Even as companies are being told that the future lies in globalization, some are severely punished for their international moves. A simple test can help you decide what makes strategic sense for your organization.

When You Shouldn’t Go Global

by Marcus Alexander and Harry Korine
When You Shouldn’t Go Global

The Idea in Brief

Globalization promises substantial advantages like new growth and scale. For some companies, it’s paid off handsomely. But global mania has also blinded many firms to a hard truth: global strategies are devilishly tough to execute.

The landscape has become littered with some of these unfortunates’ remains. DaimlerChrysler and ABN Amro—dismembered and bought up by activist shareowners—are particularly painful examples.

To escape this fate, don’t assume you should go global, say Alexander and Korine. Instead, determine whether a global move makes sense for your firm. Ask:

1. Could the move generate substantial benefits?
2. Do we have the capabilities (for example, experience in postmerger integration) required to realize those benefits?
3. Will the benefits outweigh the costs (such as the complexity that comes with coordinating far-flung international operations)?

A yes to these questions suggests globalization may be right for you.

The Idea in Practice

THREE QUESTIONS TO ASK BEFORE GOING GLOBAL

Could the strategy generate substantial benefits for our firm? The global race can lead you to overestimate the size of the prize.

- Example:
  Redland, a UK manufacturer of concrete roof tiles, expanded around the world to leverage its technical know-how beyond its home market. But it often sought opportunities in countries (such as Japan) where local building practices provided little demand for concrete roof tiles. Thus, there was no value in transferring its technology to such markets.

Do we have the capabilities needed to achieve those benefits? Companies often lack the skills needed to unlock the coffer holding the prize.

- Example:
  Taiwanese consumer electronics company BenQ’s acquisition of Siemens’s mobile-devices business failed because BenQ lacked integration skills. It couldn’t reconcile the two companies’ incompatible cultures or integrate R&D activities across the two entities. BenQ’s German unit filed for bankruptcy in 2006.

Will the benefits outweigh the costs? The full costs of going global can dwarf even a sizable prize.

- Example:
  TCL, a Chinese maker of TVs and mobile phones, has expanded rapidly into the United States and Europe through acquisitions and joint ventures. It now has numerous R&D headquarters, R&D centers, manufacturing bases, and sales organizations. The cost of managing this complex infrastructure has outweighed the benefits of increased scale—creating large losses for TCL and several of its joint-venture partners.

THREE INDUSTRIES WITH PARTICULAR GLOBALIZATION CHALLENGES

- Deregulated industries. Formerly state-owned industries (telecommunications, utilities) have globalized after deregulation to spur growth and escape stiffened competition at home. They assume they can use their existing competencies in new markets to achieve cross-border economies. But it’s been difficult, for example, for utilities to optimize electricity flows over uncoordinated grids.

- Service industries. Many service businesses (retailing, insurance) go global to generate growth beyond home markets threatened by foreign rivals. Their strategies hinge on coordination of people or processes—no easy feat. Wal-Mart, for instance, has struggled to get its partner firms and employees abroad to adopt its work methods.

- Manufacturing industries. For automobile and communications equipment makers, for example, global mergers and partnerships seem to offer the size needed to compete against consolidating rivals. But the complexities of integration can cause delays in achieving those gains. These companies thus have become vulnerable to economic slowdowns, which constrain their ability to pay for expansion and consolidation.
Even as companies are being told that the future lies in globalization, some are severely punished for their international moves. A simple test can help you decide what makes strategic sense for your organization.

When You Shouldn’t Go Global

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Economic globalization is viewed by some as the best hope for world stability, by others as the greatest threat. But almost everyone accepts that businesses of all types must embrace it. Even smaller enterprises—urged on by the financial markets, by investment bankers and consultants, by the media, and by the moves they see rivals making—feel the strategic imperative to go global in one form or another. Although the current financial crisis is putting a damper on such activity, the pressure on companies to globalize is likely to persist.

With this sense of inevitability, it’s easy to forget the serious mistakes some companies have made because of their global strategies. Dutch financial-services firm ABN Amro, for example, acquired banks in numerous countries but wasn’t able to achieve the integration needed to generate value with its international network. AES, a U.S.-based energy firm that operates 124 generation plants in 29 countries on five continents, has in recent years struggled to show that it is worth more than the sum of its individual geographic units. Daimler-Benz merged with Chrysler in 1998 in order to create a Welt AG—a world corporation—but never attained the power over markets and suppliers that this global position was supposed to deliver.

And these days, companies can’t always chalk their mistakes up to experience and move on. Industry rivals and activist share owners are increasingly forcing firms to undo their international investments—despite, in many cases, early endorsement by analysts and the market—and even to fire the senior management teams that made them. ABN Amro was dismembered last year by the Royal Bank of Scotland, Fortis, and Banco Santander, largely along geographic lines. AES’s share price has tumbled since investors’ initial enthusiasm for its globalization strategy, and some investment advisers are calling for the firm to be split into three or more parts. The architect of the Daimler-Chrysler deal, CEO Jürgen Schrempp, finally yielded to share-owner pressure and resigned, freeing up his successor to sell
Averting Ill-Fated Strategies

Businesses have had international ambitions at least since the founding of the British East India and Hudson’s Bay companies in the seventeenth century. Truly global corporations began appearing early in the last century, and their number has grown—with both successes and failures along the way—ever since.

But the accelerated removal of political and regulatory barriers to cross-border trading and investment over the past 15 years, along with the advent of technology that enables companies to conduct business around the world 24 hours a day, has made a global presence a generally accepted requisite in many industries. From the late 1990s onward, with a brief pause during the 2001–2003 bear market, we have witnessed a head-over-heels rush by companies to globalize: Foreign direct investments are at record levels, cross-border partnerships and acquisitions are burgeoning, worldwide sourcing continues to increase, and the pursuit of customers in emerging economies grows ever more heated.

Although such moves have benefited—or at least not irreparably damaged—many companies, we’re beginning to see fallout. Sometimes firms have failed because their global strategies were deeply misguided, other times because execution was more difficult than anticipated. We think that many failures could have been prevented—and would be avoided in the future—if companies seriously addressed three seemingly simple questions.

**1. Are there potential benefits for our company?** Just because a move makes sense for a rival or for companies in other industries doesn’t mean it makes sense for your own company or industry. The race to globalize sometimes leads people to overestimate the size of the prize.

UK-based roof tile maker Redland, for example, expanded aggressively around the world beginning in the 1970s with the aim of leveraging its technical know-how beyond its home market. The problem: It often sought opportunities in countries, such as the United States and Japan, where local building practices provided very little demand for concrete roof tiles. Although the company was fully able to transfer the relevant technology, there was no value in doing so in such markets.

**2. Do we have the necessary management skills?** Even if potential benefits do exist for your company, you may not be in a position to realize them. The theoretical advantages of globalizing—economies of scale, for example—are devilishly difficult to achieve in practice, and companies often lack the management key needed to unlock the coffers holding the prize.

By the late 1990s, industrial conglomerate BTR had developed a presence in many countries. However, each business unit was run as a largely autonomous entity, with stringent profit accountability and little encouragement to work with others. This approach made sense in a fragmented world, but as BTR’s customers globalized, they came to expect coordinated supply and support across borders. Although the opportunity was clear and BTR seemed well positioned to seize it, the company found it impossible to implement an approach so alien to its traditions. Even after a change of CEO and other senior staffers, the company culture blocked attempts at global integration, and the 1999 merger with Siebe was seen by many analysts as an admission that BTR simply could not make the changes needed.
The belief that companies must become innovators. Then stock market analysts and maybe one or two experiment with similar helm, pioneers a new management approach. The underlying dynamic that is worth exploring: what is worthwhile and achievable in their particular case. Trends can cloud managers’ judgment about the original concept was wrong. The siren song of globalization has lured companies of all kinds into this risky strategic space, recently the call has been particularly insidious in certain industry contexts, three of which we describe here. (For a description of how a management imperative such as “Become more global” can rapidly spread, see the sidebar “The Susceptibility to Managerial Fads.”)

3. Will the costs outweigh the benefits? Even if you are able to realize the benefits of a global move, unanticipated collateral damage to your business may make the endeavor counterproductive. Too often, companies fail to see that the full costs of going global may dwarf even a sizable prize—for example, when an effort to harmonize the practices of national business units drives away customers or distracts national management teams from the needs of their markets.

The increased complexity of managing international operations is also a threat. TCL, a Chinese maker of electronics and home appliances, has expanded rapidly into the United States and Europe through a series of acquisitions and joint ventures. As a result of deals in the past few years with Thomson and Alcatel, TCL has found itself with four R&D headquarters, 18 R&D centers, 20 manufacturing bases, and sales organizations in 45 countries. The cost of managing this infrastructure has outweighed the benefits of increased scale and resulted in large losses for both joint ventures.

Globalization’s Siren Song
Companies neglect to ask themselves these seemingly obvious questions because of their complacent assumptions about the virtues of going global—assumptions that are reinforced by seductive messages from, among other places, the stock market. Although the siren song of globalization has lured companies of all kinds into this risky strategic space, recently the call has been particularly insidious in certain industry contexts, three of which we describe here. (For a description of how a management imperative such as “Become more global” can rapidly spread, see the sidebar “The Susceptibility to Managerial Fads.”)
Deregulated industries. Many businesses in formerly state-owned industries, such as telecommunications, postal services, and utilities, have responded to deregulation with aggressive global moves. Faced with limited growth opportunities and often increasing competition in their home markets, companies have accepted that geographic expansion is the best way to exercise their new strategic freedom. These companies, the argument goes, can apply existing competencies—providing voice and data communication, delivering letters and parcels, distributing electricity and water, even dealing with the deregulation process itself—in new markets. They will enjoy significant savings by sharing resources across their international operations while “sticking to their knitting.” The latter point—the importance of focusing on what they know how to do—is a key part of the argument, since unrelated diversification, itself once a widely touted strategy, has been largely discredited.

This apparently sound logic has turned out in many cases to be oversold by investment bankers or to be just plain flimsy. Companies frequently pay far too much to enter foreign markets. Furthermore, many of the deregulated industries are “glocal”—that is, customer expectations, operating environments, and management practices for what seem to be globally standard services can vary greatly depending on location. Water distribution, for instance, may not in fact be the same industry in the regulatory settings of two different countries. In addition, cross-border economies, if they exist at all, may be hard to achieve. It is difficult, for example, to optimize electricity flows over uncoordinated grids.

Faced with such challenges, a number of companies have struggled with or reversed their global moves. Kelda, a UK water utility, sold its U.S. business six years after acquiring it because differences in pricing, environmental regulations, and distribution proved so great that the business could be run only on a stand-alone basis.

Partly because of national differences in customer behavior, Deutsche Telekom has ended up running its U.S. unit, T-Mobile USA, as a completely independent business that could be sold off at any time. Rival telecom operator Vodafone has been forced by dissatisfied share owners to unload its Japanese subsidiary, J-Phone.

Deutsche Post, in assembling an international network of mail, express, and logistics services, overpaid significantly for the U.S. express-delivery services DHL and Airborne. Germany’s former state-owned monopoly has also had great difficulty integrating DHL’s entrepreneurial management culture with its own. Some analysts value the sum of Deutsche Post’s separate businesses as 25% greater than the market value of the company—an assessment that is likely to increase pressure to spin off some of those businesses.

Service industries. Companies in traditionally national and fragmented service industries, such as retailing, consumer banking, and insurance, have viewed globalization as a way to realize scale economies and to generate growth beyond home markets themselves facing an incursion of foreign competition. In some cases, globalization seems to make sense because customers and suppliers are also becoming more global.

As in deregulated industries, however, the “global” customer may be more national than anticipated. And obtaining scale economies across borders requires management skills and experience that many companies lack. For example, serving a customer that is truly global in a consistent way from multiple national offices is no easy task.

Service businesses seeking to capture the benefits of a globalization strategy must, like firms in deregulated industries, pay attention to a mix of global and local factors. Purchasing can benefit from careful coordination across borders, but marketing and sales may suffer from too much standardization. Certain services travel much better than others that seem remarkably similar. In shoe retailing, for instance, offerings targeted at the wealthy or the young are far more global than those aimed at the middle market, which remains doggedly local.

In service businesses, many of the implementation challenges of a global strategy involve the coordination of people or processes. Wal-Mart, for instance, has struggled to get its partner firms and employees abroad to adopt its work routines. ABN Amro’s global empire was dismantled by predators because the international business was a collection of mostly unrelated operations in countries ranging from Brazil to Monaco. The company achieved few economies of scale: In marketing,
for example, it didn't enjoy the efficiencies resulting from a single global brand, because local banks mostly kept their original names. Furthermore, its attempts at sharing information systems, management processes, and other bits of infrastructure were repeatedly delayed and then implemented haphazardly, creating few savings.

The outcomes of some other service companies’ global strategies have not been so dire—but they have still fallen short of expectations. Starbucks has pursued international growth at a breakneck pace, even though margins abroad have been only about half those of the company’s U.S. operations. Axa, the global French insurance group, has enjoyed satisfactory financial performance from its many units around the world but has so far been unable to reduce its global cost base or convincingly roll out innovations, such as its U.S. variable-annuity program, internationally. Thus, although the globalization strategy hasn’t destroyed value, it also hasn’t added as much as originally envisioned.

**Manufacturing industries.** Over the past decade, companies in manufacturing industries, such as automobiles and communications equipment, have viewed rapid cross-border consolidation as necessary for survival. Global mergers and partnerships seem to be the only way for companies to obtain the size needed to compete against consolidating rivals, to reduce their reliance on home markets, and to gain manufacturing economies of scale.

These benefits, though arguably easier to achieve than those sought by service companies (because local differences seem less problematic), are often outweighed by operational and organizational challenges. The complexities of integrating organizations and operations can cause costly delays or failures. And companies haven’t had the luxury of much time to realize the benefits of integration. Counting on the benefits of size and scale to drop quickly to the bottom line, many manufacturers have become particularly vulnerable to economic slowdowns, which constrain their ability to pay for expansion and consolidation before an increasing debt-to-equity ratio forces their executive teams to cede control to financiers or new management.

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**Royal Ahold’s Downfall**

Dutch supermarket operator Royal Ahold is best known in recent years for an accounting scandal that led to the resignation of its CEO and its CFO in 2003. The financial irregularities must be seen in light of the company’s ambitious, and ultimately unsuccessful, globalization strategy.

Royal Ahold began its international expansion in the 1970s and accelerated it in the 1990s, eventually acquiring businesses throughout Europe, Asia, Latin America, and the United States, to become the fourth-largest retailer in the world. But the benefits of owning this network of stores were hard to realize or didn’t exist in the first place.

Global economies of scale are one of the main rationales for international expansion. However, such economies, difficult to attain in many businesses, are particularly elusive in food retailing. Purchasing economies can be achieved only with items furnished by global suppliers to all markets—and these typically represent at most 20% of all supermarket items, because of cultural differences and the frequent need to source fresh food locally. Even apparently “international” products, such as hummus, must be adapted to different countries’ distinct tastes.

Additionally, realizing synergies across a far-flung network requires common information systems and management processes, and Ahold made little effort to integrate its acquired businesses into the existing organization. Different information systems thus continued to coexist across the company, sometimes even within the same country.

Ironically, the lack of integrated systems and processes needed to secure global benefits helped conceal the company’s financial irregularities. And the failure to attain those benefits undoubtedly put pressure on top managers to produce favorable—if false—financial results. When the new executive team finally introduced common management processes in the wake of the scandal, those processes did little to improve such activities as common purchasing across markets. As recently as last year, key suppliers were charging Ahold different prices in different countries.

Ahold’s 2007 sale of most of its U.S. operations to private equity firms highlighted the nearly complete abandonment, under pressure from dissatisfied minority share owners, of its once ambitious globalization strategy. The dissidents were concerned not about the usual over-diversification of business types—after all, Royal Ahold remained focused on retailing—but about the over-diversification of geographic locations. (Tests for suitable business diversification are discussed in “Corporate Strategy: The Quest for Parenting Advantage,” by Andrew Campbell, Michael Goold, and Marcus Alexander, in the March–April 1995 issue of HBR.) With the focus on governance at Ahold, the underlying story of failed globalization did not receive adequate attention until activist share owners jumped on it.
The merger of Daimler-Benz and Chrysler is a poster child for this problem: The German and U.S. automakers were different in almost every respect, from company cultures to purchasing practices, and they were never able to attain such benefits as the promised billions of dollars in savings from common supply management.

Taiwanese consumer electronics company BenQ's acquisition of Siemens's mobile-device business followed a similar story line, including incompatibility of cultures and processes, as well as difficulties in integrating R&D activities. In a haunting echo of the scramble by Daimler-Benz and Chrysler to merge, BenQ didn't visit Siemens workshops and production lines before inking the deal, relying only on due diligence documents. Although BenQ continues to be active in mobile equipment, its German unit was declared bankrupt in 2007.

In both of these cases—and in numerous others—the strategic logic for globalization was tenuous, and the skills needed to implement a globalization strategy effectively were in short supply.

A Continuing Danger
We aren't saying that all globalization strategies are flawed. Telefónica, Spain's former telephone monopoly, has successfully expanded throughout much of the Spanish-speaking world. The past five years have seen General Electric's Commercial Finance business move rapidly and effectively into dozens of non-U.S. markets. Renault's pathbreaking alliance with Nissan has to this point proved beneficial for the French and Japanese automakers.

But focusing on such success stories only reinforces the conventional wisdom that a globalization strategy is a blanket requirement for doing business—which in turn leads many companies to insufficiently scrutinize their proposed global initiatives. (For a discussion of one of the gravest cases of failed globalization, see the sidebar “Royal Ahold’s Downfall.”)

We expect this trend to continue, as firms in various industries recklessly pursue global strategies. Take the emerging renewable-energy industry—companies developing technologies for biofuel, solar energy, and wind energy. We have talked with executives who, racing to establish a global position in this booming field, are planning rapid expansion over the next few years in Africa, Asia, and Latin America—and completely underestimating the management challenges involved. Many will, after initial applause from the financial markets, find their hastily conceived strategies challenged after the fact by activists.

We also anticipate that problems will recur in industries that earlier rushed to adopt globalization strategies, with activist share owners ready to pounce on companies as evidence of poor management choices surfaces. Activist share owners have already taken significant positions in some companies mentioned in this article. Other target companies, perhaps not quite ripe for direct intervention—and temporarily shielded from attack by the current credit crisis and turbulent equity markets—are nonetheless being discussed in the boardrooms of rivals and by the investment committees of pension funds and private equity firms.

Ironically, some predators, having spotted the weaknesses of other companies' global strategies, may be poised to fall into the same trap. For example, the Royal Bank of Scotland is known for its highly successful 2000 acquisition of NatWest, a much larger UK rival, and for the subsequent overhaul of its target's culture. But RBS may find it difficult to achieve similar results with the disparate banking assets—spread across more than 50 countries—that it acquired from ABN Amro. And though the recent government bailouts of RBS and Fortis aren't a direct result of the firms' international strategies, the acquisition of ABN Amro assets stretched their balance sheets and made the companies more vulnerable to the financial crisis.

We also worry that activist share owners and private equity firms may reproduce flawed globalization strategies in their own portfolios. The largest of these players are now more diversified, both in type of business and in international footprint, than many of the giant conglomerates of 30 years ago that were subsequently broken up and sold off. Indeed, as you look out on a landscape littered with the remains of dismembered companies weakened by failed globalization strategies, you have to wonder: Could today's predators be tomorrow's prey?

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Further Reading

**ARTICLES**

**Managing Differences: The Central Challenge of Global Strategy**
by Pankaj Ghemawat  
*Harvard Business Review*  
March 2007  
Product no. R0703C

The main goal of any international strategy should be to manage the large differences that arise at the borders of markets. Yet executives often fail to exploit market and production discrepancies, focusing instead on the tensions between standardization and localization. Ghemawat presents a new framework that encompasses all three effective responses to the challenges of globalization. He calls it the AAA Triangle, with the As standing for the three distinct types of international strategy. Through adaptation, companies seek to boost revenues and market share by maximizing their local relevance. Through aggregation, they attempt to deliver economies of scale by creating regional, or sometimes global, operations. And through arbitrage, they exploit disparities between national or regional markets, often by locating different parts of the supply chain in different places—for instance, call centers in India, factories in China, and retail shops in Western Europe. Ghemawat draws on several examples that illustrate how organizations use and balance these strategies and describes the trade-offs they make as they do so when trying to build competitive advantage.

**Emerging Giants: Building World-Class Companies in Developing Countries**
by Tarun Khanna and Krishna G. Palepu  
*Harvard Business Review*  
October 2006  
Product no. R0610C

As established multinational corporations stormed into emerging markets, many local companies lost market share or sold off businesses—but some fought back. India’s Mahindra & Mahindra, China’s Haier Group, and many other corporations in developing countries have held their own against the onslaught, restructured their businesses, exploited new opportunities, and built world-class companies that are today giving their global rivals a run for their money. The authors describe three strategies these businesses used to become effective global competitors despite facing financial and bureaucratic disadvantages in their home markets. Some capitalized on their knowledge of local product markets. Some have exploited their knowledge of local talent and capital markets, thereby serving customers both at home and abroad in a cost-effective manner. And some emerging giants have exploited institutional voids to create profitable businesses.

**Getting Offshoring Right**
by Ravi Aron and Jitendra V. Singh  
*Harvard Business Review*  
December 2005  
Product no. R0512J

Recently a rising number of companies in North America and Europe have experimented with offshoring and outsourcing business processes, hoping to reduce costs and gain strategic advantage—with mixed results. According to several studies, half the organizations that have shifted processes offshore have failed to generate the expected financial benefits. What’s more, many of them have faced employee resistance and consumer dissatisfaction. A three-part methodology can help companies reformulate their offshoring strategies. First, prioritize company processes according to two criteria: the value these processes create for customers and the degree to which the company can capture some of that value. Then keep highest-priority processes in-house and consider outsourcing low-priority ones. Second, analyze the risks that accompany offshoring. Finally, determine possible locations for offshore efforts, as well as the organizational forms—such as joint ventures—that those efforts might take.