

In pursuit of globalization: Learning from the hard lessons

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ABSTRACT

Companies that are successful in their local markets often assume that the ingredients behind that success should enable them to expand around the world. But such thinking can be grossly mistaken. There is multitude of mistakes made by companies seeking to become global competitors. These mistakes are sustained and expensive. They usually stem from a combination of inexperience, ignorance, or arrogance. This paper is based on a review of most recent literature available on globalization initiative made by different companies. The study identifies 12 basic mistakes committed by the failed companies. In this paper, we discuss these mistakes, and offer corrective strategies and courses of action to address them.

INTRODUCTION

With increasing national barriers to trade subsiding, more and more customers are beginning to shop in the global market, and demanding world-class goods and services. While some companies clearly see themselves as global, most other companies including those domestic companies eyeing the global markets need a well defined strategy before entering the global arena. Often, companies that are successful in their local markets conclude that the ingredients

behind that success should automatically enable them to expand around the world (Mariotti, 2000). But such thinking can be extensively and even expensively turn out to be fatal. Deciding how to deal with the globalization of markets poses difficult questions and choices for managers. Both external business forces and internal organizational factors must be considered. External business forces revolve around the interaction of industry drivers of globalization and the different ways in which a business are globalized. Internal organization factors

play a major role in determining how well a company can implement a global strategy.

LITERATURE REVIEW

Given that the focus of the study is on mistakes made in globalization, we briefly look at literature in the stages of globalization as these can make an impact on a firm's entry decision and consequently an evaluation of whether it was a right decision. Derryberry's (1999) classification of globalization into four evolutionary levels is appropriate here as entry decisions are more likely to be influenced by the approach taken by a firm. Derryberry (1999) classifies globalization into four evolutionary levels, which are as follows:

- The multi-domestic company operates independently in each country and maintains little communication among units.
- The international company's headquarters imposes its home country bias on operations in other nations. It often overlooks cultural needs and sensitivities.
- The transnational company addresses the local needs of its operations in each country, but its loose integration foils a coherent global strategy.
- The global company views the world as one market and approaches it with an umbrella strategy that allows lessons learned to be applied globally - thus saving money.

Mistakes made by companies in their globalization pursuit may be due to its lack of understanding of customers, wrongful allocation of resources and an improper understanding of the geographical dispersion

of the markets. Although the literature on globalization typically stresses globalization's potential benefits, it also highlights the complexity inherent in going global. Despite such complexity, many management practitioners and researchers maintain that companies' long-term success and survival increasingly depends on their having a strong global presence (Barkema & Vermeulen, 1998; Bartlett & Ghoshal, 2000). This is because expansive globalization enables companies to leverage R&D costs and knowledge across countries and respond to foreign competitors in their domestic market strongholds (Bartlett & Ghoshal, 2000; Kim & Mauborgne, 1991). At the same time, such global activities are likely to increase the range of cultures (Barkema & Vermeulen, 1997), customers, and competitors (for example, Ohmae, 1989) that a company faces. Therefore, the intricate web of activities and institutions that creates opportunities for global companies also produces tremendous managerial complexity (Sanders & Carpenter, 1998).

Wasilewski (2002) in an empirical study has found that an international marketing strategy that is increasingly transnational improves the multinational companies position in internal efficiencies and/or external flexibilities without sacrificing one for the other. Furthermore, increasing globalization is likely to increase the need to, and hence, the desirability of pursuing transnational marketing strategies over the other international marketing strategy types. However, pursuit of a transnational marketing strategy requires that the multinational company overcome the tradeoff between the pressures for national responsiveness and global integration Wasilewski (2002) concludes that, as such, in the face of

increasing globalization, more successful multinational companies are likely to be those that are more able to overcome this trade off—thus, becoming more ‘global’ may be insufficient as becoming more ‘transnational’ is likely to be more desirable.

A common mistake is to overlook one or more of the above-mentioned factors or pursue unsuitable globalizing strategy, particularly the less tangible ones such as culture (see for example, Yip *et al*, 1988; Barkema & Vermeulen, 1997; Gupta & Govindarajan, 2001). In addition, there is striking similarity of mistakes made by companies seeking to become global competitors. Companies of almost any national origin and size are found to make some common mistakes when they try to grow their international business (Mariotti, 2000; Engardio *et al*, 2001). These mistakes are time-consuming and expensive. They usually stem from a combination of inexperience (for example, Oviatt & McDougall, 1995; Govindarajan, 2001), ignorance (Mariotti, 2000; Gupta & Govindarajan, 2001), or arrogance (Parter, 1993; Mariotti, 2000).

The literature seems to lack sufficient empirical research and evidence on specific strategic mistakes the globalizing companies commit, much less an appropriate framework for key success factors to globalization. This paper attempts to document the mistakes and offers strategies to avoid them when a company plans to go global.

PROPOSED METHODOLOGY

Based on the foregoing review of literature, we construct a short list of common mistakes committed by different companies in pursuing globalization strategies along with some brief recommendations on how to avoid

problems when going global. These mistakes have been identified and documented in the literature. Solutions and workarounds are derived from both published research and authors’ own experience. The remedial strategies presented have worked for the case examples, and thus may or may not be applicable to other cases.

DISCUSSION

A review of the failed or problematic globalizing efforts reveals the following twelve common mistakes that have impair company’s globalization effort. For lack of space, we present them briefly:

Mistake #1: A company does not make the necessary commitments - the investment in people or time- to be successful. Poor preparation, conflicts and inexperience of the top management (Sanders & Carpenter, 1998) lead a company to be more defensive and ethnocentric in its strategic actions which, in turn, makes it difficult to gain the commitment needed to expand beyond its domestic position (Ohmae, 1989; Sanders & Carpenter, 1998).

Recommendation: Do not underestimate the complexity involved in the globalizing process. It is very important to understand the needs of the different market internationally, which in most cases may be very different from the domestic market. Hire, or develop, people with international experience/exposure, and expect international developments to take shorter or longer time than similar ventures would in your country. Without a rigorously disciplined approach, global presence can easily degenerate into a liability that distracts management and leads to wasting of resources. The end result can even be a loss of competitive advantage in

the domestic market (Gupta & Govindarajan, 2001).

A case in point is the launch of Honda accord in the Asian market, after tasting success in America. The car fell short of market expectation because the company did not take into account the needs of Asian market. While the preference in America is for large spacious cars, the Asian market is different in which the preference is for small cars that are easily maneuverable in narrow roads and crowded cities. The company didn't pay attention in this regard and didn't make necessary commitments and investment to understand this fact that leads to the failure of these products in the Asian market (Chandler, 1997).

Mistake #2: The international business is seen as "incremental" to the home-market business (Sanders & Carpenter, 1998), and thus, given lower priority. As a result, the foreign operation is developed with inadequate financial resources and management support.

Recommendation: Marketing, management, operation and financing plans must consider the entire range of global markets (Gupta & Govindarajan, 2001), with the home market treated as an important one -but not the only important one in the portfolio.

'Natura', a direct-sales cosmetics company, judged as Brazil's most admired company for three consecutive years, learned that lesson the hard way. Although *Natura* has defended its strong market position in Brazil against international giants like *Revlon*, *Estee Lauder*, *Proctor & Gamble*, and *Shiseido*, it failed to leverage its enormous product development and marketing strengths abroad –even in nearby markets like Argentina, Chile, and Peru. The company was unwilling to assign

heavyweight managers to the new market opportunities. Abroad, it relied on unsupported midlevel expatriates and hastily hired outsiders who failed one by one. As a result, they failed to build a viable business abroad (Bartlett and Ghoshal, 2000).

Mistake #3: The senior executives do not get involved deeply enough until there is a crisis that affects earnings (Sanders & Carpenter, 1998).

Recommendation: A case in point is the US-based multi-billion dollar cola company, PepsiCo, Inc. In the early 1990s, PepsiCo, had established an ambitious goal to more than triple its international soft drinks revenues—from \$1.5 billion in 1990 to \$5.0 billion by 1995. The mid-1990s were a period of turmoil for Pepsi, a crisis that affected the earnings severely. Thousands of customers in the US and Canada were boycotting the company's products as well as those of a number of its affiliate companies. In addition, Pepsi was also under attack from a host of human rights organizations as well as its own shareholders and various other stakeholders. All these was to express resentment over PepsisCo's decision to have a presence in Myanmar (formerly Burma), a country ruled by military dictators (Horn, 2004).

The damage had just begun in the summer of 1996, when one of Pepsi's major institutional customers in the US, the Harvard University, bowing to protests by students against the company, decided not to allow Pepsi to sell its products on its campus. Losing out on Harvard University's business cost Pepsi a million US dollars, the company did not get involved deeply in the matter to stem the rot. More severe damage was to come subsequently when the 'Boycott Pepsi'

movement spread to over 100 other colleges and schools across the US and students demanding Pepsi to discontinue operations in Burma. As a consequence of this, Pepsi lost a number of contracts at many leading universities including Stanford, Colgate, and U.C. Berkeley (Stanford, 2001).

Despite these warning signals, Pepsi did not respond quickly, and it received another blow - this time from the municipalities of various cities in the US. By the end of April 1996, a number of municipalities had agreed to terminate business with Pepsi. Anti-pepsi demonstrations, boycotts leading to loss of business were also reported from the United Kingdom (UK), Canada and Australia (Horn, 2004).

By 1997, when Pepsi finally decided to withdraw from some such controversial markets, it had already incurred a loss of nearly \$1 billion. All this happened at a time when the global market for beverages continued to expand rapidly, and its major competitor was recording impressive growths in the international market (Gupta & Govindarajan, 2001). The lesson learnt from this is that senior management must be committed in a meaningful way from the start. It must be proactive. Environmental scanning must be periodically undertaken and the risks and potential of business in international markets must be analyzed from a global perspective.

Mistake #4: Most companies do not articulate clear priorities, initiatives and direction.

Recommendation: Companies that promise to be the best performers in the coming years will combine clear vision with clear strategic priorities and the tactics by which they expect

to achieve success. Smith (2001) suggests that management should set two or three strategic priorities, stay with them even in the face of resistance, and spend their time on the implementation tools.

“As critically important as it is to have the strategic priorities, it is just as important to identify the tactics,” stresses IBM’s Panico. “Some companies do a very good job of establishing strategic priorities and then are handcuffed by their inability to translate those into a workable plan that is understood by the organization and that can be manipulated to produce the results that they are looking for” (McClenahan, 1999).

Says Bartz of Autodesk “I provide a paragraph explaining why it is important, but I rely on my vice presidents to add bulk” to the priorities and determine what needs to be done to incorporate them into daily activities. Bartz understands that some of Autodesk’s strategic priorities will change, many will become part of the culture-and some (being a market leader) will never change. “The most important thing is to pick them [the strategic priorities] and go,” says Bartz. “It is less important that the priorities are perfect. It is more important that people understand them and embrace them” (McClenahan, 1999).

A research study by Brandman (2000) found that successful globalizers consistently employed four key strategies: leveraging a competitive five advantage of either skill or scale; pursuing a narrowly focused market strategy; aligning the organization and operations with globalization; and managing globally while empowering locally. A high proportion of globalizers seemed to have no clear strategy for capturing value through global expansion. Successful globalizers leverage an advantage in at least one of

several key areas, including brand, market strategy, core competencies, common systems and management disciplines, among others.

The study highlights some worrying aspects of globalization, particularly that some companies cannot explain their motivation for expanding worldwide. Most companies have chosen to globalize either to serve important domestic customers in foreign markets or to exploit inefficiency in a foreign market or break out of a low growth domestic market (Brandman, 2000).

Yet, for companies keen to join the new economy there are some interesting revelations: newer globalizing companies are gaining a disproportionate share of customers early in the race, because of expansion over the Internet (Schmidt, 1999; Mariotti, 2000; Gupta & Govindarajan, 2001).

Mistake #5: Company's rush to grab that popped-up opportunity (Simms, 2001).

Recommendation: A more methodical pace sometimes proves to be prudent. One U.S. utility company that was determined to go global did so at an admittedly slow, yet sure pace. "Our globalization strategy was a long time in the making; we were getting some suggestions that we were slow to move out of our regional upbringing," said Earle Nye, CEO of TXU, in Dallas. Describing a strategy that echoes the careful, narrow focus of *Scottish Power*, Nye explains, "We didn't want to try to be everything to everybody, or to be in more regions than we could manage. We select regions carefully, plan to be there for the long-term and want sufficient scale," he says, (Thurston, 1999).

Similarly, careful analysis led TXU to outbid NEES and other bidders successfully in 1998

with an estimated \$8 billion offer for the UK's Eastern Group. Now the Eastern Group is expanding in Europe at the same time TXU builds its U.S. and Australian presence. TXUs Nye warns, "There is an after-market in some of these properties and you want to be sure not to get caught up in the lemming run," he says, alluding to companies that pay premiums where none is warranted. "If markets mature, you have to go through a sorting-out process, where margins are thin and efficiency and productivity go up," he says (Thurston, 1999).

Blockbuster, the number one video rental store in US, looked to attractive overseas markets and found that Germany is the fourth largest video rental market in the world. To grab the opportunity blockbuster opened 7 stores in Munich and 10 stores in Berlin. But these did not do well. Research conducted after that showed that Germans preferred to watch movie in theatres. Perhaps Blockbuster's most serious error was that it failed to see that one-third of all video rentals in Germany are for pornographic films. Even though Blockbuster didn't rent pornographic films, all video stores have a negative image and children were encouraged to stay away from them. Due to lack of planning and research Blockbuster had to shut down its stores in Germany.

Mistake #6: A company enters into a joint venture or alliance with a local-market competitor often taking a minority position (Gupta & Govindarajan, 2001).. After a few years, an adversarial relationship develops and the joint venture breaks up. The company then is, in some cases, blocked out of that market - and often neighboring markets as well -by its former local partner.

Recommendation: Ring and Van de Ven (1992) state that rapid changes in technology, competitive environment, firm strategies, and other pressures are prompting many firms to seek cooperative relationships with other firms. But venturing is risky. Careful selection of partners, if needed, is of paramount importance for successful globalization ensuring that any investment is proportional to the position desired in the future. Mariotti (2000) suggests that a 50-50 deal is probably the best arrangement, because both partners have much at stake, but neither is subordinate to the other. Make sure that both partners can benefit from the joint venture -or do not get involved in the first place. In addition, an alternative strategic plan should be well in place in case of venture failure.

In the early to mid 1990s, joint ventures or alliances between U.S. biotech companies and Japanese pharmaceutical and manufacturing firms were frenetic. Many deals were done with little if any due diligence, and as a result, although there have been some success stories, there were also many failures.

Mistake #7: In moving to new markets, the company merely imitates the crowd (Oviatt & McDougall, 1995; Oliver, 2000).

Recommendation: In geographic terms, globalizers should focus on north versus south of the globe. For the last fifty years, the largest component of inter-region global trade was East-West, between the U.S., EU, and Japan. Now, most of the trade between these regions is mature, and the rapidly growing trade routes are North-South (Oliver, 2000).

Oliver (2000) maintains that the fastest growing market for the U.S., for example, is

Latin America. Latin America has a population nearly 70% larger than that of North America. This is nothing, however, when compared to Asia. The population of Asia is larger than the rest of the world combined, rapidly closing in on four billion people. By shifting the focus away from East-West, companies can take advantage of a far greater growth potential.

Most of the dotcom firms that goes global during the boom period of 1999 failed during recession because they didn't take the right path and strategies to go global. They just went global because everyone else is going. The most number of bankruptcies were filed in this time by these dot.com companies.

Mistake #8: A company charts its business based solely on geographic territories (Oliver, 2000; Fernard and Greenfield, 2001; Gupta & Govindarajan, 2001).

Recommendation: In the past, the common advice was to adapt products and services to local tastes. This may not always work. Durk Jager, Procter & Gamble's new chief, recently made a telling change to shake up his lumbering organization. Procter & Gamble now tie strategy and global profit targets to the performance of global brands, not single markets, countries, or even regions. To succeed, every new product must be designed with the consumers in a worldwide market in mind (Oliver, 2000; Gupta & Govindarajan, 2001).

Marketers today must chart their marketing strategies carefully and adopt new methods and technologies such as mass customization manufacturing to provide consumers with products tailored to their needs.

Mistake #9: The company fails to carefully study and calculate the local business

conditions in the foreign markets (Bartlett and Ghoshal, 2000; Oliver, 2000; Gupta & Govindarajan, 2001).

Recommendation: In the continuing presence of what is essentially a world confederation, global companies should proceed with caution when considering the adoption of one-size-fits-all global marketing, distribution, and production strategies. The international economy, at least in terms of the policies promulgated by nation-states, is a misnomer at best. One market bounded by internal political instability and insufficient infrastructure may best be served through exports, whereas a different market exhibiting a tangled and ingrown distribution system may best be addressed through a wholly owned subsidiary. The point is that differences in entry mode and operations are likely to persist well into the next century despite overheated rhetoric about the global economy (Fernald & Greenfield, 2001).

Companies operating in the global environment face daunting challenges, including trade barriers (Fernald & Greenfield, 2001; Engardio et al, 2001), intellectual copyright theft (Oliver, 2000), and great variability in international laws and regulations (for instance, Hordes *et al*, 1995; Oliver, 2000). When facing these challenges, a 'win-win' perspective can be used as a template through which managers can formulate effective competitive strategies.

Assuming the company has a product in which the local consumer is interested, the question is does the company have a delivery system that can deliver the product at reasonable cost (Mariotti, 2000) and a reliable supply chain (Gupta & Govindarajan, 2001)?

The scarcity of global companies is caused by the general failure of most companies to ensure that the three foundations of every growth strategy support their foreign expansion strategies. Every growth strategy must be built on the following pillars: the company must offer a competitively superior product as defined by local consumers; secondly, the company must be able to develop superior economics across the value chain that delivers the product to the local consumer; and thirdly, global company must be able to execute in the local environment (Oliver, 2000).

Profit formulas, however, can easily be distorted in foreign markets. Local factor prices for labor, and cultural considerations such as the availability of prime real estate in city centers, play determinant roles in the value chain for most companies. The availability of prime retail space, for instance, cannot be taken for granted in many jurisdictions. One company had an efficient money making formula even with a 150 square meter space. When this company moved into France, it discovered that old French cities offered few prime locations of this size (Fernald & Greenfield, 2001).

These local execution challenges are surmountable. If, however, the global company intends to enter a foreign market, it must be sensitive to local cultural issues, and then be humble enough to accept that no matter how well it has prepared, some aspect of local culture will probably surprise it. Therefore, global entry plans must consist of some measure of humility, and flexibility (Bartlett and Ghoshal, 2000; Gupta & Govindarajan, 2001).

Cost considerations initially led Procter & Gamble to standardize diaper design across European markets, despite market research data indicating that Italian mothers, unlike those in other countries, preferred diapers covering the baby's navel. After some time, however, recognizing that this particular feature was critical to Italian mothers, the company consequently incorporated this design feature for the Italian market, despite its adverse cost implications.

Mistake #10: Company's usually focus on large geographic territories, while most of the business is taking place in small countries (Bartlett and Ghoshal, 2000).

Recommendation: Global companies should focus on ethnic segments, not countries. Today, with the empowering technologies of information, countries are splintering and reforming, trying to redefine themselves ethnically. International strategy focuses on nations and large geography whereas global strategy focuses on customers and how they define themselves (Parter, 1993; Oviatt & McDougall, 1995).

Moreover, a country's size no longer has much relevance to its wealth. Russia (the largest country in the world) is experiencing declining living standards, despite a wealth of natural resources. Other countries in the top 10 in geographic size, such as China, India, and Argentina, are still developing, while #9, Kazakhstan, and #10, Sudan, is among the world's poorest nations. Meanwhile, small, culturally defined economic powerhouses such as Singapore, Taiwan, and Malaysia have vaulted from their birth as nations just a few decades ago into

the economic big leagues today, despite their tiny landmass. The 10 countries with the world's highest per-capita GDP include diminutive plots of land such as Luxembourg, Switzerland, Japan, Belgium, and United Arab Emirates (Oliver, 2000).

Mistake #11: A company believes that most business potential exists somewhere far away (Oliver, 2000; Korzeniowski, 2001; Simms, 2001).

Recommendation: Companies should focus on neighbors first. Most trade happens between neighbors, no matter which part of the world. The Czech Republic sells to Slovakia and Germany, Vietnam sells to Thailand and Singapore, Uruguay sells to Brazil and Argentina. Despite thorny political differences, the Baltic countries are economically joined at the hip. The same is true of all the Middle East (Oliver, 2000).

Mistake #12: A company attempts to target the whole country (Hordes et al, 1995; Korzeniowski, 2001).

Recommendation: Global companies should focus on cities. At the end of the 19th century, only one-tenth of the world's people lived in cities. Today half do. The world's five largest cities are more populous than most of the countries on Earth (Schmidt, 1999).

The rapidly growing global giants are not gaining market share by being in every town. They are becoming dominant forces in the world's biggest cities (Schmidt, 1999). Hence, it is clear that if a company wants to market to a country, it need not target the entire countryside; rather it is appropriate to focus on cities.

LIMITATIONS AND FUTURE RESEARCH

The literature lacks a full synthesis of the key characteristics to successful globalization. Therefore, a further empirical investigation into the key characteristics of the successful globalization in order to derive the mistakes the companies are likely to make, is needed. Moreover, the internal and external contexts of these mistakes should be critically examined, as well as the possible remedial measures may be explored and validated by further empirical analyses to synthesize general deductions. This will help understand globalization process more fully and develop a framework for successful globalization. In the absence of such a framework, the paper has presented the experience of the failed globalizing attempts that will assist in conceptualizing a full picture of the pitfalls specific to globalization, and deriving possible remedial strategies.

CONCLUSION

Targeting faraway markets wisely and prudently can generate growth and profits for years to come indeed. Competitive and prosperous global companies are likely to be those that more understand and more successfully manage interdependence and relationships in both their external and internal environments. However, half-hearted

or ill-conceived globalization efforts may produce nothing more than a deep hole into which the companies pour money, time, and effort with little or no return.

Internationalization strategies require only incremental changes to a company's strategy. Globalization, however, requires rethinking all aspects of strategy and implementation. In fact, globalization demands a new mindset. Oviatt & McDougall (1995) have identified seven factors commonly associated with survival and growth of the global start-ups. These factors are: availability of a global vision from inception, internationally experienced managers, strong international business networks, exploitation of preemptive technology or marketing, presence of a unique intangible asset, close linkage among the product extensions, and closely coordinated organization worldwide.

The mistakes presented above are a few of the potential pitfalls that can trap up companies trying to become global. Some of these mistakes (such as mistakes numbered 1, 3, 4, 5, 6, 7, and 9) are generic, and thus are not necessarily specific to the process of globalization. Yet, the key message in all of this is: a complete homework needs to be done concerning the opportunities, threats, resources, commitments, and actions required prior to globalization.

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A Short Bio of Mohammed Asim Burney

Mohammed Asim Burney earned his Master of Business Administration and Bachelor of Science in Mechanical Engineering degrees from King Fahd University of Petroleum & Minerals in 1987 and 1983, respectively. He is with the Research Institute of KFUPM since 1991, and has been consulting extensively on business issues including marketing, marketing research, strategic planning, and performance improvement. Besides, he has been teaching courses in business and management. Mr. Burney has published in refereed journals and conference both on national and international levels. He is member of several professional associations such as Academy of Management, and International Society for Performance Improvement among others.

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