

# [The influential factors behind the growth of globalisation](https://assignbuster.com/the-influential-factors-behind-the-growth-of-globalisation/)

Current business environment is more volatile and dynamic. There are different reasons behind this transformation in the world. Globalisation is one of the main factors that behind the above change. We can define globalisation as a process by which the world is becoming increasingly interconnected as a result of massively increased trade and cultural exchange. Earlier existed boundaries between countries in the world have been dramatically reduced due to the globalisation. This is seen as more than simply a way of conducting business- it can be considered as a continues process. This is not a new force that emerged few years back, it has been taking place for hundreds of years but it has speeded up enormously over the last half-century.

In History, in a similar manner, the techniques of industrial manufacturing lead to create the process of industrialisation, now that process has linked with the globalisation and has created new environment of operating businesses. There are few influential factors behind the growth of globalisation. Increase in communication technology is one of them. TV, telephony and the internet have permitted information and ideas to travel quickly. As an example USA businesses can have a call centre in Philippine or India answering calls from local customers. Another factor is improvements in the transportation sector. It has become more quick and cheap. People can go for holiday all around the world. Workforce can seek for a job opportunity available in another country. Businesses can easily ship their product and raw materials all over the world. Another main influential factor behind the growth is trade liberalisation. This has been excelled due to the Laws restricting for free trade and foreign investment movements have been relaxed between countries. Some governments even offer grants and tax incentives to attract foreign companies to invest in their country. These actions have lead to create free trade zones in the world. In other words theses are known as trade blocs where groups of nations who form an economic union or customs union. Governments follow friendly rules and regulation within those regions for trading purposes.

For example the European Union (EU) aims at not just a customs union but also economic union by way of harmonisation of taxes, establishing a common monetary policy and moves towards a single currency. EU has now expanded over 26 member countries and benefited to combined population of 356 million. Trading blocs generally increase the integration and interdependency of the member economies which is speed up the globalisation process. As a result of trading blocs trade amongst the members has increased, which ultimately increase the world trade capacity. Further it gives the opportunity to businesses better access to effective capital and labour markets which increases the movement of labour within the countries and increase investments. For example Poland workers have been well recognized in the UK and Ireland labour markets.

As result of the globalisation process international trade has increased dramatically in the 20th century. Many countries get more chances to participate in the world trade. As a result of increase in Foreign Direct Investment (FDI) many labour oriented countries get access to capital market and vice -versa. Their natural resources value has increased and countries have more capability to use them to manufacture export oriented goods. Increase in international trade brings better standard of living through access to many ways of satisfying their needs and wants. Further it is argued that current development of trading blocs help international trade through making global negotiations easier, in the case of trade negotiations.  For example the EU will negotiate as a single trading block making it easier to push through practises which increase free trade.

As per the following graph it is arguable that benefits of international trade have been equally distributed among the world population. Globalisation and increase in international trade is probably helping to create more wealth in developing countries and has affected to the balance of international trade.

However globalisation is having a dramatic effect on the organisations – for good or ill. Some positive impacts are as follows;

Increase greater access to capital market. Inward investment by MNCs helps organisation to start new businesses locally and in foreign countries. This will provide new jobs and skills for local people.

Companies can bring wealth and foreign currency to local economies when they buy local resources, products and services. Release of government regulation and establishing better infrastructure in the local economy attract foreign investments. China is well known for cheap labour compared to western countries labour cost. This has become a main reason for many organisations moving their businesses to China. Further investment friendly environment through strong financial support (Tax benefits, financial institutes) for new businesses, attract their cheap resources for other countries.

Most of the western countries resources are fully utilised and market have become more matures, but there are emerging economies like China, India, Brazil and Russia which consist many untapped cheap resources. Therefore as a result of pressure built up from the Western markets, businesses now moving for those emerging markets. This process has been made easier and more comfortable due to the globalisation.

The extra money created by these investments can be spent on education, health and infrastructure of the countries. (Corporate Social Responsibility activities)

Achieve economies of scale. Economies of scale means the increase in efficiency of production as the number of goods being produced increases. Economies of scale lowers the average cost per unit through increased production since fixed costs are shared over an increased number of goods. Initially Adams Smith identified division of labour and specialization are the main factors that lead to economies of scale. However as Globalisation process increases companies get other opportunities to reduce their production cost and achieve economies of scale. Access to lower inputs and specialized inputs in different countries would bring the economies of scale. Costly inputs such as research and development, advertising, managerial expertise and skilled labor now can be outsourced to specialized countries and it will result in increased efficiency and lead to a decrease in the average cost of production and selling. Therefore economies of scale provides big companies access to a larger market with lower cost of production and greater margin for their products.

Globalisation increases awareness of events happening in the world. For example, the USA was quickly made aware of the 2011 tsunami in Japan and sent help rapidly in response.

Globalisation may help to make people more aware of global issues such as deforestation and global warming and alert them to the need for sustainable development.

The sharing of ideas, experiences and lifestyles of people and cultures. People can experience foods and other products not previously available in their countries.

Globalisation has resulted in many businesses starting or buying operations in other countries. Companies that operate in several countries are called multinational corporations (MNCs) or transnational corporations (TNCs). Presence in different countries brings interaction with different cultural and social values. On this case business practices that are successful in local country could be act as negatively or positively under different cultural and social values. Therefore it is advisable to find answer to following questions before starting a new venture with another country. – What are the main difference between cultures?, Are they matter of learning a new handshake, or do they go deeper than that?, Can cultural differences really have that much impact on the business deal? Etc. – Finding solution for those questions is helpful for organisations to handle cultural differences in business expansions.

For example language differences, the way they perceive time, traditional and religious believes etc. play a big role in Asian countries. When US and European base organisations move towards the Asian countries the above cultural factors could act as barriers for entry to those markets. In terms of communication US and European’s are considered as low context cultures, language is direct and explicit, but when it comes to Asian countries they are known as high context cultures where language is indirect. Further as per certain cultural and social practices men dominate in the business sector than the women but in European organisation everyone gets equal opportunity to participate in the operations. Therefore when companies setup new business in a different culture, that company need to customise their corporate culture as per the local cultural values. As an example the US fast food chain McDonald’s, large MNC which has nearly 30, 000 restaurants in 119 countries, had a problem of selling beef burger in India due to the religious believes. Further they launched Mc Rice in Sri Lanka since rice is the main food in the Sri Lankan culture. Likewise multinational companies tend to customise their strategies to overcome certain social and cultural restrictions as well as implement new thing to take advantageous.

In current business environment sometimes it is difficult to follow a global strategy for their operation in throughout the world. Therefore most companies tailor their management strategy and organisational structures to respond to the local factors. In other words local responsiveness is essential when a psychic distance is higher in two different countries. As a result of this new relationships will occur in managing businesses globally. Joint venture agreements, alliances etc. are common relationships that business partners follow to reduce their risk exposure in the current business environment. Designing of organisational structure and management style is important capture the opportunities available in the market. Some companies follow decentralised structure to increase the speed of decision making in the particular market. Some other companies follow a selective approach by some functions are retain in with the parent country and others establish in different markets. As example GAP Inc.’s designing function is conducted in centrally and manufacturing function has been outsourced to Asian countries. This mechanism has benefitted them through utilising Asian countries specialised capabilities of manufacturing to convert their design into practical product.

Therefore globalisation process brings new organisational designs and management styles to the market. Local markets’ work force have now increased and well interact with the MNCs. Earlier they were only involved for lower level operations but now management representation also has increased. This is a good advantage for MNCs to take advantage of innovative skills of the local employees since they have more experience in the particular market. Microsoft has given more concentration on Indian market since that workforce well recognised for IT skills. From employees perspective also this will be a good opportunity for them to utilise their skills effectively. Recognition, income level, career opportunities, opportunity to obtain foreign exposures etc. will be increased through working in multinational company. Their innovative concept could bring to the world market through the help of MNCs.

So far this report addressed only the good side of the Globalisation and not that mean it doesn’t have a dark side. Following are few negative impacts of globalisation

Globalisation operates mostly in the interests of the developed countries, which continue to dominate world trade at the expense of developing countries. The role of developing countries market has become to provide the North and West with cheap labour and raw materials at lower cost.

There are no guarantees that the proper benefits from inward investment will benefit the local community in developing countries. Often, profits are sent back to the MNC’s parent countries. This has become easier for them due the tax relief offered by the local governments. Further these MNCs with their massive economies of scale, possibility to drive local companies out of business. After that If these MNCs realised that it becomes cheaper to operate in another country than the current one then they move for better opportunity by closing down the factory and make local people redundant. This would be a major hit for the local economy.

Increase environmental population due to the high industrialisation.

Globalisation is viewed by many as it affects to the world’s cultural diversity and it feared that it may westernise the local traditions and languages.

After considering the above negative sides of the globalisation we can state that it is not helping to close the gap between the world’s poorest countries and the world’s richest. In the case of trading blocs, it is argued they create conflicting parties fighting for regional interests not for every ones benefits.

As per the World Trade Organisation’s statistics, the world’s poorest countries’ share of world trade has declined by more than 40 per cent since 1980 to a mere 0. 4 per cent and the poorest 49 countries make up 10% of the world’s population, but account for only 0. 4% of world trade. (Online, www. gatt. org) This clearly shows benifits of globalisation has not been distributed equally. Further its doubt that MNCs pay fair amount for the developing countries resources. As a result of these negative reasons poor people’s living standards remain same and the gap between poor countries and rich countries won’t reduce.

## Conclusion

Globalisation has a major impact on the business environment as well as the people general life pattern. Within the current knowledge economy, knowledge workers have more opportunities due to the globalisation. Their career is not static as compared to the traditional workers. They always seek better opportunities in the market and as a result of globalisation their career path has extended even for different countries.

However, as a MNC, they have more responsibilities and accountability for their actions in the different markets. As a good corporate citizen they must give their focus on improving local social and educational life the local people also. Further they must ensure fair consideration for the resources utilised the developing countries. These will ultimately useful to break the bridge between rich and poor countries.