

GLOBALISATION AND ITS IMPACT ON BUSINESS

Topic

Globalization and Business Management

Title:

Globalisation and Its Impact on Business.

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INTRODUCTION

Economic restrictions became pervasive throughout the world after the first world war. Inter country trade was still going on but at a very low rate although the Forbes Magazine indicates that between 1870 and 1910 the free flow of labour and capital was impressive and capital moved freely among major countries. Countries generally had low trust on each other leading to more restrictive markets all over. However, this wasn't the case after the second world war. Many organisations like World Bank(WB), International Monetary Fund(IMF), General Agreement on Tariffs and Trade(GATT) and World Trade Organisation(WTO) came into picture which improved relations between the countries and also incentivised trade among countries. It also increased awareness on the benefits of inter country trade and encouraged higher investment and global trade.

Globalization is generally defined as the integration of world economies, but in broader sense it is an integration of world's government, business, services, information, industry, trade and also people as a whole. It puts forth the concept of "ONE WORLD, ONE MARKET". There are many things to look at when selling globally as different cultures need to be looked at differently when making a strategy. Conducting business on a global basis has always been of great interest to a businessman and it becomes both a pleasurable and financially rewarding experience. Nevertheless, days of doing business globally are no longer a luxury. If one hopes to remain competitive in today's marketplace it is utmost necessary to conduct business internationally.¹ The impact of globalization has both pros and cons on business strategies.

Almost every aspect of human life has been affected by the advent of globalisation. People not even knowing certain places might be consuming various products from that region. For example, United States of America consumes 35.6% of clothes and shoes from China and only 3.4% domestically according to a 2010 Federal Reserve Bank of San Francisco Report. This is contrasting as most of the people from The United States of America might find it difficult to locate Beijing on the world map.²

The one of the key indicators of globalisation is the rapid extension of global direct investment, which, has grown faster than world output and trade, since the mid-1980s says the United

¹ Mike Myatt, The impact of globalisation on business, N2growth, <http://hub.n2growth.com/the-impact-of-globalization-on-business/>

² Justin Kuepper, Globalisation and Its Impact on Economic Growth, Thebalance, <https://www.thebalance.com/globalization-and-its-impact-on-economic-growth-1978843>

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Nations Council of Transnational Corporations(UNCTC,1991). All through the 1990s, transnational corporations kept on continuing to increase their role in the world economy, in the markets of goods, services, capital and also technology to a great extent. Their activities are both broadening and deepening the economic interdependence of nations, to a degree that it is now common place to refer to the aggregate no longer as the international economy, but as a “borderless” international economy.³

Competition increases multifold due to globalization. Consumers choice increases which impacts the thinking pattern and attitude of the consumer making the business environment and decision making more complex and vulnerable to changes. The companies constantly need to be aware of the global changes in order to increase or at least maintain their market share and profits. This also helps in consumer protection where the companies strive to improve their product’s quality and also consumer satisfaction services. They should be flexible on making changes with respect to price, quality, packaging and other respective factors.⁴

Competition generally incentivises innovation. Flipside of this is that sometimes it is seen local competition and small businesses are widely affected which cannot keep up the pace with rapid changes of the global environment. They succumb to greater forces of market leaders and have to give up their market share.⁵

Over the recent years’ globalization has seen a shift in cycle from developed countries taking control and having greater power over decision making to developing and under developed having the higher focus and major decision changing capacity. This means at the start under developed countries used to establish ties with developed countries to obtain resources and develop their markets. On the contrary nowadays developing countries have gained upper hand as developed countries having exhausted their consumer base are now looking at wider markets in other countries for their products and manufacturing. A con to this aspect is that financially rich companies have started exploiting tax havens to gain advantage of the tax benefits which leads to wealth inequality and reduces government treasury.

³ Khalil A. Hamdani, The New Globalism And Developing Countries at 2

⁴ Rajagopal, Globalisation and consumer behaviour, link.springer, https://link.springer.com/chapter/10.1057/9781137281920_11

⁵ Yuriv Gorodnichenko ,Jan Svejnar and Katherine Terrell, Does globalization lead to innovation, IZA DISCUSSION PAPER NO.3299,JAN 2008, <https://www.strategy-business.com/article/re00038?gko=2bc9d>

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One of the most common indicator of globalization is the use of new technologies by entrepreneurial and internationally oriented firms to exploit new business opportunities. Internet and e-commerce procedures hold particular potential for SMEs seeking to broaden their participation into new global markets.⁶ Globalisation of technology is mainly due to the rapid dissemination of technology and shortening of production cycles. Innovations and technology are inter related. With a development in technology further innovations are sure to happen. Companies with advanced technology and R&D are best placed to make innovations. Thus, it is truly quoted that, "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."

The E-commerce has greatly flourished under the impact of globalisation. It has brought the world closer and has made it more connected with respective to business and its products and services. The Consumer to Consumer (C to C) model i.e. directly reaching out to consumers from other countries and cutting middle man, shipping and inventory costs has become a great boon to businesses to increase efficiency and benefitted the consumers in receiving products at a cheaper rate. E-commerce has widely affected the cost control decisions, employment patterns, buying patterns on both the consumers and the producers side and industry structure. It has also affected decision for the Business to Business(B2B) models and the Business to Consumer(B2C) models in a way which has booned the business to charge low prices and serve a wider consumer base. Modern examples of world leading platforms using the B2C models are Alibaba and Amazon which have proved that globalisation has greatly impacted their business models otherwise these companies would have restricted to their countries having lost a wide range of their consumer base which would have curbed their success. However, the true impact of globalisation and relationship between globalisation and E-commerce is quite nebulous. It has also been seen that the C2C models has been nascent in this context like Olx and quickr has been able to reach out a fewer consumers and is still in the developing stages.

"Where people previously called on Government to tackle political or environmental problems, they are now directly challenging to tackle on these roles"-Cor Herkstroter, Former CEO of Royal Dutch Shell. It has been observed that regime transformations which is transformation of country's economy from a command economy to market economy. Major countries which are in the developing stage consider globalisation as a road to modernity. It is said that

⁶ Bookboon, <http://bookboon.com/blog/2011/10/how-globalization-affects-business/>

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democracy and centralization is strengthened by globalisation however governments believe that a wide dominance of global companies affect the policies of the country which benefit the foreign companies but might have a drastic impact on local domestic small-scale businesses. Political and social issues are interwoven with the economic system and must be treated simultaneously to maximize the benefits of globalisation. Company policies also need to change according to a particular country or else the product or service might not be accepted by the market gracefully if the consumer's sentiments are hurt or a thing is considered as a social taboo.

EFFECTS OF GLOBALIZATION ON DIFFERENT PLAYERS OF THE BUSINESS

SOCIETY

The past few decades of economic data and research show that India and China have observed a 10 per cent and 8 per cent of yearly development correspondingly. Markets currently typify younger society, growing number of educated and skilled people, rising middle income group populations, inspiring profits and development for their business and targeting a whole new consumer base⁷. This allows the businesses to grow quicker on account of cheaper resources and lesser restrictions from these developing countries. Also, the developing countries benefit by earning higher economic growth and more sophisticated technology and information. Thus, globalisation has benefits to the business society as well as the economy.

Auto mobile is one industry which clearly marks its presence when globalisation is considered. This shows expansion of markets on a large scale. Before the fall of Berlin wall on 9th November, 1989 those living in countries under the influence of communism only had access to cars that were produced domestically or in other communist markets. This was immensely due to the stringent trade barriers of the west. The fall of Berlin wall marked the fall of communism. When communism fell, the countries of the west, that is, countries that were not under communist influence, were able to expand their markets to former communist countries. This greatly increased profitability and the surplus could be managed out effectively. Also, consumers were benefited by a wide range of options and better quality of goods.⁸

⁷ Future of Globalisation and its impact on Economics, UKEssays, <https://www.ukessays.com/essays/economics/future-of-globalisation-and-its-impact-economics-essay.php>

⁸ James Green, How does Globalisation Affect an Organisation's Business Approach?, smallbusiness, <http://smallbusiness.chron.com/globalization-affect-organizations-business-approach-20077.html>

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One of the major examples of globalisation in today's world per se is travel and tourism. This allows globalisation of currencies, languages, culture, information⁹. Corporate travel is mainly responsible for transfer of information and wide spread communication. Businesses look to capture these markets also by providing products that satisfy these consumers and also fulfil their wants and needs. Tourism is a big and a wide spread industry spanning across the globe and generating economies of mass scale. Unlike previous times tourism has increased multifold and so has the demand of tourists. Companies have seen to have immense success which have been able to strike a balance between needs of local as well as the tourist market.

The very primal source of information nowadays that is the internet is a major indicator of globalisation. It has brought the world closer and businesses have greatly benefited by this. Today a business can buy, sell, trade and deal in goods, raw materials, spare parts, technology, services and also information at a very low cost and conveniently with the access of the internet. It is seen to have reduced or further more eliminated the costs of middle man. Internet has also made possible the concept of virtual organisation in business firms. The structure of virtual organisation in a company where a group of individuals or organisations come together to execute a project or render a service to an ongoing activity and then disperse is possible because of globalisation. This allows a company to extract expertise from a particular country or organisation which is the best in its business. This is possible by telecommuting, offshoring and outsourcing which is usually done through video conferencing connected by the internet.

A push for professional development is a further effect of globalization on management. Professional development is concerned with providing employees with opportunities to achieve their career-related goals which are in line with the company's own goals to increase productivity.¹⁰ Some organizations provide resources for their employees to earn a university degree, others send their employees to conferences or networking events and training days. Professional development is important to globalization because it creates a win-win situation. The employees feel as though the organization is concerned with providing a range of skills and competencies for their employees. Likewise, the business firm gains from the increased skills and networking and contacts the employee makes who takes full advantage of professional development programs and sessions. This in turn increases professional ethics,

⁹ Yourdictionary, <http://examples.yourdictionary.com/examples-of-globalization.html>

¹⁰ Jeremy Bradley, Effects of Globalisation on Human Resource Management, smallbusiness, <http://smallbusiness.chron.com/effects-globalization-human-resources-management-61611.html>

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builds a healthy work environment which increases productivity and profitability and overall reduces the turnover of employees.¹¹

Globalisation has played a trivial role in price changes all across the globe. This is seen in the drastic reduction in prices most of the sectors. For instance, in the telecom sector in India where the price of calling for a minute was over 10 somewhere in the late 90s and early 2000s, has now reduced below Re.1. However globalisation has also led to price hike in some sectors. Fuel is a prominent sector that comes to the mind when price hike due to globalisation is talked about. Demand for fuel by all countries in the world has kept of increasing to satiate the major developmental needs of the country. The Organisation of Petroleum Exporting Countries(OPEC) having a partial monopoly in the oil sector and the demand for oil being inelastic due to lack of substitutes, the OPEC have seen this as an opportunity to bag more and more profits. Businesses need to keep all this in mind while scaling out their resources and capital to earn larger returns on their investments and also to have increasing returns to scale with respect to their expansions and additional investments. Also, this brings us to think about the readymade garments manufactured at low cost destinations like China, Afghanistan, Bangladesh and supplied world-wide. Even the spare parts and component parts are imported from all round the world and assembled in a single country. Nowadays with the advent of technology entire cars and bikes are manufactured entirely in a country and shipped globally.

Another revolution which strikes due to globalisation is the mushrooming of MNCs. In the past years a lot of MNCs have come into the picture some of which were only local or national businesses. Globalisation has allowed them to spread their arms wide open to other countries and expand their operations. Ease in trade and liberalisation in its policies have proved to be a great boon to these small and medium scale industries to scale their businesses world-wide.

A consequence of globalisation which is International Development, arises out of a combination of both expanded markets as well as cheaper resources.¹² A prime example of this is India. Before the late 90s, the information technology sector in India was largely in its infancy or birth stage. However, coupled with an educated and hardworking yet inexpensive workforce, foreign companies were able to start subsidiaries of high tech activities in cities like Bangalore. This technological know-how spread to local firms, who in turn grew as a result of

¹¹ *Id.*

¹² Mike Collins, The Pros and Cons of Globalisation, Forbes,
<https://www.forbes.com/sites/mikecollins/2015/05/06/the-pros-and-cons-of-globalization/#6ee746fecce>

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expanded markets both in India as well as the rest of the world. Information is the most valuable and productive factor of production in today's business environment.

Companies have benefited a lot through globalisation of technology and production. A live example of this is the coke story. Coke started branching out globally from the 1920s but it began mass expansion from the 1980s. To increase its consumer base and have a wide fan following it entered into partnerships with Special Olympics, NASCAR, Tour de France and FIFA. By 2015, Coke grew so large on account of its excellent marketing strategies that North America constituted only 22% of its total sales whereas around 75% sales were from foreign markets. Generally, coke and other local beverage manufacturers used to bottle the product and then distribute it. However, this wasn't possible in case of coke since its operations scaled globally. Hence coke came into partnerships with local bottlers in the region and used to supply the coke concentrate to them. The bottlers used to dilute the concentrate and bottle according to coke's requirements. The formula for concentrate is still not shared by coke.¹³ Although the bottlers learned new forms and techniques of bottling to match coke's standard and also globalisation of production benefited coke to supply products that were easy to produce and efficient to supply. This proved beneficial for both the coke and the local bottlers.

Like two sides of a coin, though globalisation may sound good from an all-round perspective it has certain adverse effects as well which have greatly affected the business environment. The cons of globalisation are also something each company must look at and take account for to avoid losses with respect to either profits or productivity.

A major drawback of globalisation is the creation of wealth inequality that it creates in the developing countries. There are chances that the company might try to exploit the developing countries in several ways. Global businesses though create economies of mass scale, doesn't distribute this production keeping in mind equality and charges a price to maximize profits and minimize cost. Due to these consumers need to pay a high price and low-level managers and workers are paid a low wage or salary. This is a step to make the rich more richer and poor even more poorer. What industries and businesses don't understand is that if they snatch the purchasing power from the hands of the lower and middle-class population, in the long run the businesses will end up losing their market share as people will drift from buying that product. Also, if they try exploit the human resource by paying low salaries chances are that they might

¹³Business Case study:Globalisation of coca-cola, study, <http://study.com/academy/lesson/business-case-study-globalization-of-coca-cola.html>

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be find new jobs or reduce their productivity by and large. This will affect the overall organisation structure and functioning in the long run if not the short run.

It is also seen that countries depending more on globalisation and foreign firms rather than national production have faced extreme difficulties due to negative externalities. In a case where country's or company's major exports or employment is dependent on a foreign country or firm puts the country or company under the risk if the parent country faces problems. This was clearly seen during US recession of 2008. Indian IT sector was dependent to a major extent on the US. Thus, a recession in USA led to many jobs being sacked in Indian IT firms. It is also prominently seen that the Indian government trying to increase production by national firms and making India self-dependent so that the impact of negative externalities is reduced as much as possible. Another example of this is the crude oil prices. Crude oil is a commodity imported by all the countries in the world from the OPEC countries. A shortage or a problem in these countries affects the prices all round the world. This is a drawback of globalisation which no company has been able to counter and needs to study the market and economy thoroughly to make suitable plans to avert such conditions as much as possible.

As it is believed that globalisation creates job opportunities. The rising improvements in R&D and technology have posed a great risk on the job market. Use of AI has increased multifold in sectors like banking, IT, automobile production and so on. It is estimated that up to 600,000 IT would be cut in India alone in the coming three years. This might lead to wastage of productive labour that the company could have used otherwise and save huge costs spent on AI.

A major drawback of globalisation is that it does not lead to overall economic growth or development. The small businesses in the domestic benefit greatly by the technology brought in by the foreign firms. This sounds like a boon but also becomes a bane for industries operating in low profit sectors like agriculture in India. Globalisation has not helped the local Indian agricultural industries to flourish and also has created barriers in business as complying to cost restrictions has become difficult for them.¹⁴

Governments of most countries also have a part in major economic policies which affect business decisions. This is one thing that acts against the favour of global companies operating in a host country. Here they have no say in the decisions. The decisions that are against the

¹⁴ Ayush.ilnu, Globalisation and its impact on Indian Economy, legalservicesindia, <http://www.legalservicesindia.com/article/article/globalization-&-its-impact-on-indian-economy-developments-and-challenges-1018-1.html>

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interest of the company like a rise in tax rates or increase in rate of interest on loans can result in loss of business. A major disadvantage that companies face is that this condition is unavertable. Also, a political instability, riots or war like situation can result in loss in business. The global businesses need to keep all these factors in mind while forming business decisions and considering to start a business. A business might take some risks and invest more capital in peaceful, friendly and more stable countries than one with continuous threats of wars or instability. This majorly affects the decision-making policies of a company especially during setting up or for expansion.

CONCLUSION

“It has been said that arguing against globalization is like arguing against the laws of gravity”
– Kofi Annan, Former Secretary General of the United Nations

From the above content we can see that Globalisation has an impact that could never have been imagined by mankind and is still proving to be a growing force. It has brought not only advantages to the global businesses by providing them a large consumer base for their products and services, cheaper factors of production, less restrictions on account of paper work and licenses which has eased trade and reduced pain of doing business and by increasing the standard of doing business but has also had harsh effects by destroying employment opportunities which has led to low productivity of labour, diminishing local enterprises and also culture and way of living which has affected them in various indirect ways.¹⁵It can clearly be inferred that globalisation has and is working towards making the world a closer and a better market which benefits each and every one.

In my view Globalisation has sped up greatly in the recent decade all over the world. This phenomenon has benefitted the entire business society and should be carried on positively. There should be co-ordination and co-operation between businesses and governments to be able to work together for the benefit of the common man as a whole. The negative aspects of Globalisation can further more be reduced by taking corrective actions and inculcating a motive of responsibility. Integration of world economies and world becoming a neutral work environment is very necessary to achieve economies of scale and the businesses to flourish otherwise consumers will be debarred of the options of various products and companies from the wide consumer base effecting in complete loss to all. Restrictions should be lifted off by

¹⁵ Negative Impacts of globalisation, English-test, <http://www.english-test.net/forum/ftopic87500.html>

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all countries to make business and trade easier and this will also lead to sharing of information and technology for the development of small and local businesses in the developing countries. They will be able to progress on a global scale and reaping the benefits of different factors of production. The world is already close to reaching that stage where the markets are becoming one common place for the consumers. What needs to be looked at now is to solve the problems of the underprivileged and negative aspects of Globalisation. Once these things are under the control that will be the time globalisation will prove to be a living heaven for all countries, markets, businesses, environment and people as a whole. A truly successful company is a one which focuses on the concept of “Think Global Act Local “and covers all its negative externalities to overcome all the difficulties which is why they have sustained for such a long time. In the wide spread advent of globalisation it should be viewed that the global businesses don't disturb the culture and tradition of the host country which is where the principle of “Act Local” comes into play. This will be a major factor to be achieved in the coming years and will also be a challenge for the global firms as to how they will counter these situations and mark their presence in the global markets and stand apart. While there are a few drawbacks to globalization, I believe that it's a force that is both unstoppable and uncontrollable which has a net benefit to the world economy.

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