Two laws for global business

A book by Pankaj Ghemawat lays out two evidence-backed laws that have far-reaching implications for international business.

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The book by Pankaj Ghemawat — *The Laws of Globalization and Business Applications* (Cambridge University Press) — builds on Ghemawat's previous work in global strategy to present two evidence-backed laws that apply to international activity at the firm, industry and country levels.

1. **The Law of Semiglobalization.** Simply put, international interactions, while non-negligible, are significantly less intense than domestic interactions. The borders that separate countries still matter.
2. **The Law of Distance.** This rule observes that international interactions are

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dampened by distance along Cultural, Administrative and Geographic dimensions and are often affected by Economic distance as well, which he refers to as the CAGE distance framework in writing about global strategy.

These two laws of globalization are observable and have far-reaching implications for business, some of which are explored in the book's 11 chapters.

Starting with semiglobalization

Part I of this book focuses on marshaling evidence in support of **The Law of Semiglobalization** at the country and business levels. In an era of uncertainty about whether globalization is advancing or retreating, it draws upon the dataset assembled for the DHL Global Connectedness Index to track the intensity of country-level trade, capital, information and people flows, and how they are evolving.

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Turning from the country to the company level, the analysis reaches beyond measuring the overall internationalization of firms to examine patterns within individual functions: marketing, operations, finance, human resources, etc.

Additionally, it places recent evidence in historical perspective by examining similarities and differences between the current wave of globalization and the one that peaked roughly a century earlier.

Gravity models for distance

Part II presents evidence supporting **The Law of Distance**, showing that the gravity models that international economists have used to analyze merchandise trade between countries also apply to other types of international interactions.

Similar models estimated at the industry and firm levels promise useful new insights for executives. These models can reveal variations in distance sensitivity and point to what executives might do to help their firms become more capable at operating across multiple dimensions of distance.

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Practical business applications

Part III then puts the two laws to work by applying them to challenges and opportunities that distance along various dimensions presents to multinational firms.

First, the author teams up with his colleague at IESE, B. Sebastian Reiche, to look at subjective vs. objective measures of cultural distance and national cultural differences.

Next, Thomas M. Hout, who works with Boston Consulting Group and other institutions, helps the author explore administrative distance implied by variations in business ownership and governance around the world.

With Steven A. Altman of New York University, the final two chapters look first at geographic distance (and regionalization) and then economic distance and the big shift to emerging economies now underway.

READ ALSO: **Globalization: Time for Policy to Reflect the Big Shift**

The Laws of Globalization and Business Applications is aimed at academics, graduate and advanced undergraduate students, and policymakers in both the business and public spheres.

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