

Act Globally, Think Locally

by Yoko Ishikura

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Here's a paradox of our age: The more global the economy and your business, the more important location and physical proximity become. Yes, issues of location – the choice of a factory site, for example, or the tailoring of a marketing message to a region – have always been of strategic importance. However, the conventional emphasis has been on how location affects a company's costs and revenue. In today's knowledge-based economy, we need to reevaluate the very concept of location.

For one thing, advances in communication technology have enabled – indeed, require – companies to tap into local information that they can use throughout their business. Managers increasingly understand the importance of drawing on diverse sources of information, especially from outside the organization, to spur innovation. For example, ideas that used to emerge from a company's central lab may now be thrown up by researchers far from the home office – or by a lone inventor living in a village halfway around the world. Thanks to the Internet and companies' global information systems, businesses can acquire such ideas from out-of-the-way places relatively easily and cheaply. For that reason, however, companies must discover and quickly incorporate good ideas from these diverse sources before rivals do. In fact, they have less time than ever before to take new ideas to market.

This trend reverses a familiar adage: Whereas companies used to be told to “think globally and act locally,” adapting their global strategy to the needs of a particular locality,

they must now “act globally and think locally,” using all their capabilities to harvest knowledge from various localities and use that knowledge to shape their strategy.

The importance of location in a knowledge-based economy isn't only about far-flung places; it's also about those places right outside your door. That's because another way of tapping diverse sources of knowledge is to draw on people and organizations in your vicinity. Unlike the explicit knowledge that can be gathered and transmitted digitally from anywhere in the world, tacit knowledge – which is difficult to codify and, consequently, has great value – can be shared only through repeated and usually face-to-face interactions. This, obviously, requires physical proximity. Even in the digital age, the many interactions that take place in the open and flexible networks linking a company, its suppliers, and its professional service providers are more effective and efficient within physically proximate regions. Think of the decentralized social networks that fostered both competition and cooperation in Silicon Valley, making it a fertile seedbed of innovation. At the very least, an initial personal encounter is usually required to start a meaningful discussion that will lead to clear decisions and useful outputs. Once the physical meeting takes place, meetings in virtual space can follow – but the reverse order often doesn't deliver results.

In the early 2000s, many Japanese manufacturing firms moved their production plants to China to take advantage of lower labor costs. Over time, they realized that some activities, such as exchanges between the production-engineering and manufacturing departments, weren't effective – for example, the product specifications they desired couldn't be achieved – when the departments were physically separated. There was just too much subtle back-and-forth that had to occur in person. Partly because of this, some of the companies have moved some manufacturing processes back to Japan.

It isn't always easy to know which activities have to be close together geographically. Figuring it out can involve considerable trial and error, as well as constant review to determine when the scope of tacit knowledge – and therefore the necessity of interaction – changes. Companies today need both global reach, in order to spot and incorporate useful local ideas into their strategies, and physical proximity, in order to effectively tap sources of tacit knowledge and thus sustain competitive advantage. For both, location matters.