

HOW WE COMPETE

What Companies Around the World Are Doing to Make It in Today's Global Economy

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MAIN IDEA

To separate fact from fiction when it comes to the impact of globalization on businesses, the MIT Industrial Performance Center analyzed the real-world experiences of more than 500 international companies over a five-year period. They found the overall impact of globalization is not quite as one-dimensional as generally accepted thinking suggests. Instead of simply sending all jobs to low-wage countries, globalization is also generating a world of opportunities at the same time as it also generates significant dangers for established corporations. More and more, it is becoming apparent it is the strategy which an organization employs which means the difference between success and failure, not the external forces of globalization themselves.

This study also concluded that contrary to what the press usually portrays, cheap labor is not the answer to every business challenge. There are many different ways to succeed in the global economy. The avenues which are open to established companies to excel are actually far more numerous and richer than is generally thought. The process of globalization produces a large number of different potential routes to success, not just the one which has gained the most publicity thus far.

All in all, when it comes to globalization, there is no single correct answer. Everyone has to figure out their own best way forward from the universe of choices which are available.

“Globalization is not something that just ‘happened’ but the product of millions of choices: choices made by corporations about what to do within the four walls of a company, choices about what to buy from others, and choices about where to locate all these activities. Globalization means a world of opportunity and a world of danger. Surveys in the United States and Europe find very mixed opinions about globalization, often reflecting those conflicting opinions within individuals themselves, rather than simply the rifts between supporters and opponents of globalization. A majority of Americans and Europeans think globalization raises their standard of living: a majority also believe that it is bad for employment and job security. For the question about who wins and who loses in the new global economy and the uncertainties about whether the opportunities are worth the risks, there is no one right answer. The pressures of globalization force virtually all economic actors to transform their activities – but they do not dictate a single best way to do it. Even in electronics, with its great advances in codification and modularity, we found a real diversity of successful approaches to decisions about outsourcing and peeling off manufacturing, showing that alternative approaches to globalization are possible. We question whether globalization inevitably condemns any particular commercial activity at all.”

– Suzanne Berger

1. Defining the term “globalization” Page 2

Although almost everyone is thinking about and talking about “globalization”, the term itself does not have an exact or formal definition. Globalization has been used since the 1990s to describe the combined effect of deregulation and the lowering of trade restrictions. Perhaps the first step in reconciling all the contradictory claims about globalization would be to come up with a standard definition everyone can agree upon rather than using globalization as generic term to describe any major change in society.

2. The enablers and drivers of globalization Page 3

While the economists may disagree about how to precisely define globalization, everyone agrees there are three big forces which are driving it forward all the time with increasing momentum:

1. Deregulation – the unrestricted and unregulated flow of trade and capital.
2. The constantly shrinking cost of communication and transportation.
3. Information technology which makes it possible for firms to break their supply chains up into small pieces and then to locate these functions wherever the greatest efficiencies can be found.

The debate about the pros and cons of globalization focuses on whether these three enablers and drivers force every firm onto the same track to survive, or whether there will be a natural diversity in the paths firms can choose to take to prosper under the pressure of globalization.

3. Four general conclusions about globalization Pages 4 - 8

There are four general conclusions which are apparent from the stories of hundreds of firms which have adapted successfully to the demands of globalization:

How to benefit from globalization

- ▶ 1 Be the best yourself or be prepared to outsource to the best.
- ▶ 2 Grow and build on your own firm’s legacy.
- ▶ 3 Don’t be obsessed about seeking low-wage strategies.
- ▶ 4 To win, make a definitive choice. Don’t just drift.

Overall, there is no single business model which guarantees success in the era of globalization. Instead, there are a variety of successful models which generally build on the resources which were already part of the firm’s repertoire or those which were acquired from suppliers or partners. When it comes to globalization, there is no one-size-fits-all solution. It’s the firm’s own capabilities and how they are applied that count moving forward.

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