

Business Globalization

Introduction

In today's business environment, most of the big companies are becoming global in nature. Companies are realizing that globalization provides an opportunity in terms of new markets and talent. At the same time, it intensifies competition. Globalization has opened new opportunities for stagnating businesses and customers around the world are able to enjoy best products and services. According to Parker (2005, pp5), *"Globalization is a process whereby worldwide interconnections in virtually every sphere of activity are growing. Some of these interconnections lead to integration/unity worldwide; others do not. Together global interconnections and the relationships they forge represent a historically unprecedented process that is rapidly reshaping the context of many activities."*

Globalization, however, does not merely mean having an international business. As Ohmae (1995) noted, most MNCs in past acted as colonial powers over their subsidiaries. This promoted politics and hindered normal business relations. Over last couple of decades, this aspect is changing as most companies realize the importance of subsidiaries, alliances, cooperation and free movement of people and goods.

Globalization: Trends over 20th century

Trade between countries has been taking place since ancient times, with various land and sea routes connecting various regions. However, the trade volume increased significantly with industrialization of Europe. Before that trade was mainly done in primary products. However, after industrialization, the ratio of secondary and tertiary products increased.

Modern global trade took shape after the First World War as new powers emerged and reconstruction activities started. Post world war, biggest traders were US, west European countries and Japan. Aftermath of war increased trading activities of Japan and Europe in 1950s and after that integration of Europe lead to increased intra Europe trade. Japan expanded rapidly during this period, with United States being its largest export market. From 1960s, rising Asian economies (China, Hong Kong, Malaysia, Thailand, Singapore and Republic of Korea) adopted export oriented growth policies and their share grew from 2.4 to 9.7 % of world trade over two decades (WTO data).

Domination of US in world trade was highest in 1950s after which it slowly reduced and the share of world trade by North America went down by 10 points over next two decades. Oil exporting Middle East nations increased their share rapidly in 1970s and early 1980s, but suffered a setback when the oil prices fell in 1980s.

During the end of 20th century, Japan's share in worldwide exports decreased significantly due to rise of exports from China and other rising Asian countries. Share of US and Europe in world trade continued to decrease.

Advantages of Globalization

Globalization helps in development of economies around the world and provides following advantages for various entities involved:

- **Free movement of capital:** This allows investment from one region to flow to other region. The benefits were seen after the Second World War when movement of capital helped reconstruction of many countries. While it allows investors to tap various opportunities, it helps developing regions grow the infrastructure necessary for economic growth.
- **Economies of scale:** Globalization allows companies to operate on a global scale and increases the market size manifold. This allows companies to take advantages of economies of scale, which has benefitted a lot of industries. Automobile industry is a good example. Companies such as Toyota and General Motors have acquired a scale that allows them to produce vehicles with high efficiency, bringing down the fixed cost as well as increase quality. Higher number of vehicles produced has also allowed these companies to invest in new technology and engage in various research and development activities. This is evident from the advances made in the field of automobile engineering, including both the performance and safety of vehicles.
- **Development of Infrastructure:** Globalization helps developing countries develop their infrastructure. With opening of economies, various global countries enter the country and help in developing infrastructure. Foreign capital helps in development of infrastructure by funding various projects. Globalization also allows companies to access capital from

global bodies such as IMF and World Bank in order to develop basic and physical infrastructure.

- **Promoting peace:** As countries engage in trade with each other, the cost of war increases and hence globalization reduces the probability of a war.
- **Improved communication and transportation:** Communication and transportation channels increase due to increased globalization as the need to communicate and travel increases. This has reduced distance and has brought people closer to each other.
- **Advancement in technology:** Globalization allows companies to invest in technology and research and development. While this helps particular companies, it also helps improve technology and lives of people in general.
- **Higher competition:** Globalization allows multiple companies to tap a market and increases competition among various players. This forces companies to becoming more efficient and waste less resources while producing their products or services. Increased competition also makes it necessary for companies to reduce their production costs in order to remain competitive. This forces companies to look for cheapest raw material. Globalization also allows companies to access raw material from around the world. Hence companies procure raw material from regions that give them highest savings.

Globalization has also lead to formation of trading blocs such as European Union and ASEAN. According to Bultjens (2005), a trade bloc refers to a free trade area, where member countries have removed trade barriers among themselves and keep separate national barriers or a common barrier against rest of the world. This mechanism of regional integration allows smaller countries to come together and engage in mutually beneficial trading practices. Trading blocs allows countries to enjoy the advantages of globalization without the fear of being overrun by bigger trading powers. Apart from the advantages provided by globalization in general, trading blocs provide following additional advantages for countries:

- Trading bloc increases international bargaining power for the group countries. While individual countries may be too small to enjoy better bargain, a trading bloc can exert higher influence with their large size.
- A trading bloc is usually formed among countries geographically close to each other. The trading bloc helps in improved infrastructure.

- Trading bloc helps maintain peace in the region. Companies in a trading bloc are highly dependent on each other and this encourages the countries to maintain peaceful relationship.
- Trading bloc helps member countries overcome a financial crisis since default of a particular country is bad for the whole trading bloc. Current situation with EU helping out Greece is a good example.
- Developing countries can form trading blocs among themselves to take advantages of globalization without the threat of being overrun by developed economies.

Disadvantages of Globalization

Several people believe that globalization brings a lot of disadvantages, especially to the poor countries. Their argument against the globalization consists of:

- **Increasing poverty:** Several people argue that globalization increases poverty since it gives multinationals greater profits and control over lives of people. They argue that the local products made at small scale are suppressed to benefit multinationals, and that global competition destroys small industries that are unable to compete with giants. This leads to job losses and increase in poverty. It is argued that multinational companies then hire people at low wages and there is a proliferation of higher food prices. Globalization is also said to increase income inequality, making rich richer and poor poorer. Wade (2004) questions the fact that globalization is a positive force behind poverty reduction and expresses doubt over the fact that higher trade liberalization leads to better economic performance.

A very good example is the introduction of multinational retail chains such as Wal-Mart in many developing countries. There has been stiff resistance from people of some countries since such a big retail chain would lead to job losses for millions of small grocery stores, increasing their poverty and hardships. Anti-globalists use examples of this kind to speak against globalization.

Some communities in developed countries oppose globalization. While skilled people are able to earn higher in these countries due to globalization, non-skilled labor tend to lose

their jobs to developing countries. This increases the inequality among various income groups.

- **Culture impact:** Some cultures might be getting lost due to globalization. Cultures of economically powerful countries have become more dominant since things produced by these economies such as movies, technology products and clothes influence other countries. As the world is becoming a singular entity due to globalization, people are forgetting their own culture and fringe cultures are being damaged.

With globalization, a few organizations control most of the world media. This limits culture expression from various regions.

- **Increased migration:** Globalization leads to brain-drain as skilled people from developing and under-developed countries migrate to developed ones. This deprives the home country from skilled force and limits the speed of development of these countries.
- **Environmental degradation:** Globalization is said to degrade environment as large corporations compete for resources and take advantage of weak regulation and environmental protection in developing countries. Many companies set up production processes in developing countries and look for cost cutting at the expense of environmental protection.

Globalization and Culture

Globalization not only leads to transfer to goods and products from one country to another, it also causes transfer in cultural products such as music, movies, clothes and publications. This increases exposure of foreign cultures. Culinary culture has been hugely impacted by globalization as French fries, Indian curry and Chinese noodles have become popular around the world.

Use of culture by organizations and individuals

Many organizations deploy and use culture to enhance their image and address social and economic inequalities. Companies need to be careful about imposing their culture over the local culture of foreign employees. However, there are situations where companies can use their culture to address social and economic inequalities. For example, a company with strong culture

of providing equal work opportunities can imbibe the same culture in its employees. Hiring people from all classes would help in reducing economic inequality. Following are the additional ways in which individuals and organizations can use culture to transform society

- Local areas can be developed in terms of tourism and architecture. Culture can be used in order to restore image of an area and attract people for tourism as well as industry. This would help alleviate poverty in the region and generate employment for the local population.
- Sports that are a part of the local culture can be sponsored and supported. Sports often acts as a way to bring people together and in the process reduce inequalities prevalent in the society.
- Various expos and exhibits showcasing local culture can be organized. This will promote pride and confidence among local people, and would encourage local people to develop partnerships and come together.

Globalization highly impacts employees of an organization and hence is of particular interest to them. Globalization impacts the style of working and organizational culture. It also determines who the employees work for. Globalization can lead to subordinates or manager of an employee to be at remote locations.

Relationship with diverse cultures

Multinationals have to work in various countries and with people from diverse cultures. To be successful, they have to engage with these diverse cultures. Following are the ways to do that:

- Hire people from diverse cultural background in the workforce in general and managerial positions in particular. This would help them develop a better understanding of the culture and also provide them insights on how to do business in the region.
- Engage with volunteer and sponsorship activities in the region. Sports are often associated with culture and sponsoring a local team would help a business engage with local culture. Similarly, organizing various cultural activities would cement a relationship between the company and the local people.
- Communication style is very specific to a culture. For example, in Asian societies lot of emphasis is given on developing personal relationship and goodwill before finalizing a

business deal. Hence, MNCs operating in this region should encourage its employees to engage in personal relationship building.

Conclusion

With the world becoming flat and worldwide trade increasing, organizations are getting globalized. This provides new opportunities as well as challenges for them. Globalization started from ancient times, but has picked up speed after World War 2. Most people are convinced that globalization is a boon for the world since it moves capital to needful places, leading to development; others are convinced that it increases economic inequality.

Understanding and dealing with local cultures is a big part of the expansion strategy of MNCs. They need to develop relationship with local culture in order to be successful. They can also deploy culture to address inequalities in society, creating a win-win situation for themselves and local population.

References

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