“A Study on the Impact of Globalization on Business”

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Abstract – Globalization refers to the changes in the world where we are moving away from self-contained countries and toward a more integrated world. Globalization of business is the change in a business from a company associated with a single country to one that operates in multiple countries. The ongoing globalization increases the overall need for knowledge of cultural differences between not only countries but also corporate cultures. More and more employers start transferring their experts from country to country to help build new subsidiaries or to support existing ones in certain projects. Their success is closely linked to not only the obvious need for language skills but also the understanding of sub cultural influences, different communication styles and social behaviors of each society.

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INTRODUCTION

The phenomenon of “Globalization” is not new. In fact, it has been creeping up on us since the dawn of time; it just hasn’t been so visibly impactful until recent years. The broad macro-economic effects of globalization being experienced today arguably became most identifiable with the end of the cold war, and have only continued their rapid advancement with the development of third world countries and other emerging markets, establishment of free trade agreements, the creation of the Internet and other technology/communications improvements, the growing multi-national footprint of business, the emergence of the European Community, the stabilizing impact of the Euro on global currency markets, as well as the increased liquidity of more sophisticated and efficient capital markets.

In today’s marketplace conducting business internationally is as much of a defensive play as an offensive play. In examining the upside of going global, consider the sheer size of international markets as contrasted with the size of the domestic market and you will likely find that the majority of your potential customers live abroad. So if you could double, triple or quadruple your revenue why wouldn’t you aggressively pursue that goal? Now consider the downside of not going global – if your company is not pursuing those customers your competition will be. They will not only take a first mover’s advantage of securing customer loyalty and brand recognition, but they will also tie-up key partners and distribution agreements. As consumers continue to become more demanding and the world economy continues to flatten there will soon be an expectation that you be able to serve multiple markets in a seamless fashion. Being a slow adopter in today’s world could eventually damage your business.

Today’s trade deficit, petroleum pricing, down equity markets, housing crisis, constricted flow of funds, and overall cost of living should be challenging us more than it is. Conventional economic theory would suggest that with many of the negative economic metrics in play today, our interest rate environment should more closely resemble that of 1980 than the low interest rates we are experiencing today. The difference between today’s financial landscape as contrasted with that of 1980 is the emergence of a truly global economy which is acting as a stabilizing factor. In fact, when the US went through the Great Depression it was largely a result of having an isolated economy. If (more likely when) the US economy does falter again, the inter-dependent nature of the global economy will likely stave off a collapse.

IMPACT OF GLOBALIZATION ON BUSINESS

The impact of globalization on business can be placed into two broad categories: **market globalization** and **production globalization**.

Market globalization is the decline in barriers to selling in countries other than the home country. This change will make it easier for your company to begin selling products internationally, since lower tariffs keep consumer prices lower and fewer restrictions when crossing borders makes it easier for a company to enter a foreign market. It also means that companies must consider other cultures when developing their business strategies and potentially adjust the product and marketing messages if they aren't appropriate in the target country. This may not be an issue in the camera industry, but a hamburger company entering India would definitely need to revisit their product and strategies to be successful!

Production globalization is the sourcing of materials and services from other countries to gain advantage from price differences in different nations. For example, you might purchase materials and components for your cameras from multiple countries and then assemble the product in yet another international location to reduce your costs of production. This change should lead to lower prices for consumers, since products cost less to produce. It also impacts jobs, since production may shift from one country to another, usually from more developed countries to less developed countries with lower average wage rates.

Globalization is a leading concept which has become the main factor in business life during the last few decades. This phenomenon affects the economy, business life, society and environment in different ways, and almost all corporations have been affected by these changes. These changes are mostly related to increasing competition and the rapid changes of technology and information transfer. To challenge these changes, companies need to keep in mind various aspects of the main effects of globalization.

Competition

Globalization leads to increased competition. This competition can be related to product and service cost and price, target market, technological adaptation, quick response, quick production by companies etc. When a company produces with less cost and sells cheaper, it is able to increase its market share.

Customers have a large multitude of choices in the market and this affects their behaviors: they want to acquire goods and services quickly and in a more efficient way than before. They also expect high quality and low prices. All these expectations need a response from the company, otherwise sales of company will decrease and they will lose profit and market share. A company must always be ready for price, product and service and customer preferences because all of these are global market requirements.

Exchange of Technology

One of the most striking manifestations 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 involvement into new international markets.

Technology is also one of the main tools of competition and the quality of goods and services. On the other hand it necessitates quite a lot of cost for the company. The company has to use the latest technology for increasing their sales and product quality. Globalization has increased the speed of technology transfer and technological improvement. Customer expectations are directing markets. Mostly companies in capital intensive markets are at risk and that is why they need quick/rapid adapting concerning the customer/market expectations. These companies have to have efficient technology management and efficient R&D management.

Knowledge/Information transfer

Information is a most expensive and valuable production factor in the current environment. Information can be easily transferred and exchanged from one country to another. If a company has a chance to use knowledge and information then it means that it can adapt to this global changing. This issue is similar with the technology transfer issue in global markets. The rapid changing of the market requires also quick transfer of knowledge and efficient using of that knowledge and information.

Expanded Markets

From the business perspective, one effect of globalization is that of expanded markets. This means that a business that had previously only sold its goods domestically can start selling products to other countries. One example of expanded markets includes the auto industry. Before the fall of the Berlin Wall, 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 due to trade barriers with the West. When communism fell, Western economies, that is, countries that were not under communist influence, were able to expand their markets to former communist countries. This in turn increased their profit potential.

Cheaper Resources

Another consequence of bilateral trade agreements is the access to cheaper resources. Until the start of the 1990's, the People's Republic of China was largely closed off to the rest of the world. Many companies in the United States produced their goods either domestically or in areas with slightly less expensive labor. When China opened its market to the rest of the world, however, American companies were able to take advantage of the far cheaper labor. This is known as outsourcing. Cheaper labor contributes to cheaper costs, which in turn contributes to larger profits. Sometimes, but not always, this may also mean cheaper products and services.

International Development

International development, as a consequence of globalization, arises out of a combination of both expanded markets as well as cheaper resources. A prime example of this is India. Before the late 90s, the information technology sector in India was largely in its infancy stage. However, coupled with an educated 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 expanded markets both in India as well as the rest of the world.

The theory espoused above, while working for us presently, can only hold true for so long…The stability we are experiencing now, could turn against us if the economic downturn continues for an extended period. The inter-dependency that is presently shielding the US could in fact turn into a global domino effect causing a worldwide recession if the right combination of things falls into place.

Also keep in mind that emerging markets in Eastern Europe, India, Latin America, China and the rest of Asia present scenarios for higher growth, even on a risk adjusted basis. On an aggregate basis the statistics are impressive. For example, currently 80 percent of the world's population accounts for 20 percent of world GDP. By 2015, 50 percent of world GDP will be accounted for by emerging markets. Consider the following:

1. **Rising Economies**: Over the past decade, China has routinely experienced 8 percent to 9 percent annualized growth and India has followed closely with 7 percent annualized growth.

2. **Demographics**: For the most part, these markets represent younger populations, growing numbers of well-educated professionals, an expanding middle class, growing consumer bases, urbanization, and rising incomes. In addition, the structure of family life for these modern middle class populations is assuming the "western" nuclear form and moving away from the more traditional extended cohabitating family unit.

3. **Commercial Demand**: The economic expansion, as well as the presence of global companies that bring employment oriented around intellectual capital, is creating demand for modern, western style commercial real estate infrastructure. Core assets such as office, industrial, retail, multi-family, and hospitality are all experiencing rising demand.

4. **Infrastructure Improvement**: While communications, utilities, and efficient transportation can still be spotty in areas, it is much improved over what one would have experienced even a decade ago. In most metropolitan areas you will have most of the creature comforts that you experience in the United States.

5. **Closed market systems opening up**: Most successful emerging markets have been engaged in systematic reform of basic societal values we take for granted in the developed world. These include property rights, legal process, and published regulations and statues. In addition, specific reforms such as privatization of state owned industry, relaxation of capital controls, and liberalization of rules regarding foreign direct investment are all encouraging growth and investment.

In order to meet increased consumer demand many businesses are attempting to expand their geographic footprint and extend their value chain to an international level. The impact of globalization on business is best evidenced by the huge proliferation in cross-border transactions. In order to protect yields and maintain competitiveness, businesses are continuing to diversify their footprint as it lowers the beta factor on their investments by spreading risk across a broader market.

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