

Globalization: Its Effects

Ali M. Alli, (Email: aalli@okcu.edu), Oklahoma City University
Gregory S. Winter, Oklahoma City University
David L. May, Oklahoma City University

ABSTRACT

A global culture is now increasingly emerging. The process of globalization is facilitated by technology. This technology comes from but one place – education. The primary way to accept (or fight it) globalization is through knowledge. Education is the main way to facilitate interaction and increase the quality of life for people everywhere.

INTRODUCTION

A global culture is becoming increasingly emergent. That we are continually revising our definition of “modern” is evidence of this continuing evolution. The globalization process is characterized by challenges such as environmental degradation, over-population, over-consumption, public health, and education. The integrating global economy, legal system, culture, infrastructure and the widespread recognition and acceptance of human rights such as equality of opportunity, and freedom of thought and expression are other factors we are facing together as a world.

The process of globalization is facilitated by technology which dislocates humans from both time and space and projects them into a world where the future and past exist simultaneously. This technology comes from but one place – education. As we experience globalization and its effects we realize that the only way to accept it (or fight it) is through knowledge.

A growing inter-independence through technology is bringing people together. People are better able to communicate with, understand, and learn from each other using technology as a standard context. We are looking beyond our sectarian religionism nationalities, genders, and cultures towards the global village. In this village, all people are citizens of planet Earth, where diversity is at least tolerated in the name of peace and profit. A world is being created where people cooperate and collaborate to overcome common challenges. This increased interdependence is seen in such areas as the military intervention in Kosovo, the joint space program of the U.S. and Russia, and the global impact of such bodies as the World Bank and the IMF.

There are many ways to define Globalization. Ruud Lubbers in his article “Globalization and Sustainable Development” describes globalization as “the phenomenon that the degree of global human interaction increases to such an extent that both its primary effects and the reactions it provokes, give rise to numerous new developments,” Globalization is the interaction between economies, technologies and politics. It creates an environment that reduces state regulation of the market promoting a more dominant role for large multinational corporations. Globalization has already changed our world drastically: CNN is with us 24 hours a day, the internet and E-mail are globally instantaneous methods of information collection and communication. The recent Asian currency crisis affected not only Asia, but all financial markets worldwide. Instability in one area quickly speeds to others. Another consequence of globalization is that more countries are adopting the political model of democracy in combination with the free market approach of economics.

MAIN AREAS AFFECTED BY GLOBALIZATION

There are five main areas affected by globalization: globalization of and by the economy, globalization of and by information/communication technology, globalization of and by politics, globalization of and by business, and globalization of and by education.

Globalization Of And By The Economy

The globalization of the world economy is reflected in many ways. The General Agreement on Tariffs and Trade (GATT) simulates free trade between countries by encouraging the reduction of tariff and non-tariff barriers (e.g. local content requirements, safety regulations, etc). This allows firms to more easily trade and move around the world. A result of this increased mobility is the increasingly large scope of money and capital markets and looser regulations on foreign direct investment. Multinationals now have more freedom and are more dominant in the international business environment than ever before. Adam Smith's theory of the "invisible hand" is now a global reality.

Not all the effects of globalization are benign. Multinational corporations (MNCs) under the framework of the Bretton Woods institutions (World Bank, International Monetary Fund) and the World Trade Organization (WTO) have achieved a standard international economic structure through the General Agreement on Tariffs and Trade (GATT). This has resulted in: reductions in budgetary deficits, removal of food subsidies, promotion of foreign investment, import liberalization, privatization of the banking sectors, and reductions in the support of domestic agriculture. The impact of these changes has not been universally positive for all developing nations.

Is globalization beneficial for third world like India? An audit of the performance of the Indian economy after economic reforms were initiated in 1991 fails to reveal any improvement. The opening of the Indian economy to foreign capital has not attracted a significant flow of capital or technology into the country. Exports are up, partly as a result of devaluation of the rupee and because of a general increase in world trade. But imports have grown rapidly also and present indications are that there is likely to be a huge trade deficit by the end of the present fiscal year (1999). Foreign denominated debt has increased significantly and the WB has cautioned that the servicing of the debt and repayment obligations may begin to exert pressure on the international balance of payments. Modern industry is knowledge intensive. It may result in jobs for the highly educated, but it is unlikely that jobs will be generated for the uneducated poor, like the surplus agricultural force of rural India. This is true even if the growth rate of investment in the private sector is high. Education leads to globalization and globalization leads to education. This is the globalization of education.

The Indian economy is not alone in being affected by globalization. Economies as disparate as Taiwan and the Philippines are likewise affected. Taiwan, which recently opened up its markets to imports prepared over thirty years for globalization. The same long-term preparation is true for Japan and South Korea. While problems have occurred in some economies some have benefited. For example, the U.A.E. was once known as a backward country with a high illiteracy rate but is today sometimes called a "mini-U.S.A.". The Sultanate of Oman, another country in the Middle East benefiting from globalization, recently reached the one hundred percent literacy level.

Globalization Of And By Information/Communication Technology

The convergence of information and communication technologies has resulted in a lower cost for information, furthering globalization. Technological developments have also resulted in miniaturization and products have become smaller, weighing less. As a result transportation costs have dropped dramatically and global sourcing has become common practice. Every silver lining has a cloud. Technology typically conforms to the laws, regulations and style that prevail where it is developed. So a product which might be good for the USA might not be in Pakistan due to the cultural or educational differences (or different levels of economic development).

Furthering global standardization, English is becoming the world language. Notwithstanding this, there remain important language barriers. For example, Chinese and Japanese users prefer software that is in their log language. Imagine how unsuccessful the World Wide Web would be in Western Europe if browsers only support the Chinese language. It is easy to understand the frustration of non-English speakers who wish to use information technology. Converging standards suggest cultural homogenization will continue.

The value of localizing software and user interfaces for the international market is not in question. Many major players in the global IT and related industries are finding that over sixty percent of their revenues come from

the international marketplace. Localization leads to greater potential sales for new products, both in terms of reaching new and existing users. Nevertheless, localizing your product is no longer enough.

To be successful in terms of time to market, customer satisfaction and cost-effectiveness, companies have to internationalize – i.e. plan and develop for the international market from day one of the product cycle. Microsoft, in its annual report for 1995 declared the “Growth rates continue to be strong due to customer acceptance of newly localized products, particularly in Japan, and early entrance into emerging markets.” Thus localization may play a big role in globalization. (Piracy plays a big role in the globalization of Microsoft products.)

Globalization Of And By Politics

In the recent past (1945-1990) the world was divided into three economic blocks: the first world (the free world), the second world (the communist block) and the third world (developing countries). The fall of the communist block ended this division. After 1990, everyone aspired to join the first world with its system of market economy and democracy. This has come to mean development in the image of the first world.

Globalization implies that there are forces that are global, objective and universal which restrict not only diversity, but also the scope for national governments’ policy formulations. An example of this, are the conditions of the IMF loan to the British Labor government in 1976 which led to a greater role for the private sector and forced the government to implement policies contrary to their manifesto. Globalization often implies a reduced rule for the governments of nation states.¹ The perception that states can attract investment if they create the right conditions leads the argument that the world is becoming more globalized. Although the small investment that there is in less developed countries rarely establishes roots, it does leave residue. During the cold war in Africa, along with military advice came Coca-Cola.

Globalization Of And By Business

The globalization of markets is one of the most important developments of this century. Its impact on the economic transactions, processes, institutions, and players is dramatic and wide ranging. It challenges established norms and behavior and requires different mindsets. Yet, globalization creates opportunities for the well-prepared participants who are visionary and have insight. The globalization of markets reflects the growing interdependency among the economics of the world and the multinational nature of sourcing, manufacturing, trading, and investment activities. It also reflects the increasing frequency of cross-border transactions and financing and the heightened level of competition. These phenomena are fueled by advances in information, communication, and transportation technologies with increased global economic growth.

Consider the following industries that became important only in the last decade: medical imaging, biotechnology, and robotics. The globalization of markets has led to the formation of irreversible economic linkages among countries. It has also shifted the focus away from the nation-state, and more toward industry and the individual enterprise. It is possible to identify at least five dimensions or facets of the globalization of markets.

The first dimension is the increasingly fluid nature of manufacturing and sourcing activities. Today, business activity flows freely to places best equipped to perform it most economically and efficiently. This is especially apparent in the case of the service industry. Many U.S. customers may be interested to now that when they phone their software company, the consultant who responds may be in Dublin, Ireland. Second, competition for customers and markets has intensified significantly as a result of globalization. Whereas only a handful of multinational companies dominated international trade a couple of decades ago, today companies from all parts of the world are

¹ Perhaps the most important point is that the stifling of Britain’s Keynesian policies was not the result of the international system but of large borrowing to support high expenditure. Professor Paul Hirts of Birkbeck College, London and Dr. Grahiam Thompson of the Open University point out that high public expenditure is not contrary to success in the world economy. Germany’s government expenditure rose from 32.5% of GDP in 1960 to 49% in 1995. Japan’s rose from 19.4% in 1970 to 34.9% in the 1995, the US government spends 33% of GDP and Sweden 68%.

participating in the world economy. Third, various types of international business transactions have proliferated. In the past, much of the international business activity was in the form of export-import and foreign direct investment. Today, transactions are varied and more complex; contract manufacturing, franchise operations, counter trade, turnkey construction, technology transfers, international strategic alliances, etc. Fourth, technology spreads freely and rapidly between markets and players.

Technological leadership does not provide a monopolistic advantage for long. Companies must capitalize on their discoveries quickly, before others match them. Fifth, borrowing-financing activity has become worldwide. Businesses finance their growth and expansion through international capital markets. As such, they are able to take advantage of varying interest rates and currency markets by tapping a wide variety of funding sources.

The implications of the increasingly global nature of market transactions are many. In a fundamental sense the distinction between domestic and international is redundant and superficial. Those enterprises that learn to operate in a more complex, uncertain environment are more likely to succeed. As transactions gain international character, they impact on industry structure. On one hand, global linkages may shorten product life cycles, create intense price pressures, displace manufacturing, outdate technology or design, or simply cause declines in sales and profitability. On the other hand, global exchange may lead to new growth opportunities, new sources of know-how and production inputs, new product ideas, or partnerships, causing new sources of competitive advantage. Entire industries, if caught unprepared, can be lost to competitors. In the United States, we have observed the decline of industries such as steel, textiles, shoes, tires, and electronics. No business or industry is totally immune from international competition.

Globalization Of And By Education

In addition to implying a different nature to economic transactions and a diverse set of players, globalization of markets causes the individual firm to operate within a more complex political, legal-regulatory, and cultural context. To operate successfully in less familiar environments, managers must develop an understanding of the government sector, regulatory framework, and cultural idiosyncrasies of the markets where they wish to do business. Not only will management need to develop knowledge of country specific factors, but must also understand the interplay among these factors. Management needs local knowledge but also global knowledge of business, law, politics, and societies.

At the firm level, managers have come to recognize that constant productivity improvement and product innovation is the only sustainable way to remain economically viable. Companies in global industries find that they must achieve “world class” status. This implies that they must benchmark against the best in the world, wherever they are located. Benchmarking refers to the process of identifying, learning, and implementing the best practices of world class organizations. Practices in various areas are targeted: order filling, customer service, manufacturing processes, human resource management, etc.

Managers study the best practices of leading companies, not necessarily those in the same line of business, and then try to implement them in their own organizations. There are now consortia of firms who agree to facilitate benchmark studies at each other’s facilities. Often managers must further their formal education in order to keep up with and understand the new trends that are emerging with international business and globalization.

A useful way to critically examine a company’s strengths and weaknesses is to focus on its value chain. A company’s value chain is an interdependent system or network of activities, connected by linkages. Major functions/processes which add value to company offerings include technology development, product design, manufacturing, marketing, distribution, and sales. Each link in the chain incorporates several sub-functions. For example, the manufacturing area implies choices with respect to such things as capacity, location, procurement of inputs, and integration. Managers are required to look at each critical value adding activity and ask two fundamental questions: (1) is this a function where we have core competence and (2) if not, should we externalize the function? This process of soul-searching has led companies to alter their traditional activities in fundamental ways. Firm activities are rearranged and reconfigured but not always in a smooth and painless manner.

Not unrelated to the desire to streamline and increase the efficiency of value-adding processes in the attempt to enhance product-service appeal. Total quality management (TQM) refers to a management philosophy which emphasizes customer service and employee teamwork to improve product service. While some consider it a trendy management tool, it is a strong force driving companies toward even higher standards of product-service quality.

A fundamental consequence of market globalization is the need to establish productive partnerships with other organizations at home and abroad. The costs, complexities, and risks associated with business ventures drive companies toward collaboration with partners. Partners may include overseas distributors or agents, contract manufacturers, trading companies, freight forwarders, and even competitors. Partnerships are established to seek synergy in various value-adding activities including manufacturing, research and development marketing.

A key macro-level trend of the past two decades has been the establishment of bilateral arrangements in trade. Economic unions such as the European Community and the North American Free Trade Area represent special arrangements that meet the interests of the member nations. Bilateral relationships may enhance the resolution in international trade conflicts. They may also enable trade lawyers a greater role in resolving conflicts.

Participation in cross-border transactions poses some unique legal concerns for companies. Business education needs to include more international matter but so does legal education. It is not uncommon for a company's lawyers to deal with issues concerning branches throughout the world. Neither is it uncommon for accountants to manage the different accounting methods of different countries.

LEGAL ISSUES AND KNOWLEDGE INTEGRATION IN INTERNATIONAL BUSINESS

Firms continue to grapple with the issue of how to formalize relationships with their international partners. How should sales, distributor-licensing contracts be structured? How detailed should they be? What are the mechanisms for satisfactory conflict resolution?

The perennial problem of intellectual property rights concerns most technology-intensive firms. International partners continue to have their own interpretations of the rights and obligations associated with technology transfer. In many cases practical mechanisms for ensuring protection are inadequate or absent.

Firms need to set up foreign operations that are consistent with legal and tax objectives. Multinational operations necessitate production, sourcing, and marketing activities in multiple markets. The coordination of business activities in diverse environments becomes a real task. Legal professionals can be helpful in identifying locations and legal arrangements that would minimize tax and other obligations for the multinational company.

The valuation of intra-corporate transfers to achieve tax strategic objectives continues to challenge many multinational corporations. The prices at which units of the same company sell to each other are important because they influence everything from the measurement of foreign subsidiary performance to executive compensation to tax obligations. Transfer prices continue to be monitored by host governments. Accounting standards that are in conflict with local regulations are subject to close scrutiny.

Multinational companies are under tremendous scrutiny for any potentially damaging impact to their host country environments. Environmental and citizens groups have become extremely vocal in recent years about the harmful impact of business activity on the environment. In Germany, for example, strict regulations have been introduced for recycling. Unlike the United States, the burden of recycling packages, containers, and shipping materials has been placed on the manufacturer and the distributor not the consumer.

As global economic connections intensify, the focus of attention among researchers and public policy makers has shifted from trade relationships among nations to activities of the individual enterprise. The increased role of individual enterprises required increased attention from the legal, strategy, and operations professionals of those firms. Globalization calls for greater input from legal professionals in formulating strategic directions for the enterprise. The

legal profession will be under growing pressure to value, promote, and protect intangible assets such as customer franchise, know-how, creativity, and corporate culture.

The role of legal professionals is both strategic and integrative. Their strategic contribution is guidance in shaping the future courses of action for the enterprise. How should the firm be interacting with its external partners (e.g., suppliers, buyers, competitors, and regulators)? How should it position itself within its industry? How should it choose its target markets? What new sources of competitive advantage should it pursue? How should it configure its global procurement, manufacturing, and marketing operations, and coordinate them? These are areas where legal professionals can provide input to guide company action.

The convergence of telecommunications, publishing, television broadcasting and computer is creating a media environment with enormous implications for distance education, flexible learning, and mass higher education. One might ask how education plays such a major role in globalization. Perhaps the most fundamental lesson from the globalization of markets is that the education and skills of the work force and managers are the dominant firms competitive weapons.

To create a new type of manager, the higher education system needs to consider the benefits of integrated, interdisciplinary education. Business schools should no longer produce logistics or accounting specialists. Language departments should no longer train just linguists. Schools of international relations should no longer produce comparative government experts. Rather, we need graduates blessed with a broad-based foundation of knowledge and skills in a variety of disciplines.

The educational community must gear up to meet the challenge. In the short-term, this may imply greater appreciation of legal perspectives for business students, and greater appreciation of management perspectives for commercial law students. More drastic reorganizations are required for longer-term solutions; innovative, exemplary programs which effectively blend management, legal, accounting, and other expertise.

The need to integrate arises because of the need to blend traditional managerial functions with legal perspectives and expertise. Today's managerial problems are multifaceted, requiring a multiplicity of expertise. The challenge then is to formulate solutions, which result from a creative marriage of managerial and legal perspectives. In practical terms, this integration implies teamwork, interdisciplinary problem solving, and a crosscutting management style. In philosophical terms, it means that legal expertise should no longer be treated as a "specialty", to be tapped occasionally and maybe even as a last resort. Rather, it should be integrated into the mainstream activities of the enterprise. This view of the business enterprise attempts to benefit from both managerial and legal considerations in strategic decisions; it abandons the current practice of isolating the legal professional in the organization.

As managers need to be aware of legal perspectives, legal consultants need to be conscious of management processes. Because of globalization, it is not enough that a lawyer just give a legal opinion without knowing how it will affect the management and hence the company. A legal executive needs to know how decisions effect not only management but also whether these decisions are in compliance with the managerial practices of the branch, company, and country in which the decisions are implemented.

Today everything involves technology. As a consequence it is of utmost importance that managers be technologically proficient. This type of knowledge is obtained in college, as a function of work experience and in everyday life. Colleges need to widen their study objectives to involve more than just local information. The international component must also be considered. Often companies lose customer credibility because of a norm or a cultural behavior they were unaware of.

While free markets imply competition among firms, there are also good reasons for companies to collaborate. Motivations to cooperate include the high risks and high costs associated with international business ventures. By pooling resources, companies can create synergistic alliances for research and development, design, manufacturing, or marketing. Newer forms of collaboration in contrast to traditional joint ventures, do not involve equity investments by

partners. Rather, partnerships are project based and for limited terms. Companies from distant parts of the world from strategic alliances to accomplish specific goals, such as development of new technology, cross licensing, or joint marketing. Successful international companies thrive on the basis of networks of collaborators. Relationships established with foreign agents/distributors, licensees/ franchisees, support service providers, and the like, add strength to international operations.

CONCLUSION

As the price of information falls access to knowledge is increasing. The globalization of communication is permitting the globalization of higher education. Many countries in the less developed world perceive danger in this globalization. For example, Guy (1995) writes about the intrusive effects Western curricula and pedagogues have on Papua New Guinea with little accommodation to indigenous culture and learning. Too often, existing cultural values have been replaced by a dominant global standard. Many indigenous languages are under threat from the spread of English, which is seen to provide social mobility and improvement in employment prospects. Rensch (1990) comments on the prevalence of this cargo cult attitude towards the learning of English in Papua New Guinea, but like so many other cargo cults, the learning of English and the education system generally have failed to deliver the desired goods to most Papua New Guineans (Swatridge, 1985). Instead, it is the death of the indigenous languages which is delivered. Dixon (1991, p. 247) suggests that as schooling, radio, television and other trappings of Western-style civilization advance through New Guinea perhaps ninety per cent of the languages will be threatened with extinction.

It is feared that the globalization of communication and education will both speed-up cultural homogeneity and reduce the tolerance of difference. As Evans (1995, p. 266) point out: many new forms of open education which are mediated via the internet, or through satellite broadcasting, cannot be achieved with any substantial accommodation to local conditions. There is little likelihood of a myriad of small, local, traditional cultures being nurtured within globalization,

Globalization raises many practical issues and concerns for the individual business enterprise too. What sorts of guidelines and input should guide product design? How desirable are knowledge-sharing agreements? What are the ideal features of international business partners? How should management monitor competitive activity? How can competitive advantages be created and sustained? What degree of attachment is optimal to alternative sourcing and production locations around the world? Management has to grapple with these and many other similar questions on an ongoing basis. In most industries, this is not a matter of choice but of necessity. Welcome to the global village!

BIBLIOGRAPHY

1. Levitt, T., The Globalization of Markets, *Harv. Bus. Rev.*, May-June 1983; *The Borderless World: Power and Strategy in the Interlinked Economy*.
2. Hout, T., How Global Companies Win Out, *Harv. Bus. Rev.*, Sept-Oct 1982; *Competition in Global Industries*.
3. Hax, A. C., Building the Firm of the Future, *Sloan Management Review*, Spring, 1989.
4. Bartlett, C. A. and Ghoshal, S., Managing Across Borders, *The Transnational Solution*, 1989.
5. Hall, E. T. and Hall, R. M., Understanding Cultural Differences, *Competitive Strategy*, 1990.
6. Harrington, K. R., Strategic Alliances: Their New Role in Global Competition, 22 *Colum. J. World Bus.*, 1987.
7. Porter, M. E., In Competition in Global Industries: A Conceptual Framework, in *Competition in Global Industries*, 1996.

NOTES