

The world economy is not truly integrated and is unlikely to be so for decades, if ever. Pankaj Ghemawat, arch-proponent of 'semiglobalisation' as the real challenge for international corporate strategy, talks to **George Bickerstaffe**

# Because the world is round it turns on strategy\*

\*Apologies to Lennon/McCartney

**T**hough he says the ideas in it were 20 years in gestation, it is likely most people read Pankaj Ghemawat's latest (2007) book, 'Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter', as a more-or-less deliberate and conscious rebuttal of the best-selling 'The World Is Flat: A Brief History of the Twenty-First Century' by New York Times columnist Thomas Friedman.

Professor Ghemawat, a professor of global strategy at IESE business school in Spain, in fact does not mention *The World Is Flat* and Mr Friedman receives only two passing references in his book. But certainly, the two approach the issue of "globalisation" from opposing perspectives.

Mr Friedman argues that since around 2000 a series of technological and social changes have levelled competitive differences between developed and emerging economies, negating the effects of national boundaries and making the world effectively a huge single market.

Globalisation of the world economy is the ineluctable future and companies will be operating effectively in a "single-country market" with no need for diversified strategies. Globalisation does indeed win but the need to be global disappears.

Professor Ghemawat argues that this analysis is simplistic, lacking in empirical data to support it (and as an economist he puts a lot of emphasis on data and has convincing and copious amounts of it to back up his case) and even potentially dangerous, feeding resistance to globalisation and fuelling protectionist tendencies.

Brought up in both India and America, he has a PhD in Business Economics from Harvard University and in 1991 was appointed the youngest-ever full professor at Harvard Business School and has been on the IESE faculty since 2006. Perhaps as a result of this cosmopolitan life, his world view is more nuanced and alert to culture and context than what is sometimes called "globalony".

Rather than a flat world inviting a "one size fits all" approach, he argues that what we have today is "semiglobalisation", large and distinctive differences across national and regional borders that corporate strategy has to accept and adjust to.

Semiglobalisation and its implications for business is Professor Ghemawat's big message. In the opening chapter of his book he writes:

"...the intermediate levels of cross-border integration inherent in semiglobalization are what open up, over a very broad domain, the possibility of global strategy having





**Professor Pankaj Ghemawat:**  
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content distinct from single-country strategy... Semiglobalization is what enables the development of a distinctively global approach to strategy.”

Professor Ghemawat is also heavily engaged in issues concerning the globalisation of business education, including a casebook on global strategy with Jordan Siegel (to be published in 2009 by Harvard Business School Press) and broader efforts at curricular analysis and development that are summarised in his 2008 article in the *Journal of Management Development*, “The Globalization of Business Education”. He is also a member of an AACSB taskforce focused on this topic that will report in spring 2009. He will be speaking at the joint AACSB/EFMD conference in Barcelona in November on this issue.



### Why isn't the world flat?

To an academic the remarkable thing is that there is a huge consensus among international economists that the whole proposition that borders don't matter is ludicrous. The problem with a Friedman-like view of the world is that an 80%-90% level of internationalisation, which is what it implies, grossly overstates actual levels of internationalisation along a broad range of measures, which cluster much closer to 10%.

For example, if you ask people to estimate what percentage of all the investment that happens in the world is accounted for by foreign direct investment then the answer is usually of the order of 20% to 40%. In fact the answer is about 10%. And it's relatively hard to reconcile that figure with a conception of a world in which the sources of capital don't matter for where it is deployed – one would expect a much higher figure.

There are other things you can look at like people flows; first-generation immigrants are still just 3% of the world's population, lower than they were in 1910. Or information flows; my best estimate is that less than 20% of the bytes that get transmitted over the Internet actually cross national borders.

So borders matter. But simply saying that things happen at borders doesn't tell you why they happen or what to do.

I've gone through the hundreds of studies on the factors that tend to choke off cross-border activity relative to domestic activity and tried to pull them together into a framework. What I'm saying is that one really has to think about multiple kinds of "distances" that companies have to acknowledge and react to in developing their international strategies.

### Could you describe that?

I've called the framework CAGE. Distances in this sense relate to four main areas: Cultural, which includes language, customs, religion; Administrative – laws, trading blocs, currency; Geographic, which includes physical distance, time zones and things like that; and Economic, which is income levels, natural resources, financial resources, human resources, infrastructure and so on.

You have to take a broad view of these distances, work out which most affect your industry or company but also see them not just as obstacles but also as potential sources of value creation.

# 10%

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This is important from a business perspective because one sees so many examples of companies that get seduced by one kind of "distance" and forget completely about the others.

A good example is Star TV, a satellite television broadcaster bought by Rupert Murdoch's News Corporation in the 1990s that was planning to broadcast English-language programming to most of Asia.

It was launched on the premise that satellite television was going to obliterate geographic distance, which is true. But it got into massive problems because it forgot about the other distances.

It forgot about cultural distance – the fact that people prefer broadcasting in local languages; it forgot about administrative distance, ignoring that the Chinese government might be sensitive to a speech by Mr Murdoch declaring satellite television a threat to totalitarian regimes everywhere; and it forgot about economic distance – many of the countries targeted had no infrastructure to measure how many people were watching a TV show, which made it very hard to sell advertising.

Another example is Cemex, a Mexican cement company. Obviously languages don't matter so much in the cement business as they do in satellite television. The big difference is that geographic distances *do* matter. What is interesting is that Cemex, the most successful "global" competitor – the most Professoritable, anyway – has effectively retrenched to trying to build up a geographic fortress in Central America and North America because it recognises that in its business geography is really what matters.

**Is this just a snapshot of where we are now: the world isn't flat at the moment but it may become flat?**

I can't see the world becoming flat, at least in my lifetime.

There are a couple of ways at looking at that. One is to point out that not all the trends are positive. If you look at overall estimates of capital mobility they are actually lower now than they were back

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at the end of the 19th century when the world was on the gold standard and empires helped to promote trade and investment.

Second, of the things that are trending upwards, like trade for example, it's going to be a long time given that the world's exports-to-GDP ratio is about 27% now and was about 20% 20 years ago. Extrapolate that, which is probably an aggressive assumption, and what do you get? You get something that is higher than it is today but far short of perfect integration.

Even in the European Union you find that countries trade within their own boundaries between three and ten times more than they do with their EU partners – and that's after 50 years of attempted integration.

So those data points all raise questions. If you believe that culture is going to continue to matter, if you believe that politics are going to continue to matter then it's a little bit hard to imagine flatness in our time.

### **Given your analysis, what should a company that is considering entering an overseas market be thinking about?**

Well the first thing that any company considering going overseas should ask itself is – why? The usual answer is we're going overseas because there are lots of people overseas or there is a lot of demand overseas.

You see this very frequently right now with many companies' Indian or Chinese strategies. If your strategy for India or China is based on the notion that there are lots of Indians or Chinese then that's not exactly a proprietary insight.

I think there's a tremendous amount of growth mania still in international strategy and one of the things I stress to companies is, OK, if you

can't articulate any reason as to why you're going overseas beyond there's lots of demand out there then that's unlikely to work out well. So that would be point number one – be clear about why you're going overseas.

Point number two is to think hard about what kind of distances matter in your business. For Star TV it was a range of things; for Cemex it was just one thing. But unless you give these distances their due you are going to be biased towards a model that looks very much like the model at home because it works at home – and what could be simpler than just transplanting it?

And third, recognising that there is a range of ways of dealing with differences is critical. Even when companies recognise differences, quite often they fall back on having just one tool in their toolkit for dealing with it, just saying “OK, we'll decentralise these decisions to the country manager”.

That's just one example of an adaptation strategy; there are many more levers for adaptation, in addition to which adaptation is far from the only strategy for dealing with differences.

So in my book I talk about two other broad classes of strategies for dealing with differences: aggregation and arbitrage. Together with adaptation they make up what I call an AAA strategy.

Aggregation is the notion that while things are different they are not equally different and there may be ways of grouping things so that within these groups you get homogeneity. Maybe you can group countries in different parts of the world differently. If countries within a region are relatively similar then maybe by setting up a regional headquarters you may be able to tap some cross-border economies.

And the third strategy is arbitrage, the notion that differences are not just a constraint to be adjusted to or overcome but can sometimes be enormous sources of value and creation in their own right.

And so part of what I'm trying to do is to get companies beyond the simple “scale-up” conception of what going global means – just doing more of the same stuff overseas that you do at home – and thinking harder about more diverse ways of creating value by crossing borders.

### **What is the best example of a company that has gone international successfully?**

There are a handful of companies that I think are exemplars in this regard. Just to talk about very large companies I think Proctor & Gamble is a very interesting example. It doesn't use the AAA model I was just talking about but the way they explained it to me their organisational structure is set up around three kinds of entities that basically do that. IBM and GE are also good examples; so is Toyota.

There are a few companies that seem to be doing things right.

But for the vast majority of companies, what's surprising to me is just how much room there still is in terms of doing things better.

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#### **FURTHER INFORMATION**

For more information about Pankaj Ghemawat's thinking see [www.ghemawat.org](http://www.ghemawat.org)

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