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IMPACT OF GLOBALIZATION ON BUSINESS SECTOR

Abstract

In this article the globalization and its impacts on business environment is discussed. Current literature argues that globalization is getting wide from day to day and it does not grow without any effects on businesses all over the world. Some claims that globalization supports the productive operation of companies in international arena via cross border transactions. On the other hand, recent literature indicates that globalization creates barriers for companies in terms of competition and regulation by governments. All in all, the main purpose of this article is to clarify the question of what the globalization is and how it may impact businesses from positive and negative point of view.

Keywords: globalization, business, risk, stakeholders, consumer needs, global markets, digitalization, innovation

INTRODUCTION

Since the beginning of the 19th century, the world has witnessed growth in globalization. It emerged after World War II when companies opened their borders to carry out trade and help one another in improving global economic conditions. Initially, countries began to globalize through export and import of commodities; the phase is regarded as globalization 1.0 (Sangsuvan, 2014); however, in their study findings, Bei (2017) suggested that the world completed globalization 2.0 during early 20th century, where companies began to globalize through outsourcing, international trade, MNEs, cross-border ventures, and other expansion strategies. In the present world, companies have become more significantly globalized while the world has entered globalization 3.0 where individuals are globalizing through mobility and tourism. Under this century of growing globalization, the most significant impact is observed in the business sector. Wojcik (2015) stated in his words that the world has witnessed a significant transition in the industries and how the business operated. In this article the impact of globalization on businesses will be discussed while taking into account, the negative as well as a positive influence.

Impact of Globalization on Business Sector

Since the early times of globalization, the definition of the term has evolved greatly. Different authors have presented contrasting views about globalization. Mahmutovic et al (2017) defined globalization as the expansion of nations through the expansion of commodities across borders. Noe et al (2017) argued that the definition is vague and trade centric, while globalization in simple terms is the movement of commodities, goods, and services between different nations. Jones and Lluch (2015) in their book defined globalization as a phenomenon where companies are observed to be traveling across borders while economies are reducing barriers. In his book, Zhang et al (2017) simply stated that globalization is a continuous phenomenon that has nearly turned the world into a village. While in the previous time, people had to travel miles in search of resources. Now, different high quality, foreign and valuable products are available in local markets that can be used to suffice consumer needs. Christopher Columbus during 1492, set sail and found America, but now every day, several companies and entrepreneurs move across borders in search of new markets, and opportunities (Jalata, 2016). Najam et al (2016) in her book pointed out that globalization has turned the business world upside down with considerable new opportunities, strengths as well as threats. Below sections discuss the positive as well as negative outcomes of internationalization.

Positive Effects of Globalization

In this section, the positive direct and indirect impacts of globalization will be discussed in the light of existing theories, scholarly articles and real-life examples.

Declining Government Intervention

According to Markovic (2019), growing globalization led to increasing scholarly articles written regarding neo-liberalism, and trade. The business sector around the world is slowly structuring neo-liberalist policies where the government limits their interruption in business activities of the region. According to Banerji (2017) previously, a higher amount of government-owned companies, significant barriers, regulatory constraints and the threat of political and legal changes were a key challenge for businesses. Furthermore, before globalization, the threat of war was high and therefore, the government maintained strong control over business plans and activities. Companies closed down due to government intervention leading to economic and monetary losses (Jalata, 2016). For example, during World War II, the United States intervened in business activities to build military and war capabilities. The business production plants were utilized to fulfill military orders while car making companies became production centers for tanks and aircraft (US Department of State, 2019). Along with increasing globalization, the government slowly eliminated barriers and increased integration and interdependence. Now, the threat of war has reduced significantly with a regional and international organization and integration. Markets can operate freely while many government-owned companies are slowly privatizing. An example can be derived from China were the total number of central government-operated companies reduced from 117 to as low as 98 from the year 2012 until the year 2018 (Bei, 2017).

Better Ability to Create Profit & Meet Consumer Needs

One may argue regarding the impact of privatization and liberalization on the business sector. According to Wojcik (2015), free economies and markets are better functioning when compared to control and monitored economies. Companies have greater potential for profit and therefore seek more ways to create innovative solutions for the customers. In the view of Noe et al (2017), previous government-owned organizations were ill-managed with limited attention to the needs of users, while services were mostly low quality, specifically in Asia. However, increasing globalization and resulting privatization has led to better equipped, managed and innovative companies that offer high-quality services and meet the needs of the consumer. In Australia, many governments owned sectors, are gradually privatizing, including health-care, which has led to growth in health care system adaption, technology development, innovations for Aboriginals and more (Jones & Lluch, 2015). Thus, it can be stated that without government intervention and threats, the companies can operate at their full potential while competing to provide the best service to customers.

Access to Global Markets & Global Consumers

While private organizations are on a rise, the number of global organizations or MNEs has also increased. The business sector has realized great potential and opportunities along with globalization due to increased access to new markets. Companies and entrepreneurs travel across borders to access new customers with diverse needs. The globalization of companies and customers with the ability to access new markets has led to new ideas that can be monetized (Skorupinska, 2015). An example includes Airbnb hosting service where people provide their space for rent to travelers and earn a profit. The website is highly profitable while several global people are registering as guests every day to help globalizing customers through the global service of Airbnb (Priporas et al, 2017). Furthermore, companies can expand their operations and services overseas to cater to a new customer segment and gain higher profit (Ionescu & Carstea, 2013). An example includes Uber Technologies that started its journey in America as a cab service providing company. With increasing globalization, the company realized that people in different parts of the world are also dealing with cab service problems. The company began to expand its organization to the troubled countries and within 10 years, the company now has 110 users and operations in 786 metropolitan areas around the globe. It encountered a profit increase of 14% with 3.2 billion net incomes (Ofek et al, 2019).

Rise in Business Digitalization

The concept of global companies and privatization has transformed the business sector, while another issue is ‘global but invisible corporations’. Such corporations are the companies that have access to global customers, provide services, earn profits but are not physically existent. It includes digital companies, entrepreneurs and small businesses that cater to the need of global customers.

While technology existed for many years and the World Wide Web created in the 1980s; global digital companies still did not exist (Ghaderi & Ghaderi, 2014). The growth in global companies occurred with globalization as companies had an incentive to use digital platforms to reach a larger market of consumers and carry out activities. There are a rising number of global companies in the world with reducing number of brick-and-mortars. Even the oldest companies have realized the potential of digitalizing their business and tapping new markets at a low cost in limited time. Globalization and technology have boosted the business market with new opportunities for crowdfunding, crowdsourcing, crowd creations and more (Hassoun, 2014). An example includes Amazon that carries out entire business activities on web and applications. The company has billions of global users, and now according to Althafairi et al (2019), the company has become a dominant competitor for many brick-and-mortars as well as click-and-mortar companies. Alibaba and eBay are some of these giant non-physical companies that have grown tremendously by tapping global markets through technology integration, innovations and competition at a global scale (Kinda, 2019).

Better Competition, Innovation & Higher Profits

Technology is only one aspect; because to make most of the global market and consumers, companies and organizations are innovating daily and bringing up new products, services and business operations as competitive edge (Najam et al, 2016). Therefore, one may argue that globalization is expensive for companies, but Zhang et al (2017) in their book counter-argued that globalization has created means to use existing resources to generate higher profits and cut costs significantly while ensuring more positive outcomes of business activities (i.e. improved living). An example is the LEGO Company, a famous toy and games brand that may have faced stagnant profits if the company had retained its operations in Denmark. Globalization enabled the company to expand across borders and face new competitors. The increased competition also encouraged the company to invent and innovate in order to achieve greater profits and customers; examples of innovation by company include sourcing new ideas using social media from customers themselves, to build games that they like. The strategies have helped LEGO in creating more eco-friendly, safe and improved games while it helped company to boost profits and market share against existing competitors (Gu et al, 2019).

Access to Better Resources

Globalization is a crucial factor that helped the business to make most of the technology and other resources to earn higher profit, while it is also the key strategy that has helped businesses in meeting several needs (Ceniga & Sukalova, 2015). Previously, companies in one nation encountered great difficulty in acquiring skilled labor, technologies, and other resources for their business, specifically resources that were scarce in the home country. New startups and innovative business ideas were a challenge for countries with limited investors and other resources (Bremmer, 2014). Many businesses in the developing countries and underdeveloped countries had limited entrepreneurs, a high number of governmental companies and monopolies. The high rate of poverty, low education, and inflation in the region was a key issue for the companies in the emerging or underdeveloped economies. Globalization has served as a great solution to struggling entrepreneurs and businesses. It provided access to a global pool of resources and labor. Underdeveloped and emerging economies can easily acquire franchise agreements, technologies, and other resources unavailable in the regional market. Furthermore, labor has become more accessible and skilled and an increase in workplace diversity is observable. Better access to market, resources, and skills has led to dynamic growth in many American companies (Haynes, 2016). Apple Inc. is an example that acquires many parts and components for its device from different parts of the world. Furthermore, through Alibaba, companies can access global suppliers easily and get bulk quantity supplies within a reasonable time and at a fair price than ever (Arsova et al, 2019). Globalization has enabled investors to invest in attractive businesses across borders and therefore, the businesses in emerging and underdeveloped economies are booming, specifically the business sector in Asia. The number of new startups is increasing with the rising number of entrepreneurs (Elola et al, 2013).

Business Support from Global Organizations

While globalization has provided several opportunities to the business, another benefit is the support available to the companies from global organizations. Nations have realized that economic development is only possible by strengthening the business and corporate sectors (Aydin, 2014). There are international organizations that develop favorable principles, regulations and campaigns to help companies. SMEs and MNEs can lobby these organizations to develop favorable agreements and regulations among companies. Furthermore, since globalization growth, several organizations came into existence that carry out seminars, workshops and campaigns to educate and develop entrepreneurs and leaders while also support them in business initiatives (Ion, 2015). An example includes the International Chamber of Commerce, International Association of Business Communicators, etc. Considering the outcomes of globalization, it can be concluded that globalization has made a significant impact on companies leading to the growth of the business sector over the years (Radovic-Markovic, 2019).

Negative Impact on Business Sector

While many media channels and scholarly articles argue regarding the importance of globalization for the business sector and the economies, Tarute and Gatautis (2014) stated that globalization is a double-edged sword. It ensures the growth of the business sector, improvement of services, product quality enhances and more, but these changes come at a cost. This section will discuss the negative influence of globalization on companies.

Threatening Business Survival

Businesses around the world are booming due to globalization, while the phenomenon of globalization can also be blamed for the shutdown of many industries. In an article in New York Times, Appelbaum (2015) discussed the perils of globalization faced by Maytag, a refrigerator factory that till 2004 remained the largest employer in the region that transferred work to Mexico. However, in 2004, the factory was closed down when America gave up Maytag road to the Mexicans by signing off the North American Free Trade Agreement in the 1990s. As a result, the cost of sustainability became so high that the company became incompetent and shut down the operations in 2004, leaving several workers jobless. Similar examples can be seen around the world, with several factories that shut down due to globalization, increased competitor and inability to compete with the giants.

Higher Legal, Regulatory & Political Threats

A study was performed by Chirila-Donciu (2013) to evaluate the impact of globalization on the rising number of challenges faced by the company. The author pointed out that companies have found great potential opportunities by expanding their products, services, and business to Europe, America, Asia and Middle Eastern markets. However, such globalization has to turn out to be a threat to the business sector due to legal and political problems (Aydin, 2014). Despite free trade and neoliberal activities in the global markets, many companies are still threatened due to government intervention, regulation and limitations imposed. It includes embargoes, sanctions, tariffs and other trade barriers that increase the cost of business while also create considerable challenges for companies (Altbach, 2015). Furthermore, before globalization, pricing was controlled by the company but after internationalization, controlling pricing is difficult due to the effect of the exchange rate, tariffs, etc. Furthermore, another issue is the planned elimination of a business that has bankrupted several companies. For example; in an article published on Bloomberg Businessweek, it is pointed that China joined WTO during the year 2001, and promised to remain adhered to the codes of the organization. Yet, technology transfer is often necessary for businesses that expand to China. Due to such technology transfer, new ideas, ventures, and businesses lose their economic status against Chinese companies that mimic or replicate the technology. The old Singer Sewing Machine Company by America is a good example (Bloomsberg Businessweek, 2019). The company completed 145 with good monopolistic powers and high profits. It was produced in China that later replicated and distributed the technology around the world, leading to a loss of competitive edge

(Massoff, 2011). Thus, globalization has made replication; mimicking and similar unethical and illegal practices more common, leading to business sustainability issues.

Higher Costly & Complex Expectations of Stakeholders

Due to globalization, businesses are building more buildings, using more electricity, firing more workers, displacing them, effecting cultures around the globe and causing several activities that may harm or make environment, economies and social lives unsustainable (Bostrom et al, 2015). One may argue that such actions do not influence businesses; however, these issues have led to higher activism by stakeholders. Stakeholders in one region may view foreign companies as culprits harming local environment. There are a rising number of protests carried out against corporations to implement sustainability practices and CSR initiatives that are not only costly but also complex for global companies. Businesses are now subject to stronger reporting practices, and sustainability measures. Furthermore, companies are facing a rising number of fines, charges and protests in the international market (Liu et al, 2013). For example; BHP Billiton encountered several protests and fined 20 billion with other charges for Samarco Damn Rupture in Brazil that killed many people and harmed the environment (Losekann, 2017).

Increasing Negative Political Dominance of Corporate Sector

Crane et al (2019) in their article presented a different picture and stated that due to growing globalization, mergers and strengths of the business sector, companies are gradually becoming reckless and dominant. Some companies have significant power for politics and use the power wrongly. Companies lobby global organizations in favor of policies that may disrupt other businesses. Anti-competitive behavior and unethical practices by corporations are increasing that harm other businesses, SMEs and industries in the world along with the consumers in the industries. For example; Facebook and Google are consistently criticized for data privacy issues, and anti-competitive policies, but due to their high economic contribution and dominance, limits legal actions are taken against these firms (Moore & Tambini, 2018).

CONCLUSION

It can be concluded that through globalization, companies in developing and developed nations are better able to meet their corporate needs through globalization; including skilled labor, technology, finance and more. On the contrary, globalization of governments has helped in providing support to businesses and companies through organizations, federations, and alliances. It is also found that globalization has affected the structure and performance of the companies through increasing privatization, digital companies, better infrastructure, technology improvements and more. Finally, it is also concluded that globalization has led to higher regulations, legislations and political threats to the companies. Companies have to adopt more strenuous reporting policies, sustainability initiatives, governance, etc. that increase costs but are necessary to avoid stakeholder activism.

In this article, globalization process and its effects on business sector are both discussed from positive and negative point of view. Thus, the research argues that globalization is a two-edged sword for the business sector that has influenced its outcomes as well as resulted in alarming consequences that businesses must manage.

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Dadaşev M.M.

Qloballaşmanın biznes sektoru üzərində təsiri

Xülasə

Bu məqalədə qloballaşma və onun biznes mühiti üzərində olan təsirləri müzakirə edilir. Hal-hazırda mövcud olan ədəbiyyat qloballaşmanın günü-gündən sürətlə inkişafını və bu tendensiyanın biznes sektorundan da yan keçmədiyini göstərir. Bir sıra tədqiqatlar qloballaşmanın biznes mühiti üçün daha faydalı olduğunu və dövlətlərarası sərhədləri aşaraq beynəlxalq miqyasda şirkətlərin daha məhsuldar fəaliyyətini təmin edir. Lakin son zamanlarda araşdırmalar qloballaşmanın biznes sahələri üçün yüksək rəqabət, dövlət müdaxilələri və digər bu kimi manelər yaratdığını göstərir. Bütün bunları nəzərə almaqla, məqalənin əsas məqsədi qloballaşmanın və onun biznes sahələrinə müsbət və mənfi təsirlərini təhlil etməkdən ibarətdir.

Açar sözlər: qloballaşma, biznes, risk, istehlakçı tələbatı, səhmdarlar, qlobal bazarlar, rəqəmsallaşma, innovasiya.

Дадашев М.М.

Влияние глобализации на бизнес-сектор

Введение

В этой статье обсуждается глобализация и ее влияние на бизнес-среду. Существующая литература предполагает, что глобализация быстро развивается изо дня в день, и эта тенденция также отражается в бизнесе. Некоторые утверждают, что глобализация поддерживает продуктивную деятельность компаний на международной арене через трансграничные сделки. Тем не менее, недавние исследования показывают, что глобализация создала высокую конкуренцию для бизнеса, вмешательства правительства и другие подобные барьеры. Учитывая все это, основной целью статьи является анализ воздействия глобализации и ее положительного и отрицательного воздействия на бизнес.

Ключевые слова: глобализация, бизнес, риск, заинтересованные стороны, нужды потребителей, глобальные рынки, цифровизация, инновации