

Day 1

The process of Globalization and its effects on the business

Glossary

Brand
Company
Competitors/Competition
Customer
Decline/Decrease
Demand
Development
Downturn
Goods
Increase
Market
Offer
Price
Revenue
Sales
Services
Supplier
Third World Country
To Go Global/Abroad/International
Trade

1. The definition of Globalization

“ Globalization is the process of **international integration** arising from the interchange of world views, products, ideas, and other aspects of culture. Globalization describes the interplay across cultures of macro-social forces. These forces include religion, politics, and economics.”

Globalization can erode and universalize the characteristics of a local group.

What are the factors that helped generating further interdependence of economic and cultural activities?

2. The origin of Globalization

The phenomenon of “Globalization” is not new. It just hasn’t been so visibly of impact until recent years. Globalization is a leading concept which has become the main factor in business life during the last few decades. The broad macro-economic effects of globalization became most identifiable with the end of the cold war, and have only continued their rapid advancement with :

- the development of **Third World countries** and other emerging markets,
- the establishment of **free trade agreements**,
- the creation of **the Internet** and other technology/communications improvements,
- the **downturn** in some local economies.

Life before the Internet

“OK, so I’m technically older than CNN, email and the graphical user interface, but I can barely remember a world without them. My incredulity stems from the difficulty of recollecting what life was really like before I spent half of it online. The pre-Internet world now feels **as distant as a foreign planet or ancient civilization.**”

“We were frequently, painfully **bored**. I was an only child in a world of 7 TV channels and no Internet, and it wasn’t especially fun.”

“The World Before The Internet? **Nightmares. Just lots and lots of nightmares.**”

“Before the computer, there were some other business machines that performed limited functions such as the typewriter and the calculator. Everything else had to be done by hand - pen and paper. Sales receipts were hand-written, spreadsheets were done on paper, accounting records were kept in ledger books, there were elaborate filing systems to keep records and inventories. Before typewriters, even business letters were hand-written. Everything required more effort and was less effective and less accurate than today's computer systems. Things were sent via courier and parcel shipments (post, fedex etc) and making business was **S L O W .**”

3. Globalization today

In today's marketplace conducting business internationally is as much of a **defensive play as an offensive play**.

upside of going abroad: confront the size of international markets as contrasted with the size of the domestic market, and you will likely find that the majority of your potential customers live abroad. So if you could double, triple or quadruple your revenue why wouldn't you aggressively pursue that goal?

downside of not going global: if your company is not pursuing those customers your competitors **will be**. They will not only take a first mover's advantage of securing customer loyalty and brand recognition, but they will also tie-up key partners and distribution agreements. Being a slow adopter in today's world could eventually damage your business.

When a company works with its domestic market only **it is very likely that a bad downturn will wipe the entire business away**. If there's a decline in consumption habits due to the crisis the company needs to replace its domestic consumers with international demand. The ability to conduct your business internationally becomes a matter of survival for the company.

...This is why the demand for English Lessons has increased in 2012!

2. Why to internationalize?

Nowadays there are many organizations which want to increase their business abroad.

Usually reasons for internationalize are growth, employees, resources and ideas. Many companies are looking at international markets because they want *to expand their business*. Another important reason to internationalize business is that often company can **hire cheaper employees**. Some companies go international *to relocate resources* that are difficult to have in their home markets so that they can make some savings. Also companies go international if they want *to have new ideas*: different backgrounds work force can bring up fresh ideas which can help a company's growth, or, *to minimize competitive risk*.

Furthermore, because not only the firms but also the customers are becoming *global*, if a firm does not go abroad, local customers can shift to a competitor.

4. Why to internationalize?

Maybe it depends on what kind of organization it is, but the organization can:

- **save money** (through economies of scale or relocation of production) and
- **expand their business as a result of the increased number of customers and a better visibility or prestige.**

- When tight **cost control** is important, a global brand may be preferred as it allows development costs to be spread over large volumes leading to economies of scale or savings in manufacturing, distribution, promotion, logistics.

- When the internal market shrinks it is possible to get **more customers.**

- When **visibility** holds the key, a global brand may be the right option. A global brand can capitalize on the extensive media overlap that exists in many regions.

- Global brands often make sense when **prestige** is a key factor. Being global signals that the company has the resources to compete globally and has the willpower and commitment to support the brand worldwide.

Can you think of some sectors/ brands that would match these exigencies?

5. The Effects of Globalization : THE MARKET

The effects vary a lot **from one part of the world to another, and from one area of business to another.**

This phenomenon affects the **economy, business life, society and environment** in different ways, and almost all corporations have been affected by these changes. **These changes are mostly related to increasing competition and the rapid changes of technology.**

Can you name some of the most important effects of globalization?

5. The Effects of Globalization : THE MARKET

Stiff Competition

Foreign businesses buy into domestic markets which challenges traditional market leaders: **Globalization leads to increased competition.** This competition can be related to product and service cost and price, target market, technological adaptation, quick response, quick production by companies etc.

Customer behaviour

Customers have a large multitude of choices in the market and this affects their behaviours: **they want to acquire goods and services quickly and in a more efficient way than before. They also expect high quality and low prices.** Generally, consumers all over the world are better informed, and therefore have higher and more exacting expectations. **This forces businesses to meet higher standards.**

Can you name a sector where all this was particularly true?

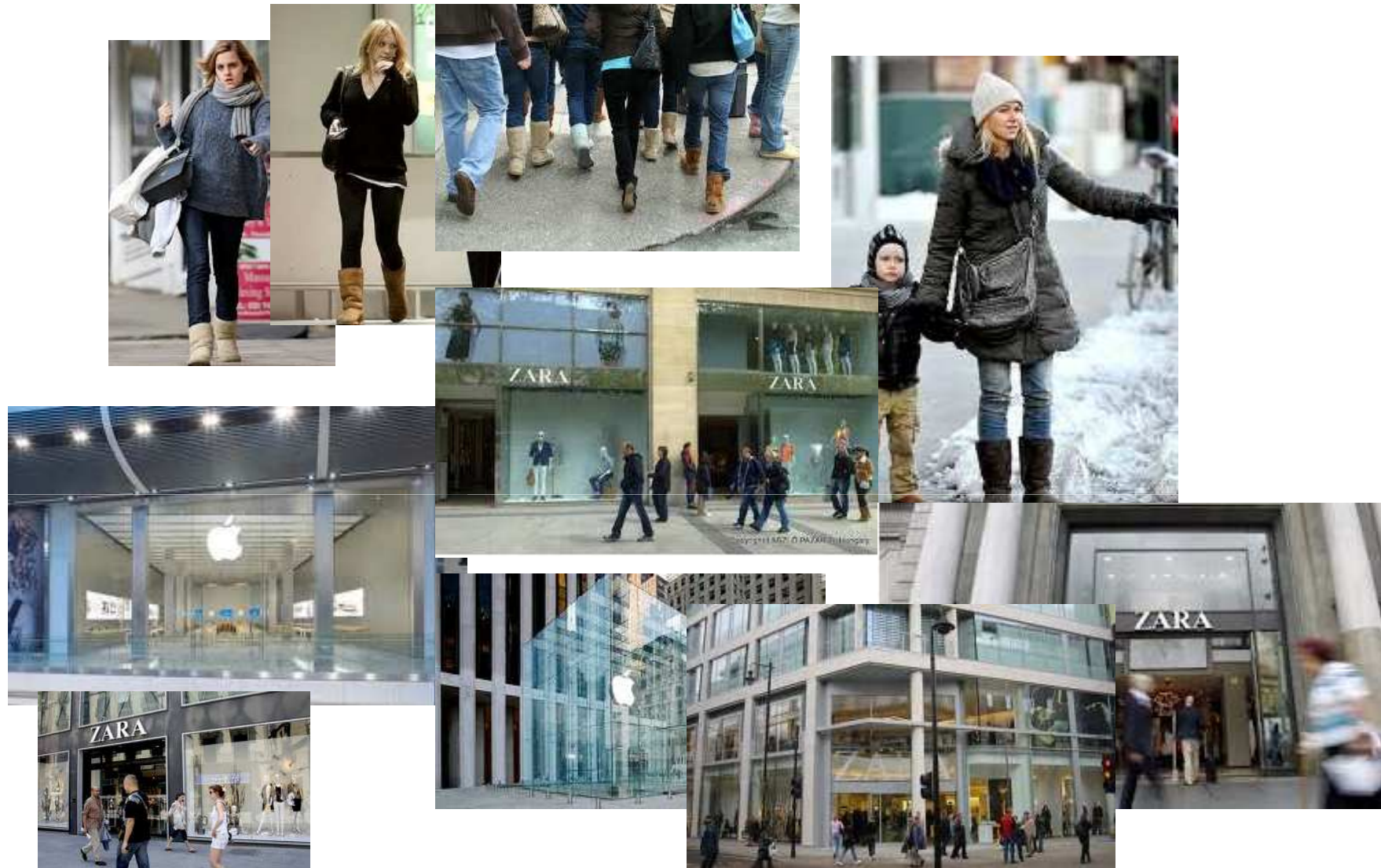
5. The Effects of Globalization : THE MARKET

Globalization of consumers and communication

National borders are becoming less and less important. Markets stretch across borders. **Consumers are more alike, but by no means the same. Many businesses have made expensive mistakes by not taking local variation sufficiently into account**

Uniformity of Metropolitan areas

Travelling around the world in big cities is no longer so much of a unique experience. Lots of metropolitan areas are losing their identity and resembling one to the other. Local shops have been swept away by international chains which contribute to giving the same identical image.



Can you tell which of these pictures were taken in Milan, Barcelona, London or Paris?

5. The Effects of Globalization : THE COMPANY

Economies of scale

Selling into a global market allows for enormous economies of scale.

Choice of location

Businesses are now much freer to choose where they operate from, and can move to a cheaper and more efficient location. Manufacturing business are increasingly relocating to low-wage countries such as Indonesia. Logistics is easier to operate in international markets, sometimes near to where they'll be distributed.

However keeping production and engineering separate creates some problems also in technology development. Can you think why?

Adoption of New Technologies

Globalization has increased the speed of technology transfer and technological improvement. One of the most striking manifestations of globalization is the **use of new technologies by entrepreneurial and internationally oriented firms to exploit new business opportunities.** Internet and e-commerce procedures hold particular potential for SMEs seeking to broaden their involvement into new international markets.

4. The Effects of Globalization : THE COMPANY

Multi-national and multi-cultural management

A multi-national business environment is more complex with more variables, and so is more difficult to manage. A multi-cultural employment policy leads to employees of many different nationalities, languages, religions and cultures in different offices across the globe. These employees react in quite different ways.

Cultural barriers in the workplace

Verbal and Language Barriers: Regional differences in communication style can produce misunderstandings that are often amusing, but sometimes result in serious consequences.

Non verbal Communication and Personal Space: Nonverbal communication often has a significant impact on interpersonal interactions.. For example, **many women from non-Western cultures** find it difficult to act assertively with men, even when they hold equal or supervisory positions. People from **Latin cultures maintain less personal space** than many American, German or Japanese individuals find comfortable to maintain. Many **Americans take an informal approach their colleagues**, referring to nearly everyone by their first names, a practice that people from more formal cultures may find disrespectful or even offensive.

4. The Effects of Globalization : THE COMPANY

Cultural barriers in the workplace

1. Read the extract from “Understanding Cultural Differences”, a book that gives advice about working in other countries. Then discuss with a partner which country you think the author is describing.

2. You are going to listen to a conversation between a young Chinese businessman and his English language teacher. Complete the sentences in 7.1 and 7.2

The concept of time in Africa

"Africa is first and foremost relational in its approach to life. Westerners who come to Africa find such attitude one of their greatest frustrations.

Walk, drive around Africa and you will see people sitting, chatting, waiting. You come by a few hours later and they have not moved. The African enjoys and savours the time. There is not the anxiousness to do this or that, to meet this deadline or that one. If you make an appointment to meet, enjoy the wait. Africans are usually late not because they are rude but because they were tied up with other people and it is not polite to just leave.

I was invited to dinner at a friend's house in Nairobi. He was supposed to pick me up at 5 pm. The hour came and went, 6 pm, and then 7 pm. I cooked something after 7 and ate, 8 o'clock came and I started to enjoy a book when just after 9 pm my friend came into the courtyard, smiling at me.

Off we went to late dinner at his house, he has never told me why he was late. I've never told him that I had eaten dinner; I've become a relational person, I just ate dinner "again" and enjoyed the time of friendship with him, his family and friends.

I grew up in Germany where time ruled life. The bells of the church tolled on time every 15 minutes during the daytime hours. You were never late, no matter what you had to do. Punctuality was part of being German.

In Africa, it is not the clock that rules the day...but the relationship. It is being a human being instead of a human doing.

When your life is short and you know that most of the people around you are dying young, your approach to life becomes different, you value relationships more than tasks. They realize that enduring things in life are family, friends, relationships and not a day ruled by the clock."

Case study: the effects of globalization in India

Electricity: Several states in India claim that 40, 50 or even 100 percent villages have been electrified. But supply of electricity to villages that have been electrified is not more than 3-4 hours per day. **Globalization is not going to make much difference to rural life until and unless electricity is supplied** uninterruptedly to these villages.

Culture and social values: India's real culture is still preserved in rural life and globalization has no impact on rural life . People still prefer to wear traditional dresses and celebrate festivals in old styles. Culture is still untouched and unaffected by western influence.

Agriculture: Globalization does not have any positive impact on agriculture. On the contrary, it has few detrimental effect as government is always willing to import food grains, sugar etc whenever there is a price increase of these commodities. Subsidies are declining so the cost of production is increasing.

Roads: There's a road connectivity in rural India but **roads are of poor quality** and without drainage support.

Corruption: Government has initiated several developmental programs for uplifting of living standards of poor people but full benefits have not reached to the targeted population due to corruption prevalent in administrative and political systems.

Case study: the effects of globalization in India

In conclusion, globalization has had little or no impact on life conditions, as it hasn't led to any major improvement in the quality . Instead, it has generated a devastating impact on some fundamental sources of living for the Indians , such as agriculture.

Is it good to have internationalization everywhere? Does it lead to more differences other than to more equalities? What has the consequences of internationalization been in Africa?

Points of further reflection

- In which ways do you think the Italian bookshops had to respond to globalization of distribution due to the advent of internet (book sold on the web/ e-books etc) ? What kind of changes (price, offer, digital tech, other things..) did they have to make in order to keep up with the competition and the change in consumers' preferences? Do you think they will survive? What would you do to rescue this business?
- What other sectors do you think had to make changes due to the internationalization of their markets? (eg the furniture industry and the advent of IKEA, casual wear, toys) can you list them? Were these changes good or bad?
- Are there some sectors which you see as being resistant to Globalization? Why?



"Am I going too fast for you?"