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Learning From Global Cities

A brief synopsis of **Gaining Advantage Through Global Learning Hubs** (Baruch College Zicklin School of Business working paper, January 2008) by Robert Laud, Andreas Grein and Lilach Nachum

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STRATEGY

Learning From Global Cities

In leading cities, companies gain access to knowledge and networks.

Organizations have often turned to well-established and very competitive global cities when looking to expand their markets. However, new research suggests that many corporations have been going to these cities for the wrong reasons and consequently have missed opportunities to build strategic advantages and organizational capability. In a January 2008 working paper titled *Gaining Advantage through Global Learning Hubs*, three researchers at the Zicklin School of Business at Baruch College, City University of New York argue that, with the high entry cost and competition inherent in moving into a major city, it is important to go in with the right plan and the

right expectations. The authors — Robert Laud, distinguished lecturer of management, Andreas Grein, associate professor of marketing and international business and Lilach Nachum, professor of international business — advocate viewing affiliates in global cities as “global learning hubs” tied together in a network that builds strategic advantage by drawing on the interactions between global cities.

Prior research has shown that a commonly cited reason companies seek increased presence in global cities is to enter new markets to grow sales and diversify risk. However, the authors argue that, for many companies, a different set of drivers is powering international expansion. They conducted a survey of 140 foreign-owned affiliate companies of various sizes and industries that had chosen to

establish a new presence in New York City. The researchers then conducted interviews with top strategy experts from two major consulting companies who set up affiliate operations overseas. From this research, the authors concluded that major world cities offered more than merely new markets. The responders primarily viewed the cities as a source of strategic advantages, such as points for exchange of information, new labor and capital, sophisticated banking and financial markets, and human resources. The authors then went on to identify four objectives for gaining the most advantage from a “global learning hub.”

First, companies succeed when they widen the goals of their presence in a global city to emphasize learning. Systematic attempts to improve business relationships and networking skills can improve all aspects of the business. For example, increased global knowledge management can speed new products or data to market and thereby gain advantage over the competition. Learning hubs make access to these advantages much easier. “Without a global learning hub,” the authors warn, “the opportunity to apply unique solutions in various combinations [across the company’s network of operations] may not just be blurry, it may be near invisible.”

Second, it is not enough merely to broaden the goals for the organization’s presence in a global city; the organization must also develop what the authors describe as a “customized learning and evaluation process.” While most multinationals ac-



knowledge that not every strategy or business model that works in one country will work in every country, a few highly successful companies are able to identify global affiliates as starting points for obtaining knowledge and discovering solutions that may then be used elsewhere in the organization. The most successful organizations developed a method for discovering and evaluating new opportunities inherent in an international knowledge base and exploiting them more effectively.

A third important goal for foreign affiliates is to exploit the many new possibilities a global hub provides to create advantage not previously available. For example, new partnerships in areas such as information technology, R&D or distribution can lower cost or provide better service. These “targeted solutions” often occur at the affiliate level but can spread throughout the parent organization.

Finally, global learning hubs allow organizations to take advantage of “innovation linkages” previously not available. In fact, according to the authors, “many companies associate the success of their long-term positioning upon their selection of a global city as a ‘place to be.’” For example, as centers of finance, New York, London, Frankfurt and Paris attract a wide array of exceptional talent in that field. Therefore, organizations do well to tap into this talent, along with the opportunities for innovation that come with it, when they establish a presence in these cities.

The authors stress that success in new cities will not be a simple process of entering a foreign market and then quickly seeing sales and growth. Instead, the best companies leverage their locations in global cities by focusing on creating business relationships, by maximizing their geographic reach and networking in as many regions as possible, and by emphasizing innovation rather than cost.

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— David Wagner

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