Global strategy

Understanding and leveraging the rules of the game **Interviewed by Lisa Murton Beets**

What do CEOs need to do strategically as their customers become more global?

"Adapt or find new customers," says Mike W. Peng, Ph.D., Provost's Distinguished Professor of Global Strategy and executive director of the Center for Global Business, School of Management, University of Texas at Dallas.

"It depends on the bargaining power of your customer and your firm," adds Peng, author of the market-leading textbook, "Global Strategy." "If the customer says follow us to China or lose our business, you may feel compelled to chase them. It's somewhat like playing chess. For instance, Wal-Mart is a major customer of P&G. As Wal-Mart becomes bigger and more global, P&G has to become larger to counter-balance Wal-Mart. As a result, P&G recently acquired Gillette."

Smart Business talked to Peng about the current definition of the term "global strategy" and how corporate officers and managers can take advantage of it.

How can we define global strategy?

I'll simply define it as 'strategy of firms around the globe.' This is substantially broader than the traditional definition of 'global strategy,' which meant treating different countries as one worldwide or 'global market.' But that strategy has backfired repeatedly. There is no world car, no world drink. Toyota Camry is the best selling car in the U.S., but not even among the top five best selling cars in Japan. One size doesn't fit all. That is why in my book "Global Strategy," I advocate a more balanced view, covering both global and local (nonglobal) aspects of strategy, involving both foreign (multinational) and local firms.

Why should managers be interested in global strategy?

In this age of globalization, every manager needs to be strategic. Expertise in global strategy is often highly sought-after, especially when your career progresses to higher levels. More managers will find that traveling to, competing in and even living in countries such as Brazil, China, India and Mexico will be a part of their routine.

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What top three factors must an effective global strategy take into account?

In three words, industry, resources and institutions.

Industry-based view: What industry is the company in? Some industries are high-tech, others low-tech; some are location-bound, others nonlocation-bound. For example, in the semiconductor industry, it doesn't matter where your semiconductor chips are made, they are all the same, and customers expect that. On the other hand, if you produce potato chips, where you make these chips will matter a great deal.

Resource-based view: Among numerous companies in the same industry, why do a few outstanding ones stand out? What are they doing that their competitors fail to duplicate? For example, the success of Southwest Airlines has nothing to do with planes or fuel. All airlines essentially fly the same planes. Why can Southwest fly high year-in and year-out, and many other airlines fly in and out of bankruptcy all the time? The simple answer is that Southwest has resources and capabilities that are very unique.

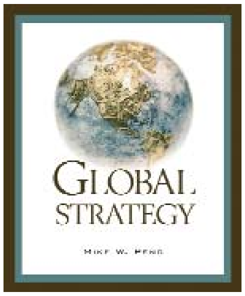
Institution-based view: Institutions are the rules of the game. Rules in other countries can make life difficult for newcomers. For example, if a U.S. company wanted to acquire a company in Japan, there would be many roadblocks because rules governing mergers and acquisitions are different. To conduct business in other countries, you have to understand, respect and — if possible — leverage the rules of the game.

Typically, what are these rules?

There are both formal and informal rules. Based on a country's culture, norms and institutions, informal rules are not written. Nothing can be taken for granted. For example, there is no American law banning a Chinese company from taking over a U.S. oil company, but norms exist, so that is not likely to happen. Two years ago, CNOOC of China tried but failed. Likewise, American companies would prefer to be able to acquire Chinese companies as they would domestically — but again, that is not likely to happen any time soon.

What determines the international success or failure of firms?

Acquiring and leveraging a competitive advantage. The key is to sustain such an advantage over time and across countries (regions) through replication and innovation.



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