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## Some Interdisciplinary Advances in Globalization Theorizing

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1. In Honour of Toshiyoshi Shimizu
  2. Issues at Globalization
  3. Features of the Hyper Change
    - 3.1 Boundary Erosion: Blurred Boundaries
    - 3.2 Heterarchy: Lateral Coordination
    - 3.3 Factor Mobility: A-synchronous Increase
    - 3.4 Erosion of Legitimacy: Diffusion of Effects
    - 3.5 Asymmetry between the Past and the Future: Uncertainty
    - 3.6 Variety of Options: Ambiguities
  4. Effects of the Hyper Change
    - 4.1 Companies: Living with Contradictions
    - 4.2 Economic Regions: End of a Comfortable Life
    - 4.3 The Nation-state: Threatened by Decline
    - 4.4 Society: New Boundaries, New Classes
    - 4.5 Limits to Boundary Erosion
  5. Conclusion for a Framework of Action
- Literature

### 1. In Honour of Toshiyoshi Shimizu

It is an honour to have been asked to contribute to a commemorative edition for Professor emeritus Prof. h. c. Dr. Toshiyoshi Shimizu issued by the Society of Business and Economics of the famous Kanagawa University at Yokohama. The topic chosen for this contribution is to pay tribute to Professor Shimizu's distinct achievement as a truly **international** scholar. This achievement is based on his doctorate which he received from the University of Cologne and later on documented by his boundary crossing scientific work which has kept him travelling and doing interesting comparative and conceptual studies in the field of management, organization, and human

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resources in many countries (e. g. Shimizu 1989). By virtue of this he established an international network of academic and professional contacts which has gained a global momentum.

That is why I hope Professor Shimizu will enjoy this contribution, and many more years of academic endeavour and a comfortable and healthy life.

## **2. Issues at Globalization**

The implications of cross-border economic activity of international corporations for the latter and the related countries have been driven by globalization to a level of dynamism and complexity which cannot be captured easily nor forecast precisely yet as far as international division of labour, allocation of resources, and social welfare are concerned.

Globalization also is one of the most emotionally charged terms in international business today (Daniel/Reitsperger 2004). While the integration of national economies accompanied by intensive cross-border economic exchanges is not really a new development, the “G-word” globalization introduced in the 1990ies seems to be an entirely new phenomenon not only of economic nature ; rather it reaches out to the contracting role of the nation-state, to the emergence of new social values and life-styles, and it creates new problems such as internationally organized crime, illegal migration or global terrorism, but also a collective consciousness of the limits of the global ecosystem.

Let alone external trade in the antiquity early globalization can be traced back to colonial times ; beginning in the 17th century Europe and later on the USA were dominating international trade mainly by way of exports of industrial products and imports of consumer products and raw materials. According to a recent Enquete-Commission slavery was also one of the features of the pre-stages of globalization (Deutscher Bundestag 2000). Looking at the 20th century it is interesting to note that as early as 1913 the import/export ratio of Germany was at a similar high level as today (Macharzina/Fisch 2003). This changed of course dramatically in the two world wars which led to a drastic setback of international relations and trade. Postwar recovery, particularly the establishment of the World Bank, the International Monetary Fund, the World Trade Organization, later on GATT, and the OECD were important institutional prerequisites for re-starting the process of globalization.

This process has been paralleled by institutional arrangements aiming at a regional integration of

national trade and economic relationships such as the EU (plus EFTA), NAFTA, MERCOSUR, and ASEAN. Also there are counter-movements of a protectionistic, nationalistic and (religiously) fundamentalistic nature; national devices for controlling migration have been reintroduced, and an orientation towards the distinct local or personal environment but at the same time a growing social awareness are discernible. It seems that the “cultural globalization” induces such compensatory effects.

The traditional economic approach to international business is based on the single-actor model of the (autonomous) cross-border activity of an enterprise, expanding to a two-actor model which includes the foreign-country-perspective, plus explicit recognition of the foreign competition leading to a three-actor model. When it comes to globalization we are confronted with a multi-actor model.

We find ourselves in a multidimensional increasingly “fluidized” global environment which is characterized by discontinuities and dependency networks of globally competing corporations, almost irrelevant nation-states, trade unions, other associations of regional or cross-regional nature including NGOs and political institutional arrangements. All that requires market-entry and competitive strategies of a global posture, and eventually leads to a global convergence of institutions. The global village is represented by the triad USA–Europe–Japan expanding into the traditionally related economic geographical regions of Asia, South America and Africa.

Value-driven industry- and product-oriented global strategies in order to be successful require the organization-structural and management-systems-fit including stakeholder interests (Macharzina 2003). Global Management emphasizes the system’s perspective of the entire corporation with globally dispersed elements of the value chain aiming at operational flexibility by way of outsourcing and cooperative forms such as strategic alliances and research & development partnerships in global strategic groups. Vertical integration of production by way of internalization of product-, services- and knowledge markets is paralleled by horizontal differentiation of processes, supported by the infrastructure of internal and external information- and communications-networks.

Although this scenario of globalization still is largely perceived as an economic phenomenon, in reality it has captured all relevant dimensions of social and individual life on this planet. In other words it is interdisciplinary in nature; hence the underlying problems require interdisciplinary research if we want to describe or explain them by way concepts of theory, and design appropriate

models for action towards problem solution.

Based on such an insight and as a result of a “Ladenburger Diskurs” in the mid-1990ies an interdisciplinary research group was formed including Professors Eberhard Feess (Economics), Jörg Flecker (Social Psychology), Guy Kirsch (Economics), Beate Kohler-Koch (Political Sciences), Hermann Korte (Sociology), Klaus Macharzina (Business Administration), Rainer Münz (Migration Studies), Gerhard Pahl (Engineering), Bert Rürup (Public Finance), Christian Scholz (Business Administration) under the direction of Ulrich Steger (Business Administration). The group’s task was to fundamentally research the problems, causes, forms and consequences of globalization in a long-term research program, institutionalized as “Ladenburger Kolleg” and supported by the Daimler-Benz-Stiftung at Ladenburg, Germany. The group worked together for about five years, including ad hoc-experts of different societal institutions and the business world. The research resulted in various publications. The following summary of the final Research Report (Steger 1998) focusses on the central findings of the “Kolleg”.

The core finding states that unlike some argue, globalization is not an interest-oriented short-living rhetoric guided by political intentions; rather it is a fundamental breakthrough or new development which leads to far-reaching long-term consequences. This phenomenon can be characterized as “hyper change”.

Globalization will change fundamentally and long-lasting the patterns of politics, ways of life, social security systems, and corporate strategies. Globalization, as some believe, is not a certain stage of an evolutionary process coined “internationalization” or just a change as we have been experiencing many others after the Industrial Revolution some 200 years ago. The “hyper change” opens the door to a new age with its basic characteristic of an ever faster pace of change and higher amplitudes of discontinuities.

### **3. Features of the Hyper Change**

Six key features are related to the “hyper change”: boundary erosion, heterarchy, factor mobility, legitimacy erosion, asymmetry between the past and the future, and variety of options. Among them boundary erosion seems to be crucial.

#### **3.1 Boundary Erosion: Blurred Boundaries**

Each organization is defined by boundaries which serve to distinguish it from its environment.

Boundaries create identity because they determine who or what belongs to the inside of an institution – be it an association, a company or a nation. Boundaries define the “regulatory subjugation” (to quote the legal term) of state action, limit outcomes to spaces or markets and thereby facilitate the allocation of responsibility for decisions. Furthermore boundaries allow for differences to be recognized and discerned.

It is the central feature of globalization that established boundaries get blurred. Of course the “systems boundary” of our planet still remains. With all other boundaries, however, the difference between “in” and “out”, “us” and “them” is blurred by the increasing number and intensity of interactions. At the same time, new “smaller” boundaries can arise if “large” ones disappear - as was the case with the disappearance of the “East-West” systems boundary. The fact that boundaries are currently shifting or vanishing in so many areas, such as culture, business, social strata and politics, is likely to be the major reason for the dynamics of globalization. Boundary erosion by itself is neither good nor bad; only its far-reaching consequences need to be understood such that none of the action systems in the real world will remain unaffected.

### **3.2 Heterarchy: Lateral Coordination**

Traditional structures with their clear pattern of subordination and superiority are changing ; this is true of international relations between states, of the coordination inside and between organizations, and of the social networks between individuals and institutions. Hierarchies are supplemented by mutual dependencies in a “heterarchy” which requires horizontal coordination between partners with their own responsibilities, interests and competences. This implies other coordination measures and management processes, even when the mutual dependency is asymmetric, i.e. one partner is more dependent than the other. This is because the application of power incurs direct, tangible and often significant costs which is why “soft” coordination through common values and objectives, agreed strategies, etc. is preferred. Hierarchical organizations, other than business organizations such as churches, trade unions and associations or political parties are losing their control and influence, too. More independently organized arrangements are supplementing them, with more autonomy and options open to them, but also less stable structures such as citizens’ initiatives, self-supporting groups, peace movements and environmental protection groups.

### **3.3 Factor Mobility: A-synchronous Increase**

Another consequence of boundary erosion is the high mobility not just of goods and services, but

also of the production factors capital and knowledge. This enhances the efficiency of markets and along with it the competitive pressure. There also globalization is a-synchronous. While global capital markets are the most highly integrated forms, labour markets are the least integrated ones, apart from small groups of professionals, managers, scientists or artists. High mobility of capital leads to harmonization of the expected return, for which the large capital market of the USA has set the benchmark of 15%.

Following capital markets, the markets for industrial goods show the second-highest degree of integration. Yet of special importance for globalization is the high mobility of knowledge, (physical) technologies and management concepts.

### **3.4 Erosion of Legitimacy: Diffusion of Effects**

A further consequence of boundary erosion is evidenced by the fact that causes and effects are becoming increasingly indistinguishable because in an interdependent system each effect in turn becomes a cause, and frequently does so in a sudden manner. The effects do not just occur in a limited and distinct area, but often as unintended outcomes in quite different fields and at unpredictable times. This means that a decision-maker can no longer be held responsible for the result of a decision. Hence one important condition for the legitimacy of decision-making processes no longer applies. Even a classification as “predator” and “victim” cannot be made any longer without qualifying the terms because it is possible for each potential predator to become victim and vice versa.

### **3.5 Asymmetry between the Past and the Future: Uncertainty**

In highly interactive boundary-less systems change is the only constant, and even changes which appear to be marginal in the beginning can have considerable consequences over time. Hence the future can be seen less and lesser as the linear continuation of the past or the extrapolation of a trend. The predictability of developments is diminishing – this applies in the same way for e.g. consumer behavior or Japan’s long years of economic stagnation or the appearance of new competitors in the world market. The change seems to develop its own momentum: everything proceeds a lot faster, be it product development, the rise and disappearance of political ideas, or management fads.

### **3.6 Variety of Options: Ambiguities**

The above description has shown in which “fluidized” environment individuals, organizations and

even societies will operate in the future “globalized world”. The related problems are the typical problems of transition in which the old rules have become ineffective while the new ones have not been established yet. This challenges our ability to cope with ambivalences, ambiguities, uncertainties and surprises. “Flexibility” is the somewhat belaboured term used to paraphrase the absence of reliable action models in all areas.

The rapid change causes old certainties to evaporate; it brings about new opportunities and hence winners as well as new risks and hence losers. It causes both costs and revenues. Should in the subjective perception of all concerned this process threaten to get “out of control” and should it generate too many losers protectionist developments may quickly gain ground, also the globally oriented and globally active politico-economic elite may become isolated and eventually the process of globalization may slow down.

#### **4. Effects of the Hyper Change**

The six new characteristic features identified above reveal the nature of the hyper change which we relate to globalization. The following observations try to sketch some overall effects of globalization at the level of companies, economic regions, nation states and societies, and describe the process of change using these characteristics.

##### **4.1 Companies: Living with Contradictions**

The globally operating, technology-intensive large corporations already are more advanced in the transformation process of globalization than other social institutions. Even if they had been operating for a long time in a variety of states, it is no longer local market development or commodity production that is important rather than the dispersal of the value chain over the different regions due to comparative advantages. Even key functions such as marketing or research and development are being relocated from the original “headquarters” to appropriate subunits of the global network. But not only internal processes are “losing” their boundaries; the external boundaries of a company are getting blurred also due to joint ventures, strategic alliances, development partnerships, and networks. What there is eventually is the “virtual company” in which the competences and resources required are being sourced and concentrated on a project basis by way of transferal from the most favourable “suppliers”.

Rapidly changing, differentiated markets and technologies require decentralization and decision-making autonomy at subunit level which in turn increases the complexity of the organization,

thereby hampering the use of joint resources, especially knowledge. The hierarchy which is still in place is supplemented by heterarchy which causes problems with respect to an internal legitimacy dilemma when decision-making authority and responsibility is being decentralized. Globalizing companies must choose from a variety of options so that an appropriate "fit" of strategy, organization and resources can be achieved at least temporarily. The necessary creation of "cultural" coordination mechanisms is made more difficult due to the broad spectrum of national cultures and the constant change in business areas and organizational structures. This puts a challenge on management which is required to balance conflicting goals and incompatible demands other than just to maximize a single objective such as shareholder value, or to maintain operational flexibility.

#### **4.2 Economic Regions: End of a Comfortable Life**

Globalization allows capital and knowledge to be appropriated for a larger number of regions than before, while the spread of the value chain increases the interdependence between the regions. The benchmark for the return on capital is the realization of the rate set by the U.S. capital market of 15%. Besides infrastructural conditions such as logistical systems there are also knowledge-based requirements from e.g. universities or network access. Regional competition, however, has led to an improvement of "context conditions" to such an extent that a high investment yield is obtained. The key concepts of an economic policy like this, often described as "neoliberal", are tax and pay cuts, deregulation and privatization. The success and costs of this policy are contentious. At any rate a considerable increase in the investment yield can be observed in virtually every OECD country. This return is constantly under pressure from globalized competition and needs to be restored through new efficiency revolutions in companies, further reductions in taxes and take-home pay, or (covert) protectionism.

Parallel to this, the statutorily controlled and internally practiced labour relations have changed substantially and in parts as a result of new management and organizational strategies. At the same time no unified trend can be discerned; rather different options are taken up in terms of qualification and empowerment strategies. It is particularly true of continental Europe that as a result of globalized corporate strategies considerable "stress" can be observed weighing heavily on the traditional mechanisms of consensus and legitimization.

#### **4.3 The Nation-state: Threatened by Decline**

The failure in effectively bringing down today's high unemployment at national level by conven-

tional economic measures and the time-consuming efforts by which the state attempts to address the question of global pollution are two prime examples of how the phenomenon of boundary erosion undermines the previous capacity of nation-states to act. This is because national boundaries define where a person belongs to, facilitating political self-determination and the safe-guarding of basic rights. They offer protection from the “world outside”. Globalization on the other hand eliminates the divide between the area in which political decisions are generally binding and the area beyond the boundaries where this does not apply. It is because of this, that the nation-state finds it increasingly difficult to adjust to new security threats often of a non-military nature, to guarantee a welfare-generating economic process and to ensure political self-determination. Yet the nation-state remains the principal actor on the “political stage”, even if this role is taken over increasingly by international governmental organizations (IGOs) and non-governmental organizations (NGOs)—a term which includes a colourful spectrum of initiatives and non-state institutions.

In order to protect their problem-solving authority, nation-states will enter into “strategic alliances” or create new inter-state organizations. They also can reduce their own constitutive claims for instance by allowing for more instability at the micro-level by relieving individuals of fewer risks. Eventually they can give up their claim of autonomous control and assume the role of a social co-player, entering into or leading negotiations with other social groups, examples for this are negotiated solutions on environmental protection, “round-table talks” on health care or public-private partnerships in infrastructural projects.

#### **4.4 Society: New Boundaries, New Classes**

Should the loss of political self-determination in the nation-state and the associated erosion of legitimacy related to democracy give rise to considerable uncertainty, then this is reinforced by the loss of national collective identity. Globalization is perceived – precisely because it is not planned, but just happens – as individual loss of power, where the individual is “helpless” in face of overall developments. The increased number of contacts and level of information, and the even greater variations in biography will enhance the process of individualization without anyone being able to relieve the individual of its responsibility. In the end people might feel threatened in their collective identity. The debate surrounding the “loss” of the Deutschmark (probably the greatest identification symbol of the Germans after World War II) to the Euro, and even more so the conflicts arising from the loss of ethnic homogeneity in European societies, are indicators of such massive insecurity on the part of both the collective and the individual identity. Hence in virtually every European country there has been national “mobilization” involving defensive action to control in-

ternational migration more rigorously, which is one of the few examples where the nation-state's exercise of power has become stronger despite globalization.

In addition globalization reinforces old distribution conflicts and creates new ones. Owing to the pressure of globalization the owners of (productive) capital tend to benefit from a higher return on their capital employed compared with the recipients of an income as monetary payment for their work and service. The inequality of income distribution is likely to increase, too. It is possible, however, that both of these aspects are mere trends which have developed in the "first round" of globalization and the prevailing policy models.

Also a new distribution conflict will arise between the groups who due to globalization are exposed to the pressure to perform, and hence have to accept a (relative) loss of earnings and an increase in output, and those who have been able to still shield themselves from this pressure through national provisions. The first group includes the employees of global corporations; the second all the many occupations which are still largely active locally and which are protected by professional regulations and sectoral patronage. A "two-class society" is emerging here, the dimensions of which extend far beyond previous conflicts in the social sphere.

#### **4.5 Limits to Boundary Erosion**

Globalization creates few problems which are entirely new though it exacerbates many which are unresolved. What it does is shorten the time available for finding solutions to problems while it drastically increases both the gains for appropriate reaction and the costs of failure to cope with the new challenges. As has always been the case times of upheaval are times of conflict and inconsistencies, of uncertain structures and diffuse problems, and times of defeat for those who cannot or do not want to adapt. Perhaps Europe has merely been "spoiled" by the strong political and economic stability of the last 60 years after the end of World War II, and is now experiencing the pressure of change as somewhat of a predicament. The pressure to re-establish new boundaries both within and between the societies and national economies increases proportionately the more citizens perceive themselves to be the losers, and the more uncertain the collective and individual identity becomes, due to misunderstanding the dynamics of globalization. Looking back to the outset of the age of industrialization looting of machinery and equipment could not hinder technical progress, just as 'new protectionism' is not the appropriate answer to globalization today.

## 5. Conclusion for a Framework of Action

The framework of action for exerting influence on the future design of globalization basically offers three options: market control, (state-) governmental control or civil societal control. It seems highly likely that the first one will prevail, whereas the second one will decline, and the third one will gain more importance but for the foreseeable future only up to a limited level. While the rule of the game for business and politics reads “think global, act local”, science should follow a slightly different path, namely “think global, act local, go regional”.

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