

# Effects of globalization on national economies business essay



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Globalization can be described as a trend where individuals and ventures are much more affected by an event taking place in any part of the world than it did before. A great example of this would be of the countries that have been affected by the destruction that has taken place in Japan recently, causing harm to businesses that were importing raw materials and other items from Japan as a part of their business for example car components. Furthermore, we know that globalization is occurring when we see national economies emerging as they were one whole economy. An example through which this situation can be widely seen is by the fact that organizations are now hiring people to work for them from all around the world rather than searching for employees from their own district. This is because globalization is taking place, making all the economies of the world one large world economy (Arnold, 2008)

Following the discussion of what is actually meant by globalization, we go deeper into further understanding its impacts on the national economies, which are according to the criteria of globalization, emerging to become one large world economy. Globalization has had trivial effects on all economies of the world, with diverse results. It has had an impact on their manufacturing of goods and services, their employment, investment (including the physical and human capital), technology (causing technology transfer from one country to another). Moreover, it has greatly affected their productivity levels, the competitiveness (both within and across nations) and thus, their efficiency. (Intriligator, 2001)

A few of the effects of globalization on national economies require further explanation. Firstly, emergence of globalization has led to a growth in the <https://assignbuster.com/effects-of-globalization-on-national-economies-business-essay/>

foreign direct investment (FDI) at a phenomenal pace, which is relatively higher than the rate of world trade investment. This investment then comes into play by causing a change in technology, reformation of the industries and the structuring of global activities thus affecting the economy at a national level. Secondly, globalization results in economies making advancements and innovations in the technology that they use. This is mainly due to the increased competition because of globalization, which has caused economies to innovate in order to stay ahead of the rest of the economies. An example of this would be of USA or China, which are using the latest technologies in their development processes, thus are in a state of war as to who would be the next most powerful economy of the world. Thirdly, there has been increased trade in the service sector of the national economies and it is expected to grow even further in the future, making intellectual capital the most important component in markets. As a consequence several have described this as the “the age of competence,” emphasizing the significance of constant education, training and knowledge that needs to be attained by individuals who consequently make up a nation’s economy and the need to invest in human capital in every national economy. (Intriligator, 2001)

However, globalization also has its negative impacts on national economies. As globalization has occurred, it has been noted that the impact of it has led to extreme concentrations of wealth, making rich countries richer and the poor ones poorer. For example, a number of Asian economies known as the “tiger economies” have been growing as a result of globalization at increasing rate and on the other hand, the least developed economies such as African

economies, Asia and South and Central America are growing at a much slower rate. This disparity then leads to hostility and even conflicts between the haves and have-nots. (Intriligator, 2001)

Another issue for some national economies has been the power that is lost as the control of national economies is somewhat transferring into the hands multinationals and powerful nations. This could once again to lead to feelings of hostility between nations, extreme nationalism and even protectionism in order to take control of the situation. (Intriligator, 2001)

### **Influence of international institutions on organizations**

International institutions nowadays seem omnipresent and there is no policy at the international level where the international that one would come across where the international institutions are not involved. They have gained considerably in size, scope and influence. The United Nations Organizations has grown, so have the International Monetary Fund and the World Bank. The World Trade Organization has recently come into being, with most of the trading countries becoming its members. These institutions are able to influence the organizations through a set of policies and procedures that are laid down for the members of these organizations to follow.

An example of this would include the World Health Organization which defines health as a condition of absolute bodily, societal and psychological interests, and not simply the lack of sickness or medical condition." (World Health Organization, 2011). Thus, all its rules that are laid down strictly take into account the actions of organizations and how a complete understanding of health is required by organizations which should take into account the

repercussions of their activities relative to their impact on individual and collective health and well-being.

Another such example would be of the International Labour Organization which is the first institution on international labour issues. They are able to influence the organizations by setting standards that are to be followed by the firms. The institution currently has 179 member states through which they are able to impose a control on firms. (International Labour Organization 2006)

## **The role and responsibility of European Union membership on the workplace**

The European Union was formed in 1958 to create a common economic market in Europe that would permit for free trade amongst members and the free transfer of people, services, and capital. The European Union has developed a code of ethics as a guideline of the ethical and principle rules to be followed and catered to by those providing employment to others. Some of them include:

Opportunity and equality for all: employers should not be biased towards a particular group of people,

Social responsibility: taking into account the impact of their activities on the third party,

Confidentiality: making sure that the sensitive information of employees is protected and not misused,

Empowerment and self adequacy promoting maximum participation:  
reducing the insecurities and feelings of helplessness of employees,

Integrity,

Professional competence,

On and off the job training support and

Managing welfare benefits such as financial benefits.

(European Union of Supported Employment, 2007)

However, apart from this code of ethics, when providing the guidelines regarding the workplace, it should be kept in mind by the European Union that the guidelines vary for every nation depending on their national practices. It is believed that although it is necessary to put down some rights for the employees, it is the duty of the member states to decide what those rights are, as they differ nation to nation. For example, in the U. K., it is an obligation for every worker and employee to have certain rights such as minimum wage, equality of opportunity and so on (Great Britain: Parliament: House of Lords: European Union Committee, 2007)

## **Importance of responsible corporate governance in organisations**

Corporate governance can be defined as “ the process by which agencies are directed and controlled. It is generally understood to encompass authority, accountability, stewardship, leadership, direction and control.”

(Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies, 2009)

Corporate governance is one of today's most major business topics that need to be dealt with. It is believed that as the scandals of businesses are increasing, they need to be monitored through societal governance.

Earlier, corporate governance focused completely on the shareholders and the financial performance of organisations. However, this approach has proved to be ineffective in taking care of the issues that need to be handled by corporate governance. Thus, the model then took into account the fact that organisations affect not only the shareholders but also the stakeholders that may be present within or outside the organisation. (Berghe and Louche, 2011)

So why is corporate governance so important? In the time of globalization where the criteria to be a successful business is determined by the conditions created as a result of globalization, the need for corporate governance is becoming increasingly important. For organizations to be able to compete with the other economies, bring in human and capital investment in the nation, make sure the organizations remain continuously at their best level and to remove or at least reduce corruption, organizations need to have efficient and effective governance institutions that can enable organizations to achieve all of the above objectives and other considerations that would add in with time, as the world economy is dynamic and changing as a result of globalization. As James Wolfensohn, the former president of the

World Bank, said, " The governance of the corporation is now as important to the world economy as the government of countries."

(Center for International private Enterprise, 2011)

Strong corporate governance of an organisation leads to many benefits for the organization as well as the national and international economies, thus increasing its importance in today's modern world. Some of the benefits include:

Enables them to have greater access to capital and financial markets and leads to more investment

Greater liability as a result of improved inside controls and clearness in handling investors and creditors

Reinforces the management team leading to an effective strategy of success and thus help organizations make better profits

Helps in avoiding general bank issues

Looks after minority investors

Reduces corruption

Helps in reducing situations where interests of the various shareholders are clashing

(Center for International private Enterprise, 2011)



After considering the above advantages provided as a consequence of corporate governance, it is easier to develop an understanding of why corporate governance is important for organisations.

## **The UK regulatory requirements that shape corporate governance**

The role and composition of the board:

- A single board with members jointly in charge for handling the firm and developing its norms, values and beliefs.
- Clarity in the roles and responsibilities that each member has in handling the company with a separate chairman and chief executive.
- Stability between the number of executive and independent non-executive directors – for larger companies at least fifty percent of the board (Financial Reporting Council, The UK approach to corporate governance, 2006) members should be independent non-executive directors and smaller companies should have at least two independent directors.
- Formal and clear process for appointing directors, with all appointments and re-appointments to be approved by shareholders.
- Regular check of how the well the board and committee as performing

### **Remuneration:**

- Formal and clear process for setting executive remuneration, including a reward system committee made up of independent directors and an advisory vote for shareholders.

- A considerable proportion of rewards to be linked to performance.

### **Accountability and Audit:**

- The board is in charge for preparing an unbiased evaluation of the company's performance maintaining a sound system of inside control.
- Formal and clear processes for performing out these responsibilities, including an audit committee made up of independent directors and with the essential understanding.

### **Relations with shareholders:**

- The board must preserve contact with shareholders to take into account their suggestions and interests.
- Separate decisions should be made on all important matters at general meetings. (Financial Reporting Council, The UK approach to corporate governance, 2006)

### **The impact of regulatory requirements on corporate stakeholders' interests in an organisation**

The term "stakeholders" takes into accounts all those groups that are affected by the activities of an organization and does not just include the shareholders and employees. Stakeholders may include the customers, suppliers, government, creditors and so on.

There has been an ongoing debate amongst the different researchers and authors as to whether an organization should be shareholder oriented or stakeholder oriented. With globalization taking place, the two often end up in

competition. In countries such as Germany, it is made sure that firms are stakeholder oriented. (Marquez, 2009)

According to the Organization for Economic Cooperation and Development, corporate governance balances economic, social, individual and community goals, encourages stewardship and aligns the wellbeing of individuals, firms and the social order. (The advantages of corporate governance, 2001)

Firms that share convincing business information can develop their interaction with all stakeholders. Employee maintenance enhances, and customers' self-confidence that the company will hold on to their commitments improves its image and adds to its goodwill. Case studies show that a firm's capability to settle sensitive contracts is fortified and that suppliers are more determined to consign their own capital when there is a trust built with the organization based on the corporate governance statement. (The advantages of corporate governance, 2001)

Furthermore, due to the corporate governance reporting of organizations, customers have a better insight of the brands, its quality, services and so on of the business, the customers are therefore able to trust the organization creating brand loyalty for the organization and convenience for its customers. (The advantages of corporate governance, 2001)

On the other side of the situation, some firms are seen as so powerful that uncontrolled use of their power will certainly harm other people's rights. For example they may impair a community by shutting down a factory causing unemployment for many. Another example could be of the firms using their high level power to take wrong advantage of the customers and suppliers.  
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**Responsibilities of organizations to improve workforce welfare**

Workforce welfare can be defined as the ' health, safety and welfare' requirements that should be available for employees at work. Providing these facilities to the workforce in firms is not only a requirement set by the law but is also a necessity in order to make the employees work to their maximum potential by keeping them satisfied. (Healthy working lives, 2008)

The responsibilities that organizations have to cater to under 'The health and safety at work etc. Act 1974' includes:

### **Working environment:**

Organizations have to make sure that the workplace has a proper ventilation system through which the employees can breathe fresh air and not be suffocated. The workplace should either have openings such as windows through which ventilation occurs or have a ventilation system.

The temperature at work should also be set according to the work being done by the employees. In cases of office work, the temperature should be at least 16°C and in cases of work where there is more bodily involvement, the temperature should be at least 13°C. (Healthy working lives, 2008)

There should be a systematic manner of handling with the waste thus be careful of the cleanliness at work in order to provide a hygienic environment.

### **Welfare facilities:**

It should be kept into mind that employees should be provided with clean drinking water at work in order to keep the health of the employees in shape.

Resting and eating facilities should also be a part of the workforce routine.

A convenient number of clean sanitary rooms should be available at work.

### **Workplace safety:**

A regular check should be kept on the workplace and the equipment/machinery being used at work in order to keep conditions safe and sound for the employees.

Employers also need to take into account accidents that employees may be prone to by falling off somewhere or getting hurt by something falling on them. (Healthy working lives, 2008)

Apart from the health and safety, organizations also tend to secure the financials of part time employees to a certain extent for example, through health insurance coverage. In addition to that, firms are also trying to come up with better policies for the retirees, full time workers and contingent workers. (Employee related benefits for part time and contingent workers, 2002)

### **The various approaches to the management of diversity in organisations**

There are a number of organizations and multinationals those are now managing a diverse workforce, for example McDonalds, IBM and PepsiCo. The reason why managing diversity is so important is because it enables an organization to attain the best employees at work. Moreover, as globalization is taking place, customers have access to products and services all around the world therefore increasing the level of competition in national as well as international economies. For this reason, it is believed that if the workforce is made up of employees from different parts of the world, all of the would be able to give different input to the various problems and situations at hand and so, there would be greater alternatives to be considered leading to better ways of conducting business. (Kreitner and Kinicki, 2008)

Managing diversity is one of the most difficult duties of managers and can cause further more problems at work, however, it is important to realise that



organizations who do manage a diverse workforce would have a competitive edge over those who don't. (Kreitner and Kinicki, 2008)

Before delving into the different approaches that firms can take to manage diversity, it is important to understand what managing diversity actually means? It refers to facilitating employees to perform up to their maximum potential by changing the firm's structure, culture, vision, mission and so on. (Kreitner and Kinicki, 2008)

There are different methods of managing diversity in the workforce. (Kreitner and Kinicki, 2008)

Firstly, organizations should be able to cater to the needs and interests of employees, attracting the employees towards their organization.

Furthermore, firms can manage a varied workforce by hiring minorities and also providing them with mentoring for future career planning.

Another issue being faced in organizations while recruitment is of the variance between the job requirements and the education of the job applicants. To overcome this issue, organizations can provide internship to students interested in that particular field or even provide literacy training for dropouts.

For organizations to manage the aging workforce as an element of diversity, they can motivate the aged employees and make them feel successful and satisfied with their work.

Lastly, in organizations there exists something what is known as the “ glass ceiling”, where women are not able to promote to the top levels as they are thought of as incapable. In order to bring in women to work in their organization as a part of gender diversity, firms should help women to eliminate the glass ceiling by taking up on challenging work and showing their potential. Many organizations are taking up on this approach nowadays. For example, The Royal Mail, for example, has developed an in-house training course for women in non-managerial positions who wish to explore personal development opportunities (EOR, 1996)

### **Organisational approaches to ensuring positive policies of workforce diversity**

There are a number of approaches that can be used in order to ensure workforce diversity in a positive manner. However, it must be understood that organizations can not apply all of them as it is merely dependant on the situation being considered.

The approaches are explained below:

**Inclusion:** The main aim of this approach is to include diverse groups of people at all levels of the organization.

**Building relationships:** This approach is based on the belief that if relations between employees are good, they are able to cope with one another and so the differences go away on their own, making it is easier for diversity to settle as a part of the firm’s culture.

Foster Mutual Adaptation: In this approach, employees are willing to adjust their values and beliefs in order to build good relations with the other employees. This approach requires both the employees and managers to accept the fact that everything in the organization can be modified. (Kreitner and Kinicki, 2008)

Training and development: Training and development can also be provided by the firm for its employees in order to create awareness about the need for diversity in the workforce and how they plan to implement it, informing employees their roles.

Rewards: Organizations could also use rewards for those who are making an effort in making the diversity policy work. (EOR, 2001)