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Understanding Globalisation - Audio

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Globalisation is an overused and often misunderstood concept. We hear it all the time on news broadcasts and in any type of public discussion. The starting-point for understanding globalisation is that it is industries and markets that globalise, not countries. However, when an industry globalises, its structure changes, so that the organisations within it find that their position in one country is significantly affected by their position in another country. That's why it's helpful to think of Globalisation as 'the integration of economic activities across borders'.

But why does globalization matter?

Globalization matters because it means the rise of interconnectedness between countries and markets across the world. For example, one of the reasons why the financial crash of 2007/2008 was so serious was because the financial and banking systems of countries around the world have become so closely interconnected with the globalization of markets.

Globalisation of industries and organisations has an impact on the countries in which they operate. They inevitably create stronger interconnectedness economically, with potential social and political consequences. That means that as a result of globalisation of industries and the greater linkages between markets, interdependence builds up between nations. Therefore the increased economic integration across borders that globalisation brings and the global integration of markets has social and political consequences. It drives social change. Another example of this is that there's a view that the political upheavals in many countries in the Middle East in 2011 were helped to spread by the existence of communication technology such as the internet & mobile phones that enabled individuals groups to talk to each other both to plan activities and to offer advice, support and encouragement.

Does globalisation matter to all companies or organisations? Yes it does.

When I run executive workshops on globalisation for senior or middle-level managers one of the first things I have to get them to understand is that even if they're not interested in international expansion and are happy consolidating their position in their domestic market- they are still dramatically affected by globalization. What I tell them is this:

'Just because you're not going there, doesn't mean that they're not coming here…'

Then I ask them if they've noticed any new foreign companies entering their domestic market in recent years?

And are they small or large new entrants? And have they taken any of your existing market share yet?
The answers to these questions are always 'yes'. So globalization of industries and markets affect you even if you think you're sitting safe in your home market.

Another key reason why globalization matters to all companies or organisations is because it changes the structure of competition in all countries and markets. Some of the most difficult conversations I've ever had with executives have been with managers in organisations that have become used to being the biggest and most significant player in their particular market. They find it almost impossible to accept that now in world terms, they're a minor player, and that even in their domestic market, they're far less significant. They keep repeating: 'we are the biggest'; and I have to keep asking them: 'yes - but compared to who?' They're holding on to a domestic market mindset when the market has become global, meaning that both competition and competitors have changed.

So - another aspect of globalization is that it's increasingly irrelevant to think of competition in national terms. Companies that had been seen as "National champions" may be irrelevant in global terms. Global competition is quite different from national competition. It's part of a different (global) industry structure. In a national industry, if all firms are equally inefficient they can nevertheless survive and do reasonably well. However, once that industry has become a global industry, if one firm restructures to benefit from potential sources of global advantages such as economies of scale and scope, this makes it very difficult for the others to continue to compete effectively just as national companies.

Therefore, as soon as one firm globalizes in an industry, the other firms are likely to follow. This explains the waves of successive mergers in many industries, such as aircraft manufacturing, energy or pharmaceuticals, as global competition replaces local competition and the world reorganizes with fewer, larger competitors.

To establish itself as a global company, the global banking company HSBC shook off its Asian history and roots as the Hong Kong & Shanghai Banking Corporation and decided to use its HSBC global brand and logo on all its local operations in more than 150 countries around the world. As it acquired local domestic banks, it re-branded them as HSBC. It wanted a truly global identity, not a patchwork of local ones.

Where does globalization come from?

There are a variety of factors that have been driving the spread of globalization across industries and markets. Five of the most powerful drivers of change affecting most industries are:

- cultural homogenization
- economies of scale and scope
- technological developments
- deregulation and the lowering of trade barriers
- strong international competitors