POLISH JOURNAL OF MANAGEMENT STUDIES
Strielkowski W., Tcukanova O., Zarubina Z.

2017
Vol.15 No.1

# GLOBALIZATION AND ECONOMIC INTEGRATION: THE ROLE OF MODERN MANAGEMENT

**Strielkowski W., Tcukanova O., Zarubina Z.** *

**Abstract:** Our paper tackles the role of modern management in globalization and economic integration. Specifically, we are interested in investigating how multinational enterprises (MNE) penetrate various economies and impose pressure on national companies. Our results show that by using superior managerial techniques as well as possessing advanced technologies and backed up by the international capital, MNEs create unwanted tensions for the local companies and quite often crown them out from the markets they embedded themselves at. The outcomes of this paper might be useful for stakeholders dealing with strategies aimed at attracting foreign capital and fostering economic growth.

**Key words:** globalization, modern management, industrial management, multinational companies, economic integration

DOI: 10.17512/pjms.2017.15.1.24

*Article history:*
*Received* January 24, 2017; *Revised* April 15, 2017; *Accepted* June 4, 2017

## Introduction

In the era of economic globalization, multinational enterprises (MNE) became the dominating force in the international economy. Armed with the new advancements in technology, unlimited funds and support from the local governments they are seeking to increase their sphere of business influence and to multiple their business assets by entering the new promising markets.

New emerging economies often become their object of interest and various business endeavors. What is happening, however, is that MNEs' interests quite often collide with those of the domestic embedded companies that had the local markets entirely to themselves. Business wars and conflicts are easy to ignite but difficult to put off. Managers, both at the local and international levels, are often faced with an uneasy task of preventing these conflicts or soothing them once they happen. All this constitutes one of the most important tasks of modern management (Raišienė, 2014; Strielkowski et al., 2016).

The purpose of this paper is to determine how multinationals have affected, if they have, and will affect the domestic companies in the different organizational levels or spheres as the process of integration continues. The ultimate goal of our research

* **Dr Wadim Strielkowski**, Cambridge Judge Business School, University of Cambridge, United Kingdom**; Prof Olga Tcukanova,** Saint Petersburg National Research University of Information Technologies, Mechanics and Optics (ITMO University); **Dr Zhanna Zarubina**, Saint Petersburg National Research University of Information Technologies, Mechanics and Optics (ITMO University)

✉ Corresponding author: w.strielkowki@jbs.cam.ac.uk

✉ zoa1999@mail.ru; zhanna_sushilova@mail.ru

is to conclude whether the multinational companies do better than domestic companies in the same market.

**Employment and Financial Performance**

Clougherty et al. (2014) report that increased number of multinationals in a country reduces the pool of human resource available to the domestic companies. International companies operate to a great scale hence employing many people to support the vast operational service gap required to fulfill their goals. As a result, the supply of employees reduces leading to increased amounts of wages and other forms of compensations and incentives to attract the employees (Abrhám et al., 2015; Čábelková et al., 2015; Raisiene et al., 2014). These incentives also need to be measured and accounted for which requires some special preference-revealing techniques (see Chiabai et al., 2014).

Furthermore, Griffith and Macartney (2014) while studying the human resource management of multinational companies observed that these foreign organizations offer high compensation packages compared to domestic companies. As a result, the employees are attracted to the multinationals leaving the local organizations with human resource deficits and reduced production rates.

Domestic companies respond to the human resource effects of multinationals by offering more benefits to the employees to cope with the initiated competition for employees. Quite often, various other “creative” techniques, like avoiding paying taxes in order to survive and to stay in business are applied (Strielkowski and Čábelková, 2015). Most of these effects have various outcomes for labour markets including the adverse effects for international labour migration (Glazar and Strielkowski, 2010; Stojanov et al., 2011; Strielkowski and Weyskrabova, 2014; Simionescu et al., 2016; Streimikiene et al., 2016). Consequently, the levels of operational costs increase with increase human resource expenditure leading to increased prices or reduced profit margins. Therefore, multinationals reduce the financial performance of the domestic companies. The concept is confirmed by Kothari et al. (2013) who observed a consistent trend of general reduced financial results for local businesses with increased foreign companies’ invasion in both India and China.

However, the paper argues that the reduced performance of the domestic organization is stimulated by the greater market competitiveness of multinationals for the customers and not necessarily the employees. Nevertheless, Grigoroudis et al. (2013) conducted a study in the banking industry and discovered that increased rates of employee turnover and dissatisfaction led to reduced financial performance. Since multinational companies’ entries in a market attract employees, the turnover rates domestic companies increase thus they are susceptible to reduced financial performance unless they install equipment and technologies that substitute human capital. However, installation of automation or recruitment increases cost thus lowering the short financial performances of the companies.

### Competition and Market Share

Since multinationals operate at large scales they are entitled to the advantages of economy of scale: Large companies make enormous amount profits by operating under a small profit margin because of the high indices of sales (Dunning, 2013). Ergo, multinationals sell their products at lower prices compared to domestic companies (strategic pricing). Consequently, they gain a higher rate of competitiveness leading to increased market share and higher financial performances.

Grubel (2013) argues that the rate of business development in the banking sector is higher for multinationals than national banks. According to Grubel (2013), one of the factors that promote the increasing popularity of multinational banks is the lower charges for their services. Surely, other factors contribute to their growths such as technology that increasing availability and speed of services but price also remains the major contributor.

In most markets, the greatest market share belongs to the domestic banks, but the highest market share growth is attributed to foreign banks: indicating that in the future, the multinationals have the potential of acquiring the bigger market share.

In addition, large companies like multinationals that operate in several countries acquire raw materials and other products and services from the suppliers at discounted prices. Heimeshoff and Klein (2013) explains that large companies acquire raw materials at lower prices compared to smaller business because of the greater bargaining power stimulated by bulk purchasing of the materials. Therefore, their operational costs are reduced leading to reduced prices that increase the competition in the countries and industries in which they operate. Irarrazabal et al. (2013) account that multinational in the manufacturing sector has the ability to produce their raw material hence increasing their bargaining power over suppliers. Consequently, the international companies incur lower product costs than domestic firms hence offering their products are lower prices. Accordingly, the market prefers their products leading to increased market share of the multinationals.

Thirdly, multinationals are well endowed with assets and funds thus they can afford adequate and frequent promotions ranging from media and online advertisements to direct public relations. Lee et al. (2013) confirm that multinationals have the highest advertise rates in the media because of high capital availability and allocation for promotion. Therefore, multinationals attract the majority of the targeted customers due to greater market reach. As a result, the domestic companies shift the tactic to offer product propositions that campaign to meet the generic needs and tastes of the local people. Furthermore, the domestic companies focus on cultivating a sense of patriotism to increase the preference of the customer towards local products. Nonetheless, Yoo and Bai (2013) found that the highest influence of customer loyalty is the economical perception (time and money). Therefore, the use of patriotism cannot overtake the effect of affordable prices. Thus, multinationals will continue to dominate the market.

### Working Conditions and Employee Turnover

As aforementioned, multinational have high capitals to initiate and develop business in different countries. Therefore, these large companies install better-working premises regarding building structures, equipment, and technology (Dunning, 2013; Suchacek, 2015; Varanavicius and Navikaite, 2015).

The domestic companies, especially in less developed countries, may not be able to incorporate such high tech and expensive installations hence the employees may prefer working in the multinational corporations. For example, regarding safety, the domestic companies may have the government requirements of ventilation and other forms of employee safety but the employees may still prefer working in international companies that offer higher levels of safety beyond just the minimal requirements met by the local businesses.

Consequently, domestic companies mitigate the issue by installing new assets and renovation of the premises. Moreover, companies try to compensate the employees by remitting better offers such as social events, and flexibility of duties. Despite the effort, multinational corporations still maintain the best infrastructures and safety mechanisms thus attracting more employees from the domestic companies (Dunning, 2013). Ergo, multinationals not only outperform the financial performance and market share of the local companies but also crown them out in terms of human resource attractiveness and availability.

### Technology Transfer

Another interesting aspect of MNE penetrating the “traditional” markets is the issue of technology transfer. Technology transfer is a complicated issue that involves dealing with know-how, copyrights and permits and that needs to be managed properly in order for the conflicts to be prevented. Multinationals adopt the latest technologies in every level of the organization ranging from inventory management, sales and marketing, customer service, financial management, and supervision. The employees are more probable to use the new technologies offered by these companies hence perceiving it as the standard. Accordingly, domestic companies may remain less likely to retain talent and competitive employees (Teixeira and Tavares-Lehmann, 2014; Maślanka-Wieczorek, 2014).

Ergo, domestic companies may have to upgrade their technologies so as to keep their employees, attract new ones, and facilitate employee efficiency and satisfaction. Nonetheless, the multinational companies remain market leaders in influencing the trends of technology and employee expectations. As a result, they remain flexible to the technological changes of the market hence not affected by market dynamicity compared to domestic firms.

### Effect on Home Country and Companies

Hizjen et al. (2006) observed that when the Japanese companies became multinationals, the domestics companies gained market advantages regarding the human resource. Since Japanese increased FDI activities, the process of production was distributed throughout the world. As a result, the Japanese plants only required employees that enough to serve the needs of the local market. Therefore, the companies downsized their human resource capacity increasing the supply of employees. Increased supply led to reduced wage level hence reduces the cost of the domestic companies and increasing the profit margins. In addition, Hizjen et al. (2006) concluded that the increased number of Japanese FDIs increased the productivity of the local companies because the focus of the multinationals is global hence reducing their competitiveness in the home country. However, the level of exports decreases in general because the modes of production and distribution have been altered from centralized format to a dispersed one.

On the contrary, Desai et al. (2008) oppose the notion that increased FDI reduces the local production of the multinationals. According to the study, 10% increased of FDI activities led to 3.7% increased production and 3.7% employment. Nonetheless, it is evident that output and employment increases in home countries when the local investors focus on globalization of their companies.

## Summary

Overall, it seems that modern managers have a very hard and complicated task on their hands. Our results and analysis demonstrate that multinationals enterprises invasions negatively affect the general financial performance, employee attractiveness, market share, and productivity of domestic companies. In addition, it was also determined that multinationals have higher adaptability to market and technological adaptability compared to domestic companies.

Therefore, it is logical to conclude that multinational companies clearly crowd out domestic firms. However, increased number of multinational companies from a particular country increases the performance and prosperity of the local companies due to reduced competition for the customers and the employees. Accordingly, multinationals outperform domestic companies while they support local companies from where they originate.

Thence, managers at all levels need to carefully balance the conditions and the outcomes of the MNEs penetration at the local and traditional markets. It is hard to imagine economic integration and growth without MNE moving about freely across the globalized markets, yet their rapid and often drastic techniques and approaches need to be controlled and accounted for. All this requires advanced managerial techniques and well-balanced and well-designed approach towards solving the issues of the externalities of economic globalization.

## References

Abrhám J., Bilan Y., Krauchenia A., Strielkowski W., 2015, *Planning horizon in labour supply of Belarusian small entrepreneurs,* "Economic Research - Ekonomska Istraživanja", 28(1).

Chiabai A., Platt S., Strielkowski W., 2014, *Eliciting users' preferences for cultural heritage and tourism-related e-services: a tale of three European cities*, "Tourism Economics", 20(2).

Clougherty J.A., Gugler K., Sørgard L., Szücs F.W., 2014, *Cross-border mergers and domestic-firm wages: Integrating "spillover effects" and "bargaining effects",* "Journal of International Business Studies", 45(4).

Čábelková I., Strielkowski W., Mirvald M., 2015, *Business influence on the mass media: a case study of 21 countries*, "Transformation in Business & Economics", 14(1).

Desai M.A., Foley F.C. Hines Jr. J.R., 2008, *Domestic Effects of the Foreign Activities of U.S. Multinationals*, "American Economic Journal: Economic Policy", 1(1).

Dunning J.H., 2013, *Multinationals, Technology & Competitiveness* (RLE International Business), Routledge.

Glazar O., Strielkowski W., 2010, *Turkey and the European Union: possible incidence of the EU accession on migration flows*, "Prague Economic Papers", 19(3).

Griffith R., Macartney G., 2014, *Employment protection legislation, multinational firms, and innovation,* "Review of Economics and Statistics", 96(1).

Grigoroudis E., Tsitsiridi E., Zopounidis C., 2013, *Linking customer satisfaction, employee appraisal, and business performance: an evaluation methodology in the banking sector,* "Annals of Operations Research", 205(1).

Grubel H.G., 2014, *A theory of multinational banking,* "PSL Quarterly Review", 30(123).

Heimeshoff U., Klein G.J., 2013, *Bargaining Power and Local Heroes,* Düsseldorf Institute for Competition Economics (DICE).

Hijzen A., Tomohiko I., Yasuyuki T., 2006, *The Effects of Multinational Production on Domestic Performance: Evidence from Japanese Firms*, "RIETI Discussion Paper Series", 07-E-006.

Irarrazabal A., Moxnes A., Opromolla L.D., 2013, *The margins of multinational production and the role of intrafirm trade,* "Journal of Political Economy", 121(1).

Kothari T., Kotabe M., Murphy P., 2013, *Rules of the game for emerging market multinational companies from China and India,* "Journal of International Management", 19(3).

Lee P.Y., Wu M.L., Shen J.F., 2013, *Capital structure for multinational inter-and intra-firm innovation collaborations,* "International Journal of Electronic Business Management", 11(3).

Maślanka-Wieczorek B., 2014, *Talent management and high performance work system*, "Journal of International Studies", 7(1).

Raisiene A.G., Bagdoniene J., Bilan Y., 2014, *Inter-Institutional Interaction Results: The Effect of EU Programs on the Reduction of Long-Term Unemployment*, [In:] L. Mihaescu S. Marginean E.A. Stoica, J. Grabara (Eds.), 21st International Economic Conference of Sibiu 2014, IECS 2014 Prospects of Economic Recovery in a Volatile International Context: Major Obstacles, Initiatives and Projects, 16.

Raišienė A.G., 2014, *Leadership and Managerial Competences in a Contemporary Organization from the Standpoint of Business Executives,* "Economics and Sociology", 7(3).

Simionescu M., Ciuiu D., Bilan Y., Strielkowski W., 2016, *GDP and Net Migration in Some Eastern and South-Eastern Countries of Europe.* A Panel Data and Bayesian Approach, "Montenegrin Journal of Economics", 12(2).

Streimikiene D., Bilan Y., Jasinskas E., Griksaite R., 2016, *Migration Trends in Lithuania and other New EU Member States,* “Transformations in Business & Economics”, 15(1).
Stojanov R., Strielkowski W., Drbohlav D., 2011, *Labour migration and remittances: current trends in times of economic recession*, “Geografie”, 116(4).
Strielkowski W., Shishkin A., Galanov V., 2016, *Modern Management: Beyond Traditional Managerial Practices,* “Polish Journal of Management Studies”, 14(2).
Strielkowski W., Čábelková I., 2015, *Religion, Culture, and Tax Evasion: Evidence from the Czech Republic*,” Religions”, 6(2).
Strielkowski W., Weyskrabova B., 2014, *Ukrainian labour migration and remittances in the Czech Republic*, “Tijdschrift voor economische en sociale geografie”, 105(1).
Suchacek J., 2015, *Large Enterprise Branches: the Case of the Czech Republic,* “Economics and Sociology”, 8(4).
Teixeira A.A., Tavares-Lehmann A.T., 2014, *Human capital intensity in technology-based firms located in Portugal: Does foreign ownership matter?* “Research Policy”, 43(4).
Varanavicius V., Navikaite A., 2015, *Competitive advantage attainment via synergy in green offices,* “Journal of International Studies”, 8(3).
Yoo M., Bai B., 2013, *Customer loyalty marketing research: A comparative approach between hospitality and business journals*, “International Journal of Hospitality Management”, 33.

## GLOBALIZACJA I INTEGRACJA GOSPODARCZA: ROLA NOWOCZESNEGO ZARZĄDZANIA

**Streszczenie:** W niniejszym artykule poruszono rolę nowoczesnego zarządzania w warunkach globalizacji i integracji gospodarczej. Autorów szczególnie interesuje zbadanie, w jaki sposób przedsiębiorstwa wielonarodowe (ang. multinational enterprises, MNE) penetrują różne gospodarki i wywierają nacisk na krajowe przedsiębiorstwa. Wyniki przeprowadzonych badań pokazują, że przy użyciu doskonałych technik zarządzania oraz posiadaniu zaawansowanych technologii wspieranych przez kapitał międzynarodowy, przedsiębiorstwa wielonarodowe tworzą niepożądane naciski na firmy lokalne i dość często wypychają je z rynków, w których są osadzone. Rezultaty zawarte w niniejszym artykule mogą być przydatne dla zainteresowanych stron zajmujących się strategiami mającymi na celu przyciągnięcie kapitału zagranicznego i wspieranie wzrostu gospodarczego.
**Słowa kluczowe:** globalizacja, nowoczesne zarządzanie, zarządzanie przemysłem, firmy wielonarodowe, integracja gospodarcza

## 全球化與經濟一體化：現代管理的作用

**摘要：**我們的論文解決了現代管理在全球化和經濟一體化中的作用。具體來說，我們有興趣調查跨國企業（MNE）如何滲透各個經濟體，對國家企業施加壓力。我們的研究結果表明，通過使用優越的管理技術以及擁有先進的技術和國際資本的支持，跨國企業為當地公司創造了不必要的緊張局勢，經常把他們從自己所在的市場中剔除出來。本文的結果可能對處理吸引外資和促進經濟增長的戰略的利益攸關方有用
**關鍵詞：**全球化，現代管理，產業管理，跨國公司，經濟一體化