

# GLOBALISATION – ADVANTAGES AND DISADVANTAGES FROM THE PERSPECTIVE OF THE MANUFACTURER\*

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**Abstract:** *Years ago, at the beginning of the nuclear age, Einstein asserted that the atomic bomb would completely change the world. Currently, the same can be said about globalization. Globalization, the phenomenon which especially affects economy and life, is now one of the most debated topics in history: lectures, articles, books. Worldwide specialists in economics, politics, and sociology have analyzed in thousands of pages the phenomenon of globalization, its forms, evolution, impact and trends, but the views are so diverse and contradictory that it still is not reached even a universally accepted definition. Perhaps it is the so controversial topic that makes him so attractive. If some persons believe that the phenomenon of globalization ends before reaching its peak, others consider that the current situation is just the beginning of an era in which there are no boundaries.*

**Keywords:** advantages of globalization, disadvantages of globalization

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## INTRODUCTION

The size of the companies has become a key parameter, especially in the global economy. The size of global companies is closely correlated with the decrease of vulnerabilities, with the high resistance to economic shocks occurred along the time and with their bigger chances of success on certain markets. The companies aim not only to optimize their size but also to strengthen the global production networks, affording them a better competitive position, in a mighty competitive environment and under the pressure of rapid development of the technological environment. The size of a company has become a barrier that stops its entry into the sector, higher than profitability, which explains why some corporations have focused, in recent times, more on strengthening their position abroad, although their economic performance does not justify this endeavour.

The process of economic globalization is both a resultant of the increasing activity of multinational companies and a cause of their increasingly stronger international affirmation. Although global companies' activity is much more intense in the developed countries, their impact

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on the developing countries must not be neglected. Amid the diversification and globalization of production, the added value of activities carried out abroad has grown rapidly higher than the domestic market.

In an editorial in the British magazine „The Economist” on January 27<sup>th</sup>, 2000, it was stated that multinational firms, one of the most representative contemporary factors of economic progress, „spread the wealth, work, advanced technologies and contribute to raising the standard of living and to the improvement of the business environment ...being the most visible side of globalization” (The Economist, 2000).

Although there is still no universally accepted definition for international companies, some are used and accepted globally. Among them, the definition given by C.A. Michalet who considers the multinational corporation as „an enterprise (or group of enterprises) of large size, which has started from a national basis, deploying several subsidiaries in different countries by adopting a global strategy and organization structure” (1985, p. 11).

Regardless of how they are defined, global companies have a few main features that individualize them from all other forms of organisation known so far:

- Global Companies are global economic and financial operators;
- Global Companies operate in a mighty competitive environment;
- The strategies applied by them must be comprehensive and global; the companies must integrate their activity in the multitude of connections between countries, which involves, besides the transfer of assets also the transfer of skills;
- The company should think globally, but act locally;
- Global Companies redistribute worldwide the factors of production; the world's large corporations must obtain advantages in production, marketing and research through the combination of production factors at planetary scale;
- Global companies manifest a strategic interdependence, i.e. multinational firms react at the same time to protect their oligopolistic positions; thus, for the desire to reduce production costs and risks, the large corporations have done international strategic partnerships\*, especially in the field of technology. The first industries affected by this initiative have been the automotive and pharmaceutical industry, followed then by the computers and software, which is why these areas have the most powerful oligopolies. These collaborations are aimed at reducing production costs,

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\*For example, General Motors participates in 105 mixed research companies, Ford in 33, Chrysler in 21, and Ford together with Chrysler are both involved in 19 such companies. IBM is a partner in 69 mixed research companies, DEC in 32, HP in 26.

increasing the flexibility in the assimilation of new generations of products while lowering their life cycle, maintaining their market positions and even using the products brand name to conquer new market segments.

Since 1990, when the index of transnationality started to be used, and up to 1999, it has grown, on average, from 51% to 55%, in particular due to the internationalization of the assets.

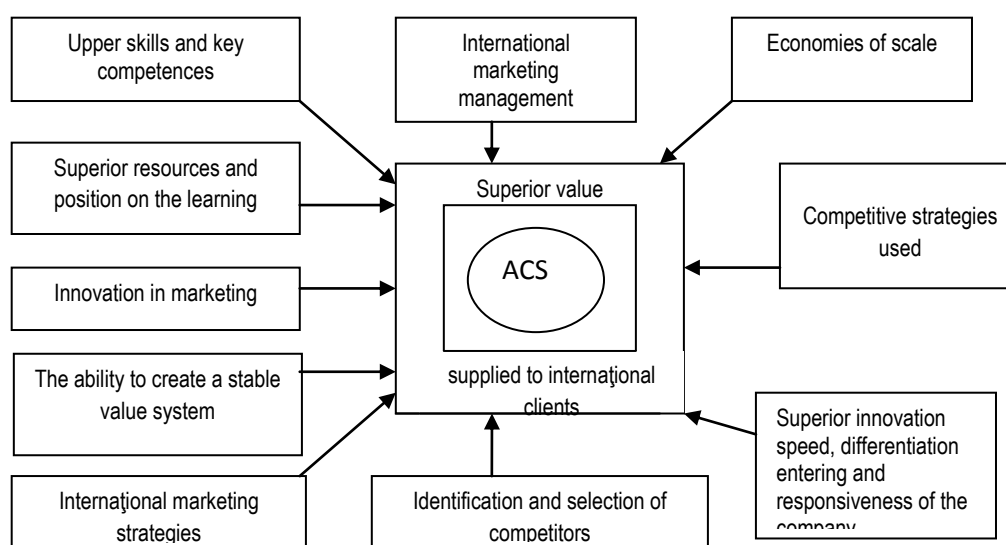
Recent data on the activity of multinational corporations demonstrate the tendency to concentrate the business in the sectors which show the greatest comparative advantages and towards the markets with high potential of demand, boosted by a greater degree of liberalization and openness or those involving a high level of research. The most advantaged are the multinational companies in the field of telecommunications and oil industry.

Strategic competitive advantage (ACS) in international marketing involves the firm to be able to provide to its target market clients long-term value superior to that offered by competitors.

ACS sources are different, according to the concept of multiple specialists. Thus, Bradley (1995, p. 300) includes price, services, speed of delivery, trademarks owned and market responsiveness among ACS sources, Thompson and Strickland (1995, p. 115) consider as ACS sources the following: - the best product, superior service, lower costs, own technology, less time for creating and testing new products, brand and reputation, more value provided to purchasers, and Jobber (1998, p. 501) considers as main ACS sources the superior qualities of employees, firm resources and value chain.

Danciu (2004, p. 33) proposes the ACS GAP, systematized in the following scheme:

**Figure 1 - ACS GAP**



Source: Danciu, V. (2004) *Competitive Strategic Marketing. An international approach*

Compared to traditional marketing, global marketing involves fulfilment of additional conditions (Danciu, 2005, p. 25):

- International marketing requires professionals with a vision that goes beyond the one developed on the domestic market. We need both a global managerial vision and employees with an attitude favourable to wide actions. Managers and marketing specialists must be innovative, open to new, assimilating new knowledge and inedited solutions and versatile enough to successfully solve problems that occur in macro environment conditions or in a variable and dynamic market;

- Marketers must have the ability to seize the differences and similarities between markets and groups of markets, between segments of customers. The ability to identify markets common elements and differences enables managers and executive staff to be more flexible, to standardize or globalize different components of marketing, when necessary. Both standardization and adjustments must meet the conditions existing on the target markets, starting with the segments of the market, choosing target markets, strategies and forms of entering and positioning on such markets, continuing with the marketing development plans and organizational structures, and ending with operative programs which include marketing mix.

- Developing global marketing processes and programs requires special knowledge and information. It is essential to identify, locate and access international information sources; the rules of international comparability must be learned and it is critical the powerful, careful and competent selection of the information to be used.

- Global Marketing requires obtaining a synergistically effect, through the use of intelligent and coordinated specific factors.

- International business environment includes all the forces and actors, all factors, agents from the country of origin and on the foreign markets, other than marketing, which affects its ability to achieve its objective of international marketing. The international environment has the following features:

- *Complexity*. The international environment is composed of various forces, actors and agents which manifest in forms and intensities that are fundamentally different. Factors such as cultural, social, economic, political, legal, environmental, technological make their presence felt, whenever a company addresses a new market;

- *Diversity*. Between the components of the international environment, there are numerous and important differences. Differences in terms of development, number and a real concentration

of population, consumption or religious habits appear at the level of a single country or continent, region;

– *Interdependence*. The independent nature is the result of connections established among various components of environmental structure, mutual influences and conditioning. The economic situation in a developed country influences not only the domestic currency and foreign investment, but also the currencies, foreign trade situation of the countries which it works with;

– *Dynamism*. The international environment is in constant change both as a whole and a ratio between its components.

Another dilemma that global producers have is whether to be a global brand – a single name, symbol and slogan, with joint ventures all over the world – or a name should be adapted and used in various versions in different countries

Leaders in management, such as Theodore Levitt from Harvard and Kenichi Ohmae from McKinsey, Japan have argued in favour of some products and global marketing efforts. They have noted that the tastes and lifestyles are becoming more homogeneous across the world, partly due to television, travel, but also due to the spread of people with money. Accordingly, an efficient and attractive product in an area will be most likely effective in other areas, too. Furthermore, all the areas want and ask for the best quality and most advanced attributes (Aaker, 2005).

An argument in favour of a global product is that you can make savings on a large scale; in the process of production and design, some economies of scale do not depend on the existence of a global brand. However, you can make substantial savings on a large scale in the field of advertising, promotions, packaging and other aspects of the brand which will be affected by a policy of firm in favour of global branding. Brand development costs could be spread over a larger market. Another aspect is that smaller markets will have access to achievements involving larger budgets.

A global brand can benefit hugely from gaining recognition when buyers travel abroad. The presence of advertising and distribution may have an impact on the visitors in that country. Another issue involves the media coverage, which does not take account of borders anymore. In this case, a global brand can buy time for exposure in a more efficient way.

A global brand may have some useful colligations. Just the concept of globalization can provide the ability to generate competitive products along with the quality of remaining strong and stable. Such an image can be particularly important for high-priced industrial products or for durable products, where there is a risk that a product is not reliable or be overtaken technologically by competition.

In the case of a brand which is famous in a country, its global name provides a colligation with that country. Such colligation is part of the essence of the brand; for example, *Levi's* means jeans in USA, *Channel* means French perfume, *Dewar* means Scottish whiskey. In such a context, a global brand will tend to worth the effort\*.

Even if the name is not famous on the market, its constraints along with its symbols and colligations are very high in all countries. Most of the names can have negative colligations or may be someone's property in some countries.

A local brand can benefit from some distinct colligations, which can be useful - even essential. Is there any tendency to buy local products? Are there any other favourable feelings towards traditions or the specific of areas that can be integrated in the strategy of positioning the brand? Does the global brand have negative colligations locally due to its undesirable meaning in some countries? A global colligation might not be suitable for certain countries due to the competitiveness.

On the local markets, marketing departments could generate better ideas than global efforts, which are made with large budgets. In addition, ten different ideas from ten countries are more likely to end in something of quality than a single “global” idea, even if the global idea has been created with a big budget and with the best people.

**Table 1 – Global Brands versus Local Brands**

<b>Global Brands provide:</b>	<b>Local Brands provide:</b>
<ul style="list-style-type: none"> <li>• Scale savings in advertising development, packing, promotion</li> <li>• Exploiting global presence in media and exposure to buyers who travel</li> <li>• Colligations with a global presence and a mother country</li> </ul>	<ul style="list-style-type: none"> <li>• Names, symbols, and colligations that can be developed locally and tailored for the local market and selected without the constraints of a global brand</li> <li>• Reducing risks through colligations with the feeling „Let's buy local products”</li> </ul>

A common and frequent mistake is to consider globalization as a proposal of the kind: “all or nothing”. In fact, globalization may involve some elements of the brand - name, symbol, slogan, perceived quality or colligations, but it is not necessary to involve all.

\*Aaker, David – Capital management of a brand. How to value a brand name. Brandbuilders Grup, Bucharest, 2005

## 1. ADVANTAGES OF GLOBALIZATION FOR THE MANUFACTURER

For the manufacturer, globalization can mean an opportunity to take advantage of scale, to exploit synergistic benefits, to benefit from geographical advantages and from the advantages of own market power.

According to the theory of the scale economy, the average cost per unit decreases as the amount of goods or services provided increases. Expansion abroad and growth of the business are the main strengths to getting benefits of scale, thus achieving significant cost reduction for the unit cost of production, sales system costs (sales, marketing), and supply costs incurred. In this way, there is an intensification of the process of exploiting the results of the research and development activity while innovations are promoted. One can say that new possibilities for reducing prices are available, by means of which the company maintains its competitiveness.

Reduction of the costs can be analyzed using the experience curve. The experience curve reveals decreasing of unit costs along with increasing of output.

The range economy involves reducing the unit cost due to the sale of a wide range of products. The advantages are mainly recorded along the logistic chain. In case of extending the range of products one should avoid the negative phenomenon of lower level of quality. Use of the advantage of range appears especially in the case of new conquered markets or in the case production is diversified, when the global company takes advantage of its experience in other markets or for other products. These synergistic effects may also occur due to the relationships with customers, suppliers or foreign technology partners.

The differences caused by the specifics of each region can be profitably used by employing cheaper or better outside factors of production, through movement of production abroad or through imports, representing a third category of benefits arising from globalization.

The globalization of markets accounts for a strong market positioning. Thus, by means of investment or through strategic alliances undertakings may remove certain current or potential competitors. Large corporations have the opportunity to amend the purchase prices, improve the supply conditions or even to monitor international technologies.

Globalization provides advantages to multinational corporations, which includes in their own network the international system of production. These organizations seek to maximize the opportunities offered by the existence of certain factors of production which can be advantageously exploited in different countries. Due to their potential they have a high degree of flexibility, which allows easy modification or change of strategies. In general, globalization gives transnational



corporations the opportunity to focus towards the most profitable activities, with a good development trend in the near future

Based on advantages, the thesis according to which globalisation and competitiveness are complementary is developed (Pricop and Tanțău, 2003, p. 23). This is due to the rapidity with which technological changes occur, given the sharp reduction in product life cycle and new orientations of leader organizations towards research and development, activity whose importance is growing. The new technologies are only the starting point of the innovative process, being rapidly disseminated within the multinational company and hence forth, around the world, contributing to increased economic performance in different countries.

As regards to supply, lower costs are the main tasks. According to several specialists, supplying would be the first link of a profit maker chain.

Competition between organizations has led to the technological revolution. The unprecedented development of technique and technology laid the foundations for a new kind of protection, both competitive and fair, taking into account the protection of the environment, the health and safety of consumers. The large transnational corporations have had to establish global standards for environmental protection in order to avoid certain obstacles imposed by regulatory requirements in some countries. These concerns tend to generalise to the world economy, with beneficial effect in particular on “environmental health”, as well as on development in general.

## **2. DISADVANTAGES/DRAWBACKS FOR THE MANUFACTURER**

Before taking a decision to launch the company on foreign market, a number of risks that may occur should be considered.

The lack of customer preferences on a particular market may lead to an uncompetitive and unattractive offer to them. Organizations must decide on the type of country on which to focus their attention, taking into account factors such as political stability, external debt, exchange rate stability, bureaucracy, corruption, customs duties and other tariff and non tariff barriers, copyright compliance and costs of adapting the material resources to the specific products of the market concerned.

Political stability is a prerequisite in promoting any foreign investment. One can still feel the negative effects of overturning of certain regimes which throughout history have led even to nationalization processes, lower possibilities of transferring profits in the country of origin of the multinational corporation.



A high level of external debt may require taking action to amend the process of tax and interest mechanism, with negative influences on flat profits operating in these markets. Fluctuations in currency exchange rates also have limited the commercial activity and corporate investment in foreign currencies.

Bureaucracy can be a barrier to global corporations through regulations with reference to foreign capital investment, namely ownership by a local partner of a firm's share capital participation, an important representation of local managers to its management, the need for a transfer of technology and know-how, imposing a quota of processing components locally to replace their imports.

Corruption is a phenomenon with negative implications on the development of global companies. Often, there are cases in which representatives of State Administration ask for money for certain services.

Removing tariff and non tariff barriers is a priority of European integration process to promote business. Customs duties are still used to protect domestic industry, which represent real barriers to expansion of multinational corporations. In the category of non-tariff barriers one may mention the customs import licenses or certificates that limit or delay the development of business.

The phenomenon of industrial piracy is a mass phenomenon, which is especially detrimental to the companies with expensive research and development activity. Global companies must ensure that their products will not be easily imitated and then promoted by low-cost competitors.

Adjusting its resources to foreign market conditions is another factor that should not be neglected. In certain areas the preferences are different from those encountered in the home country of the multinational corporation, and ignoring them can lead to adverse effects in the financial plan and image issues.

The biggest disadvantages of operating globally are as follows:

- Operating in different markets in terms of consumer behaviour, traditions, their expectations and attitude;
- Operating globally may bring a strong competition; in each market the global companies face both the global competitors (with the same financial strength and size) and the local competitors, enjoying the advantages provided by the legal rules of the country concerned, the loyalty of some nationalists consumers and the deep insight into the local psychology respectively;
- Higher expectations from the public: thus, global corporations need to show an interest in environmental protection, human rights, country regulations, a.s.o. Every mistake turns into a huge

scandal, well publicized, followed by boycotts, events and protest marches against them, which causes damage to corporate image and leads to sales decrease;

- Managing a corporation of millions of dollars and dozens of branches across the globe can be difficult in terms of central management; each error management costing millions of dollars.
- Reduced flexibility compared to smaller firms.

## CONCLUSIONS

Since future trends can only be estimated, the present shows that we are on track to achieve the so much spoken “Universal Passport”. Conscious or not, to a lesser or greater extent, we are all affected by globalization. Nowadays teenagers are wearing Nike, regardless of their nationality, ladies use Channel, whether or not they are French, the men celebrate major events with Jack Daniel's all around the globe. Barriers raised by nationality, race, culture or religion are overshadowed by new consumer habits, tastes and preferences which are becoming increasingly similar worldwide. And what better proof we need than the fact that the number one symbol in the world is the notorious M from McDonald's, far in front of the Christian Cross?

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