

THE LUXURY PHENOMENON – THE GLOBALIZATION OF VARIETY

Murali Murti, Professor of Management,
PES Institute of Technology, Bangalore, India

ABSTRACT:

Our contemporary understanding of globalization is an increasing interlinking and interdependence of national economies within a global economy. This view of globalization has become associated with large corporations driven by their own immediate self-interests. This process is seen as leading to an increasingly homogeneous global culture. This can be described as *the globalization of uniformity*.

The globalization of uniformity is most often identified with the phenomenon of outsourcing, and the rise of the truly global corporation. Many of the arguments against globalization arise out of fear engendered by this process; a fear that such globalization of uniformity may lead to a loss of cultural identity and national sovereignty.

But there is another, less widely studied, aspect to globalization. Improved communication, access to information, and lowering / elimination of barriers to trade, can also lead to greater entrepreneurship and innovation. Globalization in this perspective can lead to specific local competencies taking deeper root and finding opportunities to flower not just in their local markets, but across the world. This can be referred to as *the globalization of variety*, which, to some extent, can reverse the outsourcing process and strengthen local cultures.

One example of the globalization of variety is the luxury industry, which is today composed of *companies which started out mainly as small family-owned businesses and social enterprises barely fifty years ago*. Significantly, the luxury industry is largely Europe-driven, and now has an important role to play in the continued evolution of European culture, identity and ethos. Research has shown that *changing the definitions of luxury has the potential to transform attitudes towards wealth*. This is critical to the future global economy.

This paper studies the luxury industry as a microcosm of the globalization of variety. Based on the analysis of the luxury industry, the paper proposes a taxonomy within which different industry sectors can be studied from the two different globalization perspectives, and which can be used for making policy recommendations to catalyze the evolution of new competencies within a local economy, and drive these systematically to take advantage of the process of globalization of variety.

JEL classification: F01

Keywords: globalization, industry, taxonomy

INTRODUCTION

Fifty years after international trade became a significant feature of the global economy – after a gap of half a century of wars and tumultuous socio-political change across the world – the debate on globalization has shifted in focus. From whether globalization is indeed a fact and therefore how societies, corporations and individuals need to adapt, the questions are now linked to the benefits and the costs of globalization. Particularly after the 2008 global financial crisis, the debate has increased in urgency. As a measure of this, it is instructive that even think tanks that work with the Conservative Party in the UK have described our current society as *“an oligarchical market state that monopolises power and wealth,... that effectively disempowers everybody else”*. (Blond, 2008)

In this debate, there is little opposition to the obvious benefits of globalization. People everywhere now have access to a variety of products and services that provide improvements in daily living unimaginable even a generation ago. Many of the classic predictions of trade theory have been vindicated, from Finland becoming a global centre for mobile phone technology research, to the domination today enjoyed by the Japanese automobile industry, to India as a global source for software services, and most dramatically, China emerging as a global economic superpower on the basis of her manufacturing prowess.

On the other hand, the drawbacks of globalization have also drawn increasing attention from the academic community. At a fundamental level, a view has been put forward that globalization merits study as a branch of International Relations rather than management (Guedes & Faria, 2007), thus asserting the political sensitivity of globalization as an issue. It is admitted, even by its most diehard propo-

nents, that while there is a commendable acceptance of the need for free trade and liberal economic policies, globalization has not led to the free movement of labour. (Tandon, 2008). While “*kaleidoscopic comparative advantage*” (Bhagwati, 1998), implying fierce competition at a global level between large firms, is a distinctive feature of a globalised world, it is still unclear what the gains from such outcomes are (Tandon, 2008).

The need for institutional changes as a way to mitigate the downsides of globalization has been the conclusion of many researchers (Bhagwati, 1998). Allied with this is the need to redefine corporate governance in a global context, to eliminate inter-country loopholes (Guedes & Faria, 2007). The ideas of sustainability and corporate social responsibility have also gained traction as alternatives to the ill-effects of globalization.

The focus of this paper is rather different. It views globalization from neither an economic free trade framework, nor from the perspective of management theory. It postulates that globalization develops in two paradigms – *the globalization of uniformity*, which is characterized by an increasing degree of similarity and homogeneity amongst organizations globally in term of their processes and ethos, and *the globalization of variety*, which is characterized by competencies evolving through entrepreneurship at grassroots levels in different countries, growing in scale ultimately to create distinct comparative advantages at the country level. The global luxury industry is used as the basis for examining the relevance of this view.

THE GLOBALIZATION OF UNIFORMITY

The most visible aspect of the globalization process has been the rise of the multinational corporation. From 1960 to 2008, the number of companies which can be classified as MNCs has risen almost tenfold. The percentage of international trade attributable to MNCs is now significantly higher than it was fifty years ago.

The most positive feature of this growth is the internationalization of the MNC. From domination fifty years ago, the percentage of US corporations has dropped to barely 30%. Increasingly, companies from the Newly Industrialized Country category (China, India, Brazil) have established themselves as successful MNCs (Hill & Jain, 2007).

A significant reason for the success and proliferation of MNCs has been the productivity increases made possible by deployment of complex information tech-

nology (IT) systems. IT systems have enabled corporations to develop distinctive competencies to help them outperform smaller rivals. Allied with the deployment of IT systems has been a more scientific approach to the design of business processes within organizations.

However, this has taken place within a period of consolidation in the international IT industry. Thus, over the past thirty years, organizations have moved towards the adoption of a few well-established international standards. Thus, Microsoft Windows has become the default desktop OS for most of the employees of today's corporations. Similarly, Oracle databases form the core of the majority of financial systems, and SAP software the major basis of supply chain processes. Such adoption of standards has led to increasing similarities in the business processes of organizations.

Consequent to this increasing standardization of business processes has come an increasing similarity in employee roles, and therefore of organization culture and attitudes. *To an increasing extent, working in one MNC is no longer very different from working in others.* This is one aspect of what can be called the globalization of uniformity.

A second consequence of IT has been its effect on communications, and with it the effects on marketing. Rapid access to information across the globe for everyone now makes it possible for corporations to migrate to a global strategy – viewing the world as a single market with only marginal country differences – to a much larger degree. This effect is most pronounced in the financial markets, and to a great extent also in the markets for high technology products.

Consequently, consumers everywhere now have the opportunity to choose from an increasingly standardized and narrow basket of brands – whether for colas, automobiles or cell phones. This is a second aspect of the globalization of uniformity.

There are several indices, which have been evolved over the years, for the measurement of the extent of globalization in a particular country. The KOF index has gained widespread acceptance and is used in this paper for the analysis of data (ETH Zurich, 2009).

THE GLOBALIZATION OF VARIETY

Globalization was not only expected to usher in a new era of free trade. It was also expected that the process would act as a catalyst for entrepreneurship develop-

ment. It was expected that this would in turn make available to the global consumer an increasingly diverse set of products and services to choose from, leading hopefully to an increase in the quality of life. This expectation has been borne out to some extent by the pace of development of so many countries, as also by the small, but increasing number of products and services innovated outside the developed world. This phenomenon may be termed “the globalization of variety”.

The role of entrepreneurship in economic development and growth is an area that has been studied and understood perhaps less fully than other aspects. The Schumpeter thesis (Schumpeter, 1942), that entrepreneurship gets gradually subsumed as a routine activity by large corporations, has never been fully validated and does not explain the continual entrepreneurial dynamism shown in advanced economies since the 1980s. Furthermore, in a globalizing world, the entrepreneur is *“located at the intersection of several key fault lines of the modern age”* (Dahm, 2006). Therefore, it is perhaps even more necessary today to assess, and evolve a model for, the role of entrepreneurship in economic development, and more important, in sustaining economic vitality and innovation.

Vinig and Kluijver (2007), studied the impact of globalization on entrepreneurship, and found no statistical correlation between the level of globalization in a country, as measured by KOF index, and the level of entrepreneurship in that country, as measured by Global Entrepreneurship Monitor (GEM) data. Surprisingly, and perhaps disturbingly, they found a negative effect of globalization on entrepreneurship in low GDP countries.

However, this study did not distinguish between the two types of entrepreneurship now commonly accepted, viz. Traditional Entrepreneurship Activity (TEA) and Social Entrepreneurship Activity (SEA). This has been attempted in this paper.

GLOBALIZATION AND ENTREPRENEURSHIP: ANALYSIS OF DATA

For the purposes of this paper, the year 2009 has been chosen as the basis for analysis. Data has been obtained from two sources:

1. For estimates of globalization, the KOF index has been used
2. For estimates of entrepreneurial activity, data from the Global Entrepreneurship Monitor (GEM) 2009 report has been used.

This paper follows the categorization of economies into Factor Driven Economies, Efficiency Driven Economies and Innovation Driven Economies, as defined in the GEM report.

Following the GEM report methodologies, Social Entrepreneurship Activity (SEA) has been subdivided into the following categories for analysis:

1. SEA that has Not For Profit (NFP) objectives
2. SEA that has Hybrid objectives, i.e. a combination of not-for –profit and for-profit objectives
3. SEA that has only For Profit (FP) objectives
4. Since the division between SEA and TEA is sometimes blurred, a fourth category of “TEA+SEA” has also been included.
5. Finally, a summary analysis has been performed for pure TEA activity as well.

Data from a total of 43 countries has been used for the analysis. For each country, data for each of the above 5 categories of SEA and TEA were correlated against the globalization index KOF for that country. Thus, the data set consisted of 258 distinct data items.

The list of countries referenced for analysis is given in Table 1.

Table 1: List of Referenced Countries by Economy Type

Factor Driven Economies	Efficiency Driven Economies	Innovation Driven Economies
Algeria	Argentina	Belgium
Jamaica	Bosnia & Herzegovina	Finland
Lebanon	Brazil	France
Saudi Arabia	Chile	Germany
Uganda	China	Greece
Venezuela	Colombia	Iceland
	Croatia	Israel
	Dominican Republic	Italy
	Ecuador	Korea
	Hungary	Netherlands
	Iran	Norway

	Jordan	Slovenia
	Latvia	Spain
	Malaysia	Switzerland
	Panama	United Kingdom
	Peru	United Arab Emirates
	Romania	United States
	Russia	
	South Africa	
	Uruguay	

The hypothesis which has been tested is as follows:

“Globalization leads to an increased level of entrepreneurship activity in a country”

This hypothesis has been tested by calculation of the Pearson coefficient of correlation “r” between the Globalization Index (KOF) for a particular country, and the Entrepreneurship Index as given for each category of SEA or TEA for that country in the GEM report.

The results are given below in Table 2

Table 2: Pearson’s Coefficient of Correlation “r” between Globalization Index and Entrepreneurship Index, 2009

S.N	Category	Average KOF	Not For Profit SEA	Hybrid SEA	For Profit SEA	TEA + SEA	TEA
1	Factor Driven Economies	61.69	0.7619	-0.1909	-0.4436	-0.1176	-0.4924
2	Efficiency Driven Economies	67.58	0.0545	0.1289	-0.5923	-0.3169	-0.4302
3	Innovation Driven Economies	80.26	-0.372	0.5203	0.2023	-0.3682	-0.2338

This analysis clearly brings out the following for the year 2009:

1. Traditional Entrepreneurship Activity (TEA) declined significantly in 2009 for all three categories of economies in spite of globalization.
2. The “blurred” category (TEA+SEA) also declined significantly during 2009 for all three categories of economies

3. Factor Driven Economies, with the lowest average level of globalization at 61.89, showed growth in Social Entrepreneurship Activity (SEA) with Not-For-Profit objectives.
4. Efficiency Driven Economies, with an average level of globalization at 67.58, showed a slight increase in SEA that had Hybrid objectives, i.e. a combination of profit and not-for-profit objectives.
5. Innovation Driven Economies, with the highest average level of globalization at 80.26, showed significant growth in SEA that had Hybrid objectives, and also some growth in SEA that had For-Profit objectives.

This leads to the following remarkable conclusions:

1. Lower levels of globalization, as found in factor driven economies, appear to be associated with low levels of entrepreneurship activity during a downturn, but associated also with significant levels of non-profit activity during the same time. Thus, there does not seem to be evidence of small groups of people coming together to find economic solutions during a downturn. Instead the formation of social enterprises appears to be based more on the need to extend help and support to less fortunate segments of society.
2. Medium levels of globalization, as found in efficiency driven economies, are associated with an overall decline in entrepreneurship during a global downturn, but there is some evidence of small groups attempting to “self-help” themselves to find economic solutions during a downturn.
3. High levels of globalization, as found in Innovation Driven Economies, are correlated with a clear pattern of small groups of people coming together to use available people skills as a path to finding economic solutions during a downturn.

This allows us to postulate the following two questions:

1. Can Social Entrepreneurship be a suitable vehicle for increasing the levels of Globalization of Variety?
2. Can Social Entrepreneurship be a suitable vehicle for building up country-level comparative advantages in an increasingly globalized world?

We will now examine these questions using the Luxury Industry as the framework.

THE LUXURY INDUSTRY

At first glance, the luxury industry does not appear to be the ideal example to choose while discussing social entrepreneurship, or the benefits of globalization in general. It is associated with only the very rich and very exclusive. It is also usually associated with the highly developed countries of the Western world. It tends, finally, to be associated with decadence rather than vitality. Nevertheless, any analysis (Kapferer & Bastien, 2009) of the luxury industry – and of the luxury phenomenon – provides useful insights.

First, luxury is a universal phenomenon:

1. Luxury as a concept has been with us consistently since the dawn of time. Even the most ancient of societies evidenced luxury in the form of ornaments, attire, etc
2. Luxury exists because of intrinsic characteristics of human beings – which are common regardless of society and state. There is no country or society where the idea of luxury has disappeared. All human beings exhibit the same characteristic of “aspiring to a dream”.
3. Luxury has been a reason for trade throughout history – the silks of China, spices of India and other Oriental exotica were powerful reasons for the growth in mercantile trade after the Dark Ages
4. Luxury has always been associated with craftsmanship, and thus the development of exceptional skills within a society. In this respect, luxury has always represented national comparative advantage at an incipient stage, in the form of exceptionally skilled tradesmen.
5. Luxury has flowered when communities as a whole have encouraged it. In such environments of encouragement, luxury capabilities have evolved into entrepreneurial ventures.

Second, in today's world, the luxury industry is primarily European in origin:

1. The majority of today's best known global luxury brands are companies that are headquartered in France, Italy, Germany, the UK, Netherlands, Switzerland, etc.
2. Most of today's best known brands – whether Ferrari, Louis Vuitton, Cartier, Chanel, and others – were small, family-owned businesses barely fifty years ago.

3. The strategies which have been evolved to grow these small companies into global brands are completely different from the mass marketing strategies developed in the US and which today dominate the corporate world.

Third, globalization has enabled the luxury industry to make the transition from craftsmanship to mass production:

1. The appeal of a luxury product or service is that it is “one of a kind”, or at the very least, “one of the very few”. Hence its association with craftsmanship and highly personalized customer service.
2. Today’s luxury brands seek to make available this “experience” on a global scale, through innovative marketing, advertising, and delivery infrastructure.
3. The strategic management of today’s global luxury brands is very similar to that of any other product. Concepts such as outsourcing, supply chain efficiencies and the like are now commonplace in this industry. This is now the major criticism directed against the luxury industry – that the industry is in fact deceiving customers into thinking that they are receiving a highly personalized product or service, when in fact the opposite may be true (Thomas, 2007).

Whatever may be the criticisms and their validity, the luxury industry does represent an unusual phenomenon:

1. It is based on craftsmanship capabilities that evolved in even very small societies, and which found social recognition.
2. These personalized skills then became the basis for setting up small companies – a process which we would today describe as social entrepreneurship with a for-profit motive.
3. These social enterprises were enabled by globalization to make the transition to conventional commercial enterprises and become part of nationally important large industries.

Let us illustrate these conclusions with two examples.

1. The Italian fashion industry, based around Milan, is today a multi-billion Euro powerhouse, accepted as one of the three leading global centres for fashion. Yet fifty years ago, there was no Italian fashion industry to speak of. What did exist was an exceptionally skilled workforce distributed in villages

and towns across Italy, serving individual customers in bespoke mode, as a cottage industry. With the Marshall Plan came new factories, which were willing to employ skilled artisans. This led to a new industry, but not one that aped the design houses of Paris and London, but rather one that was rooted in Italian traditions. This fledgling industry also quickly developed the necessary marketing skills, and was able to capitalize on the love affair for all things Italian – from espresso coffee to leather goods to actors and actresses – that swept America in the post-war years. (White, 2000)

2. The Indian spa industry, with over 2000 spas located in 25-30 major centres, generates over \$400 million annually, and has carved itself a small, but growing, niche in the global \$60 billion spa economy. Many of these spas also offer products and services based on India's indigenous Ayurvedic medical traditions, a sector which has received encouragement through Government policy. The sector is poised to grow at a CAGR of 22% over the next ten years, one of the highest in the world. The "wellness" experience offered by these spas is quintessentially and immersively Indian, designed around Indian history, astrology and values, and dedicated to indigenous culture, myths, materials and designs (Sharma, 2010).

The luxury industry, therefore, offers some interesting insights:

1. Social entrepreneurship, rooted as it is in the capabilities of people, is uniquely suited to building up comparative advantages based on people skills that can effectively differentiate a country, or a region.
2. Social enterprises are capable of making the transition from survival to commercial success through systematic evolution of business models, to the extent of achieving global status.
3. Governments can proactively enable this process with the right policy initiatives.

TAXONOMY FOR POLICY MAKERS

With this background, we would like to propose a taxonomy for policy makers, to enable the process of catalyzing the globalization of variety through social entrepreneurship. For this purpose, we define the following:

1. Initiatives Level 1 (L1): Policy initiatives, including funding, with the objective of creating social enterprises that have a not-for-profit objective.
2. Initiatives Level 2 (L2): Policy initiatives, including funding, with the objective of creating social enterprises that have a hybrid objective, i.e. both profit and not-for-profit.
3. Initiatives Level 3 (L3): Policy initiatives, including funding, with the objective of creating social enterprises that have a for-profit objective.
4. Initiatives Level 4 (L4): Policy initiatives, including funding, with the objective of creating traditional enterprises that have, obviously, only a for-profit objective.

Our fundamental proposition is that, within a country, every economic sector can be viewed as either (a) a factor-driven sector, or (b) an efficiency driven sector, or (c) an innovation driven sector. For each type of sector, there should be different policy prescriptions. *The final objective should be to move a social enterprise from a non-for-profit model to a for-profit model, and then encourage it to evolve to a fully commercial entrepreneurial business paradigm.*

This is summarized in the following table.

Table 3: A Policy Taxonomy

Sector Type	SEA Not for Profit	SEA Hybrid	SEA For Profit	TEA
Factor Driven Economic Sectors	L1			L4
Efficiency Driven Economic Sectors		L2		L4
Innovation Driven Economic Sectors		L2	L3	L4

This taxonomy aligns exactly to the analysis of the effects of globalization on entrepreneurship, and therefore would carry a relatively higher probability of success.

LIMITATIONS OF THIS PAPER AND FUTURE DIRECTIONS FOR RESEARCH

No research is ever complete in itself, so the following are the major limitations of this paper:

1. The correlation between globalization and entrepreneurship has been tested for only one year, 2009.
2. The luxury industry has been described, but not rigorously analyzed, in terms of the GEM classifications.

These lead to the following possible directions for future research:

1. Correlation analysis of the rate of increase of globalization with the rate of increase in entrepreneurship, rather than the absolute values.
2. Analysis of sample countries to determine whether the categorization of different sectors into factor-driven, efficiency driven and innovation-driven is indeed valid at a single country level.
3. Analysis of a selected sample of social enterprises to determine whether the proposed transition (as shown in the $L1 \rightarrow L2 \rightarrow L3$ arrows above) is feasible.

CONCLUSIONS:

Every viewpoint carries within it an implicit system of values, and the propositions put forth in this paper are no exception. Perhaps the most important of these values, at least to this author, is the belief that every country and community of people carries within itself the seeds of a special characteristic and special quality. These characteristics manifest themselves in cultural practices and values. It is the assertion of this author that such cultural attributes can be leveraged to provide a better life for people. Every country, in this author's view, has the intrinsic capability to distill and refine its cultural attributes to create products and services, possibly of luxury, that can capture the imaginations of people worldwide.

A second value arising out of this paper is the benefits of the globalization of variety. As contrasted with the globalization of uniformity, the globalization of variety empowers people, and through entrepreneurial action, leads to true improvements in the quality of life, not only for a particular community, but for people everywhere.

In this respect, the author can do no better than to conclude, with a quote from Jagdish Bhagwati, one of the doyens of free trade: *"And, so, free traders must now walk hand in hand with the civil society groups seeking the social agendas. It is not as difficult a task as the first shock of discovering each other seemed to suggest. In fact, it is the task for the first decade of the next millennium."*

REFERENCES:**Books**

1. Hill, C. & Jain, A. (2009). *International Business*. ISBN-13: 978-0-07-0221796
2. Kapferer, J. N. & Bastien, V (2009). *The Luxury Strategy*. ISBN-13: 978-0-7494-5699-3
3. Schumpeter, Joseph A. (1942). *Capitalism, Socialism and Democracy*, ISBN-13: 978-0061330087
4. Thomas, Dana (2007). *Deluxe: How Luxury Lost Its Lustre*, ISBN-13: 978-1594201295
5. White, Nicola (2000). *Reconstructing Italian Fashion: America and the development of the Italian fashion industry*, ISBN-13: 978-1859733417

Articles in Conference Proceedings

1. Bhagwati, Jagdish (1998). “Free Trade: What Now?” Keynote Address: International Management Symposium, University of St. Gallen, Switzerland, 25 May 1998.
2. Dahm, Harry (2006). “Schumpeter, Entrepreneurship and Globalization: Towards a Theory of Dynamic Capitalism”, Meeting of the American Sociological Association, August 10, 2006. http://www.allacademic.com/meta/p105518_index.html
(accessed March 2010)

Articles in Journals

1. Guedes, Ana Lucia & Faria, Alexandre (2007). “Globalization and international management: in search of an interdisciplinary approach”. *BAR Brazilian Administration Review*, May/August 2007, online version, ISSN 1807-7692.
2. Tandon, R (2008). “The Globalization Syndrome of a New Millennium: A Holistic Analysis from a Non-Western World View”. *CJES Research Papers*, No. 2008-1 ISSN 1824-0636, March 2008
3. Vinig, T., Kluijver, J. de (2007). “Does Globalization Impact Entrepreneurship?”

4. Comparative Study of Country Level Indicators,” University of Amsterdam, Netherlands . Sprouts: Working Papers on Information Systems, 7(8). <http://sprouts.aisnet.org/7-8> (accessed March 2010)

Articles on websites and blogs

1. Blond P. (2008). “The True Tory Progressives”. www.guardian.co.uk/commentisfree/2008/may/30/davidcameron.welfare (accessed March 2010)
2. Sharma, R. (2010). <http://blogs.siliconindia.com/spasindia/> (accessed March 2010)

Websites

1. ETH, Zurich. <http://globalization.kof.ethz.ch> (accessed march 2010)
2. Global Entrepreneurship Monitor (2009) www.gemconsortium.org (accessed March 2010)