

# Plugging the globalization knowledge gap

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**The world may only be around 10-25 percent globalized, but to take advantage of the opportunities presented by semi-globalization, today's firms demand more international business knowledge from graduates.**

In recent years, the Big Four accounting firms in the United States have all launched curricular initiatives on International Financial Reporting Standards (IFRS).

PricewaterhouseCoopers has even gone so far as to specify IFRS awareness levels for new recruits.

If companies so clearly need their personnel to know this global financial information, why haven't business graduates learned about it before they get to the workplace?

According to IESE Prof. [Pankaj Ghemawat](#), the answer is that business school curricula are generally not as globalized as they should be.

Ghemawat says, "If business schools are serious about ensuring that their graduates have the global awareness and competencies needed to succeed in a global business environment, then the necessary place for schools to start is by paying more attention to the content of their courses."

To this end, Ghemawat worked for several years in parallel on the task force on the Globalization of Management Education set up by the Association to Advance Collegiate Schools of Business (AACSB) and on the development of the Globalization of Business Enterprise (GLOBE) course for the first year of the MBA program at IESE.

GLOBE, together with the accompanying Globalization Note Series, focuses on levels of cross-border integration, cross-country differences, and the costs and benefits of globalization.

Robert F. Bruner, the Dean of the Darden Graduate School of Business at the University of Virginia and the chairman of the AACSB task force, has described this material as "the iconic course-in-a-box on a subject of great importance to business schools."

The AACSB recently began to recommend and distribute GLOBE materials to its member schools. The GLOBE course materials are also available online and will be updated over time at [www.ghemawat.com/globecourse](http://www.ghemawat.com/globecourse).

## **The reality of semi-globalization**

How globalized do you think the world currently is? You may be surprised to learn that the answer is only about 10-25 percent.

In the first note on the globalization of markets, Ghemawat roundly debunks the myth that the world is now flat, citing statistics for various cross-border flows -- from trade and FDI, to people and information.

For example, cross-border trade currently accounts for around 29 percent of world GDP. In fact, some countries are barely more globalized than they were 100 years ago.

With regard to people flows, in 2008 immigrants made up just 3.1 percent of the world population. Despite recent leaps and bounds in technological advancement, cross-border information flows are still limited, with just 1.5 percent of all telephone calling minutes and 16-17 percent of Internet traffic actually crossing international borders.

## **Multinationals as motors powering integration**

Multinational corporations are often regarded as the visible hand of globalization. Ghemawat's second note argues that this is not far off the mark. He looks at how firms have extended themselves across national borders.

While large firms are shown to be much more globalized than small ones, many small- and medium-sized enterprises (SMEs) are also active in international markets. For example, in Italy and Sweden, they make up 90 percent of exporting firms, but the total value of their exports is much lower -- 58 percent and 29 percent, respectively.

FDI tells a similar story, with the bulk of actual investment accounted for by large firms.

However, even the largest multinationals still tend to have a strong home bias. Of the Fortune Global 500, 88 percent derive more than 50 percent of their sales from their home regions.

Ghemawat looks at how these firms approach various functions when operating across borders. For example, when it comes to marketing, firms need to take care to adapt to the country they operate in.

In the areas of operations, R&D, finance, accounting and people management, Ghemawat finds that, while multinationals do seem to lead the way in terms of cross-border integration, much work remains to be done.

## **Implications of national cultural differences**

Cultural differences shape behaviors, and therefore, how people do business. These differences are particularly salient for multinationals coming up against multiple cultures on a daily basis.

In the third note in the series, IESE Prof. B. [Sebastian Reiche](#) joins Ghemawat in addressing national cultural differences and multinational business.

The authors start by focusing on one of Geert Hofstede's dimensions of cultural difference: power distance. This is the degree to which a culture accepts and reinforces the fact that power is distributed unevenly in society.

For an example of how a difference like power distance can affect business functions and activities, consider the fact that 63 percent of humorous television advertisements in Thailand and South Korea (countries with high power distance) contain characters of unequal status, versus only 29 percent in the United States and Germany (countries with low power distance).

Multinationals would do well to take into account such differences, and not just within marketing. Sending a junior negotiator into a meeting with representatives from a high power distance culture, for example, could mean trouble.

However, tailoring the various branches of a multinational firm to the different cultures in which they operate is not cheap. So, targeting countries with similar cultures, or with a large

home country diaspora, can be useful.

Failing that, participating in joint ventures, creating a strong corporate culture, and increasing the diversity of management teams are some other ways to reduce the need for variation.

## **Firm control around the world**

Capitalism may have prevailed over socialism in recent decades, but contrary to what may be taught in the classroom, the U.S. brand of capitalism is not omnipresent.

In what is currently the final note, Thomas Hout joins Ghemawat in looking at the different types of ownership of the largest publicly traded corporations worldwide.

What they find is that 30 percent are controlled by families, 18 percent by the state, 15 percent by a particular group and 37 percent are widely held by shareholders.

Since the widely held shareholder firm isn't for every economy, neither are equity markets. While market capitalizations in some countries with a British financial heritage tend to exceed GDP, in many developing countries they account for less than 10 percent.

Labor rights and regulations also vary greatly from country to country. The authors report a negative relationship between labor rights and external equity finance.

While the United Kingdom and the United States both score low on the former and high on the latter, other developed countries such as France and Germany, alongside many developing countries, exhibit the opposite pattern.

The authors propose possible explanations for these patterns, based on a country's legal system, religious heritage and power distance index.

Although it is impossible to know in advance all the administrative intricacies of all the countries where one might do business, this note serves as a useful starting point to learn about the various ways in which capitalist economies approach ownership and control, access to capital and labor relations.

Ghemawat plans to add other notes to the series, and to publish the compilation as a book.

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