

CONSIDERATIONS ON THE GLOBALIZATION PROCESS IN MODERN ECONOMY

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Abstract:

At present, the society is being hit by a wave of changes that have led to the redefining of firm place and role in the modern economy. Globalization has brought about changes in managerial model, the manager in this context being forced to be acquainted with the innovations in the field occurring in the world, with the trends of market evolution and even with the developing perspectives of global competitors.

The present paper aims to surprise the process of globalization, starting from an apparently simple question: what novelty has this process of economy globalization brought about? The paper presents the impact of the process of globalization on a global basis starting from the fact that the events occurring in a country have become strongly connected with what is happening in other countries of the world.

Therefore, while markets are becoming independent and companies are coordinating their strategic activities abroad, competitiveness begins to play a more significant role. Due to this fact, the consequences of competitive success or failure on a national market will have an outstanding impact on the whole competitiveness of the company, being felt all over the world.

Key words: globalization, economy, coordination, interdependence, global strategy, manager

JEL classification: M20, M21

1. INTRODUCTION

Over the last two decades a series of radical changes occurred in the world economy have generated great debates especially on the explosive increase of unemployment, uncontrolled rhythms of inflation, contradictory evolution of the process of economic integration, budgetary deficits, technological changes, intension of competitiveness, damage of environment, all together being major issues whose solution has not always been considered satisfactory. The economists have tried different solutions but they have not succeeded in going through and drawing relevant conclusions. (Constantinescu-Băeșu, 2005)

Gradually the economic theory has felt the need to use new concepts capable of explaining more accurately the huge changes that have occurred in the world economy lately. One of these concepts which have really contributed to the comprehension of the nature and consequences of all these changes is that of *economic globalization*.

Globalization does not refer only to the activity of companies and trade flows that these ones are generating, but it includes financial globalization as well, which plays an important role in the world economy. Some studies on this topic consider that globalization should be regarded as a specific phase of stock internationalization by highlighting its capitalization possibilities of the regions in the world, namely wherever there are resources and outlets. The present paper aims to capture the role of the process of globalization in the evolution of modern economies and implicitly of the companies that develop their activity in the international business environment.

Thus, globalization is being approached in a larger context, being the adjoin result of two distinct but interconnected moments . (Livesey,1993)

The first moment is related to a long period of stock accumulation which began after the end of the First World War, but interrupted by devastating crises and wars like the Second World War, whereas the second moment is marked by the adopting of some liberalization measures of international economic, privatization and legislative measures applied at the beginning of the 80s.

All these have led to partial loss of the promoting capacity of economic self-centered and independent development simultaneously with the disappearance of some characteristics specific to national markets. Trade liberalization and the occurrence of new more performing technologies have determined the big industrial groups to get organized in “network firms”. Consequently, the process of stock accumulation is being actuated by exploring the new opportunities provided by automatization. Due to all these major changes occurred in the present day economy, there has emerged a new phenomenon in the literature, namely the *world oligopoly* – phenomenon regarded as “a market form framed within an industrial rivalry space”. This space has got formed on the basis of world expansion of big firms and interactions of investments promoted by these ones in the USA, European Union, Japan, being a normal result of the process of economy globalization.

Globalization means the attempt of *simultaneous integration* of the three markets specific to world oligopole that of goods and services, stock market and technologies and labour market. This integration has been developed in more stages.

In the first stage globalization included the market of goods and services while in the second one it consisted of technologies and the financial market, the labour market holding the last position. (Constantinescu-Băeșu, 2005)

2. IMPACT OF THE GLOBALIZATION PROCESS ON THE WORLD PLAN

2.1. DIMENSIONS OF GLOBALIZATION

Globalization is a term which describes a multicause process which results in the fact that the events from a certain area of the globe may have more and more significant repercussions on companies and issues from other parts of the globe. (Mittelman,2000)

There is no definition of globalization in a universally-accepted and well-defined form because globalization covers a multitude of complex processes from different fields of a society. Globalization may be a phenomenon, an ideology, a strategy or even all these together; in the economic context, it refers to the trade effects and trade liberalization. So globalization is the modern term used to describe the changes occurring in the society and world economy which derives from the very increased international trade and cultural exchange.

At present the high number of human activities is being situated on a large horizon, by crossing the national borders within which the souverain states exercise their right to govern, fact which has led to globalization. So, having in view that the field of human activities has begun to develop beyond state regulations, legality and rules have become tighter and tighter. (Bran, 2009)

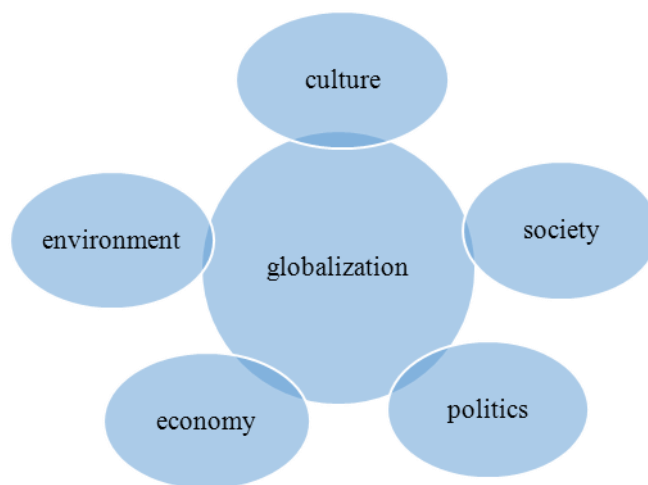


Figure no. 1. Branches of globalization

Source: adaption after (Bran, 2009)

The new players had to get ready to face the challenges determined by the governing of monopoly type, later on there emerged multinational corporations, global financial markets and non-governmental organizations. Technology change and innovation represent a key aspect of globalization, especially in the sector of shipping and telecommunications.

As can be seen from the above figure, the constituting factors of globalization are interdependent. Thus, for example, the global environmental issues cannot be researched isolated from "economy" and "politics". This global network is one of the globalization particularities, both at the level of decision-makers and thematic areas.

Different aspects together with globalization are forming a multitude of different intersections. It is important to see what exactly subscribes to the concept of globalization. Equally important is the comprehension of the fact that not everything is included in the process of globalization or it is determined decisively by this one because globalization has its own limits and one should take into consideration this aspect. On one hand, it is about a multitude of intersections of different dimensions, and on the other, it is about a concept of force used in all fields. (Bran, 2009)

Examples of globalization dimensions may be given from the daily press, the economic dimension occupying most of the times the first position (the enormous increase of trade and direct investments, globalization of financial markets, competition between states).

Regarding the dimension "environment", some global issues such as: global warming, the hole in the ozone layer or cutting-down of tropical forests illustrate significantly the phenomenon of globalization as in these cases it is obviously about the globe problems which require global approaches. This fact does not necessarily mean that there are no problems in the local or regional environment; an example in this sense is the pollution of rivers. (Bran, 2009)

The social dimension of globalization regards the world which has become „a global village", innovating remote communication networks (chat, e-mail) being added to the traditional ones.

The cultural dimension refers to Hollywood productions which can be watched all over the world, and „Americanization" of world culture is incontestable. But the regional and local cultures are not disappearing because of this. On the contrary, one of the secondary phenomena of globalization is exactly the informing on these cultures.

Globalization has a very important dimension, namely the political one, because this one is being faced with major problems, globalization and competition at local level limits the action background of national policies, many of them getting developed only at international level, at global one respectively. Therefore, new political forms should be found and in this sense, the European integration is being perceived as a successful solution to the challenges of globalization. (Bran, 2009)

Politics at national and regional level has suffered and is still suffering because of the economy delimited and practised more and more at global level. Capitalism, an integrating factor of social status, is in its turn threatened by this basic imbalance.

2.2. THE IMPORTANCE OF COORDINATION, COMMUNICATION AND CONTROL IN GLOBALIZATION PROCESS

Coordination aims at determining the optimum ratio between the centralized decision-making process and the decentralized one, having in view that in practice there has emerged a tendency of combining these two forms of coordination (centralized and decentralized one). Decentralization of decision-making process has the following advantage: the possibility of developing some strategies specific to each region where the international company is active but a disadvantage as well: the negative effects that may occur as a result of the incompatibility between the objectives of corporation branches and those of the corporation. In the case of centralization, all external activities are centrally coordinated and grouped and the management is of authoritative type.

The tendency of combining these two types of centralized and decentralized coordination of branches allows the provision of a certain degree of autonomy for their activity. In the new context, the role of executive managers is getting greater and greater, who due to their knowledge of the demands existing on the market are capable of making decisions to harness the opportunities emerged in real time. (Constantinescu - Băeșu, 2005)

The efficiency of a coordination and control system depends also on the quality of communication suitable to this one. The analysis of communication quality should also take into consideration some cultural, economic and social aspects which are different from one country to another. With the technological revolution by the emergence of the international informatics network of INTERNET type, communication has acquired new valences; the multinational firms despite the big geographic distances have succeeded in solving contingent problems and reacting fast to any change occurred. The informational technique allows the coordinating of firm's activities at global level, contributing decisively to the efficient development of the process of communication.

Control means the analysis of the achievements made by the enterprises' branches at local level by monitoring and checking the degree of accomplishment of the corporation objectives. In the enterprise, a manager may exert three ways of control: *preventive control* (aims at establishing some regulations and procedures in order to eliminate behaviours that may lead to inappropriate results for the activity carried out in the enterprise); concomitant control (aims also besides the results achieved by employees at the performances of some factors which do not depend on human resources, for example the equipment used, the aspect of compartments) and *retro-active control* (provide sthe manager with the possibility of applying corrective measures when necessary to the results obtained in the past by the company). (Certo, 2002)

Special attention is being given to the formal methods of control (systems of control by budgets or based on indices) and to the informal methods of control considered to be indirect. The World Bank recommends the following indicators to be used in the control based on indices: (Stăncioiu; Militaru, 1998)

- Indicators of liquid assets de lichiditate; these indicators include the rate of general liquidity whose value the specialists consider should be equal to two and the rate of immediate liquidity which is considered appropriate if it has the value one;
- Indicators of solvency; these indicators include the rate of debts and solvency rate;
- Indicators of administration, are also called rates of asset administration, include the turnover of the enterprise and speed of stock rotation ;
- Indicators of profitability; these indicators include sale profitability and rate of capital recovery.

The use of formal methods of control is facing some limits within the firm. In the case of the control by budgets where the monetary units are the reference basis there is the risk of a short-term development of the firm. In the case of control achieved on the basis of indices, there may emerge the risk of denaturing the reality because of the fact that managers have to assess simultaneously all indicators and determine the values of indicators in the enterprise for short successive periods of time.

The methods of indirect control used refer mainly to the corporation's culture and training of human resources. Multinational corporations use most of the time cultural values to manage and coordinate their branches, these ones being more efficient than the classical methods of bureaucratic type. In the context of globalization, the vision and structure of multinational firms must have a global dimension. The concept "global" comprises both the idea of competition intensification and expansion of opportunities at the level of world market. Another way of informal control refers to *human resources' training* which is done by means of some training and retraining programmes which provide the managers with better comprehension of the role of the firm vision and its elements.

Globalization has also led to the change of managerial model, in this sense the manager being compelled to keep up with the innovations occurring at world level, trends of market

evolution and even with the developing perspectives of global competitors. Managers' training in multinational firms is directed to strategic orientations of the firm and stimulation of innovating entrepreneurial spirit. In the new context of globalization, firms are interested in the training process of their staff, giving special attention not only to the recruitment and employment stages but to that of integrating the new employees, to their professional training according to the firm's requirements. In conclusion, we may state that globalization is implemented by means of the solutions found by global managers who bear responsibility in local decision-making and who take into consideration the implications of their own decisions on the entire environment of the company.

2.3. GLOBALIZATION OF FIRMS' ACTIVITY

In view of broadening its activity on the external market, a firm may have in view more strategic adopting and promoting alternatives of a product according to the conditions existing in other geographic regions such as: (Pricop; Tanțău, 2001)

- direct extension of product and communication means;
- direct extension of product and adoption of communication means;
- adoption of product on external market and expansion of communication means;
- adoption of communication means;
- discovery of a new product.

Direct Extension supposes the introduction of the product on a foreign market in order to capitalize its opportunity without making any changes of this one (in this case it is considered that all markets have the same characteristics). This strategy has registered outstanding successes in the case of cameras, a relevant example is also for the Gillete company which promoted its products using the same advertisement all over the world.

Extension of product and adoption of communication means to the requirements of external market represents the second strategic alternative. In this case the same product may meet a new desire being directed towards a different market segment, the choice of advertising means representing the only necessary change.

The third strategic alternative supposes *adoption of product to the requirements of external market and expansion of communication means*. This strategy is usually taken up by companies that modify their manufacturing recipes according to local conditions and the equipment used for washing but not the communication means (for example, companies promoting detergents).

The fourth strategic alternative has in view both *the adoption of product and that of communication means*. It is about the firms which commercialize their products in more countries under different brands and by using different marketing strategies. This is possible due to the existence of some organizational decentralized patterns which provide the managers with the possibility of decision making both in terms of product and marketing.

The fifth strategic alternative refers to *innovation*. A study on innovation highlights a series of factors that contributed to the achievement of high performance results by some firms: (Dinu, 2000)

- establishing a direct link between general innovation strategy and the strategies applied for each activity in part;
- permanent follow up of consumers' needs in order to identify the fast the changes in their behaviors regarding the existing products and services;
- co-optation of the best specialist within the firm to carry out projects regarding the development of new products;
- capitalization of firm employees' experience.

The firm's position on market depends on the product's life cycle: period of birth, development, maturity, ageing. In time, a series of recommendations regarding the optimum strategy that may be implemented

Product's life cycle describes the hypothetical way of a product or service, of some stages, beginning with the product's introduction to market and ending with saturation. This cycle includes the dynamics of production and market evolution and may be used to generate strategic alternatives.

The concept of *life cycle* is defined by an analytical instrument called *the technological curve S* (Rue; Holland, 1986). As products and services have cycles of development and decline, technologies run a curve which reflects the relationship existing between the working hours to make that product and labour performance.

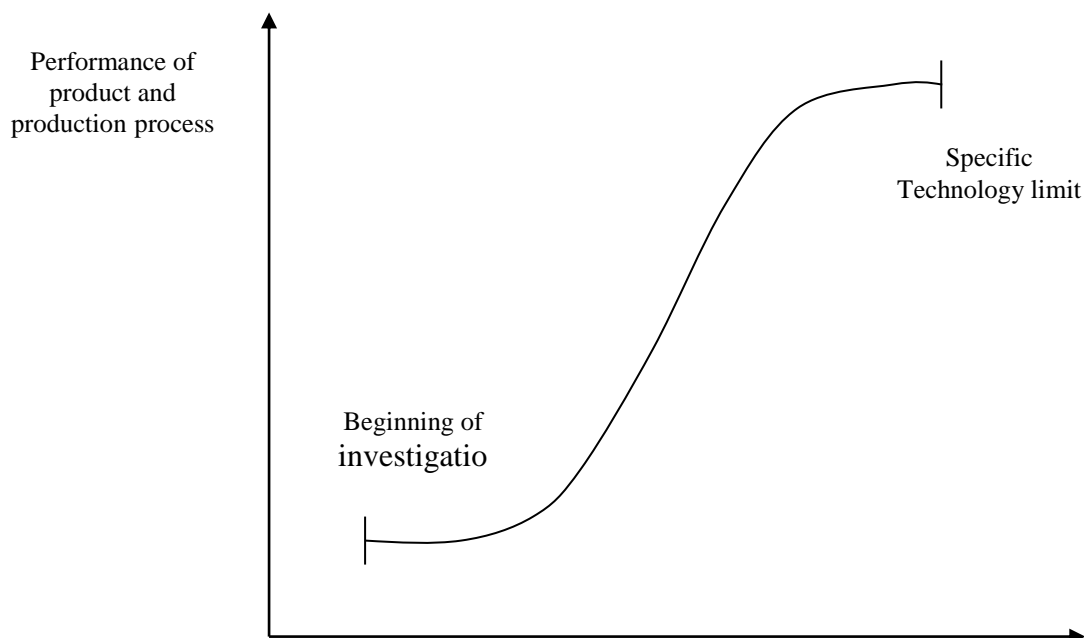


Figure no. 2. Technological Curve S

Source: Adaption after (Rue; Holland, 1986)

We can notice (Figure no.2) that the curve becomes ascendant as the time invested gets a significant growth. In the end, an inflexion (curving) moment is being reached; it is the moment when performance limits of technology are reached, leading to the introduction of a new technology.

In some cases an invention may be a more efficient solution than expansion or adoption of an already existing product. In this sense, a famous innovative case is that of fuzzy programmes used by the Japanese firms. The competition between firms has led to technological “revolution”. The outstanding development of technique and technology has laid the basis of a certain type of protection both competition and “real”, having in view the environment protection, consumers’ health and safety. In this sense, big transnational corporations had to create the global standards for environment protection to avoid certain obstacles caused by the regulations existing in the field in some countries.

A strong influence of globalization has been felt on financial markets which have a global dimension; the displacement of assets from one area to another determined the occurrence of some phenomena of economic and political crisis. To fight against these phenomena, governs have to regulate the development conditions of global financial market.

The analysis of the internalization process within the general strategy of an enterprise holds a significant interest as well. Globalization means expansion of firm businesses on other markets where the level of demand is higher than that of offer. In this sense, firms have to adopt their manufacture conditions to those existing at local level, to enlarge their range of goods and services and adapt to the managerial culture of local enterprises. Carrying on activities abroad provides the firms with new perspectives of capitalization of their own resources.

3. CONCLUSIONS

As we have shown throughout the paper, the globalization of the economy has brought about benefits to the countries which took advantage of, by identifying new export markets and attracting foreign investments.

The impact of the globalization process is also interesting. So if for millions of people globalization has generated higher living conditions, for other millions globalization has not brought about the desired result, leading to fewer jobs, a more unsecure living, eroded cultures.

Complexity and extraordinary inferences of the process of globalization bring into discussion numerous and difficult issues making the globalization science find answers to a multitude of aspects, including unforeseeable factors.

The process of globalization has been considered as a long term approach of big contemporary issues, determined by the interaction between economic, social, political, cultural, technical and ecological processes and phenomena.

The main reasons that make enterprises expand their activity at global level refer to:

- creation of a framework favorable to enterprises' development by increase in sales, profit and market share (taking into consideration that the expansion of firm activities is made by their access on some external markets);
- capitalization of competition advantage of firms (for example by carrying on export activities, the life cycle of firm products can be extended, these ones getting a new life cycle abroad);
- removal of competition by getting on the competitors' market;

Therefore, we can state that globalization has advantages due to the capitalization of synergy effects and especially of economy by:

- multinational firm managers' focus on the most important activities ;
- movement outside the firm of less important activities from the point of view of firm's competitive advantage, thus obtaining an optimization environment of firm's activities in conditions of economic efficiency.

The changes have put their imprint also on the management of the Romanian enterprises which have to act in order to:

- provide firm's competitiveness in the European and world context characterized by reorganization;
- develop a firm culture favorable to the change and streamline of activities, by changing the mentality towards change;
- provide the employees with satisfaction for their work and increase the firm's prestige by increasing the quality and sourcing.

Global sourcing is the strategy which contributes to the achievement of long term potential profits leading to the maintenance and growth of firm competitiveness. The starting point in establishing this strategy is the perspective of long term objectives, while the strong point is supported by the organization of all activities to ensure sourcing channels, establish relationships with suppliers, exchange of information buyer-supplier, to provide quality in sourcing. Global sourcing comprises both correlation of research-development, production and marketing activities at global scale and the establishing of the logistic processes regarding the way in which the firm runs its sourcing process.

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