

## Globalization

People have been exchanging goods and ideas on a global scale for millennia, but in the past few decades since the fall of the Berlin wall, the opening up of capital markets, and the reduction in trade tariffs, the pace of global connectivity has greatly increased with about a hundred countries having come into the global economy.

This dense network of interconnections and interdependencies that have emerged on the global scale over the past few decades is a key source of heightened complexity and primary shaper of the 21<sup>st</sup> century environment in which organizations operate.

In this section we will be looking at one of the most robust theoretical frameworks for structuring this complex environment organizations operate in today, namely the theory of globalization, which is one of the most powerful theories employed by researchers to capture the breadth, depth and pace of change underway in human society in the early 21<sup>st</sup> century.

Globalization represents the proliferation of relations on a global scale. Through these interactions, elements within the global economy become differentiated or specialized with respect to each other – thus, emerging some form of global coordination and organization. But let's start from the beginning.

Before the advent of industrial technologies, the capacity to maintain some form of global relation was highly costly, and thus, the privilege of a tiny minority of any society. The aristocratic women of the Roman Empire could wear fine silk garments imported from China but the vast majority of people lived out their lives interacting only with their local social, cultural and physical environment. Tribes, clans, lordships and other forms of traditional societies were organized around a cosmoses of local level interactions and relations.

With the advent of industrial technologies such as the steam engine and later the telephone and radio, the mass of society could communicate with people and travel to places far from their indigenous locality. Economic industrialization went hand in hand with the rise of the modern nation state, as transportation technologies enabled people to experience a wider geographic area as if it was one. National culture was fostered and sustained through the telephone, radio and later the television, which allowed a geographically dispersed population to share their collective set of ideals and experiences.

Today, the modern nation state is the primary macro-scale system of organization in the world. Sovereign states are designed to have supreme and independent authority over a geographic area. All organizations on the regional and the international level operate through, or are regulated by the machinery of the nation state.

Thus the nation state represents a whole world of cultural, social, economic and technological relations on a particular geographical scale, and it is the fundamental organizational structure of an industrial society.

But whereas the industrial technologies of the railway, automobile, radio and newspaper enabled the modern state, the advanced industrial technologies of information, communications and global transportation are interconnecting people and places in a way that goes beyond the paradigm of the nation state. The global connections that these technologies enable, whether they are airline routes, the flow of financial capital, or supply chains, they all start local and travel globally with little reference to the national level.

Coupled with the rise of these technologies has been the development of economic institutions that have enabled the emergence of our high-tech global economy, such as multinational corporations, international trade agreements, and the complex set of financial institutions that interact through the global capital and money markets. Today, these economic organizations and the rapid technological development that enables them represent the most powerful force driving the global economy forward as they disaggregate the previously, vertically integrated, well-bounded industrial economies of the nation state and transform them into global networks.

So the core structural dynamic of the process of globalization is a shift from a system that was or is primarily organized through the well-defined, well-bounded centralized structure of nation states, to one that is increasingly defined as a multi-dimensional set of global networks. This is a much more complex world that exhibits the classical properties of complex systems such as nonlinearity, interdependency, heterogeneity, decentralized control and heightened connectivity. We will take a look at some examples of each of these in more detail before wrapping up.

**Firstly Heightened Connectivity:** The growth in connectivity within almost all areas over the past few decades has been rapid and unrelenting. Barriers to the flow of goods, people, information and ideas have diminished as the world becomes flatter. Today, the interconnects and interdependency within our global economy are deep, multidimensional and often unknown. It makes the world more volatile, uncertain, and this form of connectivity particularly within our information systems and financial systems is a key source of complexity that requires us to change our analysis of the environment from a component based view of the world that was relevant when we were dealing with well-bounded organizations, to a relational view which allows us to focus on these global processes and the networks that have become the key drivers.

**Secondly Interdependency:** The reduction in national boundaries and heightened global connectivity means events can propagate through the system rapidly. The financial crisis of 2007 is a good example where an event within one relatively small part of a nation's financial system rapidly spread to affect almost all economies, showing how we are increasingly dealing with an integrated system and no one element has autonomy but all are interdependent. Increasingly, if an individual or organization of people care about their own future they need to care about the future of others.

**Thirdly Nonlinearity:** Within the industrial model, political and economic capability and resources were primarily invested in a limited number of large organizations. Large effects within the global system were caused by large players. Analyzing the system and modeling its future trajectory was a much simpler equation of understanding the objectives of these primary stakeholders. Today, technology enables small startups to disrupt large incumbents and restructure whole markets. Governments spend trillions on fighting small terrorist organizations and still fail. Teenage hackers can manipulate information systems that whole societies depend upon. In this nonlinear world small actors can have large effects whilst large actors can have insignificant effects. Analyzing the current state of such a system is difficult. Developing a prognosis of its future trajectory is virtually impossible.

**Lastly Decentralization & Heterogeneity:** Whereas previously, global systems of organization were primarily governed and run by a small group of western countries that shared a common cultural and ideological consensus, this framework that operates through the United Nations, IMF and the G7 among others, is increasingly a misrepresentation as economic and political power become increasingly decentralized and globally distributed. Coupled with this is the shift from what has been called a G1 world with one dominant super power to a G0 world where there is no one dominant node but a more complex network of international relations between actors that have vastly heterogeneous economic, cultural and political systems.

In this section, we have tried to make sense of the complex environment within which organizations operate today through the lens of the theory of globalization that understands this environment as the product of the proliferation of global networks that are enabled by advanced industrial technologies, and operated primarily by powerful economic institutions. Thus, we can contextualize the current period as a transition from a national level of organization to a global level of networked organization. Increased global connectivity and interdependence on multiple levels is one of the fundamental processes set to continue shaping the world we operate in as we transit deeper into the 21<sup>st</sup> century.