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Abstract

With the crisis of the Coronavirus, many see in the globalization of companies a quick and easy explanation for all our misfortunes. Based on the experience of the recent case of the non-merger between Alstom and Siemens, this paper reminds us that the discourse around the globalization of companies is a myth for many. The relevant market for goods and services is still very often the regional market, and forcing industrial mergers to get a so-called global scale could essentially result in negative effects for consumers in the home region of the companies.

Keywords: Corporate globalization, Regional integration, International mergers

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Corporate mergers for a global scale. A bad good idea?

With the Coronavirus crisis, many stakeholders of all kinds have called strongly for a relocation of the activities involved in the production of goods and services. Mask shortage aside, which many interpreted as the crisis of industrial reliance on China, it has been much argued that the globalization of companies has become excessive and that it is necessary to set in motion a salutary movement of return to the country, or at least to the region of origin.

These recent debates only exacerbate a discourse that has already been audible for several years. The recent case of the failed merger between Alstom and Siemens was a perfect illustration of this. In this text, on the basis of this case, I would like to show the need to calm down the discourse around corporate globalization. This reminds us that the relevant market for goods and services is usually the regional market (Europe, America or Asia). In this sense, forcing industrial mergers to go ahead in order to obtain a so-called global scale could essentially result in negative effects for consumers in the regional market of origin.

The Alstom-Siemens non-merger and its discontents

Last year, the Alstom-Siemens veto by the European competition authority raised a wave of furious protests in business and political circles. Despite EU Competition Commissioner Margrethe Vestager's explanations, French Finance Minister Bruno Lemaire fiercely expressed his grievances against the decision, arguing that European companies need to become stronger on the global stage. "Let's have a look at reality — we are facing a huge challenge with the rise of the Chinese industry. What do we do? Shall we divide the European forces, or try to merge the European forces from the industrial point of view"? Bruno Le Maire told CNBC's Hadley Gamble at the World Government Summit in Dubai (Turak, 2019). "Often European companies are competing globally with US or Asian firms that are very strong in their home markets," commented Peter Altmaier, a close ally of Angela Merkel, in an interview with FT (Chazan, 2019). "So Europe should also allow companies to exist and become global players that are big enough to compete effectively."

Box 1
The conception and abortion of the project

In 2017, Alstom and Siemens Mobility, two former rivals, decided to combine their operations in a merger of equals. The combined entity would be known as Siemens Alstom and would be a global leader in the rail transportation market. More specifically, France and Germany wanted to create a European rail giant that could compete with China's State-controlled giant CRRC.
The European Commission prohibited Siemens' proposed acquisition of Alstom under the EU Merger Regulation. The decision followed an in-depth investigation by the Commission of the takeover, "which would have combined Siemens' and Alstom's transport equipment and service activities in a new company fully controlled by Siemens. It would have brought together the two largest suppliers of various types of railway and metro signalling systems, as well as of rolling stock in Europe. Both companies also have leading positions globally.
The merger would have created the undisputed market leader in some signalling markets and a dominant player in very high-speed trains. It would have significantly reduced competition in both these areas, depriving customers, including train operators and rail infrastructure managers, of a choice of suppliers and products.
(...) Stakeholders were worried that the proposed transaction would significantly harm competition and reduce innovation in signalling systems and very high-speed rolling

stock, lead to the foreclosure of smaller competitors and to higher prices and less choice for customers.
(…) The Commission had serious concerns that the proposed transaction would significantly impede effective competition in two main areas: (i) signalling systems, which are essential to keep rail and metro travel safe by preventing collisions, and (ii) very high-speed trains, which are trains operating at speeds of 300 km per hour or more.
(…) The remedies offered by the parties did not adequately address the Commission's competition concerns. In particular:

- In mainline signalling systems, the remedy proposed was a complex mix of Siemens and Alstom assets, with some assets transferred in whole or part, and others licensed or copied. Businesses and production sites would have to be split, with personnel transferred in some cases but not others. Moreover, the buyer of the assets would have had to continue to be dependent on the merged entity for a number of licence and service agreements. As a result, the proposed remedy did not consist of a stand-alone and future proof business that a buyer could have used to effectively and independently compete against the merged company.
- In very high-speed rolling stock, the parties offered to divest a train currently not capable of running at very high speeds (Alstom's Pendolino), or, alternatively, a licence for Siemens' Velaro very high-speed technology. The licence was subject to multiple restrictive terms and carve-outs, which essentially would not have given the buyer the ability and incentive to develop a competing very high-speed train in the first place."

The Commission thought "that the remedies offered by Siemens were not enough to address the serious competition concerns and would not have been sufficient to prevent higher prices and less choice for railway operators and infrastructure managers. As a result, the Commission has prohibited the proposed transaction." (EC 2019)

On the one side, some support the necessity to grow and achieve a global scale through regional mergers. On the other side, people maintain that if the relevant market remains regional only, merging means creating monopoly rents. Hence, to be or not to be global? That is the question, we could say.

But are we so sure that globalization, and more specifically corporate globalization, is so widespread across the world? Is it really so often that the relevant market is the global market in products and services? Or is it more in words and narratives? A closer look at research in international business studies provides a subtler perspective.

Do not confuse economic globalization and corporate globalization in product and service markets

In an article I wrote with co-authors Alain Verbeke (University of Calgary, Vrije Universiteit Brussel & University of Reading) and Tanja Matt (Technical University of Munich) for the *Journal of International Business Studies* (Verbeke et al., 2018), we explored the issue of corporate globalization, which is widely used and poorly known. At a macro-level, the concept refers to the growth and broadening scope of international economic exchange relationships of any one country with all other countries around the world, as measured by trade and foreign direct investment (FDI) flows, and other types of exchanges (capital, people, technology, ideas, effective institutional practices).

It is widely accepted among economic and management scholars that globalization drives net benefits, resulting from lower resource usage per unit of output, and the international diffusion of better industry practices, ranging from high-quality accounting systems to

proprietary technologies. Moreover, the globalization of information flows has dramatically increased the worldwide awareness of great challenges, such as climate change impacts.

Unfortunately, in popular narratives spread by many business and political leaders, corporate globalization has been associated with many discontents – mostly devoid of a sound factual basis but driven by perceptions of alleged undesirable societal effects, such as the rise of inequalities.

This being said, corporate globalization's role has primarily been to provide broader geographic access to life-saving medications such as vaccines, as well as medical services (thus being instrumental in creating a public good which has – through supporting human overpopulation – in turn been instrumental to the demise of many other public goods and the rise of several public bads). It has also facilitated the easier distribution of essential goods to serve basic needs, and the diffusion of efficiency-enhancing institutional practices and management methods. Most negative spillovers of international business activities, apart from highly-visible cases of market power abuse, have largely been caused by ineffective societal institutions, supposed to regulate economic activities but failing to do so.

People who criticize macro-level globalization typically cannot defeat the argument about the net benefits of globalization (with the qualification that inequalities will also materialize, requiring policy measures to improve distributional justice). Like Miguel de Cervantes's character in *The Ingenious Gentleman Sir Quixote of La Mancha*, critics who argue that global firms are a malign presence in host countries and thrive on alleged malevolent decision-making processes are, in fact, battling imaginary enemies. They attack windmills, which they fear are ferocious giants.

There is, however, a recent de-globalization narrative at the macro-level with negative spillovers at the firm-level, as observed in an article published in *The Economist*: it predicted the rise of "a more fragmented and parochial kind of capitalism, and quite possibly a less efficient one (…) the infatuation with global companies will come to be seen as a passing episode in business history." But who has, or ever had "unreasoned passion" for the global firm? What exactly are these global companies, supposedly the outcome of a corporate globalization process? A closer look at the reality of corporate globalization shows that fully-fledged global companies were and are still the exception rather than the rule in international business.

Global and regional scales in product and service markets

In a paper published almost two decades ago, but still largely valid, Alain Verbeke and Alan M Rugman identified only nine "global firms" in the Fortune Global 500, defined as firms with a balanced distribution of sales across the world (i.e., having less than 50% of sales in their home region, and at least 20% of in each of the two host regions of the triad of North America, Europe and Asia). In subsequent work with Chang Hoon Oh, Alan M Rugman confirmed the quasi-absence of global firms with evenly distributed sales and assets across the world (Oh and Rugman, 2014). In a more recent assessment of Fortune Global 500 companies, we had the opportunity to confirm – again – that although the number of global companies has increased, it remains very much a minority (around 30).

Hence, as pointed out by Buckley and Ghauri (2004), if international capital markets have largely transcended regional integration policies and operate at a global scale, the situation is not the same for the product and service markets. Evidence shows that it is primarily in the field of the creation and development of regional goods and services markets that firms have

the capability to achieve economies of scale across several countries and to benefit from cross border synergies. Note also that most often, the labour markets mainly remain at the country level. Basically, the level of globalization substantially varies according to the market of interest.

Verbeke and Asmussen (2016) pointed out that global corporate success simply happens in exceptional circumstances only. As they write, "such exceptional circumstances include both demand side and supply side components. At the demand side, an instant global interest from internationally dispersed customers for a niche market product, combined with low marketing mix adaptation requirements and low cost means of marketing and delivery, can increase the non-location boundedness of firm specific advantages. At the supply side, an advanced technology or service offering, duly protected from competitive imitation, will have a similar effect" (2016). But in general, successful international expansion is very costly and hard to realize because it requires huge and complex recombination of corporate resources with the need for leveraging resources and knowledge in host countries – a complexity substantially inhibiting operations at a real global scale.

There would thus seem to be a big gap between the discourse on corporate globalization and the reality of company activities on product and service markets. For most of the cases, even for the largest companies, the relevant internationalization level is not the global scale but the regional one, as advocated by Pankaj Ghemawat (2018) in a recent book, among others. Pankaj Ghemawat rightly notes that globalization is often held up as a scapegoat for all the evils of the world, especially since there are currently few individuals and organizations willing to speak out in its defence. He also reminds us that while the dangers of the new protectionism should not be exaggerated, it would be a serious mistake to underestimate these dangers (Coeurderoy, 2020).

Myths often thrive by telling convincing stories for unsolved problems. The best way to deal with them is to develop further empirical studies on corporate globalization, building upon adequate firm-level data, and augmented with insight gained from senior management in the firms analysed. You can rest assured that these studies will mostly demonstrate the vulnerability, rather than the ferociousness, of the few global firms, the few born globals and the few truly global value chains, presently in existence.

Conclusion

The permanence of this gap between the discourse on corporate globalization and the reality of company activities on product and service markets generates many myths around globalization, carrying big fears and many shortcuts, like Bruno Le Maire's arguments for the Alstom-Siemens case in the railway industry. There is indeed a Chinese company adequately-sized for the Chinese market and doing business the Chinese way, but almost only in China. And there is a big American company in the USA (GE) too. But can we so easily infer from the addition of regional markets that we have got a global market? Creating regional champions for global expectations when the reality of the product or service market is regional ultimately results in an industrial policy that supports corporate rents. That is a shortcut for future corporate globalization, and a dangerous one in cases of mergers like Alstom-Siemens for the European consumer, who could be the local victim of this global myth! Coronavirus or not, we need to keep calm about corporate globalization.

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