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Don't Think Global —
Think Regional

by Karl Moore and Alan Rugman

Think global, act local is the familiar slogan that perpetuates a narrow view of globalization strategy: Multinational corporations (MNCs) develop one global product for the world market, and are able, through their vast economies of scale, to dominate local markets everywhere.

But this perspective fails to acknowledge that most business activity by large firms takes place in regional blocks, not in a single global market. For many firms, we propose a new slogan: Think regional, act local, forget global.

Most MNCs headquartered in North America earn the majority of their sales in their home region of North America, or by selling to members of the Triad, which encompasses North American Free Trade Agreement (NAFTA) and European Union (EU) nations, Japan, and the Asian tigers.

In only a few industries — consumer electronics, for example — is a global strategy superior. In fact, for most manufacturing and virtually all services, a national or regional approach is more sensible than a global one. And for a growing number of MNCs, a regional strategy works best. Sectors such as bulk chemicals, automobiles, and pharmaceuticals have shifted from a national to a regional focus in North America, with companies setting up regional headquarters responsible for NAFTA countries.

Statistics reveal the power of regional markets. For instance, more than 85 percent of automobiles sold in North America are built in North American factories; more than 90 percent of the cars produced in the EU are sold in that region; and more than 93 percent of all cars registered in Japan are manufactured domestically. In specialty chemicals, more than 90 percent of all paint is produced and sold regionally by MNCs in the Triad. The same is true for steel, heavy electrical equipment, and energy. Nearly all activity in New Economy services, which employ about 70 percent of the work force in North America, Western Europe, and Japan, is essentially local or regional.

Companies can source goods, technology, information, and capital from around the world, but business activity tends to be centered in certain cities or city regions in a few parts of the world. Prominent examples of new industry clusters include 3G telecommunications in Japan; textiles in the area surrounding Milan, Italy; and the high-tech cluster called Silicon Fen around Cambridge, in the United Kingdom. The United States has Silicon Valley and Boston's Route 128 for high-tech industry; Houston, Tex., for energy; and Wichita, Kan., for aerospace. The importance of clusters has given cities and states more clout to compete nationally and worldwide to attract new R&D labs, plants, and head offices.

What does the regionalization of business mean for managers of MNCs? First, businesses need to

view the world as four entities: city clusters, nations, regions, and the globe. Second, with few exceptions, regions are becoming the focus of strategy analysis and organization. DuPont and Procter & Gamble Company, for example, have rolled their three separate country subsidiaries for the U.S., Canada, and Mexico into one regional organization. This is true of other MNCs operating in the NAFTA region.

world-class business capabilities that position their unit of the company to win broader regional responsibilities for achieving corporate goals. For example, a subsidiary's capability could be its skill in developing and manufacturing a product line. Pratt & Whitney Canada manages a critical line of engines for P&W worldwide. Nokia in the U.K. leads the Finnish telecommunications company's product development for

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The same is happening in Europe with the EU's push toward greater economic integration.

Many foreign subsidiaries will assume the role of sales and service organizations, responding to the local needs of foreign customers. However, subsidiaries that take on a more demanding leadership role in a region, and in the parent's global network, can add considerably more value to the firm worldwide. One of the theoretical advantages of being global is the ability to tap into learning and innovation worldwide; an MNC's leading subsidiaries can make this happen. In addition, leading subsidiaries can take on global and regional responsibilities for R&D, manufacturing, product management, and key marketing functions.

The top executives of foreign subsidiaries have a special role to play in turning their operations into more than mere sales and service outlets. Specifically, subsidiary leaders can promote the development of

several key products. Panasonic in Spain handles key aspects of pan-European strategy, and so on.

Lead subsidiaries, especially those operating in the Triad, usually have earned their roles rather than been given them by an authoritarian head office. Our research suggests foreign operations build their stature in the global corporate network by working diligently to establish world-class capabilities, and by communicating those competencies to the head office as well as other lead subsidiaries.

Globalization presented as a single world market for free trade does not exist; Triad-based production and distribution is today's reality. We believe corporate strategies that are aligned with this reality will be the most successful long into the future. ✚

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When Will Cinema Go Digital?

**by Michael S. Katz,
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With the May 2002 release of George Lucas's *Star Wars: Attack of the Clones*, the spotlight is again focused on the promise of digital cinema. But, as in other areas of entertainment, the digital transition in cinema has not been smooth. A new Booz Allen Hamilton study suggests that full acceptance of digital by the film industry is only a distant possibility, unless key players can redefine how they share revenues and find creative ways to finance the multibillion-dollar cost of the changeover.

At least a half-dozen films shown at this year's Cannes Film Festival were shot at least partially using this new technology, which stores video and audio as digital data so it can be manipulated and transmitted electronically. However, few moviegoers actually saw Mr. Lucas's film in its pure digital form. Although *Clones* was shot digitally from beginning to end, and Mr. Lucas seemed as intent on spreading the word on the wonders of the new technology as he was on hyping his movie, when it opened in the U.S., only 60 screens out of 5,000 displayed it using digital projectors.

The problem is, the directors may be hooked on digital, but the studios and theater owners — the companies that would have to finance a new digital infrastructure — aren't. Their argument? With 36,000 screens in the U.S., it could cost $5 billion to $7 billion to upgrade the entire infrastructure. Why undertake such a large and costly project when the current system works well in getting films produced, distributed, and exhibited to audiences around the world? Plus, in contrast to digital music, digital cinema cannot claim a customer base clamoring for it.

Proponents counter that this attitude ignores the flaws in an aging business model and underestimates the promise of digital cinema not only as an entertainment medium, but also as a way to significantly drive down costs and tap into new revenue streams. When a studio produces a movie, for example, it makes thousands of celluloid prints and ships them in metal canisters to theaters. In the U.S., it costs the studios more than $1 billion a year to duplicate, distribute, rejuvenate, redistribute, and dispose of the year's film reels. With digital cinema, much of this cost to the studio would be eliminated because movies could be created, stored, distributed, and projected electronically.

Theaters, instead of being constrained by how many prints they have, could instantly access a digital movie through any projector linked to their server, and simultaneously increase the number of screens showing a film. Consequently, theaters would be filled closer to capacity more often, and revenue opportunities would increase.

Digital cinema also opens avenues for theaters to show new types of content, including preshow advertising and special presentations of live events, such as sporting events or concerts, which appear to be underexploited by the current distribution model. According to Booz Allen analysis, cinema advertising could generate between $400 million and $800 million in additional revenues annually for the U.S. theater industry.

Industry acceptance of digital cinema is only a distant possibility, unless key players redefine how they share revenues.

Still, all of the potential economic advantages of digital cinema — close to $1 billion in additional revenue for theaters and $1 billion in cost savings for studios — are overshadowed by the estimated $5 billion to $7 billion it would take to upgrade the infrastructure, and the advantages don't add up to enough to justify a complete switchover in a short period of time. In this industry, spending money without a quick payback is not part of the culture.

Studios face other obstacles. It is not yet clear which of the competing technological specifications will become the standard for digital cinema, and studios don't want to risk backing the wrong approach. In addition, operating two different

distribution systems for any period of time is not particularly palatable. And, most serious, studios fear that distributing their films over computer networks will lead to piracy.

Meanwhile, the revenue-sharing arrangement between the theater owners and the studios — an old business model that the studios don't want to change — makes digital cinema much less desirable for the theaters. Currently, the largest percentage of revenues goes to the studios at the start of a run, declining about 10 percent each week after the opening. This means that if demand for a new film beats expectations, and theaters can use digital files to immediately show the film on more screens, studios will actually get a larger share of the increased revenues from new releases.

Moreover, the promise of additional revenue from advertising or other uses of the facilities, while attractive, is too speculative at a time when theater owners, facing the consequences of building too many cinemas in the 1990s, are scraping for cash to make interest payments on their real estate, or filing for bankruptcy.

The only hope for digital cinema may lie with the film distributors. These companies collect upward of $1 billion in fees per year to reproduce and disseminate celluloid prints to theaters. Traditional distributors, like Technicolor, as well as companies better known for electronic communications, such as Qualcomm and Boeing, view digital cinema as a potentially lucrative innovation that could cut the cost of distribution and open a new communications market. To test the waters, some are slowly infusing capital into the system. Technicolor recently announced a plan to fund 1,000 digital screens. And Boeing says it will soon have 40 systems in place worldwide that will use satellite technology to distribute films.

Distributors could invest in installation of digital cinema equipment in return for a share of incremental revenues for advertising and alternative content. They could also offer the studios reduced fees as an incentive for providing digital prints. In addition, distributors could syndicate advertising and alternative content, given their relationships with the full universe of theaters. ✦

Corporate Foreign Policy in Times of War

by Eric W. Orts

Modern warfare cannot be thought of simply in terms of military engagements between nation-states fielding formal armies. Global economies don't divide easily into war zones. Indeed, September 11 and the ensuing war on terrorism has jolted

everyone — including business leaders — into a new appreciation of the risks of globalization. There will probably always be places where corruption, terrorism, and human rights abuses occur frequently, but companies that do business in different parts of the world can't assume that the same standards for international conduct that guided

them in times of relative peace will hold in times of war.

The challenges are clearly greatest for companies that do business in the most troubled countries. Trouble is not contained within borders, however; political and social instability in countries and regions affects the operations of enterprises near and far. Corporations everywhere must carefully consider their business risks in this new war on terrorism.

First, keeping workers and workplaces safe in politically sensitive areas can be difficult and expensive. Colombia and the Philippines are well known for kidnappings of foreign employees. As the United States and its allies combat terrorism, one may expect the risks to citizens of these and other unstable countries to increase.

MNCs need to adopt precautionary measures. One rule of thumb: Keep a close eye on the U.S. State Department's Web site for terrorist alerts and security conditions abroad (www.travel.state.gov). Investment decisions must also factor in the possibility that tomorrow's crisis can hatch in a nation considered stable today.

Companies under United States jurisdiction may also face legal liabilities, such as those that stem from an 18th-century antipiracy law known as the Alien Tort Claims Act. Doing business overseas often involves working with shady governments, which could be considered implicit support for those regimes. In March, a U.S. federal judge allowed a lawsuit to proceed against the Royal Dutch/Shell Group of Companies for human rights abuses in Nigeria. The multinational corporation stands accused of helping the Nigerian government

forcefully suppress political opposition. Activists have brought similar lawsuits against companies operating in Myanmar and Saipan. Companies doing business in these and other volatile countries — such as Afghanistan or Israel — need to adopt clear internal foreign policy measures to avoid the risk of similar legal exposure.

business opportunities and risks. Executives must look beyond such factors as the cost and quality of labor and natural resources to consider the character of governments and what they stand for.

This is especially important in emerging markets where standards of behavior and protections are evolving. With its admission into

improve the legal and political system in the country.

Such policy safeguards and local engagement have always been smart; now they are essential. A coherent corporate foreign policy should steer a corporation away from complicity in moral wrong-doing that might be committed by its employees and those with whom they deal, including governments. A good policy should also explain what the company is doing, or plans to do, to help improve conditions in the country.

The war on terrorism and the antiglobalization movement have exposed connections between political and corporate risk.

Risks to reputation in the marketplace are another worry. Think of De Beers, the South African diamond cartel, which was accused by boycotters of buying gems from countries in which civil wars were being fought, allegedly providing rebels with cash. Ultimately, to protect its reputation and market position, De Beers chose to wind down its gem-buying operations in Angola, Congo, and Sierra Leone.

Reputational risks highlight the ethical concerns regarding where and with whom enterprises conduct business. Consorting with pirates, slave traders, terrorists, or other *hostes humani generis* (enemies of all humankind) cannot be morally justified, even if international law cannot yet adequately address these wrongs. Even the appearance of business dealings with groups associated with global outlaws like the Al Qaeda network is enough to raise the ire of a sensitive and aware global citizenry.

These trends suggest that MNCs must take a different approach to analyzing international

the World Trade Organization, China's economic opportunities will grow. But any company doing business in China should have formal internal policies to ensure that human rights are not violated in its own operations, as well as a long-term policy of engagement to

The war on terrorism and the antiglobalization movement have further exposed some of the important connections between political and corporate risk. Whenever a company does business with a corrupt or illegitimate government, it puts itself at risk economically as well as morally. The only rational solution is to develop an internal corporate foreign policy to manage these risks intelligently. ✚

Relearning e-Learning: Principles for Success

by Reggie Van Lee, Sumita Bhattacharya, and Tina Nelson

Like many of the overhyped e-revolutions, Internet-enabled e-learning has fallen on hard times. But looking back at the recent click-and-drag curricula and virtual classrooms, it seems clear the problem lies not with the concept of e-learning, but with its execution.

What did the dozens of failed e-learning businesses spawned by the Internet do wrong? Above all,

we have learned that electronic pedagogy is manifestly *not* a substitute for real teachers in real classrooms. Rather, e-learning will realize its true value only as a supplement to and enhancement of traditional methods. By relearning e-learning, businesses can leave behind irrationally exuberant visions to follow a more rational path. In the next phase of the journey, three business principles can guide e-learning providers toward success.

• **Principle 1: Deliver education in bite-sized chunks.** The

typical post-secondary school consumer of e-learning via the Internet is practical and task-focused. These students enroll in virtual programs to master a particular skill. Most have limited time; they want to learn quickly and conveniently.

Much as the milk industry revived stagnating sales with single-serve containers for people on the go, e-learning companies should cultivate "single-serve" product offerings for these learners. Single-serve education is focused on a single clear subject with relatively limited scope. In many cases, it is a unit or module focused on teaching a

pay for these services.

• **Principle 2: Fill gaps in the traditional education market.** Traditional channels will continue to play a dominant role in the lives of most young learners in the pre-secondary market (i.e., students under 22 years of age). They offer immersive learning experiences and fill a critical socializing role for young adults, a role that could never be duplicated online.

For these full-time students, e-learning will succeed only to the extent that it supplements and fills gaps in traditional education channels. Supplemental learning has

tive, and more cost-effective delivery device. In particular, e-learning tools are a viable substitute for print media. Advantages include easier customization, greatly expanded indexing and word-search functionality, and supplemental multimedia features, such as video and audio clips, hypertext links, and real-time test scoring.

In the near term, the greatest opportunities for e-learning providers lie within the professional and corporate segments. The best customers will be corporations, working adults, and people preparing for certification and examination. E-learning will also help existing institutions teach students differently, using a wider variety of tools and a more customized approach.

Bits and bytes will probably never replace the classroom-based educational tradition in our society, but it will allow that tradition to molt and adapt to a new world in which learning is a part of each one of our days. ✚

As milk companies revived sales with single-serve containers, e-learning companies should cultivate "single-serve" products.

single concept. For example, in just a few minutes a teacher might locate, download, and display a short video that illustrates an event from history. Or a corporation might piece together several modules to rapidly train information technology staff on a customized software solution.

Sometimes the bites come in larger chunks. A Booz Allen Hamilton–led study for the Massachusetts Institute of Technology's Council on Education Technology found that MIT alumni were more interested in obtaining "knowledge updates" than in pursuing further degrees. Such updates could take the form of research papers, relevant articles, or mini-tutorials. Mostly, alumni desired these knowledge updates to keep current professionally, and most people were willing to

existed for decades. (Remember correspondence courses?) Supplements emerge when traditional education channels are unresponsive to a need.

Examples of learning that thrives on the margins today are test preparation programs, continuing professional education, vocational and technical training, and part-time degree and extension courses.

• **Principle 3: Provide better delivery devices.** In health care, a delivery device is the mechanism through which a given therapy is administered, for example, a syringe or an I.V. tube. Like therapeutic substrates, new thoughts and ideas are introduced to a learner through such educational "delivery devices" as lectures, textbooks, workbooks, and videos.

In some instances, e-learning can provide a better, more interac-