

The Three Myths of Globalization

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Abstract: To many people, globalization is an inexorable process in which cross-border competitors become more concentrated, increasingly produce where it is most cost effective to do so, standardize the product varieties on offer and are rewarded with sustained “globalization premia.” Global cross-industry datasets, the global auto industry and other case studies are used to probe these intuitions about industry dynamics, none of which seem to be supported broadly. And some of the mistakes that misconceptions about global industry dynamics may engender are reviewed.

A decade after Marxism was pronounced to be dead, there is an eerie similarity between what Marx predicted about unbridled capitalism—one capitalist kills many—and the perception in the business world that consolidation is perhaps the key dynamic at work today; along with the Internet, of course. Small may be beautiful, but bigger is better

The increased cross-border integration of industries in terms of trade and investment is postulated to entail increases in their cross-border concentration. From the perspective of an individual firm, this postulate presents a do-or-die proposition: if a firm wants to survive, let alone thrive, it needs to become one of the large global players. This will create economies of scale through global branding, research and development, and technical support. As a result, a large company will be able to scare off potential competitors, propel the company into new markets, or accomplish other useful purposes. Conversely, if the firm fails to get big, it will get dead.

This kind of concentration argument is very popular and has an established pedigree. More than one hundred years ago, Karl Marx opined “One capitalist always kills many...[leading to] a constantly diminishing number of the magnates of capital, who usurp and monopolize all advantages.” Authorities on business have recently picked up on this theme, but in terms that are more benign than sinister. In the 1970s, Bruce Henderson, the founder of the Boston Consulting Group, promoted his Rule of Three: “A stable competitive market never has more than three significant competitors.” In the early 1980s, similar thinking underpinned Jack Welch’s widely remarked insistence that General Electric be either number one or number two in its various fields of business—which would seem to suggest that the magic number is at most two, rather than three. However, in the late 1990s, New York-based Mercer Management Consulting went to the winner-take-all extreme by popularizing the “plight of the silver medallist”: You’re either number one, or you’re nowhere. Soon to surface, we presume, is the Rule of Zero, in which no one, not even a monopolist, makes money (the eventuality that Marx had in mind).

What is newer and more interesting than the registration or re-registration of such magic numbers, we think, is the extent to which people have recently glommed on to the idea that increased globalization in the form of increased cross-border trade and investment also implies significant cross-border increases in industry concentration through mergers, acquisitions, displacement, and exit. This is the belief that we focus on, and raise

questions about, in this article. Specifically, we argue that the conceptual link between the globalization of an industry and global industry concentration is weak.

The theory of comparative advantage implies a tendency toward the geographic concentration of production. However, this theory has no definite implications for concentration at the firm level. Overall, the mechanism of comparative advantage does not depend on economies of scale. Revisit Ricardo's example: even if cross-border integration does lead, as a result of considerations of comparative advantage, to the geographic concentration of port production in Portugal, economies of scale (in a broad sense) are required if a few producers, let alone one, are to dominate the Portuguese port industry. In reality, the Portuguese port industry, while heavily export-oriented, remains rather fragmented, with 30,000 small farms and about 70 shippers. Based on such examples, it has even been argued that countries that serve as home bases for global competitors in particular industries will tend to exhibit relatively fragmented structures rather than concentrated industry organization.

What happens when we superimpose firm-level economies of scale on country-level considerations of comparative advantage? The line of research that is best developed in this regard focuses on what happens when each firm in an industry produces one product variety. The production of each variety involves a fixed cost as well as marginal costs (this is where economies of scale show up), and the differentiation of product varieties leads individual firms to ignore the effects of their pricing decisions on their rivals'. While these assumptions are stringent, "monopolistic competition" of this sort has attracted considerable attention, partly because it helps explain two-way intra-industry trade flows between pairs of rich countries that greatly exceed the levels one might expect from the theory of comparative advantage.

Models of monopolistic competition generally predict that when previously separate countries integrate economically, the effective increase in market size implies an increase in the number of distinct varieties/firms available in each country market. A numerical example from Paul Krugman and Maurice Obstfeld's textbook on international economics will illustrate the flavor of such results. Pre-integration, country A supports six symmetric producers and country B, which is 78% larger, eight symmetric producers. Post-integration, there are 10 symmetric producers that serve both countries, expanding the number of product varieties available to the citizens of each. Although four producers have exited as a result of integration, each market is less concentrated after integration than before.

Even stronger scale economies can overturn such results by making the number of viable firms independent of the size of the market. In particular, consider what happens when the fixed costs that constitute the "table stakes" for market participation are determined by competitors' strategies rather than set exogenously. Work by economist John Sutton has shown that if fixed investments by firms lead to sufficiently large increases in firms' operating margins, the maximum number of viable firms will not increase with market size because of the increased incentives for a player to break away from the pack by ratcheting up its investment levels and thereby triggering a game of escalating

expenditures in which critical mass has to be built up or acquired to survive (e.g., to avoid choking on very high marketing-to-sales or R&D-to-sales ratios).

To summarize this section, the theories of comparative advantage and of monopolistically competitive internationalization do not, by themselves, suggest that the globalization of an industry should be expected to lead to significant increases in concentration at the firm level. However, very strong economies of scale, as exemplified by the escalation game in color film, can support such a prediction. The force of this qualification can only be assessed empirically, by looking at a broader set of industries than just color film. That is what the next section does.

While there are many different ways of aggregating market share data into concentration levels, we focus here on aggregating them into a global “Herfindahl” index. Use of other common concentration measures (e.g., the share of the largest firm or the combined shares of the four largest firms) would not qualitatively change the patterns we report on below. Note that earlier work suggests that the correlation coefficient between the Herfindahl measure and the four-largest-firm measure of concentration is of the order of 0.95.

We should also note that the calculation of Herfindahl indices at the global level through out imparts an upward bias to our computed changes in concentration in the case of industries that have been globalizing over the period of measurement (instead of being global from the outset). This is most clearly illustrated by the numerical example of monopolistically competitive, intra-industry trade cited in the previous section. Pre-integration, the country-level Herfindahl indices equal .167 (1/6) in country A and .125 (1/8) in country B, and post-integration, they converge to .10 (1/10) in both countries. Yet if we were to calculate the pre-integration Herfindahl indices at the global rather than the country level, the data would suggest an increase rather than decrease in concentration as a result of globalization, from .073 to .10!

Such false-positives for increases in effective concentration, which we do not attempt to correct for, add even more punch to our principal result: our sample of global/globalizing has mostly been marked by steady and cumulatively large decreases in global Herfindahl Indices in recent decades followed, in some cases, by relatively modest increases during the 1990s.

HERFINDAHL INDEX

The Herfindahl index is a tool that is widely used to measure the relative degree of industry concentration. Typically, the index is the sum of the squares of the market shares of all firms in an industry. If a few key players have a high market share, therefore, the Herfindahl index is higher than if the industry’s market share is spread more evenly across a larger number of firms. Three companies splitting 100 percent of a market evenly leads to a Herfindahl index of .33, whereas ten companies splitting 100 percent of a market evenly leads to an index of .1.

For this article, we've used a modified Herfindahl index, generating an index based on the top ten firms in each industry (although the market shares themselves are based on the size of the total market rather than the combined size of the top ten firms). This is because 1) market-share data from all firms (especially smaller firms) in an industry are not always available, and 2) after the top ten players are taken into consideration, the remaining players (number 11, number 132, and so on) typically have such small market shares that their effect on the overall Herfindahl index is minimal.

Herfindahl indices for the period of 1950-75 were taken directly from the Harvard Multinational Enterprise Project. Indices after 1975 were calculated at the Center for Global Business Studies at Penn State University. Subject to the availability of data, the calculations were performed at five-year intervals, although for recent years marked by substantial mergers and acquisition activity, we did attempt to obtain more frequent data points. Our calculations employed sales volume rather than revenue data to the extent possible. Thus for petroleum we used barrels per day, for minerals metric tons of production, for automobiles number of cars sold, and so on. This is particularly important in controlling for large shifts in exchange rates over the period studied. For joint ventures, we allocated the output to each partner according to its ownership percentage.

according to Compustat data from 1988 to 1998, the top five companies shares' of worldwide sales in each of three industries—computer hardware, computer software, and long-distance telephony—actually declined by 15 to 30 percentage points each.

The historical drivers of this diluting trend are worth reviewing briefly. Immediately after World War II, the U.S. controlled most international industries, and the dominant U.S. firms wielded great power in industries that were regarded as highly concentrated. But between the 1950s and 1980s, concentration in most industries declined. This is in part due to increased innovation throughout and across industries, in part to the re-emergence of successful European and Japanese firms, and in part to local government actions that used import-substitution strategies to protect local firms. This last piece, admittedly, came unstuck in recent years. During the 1980s and early 1990s, the great wave of trade liberalization and deregulation washed away a number of these inefficient, protected companies and led to industry concentration. Sheltered local firms often failed to innovate and otherwise compete successfully; local consumers eventually tired of paying the price for these companies' relatively low productivity. Inflated stock prices played a role as well.

Comment:

But this same liberalizing wave also stimulated extraordinary levels of entrepreneurship. In telecom services, WorldCom (which has since expanded its scope), Qwest, Level 3, and Frontier, among others, emerged as low-cost specialists, known in industry parlance as piranhas. In the automobile industry, new players, particularly South Koreans, emerged and expanded at the same time that established players were all building footholds in large or potentially large markets from which they had previously been excluded. In addition, some of the mega mergers created opportunities for niche players. Thus, Exxon and Mobil recently agreed to sell 1,740 gas stations to Tosco, the largest

independent oil refiner in the United States, to secure regulatory approval for their merger.

The net result of all this is that arguments that the only top 1, 2 or 3 players will thrive seem even farther from the mark in describing global competition today than they did 50 years ago.

Finally, another concentration measure of interest is the concentration of industry sales volume in the hands of a few producers. This measure provides an interesting window on the global standardization hypothesis if one believes that global standardization can be measured, in part, by the success of a global core of leading producers in expanding their share of global demand. Note that the assumption that the top N producers of a good have similar (i.e., relatively standardized) products and strategies has long sanction in the literature on strategic groups.

Table 2 compiles data from a variety of sources on the share of total global production—typically in volume rather than value terms—accounted for by the top 5 producers in a variety of industries/sectors. The data sets span periods of a decade or longer up to the recent period (including accounting for all mergers and acquisitions consummated by the end of the reporting period), and, in most cases, have been adjusted for significant stakes held by the top 5 producers in other large producers. The data displays no tendency towards increasing top-5 concentration (C5) since increases and decreases are evenly distributed; in fact, the median concentration ratio actually tends to fall over time, from 52% in the beginning year to 44% in the ending year. Some of the increases or decreases are, however, individually surprising (e.g., cement). Generally, similar results are obtained by looking, where possible, at N-values that vary between 1 and 10 as opposed to being set at 5 (Ghemawat and Ghadar 2000).

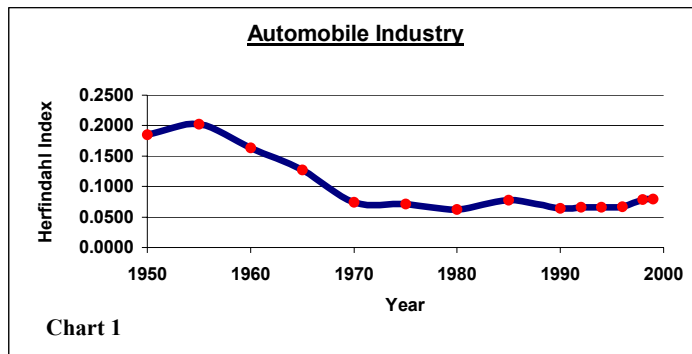
Table 2 about here

Adding in earlier data on some of the sectors in Table 2 that were compiled under the direction of Raymond Vernon suggest that in many of them, global concentration hit post-war highs in the 1950s but then declined rapidly in ways that overshadow relative stability more recently (1977 p. XX). Thus, in automobiles, there has been a steady decline in concentration since 1955 (see Figure 2) as the U.S. share of total demand has fallen, and as the declines in General Motors' global share have been dispersed across an increasing number of competitors—deconcentrating effects that the recent wave of mergers and acquisitions has barely begun to reverse. Note also the affinities with the earlier discussion of intra-industry trade: cars and components account for more such trade than any other product category, and that the range of varieties available to consumers in most countries has expanded significantly as a result of globalization.

Examining further the automobile industry (Chart 1), a decrease in the Herfindahl index can be observed. The graph below depicts that after World War II (1950's), the industry was highly concentrated. This decline can be explained by the poor economic conditions prevalent in the world at that time. However, after the late 1950's, Europe and Asia

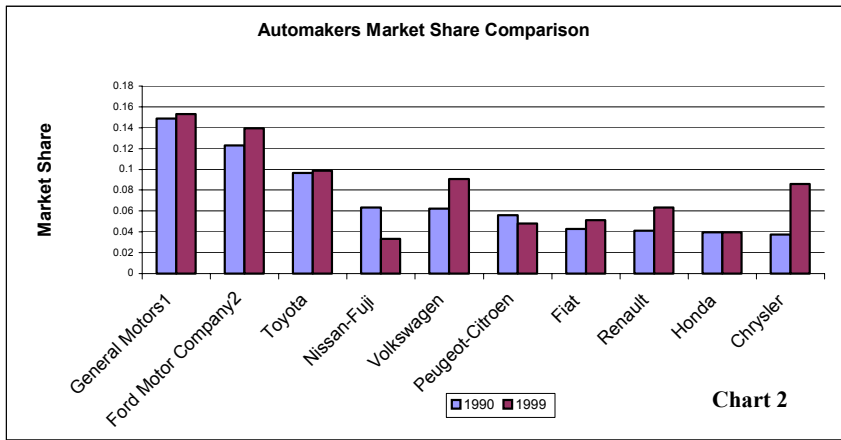
started to recover economically, and the automobile industry started to decrease its level of concentration. During this period, Asia had grown to become a giant in automobile manufacturing, as Toyota, Nissan, Honda, Mazda, and more recently Hyundai, Kia and Daewoo, increased their market presence in the industry. This growth in the amount of players and the increase of the total market size prevented the global industry to become more concentrated.

Currently, some recent mergers such as the Daimler-Chrysler deal, have slightly increased concentration, but only to a modest degree compared with the past half-century.



Studying the recent 10 years (Chart 2), were the amount of mergers and acquisitions increased (globalization), the total market share of the top ten makers increased from 71% to 80%. The increase in the market shares can be partly explained by some of the mergers and acquisition of stakes in other automakers that have happened in this period, which are:

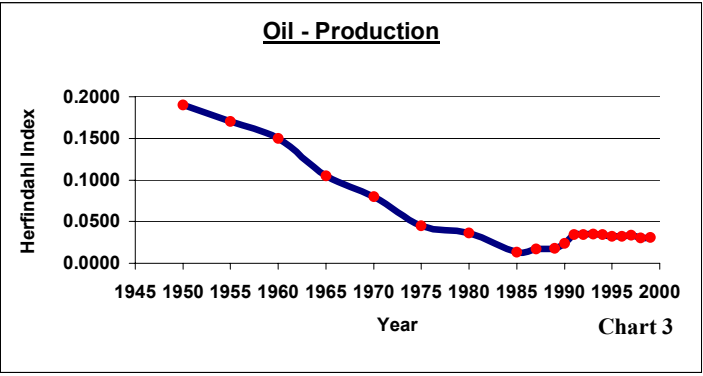
- Ford bought 33% of Mazda and the totality of Volvo in February 1999
- Toyota bought 50% off Daihatsu
- Volkswagen includes the stakes bought in Audi, Seat, and Skoda
- Renault acquired 36.8% of Nissan
- Fiat production includes its stake in Alfa and Lancia



As a conclusion in the automobile industry, globalization has not increased the level of concentration in the industry, rather the companies that made acquisitions did improved their position within the industry.

Another example of a relevant industry that has experienced high levels of mergers and acquisitions has been the oil production industry. However, the market concentration study does not find relevant information to determine that the concentration has increased.

Illustrated in chart three, the global Herfindahl index declined in the early 50's, but has remained steady/declining since around 1990. As can be seen, the oil industry mega merger deals announced and consummated in the recent past (Exxon-Mobil, BP-Amoco-Arco, Total-Fina-Elf, Chevron-Texaco) do not seem to have a markedly visible impression on global oil market concentration. Market concentration is far less when compared to that in the 1950s. This implies that this global industry is far from being dominated by the top two or three players.

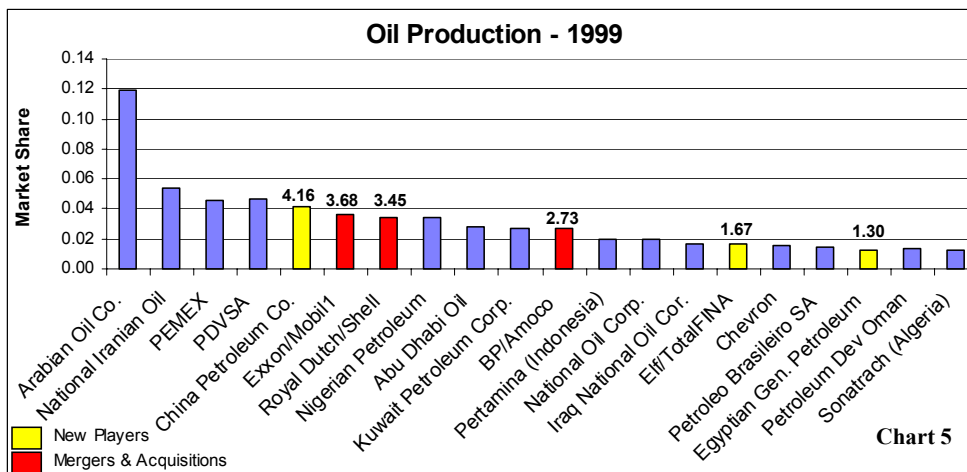
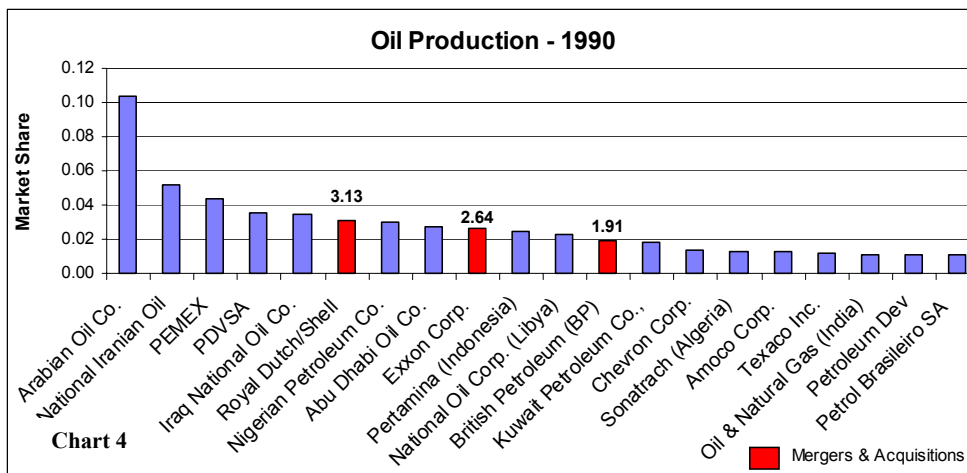


Looking at how the market shares in the industry developed, it can be concluded that mergers and acquisitions (M&A) did have an influence within the industry.

Studying the movements of the companies within the industry, during 1990, the market shares of Royal Dutch/Shell - 3.13%, Exxon Corp. - 2.64% and British Petroleum 1.91%, had a big change compared to the 1999 market shares. After the mergers, their market share increased to 3.45%, 3.68% and 2.73% respectively.

Although the market shares of these individual firms grew, their increase did not make the industry more concentrated because new players were introduced to the top 20 players, as China Petroleum Co. with a market share of 4.16%, Total Fina/Elf with 1.67% and Egyptian Dev. Oman Co with 1.30%.

Another factor that proves that the concentration did not increase with the M&A actions, is that the total market share of the top 20 players in 1990 was 55.07%, while the 1999 figure rose to 63.62%.



Analyzing the Oil-Refining Industry, the same conclusion can be drawn. The industry as a total has become less globalized / concentrated. Illustrated by charts six and seven, if the movements within the industry are examined the mergers and acquisitions have had a high impact on the market shares. For example, the market shares of Exxon Co. and Mobil Co. in 1991 before the mergers were 2.20% and 2.50%, and ranked #7 and #4, respectively. After the 2000 merger, their market share increased to 6.69%, which moved them to the #1 position within the industry. Similar examples can be seen in the BP/Amoco and Total Fina/Elf mergers. The total concentration of the industry at a leveled position was maintained by the entrance of new players to the top 20 refiners list, such as Total Fina/Elf, Tosco, Repsol-YPF and Nippon Mitsubishi Oil.

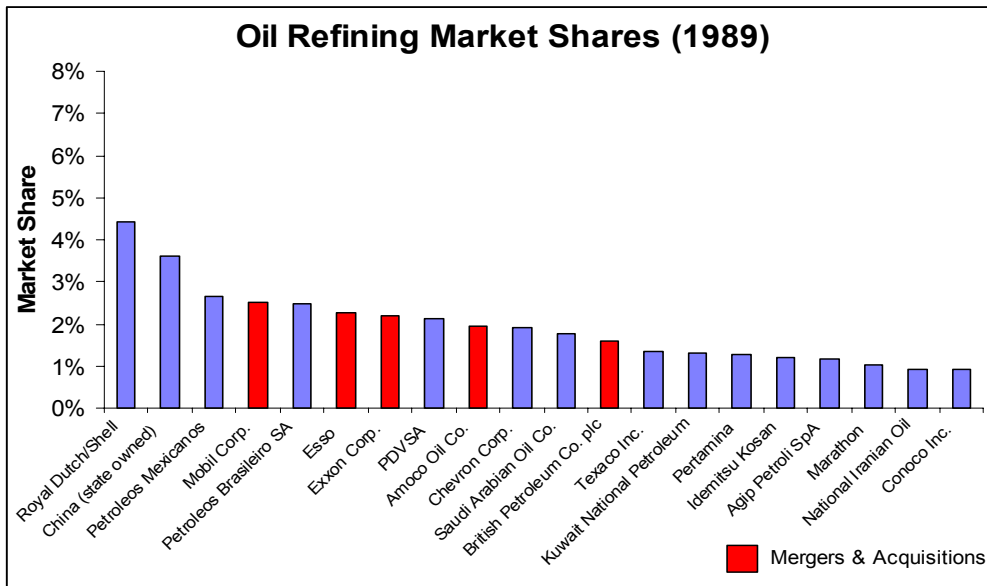


Chart 6

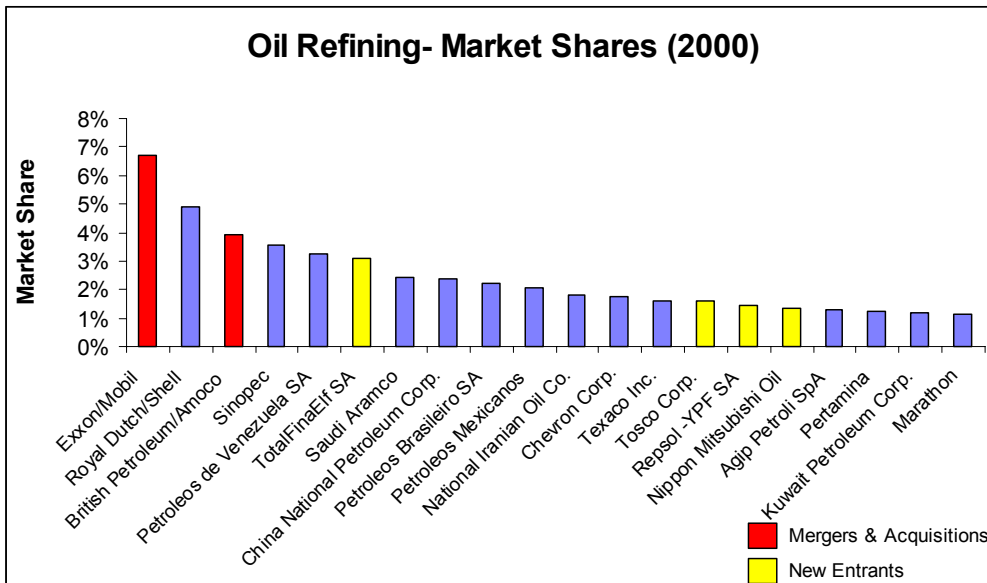


Chart 7

The UNIDO data on 28 3-digit manufacturing industries between 1970 and 1992 also demonstrate industry concentration since they allow us to calculate industry-by-industry indices of geographic concentration of production. To observe the possible link between geographic concentration and variety, consider what is known as Armington (1969) differentiation, in which product varieties are differentiated by country of production. Then, increased geographic concentration of production in one or a few countries would imply that their varieties were winning out globally, in the spirit of the global standardization hypothesis. Conversely, decreased geographic concentration would be suggestive of fragmentation rather than standardization. Figure 1 indicates that the geographic concentration of production, averaged across the industries in the UNIDO panel, declined significantly during the 1970s and drifted downward throughout the 1980s. However, this measure experienced an up tick in the early 1990s (with more recent information unavailable). Overall, these data sets do not evoke the kinds of centralized, home-based strategies that fascinated early writers on globalization or that might have been expected with global standardization within an Armington structure.

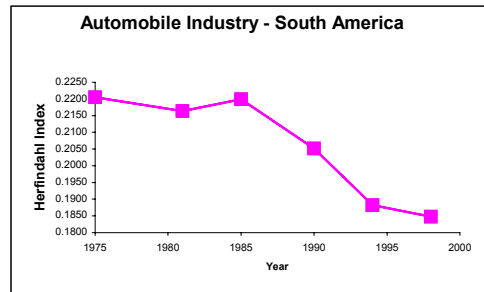
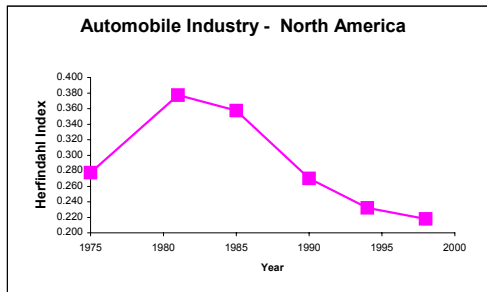
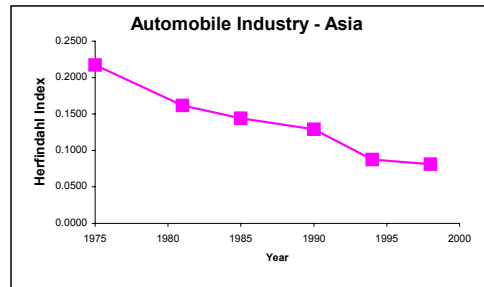
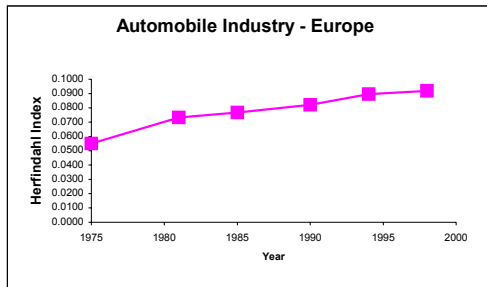
Company	Domestic	World	%	
			Domestic	Foreign
General Motors	4,956,000	8,591,000	58%	42%
Ford	3,954,680	7,424,000	53%	47%
Toyota	2,177,000	5,182,000	42%	58%
Daimler Chrysler	440,000	4,600,000	10%	90%
Honda	776,000	2,580,000	30%	70%
Nissan	725,842	2,564,160	28%	72%
Fiat	969,000	2,350,000	41%	59%

Sources: Annual Reports

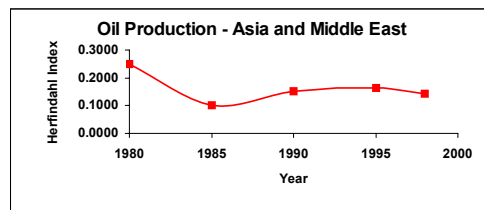
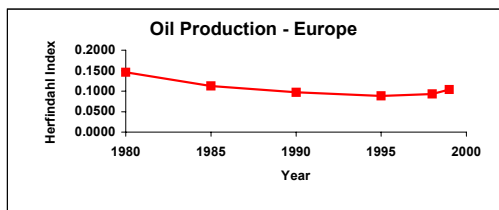
The results of our regional concentration study provide evidence of geographic dispersion of production. The regional market concentration for a variety of industries has been measured for the past 25 years. The market concentration in these regions, as on the global level, was measured by the Herfindahl index for each industry.

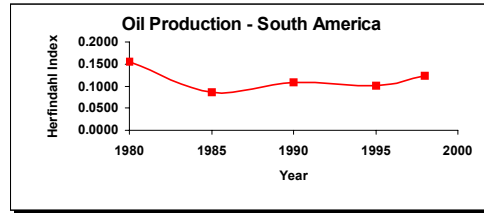
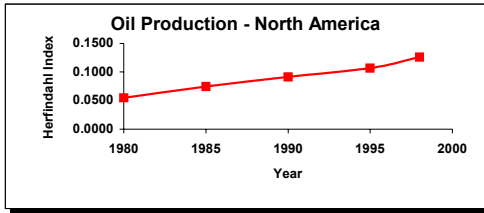
Auto Industry: The automobile industry has definitely become more global since World War II. The regional data for North America, Europe, South America and Asia illustrates decreasing market concentration for all the regions except Europe between 1975 and

1999. The increase in Europe could be a result of the recent mergers and consolidations including Ford-Volvo, Daimler-Chrysler, Ford-Jaguar and GM-Saab.

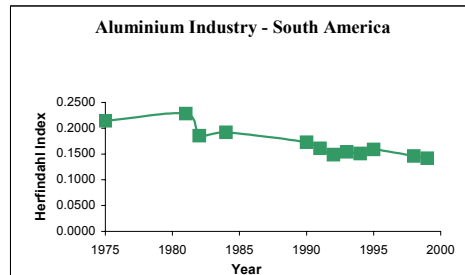
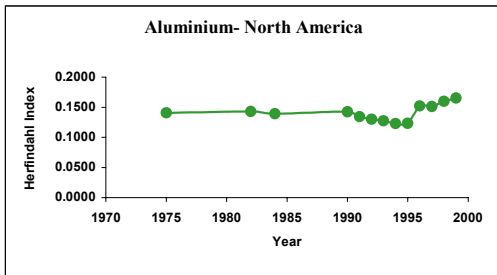
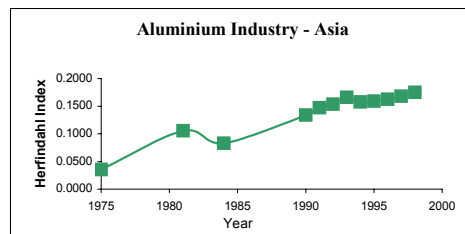
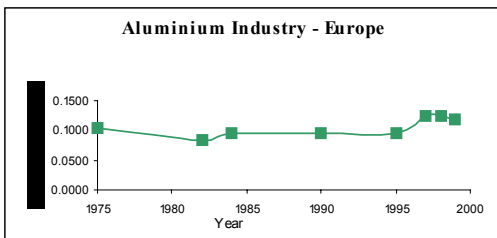


Oil Industry: Similarly the regional data on the oil industry shows that the market concentration in Europe, Asia and South America has declined between 1980 and 1999. Europe has seen a declining trend even with the merger of BP-Amoco and Total-Fina-Elf. The South American market concentration has remained around a median point over the time period. However, the North American market concentration seems to have increased between 1980 and 1999. This could be a result of the mega merger of Exxon with Mobil and Texaco with Chevron. The Asia/Middle East region shows a decline in market concentration during the same period. It is interesting to note that the Herfindahl Index in this region is converging to 0.15.





Aluminum Industry: The Aluminum industry has also been experiencing de-concentration through the last quarter of the twentieth century until a wave of deals occurred during the summer of 1999. The regional data demonstrates that North America and Europe have similar market concentration patterns and have an increasing Herfindahl index towards the end of the century. This could be explained by the spate of mergers towards the end of the 1990s, including the unification of Alcan and Pechiney, and Alcoa with Reynolds Metals. The market concentration in Asia is increasing and could be a result of the global mega mergers. It is not exactly entirely clear why the South America Herfindahl Index is decreasing. As in the oil industry, even though the trends across regions may be divergent they all seem to be converging around the same level of market concentration, as can be seen from the graphs below.



This study indicates that the regional trend closely follows the overall global trends in various industries.

The connection between the global standardization hypothesis and changes in variety is relatively clear: under many scenarios, increases in the size of the global segment should lead to decreases in the total number of varieties on average as the global variety or varieties displace more numerous local varieties. At the limit, local varieties may totally be eclipsed by globally standardized offerings. Trade theory suggests a useful cross-country/industry window on this relationship. Note that international trade can be disaggregated into inter-industry trade, which is driven by differences in factor endowments, and intra-industry trade, which tends to balance outflows and inflows of distinct product varieties within industries as opposed to across them. Intra-industry trade is driven, among other things, by specialized production of different varieties in different countries that then trade in them. So to the extent that intra-industry trade is an important component of total trade raises questions about the alleged hegemony of global varieties.

The importance of intra-industry trade as a fraction of total trade is usually estimated by using trade data at some specific level of disaggregation to compute a measure of the form $1 - (|X - M|)/(X + M)$ where X denotes exports in some product category and M denotes imports. This measure equals zero if a country only exports or imports the product, and equals 1 if X equals M, signifying that intra-industry trade is at a maximum. OECD data at the x-digit level of aggregation indicate that intra-industry trade measured in these terms currently dominates the trade of most rich countries, substantially increased its share of total trade between 1980 and 1990, and has probably continued on the same track in the decade since then.

Given the coarseness of the OECD data, the increases in measured intra-industry trade could conceivably reflect the “slicing up of value chains” and associated trade in intermediate inputs as much as trade in final varieties. However, UNIDO (1995) data on manufacturing worldwide indicates that value added/gross output did not change appreciably in the 1980s, suggesting that increases in intra-industry trade over this period was driven principally by horizontal increases in variety rather than vertical fragmentation. While such a dynamic runs counter to the global standardization hypothesis, it is consistent with the thrust of microeconomic models that take product variety seriously: they typically envision global economic integration as proliferating rather than pruning the number of varieties available to consumers.

Perhaps the best-known pronouncement in international marketing about global versus local products is the argument made nearly twenty years ago by Ted Levitt that the ongoing globalization of product markets also increasingly implies the global standardization of products and even business models by multinational companies.

Gone are accustomed differences in national or regional preference. Nothing confirms this as much as the success of McDonald’s from the Champs Elysees to the Ginza, of Coca-Cola in Bahrain and Pepsi-Cola in Moscow, and of rock music, Greek salad, Hollywood movies, Revlon cosmetics, Sony televisions, and Levi jeans everywhere. With that, the multinational commercial world nears its end, and so does the

multinational corporation. The multinational corporation and the global corporation are not the same thing. The multinational corporation operates in a number of countries, and adjusts its products and practices in each—at high relative costs. The global corporation operates with resolute constancy—at low relative cost—as if the entire world (or major regions of it) were a single entity: it sells the same things in the same way everywhere.

Subsequent work in international marketing on the topic of global versus local products can usefully be related to this apocalyptic—and controversial—vision. One strand of work has focused on being more explicit about what it means to sell the same things in the same way everywhere by probing the details of international standardization at the level of individual elements of the marketing mix. These include not just product design and attributes, but also packaging, channel relationships, brand names, symbols, levels of awareness, ad visuals and themes, other appeals to customers based on identity, image and positioning, prices, target customers, suppliers of marketing services (e.g., market research and advertising agencies), and even planning processes, presentations and manuals (e.g., Aaker and Joachimsthaler [1999]).

A second strand of work has focused on Levitt's hypothesis that tastes or customer preferences are homogenizing across national borders. The consumer-orientation of Levitt's examples notwithstanding, this body of work generally casts doubt on the cross-border homogenization of tastes at the end-consumer level. The counterarguments—that consumers aren't really becoming that similar, that most product markets are still segmented to a significant extent at national boundaries, that certain kinds of brand equity lack the heritage or meaning to be transferable across such boundaries—were identified some time ago and will not be elaborated here (see, instead, Douglas and Wind [1987]). It is worth remembering, however, that to focus on the homogeneity versus heterogeneity of end-consumers is to ignore possibly more powerful spurs to global standardization from business customers that are themselves globalizing. Such spurs appear to apply to many consumer products as well as to business products and services because of the global spread of key intermediaries, e.g., cross-border retailers that have made integrated account management as important a marketing challenge as brand development and maintenance in many FMCG (fast moving consumer good) categories. Thus, Henkel reports that Euro accounts represent one-half of its turnovers and that these accounts, rather than end-consumers, supply the major motive for its attempts to standardize across key European markets (Morwind and Schroiff [2000]). Systematic academic research on topics such as global account management and global pricing is just starting, however (e.g., Montgomery et al. [1999]; Arnold et al. [2000]; Narayandas et al. [2000]).

A third, somewhat more developed strand of work can be seen, to some extent, as a reaction to the results from the second strand: it seeks to identify and investigate alternate customer rationales for global standardization. Batra [2000] has offered a useful classification of consumer rationales for global brands that can mostly be reinterpreted more broadly, as applying to global products. Global brands may be preferred not only because (1) they cater to homogenizing tastes or preferences as emphasized by Levitt but, alternately, because (2) they convey higher quality, defined broadly to include expertise, authority, credibility, et cetera; (3) they enjoy higher prestige and status in the minds of

many customers because of their foreign origins; or (4) they satisfy customers' cravings to become part of a global community. Rationale (2) can be traced back to Buzzell's [1968] argument that a global image can be a powerful way of increasing sales but has been framed more recently as the idea that a global brand is likely to be viewed by consumers as possessing a special 'high quality' credibility because of the signal supplied by its broad acceptance (Kapferer [1997]) and may therefore be able to tap into increasing-returns-to-scale dynamics. Rationale (3) is rooted in the idea, elaborated by cultural anthropologists, that national elites may desire to demonstrate competence with regard to foreign cultures—a display that the masses may then try to emulate—to communicate non-provincial tastes or cultural mastery and to build self-identity (Hannerz [1990]). One way of demonstrating such competence, of course, is by consuming foreign brands—a favorable foreign-origin effect thought likely to be strongest for First World brands in Third World product markets. Finally, rationale (4) resembles rationale (3) in having been elaborated by cultural anthropologists (e.g., Appadurai [1990]), but operates at the level of a multicultural or even a cultural global community rather than being focused on particular foreign countries of origin.

These alternate customer rationales for global brands receive some support from recent empirical research, particularly a body of work by Batra and coauthors (e.g., Batra et al. [2000] and Steenkamp et al. [2000]), with quality-signaling effects (rationale (2)) appearing to dominate. Attempts have been made to test some of the contingencies related to product category, customer type and geography that might be expected to determine whether global brands actually are preferred over, but the findings and even some of the predictions in this regard (e.g., the prospects for global brands in durables vs. non-durables) are equivocal. Additionally, a complementary perspective is provided by work concerning the conditions under which local brands are likely to thrive, which places comparatively more emphasis on early-mover entrenchment and comparatively less on (other) sources of advantage or disadvantage (e.g., Kapferer [2000]).

While these are valuable insights, they are qualified by a fundamental difficulty with the basic approach of focusing on customer rationales, however broadly construed, for global standardization. The "business" or supply-side rationale for global standardization—the economies of simplicity and standardization adverted to by Levitt, in addition to the alleged homogenization of tastes—is thereby de-emphasized. Yet, presumably, the viability of globally standardized products relative to locally customized products should reflect the interaction of supply-side and demand-side effects. In other words, customer preferences for globally standardized products are neither necessary nor sufficient for such products to displace locally customized varieties. Instead, assessment of their relative viability requires a cross-functional or strategic approach that integrates the supply and demand sides. The case example presented in the next section underscores the importance of such integration and helps suggest a theoretical structure for achieving it.

Implications

If you can't fix it, merge it with something else—Art Buchwald, “Big Boy Mergers,”
Sept. 2001

The ideas that a few core producers, a few large production platforms (in terms of countries) or a few global varieties will win out all embody dinosaur economics, a state of mind in which one is in a thrall to the economies associated with being or becoming very large. It is this unexamined faith in scale economies that finds expression in confident avowals that seller concentration, geographic concentration or product standardization is increasing.

Think of some of the differences that a misplaced faith in dinosaur economics can make:
-Acquisition of another automaker: competitive advantage (dinosaur economics) vs. providing a public good that benefits others in the industry as well.