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Professional paper

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THE IMPACT OF GLOBALIZATION ON THE BUSINESS

Abstract

The modern liberal, capitalistic and economic actions become a conglomerate of factors and reasons, analyses, information, media, skills and predispositions influencing the business. The participation on the world's global markets, the internationalization and the transfer of the business activities on all geographic meridians, encountering different and often uncertain environments has been a constant business story of the international economic activity for at least three centuries. The global economic interaction is as old as society in its more or less organized form. From the industrial revolution until today, there is an ongoing irreversible global economic integration. The reasons are simple, business and profits do not recognize borders, national and cultural unsurpassed characteristics, where more or less a mutual benefit of certain cooperation is recognized, and a business connection is immediately established. Making a decision for investment on a foreign location is a process of extensive analysis, thorough and profound long-term thinking and scanning of the institutional and legal frameworks, which should be provided in advance, and to some extent, guaranteed predictability, in terms of responsiveness to certain dilemmas, how much to be invested, where to direct the capital, what will the economic benefit be and the ability to anticipate the given risks in advance,.

Keywords: internationalization, global markets, economic integration

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Introduction

The global changes in the world, the changes in the political, economic and business activities as well as the development of technology, transport and communications, impose the need for enterprises to change their strategies in their struggle for survival and leave the borders of their own country. The limited market, the competitive pressure, the demand for cheaper resources and the dynamics of the postmodern era force business leaders to change their focus from traditional targets to alternative measures for successful business and enter the global markets with the aim of creating competitive advantage.

Major investments do not tolerate improvisations because the capital and the assets are acquired at the cost of big efforts and hard work, and they must not turn into big losses. Business entities, by definition, always act rationally. First, when choosing a certain environment, they do a detailed scanning of the situation, the political and social dependence of the environment, the cultural identification of the social environment, the geographical position of the targeted environment, the possibility for easier access to existing resources and technologies, the labor force that is compatible with the needs for efficient operations as well as the good infrastructural network of the location, because the goods, the products and the services require mobility, quick transfer and availability at every moment, on every market, in general, anywhere and as fast as possible where there is necessity and need.

1. International business and the global market

International business is a term used to describe all commercial transactions, in general, (private and governmental, sales, investments, logistics and transport) which occur between two or more regions, countries and nations beyond their political borders (Radebaugh & Sullivan, 2007). International business refers to those business activities which include cross-border transactions of goods, services or resources between two or more nations. Transactions of economic resources include capital, skills, people for international production of physical goods or services, such as finance, banking, insurance, construction (Joshi, 2009). According to Rugman and Collinson, international

business analyzes transactions that take place across national borders in order to meet the needs of individuals and organizations. These economic transactions consist of trade (imports and exports) and foreign direct investment (Rugman, Collinson, & Hodgetts, 2006). According to Ball, international business is a business with activities carried out beyond the borders of its country and they do not only include international trade and international production, but also growing service trade in areas such as transport, tourism, advertising, construction, retail and mass communication (Ball, McCulloch Jr., Frantz, Geringer, & Minor, 2002).

The companies that are active in international business are called multinational enterprises. Multinational enterprises are enterprises or corporations that own substantial resources and perform various business activities through a network of branches located in different countries; each branch forms its business strategy based on the different market characteristics (Cavusgil, Knight, & Riesenberger, 2008). Multinational companies are based in one country but have business activities in several countries. There are opinions that multinational companies are structured and conduct business or have property in many countries or companies organized in global production parts.

Ansoff separates the reasons why a company becomes multinational into two categories (Ansoff, 1984):

- Operational needs: providing materials, equipment, technology and release of surplus production;
- Strategic needs: ensuring the inviolability of future changes in the external environment, steady growth (maintaining historic patterns of growth, avoiding stagnation caused by saturation, increasing the volume of business, increasing the rate of growth) and better profitability.

2. Globalization of business

The development of international business activities coincided with the widespread phenomenon of globalization of markets (Cavusgil, Knight, & Riesenberger, 2008). The globalization of markets refers to the growing economic integration and the growing interdependence of countries worldwide. Internationalization of the companies refers to the tendency of the companies to systematically increase the international scope of their business activities, while globalization refers to a

macrotrend, intensive economic relations between the countries in the world. Globalization encourages companies to internationalize and to substantially increase of the volume and types of cross-border transactions of goods, services and capital. Also, the globalization leads to a rapid dissemination and diffusion of products, technology and knowledge in the world, regardless of the origin.

The process of globalization is a natural process that is a result of the growing and accelerated process of generalizing of the character and process of production. The development of science, engineering and technology and the expansion of markets for goods worldwide lead to internationalization of economic and financial developments. If globalization is understood as a process that leads to greater economic integration of national economies, as a process of fragmentation of the world economy and the international economy, than the globalization is a process of opening of national economies through the removal of economic and financial boundaries of national economies and thus their transformation into an international economic and financial market (Jovanovski, 2007).

Globalization is a worldwide trend, through which economies in the world lose their borders and connect to each other. The companies are no longer imprisoned in their borders and can implement a wide range of business activities around the world. Many companies are present in markets around the world, purchase raw products or conduct research and development worldwide. Trade barriers fall and global trade between countries in goods and services is growing faster than domestic production. As a result of this, companies cannot afford the luxury to assume that the success of the domestic market will lead to long-term profitability (Cullen & Parboteeah, 2010). The flow of money across national borders is free; companies seek better financing rates in the world and investors everywhere are looking for a more favorable return on investment.

The globalization from economic aspect has two main components: the globalization of markets and globalization of production. The ***globalization of markets*** refers to the merging of historically different and separate national markets into one big global market. In recent years, it is constantly discussed that tastes and preferences of consumers in different countries and nations begin to resemble at the global level and in the way they help in creating a global market. The companies that offer standardized products worldwide help

in the creation of a global market. The most common global markets are not the markets for mass consumer products, because there are still differences between countries in terms of tastes and preferences, which still have great meaning and are a sort of a brake on globalization, but these are the markets for industrial goods and materials that have universal needs in the world. The ***globalization of production*** refers to the tendency of the companies to find suppliers of goods and services from locations around the world in order to realize the advantage of national differences in price and quality of the factors of production. Companies do this in order to reduce the overall costs and thereby improve the quality or functionality of their product, thus offering to compete more effectively (Hill, 2008).

The process of globalization, the fight for survival, the constant pressure and the need to preserve and strengthen the market position force the companies to be willing to constantly innovate and explore opportunities for achieving competitive advantage and expanding business activities outside the domestic market.

3. Factors for globalization

Entrance of the companies in the global market becomes inevitable not only because of limitation of the domestic market but also because of the globalization; the domestic market share is under threat from foreign competition (Bartels, Buckley, & Mariano, 2009). There are several specific factors that promote globalization and guide enterprises to strive for business development and growth through the international and global operations and include: political changes, development of technology, international business climate, market development, expenses and competition (Ball, McCulloch, Geringer, Minor, & McNett, 2001).

• **Political changes**. The globalization trend of unifying and socializing the global community as well as forming preferential trade agreements and unions, such as NAFTA and the European Union, which unite more nations in a single market, allow the companies significant market opportunities. Two aspects of this trend, which contribute to the globalization of business operations, are:

⇒ Progressive reduction of barriers for trade and foreign investment by most governments, which leads to intense opening of new markets by international companies,

⇒ The privatization of most of the industries in the former communist countries, as well as opening of their economies to the global competition.

• **Development of technology**. The development of computing and communication technologies has enabled increased flow of ideas and information across the borders of the countries, providing introduction of consumers to the goods worldwide. The Internet and networking have enabled smaller companies to compete globally as a result of the rapid flow of information, regardless of the physical location of the seller or buyer. Also, they allow international companies to hold corporate meetings among managers from different headquarters and branches online without wasting unnecessary time for travel.

• **International business climate**. The development of communication and information technologies have contributed to the process of globalization, but also provided instruments which facilitated the processes of globalization. Newly emerging markets also recognize the economic benefits, technological development and growth opportunities that globalization provides.

• **Development of markets**. Information and communication technologies, rapid development of international tourism, widespread cultural exchange and improved living standards in many developing countries have contributed to the emergence of a group of consumers in different countries and regions of the world with similar educational profiles, lifestyle, purchasing power, as well as aspirations for high quality products. This scenario in combination with the liberalization of international trade and the availability of global distribution channels opens great opportunities for companies that want to offer their products on global markets. Large market potential exists outside of the domestic market, and it is the reason why companies go out on foreign markets, generate sales and have opportunities for profit that cannot be achieved at home.

• **Expenses**. The liberalization of trade and investment flows that emerged in the 80s of the last century, was a great motivation for globalization of businesses. Trade liberalization, global consumer habits, increasing development costs and the need for economies of scale,

pressure from foreign competitors on the domestic markets as well as the development of information and communication technologies, are considered to be the drivers of globalization. Because of the need to introduce new products and investments in research, development and innovation, achieve economies of scale, reduce costs and access cheaper raw materials; companies are forced to plan activities by taking into consideration the global market. Economies of scale and cost reduction are the main goal of every company's management. That is why companies decide to locate production in countries where the costs of developing and producing are smaller.

• **Competition**. One of the reasons why companies adopt global strategies is the need of maintaining or gaining a competitive advantage on foreign markets and avoiding competition in the domestic market. Competition in international markets is huge and growing, with more multinational competitors who win markets worldwide. The companies improve their competitive position by opposing competitors on international markets, or preventing premature intrusion by competitors into the domestic market.

As globalization increases the speed and progresses rapidly, there are more opportunities for the companies to participate on the international markets. The managers develop and adapt strategies for internationalization in order to transform their organizations into globally competitive enterprises. Managers seek to coordinate the supply, production, marketing and other activities based on international activities. The organization of the company globally is a challenge and requires strategic positioning, organizational skills, a high degree of coordination and integration, attention to the needs of the individual markets and the implementation of common processes.

The strategy, in an international context, is the plan of an organization on positive positioning in regard to its competitors. This plan leads the company to selected customers, markets, products and services on the global markets, not just on a particular international market. The strategy in an international context should help managers to formulate a strong international vision, allocation of resources, participation on the major markets, implementation of global partnerships and involvement in competitive activities opposing global rivals and establishment of activities that add additional value on a global level (Cavusgil, Yeniyurt, & Townsend, 2004).

When companies compete outside their country, they face a number of challenges and pressures. These pressures and challenges to maintain competitiveness require from the companies to cut costs so that consumers do not evaluate their products or services as too expensive. This leads to the need to locate production facilities in places where production costs are lower. Regarding the pressure to reduce costs, managers must strive to be ready to respond to local pressures to adapt products to local market requirements where a company is active. This requires differentiation of their offer and strategies in different countries in order to preserve the tastes and preferences of consumers, but also the differentiation of distribution channels, management of human resources, and government regulations. Because the strategies and tactics for differentiation of products and services on local markets create additional costs, they can also lead to increased costs for the company. These two pressures that enterprises face result in four basic strategies that the companies use to compete on the global market. These strategies are: international, global, multi-domestic and transnational strategy (Dess, Lumpkin, & Taylor, 2004). The strategy that will be chosen by the company depends on the pressure faced by cost-cutting and the importance of adapting to local markets.

Conclusion

Today, the word international company is quite a common phenomenon, which reflects actual business transactions and large expenses between a number of people from different cultures with different approaches. What unites them in the complex network of relationships is the need of development, rapid exchange of resources and tools and integrated cooperation, which should contribute to ensure cooperation and transfer of capital.

It can be concluded that today's decisions for crossing domestic borders and internationalization of the business is essential for serious growth and development of a business entity. To make a decision to invest outside the borders is a complex and comprehensive process. This process is achieved through several stages and approaches that contain a long-term comprehensive analysis as well as through scanning the newly elected investment location. Because every business investment represents economic-political and social interaction, during the decision

making process great attention should be paid on choosing stable political system, with tradition of trade market, functional institutions, good legal system, all of which would be a guarantee against unstable environment and potential risks in the country.

To summarize, the decision making process is time consuming because the analysis of all the factors and potential risks of certain market takes time and resources, but it is necessary for making a good decision and return of the investment.

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