Unit 11: Global Context of Management

Globalization:

Globalization can be defined as the integration of economic, cultural, political, religious, and social systems reaching the whole world and practically all human beings.

In other words, Globalization is the process of development of the global community. It binds countries, institutions and people in an interdependent global economy.

According to Sundaram and Black: “Globalization is the process by which an activity or undertaking becomes would wide in scope.”

Globalization is a process of integration of the world as one market. In other words, globalization is a free movement of goods, services, people, capital, and information across national boundaries.

Forms of Globalization: Following are the different forms of globalization.

1. Economic Globalization: It refers to increased global inter-linkage of the market in goods, services, trade, capital and finance. It is contributed by privatization, deregulation, liberalization, declining costs of transport and communication etc. Several countries have remove or decrease the tariffs for import goods, they even declare the free trade zone, which helps to create economic integration between countries. Similarly, World Trade Organization (WTO) has played vital role in this process by initiating in different activities.
2. Cultural Globalization: Cultural integration between the nations is called cultural globalization. Due to the technological improvement the people can now know about other’s nation value, belief, customs etc, easily and exactly. This helps to increase mutual understanding, peaceful coexistence and learning from each other’s experience. Thus, it creates the cultural homogeneity which we called cultural globalization.
3. Political Globalization: Now a days, countries are joining hands to make a regional blocks such as SAARC, EU, APEC,ASEAN etc. which helps them to build a strength and exchange views and experience, establishment of good governance system, legal system, free media, decentralization etc. and thus facilitate political globalization. And even this political globalization influences the political system worldwide is shifting paradigm from command and mixed economics to the free market economy.
4. Environmental globalization: Integration and commitment of the nation’s for the purpose to tackle and prevent any further degradation of the global ecology is known as environmental globalization. These countries are encouraging other nation to understand and join hands on preserving natural resources and adopt necessary legal and other measures to protect the environment.

Nature of globalization:

1. World Trade: The main objective of globalization is to facilitate world trade. Thus, globalization focuses on enhancing the better trade between nations.
2. Portfolio investment: Next feature of globalization is portfolio investment. It means nation or private institution purchase the foreign securities in the form of stock, bond, guilt etc. and in return obtain dividend, interest. Thus, increase and decrease in interest rate directly affect the inflow and outflow of the capital in a country.
3. Foreign Direct Investment (FDI): FDI is a long term investment which involves acquiring foreign firm, building strategic alliance, joint ventures etc.

4. Multi-National Companies: A company which operates beyond the boundary or across the national boundaries is called MNC. FDI is the main factor for the growth of MNC. Since it focused on the foreign market so it is also a nature of globalization.

Methods of Globalization:

1. Exporting: A company can globalize its activities through exporting product from one country to another country.
2. Joint Ventures: Joint ventures are jointly owned firms by foreign and domestic firm for establishing long-term relation. They are created by combining the resources and expertise needed to develop new product and technologies.
3. Franchising: It refers to the rights granted by a company to another company allowing to use or sell certain product. Such as Coca-Cola, Pepsi, McDonald. A franchiser is responsible for the brand name, marketing and human resource development.
4. Licensing: It refers to the given right to a company by another one to manufacture a patented product for which the latter has to pay royalty or fees to the former. The company which has unique patented product or valuable knowhow but do not have resources to enter into the foreign market usually give license to other company to produce the goods.
5. Strategic Alliances: When two firm make alliances to take market advantage is called strategic alliances. These alliances do not have any joint management of asset so they can be separated easily whenever they want.
6. Subcontracting: It refers to outsourcing certain production function or process to others firm due to low cost or better quality or both.

Changing Global Business Scenario:

1. Changes in national economic priority: Economic priorities of most of the countries have been changed. They are following market based economy so privatization, deregulation are common in countries. Nation’s are encouraging private industries and given freedom in decision making.
2. Global outsourcing: Due to quality and low-cost, organizations are now purchasing inputs from other organization throughout the world.
3. Investment in education: Most of the foreign investors are willing to invest in those nations, where there is level of education is high with skill workforce and labor market. So emerging countries are investing much of the portion of the GDP in education and skill development program to attract those investors.
4. Shift from manufacturing to services: Most of the developed countries are shifting their business from manufacturing to services sectors, such as hospitals, banking etc.

Effects of Globalization:

There are both positive and negative effects of globalization. They are:

Positive effects:

1. Creation of demand for goods and services.
2. Parallel growth of economy.
3. Transfer of technology.
4. Employment opportunities.
5. Recognition.
6. Economic Advantages.

Negative Effects:

1. Exploitation of resources.
2. High price for necessary goods.
3. Maximum advantages will go to reach countries.
4. Threat for indigenous industries.

Multinational Companies:

Multinational companies are generally defined as a company engaged in producing and selling goods or services in more than one country. They are operating worldwide in different forms and subsidiaries or affiliates.

According to Daniels and Radegaugh, “A company that has worldwide approach to markets and production is known as MNE. It usually undertakes nearly every type of international business practice”

Types of Multinational companies:

1. Raw material seeker: These MNCs look for best and cheapest raw materials from local suppliers processed them locally and shipped them in home country from production of goods. Such as British Petroleum, Anaconda Copper etc are those MNC who seeks for raw material internationally.
2. Market Seeker: These MNCs look for market overseas to sell the product and services. E.g. IBM, Unilever etc.
3. Cost minimizes: These MNCs seek out and invest in lower cost production sites abroad. (E.g. Taiwan, China, India, Malaysia, Thailand etc) to remain cost competitive both at home and abroad.

Advantages and Disadvantages of MNCs:

Advantages:

1. Transfer of technology.
2. Economic growth.
3. Employment of people
4. Transfer of knowledge and skill
5. Public welfare (social works).

Disadvantages:

1. Loosing economic sovereignty.
2. Chances of exploitation of labor forces.
3. Influence in the local culture.
4. Rise in unnecessary influence to the local government.