

Globalization Impact on Multinational Enterprises

Subjects: Economics

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The world is rapidly becoming a global village, a term that is increasingly relevant to multinationals alike. These conglomerates' development and growth encompass all regions of the world. The globalization era has transformed many multinational enterprises into highly efficient and productive entities that outweigh small countries and grow in power and control.

Keywords: global economics ; multinational corporations ; international business

1. Introduction

Globalization is commonly used to define the connectedness and spread of technology, production, and communication worldwide. Research shows that in the last few decades the global landscape of international corporations has changed intensely ^{[1][2][3]}. Based on historical trends and growth rates, international trade has continuously faced challenges due to increased uncertainty in the economy and rising tensions in trade ^[4]. This has been especially prevalent during the COVID-19 pandemic in which technology-based enterprises have acquired massive profits, power, and control over communication ^{[5][6][7][8][9]}. The challenge for competitors is to strive for better pricing and cost-effectiveness, as well as to achieve the industry leadership position ^[1]. Common questions and concerns on how multinational enterprises will be affected by globalization in the near future and what is their efficiency to acclimatize to potential fluctuations in market trends are important aspects of the modernization process ^[10]. The relationship between globalization factors and enterprise performance in conjunction with potential impacts also raises vital concerns in regard to enterprise innovation.

2. Gains and Losses of Globalization Impact for Multinational Enterprises

Globalization is not a new phenomenon. Issues raised against it have been based on the loss of jobs and operational processes resulting in the dehumanizing of structure in social institutions ^{[11][12][13]}. Nonetheless, it has generated important matters that influence how corporations worldwide operate, including: widening economic disparities, addiction to foreign countries for their products, decreased environmental integrity, increased possibility of trade war between key economic players on the global market, and potential fluctuation of currency rates ^[14]. Most of the research on globalization does not focus solely on its impact on multinational enterprises but on general issues ^{[15][16][17][18][19]}, various social issues ^{[20][21][22][23]}, and on multinationals in a pure corporate sense (i.e., not specific to impact) ^{[24][25][26][27]}. The world has become increasingly interdependent, and businesses, governments, consumers, and scholars alike search for further information and knowledge about impacts of globalization around the world ^[1]. This knowledge is becoming more crucial and thus the sharing of such information will be beneficial for enterprise transparency, the application of appropriate strategies and tactics used to accelerate the growth of business and improve market competitiveness, and the expansion of stakeholder awareness outside of the sector. Therefore, the aim of this review sought to answer the impending question of how globalization impacts multinational enterprises.

Those in opposition, however, to the connectedness of markets argue that it will bring about the subsiding of neocolonial and regressionist economics stressing concern and vigilance ^[28]. However, those who advocate for globalization claim it is not a result of the rapid increase in globalization, but rather too little ^[18]. Others have stated that globalization objectively outlines the problems and in turn gives the solutions to the challenges humanity has shaped. The objectives and directions of globalization have progressively led to the demolition of national borders, customs, and trade barriers, and consequently the term globalization has become a maxim of modern international business. Therefore, it can be argued that globalization impacts all global spheres, including but not limited to economic, cultural, business, ethical, and political. This is the case for both multinationals and others ^[29].

Multinational enterprises are a factor of countries' economies interconnectedness. This is due to their capability to form and make use of the networks between national economies and the enablement to operate within numerous countries ^[29], which formulates a single market ^[30]. The existence of a great number of market operators has brought about global

market openness, increased competitiveness, and its relevance to a worldly-run system ^[31]. According to Carr and Garcia ^[32], multinationals have the capacity to facilitate the globalization process through their moves and counter moves to different markets, which can be illustrated by the numerous cross border mergers, strategic alliances, and acquisitions. Multinationals are influenced by globalization in many ways both positive and negative, mostly determined by the difference in nature of the enterprise's operation ^[33]. In retrospect, multinational enterprises have many holdings and a number of things to gain from the interconnectedness of economies, while other subsidiaries suffer losses ^[12]. Operations in different countries necessitate substantial investments in terms of foreign direct investment (FDI), which invest in the host country ^[34].

The spread of global capitalism is a key topic of debate in the emerging economies of Asia, Africa, the Middle East, South America, and some parts of Eastern Europe ^[11]. This can be attributed to the issues of national stereotyping, political decision processes, national pride, and the constructing managerial identities that are entangled in relation to emergent global strategies ^[35]. It is of importance to note that these issues are no longer relevant to the developed world multinationals. Developed and emerging multinational enterprises both face issues associated with liability of foreigners, which occurs due to a number of other factors, including increased operational risks and costs due to operations being spread across large distances, and changing political environments in host countries, currency exchange rate fluctuations, and economic risks ^[36].

Technical knowledge brought about by globalization drives the multinational enterprise to best review its productivity performance by influencing the processes, technologies, and overall understanding of the enterprise in question ^[37]. Research and development creates a pool of organizational knowledge that improves productivity performance through the use of new technology opportunities and solutions, as well as improved efficient processes, new products and services, and overall decreased costs ^[38]. Nonetheless, international companies cannot always avoid other organizations from copying their intellectual property, and as such laws only work well in theory but not in practice—especially when copyright laws are not enforced or nonexistent ^[39]. As a result of globalization, competing multinational enterprises can gain access to the patents, hiring of employees from their rivals, reverse engineer competitor products, buying inputs at a lower value, and even collaborate with other firms ^[40]. Technology is of importance for economic growth, yet its geographic location, diffusion, and generation is yet to be sufficiently understood ^[3].

3. Solutions

The increase in globalization has led to previous studies addressing the challenges and giving solutions, therefore enabling multinational enterprises to take advantage of new market opportunities ^{[14][41][42][43]}. Some of the major state-of-the-art questions that have mostly attracted academic discussion include examples such as Rugman and Li ^[36], who collated large volumes of literature to best understand globalization and its interconnectedness with production, marketing, and consumption. They called attention to the need of multinational enterprises to improve the efficiency of their activities and become better socially responsible actors ^{[44][45][46]}. Moreover, geographic scope is important in terms of where multinationalism or foreign involvement of firms expand ^[47]. In recent years, many studies have challenged this notion, stating the significance of globalization for enterprises as ruinous to local-level economies ^{[19][22][48][49][50][51][52][53][54][55][56]}. The opponents of globalization argue that widespread diversification in products and markets leads to an increase in cost and ineffective control of conglomerates, thus resulting in poorer performance downstream ^[57]. For example, Liou and Rao-Nicholson ^[58] highlight that there are development gaps between a host country's strategy, identity, and practice, and a home country's performance. This can be attributed to the competing demands of local stakeholders and the parent multinational.

The ISO 2600:2010 certificate is set up to encourage corporations to be more socially responsible. The standard covers seven core issues, including human rights, the environment, fairness in operating practices, organizational governance, labor practices, community participation and development, and consumer protection ^[59]. These standards positively impact emerging economies by lowering pollution levels, improving labor wages, and providing more opportunities for their employees to improve labor skills ^[60].

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