iran or previously Afghanistan. However, most countries with a Muslim majority are still secular states. Moreover, there are as many differences of doctrine and attitude within the Muslim world as there are in the Christian.

Recently, there have been no real secular replacements for the churches which had a sustained existence for many centuries. Communism, which had universalist pretensions, never realized its potential, certainly not in the operation of important international institutions. Communism has been in retreat for more than 20 years, and the communist experiment appears to have failed, both politically and economically. Only a few communist states survive ideologically, and in most their economic systems are tending towards market economies.

There are a few non-governmental organizations (NGOs) which operate internationally and are powerful enough to have an influence on key decision making, such as Greenpeace or Oxfam.

The lack of multilateral institutions translates into a series of particular absences:

- no world government, and therefore no real forum for resolving global problems; witness the series of ad hoc meetings on carbon emissions. With so many nation states in the world these are difficult to organize
- no such thing as international law in any enforceable sense
- no international currency, and no central bank serving as lender of last resort for the world as a whole.

The increasing number of problems which extend beyond the jurisdiction of the nation state can only be resolved by ad hoc action, organized by groups of nation states. The multilateral organizations simply act as facilitators of international interactions and agreements.

Into the political vacuum at the global level step the most powerful of the nation states. Occasionally in the modern history of the world one state has had imperial pretensions and has sought to impose its will through military strength. In other words, it has sought to substitute for the weak multilateral institutions at the global level. These attempts have failed. In peaceful times such a state has been able to help impose solutions to global problems. The forced alliance of others invariably defeats attempts to realize ambitious military pretensions. In practice a powerful state can only use its influence to persuade others to support its policies. A failure to win such support can lead to disaster. For example, the Great Depression of the 1930s had as its backdrop the willingness but inability of Britain to play its traditional role of leadership, and the ability but unwillingness of the USA to play such a role. After World War II the USA played such a role with a much greater degree of success (see Kindleberger, 1987), initially within one part of the world which was 'democratic' and market-based. The ending of the Cold War has left the USA with a clear military superiority, and an economic advantage which, despite recent events, is being steadily eroded. Nevertheless global problems can only be resolved with the support of the USA.

The main multilateral institutions, such as the UN and its linked organizations – the IMF, the World Bank, the BIS and the WTO – have limited powers and limited resources. In the past they have been a vehicle for the transmission of American policy, although this is less true today than it used to be. As a result institutions have also become a focus for opposition to those global tendencies which are disliked and a focus for anti-Americanism.

Regional organizations

In every part of the world there has been an immense amount of activity of a regional kind because it is difficult for a large number of nation states to reach a consensus on any issue. Some of the tendency to regionalism results from informal alliances, some from more formal organization.

Focus on Practice
Regional organizations

- Regional Development Banks
  - African Development Bank
  - Asian Development Bank
  - Inter-American Development Bank
  - European Bank for Reconstruction and Development
- The European Union (EU) and its agencies
  - Council of the European Union
  - European Central Bank
  - European Commission
  - European Court of Justice
  - European Parliament
- Free Trade Areas
  - Andean Community
  - Association of South-East Asian Nations (ASEAN)
  - Australian and New Zealand Closer Economic Relations Trade Agreement (ANZCER)
  - Caribbean Community (CARICOM)
  - Central American Common Market (CACM)
  - Economic Community of Central African States (ECCAS)
  - Economic Community of West African States (ECOWAS)
  - European Free Trade Association (EFTA)
  - Gulf Cooperation Council (GCC)
  - Mercosur
  - North American Free Trade Agreement (NAFTA)
  - Southern African Development Community (SADC)
- Others
  - Asia-Pacific Economic Cooperation (APEC)
  - North Atlantic Treaty Organization (NATO)
  - Organization of Petroleum Exporting Countries (OPEC)

There are also broad umbrella organizations which allow Muslim countries or countries from the Americas or Africa to meet. These tend to be talking shops without any practical effect on global decision making. A clear precondition for success in establishing any formal organization which has real decision-making power has been both a similar political system and a similar level of economic development. It also helps if the countries concerned share a common culture.

There is therefore a limited number of regional organizations which have had a real effect. The EU is the most successful case. The main catalyst for such regional activity has been the terrible consequences of the naked pursuit of national self-interest in two world wars. A major motive has been to stress cooperation rather than competition and to prevent such competition becoming military, as it has with catastrophic results in the recent past.

The progressive integration of Europe, both extensively in a wider membership and intensively in the harmonization of an increasing number of policy areas, has been one of the most important events of the last 40–50 years, beginning with the establishment of the European Coal and Steel Community (ECSC) in 1952 and the Treaty of Rome in 1957. This treaty created the European Economic Community in 1958 which merged with the European Coal and Steel Community and Euratom to form the European Union in 1967. It is a process which is continuing and intensifying, most recently in 2002 with the introduction of a common currency, the euro, in 2004, with 10 more, mainly East European, countries joining the present 15 EU members.

There is a pronounced tendency for increased intervention by European institutions into business activities. The European Commission for Transportation, for example, is intervening more frequently and more forcibly to restrict government action in rescuing bankrupt airlines or bankrupt telecommunication companies.

Some areas of regionalism elsewhere in the world have been a response to the success of the European experiment. This is true of NAFTA and also the recent attempts to create stronger Asian groupings, although these remain very weak, largely because they satisfy none of the prerequisites of successful integration indicated above. Most of these organizations have either never gained any momentum for working together or have lost their initial momentum.

One other highly influential regional organization is OPEC, whose unifying factor is the enormous reserves of oil located in the Middle East and Persian Gulf area (see the discussion in Chapter 4). The non-membership of major oil-producing countries outside these areas, such as Russia, Norway and Mexico, has weakened its influence.

Regionalism has two faces:

- A movement in the direction of an integrated global world with strong multilateral organizations.
- A mechanism of self-defence against such a movement, and therefore an obstacle to such movement. Regionalism is sometimes encouraged by the threat of protectionism as states place themselves in fall-back positions adopted in case the global situation deteriorates.

The regional players can either promote the development of integrated markets or they can stand in the way of such integration. Such regional groupings look, Janus-like, in two directions.

Bilateral organizations

Because of the importance of the nation state and its government, bilateral relations and bilateral organizations are still significant, but some more than others, notably those between members of the triad. The world is very uneven in its level of economic development. Most world production, investment and trade is concentrated on what has been called the triad, a tripolar structure of economic activity linking the main economic and political centres of the world – North America, Western and Central Europe (largely the EU) and Japan. These tripolar centres account for as much as 60–70% of world GDP, the exact level depending upon the nature of the measures used. Because of innovative activity, the degree of concentration of economic activity on the triad has increased. However, recently within the triad, there has been a tendency to a more even distribution of economic activity.

The triad does most of the world's trade, receives and dispatches most of its investment, constitutes the largest part of the world market and generates most of its tech-

Focus on Practice
The triad

There are 20–25 developed economies in the world, the number depending on the exact threshold level selected, comprising about 20% of the world's population. These countries are grouped in three main areas – North America (the USA and Canada), Western and Central Europe (the 15 EU countries plus Norway and Switzerland) and Eastern Asia (principally Japan but some smaller economies such as South Korea, Singapore, Taiwan and Hong Kong). In each region, for various reasons including size and location, there is a core economy which acts as its centre, respectively the USA, Germany and Japan.

nical progress. However, it represents a declining share of world population, a trend which has enormous significance for the future. This process of decline is offset to some degree by the fact that the triad is the main magnet for immigration.

A number of countries are in the process of developing, mostly a limited number of economies in South America, Eastern Europe and Eastern Asia – Chile, Poland and coastal China are the best examples. Some of these countries have a potentially large political influence because of their size, in both territorial area and population. China, India, Russia and Brazil stand out.

Most countries are still undeveloped. Whole areas of the world remain at extremely low levels of development with little sign of change, including most of Africa, Central America and broad areas of Asia. These countries have little influence over political decision making at the global level. Unless they have a valuable resource like oil they are ignored. This is the fate of most of Africa.

Indeed broad swathes of the world are not sharing in globalization, however it is defined. Most countries in the world are either too small in population or territory or too poor to have any influence on decision making in the global economy. The informal rules of the game, whether it is political or economic, are set by the powerful, for example in the General Agreement on Tariffs and Trade (GATT) and the seven successive rounds of trade negotiations, which were replaced in 1995 by the WTO.

Multinational enterprises and organizations

A growing number of business enterprises are international in the nature of their activity. Some enterprises, in the size of the gross income they generate, exceed the GDP of smaller countries. However, this is not an appropriate comparison since GDP is really a measure of value added and gross income is not. For example, Microsoft, at one time the largest company in the world in the US, at the end of the 1990s boom had a gross income which exceeded the GDP of the USA's main trading partner, Canada. In value added it is more like the size of Uruguay.

No multinational enterprise has the sovereign power of a nation state. They are subject to the jurisdiction of such states. However, because of their size and economic strength, some multinationals are capable of exerting more influence than many governments, although the source of their power is very different. They can negotiate in certain areas with many governments, sometimes as superiors or sometimes as equals.

Focus on Practice
The world's largest corporations

In Table 3.1 the size of enterprises is judged by gross revenues but it could have been the value of assets or the number of employees.

The original multinational enterprises were American but now there are many European and Japanese multinationals, and even a few from developing countries (see Table 3.2).

Although the source country has declined in importance, most multinationals are still strongly rooted in particular national soils, and mostly in the countries of the triad.

Table 3.1 **The world's largest corporations (2001)**

		Revenues		Profits	
		$m%	change from 2000	$m%	change from 2000
Wal-Mart	US	219,512	13.7	6,671	6,0
Exxon Mobil	US	191,581	(8.9)	15,320	(13.5)
GM	US	177,260	(4.0)	601	(86.5)
BP	Britain	174,218	17.7	8,010	(32.5)
Ford	US	162,412	(10.1)	(5,453)	(257.3)
Enron	US	138,718	37.6	N.A.	
DaimlerChrysler	Germany	136,897	(8.8)	(592.8)	(108.1)
Royal Dutch Shell	Neth/Britain	132,211	(9.3)	10,852	(14.7)
GE	US	125,913	(3.0)	13,684	7.5
Toyota	Japan	120,814	(0.5)	4.925	15.5
Citigroup	US	112,022	0.2	14,126	4.5
Mitsubishi	Japan	105,813	(16.4)	481	(42.2)
Mitsui	Japan	101,205	(14.2)	442	(5.1)
Chevron Texaco	US	99,699	107.4	3.288	(36.0)
Total Finn Elf	France	94,311	(10.9)	6,857	7.5
Nippon Telegraph and Telephone	Japan	93,424	(9.5)	6.495	(254.8)
Itochu	Japan	91,176	(16.9)	241	(62.1)
Allianz	Germany	85,929	21.0	1,453	(54.5)
IBM	US	85,866	(92.9)	7,723	(4.6)
ING Group	Netherlands	82,999	16.6	4,098	(63.0)

Brackets indicate a contraction.
Source: Fortune, July 22 2002: F1–10.

Table 3.2 **Composition of the large multinationals by national origin (%)**

	1973	1990	1997	2000
USA	48.5	31.5	32.4	26
Japan	3.5	12	15.7	17
UK	18.8	16.8	6.6	8
France	7.3	10.4	9.8	13
Germany	8.1	8.9	12.7	12

The first column is a proportion of the largest 260 multinationals and the last three of the top 100.
Source: Hill, 2003: 20.

Focus on Practice cont'd

They are still therefore very much associated with particular countries. The largest multinationals are also concentrated in certain industries – notably automobiles, oil, insurance, banking and the communications area. This partly reflects the importance of the sector and partly the degree of concentration in that sector.

There may be other kinds of players, equally as important as those already discussed. Sub- or micro-regions within countries, for example the state of California, and 'global' cities, such as Shanghai Municipality, can play important roles.

The impact of globalization on strategy

There is no a priori reason to think that, in a fully integrated and competitive world, the nature of strategic thinking at the global level would differ from that at the domestic level. In a global world national boundaries no longer have an economic significance, particularly since national governments cease to have discretionary policy-making power and transport and communication costs have been greatly reduced. In a world without national governments, zero transport costs and instantaneous communication, strategy is easily transferred from the domestic to the global level, with no change of substance, style or approach. Globalization simply requires an extension of the domestic perspective to the global venue; global becomes local.

Paradoxically the obstacle to such a simple transfer is the continuing existence of national governments and major obstacles to the integration of markets. A realistic approach in any definition of globalization 'is to view the world as a single unit while recognizing the uniqueness of each operating context' (Mische, 2001: 54). Globalization therefore involves increased interaction between different countries, different cultures and different political or economic systems.

The current situation requires emphasis on two possible perspectives in a global strategic approach:

1. To take a genuinely global or transnational approach. Viewing the world as a single unit, sometimes described as adopting the perspective of equidistance (Ohmae, 1991: Chapter 2), is better regarded as a transnational approach. It means viewing customers and markets on a geographically indiscriminate and culturally inclusive basis, 'in a manner that best leverages the organization's capabilities, optimizes its worldwide identity, and de-emphasizes geographical uniqueness and national identity or origin' (Mische, 2001: 54). Few enterprises have reached the stage at which this broad perspective dominates their strategy, although many may aspire to eventually achieve this. IKEA, which has sought to take a global approach to product tastes, ran into some difficulty, even in selling to developed economies.
2. To recognize the uniqueness of all operating contexts. Part of that uniqueness is the particularity of the nation state. A global orientation, as against a transnational orientation, requires the recognition of the existence of the many different nation states in the world and a growing level of interaction between them. Any

global transaction must involve activity which occurs outside the home country but which is located within the jurisdiction of one or more of these other states. Primarily for that reason the global environment is different from the domestic environment.

The second approach is the one most frequently adopted.

Globalization drivers

There are four main *globalization drivers*, that is, drivers which compel an enterprise to become global in at least one of our two senses:

1. the lure of interconnected or integrated markets, often called global markets
2. the prospect of and pressure for reduced costs, even within domestic markets
3. the persistence of some government policies favouring globalization, although these are not unchallenged
4. the forces making for increased competition.

Global opportunities and risks

A global orientation in strategy making requires recognition of the greater opportunity yielded by the drivers but also the higher associated risk.

The nature of opportunity at the global level differs from that at the domestic level. A global enterprise must have the capabilities which allow it to exploit such opportunity. This involves the ability to sell in different markets, source components and materials from different nations or regions and access knowledge available at the global level. It involves the recruitment of managers and workers capable of operating in an international environment. It is possible to develop these capabilities through megamergers or strategic alliances at the global level. A global enterprise must take account of the strategies of a different mix of players, particularly other global players, such as governments and competitors.

A global strategy would exploit all opportunities for revenue enhancement and cost reduction offered by a much larger market, whose component parts are all growing at different speeds. The markets open for entry are diverse. A so-called multidomestic strategy recognizes the differences in these markets. The opportunities for profit are difficult to exploit since they involve entering markets for which standardized products are often inappropriate. The relevant methods of production are themselves diverse and subject to adaptation in interesting ways in order to suit local conditions.

The nature of risk at the global level is different from that at the domestic level, largely because globalization has developed alongside the nation state and is promoted or hindered by the nation state. The return demanded differs according to the risk premium which is deemed appropriate to a particular country in which an investment is made. In some cases the risk premium is so high that no international transaction involving that country is possible.

Global enterprises tend to be larger than domestic enterprises, although it is not easy to see the reasons why this is necessarily the case. Many small and medium-sized enterprises engage in international business. In order to operate at the international level one alternative to getting bigger is to develop a network of independent enterprises through strategic alliances. Large multinational enterprises are much more likely both to produce a range of different products and operate in a range of different markets, and for these reasons to be much more difficult to organize. The intra-enterprise international connections must be planned more carefully than domestic connections. An international logistical system is likely to have a complexity which a purely domestic enterprise does not exhibit. The logistical networks within the enterprise make demands which do not exist at the domestic level, except perhaps in markets as large as the American or perhaps in the future, the European. There are very pronounced differences in corporate philosophy, ranging from the ethnocentric – focused strongly on the domestic scene, through the polycentric – which recognizes the existence of many domestic scenes, to the geocentric, where there is one scene, the global. Only the last is really suitable for a genuinely transnational enterprise.

Global enterprises contain within them a much greater diversity than domestic enterprises – of cultures, structures, personnel, markets and resources. They must devise a corporate culture which makes it possible for them to use all these resources while operating at the global level, but a culture which is at times likely to be in conflict with the culture of at least some of the countries in which the enterprise has a presence. This interaction between national and corporate culture is itself a distinguishing feature of global enterprises. It must be allowed for by those who make strategy.

All of this – the complexity, the opportunity, the conflict and the risk – requires a different kind of leadership, a global leadership. One of the core competencies of a global enterprise is the ability to manage diversity and develop strategies which embrace a global approach, what could be termed a genuinely multicountry and multicultural approach.

Case Study Bad strategy and bad fortune – Swissair and Qantas

It is interesting to compare the recent experiences of Swissair and Qantas in the airline industry. Relevant to a comparison are the following points:

- Both Australia and Switzerland have a small population
- Both have flag carriers which aspire to be major world players, although probably not quite in the top tier, more at the top of the second tier
- Australia is large in territory relative to Switzerland and therefore offers a far larger domestic market. The share of revenues generated by the domestic sector is much larger for Qantas than for Swissair
- Qantas' location, far from the main centres of population, even in Asia, and from potential competitors in the world, has also influenced its route configuration and the degree of competition on those routes
- The two airlines have had a contrasting experience in the recent past.

Swissair is the national carrier of Switzerland, in key respects typical of national carriers in Europe. Many of the European countries, like Switzerland, are small. As a result the average flight haul of Swissair, while well over 1,000 kilometres, was by international standards short. The impact of any deregulatory transition is likely to be more far-reaching in Europe than in the USA and Australia, because numerous countries of the former are much smaller than even the larger American and Australian states. European airlines are smaller than American airlines and have much higher unit costs. As a consequence many European airlines have been chronic loss makers, such as Olympic in Greece, Alitalia in Italy, Iberia in Spain and TAP Air Portugal.

Swissair was a national icon, its senior managers arguing that the role of Switzerland as a major financial centre was linked strongly with the success of its prestigious airline which carried its managers and customers at a level unusual for other airlines. Switzerland and

Swissair were strongly 'branded' as reliable, prosperous and efficient. One problem for the airline is that in 1992 the Swiss rejected membership of the EU, thereby denying the country the benefits of being a member of a much larger organization.

Qantas was for many years the flag carrier for Australia on international routes, while being excluded from domestic routes. Even when it was allowed to come into competition with the other major Australian airline, Ansett, on the internal routes, there was an almost exact duplication of service and price, so that the monopoly position was modified, not removed. Australia stood at one extreme of the regulation spectrum; routes, schedules and prices being controlled, both internationally and domestically. The regulation was intended to guarantee a profit and the government stood ready in bad times to bear any losses. The initial limitation to international flights, combined with the geographical factors associated with Australia's location, partly explains the still long, average flight haul of well over 4,000 kilometres for Qantas, which in turn explains its low average cost per passenger kilometre.

All this was done with a particular regard for both safety and technical best practice. Qantas has maintained an excellent record for safety, often expressed in its claim to be the only airline in the world which has never had a fatality (a feature referred to in the film *Rain Man*, with a very beneficial effect on the reputation of the airline).

Swissair and bad fortune

During the 1990s Swissair adopted an ambitious twofold strategy: to enlarge its non-airline business and acquire minority holdings in other airlines, mainly European. It had significant aspirations to be a major international player. By the middle of 1998, Swissair was the eleventh largest airline in the world. Its routes radiated from Switzerland and were at their most dense within Europe but extended to all parts of the globe. Zurich, its main centre, had become one of the European hubs.

As elsewhere in Switzerland, the industry was highly regulated. As late as 1998 the airline was more than 20% government-owned. For a long period it was, like other national airlines, a recipient of subsidies from the Swiss government. Other European carriers were in a worse situation. Sabena, the Belgian airline in which Swissair invested, made a profit only twice in its 75 years of existence. It made the highest annual loss of all European airlines during the 1990s, almost US$1 million in 1991, an amount not far short of its total sales revenue in that year.

In the new competitive environment the European airline industry has suffered and still suffers from overcapacity. It is highly fragmented. There are two ways of reacting to this situation:

1. to consolidate existing lines by purchase
2. to join an existing, or form a new, network to rival the Star Alliance or Oneworld.

Some airlines like Swissair have sought to expand in both ways. One proposal, strongly promoted by Swissair, has been to consolidate the small European airlines around Swissair.

Swissair expanded its capacity, buying into other national airlines. It bought 49.5% stakes in Belgium's national airline Sabena and France's Air Lib, which combined Air Liberte and AOM. Swissair also owned 49.9% of German charter operator LTU, 49.7% of Italy's Volare, 37.6% of LOT Polish Airlines, as well as 20% of South African Airways. It also owned small parts of Delta (3%), Austrian (10%) and even Singapore Airline (0.6%). It code shared with 20 other airlines and had bloc space agreements with 12.

Swissair was also at the centre of the Qualifying Alliance, which included Sabena, Austrian (for only a short period), THY Turkey and TAP Air Portugal. With the inclusion of Delta this constituted the Atlantic Excellence Alliance. However, American Airlines quickly replaced Delta as Swissair's American partner. This represented a fourth potential world alliance, one which was more fluid and much smaller than the others.

Transition problems

2000 – a bad year

In 2000 Swissair had moved from a small profit in 1999 to a significant loss, largely as a consequence of the rising oil price and an appreciating currency. For the SAir Group as a whole these losses were compounded by the losses on investment in other airlines. The slide into loss making came at a difficult time for Swissair.

An overambitious growth strategy

Swissair had tried to bring together a group of small European airlines to compete with the large airline alliances. Many of these airlines were in poor condition. Unfortunately Swissair did not have the financial resources to sustain such a policy, as British Airways, Air France or Lufthansa might have. The success of the various non-core businesses – maintenance, catering, booking, shopping, cargo transport and airport handling – could not compensate for the problems of the core business. By 2000 it was obvious that the growth strategy had failed.

Partner weaknesses

SF3.3 billion was invested in other airlines. The airlines which were acquired, notably Sabena, Air Liberte and LTU, while small, were relatively weak financially. The business risk was initially hidden by the complexity of the structure of cross-holdings. Because of financial weakness these partner airlines imposed demands upon Swissair which weakened its position. It was difficult to sell such unprofitable airlines and escape from the burden. These demands on Swissair further increased with the crisis of September 11, 2001.

Debt problems

Swissair had considerable debt, which, by the end of December 2000, had reached SF9.4 billion, rising to over 10 billion by the end of June 2001. The restructuring plan envisaged a reduction of debt of 2 billion by the end of 2002 and a further one billion by the end of 2003. This was not to happen. This situation caused Swissair's bankers Credit Suisse and Union de Banques Suisses considerable disquiet. The debt to equity ratio rose dramatically, from just over one in 1999 to as high as 4.68 in 2000, largely as a result of the ambitious growth policy and the increasing weakness of the partners from which Swissair could not disentangle itself.

Greater competition

Deregulation has meant that new 'no-frills' competitors have appeared within Europe, such as Virgin, EasyJet and Ryanair, and insofar as routes and airports have been genuinely deregulated, new competitors also from outside Europe. The level of competition has increased enormously. This creates particular difficulty for a high-cost airline.

New strategies

From January 1, 2001, there was to be a change of direction, described as the 'new strategic course'. This strategy had at its centre the reversal of the previous policy of acquiring equity in other airlines and extending beyond the core business of air travel. Such a shedding would take time, particularly where loss-making airlines were involved. Swissair did not have the time. Its aim of reducing debt was not to be achieved. Almost as soon as the new strategy came into existence, it was superseded by a new strategy forced on Swissair by world events, notably the terrorist attack of September 11, 2001.

The shock and its results

A fall in passenger numbers

Passenger numbers, already falling because of the slowing of the world economy, fell dramatically after September 11, 2001, by as much as 30% on some important routes. It was unclear how long this fall would last. However, recovery was aborted by further shocks in 2003, the Iraq War and SARS.

Increased costs

An increase in oil prices had already increased costs for the airlines. September 11 increased the cost of insurance by a large amount and imposed much heavier security demands on the airlines. The price of oil oscillated significantly, rising again in 2003 and including a significant war premium.

Loss making

Airlines already making a loss before September 11 found themselves with enormous unsustainable losses which could only be covered by government subsidy.

Partner problems

The potential or actual bankruptcy of partners, such as Sabena and Air Lib, made the situation worse. Swissair was unable to meet its commitments to provide these airlines with development funds, which hastened its slide into a crisis.

There were two main results of the shock:

1. Swissair was rescued and recapitalized, just as Air New Zealand was to be. Other airlines in trouble, such as Ansett and Sabena, have been allowed to fail; Swissair was not. The Swiss government rescued the airline and bailed it out of its immediate financial difficulties. It also received an injection of US$1.7 billion from a number of Swiss investors including Nestlé and Swisscom who regarded the airline as an important feature of the Swiss economy and potentially redeemable, with a change of strategy. In operation phoenix US$3 billion new capital was raised, and the resurrected airline, called Swiss International Airlines (SIA), was more than 30% owned by the Swiss government and more than 60% owned by Swiss corporations.
2. The airline had to change its strategy yet again. It was forced to accept a much diminished international role which amounted to closing many of its longer international routes and concentrating on the domestic routes of its 70% owned subsidiary Crossair. It has a fleet of 128 planes, most of which are short-haul planes inherited from Crossair, 102 in all. Overall capacity was down about one-third on Swissair's previous level.

Initially the new airline seemed to do well. In two months, SIA achieved a 69% load factor, good for the post-September 11 world, but reflecting a significant withdrawal into largely European routes. The new Chairperson Pieter Bouw, formerly head of the well-performed KLM, and André Dosé, the new CEO, started the process of reducing costs. Plane leases were renegotiated with the banks and leasing companies, with discounts as high as 30–40%, and pilots' salaries reduced by about 35%. However, in 2003 conditions deteriorated further.

There were renewed difficulties of survival for SIA. In June 2003, the airline was once more threatened with insolvency and bankruptcy. There were a series of problems:

- Costs were still not low enough, for example labour costs were 30% higher than Lufthansa's. The airline had trouble negotiating a reduction in pilots' salaries and the freedom to lay off whichever pilots it wished.
- The image of the new airline was poor.
- The new airline was clinging to high-prestige, low-profit routes. Most of the routes to Latin America and to Asia were losing money. Increasingly, the shorter routes were also becoming unprofitable. Of the 40 overseas destinations, only 15 were profitable. A comparison with Finnair and Austrian with similar home markets is illuminating. They have 6 and 19 destinations respectively and both airlines were profitable.
- Swiss was not a member of any alliance and unlikely to gain entry.
- Most of the regional flights don't make a profit. They had a seat occupancy almost 10% below the European average.

The airline was already engaged in a major cost-cutting exercise, with a 10% reduction in the workforce, 22 short-haul aircraft out of service and a delay in new purchases, when it was forced to rewrite its strategy once more. It had established Swiss Express with costs 20% below its current levels in order to take on the 'no-frills' airlines. There was an urgent need to cut medium-length routes in Europe where losses were significant and cut some long-distance routes. The new plan was to reduce capacity and its labour force by about one-third and raise significant amounts of fresh capital. It was necessary to renegotiate labour contracts in order to make the new business plan acceptable and justify the purchase of new aircraft. Breaking even was postponed until 2004 and was to be achieved at a much lower level of gross revenue.

The position of the new Swiss International Airlines was unsustainable. The combination of a tiny domestic market, only seven million people in a small territory, and many competitors, something like 130 in the European region, was always likely to force the new airline to give up many of its medium- and long-haul routes. There was still a need to articulate a clear, long-term strategic plan which is realistic.

The general dilemma

The industry is very fragmented, especially in Europe. American Airlines, the largest airline, accounts for only 7% of the market (compared with General Motors' 25%). There are in all 267 international carriers, 500 plus domestic and 23 flag carriers in Europe, and high barriers to exit. It is difficult to stop governments propping up their national carriers.

One result of the series of shocks beginning with September 11 might be to accelerate change, provided that governments are not allowed to simply bail out their troubled carriers. The European Commission of Transportation is seeking to avoid the latter outcome. It has secured the right to negotiate on behalf of all European airlines, possibly to create an Open Aviation Area which would combine the two largest regional markets of Europe and the USA, 60% of the world market. If the market were allowed to operated unimpeded, one forecast is that only a handful of European airlines with real international aspirations, those with a large domestic base, will be left – notably British Airways, Air France and Lufthansa. There will also be a number of small regional or domestic players, such as Crossair, and some 'no-frills' airlines, such as Ryanair and EasyJet. In this context the strategy of Crossair would cease to embrace the international aims of Swissair.

Qantas and good fortune

Qantas was for most of its life state-owned. The government, using the usual mechanism of bilateral agreements, carved out a niche for Qantas by guaranteeing limited competition on routes in and out of Australia. The industry was retained for Australian airlines with foreign competition excluded as much as possible, except where there were reciprocal rights which were considered beneficial to Qantas. Access to airports, themselves state-owned, was also controlled. The airports were run as a single government-owned unit, without competition between them. Gates and terminal facilities were allocated according to the regulated airline policy. It was impossible for other new airlines to get such access without strong government backing.

As elsewhere the industry has been undergoing a radical change of government policy. The change of policy came at the end of the 1980s and began to take effect at the beginning of the 1990s; this new policy was aimed at increasing competition, mainly domestically but also internationally. The means of achieving this was to be deregulation and privatization.

Qantas has been combined with the state-owned domestic carrier, AA (previously TAA), and floated as a public company. It is now fully privately owned and operates both domestically and internationally. There has been a deregulation of routes and prices, at least internally. The amount of deregulation internationally has been more limited. A degree of foreign ownership has been allowed, in the case of Qantas 25% by British Airways (now down to 19%), and in the case of the other main domestic carrier, Ansett, 49% by Air New Zealand. There is still a limit on foreign ownership which is 49% on all ownership and 25% on any single owner. Recently the Australian government refused a request from Qantas to ease this policy. Qantas wanted the rules eased because it believed that it could raise more money, more cheaply in a less regulated environment, which it believed it needed to do in order to remain competitive.

Qantas has joined the Oneworld network, where it joins American Airways, British Airways, Cathay Pacific, Aer Lingus, Iberia, Finnair and LanChile.

Other airlines have been allowed to enter the Australian market. There were two attempts to establish a third airline to compete internally with Qantas and Ansett, on both occasions with an airline called Compass. Both attempts quickly failed. More recently a third airline, Impulse, was established, but aggressive pricing policy on the part of the other two airlines quickly led to the voluntary absorption of Impulse by Qantas. The entry of an outside airline has been more successful. Virgin Blue operates a 'no-frills' service within Australia on the main routes. It is steadily increasing its share of domestic traffic, currently at 20%, with a target of 30%. There is no competition for the business traveller. It is unclear how many airlines the domestic market can accommodate. There is a deliberate policy by government and the Australian Competition and Consumer Commission (ACCC) to maintain competition on the domestic market and prevent what is called 'predatory pricing', that is, the deliberate undercutting of new airlines on routes they begin to operate by existing and much stronger airlines.

On the other hand, there are major restrictions on competition. There are all sorts of restriction ensuring that Qantas remains Australian, including the 49% limit on foreign ownership and an even more restrictive limit of Qantas' ownership of other airlines. At the time of writing Qantas is bidding to own 22.5% of Air New Zealand. The government is negotiating an 'open skies' agreement with Singapore. The Australian government still acts to manage all traffic rights on a bilateral basis.

Positive features

Low costs

The long average haul on Qantas' routes has helped to keep its costs per passenger kilometre at a low level. It has also managed to sustain a high load factor which has steadily increased in recent years, to 75%, compared to about 70% for Swissair. It has also kept its debt to equity ratio close to one, although because of fleet expansion and deposits this ratio has tended to rise but only marginally compared to the dramatic and simultaneous rise for Swissair.

Little competition

Qantas has managed to keep a very strong competitive position on its domestic market. Even on its international routes, competition has been limited, even more limited with the diminishing activity of United Airlines on Pacific routes.

Strong partners

Qantas' main partner has been British Airways which has a route structure complementary rather than competitive with that of Qantas. British Airways is one of the largest airlines in the world and has been financially strong for a long period, although the terrorist attacks have diminished traffic on its main routes. Membership of Oneworld has offered Qantas major advantages, giving strong connections with routes in most parts of the world.

A relatively good 2000

For most airlines the year 2000 was a bad year. Sharply increased fuel costs, up by at least 50%, the beginnings of recession and much more intense competition turned most airlines into low-profit or loss-making enterprises. Qantas was affected, particularly on its domestic routes but not as badly as others. However, earnings before tax and interest on domestic flights fell by more than 50%. This was offset by an increase in international business of more than 20%, which partly reflected the favourable impact of the Olympic Games held in Sydney in that year.

The shock

Simultaneously with the events of September 11, Qantas' main domestic competitor Ansett went into bankruptcy. It had been outcompeted by Qantas, and poorly managed in an uncertain ownership environment. It ceased for a short period to provide any air services and even when it resumed it only provided a very limited service on the main routes. Attempts to refloat failed and the airline later went out of business for good.

The demise of Ansett opened a major gap in the servicing of the domestic market which the new entrant Virgin Blue could not fill immediately. As a result, Qantas came to provide as much as 90% of the domestic services, declining to 80% within six months and probably headed down to 70% at some time in the near future. The situation has greatly increased the profitability of Virgin Blue and its ability to expand. Both airlines have committed major resources to filling the gap in the domestic market. There is still a possibility that Singapore Airlines, or another third carrier such as Cathay Pacific, will enter the Australian domestic market, but not in the near future.

The gap in the domestic market provided an opportunity for Qantas not only to switch planes from international routes hit by the September 11 crisis but also to update its fleet by purchasing new planes. Since it was a minor player on the main routes hit by the crisis, the Atlantic route between North America and Europe and to the Middle East, Qantas found it relatively easy to switch planes from these international to domestic routes and still to keep its capacity utilization levels high, both internationally and domestically. It even found itself having to acquire extra planes to meet the increased demand. This helped to keep its fleet modern and its costs low. It has deliberately taken the decision to purchase from Airbus, where previously it had a fleet which consisted solely of Boeings. This is in preparation for the later acquisition of the A380 (see the case study on Boeing and Airbus in Chapter 4), for which Qantas put in an early order.

The contrast in the situation of Qantas with that of Swissair is illuminating. There were three main areas of advantage for Qantas.

1. Although both operate in high wage, and therefore high-cost, countries, the Swiss franc is a hard currency which has tended to appreciate, whereas the Australian dollar is a soft currency which has depreciated significantly. For most international airlines costs are mainly incurred at home either in the home currency or in American dollars, whereas revenue is generated abroad. Where costs are raised by the decline in the Australian dollar, Qantas is willing to hedge, as it does with its fuel costs. The net impact has tended to reduce Swissair's net revenue stream, accentuating any rise in cost, and increase Qantas' net revenue in both their home currencies.
2. The difference in the size of their respective domestic markets has been reinforced by the bankruptcy of Qantas' main domestic competitor, Ansett. This has left Qantas to take over most of the other half of the domestic market, compensating for any loss elsewhere, and at a time when the assistance was most welcome.
3. The fall in the share price of Swissair had badly damaged its capacity to raise cheap capital, whereas the rise in the share price of Qantas has made it much easier to raise such capital. In October 2001 Qantas was able to raise A$450 million by an equity placement, up on the A$300 million originally announced because of oversubscription. This has enabled Qantas to continue to expand and modernize its fleet of aircraft. By contrast Swissair's shares plunged from SF500 in 1998 to SF262 in January 2001 and SF1.25 in September 2001, before its bankruptcy. Qantas' price has continued rising, marking it out as the airline with probably one of the highest capitalizations on the market. One possible weakness is that Qantas owns its planes and therefore bears the risk of any decline in value. This is not a problem while demand keeps the fleet fully utilized.

The future

It is interesting to speculate on Qantas' strategy for the future. How will it shape up in the new world?

The new world is one which has not been kind to the industry. There is a view that the huge losses of the industry in both 2001 and 2002 will force a process of consolidation on the industry. The continuing spread of no-frills air travel is increasing the competition. The success of Virgin Blue shows this. Qantas, under the label of Australian Airlines, has already initiated a mainly 'no-thrills' service from Cairns in northern Queensland to a number of Asian cities, including the main Japanese cities and Shanghai and Singapore. It intends to expand the service in the future so that it will serve other Australian cities. This has created an interesting and novel blend of two strategies which superficially do not appear to go together well.

Qantas has announced its intention to purchase 22.5% of Air New Zealand which nearly disappeared in 2001 but was rescued by the New Zealand government, which now owns 82% of the airline. This will give the combined entity 100% control of the trans-Tasman route and also the domestic New Zealand market, if the regulatory authorities and governments in the two countries approve it in its present form, which does not seem very likely. In this case the demands of competition theory present an obstacle to further consolidation. There is also talk of the sale of some part of British

Airways remaining 19% stake in Qantas, with purchase possibly by Singapore Airlines which, despite its losses on Air New Zealand and Virgin Atlantic, is still one of the strongest airlines.

Such partnerships create an even bigger problem in the structure of alliances since Qantas is a member of Oneworld and the other two airlines members of the Star Alliance. There is likely to be a major rethinking of these alliances.

The opportunities for Qantas are:

- it consolidates its already strong hold on the Australian domestic market, probably with a target of 70%
- it extends its dominance to routes from Australia to other parts of the region, including New Zealand, Singapore and across the Pacific to the American west coast.

The threats for Qantas are:

- the Australian government or the ACCC, in the case of the purchase of part of Air New Zealand, the New Zealand government, intervenes to limit Qantas' market power on the grounds that it is anti-competitive
- a no-frills competitor such as Virgin Blue builds up as a major competitor with much lower costs, because it has only one class, leases its planes and is linked to a strong partner, an integrated freight transport company, Patrick
- a third airline, Singapore Airlines, Cathay Pacific or even Emirates, either in alliance with Virgin Blue or on its own, enters the domestic market
- the terrorist attack in the Australian region, in Bali on October 12, 2002, and further shocks such as SARS, reduces the movement in the region of both tourists and businesspeople
- consolidations of international carriers and restructuring of other players, such as United, creates much stronger competition on international routes and Qantas has to compete with much larger transnational airlines with low costs
- Qantas has trouble controlling its costs, notably its labour and airport costs
- Qantas has trouble renovating its out-of-date airline fleet because it cannot raise the enormous amount of finance required.

The airlines are at a critical stage in the move to a global market. The shocks have encouraged a return to old practices, although the extent of loss making in the industry prevents a full return. Qantas is one of the stronger players, but has its own problems. It has withstood the shocks of the last few years much better than Swissair but it needs both a good strategy and good luck to build on its current strength. At the time of writing, there is a rumour that Lufthansa is willing to acquire Swiss International, provided the current cost-saving measures are fully implemented.

Case Study Questions

1. How have Swissair and Qantas participated in the transition from a regulated to a deregulated industry?
2. Identify the three different strategies adopted by, or imposed upon, Swissair during the last decade.
3. Why did Qantas deal with the shock of September 11, 2001 much better than Swissair?
4. What should be the strategy adopted by Swiss International Airlines? What assumptions concerning the future are relevant to the formulation of such a strategy?
5. What strategies should Qantas adopt domestically and internationally? Should it adopt a strategy of significant growth?

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Relevant websites

www.swissair.com
www.qantas.com.au

This case study is also relevant to Chapters 8 and 13.

Key strategic lessons

- Globalization is the movement towards a global world which features a uniform polity, economy and society where national boundaries cease to have meaning.
- This movement involves the integration of the world economy and its markets, the introduction of communications technology, the loss of national sovereignty, the increasing homogenization of culture and a democratization of choice for the individual in a series of different areas.
- The core of globalization is an increased interaction between national economies but there is still a pronounced home country bias due to ignorance, cultural difference, significant transport costs, multiple currencies and multiple sovereignties.
- A convergence on representative democracy and the market system has not led to equalization of factor prices or similar political regimes. Cultural differences are still strong and necessitate customization by country. There is resistance to such increased conformity whether through market or demonstration effects.
- There are many players who can influence an organization's strategy including multilateral financial institutions, regional organizations, key nation states and multinational enterprises.
- Global strategy differs from domestic strategy for many reasons, including the existence of national boundaries creating a significant degree of risk. The type of leader needed to operate at the global level must be able to manage the logistics of a complex organization and put together a team of managers able to take opportunities and manage risk.

Applying the lessons

1 If a global world is defined by the final state to which globalization is headed, what might be the nature of that final state?

2 Using the Focus on Theory – benefits and losses of globalization – list the following elements of globalization: causes, characteristics, consequences.

3 Define the following terms: multilateralism, regionalism, bilateralism, multidomestic strategy, global enterprise, transnational strategy, ethnocentric philosophy, polycentric philosophy, geocentric philosophy.

4 One of the major constraints on global involvement by an enterprise is home country bias.

i Consider the different aspects of such a constraint. In turn, consider what the constraints are on different kinds of international transactions which involve entering an international environment: exporting; foreign investment, either portfolio or direct; and working abroad.

ii How is it possible to counter each of these different elements and break down home country bias?

iii One way of counteracting home country bias is to establish strategic alliances at the global level. Consider how such alliances might be constructed in order to deal with the constraints.

5 The world does not have a fully homogeneous culture. Differences of culture have a strong influence on the pattern of tastes in different countries and the nature of products and services consumed in different countries. Such differences therefore influence the nature of international marketing. What is the nature of this influence?

One interpretation distinguishes between a multidomestic, an international and a global strategy. List which products would lend themselves to these different strategies.

6 E-commerce is one important element of the globalization revolution which is occurring. However, so far e-commerce is more effective 'business-to-business' than 'business-to-customer'. Why is this? Compare www.ford.com, www.gm.com and www.vw.com with www.amazon.com, www.federated-fds.com, www.7dream.com and www.tesco.com.

Strategic project

1 Choose an enterprise in a specific industry or sector of the economy. What is needed, in terms of strategic inputs, to make that enterprise a successful global, indeed transnational, player?

2 An airline might be considered as a potential transnational player. What kind of strategy would be necessary to turn an existing airline into such a transnational player? Choose an example of an airline which has successfully pursued the appropriate strategy.

Exploring further

There has probably been more written recently about globalization than any other single topic covered in this book. The newspapers and journals are full of discussion concerning its implications. There is also an increasing number of academic treatments. However, there has also been considerable confusion among the debators about what exactly is being discussed and committed positions are held by the participants on all the issues.

There are three basic approaches to discussion of the topic:

1. What we might call the approach of global political economy. It is about who has the power in the world economy and therefore makes the decisions. It sees globalization as embracing every facet of life – economic, political, social and environmental. Some of this literature is popular in its orientation, much of it very polemical and 'ideological', on either side, for or against.
2. A highly technical approach, that of the economist trying to consider in a theoretical manner those economic tendencies which affect the world economy. For example, it assesses the degree to which factors of production are mobile across international frontiers and how far world markets are really integrated.
3. One that considers whether and how far globalization affects both the process and the content of strategy making for enterprises which engage in international business. It is concerned with how managers should react to the main elements of change in the international environment.

It is appropriate to start with the approach of global political economy. An excellent general introduction to globalization are the Reith Lectures given by Anthony Giddens, now updated as Runaway World: The Reith Lectures revisited (1999), to be found at www.globalisationguide.org. Probably the best detailed introduction is Held et al., 1999.

The argument that what is called globalization represents nothing new is well put in Hirst and Thompson, 2001. This makes an explicit comparison between the present and the period 1870–1914. It also argues that most economic activity in the world today is concentrated on the triad. It interprets what is happening at the global level in terms of the harmonization of the policies of the major powers. There is a review which evaluates these arguments, accepting that it is a necessary corrective to the most extreme views, Perraton, 2001: 669–84.

There are many other globalization sceptics. There is a good book on the resistance to globalization and its reasons: Mittelman, 2000. A supplement of *The Economist*, 'A Survey of Globalization' (2001) has set out the arguments rebutting the sceptics. This article is particularly good on the argument that globalization is reducing national sovereignty.

On the other side are the hyperglobalizers, like *The Economist*. Probably most typical of this group is Kenichi Ohmae. His most interesting and relevant work includes the 1991 and 1995a books and, more briefly an article of 1995b: 269–85.

Exploring further cont'd

For a review of the development of the international economy over almost two hundred years, see Kenwood and Lougheed, 1999. There is a lucid discussion of the general concept as it relates to a particular economy in Bryan and Rafferty, 1999.

The domination of the world by the triad was first explored in a chapter under that heading by Ohmae, 1991 and developed by Thurow, 1992. Sachs, 2000 is an interesting article emphasizing the concentration of innovative activity on the triad.

Cultural difference is explored in Ronen and Shenkar, 1985: 449–55. This interpretation can be supplemented by Huntingdon, 1996, probably better considered in the shorter version in *Foreign Affairs*, 1993.

The potential for democratization implicit in globalization is put most strongly in Friedman, 1999.

Economists take a much more limited approach. Although it is a much more general concept, home country bias is often focused in economists' work on foreign investment and placed in the context of portfolio choice and risk management, see Levi, 1996, particularly Chapter 18. The article which raised the problem and started the search for an explanation is Feldstein and Horioka, 1980: 314–29. A much more recent reconsideration of the issue is Coakley et al., 1996: 620–7.

The classic article raising the relevant issues is Levitt, 1983: 92–102. The relevance of globalization to management starts with management and continues with the definition of a global enterprise. The relevant definitions of global enterprises are to be found in Ghoshal, 2000: 51–80, or at greater length in Bartlett and Ghoshal, 1992. Other useful discussions are Hirschhorn and Gilmore, 1992, or 'The stateless corporation', *Business Week,* 199l: 98–104. *Fortune* updates annually, in July, its ranking of the 500 largest multinationals.

More general books are Bartlett and Ghoshal, 1989 and Prahalad and Doz, 1987. There is an excellent introduction which relates globalization to strategy – Nelson, 1999. There are many general texts which are good introductions to internationalization. The author has often used Mahoney et al., 2001. There is a good chapter on competing in a transnational world in Mische, 2001.