Globalization under fire: How should leaders respond?

Most leaders perceive globalization as greater than it is, which can lead to costly errors. This article debunks the myths and proposes alternative ways of thinking about strategy.



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By [Pankaj Ghemawat]

"Globalization is in retreat." That was the assessment of Larry Fink, CEO of the multitrillion-

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dollar investment firm BlackRock, earlier this year. In an open letter to fellow CEOs, he wrote that the "expectation for continued globalization (has) been upended," citing everything from Brexit, to turmoil in the Middle East, to U.S. President Donald J. Trump's tearing up of the playbook on trade and multilateral relations.

Indeed, as Trump threatens to "build that wall" and pull out of international free trade agreements like NAFTA, some U.S. companies have announced they are scaling back their overseas operations and cancelling planned investments abroad in order to bring jobs back home. Is the global firm, "the biggest business idea of the past three decades," in as "deep trouble" as *The Economist* has proclaimed?

Not so fast. For years, I have been arguing that much of the rhetoric around globalization — that the world was becoming "flat" and that businesses would enjoy endless, unfettered access to markets without borders — was hyperbolic, so the reactions we are now seeing need to be put into proper perspective. Before jumping on the bandwagon and pulling up the drawbridge, business leaders should make sure they have an accurate picture of what's actually happening in the world today.

This article provides a more levelheaded look at globalization — one that acknowledges the climate of anger that is out there, but that doesn't overreact. It begins by debunking dangerous myths about globalization. Then, it turns to strategy, articulating a set of recommendations grounded in two *laws of globalization*. Next, it covers nonmarket strategy considerations related to firms' broader societal engagement. Finally, it argues that firms should become more cosmopolitan and discusses how to foster this kind of change.

Get rid of the globaloney

Before Brexit, Michael Gove of the leave campaign famously summed up the zeitgeist when he said that people "have had enough of experts." Over the past year, Trump and his surrogates have dubbed anything that doesn't fit their worldview as "fake news" and proffered "alternative facts" instead. With trust in government and big business hitting all-time lows, objective reality is taking a back seat to personal feelings and perceptions. This is what is known as "post-truth," which was Oxford Dictionaries' word of the year for 2016.

In many ways, the current backlash against globalization is symptomatic of "post-truth" thinking. For example, in three separate surveys, Britons estimated that first-generation immigrants comprised 24-31 percent of the U.K. population, and in the run-up to Brexit, leave campaigners constantly invoked the fear of the world being taken over by "unelected

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bureaucrats." Americans, meanwhile, are convinced that everything is now made in China, so they need to fight back and protect their businesses. A check of the data, however, shows that none of these convictions is true.

When Britons find out that the proportion of immigrants in the U.K. is only 13 percent, their concern that there are too many of them drops by more than 40 percent. The total number of employees not just of the European Union but of all international organizations, including the United Nations and World Bank, adds up to less than 0.1 percent of the total number of people employed by governments around the world, even after excluding employees of state-owned enterprises. Products made in China accounted for only 2.7 percent of U.S. personal consumption expenditures in 2010, and over half of that amount actually went to U.S. distributors and retailers.

In survey after survey I have done over the years, executives consistently overestimate the true state of globalization.

In my most recent (2017) survey of 1,000-plus managers in six countries, they considered trade, capital, information and people flows to be five times as internationalized as they actually were. They believed that globalization had increased steadily in recent years — when it had not.

Executives are off, not just on specific metrics, but on broad characterizations of globalization and its enablers. A majority still think "the world is flat" — what Thomas Friedman described in his book of that title as "a global, Web-enabled playing field that allows for collaboration on research and work in real time, without regard to geography, distance or, in the near future, even language." My research shows that geography, distance and language are precisely the kinds of factors that constrain international activity and challenge multinational firms.

Before even thinking about reworking your company's multinational strategy, societal engagement or organizational leadership, you first have to correct your own intuitions about globalization. If not, your international business strategies and policies will be predicated on erroneous perceptions. Consequently, you might end up ignoring the importance of local differences when operating abroad, or play up the gains while downplaying the difficulties, as my surveys reveal managers frequently do.

Don't let the debate about globalization turn into guesswork. Study the data. A good place to see how globalization is actually evolving is in the biennial DHL Global Connectedness Index that Steven Altman and I compile. It tracks cross-border flows of trade, capital, information

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and people worldwide and profiles the international activity of 140 countries. What we find is that the sentiments have moved around more than the actual numbers have. For business, conditions aren't as gloomy as the current public mood, political discourse or tone of media coverage would lead us to believe.

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