THE TRANSFORMATION OF A COMPANY'S STRATEGY IN THE CONTEXT OF GLOBALIZATION

Margarita Mironova
Kazan (Volga Region) state university
Doctor of Economics, Professor at the Financial Management Department
MaDMironova@kpfu.ru, Marg.mironova2011@ya.ru
Pang Te
Kazan (Volga Region) state university
A second-year postgraduate at the Financial Management Department
Country: China, pangte90@mail.ru
Danya Bikchentaeva
Kazan (Volga Region) state university
Candidate of Economics, Assistant Professor at the Financial Management Department
dbikchantaeva@mail.ru,
Nail Gabdullin
Kazan (Volga Region) state university
Candidate of Economics, Assistant Professor at the Financial Management Department
nail56@yandex.ru

Abstract. Globalization represents the process of integration of different societies and countries. This phenomenon encompasses the flow of goods, services, labor, finance, information and ideas which spread across national borders. The frequency and intensity of these flows are related to the upward or the downward trends of globalization as a tendency. Globalization is defined as a process which is based on international strategies aimed at expanding business operations on a global level. It originates from the facilitation in global communications due to the technological advance and social and economic, political and environmental developments.

The goal of globalization is to ensure that companies and enterprises can achieve the highest competitive positions at lower operating costs in order to cover a greater number of products, services and consumers. This approach to competition can be accomplished through a diversification of resources, the creation and development of new investment opportunities by opening up additional markets and ensuring access to new raw materials and resources. The diversification of resources is a business strategy that aims to boost the diversity of business products and services in various companies. Diversification reinforces institutions by lowering organization risk factors, spreading the interests of firms in different areas, taking advantage of market opportunities and acquiring companies of both horizontal and vertical nature.

Keywords: globalization, economy, finance, GDP, business, industry, factors in the formation and implementation of industry development strategies.

1 Introduction

Globalization can be defined as the integration of business, people, and states. In the modern context, globalization is usually the result of close ties in international trade, known as bilateral trade agreements. This growth in investments is conducive to the growth of information technologies and communications which have evolved significantly over the last two decades with the advent of the Internet and mobile telephony [7, p. 37].

The global strategies encompass three areas: global, transnational and international strategies. These three areas are related to those strategies which enable companies to achieve their goals in the international expansion.

The international strategy implies that the priority objectives of the company lie in entering the domestic market of another country. The main competitive advantage of this strategy, one crucial to its development, must be developed mainly for the domestic market of this country.

Implementing a multinational strategy involves a company participating in taking over a few markets outside of their country. The main competitive advantage is determined separately for each country.

In implementing a global strategy, a company should be oriented at the global market. The main competitive advantage must be developed on a global basis [4, p. 110].

The three strategies outlined above cover the core capabilities of the importer [2, p. 60].

A global strategy must define the extent of a company's presence in the market, the ways for this company to achieve the necessary level of global presence, the best niches in the markets for the various activities of this company to fit in and how the company can turn its presence on the markets into a global competitive advantage [9, p.5].

Globalization forces companies to adapt to different strategies based on new ideological trends that aim to balance the rights and interests of both individuals and society as a whole. This change enables companies to compete worldwide as well as signifying a dramatic transformation for leaders in business, labor and management allowing for employees and governments to be legitimately involved in implementing the policy and strategy pursued by the company. Risk reduction through diversification can be achieved by the involvement of a company with international financial institutions and cooperation with local and international companies [5, p. 58].

2 Methodological Framework

The methodological basis of this study was the results of advanced fundamental and applied domestic and foreign research on the problems of globalization.

The study of the theory of the question of the globalization was conducted using general scientific methods of cognition, including theoretical studies (analysis, synthesis, aggregation). The impact of globalization on various spheres of the economy is assessed using comparative analysis methods.

3 Results

Industrialized countries with high levels of economic development seek to achieve certain social and economic criteria based on the economic theory, such as gross domestic product (GDP), industrialization and human development index (HDI) as defined by the International Monetary Fund (IMF), the United Nations (UN) and the World Trade Organization (WTO). A number of industrialized countries (Great Britain, Belgium, Denmark, Finland, France, Germany, Japan, Luxembourg, Norway, Sweden, Switzerland and the United States) calculate the feasibility of their own global export and import operations through these indicators [1, p. 15].

Globalization components include GDP, industrialization and human development index (HDI) [11]. GDP is the market value of all the finished goods and services produced within a country per annum, which serves as a measure of the total production in the country. Industrialization is the process of implementing social change and economic development through technological innovations that transform a country into a developed and modernized industrial state. The human development index is comprised of three components: the life expectancy of the population in the country, knowledge (education) which is measured by the level of adult literacy and the household income [8, p. 75]. The US and China have the highest GDP [3, p. 18].

Globalization is influenced by the informatization of all sectors of the economy and, accordingly, the system of risks that arise with these processes [12,13].

The degree to which a company undergoes globalization and diversification finds expression in the strategies it pursues in order to achieve a higher level of development and investment opportunities.

Globalization brings about the reorganization of companies at international, national and sub-national levels. This phenomenon stems from three main factors: the globalization of all commodity and financial markets, technologies and deregulation [10, p. 86,11,12].

The globalization of commodity and financial markets lies in the growing economic integration, specialization and economies of scale that lead to a greater volume of trade in financial services through capital flows and cross-border activities of countries.

The technological factor, and the factor of communication and availability of information, in particular, facilitates remote delivery. It has provided access to new distribution channels in the reconstruction of the industrial areas for financial services which enables the development of non-bank organizations such as telecommunications and utilities. Deregulation lies in the liberalization of accounts for capital transactions and financial services related to products and markets. It brings together banks, offering a wide range of services, allows for introducing new suppliers and contributes to the extent of multinational presence in many markets and the intensification of cross-border activities [10, p. 87,13].

Global strategic planning (GSP) is a process adopted by a company which operates at the international level in order to develop an effective global strategy. GSP represents a process where multinational companies assess the internal and external environment and decide on how they are going to achieve their long -term and short-term goals [6, p.10]. Globalization requires transformations to be made in the mission of the company, shifts in its core competencies, structure, processes and culture. In consequence, this leads to leaders underestimating the major differences between managing international operations, multinational enterprises and managing a global corporation. At present, it takes a company five stages to become global [8, p. 77,14].

At the first stage (market entry), companies tend to enter new countries where the business models are very similar to those that these companies apply in their domestic markets. However, in order to get through to local customers, they often have to adjust production capabilities, gain a local presence due to the nature of their businesses (both in service industries and in foods retail sales or banking) or due to local regulatory restrictions enforced in the country (like the automotive industry).

At the second stage (product specialization), companies concentrate the entire production process of a certain product in one location at low production costs. From that point on, export goods are shipped to various consumer markets. Under this scenario, different locations begin to specialize in the production of different products or components; finished goods are sold.

The third stage (a breakdown of cost) represents the next step in globalization: companies form an infrastructure from the supply chain. At this stage, companies begin to divide the production process and the execution of each activity by localizing them in the most beneficial locations. The individual components of one product can be manufactured in several different locations and assembled into the final product elsewhere. For example, the computer industry where companies oftentimes decide to move some of their business processes and information technologies to offshores.[15]

At the fourth stage (value re-engineering services), companies seek to further boost their savings by re-engineering their processes with due regard to the local market conditions, in particular, by decreasing the threshold of the lower cost labor for capital. For instance, the Department of Medical Equipment in General Electric (GE) was adapted to production processes abroad so as to take advantage of low labor costs. Not only did the company use more labor-intensive production processes but it also engaged in the design and building of equipment for its plants locally.

Finally, at the fifth stage (creating new markets), the focus is on market expansion. According to estimates from the McKinsey Global Institute, the third and fourth stages leave the potential for costs to be marked down in more than 50% of firms in many industries which gives companies the opportunity to offer a significant reduction in the price list for old and new products and to foster demand. It is important that the cost of new revenue receipts at this last stage often exceeds the expenses related to cost savings at the other stages [8, p. 79].

The leaders of large industrial enterprises are anxious to secure an enduring global competitive advantage. The approach to this problem must focus on the driving forces and principles of globalization in the industry and attempt to determine how these elements shape strategic choices [6, p.12].

In order to identify the main strategic areas, the researchers who study globalization processes in the economy need to find answers to several questions. Why is it that some industries are more competitive in the context of globalization than others and why is it that global-industry businesses appear to be concentrated in certain countries or regions? These issues are as relevant as issues related to the state policy because governments seek to create effective policies for attracting and retaining capital in the most promising industries. Therefore, companies must anticipate changes in global competition and its benefits.

The fact that some industries are globally more competitive than others is contributed to by a number of cooperative strategies between players on the international markets and a whole number of strategic actions in the country of origin of the industry area.

At the same time, it is worth noting that competition models are not static. All industries are constantly evolving, but the trend of their development varies. Similarly, the focus of state action in a variety of industries is shifting as well. These areas of trade policy may change as priorities change and as the global competitive environment develops. A global strategy may be appropriate in industries where firms face strong pressure to cut costs while the pressure on local branches is weak which allows these firms to sell a standardized product worldwide [1, 20]. Positive and negative assessments of the impact of globalization on industry products are presented in figures 1 and 2, respectively.

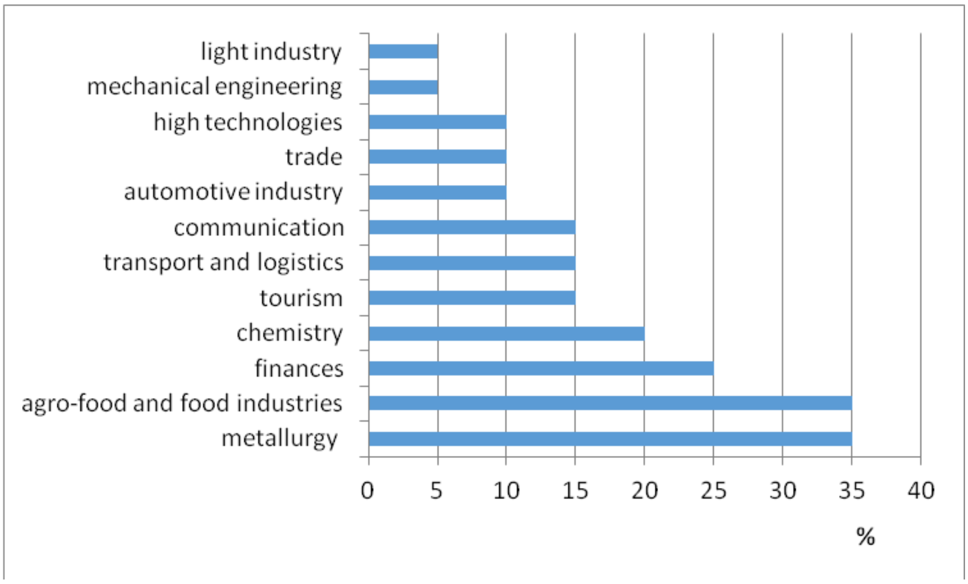

Fig. 1. The sectors of the economy which benefit from globalization [1, p. 20]

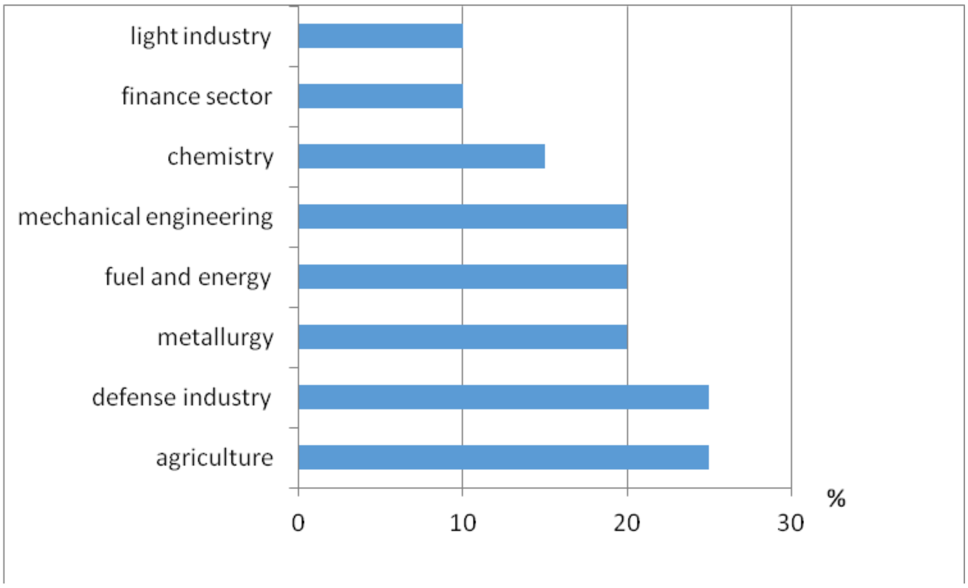

Fig. 2. The sectors of the economy to which globalization is harmful [1, p. 21]

The main factors of globalization that are conducive to an innovative growth of the industry and the national economy as a whole are presented in table 1.

Table 1 The factors of the globalization processes shaping the innovative export-import business of a country

Factor	Tool (mechanism)	Result
Developing research, R&D	Selecting high-tech disciplines for sponsoring, subsidies and incentives	Developing the economy and security system of the country.
A growth of economic and social indicators of the state	Priority social and economic domains of science, technology and production	The creation of new-generation high-tech products
Integrating the country in global trade	The creation of "groundbreaking innovations"	Solving complex technological, financial and social and economic problems
The growth of the national economy's competitiveness	Focus on the innovative way to shape the national economy	The progress of macroeconomic indicators and sectoral development
Changing the international competition environment	The generation of import and export perturbing factors (state pressure on firms-importers, the protection of national sellers)	Providing policy support instruments to research, a consolidation of resources and assets
Shaping the fundamental sectors of the national economy	The application of research technologies and the production of goods with high intellectual labor costs	Stimulating the system for creation, development and commercialization for the production of innovative products

4 Conclusions

A firm can achieve savings through the economy of scale to improve its margins due to low prices through the global strategy.

One of the major potential benefits of globalization is providing opportunities to reduce the macroeconomic instability of production and consumption through a diversification of risks. The evidence of globalization's impact on the macroeconomic instability of firms furnished in this paper shows that despite the fact that the direct effects of the globalization processes are interpreted ambiguously in theoretical models, financial integration does contribute to the development of production, diversification and a higher specialization of production. However, the specialization of production based on the concept of comparative advantages can also lead to a higher volatility in some sectors in the economy. In the future, it is those companies that become part of the global economy that will be successful companies.

The following conclusions can be made in regard to the impact of globalization on economic development.

– Enterprises and companies that seek to globalize their activities, implement a global strategy in several stages with each stage presenting different opportunities and challenges associated with creating value.

– In terms of globalization, the financial performance of a company within its respective country is not significant. The issue of globalization lies in the extent of efficiency of its international subsidiaries and their global competition.

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