

# ANALYSIS OF THE IMPACT OF GLOBALISATION ON SELECTED INDICATORS OF FIRM'S ACTIVITIES

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## Abstract

The paper describes the characteristics of globalization, as a typical phenomenon of economic development. It describes the definitions of globalization as well as the positive and negative aspects of globalization. Given the many times contradictory assessment of the impact of globalization, a research was conducted on a sample of 69 Slovak companies which were affected by the globalization process in the last five years. The paper studies the impact of globalization on the performance, remuneration, relations between managers and employees, as well as to work – life balance. The study found a statistically significant positive impact on the performance and remuneration and a negative even though statistically insignificant impact on employee relationships. It was found a strong negative correlation between the degree of globalization and the work – life balance.

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**Keywords:** Globalization, Performance, Impact of globalization Human resource practices

## Introduction

Globalization as such is not a recent phenomenon. The term globalization however has been more commonly used since the 80's of last century, when technological advances, particularly in information technology, began to significantly accelerate and facilitate the implementation of international business transactions (Balaž, Verček 2002). Globalization is the process of denationalization of markets, political and legal systems, in other words, the rise of so called global economy. Globalisation describes the extension of business activities that have been carried out on its territory, beyond the nation's borders.

Globalization also significantly changed the market, on which companies compete with each other (Yip 1995). There are many positive but also negative aspects which accompany globalization. It brings with itself

many challenges which the company managers have to face. They need to be concerned with global issues while addressing the local issues as well. They must reflect the convergence trends, especially if they are associated with the transfer of best practices, but also must take into account cultural, institutional and other tendencies and traditions which operate divergently.

The aim of the paper is:

- Introduce a definition of the main characteristics of globalization,
- Explain why globalisation is viewed with controversy
- Outline the impact of globalization on human resource management practices
- Present the results of own research on the impact of globalization on selected indicators of activities of enterprises.

### **Globalization, definitions and characteristics**

It should be noted that there is no single universally accepted definition of globalization. The issue of coming up with a complete theory on globalization and its concise and comprehensive definition is whether individuals or teams dealing with the issue of globalization and its accompanying phenomena, focus on its positive or negative effects. Therefore, almost the single criterion on which the researchers can agree on is that it is a spontaneous, uncontrolled process involving still more intensive integration of countries of the world into a single global economic system. This concept should also include a number of other political, social, cultural, security and other relations directly related to globalization ( Rajnoha, Dobrovič, Slivková 2014).

Most of the other definitions of globalisation are based on the economic dimension of globalization. According to the definition adopted by the participants of the World Economic Forum in Davos (Switzerland) *"Globalization is the result of a digital revolution and represents an unstoppable process supported by the development of communication and information systems, global transport systems and barrier-free transfers of capital around the world and the creation of networks."*

The IMF defines globalization *"As a growing economic interdependence of countries worldwide due to the increasing volume of international capital and cross-border transactions of goods and services, as well as faster and broader dissemination of technology"*.

Other definitions take into account not only economic but also other elements of globalization. For example, Keller (2000) defines globalization as "a complex process of technical, economic, political, social and cultural changes that are reflected in particular in the last two decades of the 20th century." According to him, the reason for the creation of a new asymmetry of power, which is given various new mobility possibilities. The potential for

mobility acts as a resource that is able to carry negative externalities for all that remains spatially bound.

Norberg (2006) defines globalization as *"The process in which people, democracy, trade, market economy and investment increasingly cross borders between countries and thus borders become less and less restrictive to people."*

Eichler (2010) consider globalization *"A dynamic process that breaks down barriers, frontiers are blurring, linking different countries and continents, creating a completely new framework not only economic and political but also international security relations. The effects of globalization is continuously strengthened and there is a continuous growing influence of non-state actors and increasing role on the world stage play a large multinational industrial corporations, big state-owned enterprises and non-governmental organizations "*.

The author highlights one attention-grabbing definitions which describes globalization in a complex and precise way, by Šikula (2005) : *"Globalization is a multidimensional process which interrelates and affects the economic, political, sociological, technological, ecological, cultural, religious, military-strategic and other conditions and factors. The current development shows that within the multidimensionality of this process, the economic aspects significantly determine and influence other aspects of globalization. "*

According to the authors Gdovirajan and Gupta (2001), the concept of organizational globality can be assessed as a three-dimensional construct based on the fact that the organization can be more or less globalized according to three indicators, namely:

- presence in the global market,
- globalization of the supply chain,
- globalization of organizational thinking (approach).

Globalization increasingly dominates all areas of economic, political and social relations and fundamentally influences the development of national economies. The result of the operation is the creation of a global world economy(Kelly1998).

The global economy can be characterized as (Ivančik 2012, p. 30):

- Controlled economy and by guided megacompetition formed the by strongest transnationalist corporations
- economy built up around strong regional clusters.
- economy in which competitiveness determines the ability to transform information into knowledge and intelligence,
- economy in which innovations aimed at resource-consuming, labor productivity growth are replaced by innovations based on multipurpose use of human creativity,

- virtual economy to go beyond the limitations of time and space by creating virtual teams, corporations and agencies,
- economy without intermediaries, which will replace the modern communication networks
- Real-time economy, characterized by shortening production cycles and the shortening time in all spheres,
- atomised economy in which the owner and individuals have the opportunity to act and create new values, a network economy, in which mentioned the atoms come together
- an economy that has the character of a flexible network consisting of flexible, thin, fast and organic units strung together in a spider-web system
- economy whose core is based on knowledge and the value of work is increasingly based on knowledge.

### **Globalization and interdependency**

Interdependency is the process of deepening the dependence between economies, national markets, countries and regions that are increasingly affecting the development of the world economy. Activities within a country are in fact reflected in its position through existing links with external economic environment. In recent decades, the interdependence between the economies of the world economy steadily deepened. For decades, this dependency was determined by the differences arising between the allocation of raw materials, fuel and energy, technology and food, ie spatial, temporal and eternal differentiation between the production and consumption and a reference politico-economic and social superstructure, affecting all bilateral exchange flows between these centers. Only in the last decade, this asymmetric interdependence gradually gets to be of more harmonious proportions.

The consequence of the establishment of bilateral and multilateral relations between the countries is growing interdependency, ie deepening interdependence and interconnection of individual economies. The process of strengthening international interdependence is not yet currently closed because it will most likely come down to creating a homogeneous global market. Already now, however, it brings a new qualitative reality, and the complexity of this phenomenon can be understood on several levels.

When describing the process of international interdependence one cannot omit the increasing asymmetry, particularly in the relationship between developed and developing countries. Developing, or less developed countries are at a disadvantage in the international relations as they are much more dependent on developed countries than the other way around. The global financial and economic crisis like the current migration situation between underdeveloped and developed countries clearly demonstrates this.

## **Globalization and internationalization**

Because of rapid globalization, which leads to a significant internationalization, integration and concentration (Joklová, Ryšavá 2009), there has been a rise of economic entities called "*Multinational corporations*" (MNCs). Organization for International Cooperation and Development (OECD) in 1977 defined multinationals as "*Companies or entities whose ownership is private, public or mixed, which are based in different countries, interconnected by one or more of which may exert significant influence on the activities of the other, particularly with regard to the sharing of knowledge and resources*" (UNCTAD 2005, p. 11).

The indicator for the level of internationality in NMCs is the "so-called *transnationality index* (TNI), which is the average of the three shares – foreign assets to total assets, foreign projects to the total number of projects and the number of foreign employees to their total. Another indicator is the *internationalization index* (II), which is the ratio of the number of foreign subsidiaries to the total number of subsidiaries"(Štrach 2009, p. 34). These indicators were also used in the research shown below

The development of internationalization processes in the global economy is gradually becoming more and more the domain of purposeful macroeconomic policies of individual countries and transnational corporations (Ivančík 2012). But globalization also brings with itself a few significant changes. Perhaps the most significant change is the fact that while for decades internationalization was seen as a means to promote the interests of major economies to bigger and stronger companies, so in recent years there was a push for a connection of countries into various integration groupings, alliances, unions, and associations in which firms (company, corporation) use (or misuse) the states to promote their own business interests.

The internationalization of companies is an economic activity which goes beyond individual national economies and more notably resulting in the current transnational corporations. International activities of various kinds do not only develop large but also small and medium sized businesses that are within the reproductive process of large companies very closely. One of the effects of internationalization is the continuous growth of production for export, creating a foreign affiliate of branches, expansion of international capital movements and migration, etc (Briscoe et al 2012).

The internationalization process is often hindered by state intervention in the economy, preferring domestic business entities, the issue of imbalances of payments, differences in political, economic, social and cultural level between the countries and obstacles of a political nature. Optimal conditions of internationalization creates space in large markets

created by the linking of the integration of national economies in terms of common markets, monetary and economic union.

Internationalization takes place in an area of the world economy mainly as a result of international economic interdependence - dependence between its different parts and ultimately the national economy. The economic activity of one country connected to the outside world is reflected in the status and activities of other economies and is itself influenced by what happens beyond its borders. It is obvious that internationalization, interdependence and globalization processes are closely linked and mutually promote and strengthen each other. Globalization and international economic interdependence on the one hand a consequence, on the other hand, are a prerequisite for internationalization. The globalization process has necessarily expanded the radius monitored business premises, the access of companies to these procedures could be twofold.

If the company only monitors all impacts of globalization and partly adapt its behavior, they are only passive adaptation to globalization tendencies. The company has no choice but to use this approach if it is a small business entity with sufficient funds, qualified staff and language proficiency or necessary know-how to be able to use an active approach in the form of internationalization. The second approach assumes active involvement of firms in the globalization processes. The company does not view globalization as a threat to their business activities, but rather sees it as an opportunity for their growth and expansion. This approach is implemented through the internationalization of firms (Ivančik 2012).

Positive effects are obvious especially for small economies since the right business orientation and intensity of import for a small country, even if inadequately equipped with the necessary factors of production, essentially solve or at least reduce their own lack of natural or other sources. The whole process actively intervenes in the internal structure of the national economy. The experiences of developed economies show that the smaller economic dimension of the national economy is and the more it lacks developed (in particular natural) resources, the more acute is the need for deeper involvement in international economic structures (Guilen 2001).

Globalisation is therefore real whether we consider it a positive or negative. The resulting impact on companies depends on how the national economies concerned react to this process. Low level of development, especially if combined with weak management and mistakes in the protection of national and corporate interests, cause that the negatives outweigh the positives.

Globalization impacts are manifested on two levels; the macroeconomic and microeconomic level, ie the level of the business units. It is not easy to separate the positive and negative impacts of globalization.

However literature gives us enough background to the fact that such a separation could be done.

Some of the positives seen at the macro level include:

- Globalization releasing stored energy and making the use of global resources more effective leading to rising wealth for all peoples,
- It brings cost reduction due to cost savings from increasing the volume of production,
- Globalization allows better access to developed countries' mineral resources of the less developed countries,
- The emergence and expansion of new markets that are independent of mineral resources,
- Transfer of new technologies and knowledge from developed to less developed countries by transnational corporations and broadcast expatriates
- Reducing the effects of geographic distance for Foreign Economic Relations through information technology,
- Entry into a country in which the government uses nondemocratic methods and it brings about elements of democracy.

The negative aspects of globalization on the macro level mainly include:

- Management in the global business does not respect the moral principles of business.
- Agriculture in developing countries must compete with developed countries that have subsidized agriculture.
- Work, material and energy intensive manufacturing are moved to less developed countries, where costs are much lower, often at the cost of reduced quality of life in less developed countries and negative influences to their environment.
- Entry of criminal elements to economic events and linking of gray economy with political power, building a parallel economy.

The second level at which it is necessary to examine the effects of globalization is the level of business units. This level is also the subject of an investigation carried out on a selected group of business units in the Slovak Republic and the results of which are also subject of the present paper.

Effects of globalization on the level of business units, include in particular:

- Increasing diversity of the workforce, particularly in multinational enterprises and therefore a need for diversity management,
- Need for a new generation of managers equipped with language, knowledge of a multicultural knowledge with sufficient empathy for local employees,

One of the goals of globalisation and the resulting emergence of multinational companies should also have the effect of increasing the level of performance at the corporate and at individual level. An increase in performance should naturally be accompanied by the increase in the level of remuneration. The question is whether the effects of globalization have a positive impact on the employment relationship and the level of balance between work and personal life. Literature gives inconsistent results in this respect. The aim of the research conducted in the Slovak economic environment and presented in the present paper is to give the view on impact of globalization on performance of the business units but also on other indicators of entrepreneurial activity, such as remuneration, interpersonal relationships and the balance of work and personal life.

### **The aim of the research**

The literary analysis showed that globalization affects all aspects of economic life on the macroeconomic level and at the level of business units. This influence can be negative and positive. The above analysis showed the demand to find out what impact globalization has on performance as a leading indicator of corporate actions, for remuneration, which is the main domain of interest of employees, the employee relationship management and for work-life balance. The goal was to find a link between the level of globalization and the selected indicators of corporate activities, namely:

- Organizational performance
- Levels of remuneration,
- Relations between employees and senior management of the company,
- Level of balance between work and personal life.

**Sample.** A total of 140 organizations interviewed were affected by the globalization process in last five years from 2010 to 2014. The selected organizations had to meet the following requirements in terms of affecting the process of globalization:

- presence in the global market,
- internationalization of business activities,
- organizational transnationality (be part of multinational corporations)
- perceived level of globalization of thinking.

The research interviewed the heads of human resources management departments, who represented the attitude of the entire organization towards the problems analyzed. The questioning of individual organizations was done via e-mail for 110 organizations and 30 through a personal interview. Overall, we have obtained 69 usable responses.



**The composition of the research sample by sector focus was as follows:**

Engineering metallurgical industry: 20 organizations.

Food industry: 14 organizations,

Civil engineering: 17 organizations

Chemicals: 6 organizations

Textiles and clothing: 12 organizations

**Variables and scaling**

The degree of globalization was set as an independent variable. The study used a five point scale with following extremes:

1- very low degree of globalization

5- very high degree of globalization.

The degree of globalization was estimated as a degree perceived by head of human resource department

**Dependent variables- selected indicators of enterprise activity.**

Dependent variables were:

1. *Organizational performance.* When assessing the impact of globalization on organizational performance was compared to the level of performance achieved in 2010 and the end of 2014. Scaling was:

1- much lower in 2014 than in 2010

2- lower in 2014 than in 2010

3- same

4- came out in 2014 than in 2010

5- much higher in 2014 than in 2010

2. *WLB(Work Life Balance).* The evaluation compared the perceived quality of work and private life balance in 2014 and 2010. A five point scale was used again, where each grade implies:

1. WLB perceived much lower in 2014 than in 2010

2. Lower perceived WLB in 2014 than in 2010

3. The same WLB at the end of 2014 than in 2010

4. WLB higher in 2014 than in 2010

5. WLB much higher at the end of 2014 than in 2010,

3. *The level of remuneration in the perception and comparison of 2010 /2014.*

1- much lower

2- lower

3- same

4- higher

5- much higher

#### *4. Interpersonal relationships based on a comparison of 2014 and 2010.*

- 1- much worse
- 2- worse
- 3- same
- 4- better
- 5- much better.

Data collection was conducted in the period January 2015 to April 2015. The answers are individual perceive of respondents-head of human resource department.

#### **Hypotheses**

Based on the literary data and analysis (Sojka 2015) on the impact of globalization on selected management practices were determined following hypotheses:

H1. There is a statistically significant positive correlation between the degree of impact of globalization and performance improvement rate.

H2. There is a statistically significant positive correlation between the degree of the impact of globalization and the rate of increase of remuneration levels

H3. There is a positive, statistically significant association between the degree of impact of globalization and a slightly positive effect on interpersonal relationships.

H4. There is a statistically significant positive correlation between the degree of the impact of globalization and on a slightly positive effect on levels of work- life balance.

#### **The results of the research**

The Spearman's rank correlation coefficient and value **p** was calculated according to the data and a correlation matrix was processed. Results are provided in the table below.

Table. The calculated values of correlation coefficients and p values

			The degree of the impact of globalization	The degree of impact on performance	The degree of impact on remuneration	The degree of impact on interpersonal relationships	The degree of impact on WLB
Spearman's rho	The degree of the impact of globalization	Corr. Coeff	1000	<b>.723**</b>	<b>.433**</b>	<b>-.256**</b>	<b>-.677**</b>
		p	.	<b>.000</b>	<b>.000</b>	<b>.003</b>	<b>.000</b>
		N	69	69	69	69	69
	The degree of impact on performance	Corr. Coeff	<b>.723**</b>	1000	<b>.439**</b>	<b>-.347**</b>	<b>-.601**</b>
	p	<b>.000</b>	.	<b>.000</b>	<b>.004</b>	<b>.000</b>	
	N	69	69	69	69	69	
	The degree of impact on remuneration	Corr. Coeff	<b>.433**</b>	<b>.439**</b>	1000	<b>-.201</b>	<b>-.362**</b>
	p	<b>.000</b>	<b>.000</b>	.	<b>.097</b>	<b>.002</b>	
	N	69	69	69	69	69	
	The degree of impact on interpersonal relationships	Corr. Coeff	<b>-.356**</b>	<b>-.347**</b>	<b>-.201</b>	1000	<b>.588**</b>
	p	<b>.003</b>	<b>.004</b>	<b>.097</b>	.	<b>.000</b>	
	N	69	69	69	69	69	
	The degree of impact on WLB	Corr. Coeff	<b>-.677**</b>	<b>-.601**</b>	<b>-.362**</b>	<b>.588**</b>	1000
	p	<b>.000</b>	<b>.000</b>	<b>.002</b>	<b>.000</b>	.	
	N	69	69	69	69	69	

\*\* . Correlation is significant at the 0.01 level (2-tailed)

Based on the results shown in the Table, we can draw the following conclusions:

The hypothesis H1 hypothesis was confirmed, it means that there is a positive and statistically significant link between the degree of perceived globalisation and performance. Spearman Correlation coefficient  $r=0,723$ . Spearman correlation is significant at the 0.01 level (2-tailed)

The hypothesis H2 was also confirmed, it means that there is a positive and statistically significant link between the degree of perceived globalisation and remuneration. Spearman correlation coefficient  $r=0,433$ . Correlation is significant at the 0.01 level (2-tailed)

The hypothesis H3 was not confirmed. Hypothesis presupposed a positive link. Research results showed weak negative though statistically significant correlation between the perceived degree of globalization and

employee relations. Spearman correlation coefficient  $r=0,256$ . Correlation is significant at the 0.01 level (2-tailed)

Hypothesis H4 was not confirmed. Pressupposed a positive correlation between the degree of the impact of globalization and a rate of increase balance work - life balance. The research results showed a strong negative and statistically significant relationship. The value of the Spearman correlation coefficient was surprisingly high, in this case  $r=0,677$ . Correlation is significant at the 0.01 level (2-tailed)

### **Discussion of the results**

As is apparent from the research results presented, the first two hypotheses were confirmed. Organizations which have been heavily affected by the impact of globalization, whether of the aspects of globalization supply chain or the degree of internationalization aspect or aspect of the presence in the global market, significantly increased their performance. This fact is confirmed by the data of the Statistical Office of Slovakia. Performance has been increased thanks to the transfer of management practices, transfer of technology from the parent company to subsidiaries located in Slovakia. Logically, it follows that the level of remuneration was increased as a result of higher performance at the organizational level, but also at the individual level, thus working efficiency.

An association between the impact of globalization and the level of relations between managers and employees has surprisingly been shown to be negative. A more detailed analysis of organizations which manifested such a negative association found that this in particular concerns organization where the top management is composed of expatriates. The expatriates do not always have enough empathy towards local employees and sometimes insensitively implement practices from home country to subsidiaries. In certain cases envy resulting from the pay gap plays a role.

A relatively strong negative correlation was found between the degree of the impact of globalization and the level of balance between work and personal life. Apparently it is a tax which employees must pay for increased performance, but also at a higher salary. This fact is indirectly confirmed by other statistical surveys, increased workload leads to higher divorce rates, fewer new marriages and various psychosomatic disorders.

### **Conclusion**

Globalization has its positive and negative effects on the macro-economic level and on the level of the individual companies. Undoubtedly, it contributes to increased efficiency, better financial remuneration of middle and lower management, as well as ordinary employees. Among the negative aspects of the globalization process, however, we should mention the

deterioration of employee and relations between senior management and lower and middle management. In this case the situation can be solved by better preparation of expatriates and their appropriate selection. Impaired balance work and personal life can be gradually balanced by an implementation programs aimed at quality and work – life balance. Such programs should be developed by the management of organizations and representatives of employees. An example of such a program of action would be limiting the number of work travel in a month, particularly overseas, limiting phone use after working hours and so on.

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