



## PART 2: WHAT CAN BUSINESSES DO IF GLOBALIZATION UNRAVELS?

BUSINESS LEADERS FACE SIGNIFICANT RISKS IF THE WORLD BECOMES MORE FRAGMENTED. BUT THERE IS MUCH THEY CAN ALREADY DO TO AVOID IT AND CREATE INSTEAD A NEW, MORE SUSTAINABLE GLOBALIZATION

By IMD Professor Stéphane J.G. Girod

**IMD**  
Chemin de Bellerive 23  
PO Box 915,  
CH-1001 Lausanne  
Switzerland

Tel: +41 21 618 01 11  
Fax: +41 21 618 07 07  
info@imd.org  
www.imd.org

As we discovered in Part 1, globalization may be reaching a tipping point and could be beginning to reverse. Although we live in a semi-globalized world, if the level of globalization we have achieved unraveled, we would go back to total fragmentation. This could be followed by economic depression, perhaps even devastating wars.

What can business leaders do when faced with an increased risk of globalization unravelling? Many business leaders think that this is primarily a task for government and that politicians have themselves to blame for the rising popular tide against globalization in the West. But businesses have not only benefited from taxation and monetary policy gaps, they have lobbied to shape some of them. A more constructive approach should be about what businesses can do to prompt and support better policy formulation.

Globalization has been an overall positive force that has created wealth and lifted millions out of poverty. But it has also created staggering inequality and therefore it has to change.

Business leaders have much to gain by saving globalization from itself. They have to think about how to create a more sustainable path of globalization. Here are some suggestions for what they can start doing about it now:

Business executives need to reconsider the short-term vs long-term tradeoffs when they make decisions, with a rebalancing towards decisions that favor the longer term. In practice, this means that companies should have in mind that safeguarding the benefits of globalization for all stakeholders while correcting some of its flaws is in their long-term interest even if it means inflated costs and reduced profits in the short term.

To create a more sustainable form of globalization, business leaders can use a new decision framework. This framework allows them, first, to think about how they formulate strategy in this new context and, second, to envision new decisions on the operational front.

From a strategy perspective, business leaders can develop a vision for maintaining the relevance of their business to all stakeholders and secure their firm's longer term survival by focusing on the following:

- **The local-global tradeoff:** Globalization will survive if businesses can create local capabilities that make a difference to the wellbeing of the population of host countries, rather than exploit labor cost differentials. But in this trade-off they will also have to more and more think about the impact on home-country societies.
- **Competitive positioning:** Western businesses have lobbied in the past thirty years for the removal of trade and FDI barriers so that they could reduce costs by exploiting arbitrage opportunities between high and low cost countries. By contrast, Chinese and Indian businesses that expanded abroad have been more respectful of the employment in the countries where they have acquired companies.
- **Key resources and capabilities:** Business leaders should ask themselves how they can help the net losers of globalization tempted by the sirens of protectionism in Western economies. A lot of the concern comes from unemployment and the lack of skills, which traps people into lives without prospects. This could mean supplementing, sponsoring or leading governmental initiatives that engage in large-scale training of under-skilled individuals, in new sorts of public-private partnerships.
- **Engagement with the institutional environment:** Many business leaders who want to embrace a longer-term perspective face an uphill battle because stock markets are short-term oriented. Others might not be willing to change because their own incentives are aligned with those short-term gains. A dialogue with shareholders is necessary and should include rewards for top leaders that take a longer-term perspective.

In terms of the supporting operational decision responses, there are concrete initiatives business leaders can take to redesign their operating model to support this new vision:

- **Organization structure:** Empower all employees to act as ambassadors for creating a positive narrative of their company contributions to societies to reverse the current perception that globalization is unfair. This goes beyond publishing CSR reports for an elitist and very well-educated public, for example by taking the conversations to social medias.
- **Digital technologies:** Technology is often perceived as oppressive because many companies use it to cut costs. With the prospects of advanced robotics and artificial intelligence transforming the job prospects of hundreds of millions in the near future, engaging with this perceived threat, a black swan for globalization, is critical. If companies can engage societies by showcasing how they will use the new technologies and the impact they will really have on employment, they might make a better case for globalization right now. The trouble is that too many leaders I have met still think this is too far off to focus on. Once again, taking the longer-term view is critical today.
- **Management process:** Multinationals should stop fiddling with tax loopholes, even if they are legal. Questionable practices by multinationals stoke popular resentment and diminish states' ability to correct inequalities.
- **Leadership and culture:** As powerful drivers of culture and behaviors, financial incentives should not only be short-term but should take the long-term also into consideration. Embed sustainability and environmental issues in everything your company does, do not just pay lip service to these issues.

Assuming we can fundamentally overturn the negative impacts that globalization has had on our natural world, economic globalization is a positive thing. Business leaders have the power to positively reboot globalization but by placing it on a fairer and more sustainable track. They should proactively and constructively work together with politicians and the other actors of globalization.

If they don't we'll all pay the price.

[Stéphane J. G. Girod](#) is Professor of Strategy and International Business at IMD. He discusses globalization on IMD's Wednesday Webcast [part 3](#).

## Related Programs



**John Walsh**  
Program Director

### **BUILDING ON TALENT - <http://www.imd.org/bot>**

#### **Developing the next generation of leaders**

Program Director John Walsh

- Deepen your understanding of business fundamentals
- Gain a solid foundation in the principles of leadership and a unique opportunity for self-development
- Consolidate your learning through an "action learning" integrative project
- Get ready for IMD's Executive MBA program



### **ORCHESTRATING WINNING PERFORMANCE**

### **ORCHESTRATING WINNING PERFORMANCE - <http://www.imd.org/owp>**

#### **Create your own learning journey**

Program Directors Michael Wade and Dominique Turpin

- Get exposed to the latest management thinking and to practical and innovative solutions for your business
- Anticipate global business trends
- Boost your performance, broaden your perspectives and expand your global network
- Design the program that suits you and your team
- Become a complete executive through activities that develop your mental, physical, and emotional health