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Business Studies

Answer the following questions:

- 1) what is globalisation?
- 2) Discuss the opportunities and threats to globalisation
- 3) How has globalisation transformed the way business is conducted? Explain

Chapter Outline

19.1 Meaning and Nature of Globalisation

19.2 Opportunities and Threats of Globalisation

19.3 Transformation of Business by Globalisation

There are several recent trends in business. Globalisation, E-Business, and Outsourcing are some of these trends.

19.1 MEANING AND NATURE OF GLOBALISATION

In simple terms, globalisation means integrating the economy of a country with the world economy. According to the *Chambers 20th Century Dictionary*, globalisation means "to make global, that is worldwide, or effecting or taking into consideration the whole world or all people." Globalisation implies having the entire world as one market. It is a process of increasing economic integration and growing economic interdependence between countries in the world economy. It involves not simply cross-border movement of goods, services, capital, technology, information and people, but also an organisation of economic activities which crosses national boundaries.

The terms globalisation and internationalisation are often used interchangeably. Strictly speaking, there is a difference between them. Internationalisation refers to business with one or more foreign countries. On the other hand, globalisation means adopting a global outlook in manufacturing, marketing, financing, human resource management and all other areas of business. A truly global corporation views the entire world as a single market. It does not

differentiate between domestic market and foreign markets. It conducts its operations world-wide as if the entire world were a single entity.

According to the International Monetary Fund (IMF), globalisation is the process through which an increasingly free flow of ideas, people, goods, services and capital leads to the integration of economies and societies.

19.2 OPPORTUNITIES AND THREATS OF GLOBALISATION

Globalisation offers the following opportunities :

- (a) Globalisation exposes firms to international competition. In order to survive in global markets, firms have to improve efficiency of operations, reduce costs and improve quality.
- (b) Globalisation will help the developing countries to improve the allocative efficiency of resources, reduce the capital-output ratio and increase the productivity of labour. It can increase the inflow of foreign capital and technology and stimulate exports.
- (c) Globalisation will help to restructure the production and trade pattern in favour of labour intensive goods and technologies. With reduction in capital-output ratio, the growth rate will increase.

- (d) There will be increase in employment opportunities over a period of time. Efficiency of banking and financial sectors will improve with the opening of these areas to foreign banks and capital.

There are, however, several threats due to globalisation :

- (a) Globalisation involves rapid movement of capital, technology and managerial skills. It creates great pressure for structural adjustment.
- (b) Globalisation leads to tremendous redistribution of economic power and political power which may have considerable destabilising effects.
- (c) Globalisation process challenges familiar assumptions, e.g., increase in productivity and technical changes lead to more jobs and higher wages.
- (d) Downtrend in international economic activity causes greater damage to globalised economies.
- (e) Regional trading blocks and other forms of international protectionism, infrastructure bottlenecks, resource limitations, policy and procedural problems, high domestic costs, limited R & D and marketing research, lack of experience in managing business abroad are other major constraints on globalisation of Indian industry.

19.3 TRANSFORMATION OF BUSINESS BY GLOBALISATION

Globalisation has changed the manner in which business is conducted. Some of these changes are given below :

1. Dominance of Multinationals : In several industries, global corporations occupy the dominant position. For example, in the soft

drinks industry, Pepsi and Cocacola dominate all over the world.

2. Liberalisation of Foreign Investment : More and more countries open themselves to foreign direct investment. Even countries like China have an open door policy for foreign investment.

3. Growing Competition : Globalisation has intensified competition between companies. In order to face global competition, companies are scaling up fast through mergers and acquisitions. For example, Tata Steel, Tata Motors, Sun Pharma and several other firms have acquired firms in several foreign countries.

4. Globalisation of Markets : Companies now look the whole world as their market. For several standardised products a global market has emerged. With the globalisation of markets, earlier practices such as selling less advanced products in less developed countries are no more used. Firms now compete on the basis of the best combinations of price, quality, reliability and delivery for identical products. This provides economies of large scale.

5 Globalisation of Production : In order to minimise costs firms now manufacture wherever there is cost efficiency. Different stages of production are located in different countries. Firms also source goods and services from locations around the world to take advantage of low cost and better quality inputs. For example, more than one thousand suppliers from several countries are involved in the manufacture of Boeing 777 jet. Products are no longer Japanese or Korean. It is more appropriate to call them global products.

6 Telecommunications : In order to coordinate and control global business operations across countries, firms are increasingly making use of video-conference, e-mail, virtual work teams, etc.