

## **International Business Strategy**

### **Week 13**

## **Globalization versus Glocalization**

### **Introduction**

In lecture 12, we looked at the current trends in international business, their impact on competitive advantage, and possible strategies to swim in such a highly dynamic environment. In this last lecture, we will look at two opposing phenomena being witnessed at the same time: globalization and glocalization.

### **Learning Outcomes**

1. Differentiate globalization from glocalization
2. Participate in the debate about globalization and glocalization

### **Globalization**

The concept represents the falling trade barriers resulting to growth of world trade. Money (capital), people, and goods are now flowing more freely across national borders than before, and investors are now having wider choice of where to invest as the options span the whole globe. The result of this is the fact that the world's economies are borderless and more interlinked than ever before. In this section we will look at the drivers, benefits and counter arguments of globalization.

### **Drivers of Globalization**

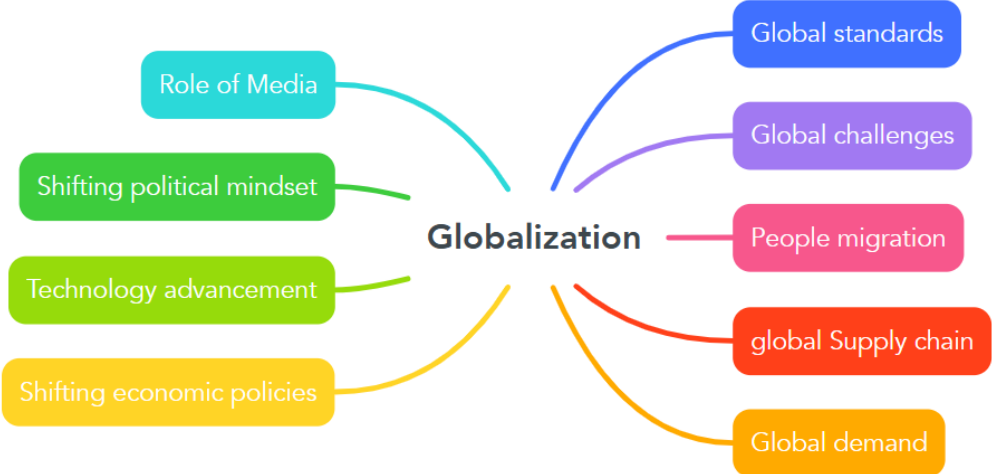
The factors behind globalization are many as shown in **Figure 1** and can be categorized into the following headings;

#### **1. Economic Policies**

Over the years we have seen enactment of policies that are friendly to international trade be it at treaties level or regional blocs. The heightened economic integration by different

countries has helped to improve trade between partners. Developed countries and even emerging markets have been deliberate in coming up with legal framework that are meant to encourage inflow of foreign direct investment. The World Trade Organization and other agencies have successfully been able to reduce trade barriers through negotiation to eliminate or reduce such things as quotas and tariffs. The trade pact between Africa and the US was enacted in 2000 and has helped to bolster economic growth in 38 countries that are party to this.

**Figure 1: Globalization Drivers**



**2. Technology Advancement**

Growth in use and penetration of Internet and mobile technology has had serious impact in reducing cost of doing business, communication, and information exchange. Equally, transportation has benefited from technological advancement, it is now cheaper and faster to move goods from one corner of the globe to the other.

**3. Shifting Political Perspective**

We have seen a shift from the traditional mindset where rulers were against economic liberation. Today, even those countries that were pursuing socialist and communist

economies have all turned into capitalism and have opened their economies to the outside world. Cuba is one such economies. This shift has boosted international trade.

#### **4. Growth of the role of media**

With the advent of the internet, social media and television people from across the globe have been able to share their culture without having to move from their country. This has allowed cultural exchange and understanding of other cultures, so we have a global culture. Growth of such network as Netflix, Sports like English premier league, world cup, and music are all contributing to unite us into a global culture. For instance, you are likely to find a supporter of Manchester United or any other team from different corners of the world.

#### **5. Demand driver**

With the growth of global culture, there is growing global consumer demanding similar products and services regardless of their cultural differences. The taste and preferences of these consumers are converging and pushing businesses to develop global products.

#### **6. Global supply chain**

As business seek optimization and efficiency, they are finding themselves increasingly source materials from outside their home country. This is due to the availability of cheaper alternative sourcing coupled with cheaper transportation.

#### **7. Migration**

People's movement across borders for such reasons as education, work, tourism as well as refuge is high. As people move firms have found it fit to follow them as their customers. This movement has also helped to blend cultures.

#### **8. Global challenges**

Whenever there is a pandemic or disaster of great magnitude, it somewhat ends up uniting different nations. The US 9/11 terrorist attack, and COVID-19 pandemic united economies as they sort solutions to the problem at hand. These events saw countries put aside their differences and work together.

## **9. Global standards**

We have also witnessed the rise of global standards for quality and production and even in different sectors. The International Organization for Standards (ISO) is a testament to this. In sectors like Airline, they have standards like The International Air Transport Association (IATA). Accountants have their version- International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and General Accepted Accounting Principles.

### **Benefits of Globalization**

The opening up of economies and the resulting increased international trade is probably with more benefits than demerits. The benefits illustrate how globalization can contribute to economic prosperity, cultural enrichment, and improved quality of life on a global scale. In this section we explore some of the benefits resulting from globalization phenomenon.

#### ***Lower Prices***

- Due to heightened competition and wider array of choices that consumers and firms can choose from there is tendency to have price come down or remain competitive.

#### ***Higher quality***

- Because the options are enhanced and beyond the national boundaries, firms are left with no choice but to improve their product quality as they are not the only producer of a commodity.

#### ***Access to raw materials***

- Firms are now able to access raw materials that would have been difficult to get before economies opened or would have been expensive to do so.

#### ***Labor mobility and job creation***

- Because now firms can source or produce from anywhere in the world, this has seen people move to where there is work and the creation of jobs in economies where there are other factors of production.

### ***Economic development and growth***

- This is especially being witnessed by emerging markets and developing countries who for a long time have been sidelined from international trade. With globalization, they are becoming serious players in trade and their economies are becoming vibrant.

### ***Technology access***

- Globalization allows firms and people from least developed economies access advanced technologies improving their production and efficiency.

### ***Widened consumer choice***

- Through goods mobility consumers are accorded a wider choice as they can source from anywhere on the globe through possibilities created via electronic commerce.

### ***Cultural exchange***

- Globalization has allowed different cultures to interact and learn from each other. This enriches our cultures and allows cultural diversity in our firms.

### ***Poverty reduction***

- As least developed countries take part in international trade and their economies improve, living standards of their inhabitants are improved in the process.

### ***Global peace***

- Through trade peace is perpetuated. Trade partners are unlikely to enter war as this will hurt their businesses where they all have vested interests.

### ***Enhanced connectivity and communication***

- Globalization and the need to do so has increased connectivity and communication of humanity as well as that of businesses.

## **Counter- argument for globalization**

While it is evident that there are various ways in which we benefit from globalization, it is not without some worrisome effects. Here are some arguments that can be put against this phenomenon.

### ***Economic inequality***

Globalization is criticized for the continued widening of economic gaps between the poor and rich countries. Critics say that in the wealthier countries and individual will continue to grow rich while the poor will continue being poor. At the same time the relocation of production facilities to countries where labor is cheaper is criticized for job replacement and causing unemployment in some countries.

### ***Environmental degradation***

As population grows and demand increases, production must match this. The result is over production and exploitation of our natural resources without limits, and this can be connected to deforestation and climate change we are witnessing today.

### ***Intellectual property issues***

Global trade has been connected to the increased theft of intellectual property rights. Since there are global consumers, it is becoming attractive to infringe on property rights. Companies such as Microsoft have been losing a lot of money due to piracy of its software across developing countries.

### ***Local industries victimization***

Whenever economies open, it is possible that local small industries may not have financial muscles to wade or compete with big multinationals. Without government interventions such firms may have to fold, local suppliers and populations working in those firms will be affected negatively.

### ***Health risk***

Globalization aspects such as international travel have been blamed for making the spread of diseases possible and faster. This can be exemplified by how COVID managed to spread across all countries from China.

### ***Financial risk***

Due to the interconnectedness of economies due to trade ties any financial shock in one country is likely to be felt in the other trade partners.

### ***National sovereignty loss***

Largely, in a country where multinationals are controlling the market, the possibility of them extending the wish of their home government cannot be ruled out. This is possible due to dependencies that develop.

### ***Labor exploitation***

There is always concern that the pressure to reduce costs tends to push firms to outsource or source labor and raw materials from countries where people are paid very low wages and poor working conditions and at times without adhering to human rights. If you recall we had examples of multinationals that had to deal with the backlash that may emanate from such accusations, Nike, Gucci and H&M have all at one point found themselves here.

### ***Loss of culture heritage***

As people travel and migrate, as media allow culture sharing and interaction, as goods permeate through national boundaries, cultural heritage of some countries are at risk. Some governments are concerned about this and as a result they may be apprehensive for foreigners to invest in some sector or industries.

The arguments therein present the challenges and complexities associated with globalization that proponents and government must be ready to address.

## **Glocalization**

This is a term that combines both *globalization* and *localization*. It emphasizes the need for a balance between globalization efficiency and local responsiveness enabling firms to thrive in a very volatile and competitive environment. The concept underpins the fact that while it is important for business to have global reach, its success may as well be determined by how well it is able to adapt to the needs of local markets. It blends both the global and local strategies. In this section we briefly look at some factors that are behind this move;

### **1. Cultural sensitivity**

The need to deliver products or services that resonate with the cultural specificity is driving firms to adopt their global products. Recall McDonald adopting their burger to have chicken burger when they ventured into the Indian market, that is an example of the need to be sensitive to the cultural differences.

### **2. Regulatory differences**

At times countries may have peculiar requirements, and this may force multinationals to adapt their products to align with the legal requirements. Access to such markets may be denied if the regulations are not met.

### **3. Data analytics**

The advancement in this field can now enable a firm to gather and analyze vast information and draw insights that will enable them to localize their product without much cost implications

### **4. Competitive Edge**

Firms are also trying to differentiate themselves from the pack by localizing their products or services. Unilever gained acceptance in different markets because they can resonate with the locals.

### **5. Agile supply chain**

In the advent of COVID-19 pandemic, firms have entertained the thought of having local sourcing of raw materials if production is to be sustainable in the event of such global pandemic.

## **Topic Recap**

In this topic we have looked at the concept of globalization and how this differs from glocalization. We have looked at both sides of globalization by identifying its benefits and counter arguments. We have concluded by pointing out some of the drivers of glocalization.