Department of Management Studies
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Globalization

The increased integration of markets—goods and financial—the mobility of people with transnational travels for jobs and vacations, and the global reach of satellite channels, the Internet, and the telephone all have virtually transformed the world into a ‘global village’.

‘Globalization’, one of the most complex terms used in international business, has wide connotations. Interestingly, ‘globalization’ is a term not only used and heard frequently, but also as often misused and misinterpreted. Globalization is used to refer to the increasing influence exerted by economic, political, socio-cultural, and financial processes across the globe.

Globalization not only offers numerous challenges to business enterprises but also opens up new opportunities. In the earlier era of restrictive trade and investment regimes with much lower degree of interconnectedness among countries, companies solely operating in their home markets were generally protected and isolated from the vagaries of upheavals in the international business environment.

Therefore, developing a thorough conceptual understanding of international business has become inevitable not only for the managers who operate in international markets, but also for those who operate only domestically.

Globalization is the closer integration of the countries and peoples of the world, brought about by the enormous reduction in the costs of transportation and communications and the breaking down of artificial barriers to the flow of goods and services, capital, knowledge, and (to a lesser extent) people across the borders.

Globalization tends to erode national boundaries and integrate national economies, cultures, technologies, and governance, leading to complex relations of mutual interdependence.

Holistic Approach of Globalization

Globalization refers to the intensification of cross-national economic, political, cultural, social, and technological interactions that leads to the establishment of transnational structures and the integration of economic, political, and social processes on a global scale.

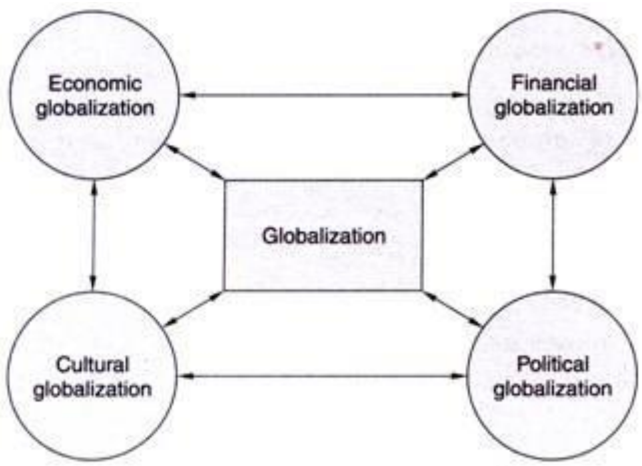

Fig. 1.3 Globalization: A holistic approach

Therefore, globalization may be defined as the process of integration and convergence of economic, financial, cultural, and political systems across the world.

(i) Economic Globalization:

The term 'globalization' is widely used in business circles and economics to describe the increasing internationalization of markets for goods and services, the financial system, corporations and industries, technology, and competition.

In the globalized economy, distances and national boundaries have substantially diminished with the removal of obstacles to market access. Besides, there have been reductions in transaction costs and compression of time and distance in international transactions.

The changes induced by the dynamics of trade, capital flows, and transfer of technology have made markets and production in different countries increasingly interdependent. The growing intensity of international competition has increased the need for cross-border strategic interactions, necessitating business enterprises to organize themselves into transnational networks.

(ii) Financial Globalization:

The liberalization of capital movements and deregulations, especially of financial services, led to a spurt in cross-border capital flows. The globalization of financial markets has triggered a rapid growth in investment portfolio and a large movement of short-term capital borrowers and investors interacting through an increasingly unified market.

The growing integration of financial markets has greatly influenced the conduct of business and even the performance of the industrial sector. This has significantly enhanced the vulnerability of stocks that were hitherto considered impervious.

A liquidity crunch in the US makes stock markets across the world go berserk. Globalization of financial markets makes them inherently volatile with few options to control left with the national governments.

(iii) Cultural Globalization:

The convergence of cultures across the world may be termed as cultural globalization. India's rich cultural heritage has a glorious history of globalization (Exhibit 1.3), which is evident even today by its profound impact on people and their lives. Globalization has led to the development of global pop culture.

Coca-Cola is sold in more countries than the United Nations has as members. 'Coke' is claimed to be the second-most universally understood word after OK. McDonald's has more than 30,000 local restaurants serving 52 million people every day in more than 100 countries. Levi's jeans are sold in more than 110 countries. Ronald McDonald is second only to Santa Claus in name recognition for most school children.

(iv) Political Globalization:

The convergence of political systems and processes around the world is referred to as political globalization. International business is increasingly conducted across the juridical, socio-cultural, and physical borders of sovereign states. After World War II, there has been a proliferation of sovereign states. In 1914 there were 62 separate states, 74 in 1946, 149 in 1978, 193 in 1991, and 209 in 2007.

The administrative set-ups and the decision-making processes in multilateral organizations and UN forums have considerably influenced the governance within sovereign states. Democratic processes of decision making and governance to a varying extent are increasingly receiving wider acceptance in most countries.

Dimensions of Economic Globalization

The rapid growth in integration and interdependence of economies can be explained by the interconnectedness of the various dimensions of economic globalization, as depicted in Fig. 1.5, such as the globalization of production, markets, competition, technology, and corporations and industries.

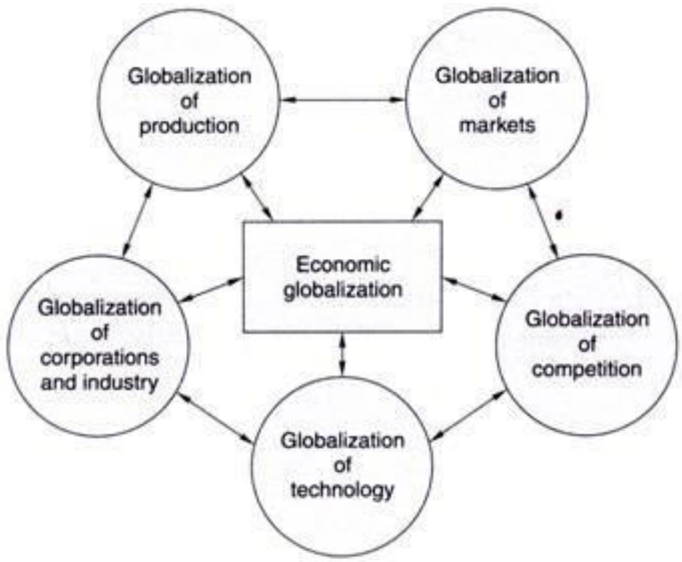

Fig. 1.5 Dimensions of economic globalization

(i) Globalization of Production:

The increased mobility of the factors of production, especially the movement of capital, has changed countries' traditional specialization roles significantly. Consequently, many firms in developing countries seek to strengthen their competitive advantage by specializing in differentiated products with an increasingly large technological content.

(ii) Globalization of Markets:

Marketing gurus in the last two decades have extensively argued over customized marketing strategies in the globalization of markets. Theodore Levitt, in his path- breaking paper 'Globalization of Markets', views the recent emergence of global markets on a previously unimagined scale of magnitude. Technology as the most powerful force has driven the world towards converging commonality.

Such globalization of markets has on one hand increased the opportunity for marketing internationally while on the other has increased the competitive intensity of global brands in the market.

The simultaneous competition in markets between the numerous new competitors across the world is intensifying. This offers tremendous challenge to the existing business competitiveness of firms, compelling them to globalize and make rapid structural changes.

(iii) Globalization of Competition

This refers to the intensification of competition among business enterprises on a global scale. Such globalization of competition has resulted in the emergence of new strategic transnational alliances among companies across the world. Increasingly, more firms need to compete with new players from around the globe in their own markets as well as foreign ones.

To cope with global competition, firms need to simultaneously harness their skills and generate synergy by a broad range of specialized skills, such as technological, financial, industrial, commercial, cultural, and administrative skills, located in different countries or even different continents.

(iv) Globalization of Technology

The rapid pace of innovations with international networks and convergence of standards across countries has contributed to the globalization of technology. This rapid dissemination of technology internationally and the simultaneous shortening of the cycles of production has led to the globalization of technology.

Global firms rely on technological innovations to enhance their capabilities. Thus, technology is both driven by and is a driver of globalization. Moreover, it has led to the emergence of new ‘technologically driven character’ of the global economy.

(v) Globalization of Corporations and Industries

The worldwide economic liberalization led to the rapid growth in FDIs and the relocation of business enterprises heavily driven by the various forms of international strategic alliances and mergers and acquisitions across the world. As a result, there has been widespread rise in the fragmentation of production processes, whereby different stages of production for a given product are carried out in different countries.

Factors Influencing Globalization

The process of globalization is characterized by the interplay of dynamic forces that act as movers and restraining factors, as shown in Fig. 1.6, which offers significant challenges to traditionally established ways of doing businesses. Since the driving forces of globalization are considerably stronger than the restraining factors, globalization of business assumes much higher significance.

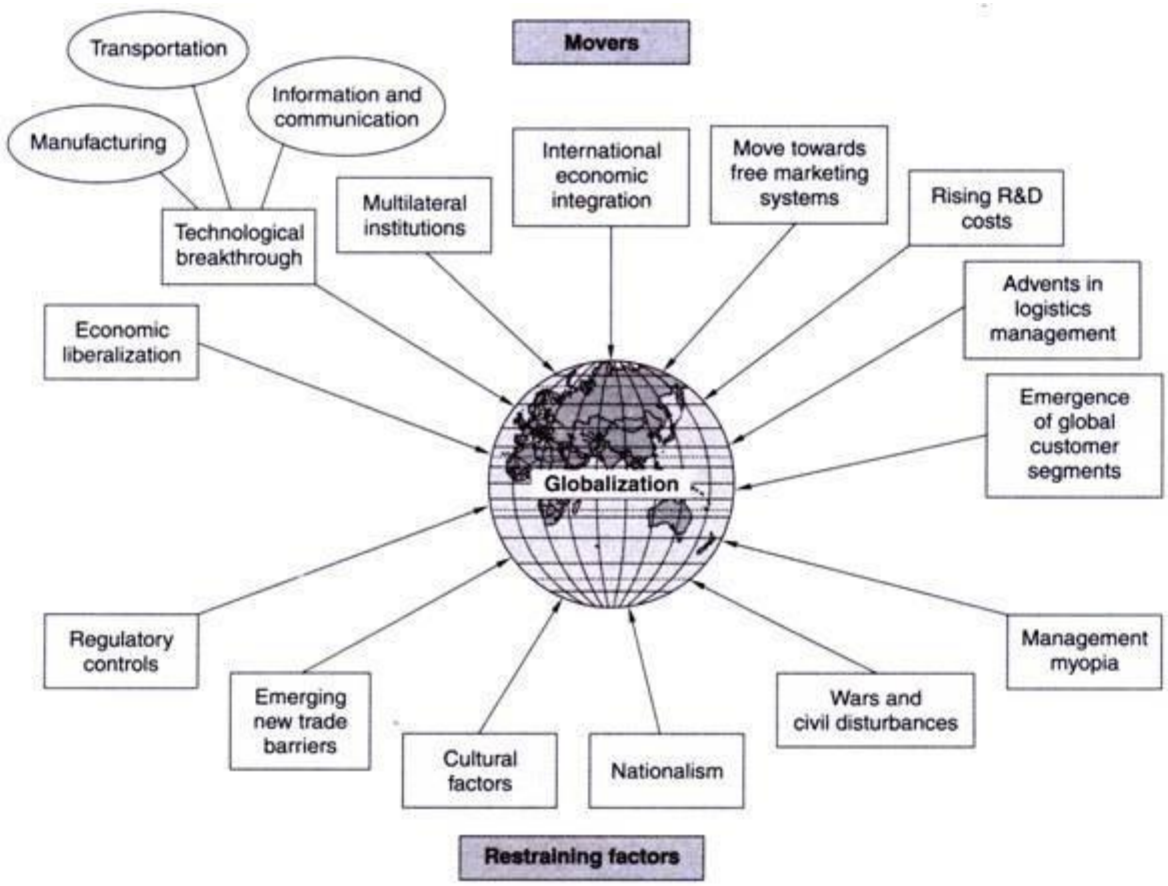

Fig. 1.6 Globalization: Movers vs restraining factors

(i) Economic Liberalization

Economic liberalization, both in terms of regulations and tariff structure, has greatly contributed to the globalization of trade and investment. The emergence of the multilateral trade regime under the WTO has facilitated the reduction of tariffs and non-tariff trade barriers. In the coming years, the tariffs are expected to decline considerably further.

(ii) Technological Breakthroughs

The breakthroughs in science and technology have transformed the world virtually into a global village, especially manufacturing, transportation, and information and communication technologies.

(a) Manufacturing technology

Technological advancements transformed manufacturing processes and made mass production possible, which led to the industrial revolution. The production efficiency resulted in cost-effective production of uniform goods on a large scale. In order to achieve the scale economies to sustain large-scale production, markets beyond national boundaries need to be explored.

(b) Transportation technology

The advents in all means of transports by roads, railways, air, and sea have considerably increased the speed and brought down the costs incurred. Air travel has become not only speedier but cheaper. This has boosted the movement of people and goods across countries.

(c) Information and communication technology

The advent of information and communication technology and the fast developments in the means of transport have considerably undermined the significance of distance in country selection for expanding business. There has been a considerable reduction in international telecommunication costs due to improved technology and increased competition.

(iii) Multilateral Institutions

A number of multilateral institutions under the UN framework, set up during the post-World War II era, have facilitated exchanges among countries and became prominent forces in present-day globalization.

Multilateral organizations such as the GATT and WTO contributed to the process of globalization and the opening up of markets by consistently reducing tariffs and increasing market access through various rounds of multilateral trade negotiations.

(iv) International Economic Integrations

Consequent to World War II, a number of countries across the world collaborated to form economic groupings so as to promote trade and investment among the members. The Treaty of Rome in 1957 led to the creation of the European Economic Community (EEC) that graduated to the European Union (EU) so as to form a stronger Economic Union. The US, Canada, and Mexico collaborated to form the North American Free Trade Agreement (NAFTA) in 1994. The reduction of trade barriers among the member countries under the various economic integrations around the world has not only contributed to the accelerated growth in trade and investment but also affected the international trade patterns considerably.

(v) Move Towards Free Marketing Systems

The demise of centrally planned economies in Eastern Europe, the former USSR, and China has also contributed to the process of globalization as these countries gradually integrated themselves with the world economy.

The Commonwealth of Independent States (CIS) countries—all former Soviet Republics—and China have opened up and are moving towards market-driven economic systems at a fast pace. However, the exceptions to free market systems are the autocratic countries, such as North Korea and Cuba.

(vi) Rising Research and Development Costs

The rapid growth in market competition and the ever-increasing insatiable consumer demand for newer and increasingly sophisticated goods and services compel businesses to invest huge amounts on research and development (R&D). In order to recover the costs of massive investments in R&D and achieve economic viability, it becomes necessary to globalize the business operations.

For instance, software companies such as Microsoft, Novel, and Oracle, commercial aircraft manufacturers like Boeing and Airbus, pharmaceutical giants such as Pfizer, Glaxo SmithKline, Johnson & Johnson, Merck, and Novartis, etc., can hardly be commercially viable unless global scale of operations are adopted.

(vii) Global Expansion of Business Operations

Growing market access and movement of capital across countries have facilitated the rapid expansion of business operations globally. Since the comparative advantages of countries strongly influence the location strategies of multinational corporations, companies tend to expand their businesses overseas with the growing economic liberalization. As a result, multinational corporations constitute the main vectors of economic globalization.

(viii) Advents in Logistics Management

Besides these, the greater availability of speedier and increasingly cost-effective means of transport, breakthroughs in logistics management such as multimodal transport technology, and third-party logistics management contributed to the faster and efficient movement of goods internationally.

(ix) Emergence of the Global Customer Segment

Customers around the world are fast exhibiting convergence of tastes and preferences in terms of their product likings and buying habits. Automobiles, fast-food outlets, music systems, and even fashion goods are becoming amazingly similar across countries. The proliferation of transnational satellite television and telecommunication has accelerated the process of cultural convergence.

Traditionally, cultural values were transmitted through generations by parents or grandparents or other family members. However, with the emergence of unit families that have both parents working, television has become the prominent source of acculturation not only in Western countries but in oriental countries as well.

Factors that are Used for Restraining Globalization

(i) Regulatory Controls

The restrictions imposed by national governments by way of regulatory measures in their trade, industrial, monetary, and fiscal policies restrain companies from global expansion. Restrictions on portfolio and foreign direct investment considerably influence monetary and capital flows across borders. The high incidence of import duties makes imported goods uncompetitive and deters them from entering domestic markets.

(ii) Emerging Trade Barriers

The integration of national economies under the WTO framework has restrained countries from increasing tariffs and imposing explicit non-tariff trade barriers. However, countries are consistently evolving innovative marketing barriers that are WTO compatible.

Such barriers include quality and technical specifications, environmental issues, regulations related to human exploitation, such as child labour, etc. Innovative technical jargons and justifications are often evolved by developed countries to impose such restrictions over goods from developing countries, who find it very hard to defend against such measures.

(iii) Cultural Factors

Cultural factors can restrain the benefits of globalization. For instance, France's collective nationalism favors home-grown agriculture and the US fear of terrorism has made foreign management of its ports difficult and restrained the entry of the Dubai Port World.

(iv) Nationalism

The feeling of nationalism often aroused by local trade and industry, trade unions, political parties, and other nationalistic interest groups exerts considerable pressure against globalization. The increased availability of quality goods at comparatively lower prices generally benefits the mass consumers in the importing country but hurts the interests of the domestic industry.

On one hand, consumers in general are hardly organized to exert any influence on policy making, while on the other, trade and industry have considerable clout through their associations and unions to use pressure tactics on national governments against economic liberalization.

(v) War and Civil Disturbances

The inability to maintain conducive business environment with sufficient freedom of operations restricts foreign companies from investing. Companies often prefer to expand their business operations in countries that offer peace and security. Countries engaged in prolonged war and civil disturbances are generally avoided for international trade and investment.

(vi) Management Myopia

A number of well-established business enterprises operating indigenously exhibit little interest in expanding their business overseas. Besides, several other factors such as resource availability, risks, and the attitude of top management play a significant role in the internationalization of business activities.