INTRODUCTION

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By virtually every measure—growth in international trade, foreign direct investment, and cross-border flows of technology—globalization is becoming increasingly pervasive. Many of the barriers that kept the industries and economies of different countries relatively isolated from one another are either declining or vanishing. Witness, for example:

- The worldwide ideological shift from the state to the market (for example, Russia, China, and India)
- The emergence of regional free-trade zones (such as the European Union, the North American Free Trade Association [NAFTA], the Latin American Southern Common Market [MERCOSUR], and the Association of South East Asian Nations [ASEAN])
- The creation of the World Trade Organization and its acceptance by virtually every major country
- The globalization of currencies (for example, the emergence of the euro and the nascent dollarization movement in South America)

- The globalization of media (such as CNN, BBC, Sky, Yahoo, *Time, Newsweek,* the *Wall Street Journal,* and the *Financial Times*)
- The revolutionary changes in the cost and effectiveness of international communications and transportation technologies

Given these trends, it is not surprising that globalization is no longer confined to enterprises in a few industries such as electronics, pharmaceuticals, automobiles, or branded consumer goods. In the last decade a global footprint has become a reality even for companies that own and manage, for example, local supermarkets (as in the case of Royal Ahold which owns Stop & Shop, Giant Food, and other food retailers), the neighborhood café (Starbucks), or the corner photocopy shop (Kinko's). For most midsize to large companies in almost any industry, globalization is no longer a discretionary option but a strategic imperative.

Nevertheless, it can be perilous for managers to overlook the fact that globalization is a double-edged sword. Although a global or globalizing enterprise can reap many benefits from the vast potential of a larger market arena, scale- and location-based cost efficiencies, and exposure to new product and process ideas, globalization also exposes the firm to numerous strategic and organizational challenges emanating from a dramatic increase in diversity, complexity, and uncertainty. How managers address these challenges determines whether globalization yields competitive advantage or disadvantage. Smart globalization is the ability to capture the benefits and minimize the costs and risks.

Consider diversity. Diversity along multiple dimensions (including consumer behavior and buying power, distribution systems, national cultures, language, regulatory regimes, cost structures, and resource availability) remains a salient feature of the worldwide economic, social, and political environment. Ignoring it or assuming that it does not matter can be hazardous to corporate health and managers' careers. Nor does the answer lie in becoming a prisoner of diversity. Instead, smart globalization requires that managers undertake a fine-grained analysis of diversity in order to make smarter decisions. Which elements of diversity are market or operational imperatives and thus necessitate adapting what the company sells and how it operates in a country? Which elements of diversity can be leveraged globally? Which must be treated as fundamental barriers to conducting business within the particular country? And which are unimportant or likely to be short-lived?

This book is a selected anthology of leading-edge essays originally published in *MIT Sloan Management Review* and written by some of today's foremost thinkers in global strategy and management. Rooted in the premise that smart globalization is fundamentally different from merely replicating domestic strategy and organization on the global landscape, the chapters explore the strategic analyses, organizational arrangements, and management-development approaches that are required to win the battles for global leadership and create shareholder value.

Part One focuses on the design of global strategies: how to integrate company-specific competitive advantages with location-specific comparative advantages (Chapter One: Bruce Kogut, "Designing Global Strategies: Comparative and Competitive Value-Added Chains"), how to tailor the design of global strategies to the underlying dynamics of the industry (Chapter Two: George Yip, "Global Strategy . . . in a World of Nations?"), how to overcome the challenges associated with combining global sourcing and a lean production strategy (Chapter Three: David Levy, "Lean Production in an International Supply Chain"), how to respond to customers' demands for global-pricing contracts (Chapter Four: Das Narayandas, John Quelch, and Gordon Swarz, "Prepare Your Company for Global Pricing"), how to analyze and develop strategies for emerging markets (Chapter Five: David Arnold and John Quelch, "New Strategies in Emerging Markets"), and how to ensure that global strategies will mesh with and leverage the growing imperative of sustainable development (Chapter Six: Stuart Hart and Mark Milstein, "Global Sustainability and the Creative Destruction of Industries").

Part Two focuses on the organizational and managerial challenges associated with building and managing the enterprise's global but differentiated network of subsidiaries: how to think systematically about the organizational implications of effective global strategies (Chapter Seven: Christopher Bartlett and Sumantra Ghoshal, "Managing Across Borders: New Organizational Responses"), how to elicit cooperation from and coordination across subsidiary managers (Chapter Eight: Chan Kim and Renée Mauborgne, "Making Global Strategies Work"), how to realize the innovation potential of subsidiaries that are diverse, dispersed, and at least partially autonomous (Chapter Nine: Julian Birkinshaw and Joseph Fry, "Subsidiary Initiatives to Develop New Markets"), how to effectively build and manage global business teams composed largely of peers from different subsidiaries (Chapter Ten: Vijay Govindarajan and Anil Gupta, "Building an Effective Global Business Team"), how to choose and implement effective strategies for cross-cultural negotiations (Chapter Eleven: Stephen Weiss, "Negotiating with 'Romans'"), and how to develop effective leaders for cross-border networks (Chapter Twelve: Hal Gregersen, Allen Morrison, and Stewart Black, "Developing Leaders for the Global Frontier").

PART ONE: DESIGNING GLOBAL STRATEGIES

Bruce Kogut and George Yip provide insights into the choices facing companies constructing global strategies. Both emphasize not only the importance of a company's established competitive advantages in building an effective global strategy but also the role that global strategies play in enhancing competitive advantage. They put equal emphasis on the organization's internal competitive advantage and the external opportunities and constraints. For Kogut, the key aspect of the external environment is the difference in a company's comparative advantages across locations; for Yip, it is industry dynamics. Both authors insist that although country or industry factors can constrain choices, an effective global strategy involves more than analyzing the external environment. A deep understanding of the organization's own current and potential competitive advantage must come first.

In Kogut's much-cited classic, the key to developing a global strategy is identifying the activities of the value chain that give the company its distinctive competitive advantage and then using the differences in comparative advantage across locations to enhance that advantage. Companies can enhance existing advantages and fix parts of the value chain where they are falling behind competitors. Kogut reminds us that location advantages change over time as countries expand economically and their cost structures change. By understanding and anticipating the dynamics of comparative advantage both in their industry and in the specific activities of the value chain, companies can begin to build effective global strategies.

George Yip provides further insights with his analysis of industry-level factors that drive globalization. He emphasizes that competitive advantage comes not just from expanding into many locations but also from integrating across locations. However, the payoff from cross-border integration can vary across industries, depending on the strength of four drivers of globalization: market drivers, cost drivers, government drivers, and competitive drivers. To Kogut's critical element, the location of value-added activities, Yip adds four more factors: the selection of markets, product offerings, marketing approach, and strategic positioning against key competitors. Yip's detailed map of the elements of a global strategy, its potential benefits, and the drivers of industry globalization can help companies build global strategies that fit their own competitive advantages.

For both Kogut and Yip, disaggregating the value chain internationally to take advantage of costs of different factors is an important element of global strategy. David Levy's research on international supply chains in the personal computer industry demonstrates that many companies fail to capture the potential value of a global sourcing strategy because it conflicts with other elements of their manufacturing strategy, especially the adoption of a lean production system. In a just-in-time, zero-inventory system, the inevitable logistical problems in a value chain that stretches across regions can play havoc with costs and production schedules. But Levy shows that enterprises can combine global sourcing with a lean production strategy. To do so, they must focus attention on certain elements of lean production (such as design for manufacture and strong quality efforts) while relaxing other practices (such as zero inventory). Levy's research shows that global strategy in one part of the value chain cannot be tacked on to an established functional strategy; instead, it requires reframing the functional strategy in an integrated way.

Global sourcing is also the theme of Das Narayandas, John Quelch, and Gordon Swartz, but their focus is on the supplier in the international supply chain. Increasingly, suppliers face demands from customers for a global-pricing contract that sets one price for a component or service supplied worldwide. The authors describe the potential benefits and risks, which they insist that suppliers need to understand for their customers as well as themselves in order to develop a proactive strategy. They map the key success factors for suppliers in global-pricing contracts and emphasize the importance of understanding both local and global dynamics for both their own markets and their customers' markets.

David Arnold and John Quelch, in their discussion of strategies for entering emerging markets, underscore the importance of local knowledge. They provide a framework for developing effective strategies to expand sales in emerging markets while capitalizing on opportunities for learning and innovation. Several of their examples of reverse learning (the flow of ideas from the emerging to the established markets) are counterintuitive and insightful.

Also emphasizing the potential for innovation through effective global strategies are Stuart Hart and Mark Milstein. They focus on sustainable development, which requires different strategies in different contexts. In the developed countries, which the authors call "consumer markets," the major challenge is reducing the corporate footprint by cutting resource consumption and waste. In the emerging market economies, it is avoiding a collision between rapidly growing demand and a stable or diminishing stock of material supply. But in countries they call "survival economies," the primary challenge is meeting basic human needs. Too often ignored by corporations, survival economies can provide opportunities for developing new business models that simultaneously generate profits and provide a sound basis for economic growth. Adopting the appropriate innovation strategies for those three types of markets can enable a corporation to build an advantage while contributing to sustainable development.

PART TWO: BUILDING AND MANAGING THE GLOBAL NETWORK

Global strategies increasingly require cross-border networks that are denser, more widely dispersed, more complex, and more differentiated than those that were adequate in an earlier era. Building such networks poses major challenges for multinational companies.

Christopher Bartlett and Sumantra Ghoshal explain why new capabilities are needed for the key processes of differentiation, interdependence, and coordination. Disaggregating value chains to concentrate certain activities in advantaged locations—one of the pillars of global strategy, as Kogut's chapter points out—means that subsidiaries in different locations have different roles in production, innovation, and marketing networks. And as Yip explains in Chapter Two, different businesses in multibusiness companies face different globalization pressures. Bartlett and Ghoshal spell out the organizational implications of those fundamentals. Companies must differentiate their organizations and management systems across subsidiaries, businesses, and geographies; they must recognize the growing interdependence of subsidiaries and the increasing complexity of cross-unit networks; and they must realize that corporate headquarters can no longer control all interactions in a hub-and-spoke mode but must move toward systems that coordinate cross-unit networks and that elicit the cooperation of subsidiary managers rather than ordering it.

Chan Kim and Renée Mauborgne address how to get that cooperation through what they call "due process" in global strategic decision making. In this context due process has four elements: head office familiarity with local conditions, two-way communication between the head office and subsidiaries, consistent decision-making practices, and explanations for final decisions. If due process in decision making is followed, subsidiary managers are more likely not only to comply but to follow through on both the spirit and the letter of decisions. In their study of nineteen multinational companies, Kim and Mauborgne found that due process was particularly important for decisions that had negative effects on a subsidiary's interests, as many decisions in global strategy implementation inevitably have.

Julian Birkinshaw and Joseph Fry provide a further context for due process in discussing how a multinational company can realize the potential for innovation embedded in its internal dispersion and diversity. They agree with Bartlett and Ghoshal on the importance of differentiated roles of subsidiaries, but they point out that those roles evolve over time and that the direction and pace of evolution need not and should not be directed solely from headquarters. They consider how companies can encourage subsidiary managers to be entrepreneurial—to undertake initiatives that increase the corporation's competitive advantage and contribute to its global strategies. They identify two types of subsidiary initiatives: those that are externally focused (arising out of local conditions and customer needs) and those that are internally focused (a subsidiary leverages its location advantages and capabilities to win an internal mandate for activities it can carry out better than other units). In terms that evoke Kim and Mauborgne's model of due process, Birkinshaw and Fry emphasize the importance of developing adequate systems for evaluating such initiatives.

Vijay Govindarajan and Anil Gupta build further on the theme that, within multinational corporations, top-down hierarchical governance is increasingly being supplanted by lateral coordination and bottom-up co-option. They contend that networks across subsidiaries are often built and managed through global business teams. Govindarajan and Gupta's study of global business teams in Fortune 500 companies found that, despite the growing use of cross-border teams to coordinate various aspects of business globally, 82 percent of teams fell short of their intended goals. Building and managing more effective teams, they say, involves three key challenges: defining the team charter, choosing team members, and managing the team process. Of particular interest, Govindarajan and Gupta note that diversity within global business teams is simultaneously a source of strength and a source of tension and conflict, and they highlight various aspects of managing team processes that can leverage diversity effectively.

Pursuing the theme of how to be effective in lateral coordination, Stephen Weiss examines the challenge of cross-cultural negotiations, both within and across the boundaries of the multinational company. Weiss recommends that the choice of a negotiation strategy should depend not just on the identity of the negotiator and the counterparts from the other culture but also on each party's familiarity with the other's culture. Importantly, Weiss cautions that, although it is crucial for the cross-cultural negotiator to consider a counterpart's background, "every negotiation involves developing a relationship with a particular individual or team." Cultures do differ at the national level, but any national culture may contain significant variance in values and behavior across individuals and across subcultures. Central to his recommendations for cultivating cross-cultural negotiating expertise is the spirit of continuous learning—about oneself and others.

Bartlett and Ghoshal, Kim and Mauborgne, Birkinshaw and Fry, Govindarajan and Gupta, and Weiss all emphasize the importance of developing managers who can provide effective leadership in cross-border networks. Hal Gregersen, Allen Morrison, and Stewart Black address the challenge of developing such leaders. Analyzing extensive research on executive development in multinational companies, they note that global leaders are both born and made. They identify the four personal characteristics of effective global leaders: unbridled inquisitiveness, personal character (uncompromising integrity and the ability to connect emotionally with other people), duality (the capacity to manage uncertainty and to balance tensions), and business and organizational savvy. They also suggest strategies for building on individual-level aptitude through organizational systems that support global leadership development. In the end, smart globalization depends on leaders with the skills to turn research and ideas into action.