

INTEGRATED MANAGEMENT

Is globalisation truly leading to a convergence in consumer tastes around the world? **Alan Marsden** investigates the strategy of “glocalisation”.

One of the learning outcomes of the Integrated Management syllabus is to be able to “explain the process of strategy formulation”. There are numerous approaches to strategy formulation, but all of them to varying degrees require you to pay attention to the changing commercial environment.

This has altered in unprecedented ways over the past few decades, creating new challenges for businesses. One of the most significant of these has come to be known by the term “globalisation”. This is defined in many ways, but the one in the *Integrated Management CIMA Learning System* will serve our purposes well. It states that the process of globalisation involves “a move away from national economic systems towards a system where national markets are merging into one huge global marketplace, with the tastes and preferences of consumers from around the world beginning to converge”.

Globalisation has also meant that national economies have become increasingly interdependent, so a change in the economy of one country can quickly affect those of others. A dramatic example has been the way in which problems in the US sub-prime mortgage market

in late 2007 have had a damaging global impact. Whether a company is trying to anticipate changes in the market for its products or the threat of competition, it must increasingly consider not only the national situation but also the global one.

But the claim that firms must operate in a global marketplace where the preferences of consumers around the world are becoming similar has become so familiar that there’s a danger it will be taken for granted. The idea of convergence is something that we become aware of whenever we go on holiday abroad. One of the reasons that we travel is to experience the social, cultural, climatic, scenic, architectural and other differences that various countries offer. Globalisation has meant that this experience is becoming harder to find. With the exception of the climate and the scenery, other things are becoming much the same as back home. More and more, the traveller searching for the “foreign” experience is forced to travel further into the hinterland as modernity reaches even the most rural of locations.

Multinational companies have played a significant role in the convergence process. Exploiting advances in communications and the removal of trade barriers, they have been able to access new markets

and cheaper capital, materials and labour. They are increasingly locating their production and service centres where labour is cheapest, while satellite TV and the internet have made global marketing a reality for them.

The evidence for convergence has led some companies to adopt a global strategy. Such an approach entails treating the whole world as a single market and offering a standard product or service to all consumers irrespective of their location. CIMA students do not need to look far for an example. In the March issue of *FM*, the institute’s president, Gordon Grant, argued that the growth of multinational financial service centres arising from globalisation and the transformation of the finance function was driving the need for consistency of skill and application across the world. He noted that CIMA credentials as a truly global qualification stemmed from the fact that all students, whatever country they were in, were studying the same syllabus and taking the same exams. Doubtless, this global strategy has been made more feasible by the adoption in many countries of international accounting standards in 2007. Well-known firms that use what purports to be a global strategy include Ikea and McDonald’s. These companies offer standardised products around the world, making minimal modifications to meet the demands of local markets.

A global strategy is attractive, because offering a standardised product means that greater economies of scale are possible. The costs of production and marketing can be minimised because there is no need for big adjustments to suit various different markets. The chance to sell large volumes allows unit costs to be reduced and competitive prices to be offered to attract the maximum number of customers. In Michael Porter’s terms, this creates the opportunity to pursue the classic strategy of cost leadership. Where cultural differences persist, a multi-domestic strategy is necessary and costs will inevitably increase as the company is obliged to customise its products for different markets.



“Evidence for truly global organisations based on the convergence of preferences is hard to find”

Porter's concept of the value chain is also useful in explaining the advantages of a global strategy. Each value-creating activity in the chain can be located in the part of the world of greatest advantage to the company. For example, in the automobile industry, car production facilities may be located in low-wage economies, while the R&D, planning and control functions remain closer to home.

But all this assumes that convergence is taking place and that the distinctive cultures of different countries are being swept away. Differences in tastes and preferences will count for nothing, according to this argument, as consumers everywhere will want the same things. Not everyone accepts this view of globalisation and its effects. Some writers argue that it is at best oversimplified and at worst plain wrong. They point out that there is little evidence that national identities are disappearing. On the contrary, there is evidence that people with particular historical and cultural backgrounds will fight hard to maintain their identity. Examples include those who desire a Palestinian state and all the eastern European countries that were until recently part of the Soviet Union. Even in the so-called United Kingdom, calls for devolution have resulted in a Scottish Parliament and a Welsh Assembly – all roads in Wales now have Welsh names as well as English ones.

Some diversity theorists regard the idea of converging tastes as a myth, pointing out that people throughout the world have much

the same basic physical and psychological needs. Globalisation, they argue, has simply allowed those needs to be expressed. Others point out that evidence for the existence of truly global organisations based on the convergence of preferences is hard to find.

Perhaps the most studied global organisation is McDonald's, which has over 25,000 outlets in more than 100 countries. As Claudio Vignali ("McDonald's: 'think global, act local' – the marketing mix", *British Food Journal*, Vol 103, No 2, 2001) has shown, it is global in many respects. The procedure for preparing food is identical everywhere. The company sets standards for suppliers that are the same around the world. Each restaurant has the same kitchen layout. The point of purchase is standardised, too, with McDonald's using pictographs to overcome local language barriers. The traditional US tradition of "service with a smile" also applies to all staff worldwide. But in many other respects McDonald's finds it necessary to adapt to the local culture and conditions in terms of menus, product promotion, pricing and public relations. This mix of global and local strategies has been referred to as "glocalisation" and seems to be a strategy that so-called global organisations are adopting generally. The transnational form of organisation described by Chris Bartlett and Sumantra Ghoshal (*Transnational Management*, Irwin Professional, 1995) in which the organisation acts globally wherever

possible but adapts where necessary seems a more accurate description than the terms "global company" and "global strategy".

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EXAM PRACTICE

Try the following questions to test your understanding. The answers are in the next issue of CIMA's student e-magazine, *Velocity* (www.cimaglobal.com/velocity).

The W company has been producing speciality sausages in its home country for generations and has been successful in other European markets, too. Recently it has received orders from further afield, including the Far East. This has led the production director to suggest that W locate some of its production capacity in a low-cost country in South-East Asia and adopt a global strategy. His case rests on the belief that globalisation is producing a convergence of preferences across the world, presenting W with a great opportunity for growth.

But the marketing director has urged the board to be cautious about adopting such a strategy, on the grounds that cultural differences among countries will persist. She argues that a multi-domestic strategy is better, because religious and other cultural norms in the region concerned preclude the consumption of certain meats and/or require them to be prepared according to certain rules.

- A** Taking the role of the production director, prepare a paper for the board setting out more fully the advantages of adopting the strategy he has outlined in the scenario (15 marks).
- B** Explain why the multi-domestic strategy preferred by the marketing director might be a safer way for W to expand around the world (ten marks).

P5 further reading

S Douglas and Y Wind, "The myth of globalization", *Columbia Journal of World Business*, Winter, 1987.

M Porter, *Competitive Strategy*, Free Press, 1980.

A Norton, *Integrated Management CIMA Learning System* (2008 edition), CIMA Publishing, 2007.