

African Research Review

An International Multi-Disciplinary Journal, Ethiopia

Vol. 4 (4), Serial No. 17, October, 2010

ISSN 1994-9057 (Print)

ISSN 2070-0083 (Online)

Globalization and Management: Issues and Concepts

(Pp.96-110)

Oseyomon, Ehi Patrick - Department of Business, Administration, Faculty of Management Sciences, University of Benin, Benin City, Nigeria

Ojeaga, Joseph Oseikhuemhen - Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Nigeria

E-mail: osejoeojeaga@yahoo.com

Abstract

This paper takes a theoretical examination on issues and concepts of globalization. From the study, it is discovered that globalization is like an “old wine” in a new bottle, except that the impact of globalization is more overwhelming than before because of advancement in technology, communication and transportation. The study further reveals some of the pros and cons of the practice of globalization. Some of the management challenges of globalization include: innovating better strategies to build competitive advantage in a global environment, managing a diverse workforce among others.

Keywords: Globalization, Management.

Introduction

Globalization is a new word for an old phenomenon. At the end of the 19th century, goods and services, money in the form of silver and gold, ideas, practices and people moved across national boundaries freely throughout most parts of the world. Many aspects of globalization have attracted the

attention of scholars apart from economic issues such as trade, labour practices, the emergent dominance of the service sector, migration, and the reduction of national authority in economic and social policies. Barriers have been and hindrances have been removed on fashions in art, music, films, clothing, information, technology among others which have spread globally at an alarming speed on the wings of media advertising, multinational organizations and mass marketing techniques induced by the economics of scales.

In this process, considerable emergence and even homogenization of these various elements have taken place. During these developments is the greatly increased pressure of competition, forcing efficiency on organizations. It is in this context that management plays a critical role. This paper examines issues and concepts in globalization and management.

Meaning of Globalization

Globalization in its literal sense, is the process of transformation of local phenomenon into global ones. It can be described as a process by which the people of the world are unified into a single society and function together. This process is combination of economic, technological, socio-cultural and political forces (Sheila, 2004). Globalization is often used to refer to economic globalization that is, integration of national economies into the international economy through trade, foreign direct investment, capital flows, integration, and the spread of technology (Bhajwati, 2004).

Furthermore, Tom (2008), defines globalization is “the diminution or elimination of state-enforced restrictions on exchange across borders and the increasingly integrated and complex global system of production and exchange that has emerged as a result”. Similarly Friedman (2005) examined the impact of the flattening of the globe, and argued that globalized trade, outsourcing, supply – chaining, and political forces have changed the world permanently for both better and worse. He also argued that the pace of globalization is quickening and will continue to have a growing impact on business organizations and practices.

Again, Obadan (2008), argued that globalization is not just an economic phenomenon which integrates world economies but also of culture, technology and governance. It also has religious, environmental and social dimensions.

A Brief History of Globalization

Mason (2001), is of the opinion that globalization has been in vogue since recorded history, through not in a steady and linear fashion. Nevertheless, it is popularly believed and acclaimed in the literature that globalization began in the last quarter of the 19th century, and has been monitored in three phases (World Bank, 2002). According to the World Bank report, the first phase of globalization spans the period of 1870-1913. This first phase of globalization witnessed large scale cross border flows of goods, capital and people. According to Aninat (2002), by the end of the 19th century, the globe was intensively globalized with significant quantities of trade backed by heavy capital flows.

World Bank (2002) cited in Obadan (2008) noted that earlier attempt at modern globalization ended suddenly as a result of the out break of the First World War. As a result, the period embracing the First World War, the great depression of the 1930s and the Second World War celebrated a remarkable set back in globalization. The second phase of globalization started after the Second World War and ended in 1990. This period witnessed the coming together and integration of the rich nations and it was characterized by lower trade barriers, advancement in transportation and technology.

According to UNDP (1999) report, the third and most recent phase of globalization began around 1980 and continues till date. This phase of globalization has been aggravated by the ease with which information is being exchanged and processed as a result of landmark breakthroughs and discoveries in computer and telecommunication technologies. Furthermore, globalization in modern form has been linked with the neo-liberal economic policies, powerfully propagated in the last decades by the Brettonwoods institutions, particularly the World Bank and the International Monetary Fund (IMF), Furthermore, this period is also characterized by market forces, deregulation of economic activities, trade and financial liberalization, privatization of state-owned enterprises, minimizing the role of the state (Obadan, 2003).

Driving Forces of Globalization

According to World Bank (2002; Mausa 2000), the factors that have enhanced the progress of globalization and are likely to continue to do so in the new future include:

1. Improvement in transportation and communication technologies:-

Communication has greatly reduced the cost of moving goods, services, and factors of production across national borders. Information technology has developed into the combination of computer and telecommunication technologies to transmit information, receive instructions and transact business which in turn, has greatly enhanced efficiency and made it easier and faster to complete international transactions (Quattars, 1997, cited in Obadan, 2001).

2. **Societal and Individual Tastes:** - These have greatly favoured taking advantage of the opportunities provide by declining costs and communication through increasing economic integration.

3. **Macroeconomic Factors:-** The macro economic factors include:-

- i. Deregulation and a widespread push toward liberalization of trade and capital markets.
- ii. Outward-oriented reforms especially in the context of structural adjustment programmes.
- iii. International capital Market imbalance of the 1980s even till date.
- iv. The collapse of the Bretton Woods system.
- v. Under the general agreement on tariffs and trade (GATT) established in 1945, countries agreed to forebear trade barriers. As a result of both the GATT established in 1945, countries agreed to forebear trade barriers. As a result of both the GATT negotiations and unilateral decisions many countries have lowered barriers to foreign trade and welcome international capital flow as well. All of these have heightened the pace of globalization.

Globalization and Trade Liberalisation

Liberalization of trade is the main weapon oriented towards the goal of globalization. In the negotiations and agreements reached at the World Trade Organization (WTO), trade liberation involves the removal of import quotas and other quantitative restrictions, abolition or complete reduction of the

level and dispersion of import tariffs rates, removal of export taxes, removal of protection for local industries and local subsidies, elimination of non-tariff barriers, and devaluation of the local currency (Shaffaedin,1994,NACCIMA, 2002).

According to the report of UNCTAD (1993 and 1997), there has been an extensive debate on the economic rationale for trade liberalization. Some of the rationale adduced for trade liberalization is commonly based on the opinion that trade liberalization would lead to more efficient use and allocation of resources through the exposure of the domestic economy to the world economy and better access to state-of-the-art technologies. Secondly, globalization will improve economic performance. Thirdly, globalization will offer new opportunities such as expanded market and the acquisition of new technologies and ideas all of which can yield not only increased production, but also higher standard of living (Ajayi, 2002).

Arguments In Favour of Globalization

Supporters of free trade claim that it increases economic prosperity as well as opportunity especially among developing nations. Globalization enhances civil liberties and leads to a more efficient allocation of resources. Economic theories of comparative advantage suggest that globalization leads to a more efficient allocation of resources with all countries involved in the trade benefiting. In general, this leads to lower prices more employment, higher output and a higher standard of living for those in developing countries (Sachs, 2005) World Bank Poverty Rates, 1981-2002).

Arguments against Globalization

Argument against globalization otherwise called anti-globalization is a terminology used to explain the political stance of people and groups who oppose globalization. It also involves the process or actions taken by a nation in order to demonstrate its sovereignty and practice democratic decision making. Anti-globalization may occur in order to maintain barriers to the international transfer of people, goods, and beliefs particularly free market deregulation encouraged by organizations such as the IMF or the WTO (Morris, 2003).

Critics of the current wave of economic globalization typically look at both the damage to the planet, in terms of the perceived unsustainable harm done to the biosphere as well as the perceived human costs such as poverty, inequality, injustice and the erosion of traditional culture. These the critics contend all occurs as a result of the economic transformation related to

globalization. They also point to a multitude of interconnected final consequences such as social disintegration, a breakdown of democracy, more rapid and excessive deterioration of the environment, the spread of new diseases increasing poverty and alienation which they claim are the unintended but very real consequences of globalization (Capra, 2002).

In specific terms, arguments against globalization are as follows:-

1. **Poorer countries are sometimes at disadvantage:** While it is true that globalization encourages free trade among countries, there are also negative consequences because some countries try to save their national markets. The main export of power countries are usually agricultural goods. Larger and richer countries often subsidize their farmers (like the E.U. Common Agricultural Policy) which lowers the market price for the poor farmers crops compared to what it would be under free trade (Michel, 2003).
2. **Exploitation of Foreign Impoverished Workers:** The deterioration of protections for weaker nations by stronger industrialized powers has resulted in the exploitation of the people in those nations to become cheap labour. Due to lack of protection, companies from powerful industrialized nations are able to offer workers enough salary to entice them to endure extremely long hours and unsafe working conditions. The abundance of cheap labour is giving the countries in power incentive not to rectify the inequality between nations. The reason is because if those poor nations developed into industrialized nations, the army of cheap labour would slowly disappear alongside development. It is true that the workers are free to leave their jobs but in many poorer countries, this would mean starvation for the workers (Michel, 2003).
3. **The shift to outsourcing:** The low cost of offshore workers have enticed corporations to move production to foreign countries. The laid off unskilled workers are forced into the service sector where wages and benefits are low, but turn-over is high. This has contributed to the widening economic gap between skilled and unskilled workers. The loss of these jobs has also contributed greatly to the slow decline of the middle class which is a major factor in the increasing economic inequality in many nations. Families that were one part of the middle class are forced into lower positions by massive layoffs and outsourcing to another country.

This also means that people in the lower class have a much harder time climbing out of poverty because of the absence of the middle class as a stepping stone (McMahon and John, 1986).

4. **Weak Labour Unions:** The surplus in cheap labour coupled with an ever growing number of companies in transition has caused a weakening of labour unions in some developed nations. Unions lose their effectiveness when their membership begins to decline. As a result unions hold less power over corporations that are able to easily replace workers, often for lower wages and have the option to not offer unionized jobs anymore (Michel, 2003).

Strategies of Entering into Global Business

According to Kotler, Armstrong, Saunders and Wong (1999), there are three strategies of entering into international business namely, exporting, joint venturing and direct investment.

(a) Exporting

The simplest way to enter a foreign market is through exporting. The company may passively export its surplus products from time to time, or it may make an active commitment to expand export to a particular nation. In either case, the company produces its products in its home country. It may or may not modify the products for the export-market. Exporting involves the least change in the company's product lines, organization, investment or mission. There are two methods of exporting, indirect exporting and direct exporting (Kotler et al, op. cit, 1999).

(i) Indirect Exporting

Companies typically start with indirect exporting working through independent home-based international intermediaries. Indirect exporting involves less investment because the firm does not require an overseas sales force or set of contact. It also involves less risk. Again, the home based intermediaries bring their know-how and services to the relationship, so the seller normally makes fewer mistakes (Rao, Erramilli and Ganesh, 1990).

(ii) Direct Exporting

Producers and sellers may decide to use direct exporting whereby they handle their own exports. The investment and risk are somewhat greater in direct exporting. A company can conduct direct exporting by setting up a domestic

export department that carries out export activities, or it can set up an overseas sales branch that handles sales, distribution and promotion. On the other hand, the company can send home based personnel abroad to discover more business opportunities.

(b) Joint Venturing

Joint venturing is joining with foreign companies to produce goods and services. There are four types of joint ventures (Cateora,1993):-Licensing, Contract Manufacturing, Management Contracting and Joint Ownership.

(i) Licensing:-

Here, the company enters into an agreement with the licensee in a foreign country. For a fee or royalty, the licensee buys the right to use the company's manufacturing process, trademark, patent, trade secrets or other items of value. The Licensor gain entry into a foreign country market at little or no risk, and the licensee gain production expertise without having to start business from the search (Kotler et al, 1999 op. cit). For example, coca cola bottling company does because all over the world by licensing bottlers and supplying them with syrup needed to produce products.

(ii) Contract Manufacturing

The company contracts with manufacturers abroad to produce its products. For instance, many western companies have used this strategy to enter Tuiwanese and South Korean Markets. The disadvantages of contract manufacturing are the decreased control over the manufacturing process and loss of potential profit. The advantages are the chance to start business faster abroad with less risk (Rao et al, 1990) op cit.

(iii) Management Contracting

Here, the domestic company supplies the management know-how to a foreign company that supplies the capital. The domestic company exports management services rather than goods. For example, Hilton uses this method in managing hotels around the world (Kotler et al,1999) op. cit.

(iv) Joint Ownership

Joint-ownership ventures consist of one company joining forces with foreign investors to create a local business in which they share joint ownership and control. Joint ownership may be needed for economic or political reason. A foreign government may require joint ownership as a condition for entry, or

the firm may lack the financial, physical or managerial resources to undertake the venture alone (Rodger, 1996).

(C) Direct Investment:

Direct investment is the development of foreign-based assembly or manufacturing facilities. If the foreign market is large, foreign direct investment offers the following advantage:-

- (a) The firm may have lower costs in the form of cheaper labour or raw materials, foreign government incentives and foreign savings.
- (b) The company may improve its image in the host country because it creates job.
- (c) The company keeps full control over the investment and therefore can develop manufacturing and marketing policies that serves its long term international objectives (Cateora, 1993).

Risks in Global Businesses

Although the need for companies to go abroad is greater for companies today than in the past, so are the risks. Company managers must anticipate the risks and obstacles in doing business abroad. Some of the risk inherent in international business include, high foreign country debt, exchange rate volatility, foreign government entry requirements, and cost of marketing mix adaptation (Koegun, 1989, Kotler et al,1999 and Chris and Reinhard, 1993).

High Foreign Country Debt: High debt, inflation and unemployment in several countries of the world have resulted in highly unstable governments and unsuitable currencies, which limit and restrict trade and expose international businesses to risk. Debt-laden and/or company-starved countries are often not able to pay despite their willingness to buy. The inability of power countries to pay by normal cash methods is a serious problem in global business venture (Keegan, 1980:2009).

Exchange Rate Volatility:- The level of a country's exchange rate affects companies' competitiveness in foreign markets. For example, a work British pound sterling will favour experts of British goods and services. On the other hand, a strong exchange rate intensifies the level of competition the firms faces at home (Kotler et al 1999).

Foreign Government entry Requirements:- Foreign businesses often face constraints imposed by the host country government. Some of these market

entry conditions relate to a variety of working practices including degree of control allowed, the hiring of local nationals, local content roles, the percentage of output exported, and the amount of profits that can be repatriated from the host country (Chris and Reinhard, 1993).

Costs of Marketing Mix Adaptation:- It is true that global businesses benefit from economies of scale in production, however, these benefits must be measured against the higher costs of product modification, distribution, and communication expenditure in overseas markets. For instance, the complex, multi-layered distribution system traditionally used in Japan, together with high Japanese product quality expectations, and expensive media costs are considerable barriers to market entry for many foreign companies (Kotler et al 1999) op. cit).

Challenges for Management in a Global Environment

Since the world has been changing more rapidly than ever before, managers and employees throughout an organization must perform at higher levels. Competition between organizations competing domestically and globally has increased dramatically. The rise of global organizations that is, organizations that operate and compete in more than one country, has put more severe pressure on many organizations to improve their performance and to identify better ways to use their resources (Gareth, Jennifer and Charles, 2000). The building blocks of competitive advantage are superior efficiency, quality products, innovations and responsiveness to customers (Shama 1993).

Increasing Efficiency: Organizations increase their efficiency when they reduce the quantity of resources such as people and raw materials, they use to produce goods or services. In today's competitive global environment, organizations are constantly seeking new ways to use their resources to improve their efficiency. Many organizations are training their workforce in new skills and techniques that they need to operate heavily computerized assembly plants. Similarly, cross-training gives employees the range of skills they need to perform many different tasks, and organizing employees in new ways, and allow them to make good use of their skills. These are important steps in the effort to improve productivity.

Managers must improve efficiency if their organizations are to compete successfully with companies operating in other countries where employees are paid comparatively low wages. New methods must be devised either to increase efficiency or to gain some other competitive advantage in the global environment. (Seider and Berry, 1998; Shama, 1993).

Increased Quality: The challenge from the global environment has also increased pressure on companies to improve the skills and abilities of their workforce in order to improve the quality of goods and services. One major thrust to improve quality has been to introduce the quality-enhancing techniques known as total management. Employees involved in total quality management are often organized into quality control teams and are given the responsibility to continually find new and better ways to perform their jobs. They are also given the responsibility for monitoring and evaluating the quality of the goods they produce (Gareth, Jennifer and Charles, 2000).

Increasing Innovation:- Innovation is the process of creating new goods and services that customers want, or developing better ways to produce or provide goods and services. Managers must create an organizational setting in which people are encouraged to be innovative. Typically, innovation takes place in small groups or teams. Management decentralizes control of work activities to team members and create an organizational culture that reward risk taking (Anderson, 1997).

Increasing Responsiveness to Customers:- Organizations compete for customers with their goods and services, so training employees to be responsive to customers' needs is vital for all organizations in global environment (Gareth, Jennifer and Charles, 2000).

Maintaining Ethical Standards

While mobilizing organizational resources, management at levels are under considerable pressure to increase the level at which their organizations perform. For example, top managers receive pressure from shareholders to increase the performances of the entire organization in order to boost stock price, improve profits or raise dividends, improve profits or raise dividends. In turn, top managers may then pressure middle level managers to find new ways to use organizational resources to increase efficiency, or quality in order to attract new customers and earn more revenues locally and globally.

Pressure to increase performance can be healthy for an organization because it causes managers to question the organization's operations and it encourages them to find new and better ways to plan, organize, lead, and control. However, too much pressure to perform can be harmful (Anderson, 1997). It may induce managers to behave unethically in dealings with individuals and groups both inside and outside the organization locally and globally (Shaw and Barry, 1995). For example, a purchasing manager for a

large foreign contract, a sales manager in a retail chain might buy inferior clothing as a cost-cutting measure; or to secure a large defence company might offer bribes to foreign officials.

When managers act unethically, some individuals or groups may obtain short term gains, but in the long run, the organization and people inside and outside the organization locally and globally may suffer in the long run (Gareth, Jennifer and Charles, 2000).

Managing a Diverse Workforce

Another challenge for managers in the local and global context is to recognize the need to treat human resources in a fair and equitable manner. In an era when the age, gender, race, ethnicity, religion, and socio-economic background of the workforce are changing locally and globally, managers must establish employment procedures and practices that are fair and do not discriminate against any organizational members (Jackson, 1992).

In the past, white male employees dominated the ranks of management, but today, increasing numbers of organizations are realizing that to motivate effectively and take advantage of the talents of a diverse workforce, they must make promotion opportunities available to all employees, including women and other races (Robinson and Daus, 1997). Managers must also recognize the performance-enhancing possibilities of a diverse workforce, such as the ability to take advantage of the skills and experiences of different kinds of people (Jameison and O'Mara, 1991).

Utilizing New Information Systems and Technologies

Another important challenge for managers facing pressure to increase performance locally and globally is the utilization of new information systems and technologies (Tobin, 1998). New Technologies such as computer-controlled manufacturing and automated inventory control are continually being developed and improved to increase efficiency and responsiveness to customers. New information systems are a vital component of total quality management. In a setting that uses self-managed teams, for example sophisticated computer information systems link the activities of team members so that each team member knows what the others are doing. This coordination helps to improve quality and increase the pace of innovation (Gareth, Jennifer and Charles, 2000).

Conclusion

There is no gaining-saying the fact that today, the world has become a global village. Although globalization is a new word for an old phenomenon, the way and manner in which the impact of globalization is felt all over the world is more overwhelming than what it used to be in the 18th or 19th century, however, globalization has its own good and bad sides. Management challenges now abound for organizations that are global in their scope of operations. Some of the challenges include; building a competitive advantage, maintaining ethical standards, managing a diverse workforce among others.

References

- Ajayi, S.I. (2002), "What Africa Needs to do to benefit from globalization", *Finance and Development*; Vol. 20, No. 4.
- Anderson, C. (1997); "Values-Based Management". *Academy of Management*; Executive Volume ii; pp 25-46.
- Aninat, E. (2002). "Surmounting the Challenges of Globalization"; *Finance And Development*, Vol. 39. No.1.
- Bhagwati, J. (2004). *In Defence of Globalization*; New York: Oxford University Press.
- Capra, F. (2002). *The Hidden Connections*: New York: Random House.
- Chris, H. and H. Reinhard (1993), "Marketing in a European Environment", *European Marketing reading and cases*, pp 3-22.
- Friedman, T.L. (2008). "The Dell Theory of Conflict Prevention"; Emergin: A Reader Ed. Barclays Barrios, Boston: Bedford, St. Martins V. 49
- Garet, R.J. Jennifer, M.G., W.L.H. Charles; (2000). *Contemporary Management*; New York: Guilford press .
- Jamieson, D. and O' Mara, J. (1991). *Management Workforce 2000: Gaining a Diversity Advantage*; San Fransisco, Jersey Bass.
- Keegan, W.J. (198a). *Global Marketing Management*, Englewood Cliffs, New Jersey: Prentice Hall.
- Kotler, P., Armstrong, G., Sunders, J; and V. Wong (1999). *Principles of Marketing*. (Second European Edition). New York: Prentice Hall.

- Mason, P. (2001), "Globalization: Facts and Figures", IMF Policy Discussion Paper.
- McMahon, P.J. and H.T. John (1986); "The Declining Middle Class: A Further Analysis.", *Monthly Labour Review*; Vol. 109.
- Michel, C. (2003); "Global Falsehoods", <http://www.transnational.org/features/choosuworlbank.html>.
- Morris, D. (2003); "Globalization and Media Democracy: The case of Indymedia"; *Shaping the New York Society, MIT, Vol. 3*.
- Mussa, M. (2000), "Factors Driving Global Economic Integration", IMF Washington. <http://www.imf.org/external/np/speeches/2000/082500htm>.
- NACCIMA (2002). The Challenges of Globalization and National Development", In: *Economic Policy Watch*.
- Obadan, M.I (2001). "Africa and the Challenge of globalization: How should the continent respond?", *Nigerian Economic and Financial Review* Vol. 6, No.2.
- Obadan, M.I. (2003). "Globalization and Policy Challenges", A paper presented at the NCEMA Workshop on Macro economic Management, organized for CBN staff in Lagos.
- Obadan, M.I. (2008). "Economic Globalization for Africa", address at the Southern Africa Economic Summit, sponsored by the World Economic Forum, Harare.
- Rao, C.P., Erramilli, M.K. and G.K. Ganesh (1990). "Impact of Domestic Recession on export marketing behaviour", *International Marketing Review*, Vol. 7, No 2, pp 54-65.
- Robinson, G. and C.S. Daus (1997): "Building A Case for Diversity", *Academy of Management Executive* 3, Vol. pp 21-31.
- Rodger, I. (1996), "The Long Journey to Liberalization", *Financial Times Exporter*, 11, p.6.
- Sachs, J. (2005). *The End of Poverty*; New York: The Penguin Press.
- Seiders, K. and L.L. Berry (1998). Service fairness: What it is and Why it Matters" *Academy of Management Executive* 12; pp 8-20.

- Shafaedin, S.M. (1994), "The impact of trade liberalization on Export and GDP growth in least developed countries", *UNCTAD Discussion paper, No. 85*.
- Shama, A. (1993). "Management Under Fir: The Transformation Management in the Soviet Union and Eastern Europe". *Academy of Management Executive 12*: pp 22-35.
- Shaw, W.H. and V. Berry (1995). *Moral Issues in Business*. 6th Edition. In C. A. Belmont, Sheila, L.C. Wadsworth (2004). "Globalization and Belonging: The Politics of identity in A Changing World", *Rowan and Little Field Field*; P10.
- Terry, F. (2008). *Twenty New Media Concepts* P. 26.
- Tobin, D.R. (1998). *The Knowledge Enabled Organization*: New York: Amacom.
- UNCTAD (1993). "Adjustment and Stagnation in Sub-Saharan Africa", *Trade and Development Report*, New York: United Nations.
- UNDP (1999), *Human Development Report*, Vol. 3, No.
- World Bank (2002). *Globalization, Growth and Poverty*, A World Bank. Policy Research Report, Washington, D.C. the World BNank and Oxford University Press.
- World Bank Poverty Rates, 1981-2002 (http://siteresources.worldbank.org/DATASTATISTICS/Resources/table_2-7.pdf) Accessed on the 12th of December, 2008