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REASSESSING THE "THINK GLOBAL, ACT LOCAL" MANDATE: EVALUATION AND SYNTHESIS

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Abstract

There is no simple formula for developing and implementing successful business strategies across national borders. A popular approach to this challenge is to "think global, act local." Some argue, however, that maximum consistency across global markets is critical, citing examples such as Coca-Cola, whose emphasis on quality, brand recognition, and a small world theme has been successful in a number of global markets. Although there is wisdom in both views, this paper argues that the two are not necessarily mutually exclusive, and that firms should adopt a perspective that adopts and balances both perspectives simultaneously.

Keywords: Globalization, localization, emerging economies, think global, act local.

1. INTRODUCTION

A popular approach to global strategy, or any international endeavor for that matter, is to "think global, act local." Specifically, business leaders are urged to incorporate a global perspective on their organizations, while tailoring their actions to the local environments in which they operate. This view has been widely accepted by most in the field, and there is evidence to suggest that it is well grounded in theory and practice.

Although this oft-repeated advice appears to be intuitively appealing, its application is a bit more complex, now more than ever. Specifically, while few scholars and executives would question the idea that firms should "think globally," the interpretation, wisdom and action associated with the second part of the advice—"act locally"—is not

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always clear [16,28]. The following discussion revisits the concepts of globalization and localization and offers an integrated perspective for synthesizing the two.

2. THINKING GLOBAL

What does it mean to "think global?" Even today, scholars continue to debate the meaning of the term. Globalization can be viewed an intensification of world consciousness where mass communication has the potential to break down national borders to better satisfy the needs of consumers, markets, and organizations [16,27]. It is the process that pertains to changes in economic and political spheres that bring the world together [12]. The key is that it does not occur in a vacuum; As Kefalas [16] put it, technology makes globalization feasible, while political and economic liberalization make it happen. While few contest the legitimacy of the globalization phenomenon, the extent to which it has occured is widely debated [14,17].

For clarification, it is appropriate to distinguish between thought and action. A firm whose managers "think" at the global level may "act" at either the global level or at the local level. "Thinking global"—a global orientation, mindset, or philosophy—suggests that a firm actively considers opportunities for engagement beyond the borders of its host country. "Acting" refers to *how* a firm approaches the implementation of activities beyond its borders. The notion of "thinking" is addressed in this section, whereas "action" is deferred to the following section.

Firms shift from a domestic mindset to a global mindset for numerous reasons. Pursuing global markets can reduce per-unit production costs by increasing volume. A global strategy can extend the product life cycle of products whose domestic markets may be declining, as U.S. cigarette manufacturers did in the 1990s. Establishing facilities abroad can also help a firm benefit from comparative advantage, the difference in resources among nations that provide cost advantages for the production of some but not all goods in a given country. For example, athletic shoes tend to be produced most efficiently in parts of Asia where rubber is plentiful and labor is less costly. A global orientation can also lessen risk because demand and competitive factors tend to vary among nations. There are a number of factors to consider, including the similarity of customer needs abroad to those in the firm's domestic market, differences in production and distribution costs, and regulatory and tariff concerns.

A global orientation brings about three key advantages for firms adopting a global perspective, the first of which centers around economic concerns. The multinational corporation (MNC)—contrasted with a firm operating only in domestic markets—can increase production levels, thereby fostering standardization and *economies of scale* [9,36]. When a firm produces more, it may also enjoy greater efficiencies in marketing and distribution, a phenomenon known as *economies of (global) scope*. The importance of scope economies relative to scale economies has increased in recent years [13].

The second advantage of globalization is related to cultural change. Global media and the pervasiveness of the Internet have created a global consumer culture, one where distinct localized preferences for particular goods and services have been replaced by higher quality and cheaper offerings bearing global brands [24]. This shift has enabled firms to address the needs of customers in different markets with common products, services, and marketing approaches. Because consumers are more familiar with the products and services available in other countries, they are likely to be more open to uniform offerings, as opposed to those tailored to the specific needs of a given locale.

Third, a globalization perspective can also foster growth outside of a firm's host country. Given the intense competition in most markets in the developed world, organizations seeking to grow must remain abreast of opportunities that may exist, especially in emerging economies. "Thinking global" enables a firm to seek out and recognize and pursue such opportunities with greater effectiveness [9,20].

Consider the cases of two emerging economies, India and China. India has enjoyed considerable growth in recent years. A number of firms in the United States and Europe have outsourced jobs in technical areas to India where trained workers are available at considerably lower wages. Economic liberalization in the country has invited additional foreign investment as well. India's Tata Motors has helped overcome the country's reputation for poor production quality by exporting an estimated 20,000 CityRovers to the United Kingdom annually since 2004 [15,33,35]. India's development has created an environment conducive to entry by global firms from other parts of Asia and the rest of the world.

India, however, has received only a small fraction of the level of foreign investment made in China, which boasts the world's largest population and has been tabbed as a world economic power within the next few decades. China's entrance into the World Trade Organization, declining import tariffs, and increasing consumer incomes suggest a bright economic future for the nation, and Western companies are expanding into China at an unprecedented rate. Many American franchises can be seen throughout the most developed parts of the nation [29].

At present, China remains a mix of the traditional lifestyle based on tenets of socialism and its own form of a neo-Western economic development. Nowhere is this friction seen best than on the roads of the capital, Beijing, where crowds of bicycles attempt to negotiate traffic with buses and a rapidly increasing number of personal automobiles. Western-style traffic reports have even become pervasive in a country where the world's largest automakers are fighting for a stake in what many experts believe will be a consumer automobile growth phase of mammoth proportions [7,18]. Now more than ever, large Chinese cities are resembling their counterparts in other parts of the world.

Western manufacturers such as Eastman Kodak, Proctor & Gamble, Group Danone of France, and Siemens AG of Germany have already established a strong presence in China. A number of Western restaurants and retailers have also begun to expand aggressively into China, including U.S.-based McDonald's, Popeye's Chicken, and Wal-Mart [6]. It would be an overstatement to suggest that emerging economies offer only advantages for entering firms, especially in the long run. For example, after sales of cars in China skyrocketed in the late 1990s and early 2000s, the automobile industry there began to experience many of the problems common to producers in other parts of the world: excess capacity, intense price competition, and declining profits. Nonetheless, the attractiveness of involvement in such markets remains high, as Daimler-Chrysler and Honda plan to build inexpensive cars in China and export them to the U.S. and other Western countries in the late 2000s [3].

Consider the case of GM. In 2005, the

carmaker produced a record number of vehicles in China—about 665,000—accounting for 25 percent of the firm's global profit. During the same year, however, GM's market share in the United States declined by 10 percent as Asian rivals led by Toyota increased their collective share from 34.5 to 36.5 percent [4]. Hence, the growth prospects available abroad can be critical to a firm struggling to maintain competitiveness in its host country.

For many firms, the most attractive prospects for expansion lie in emerging economies like India, China, Malaysia, Brazil, and Mexico [6,30]. Such markets represent the potential for growth that simply does not always exist is highly competitive domestic markets. In this regard, a global perspective can enable a firm to pursue one of its great mandates.

In sum, the arguments for a *global mindset* are convincing and clear for most firms. How such an orientation should be put into action, however, is subject to debate and is addressed in the following section.

3. ACTING LOCAL

Localization implies that a firm gives its primary attention to issues at the local level. For a domestic firm, this simply means that its managers are concerned only with domestic issues and do not actively entertain activities outside of the host country. Indeed, globalization may not be appropriate for every firm. Demand for the firm's products or services may not be sufficient to justify global expansion. Rivals in other countries may already be serving the relevant markets effectively in those locales. Channel complexities abroad may necessitate packaging, manufacturing, or distribution changes that are too costly for the firm. Even differences in the availability of ingredients or preferences for styles or flavors associated with the firm can create roadblocks [2]. Hence, "acting local" is all that is required for organizations whose strategies suggest that managers "think local." For a firm operating across borders, localization suggests that strategies reflect a strong effort to tailor firm activities to the specific needs of each location.

In contrast, a firm can "act global" by adopting a global perspective on strategy. A number of scholars and practitioners have argued for such an approach. Levitt [19], Ohmae [23], and others have long contended that international firms can only survive if they develop global strategies that reflect the growing similarities across disparate markets. Such firms typically have direct investments and interdependent subdivisions abroad. For example, some of Caterpillar's subsidiaries produce components in different countries, while other subsidiaries assemble these components, and still other units sell the finished products. As a result, Caterpillar has achieved a low-cost position by producing its own heavy components for its large global market. If its various subsidiaries operated independently and produced only for their individual regional markets, Caterpillar would be unable to realize these vast economies of scale and enjoy the benefits of a global strategy.

What does it mean to "act local" within the context of globalization? To address this question, three key arguments for a local perspective are presented. First, strict localization can be all that is necessary for a firm to enjoy the benefits of activity outside of its host country. Moving outside the domestic market, some companies choose to limit their involvement to importing, exporting, licensing, or strategic alliances. International joint ventures—a form of strategic alliance involving cooperative arrangements between businesses across borders—may be desirable even when resources for a direct investment are available. Firms limiting the involvement outside their borders to such activities are localizing their strategic orientation.

International strategic alliances provide a number of advantages to a firm. They can provide entry into a global market, access to the partner's knowledge about the foreign market, and risk sharing with the partner firm. They can work effectively when partners can learn from each other, when neither partner is large enough to function alone, and when both partners share common strategic goals but are not in direct competition. Of course, a number of problems can arise from international joint ventures, including disputes and lack of trust over proprietary knowledge, cultural differences between firms, and disputes over ways to share the costs and revenues associated with the partnership. Nonetheless, international joint ventures enable the firm to localize its activities by leveraging the local experience and capabilities of its partner.

Second, because most business activity by large firms takes place in regional blocks, global markets may not be as homogenized as some might contend [28]. Such regional blocs are found in the European Union, part of Asia, and the Americas. Outside of a few select industries such as consumer electronics, most manufacturing and service industries are not globally integrated. Automobiles are regionalized, for example, with firms producing different vehicles for various regions of the world.

Third, a global strategy can be difficult to implement, especially in some industries. The idea that firms should attempt to implement a consistent strategy across borders assumes that doing so is feasible. Some of the complexities associated with adopting a global perspective are illustrated by Kellogg's production dilemma in Europe. Some countries appreciate the vitamin fortification in Corn Flakes common in Kellogg's host country, the United States. Denmark, however, does not want vitamins added to cereal for fear that some might exceed recommended daily doses. Officials in the Netherlands do not believe Vitamin D or folic acid is beneficial, but the Finns like more Vitamin D to make up for sun deprivation. As a result, Kellogg plants in England and Germany have produced four different varieties of Corn Flakes since 1997 to meet the differences in demand throughout the European Union [32].

In fairness, however, it should be acknowledged that a localization strategy also has its challenges. Tailoring a business strategy to meet the unique demands of a different market requires that top managers understand the similarities and differences between the markets from both industry and cultural perspectives [1,8,20,31]. This can be difficult, as a revisit to China as an example illustrates. When a Western firm seeks to conduct business with one of its Chinese counterparts, managers from both firms must recognize the cultural differences between the two nations. Recently, a number of consulting and management development organizations in both China and the West have been busy training managers to become aware of such differences and take action to minimize misunderstandings that can arise from them. For example, Chinese managers are more likely than Americans to smoke during meetings and less likely to answer e-mail from international partners. In the United States, it is more common to emphasize subordinate contributions to solving problems, whereas Chinese managers are more likely to respect the judgment of their superiors without subordinate involvement [10].

Consider also that French-based Carrefour has been one of the most successful retailers in China with approximately 60 stores there. Product mixes in the Chinese stores tend to be similar to those in the domestic market, but with key adjustments made at individual stores for local preferences. Even within a nation, strategies are often localized to address the diverse needs of various groups, as Proctor & Gamble does in China [11].

In sum, arguments for both global and local strategic approaches have merit. Resolving this conundrum is addressed in the following section.

5. ACHIEVING A SYNTHESIS

Following the "think globally, act locally" logic, a business organization would emphasize the synergy created by serving multiple markets globally, but formulate a distinct competitive strategy for each specific market that is tailored to its unique situation. Indeed, to some extent, actions that reflects both globalization and localization may be prevalent with most multinationals. The core question at the strategy or action level is not one of *either globalization or localization*—or even the ostensible compromise position of regionalization—but one of *how to balance or synthesize the two alleged extremes*.

From a theoretical standpoint, absolute consistency across markets would be most desirable. At a minimum, some practical compromises are often required, however. Danone Yogurt in France goes by the anglicized "Dannon" name in the United States. Because "diet" has feminine connotations in Europe and parts of Asia, "Diet Coke" goes by "Coca-Cola Light" [2]. Beyond these minor culture- and language-based distinctions, one must consider when more substantive differences are appropriate.

A brief consideration of business history is also germane. When most Western companies first left their host countries to explore opportunities abroad last century, their strategies emphasized *differences* among markets. Hence, a firm achieved success by thinking globally, but acting at local levels. Given recent political, economic, and cultural changes, however, it can be argued today that in a global marketplace every aspect of a successful strategy must be global. McDonald's and Coca-Cola, for example, have successfully produced and marketed their products in a *relatively* uniform fashion across borders with some minor accommodations [37]. Carlsberg beer is brewed and marketed uniformly in 31 countries26]. Hollywood movies dominate the entertainment landscape worldwide, yet they are not changed for local audiences, except for language considerations [24].

From an advertising perspective, the debate over whether global advertising efforts should be standardized or localized has gone on for more than four decades [21,25]. Although anecdotal evidence can be assembled to fortify both positions, the empirical evidence required to resolve the debate is insufficient. Some have suggested that the two perspectives are not mutually exclusive, and that advertising campaigns can be both global and local at the same time. A so-called "glocal" approach is characterized by universal appeals and an international backdrop, blended with local relevance[25,34]. This logic can be extended to the entire global-local debate.

What is needed is not a compromise between global and local action perspectives, but an understanding that both must be cherished simultaneously. Such a perspective is not new, however. Indeed, at a lower level of abstraction, firms have synthesized different levels of geographical variance for years. In the United States, most firms in the twentieth century balanced the need for common branding with that of local preferences. Soft drink manufacturers, for example, market and distribute beverages based on local tastes, with Mountain Dew heavily promoted in southern states and Dr. Pepper a favorite in parts of the Southwest. The movement to standardize and create family brands has occurred, but not all firms have seen the need for uniformity in all respects. Even today, Hellman's mayonnaise is still known as Best Foods west of the Rocky Mountains.

Putting such a synthesis into action is the difficult part of the equation. How a manager integrates the two perspectives ultimately depends on the unique characteristics of the firm and industry. Creating a successful vehicle depends heavily on local factors, such as style preferences, width of roads, level of disposable income, price of fuel, and the like. Creating a successful ballpoint pen is less dependent on regional differences, and a one-size-fits-all approach that maximizes standardization and economies of scale is more appropriate.

Perhaps the main problem is that most firms do not produce ballpoint pens. Rather, their arrays of products and services are not conducive to a simple approach for synthesizing the perspectives. Consider that two firms in the same industry may craft different perspectives on the global-local action synthesis, yet both perform well. American icon McDonald's has generated global success by emphasizing a relatively strong degree of uniformity across borders. Aside from some minor differences in product lines, the restaurants look and feel the same from one location to another.

KFC, on the other hand, has also enjoyed success, but through greater localization, modifying its recipe for chicken and even selling fish sandwiches in China, Malaysia, and other locales. As KFC Holdings (Malaysia) chief operating officer Toh Chun Wah put it, "As much as our customers love our chicken products, they also want a greater variety of meat products at KFC. Our market surveys show that our customers want more than just tasty, high quality and affordable chicken but are also constantly on the lookout for new and interesting things to eat" [22]. Hence, the process for synthesizing the realities of globalization and localization into a successful strategy can differ, even for similar organizations.

In conclusion, perhaps scholars should reconsider the questions they are asking when assessing the "think global, act local" phenomenon. Instead of attempting to determine whether global, regional, or local action is appropriate, greater emphasis could be placed on identifying which and how organizational, industrial, and environmental factors should be evaluated when seeking to balance the global-local perspectives at the firm level. Such efforts can assist organizations in developing their own perspectives on a challenge central to their strategic success.

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