Globalization from a Business Leader's Point of View

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Protests at the 1999 WTO Ministerial Conference brought public attention to the controversy of globalization. The so-called Battle in Seattle began peacefully but ended with tear gas, hundreds of arrests, and a state of emergency imposed by the mayor. The unruly crowd that came to embody the anti-globalization movement contrasts with the face of the pro-globalization movement, which can be found each January among the staid and well-heeled attendees of the World Economic Forum. Globalization, as it weaves together economic, social, and cultural issues across borders, has brought profound changes in the past few decades. Strong reactions both for and against globalization point to the reality that it has produced both benefits and problems, winners and losers. This article examines the rise of globalization and explores its benefits and drawbacks, as seen from the perspective of multinational corporations. It then proposes a new approach to ensuring that corporations help society make the most of globalization's benefits while limiting its drawbacks. The article reflects the author's own observations as a former Fortune 500 CEO with more than three decades' experience working at firms such as McKinsey & Company, the worldwide management consulting firm; Nike, Inc., the global sports company; and Starwood Hotels and Resorts, which manages properties in over 100 countries.

Globalization is a pervasive feature of everyday life. The simple routine of waking up, getting dressed, drinking coffee, and checking a smartphone is made

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possible by an array of products, services, and supply chains that cut across borders. Digital technology and communications will help businesses further extend their reach across borders as they search for lower labor costs, cheaper natural resources, greater production scale, and new markets. Globalization has helped pull many out of poverty. Along the way, it has also spawned global problems, namely environmental destruction, financial instability, cybercrime, and inequality. Private enterprise plays a central role in both the benefits and challenges of globalization. Put another way, companies account for the bulk of spending, investment, and employment in most economies. Therefore, the behavior of these companies will go a long way in determining whether globalization will do more good than harm. They have the power to manifest either the negative aspects of globalization or the positive ones. How can civil society ensure that corporations exert a net positive influence on the world surrounding them? This article argues that governments, nongovernmental organizations (NGOs), and individuals must play a crucial role in ensuring that these businesses do the right things. Governments can set global rules that align business incentives. NGOs can engage with business to share expertise and point business leaders in the right direction. Individuals can exercise influence—and responsibility—in their choices as consumers, investors, donors, and voters.

The Rise of Globalization

Corporations have had a hand in creating a more interdependent global economic system over the past decades. Traditional measures of cross-border trade and investment have increased by trillions of dollars, but even these measures do not capture just how integrated the global economy has become. Business activity across borders is a fact of everyday life. As a result, the economic system that brings jobs, goods, and services to so many people depends on the capacity of businesses to operate freely and responsibly across national boundaries. The Internet is accelerating this global interdependence.

In the past 40 years, international trade has risen from less than 30 percent of global GDP to 60 percent.[1] In 2012, cross-border business ownership, as reflected by foreign direct investment (FDI), totaled $22 trillion. Foreign-owned companies generated about 40 percent of global economic output.[2] In the author's own experience, global markets have served as a source of growth for U.S.-based companies. McKinsey & Company, for example, began as an American firm, and by 2015, over 80 of its 107 offices were located outside the United States.[3] Nike was originally set up to import footwear made in Japan for

U.S. consumers. By 2015 though, markets outside North America accounted for 56 percent of Nike's revenues.[4] Starwood Hotels & Resorts Worldwide reported in 2015 that nearly 80 percent of its planned hotel openings lay outside of the United States.[5]

Beyond these global growth statistics, many aspects of economic interdependence go unmeasured. Take, for example, a pair of Nike shoes imported into Europe. Only the factory cost is reflected in trade statistics. The price to consumers may be three to four times higher after adding in profit margins for Nike and for the retailer. So, for example, a pair of shoes that sells in a shop for 100 euros might have had an import value of about 30 euros. In other words, retail sales for these shoes are far greater than their measured import value. Global workflows are an everyday feature of corporate life as well. A Nike shoe imported into Europe may have been designed in the United States on Korean hardware for production at a Chinese factory. The marketing behind the shoe may have been created at global headquarters, distributed worldwide through social media, and translated into local languages for retailers in different countries.

The influence of intellectual property is also profound and difficult to measure. An owner of a Sheraton Hotel outside the United States pays fees to Starwood Hotels (the company that owns the Sheraton brand). The fees that are captured in official trade figures amount to approximately one-tenth of the total revenue of the hotel, even though all aspects of its construction and operation are touched by Starwood. This includes the brand itself, design and construction, day-to-day operations, training and staffing, and access to a global technology platform. Within the company, executives across countries regularly participate via conference calls and internal social media on global projects. Their collaboration leads to better global reservation systems, marketing platforms, and mobile applications that are all shared by over 1,000 Starwood hotels. Similarly, McKinsey colleagues routinely exchange best practices, expertise, and frameworks with teams serving clients around the world.[6] This kind of cross-border knowledge sharing helps the firm's worldwide clients, but it is undetected in any trade statistic.

Low-cost global communications, particularly the Internet, are accelerating global integration. For example, call centers and IT support services have created millions of jobs in countries as diverse as India, Ireland, and the Philippines.[7] There is much more to come. Internet users amounted to over three billion people–-more than 40 percent of the world's population–-as of 2015.[8] Without the Internet, it is inconceivable that Facebook could have connected 1.4 billion users in little more than a decade.[9] Airbnb (a mobile website that allows people to list, find, and rent lodging) offers accommodations in close to 200 countries. In less than 10 years, the website amassed more listings than the total number of rooms offered by Hilton, Marriott, and Starwood, combined.[10] Access to the Internet through mobile devices also set the stage for Uber to expand its taxi services to over 50 countries and 150 cities in just over five years.[11] Mobile access is projected to bring the Internet to five billion people by 2020.[12] Global economic integration is pervasive, and corporations have played a central role in globalization with all signs pointing to a continuation, or even an acceleration, of this trend.

The Benefits of Globalization

During the past 25 years, global living standards have improved drastically. Rising prosperity is projected to continue for some time. Global trade has played a key role in this rise. Economists have asserted since Adam Smith's *Wealth of Nations* in the eighteenth century that output and wealth grow when countries trade freely, allowing each country to produce the goods for which it has a comparative advantage. This theory is matched by the observation that prosperity and globalization have risen in tandem over the past few decades. Work by the World Economic Forum further shows that the more a country allows free flows of goods and services, the wealthier it is.[13] The author's own experience is that business has played a major role in global economic development as investment and knowledge transfer by global companies adds to capital formation and boosts worker productivity.

The past generation has seen unprecedented reduction of poverty. According to the World Bank, the share of the global population living on less than $1.25 per day fell from 36 percent in 1990 to 18 percent in 2010—projected to further fall to 9 percent in 2020.[14] In the export-oriented East Asia and Pacific region, the proportion of people living in extreme poverty fell from over 50 percent in 1990 to 11 percent in 2010.[15] The global middle class, meanwhile, roughly doubled in size from one to two billion people.[16] In the next 25 years, the global middle class is expected to swell to almost five billion people.[17]

Global economic integration through outsourcing, services, and manufacturing has contributed to this growth. Starwood's experience in China serves as one example. Thirty years ago, Starwood operated one Sheraton hotel in China; that property catered exclusively to foreign visitors. Fifteen years later, Starwood's presence had expanded to 12 properties. By 2015, travelers could stay at any of about 130 Starwood hotels in China. These hotels employ about 40,000 local residents.[18] The company plans to open about 100 more hotels in the next four or five years, which is projected to create around 30,000 jobs.[19] Employment at companies like Starwood offers workers an opportunity to learn skills and participate in the global economy. The operating procedures and techniques that employees learn at these hotels are the result of cumulative experience in hotel management from around the world. As skill levels and productivity increase, wages rise. In Starwood's case, wages at its Chinese properties often grew by more than 10 percent per year after adjusting for inflation.[20]

Rising wages of this sort are not a zero-sum game. Wealth in China creates new sources of growth for companies around the world. Today almost two-thirds of Starwood's hotel guests in China are Chinese nationals.[21] Very few Chinese traveled abroad 25 years ago. Chinese travelers now visit the company's hotels all over the world. In 2014, Chinese surpassed Americans for the number one spot in total spending abroad.[22] Nike's experience in China has been similar. The company first set up operations in the country to secure low-cost production of shoes and apparel; consumer retail sales were minimal.[23] Within a generation, however, China has become Nike's second-largest national market, accounting for 10 percent of the company's global revenue.[24]

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Another way to understand the role of business in globalization is to look at those few countries that have remained isolated. Perhaps the country least touched by globalization is North Korea. Its imports and exports are less than 1 percent of those of South Korea. Just 60 years ago, both countries were equally poor. Today, income per capita in North Korea is about one-twentieth of that in South Korea.[25] Comparing North Korea to globally integrated South Korea may seem like an unfair argument against isolationism. After all, North Korea is "among the most harshly repressive countries in the world."[26] It ranks, for example, 179th globally in terms of press freedom.[27] The comparison raises an important point, however. Globalization is the result of billions of choices made freely by consumers and companies. For any country remaining separate from the global economy, those choices are very limited.

One might argue that there is a middle ground between total isolation and participation in the global economy. An example of this can be found in Bhutan. Land-locked and topographically isolated, it has been largely shut off from the rest of the world. Though famous for shunning GDP in favor of Gross National

Happiness as a measurement of productivity, Bhutan is neither as isolated nor as idyllic as this seems to indicate. Its economy uniquely benefits from exports of hydroelectric power to India. The government also courts high-end tourism, supporting five-star hotels like Starwood's Le Meridien Thimphu, while about one-quarter of its people live on less than $1.25 per day.[28] Partial isolation of this kind is neither attractive nor practical.

Addressing The Problems of Globalization

Globalization has played a role in unprecedented poverty reduction, but it has come at the price of global problems. Business is at the center of both the benefits and the costs of global economic interdependence. More to the point, the behavior of businesses can determine whether globalization does more harm than good. Global companies are obligated to create value for their owners by meeting customer needs and by obeying rules. It stands to reason that if customer needs or rules change, so will company behaviors. The following section provides examples of how governments, NGOs, and individuals can influence private enterprise to promote environmental sustainability, financial stability, cybersecurity, and human rights. This kind of influence can ease problems caused by globalization.

Environmental Sustainability

Rapid climate change is a direct consequence of rising wealth and global trade. Economic activity has pushed greenhouse gas (GHG) concentrations higher than at any time in the last few hundred thousand years with the vast majority of scientists and peer-reviewed scientific studies accepting that human activity is causing climate change.[29] According to the International Panel on Climate Change, "continued emission of greenhouse gases will cause further warming and long-lasting changes in all components of the climate system, increasing the likelihood of severe, pervasive, and irreversible impacts for people and ecosystems."[30] Global coordination on GHG reductions began in 1992 with the Kyoto Protocol, and in 2014, 194 nations engaged in UN climate talks in Lima to set a framework for a global climate deal.[31] In the past year, the United States and China issued a Joint Announcement on Climate Change; however, these efforts have not created a binding regulatory structure to reduce GHG emissions.[32]

Businesses can and should do much more to reduce their carbon footprint. Governments can help by creating the right economic incentives. A universal carbon tax would bring the price of fossil fuels in line with the true social cost of their impact on climate change. Unfortunately, however, annual fossil-fuel subsidies around the world exceed $500 billion.[33] Moreover, NGOs can and should play a role. Conservation International (CI), an environmental NGO, helped Starwood realize the economic benefits of reducing its carbon footprint. Starwood found that investments to save energy and water generated attractive financial returns. Energy savings from replacing incandescent light bulbs with LED lighting, for example, paid off in less than one year. The extra cost to build a hotel that meets LEED certification requirements can be earned back in energy savings in five years or less. [34]

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Companies need to be prodded into realizing these benefits. Many of the techniques to build energy-efficient hotels, for example, are still new and relatively unknown. Construction companies have little incentive to change their behavior. They compete by delivering completed projects at set prices and therefore choose to avoid any upfront costs—even those that make buildings more efficient and pay off through lower energy and water bills. Real estate developers (who hire construction companies) may think in a similarly short-term or change-averse way. Well-considered regulation that would require sustainable building would make change happen faster. NGOs like CI can help build awareness among companies as well as governments. In jurisdictions where more efficient construction was mandated, such as Boulder, Colorado, hotel companies like Starwood would not be at a disadvantage to other brands in pushing developers to specify sustainable hotels. Similarly, banning incandescent lighting in Europe pushed the private sector to make economically and environmentally sensible choices.

In another example, effective legislation could have also helped Starwood ban shark fin soup from its menus much sooner than it did. In 2008, CI brought the problem to senior leadership at the company. The challenge for Starwood was that it does not own its hotels but rather manages properties on behalf of real estate investors. Convincing Chinese hotel owners to allow Starwood to remove this lucrative and culturally important banquet item took years of persuasion and education. Once Starwood announced the ban, however, other hotel companies scrambled to follow suit. Nike had a similar experience. It invested in research and testing to develop ways to produce shoes with far fewer petroleum-based solvents, even though those solvents were entirely legal. Once it perfected its technique, it made the know-how available to its competitors, even though it could have kept its approach proprietary. In these two situations, though Starwood and Nike did the right thing in creating better de facto industry standards, regulation could have sped up the process.

Both companies were motivated—at least in part—by the potential for consumer backlash. Consumer acceptance is an important motivator for companies. Starwood's Element hotel brand was positioned around its environmentally friendly practices; the brand's energy and water consumption is about 30 percent lower than typical hotels.[35] The brand drew a loyal following and guest satisfaction scores for Element were on a par with higher-priced luxury hotel brands.[36] The success of the brand's launch set the stage for more hotel brands of its kind.

Financial Stability

The financial crisis in 2008–2009 was another outgrowth of globalization. It revealed that the worldwide financial system—especially major financial institutions—was more fragile than many had believed. A housing bubble and irresponsible lending in the United States paralyzed capital markets. The American crisis spread around the world, bringing the entire global economy to the brink of collapse. For the author, as CEO of a large nonfinancial company, the speed with which the crisis spread from U.S. financial institutions to the global economy was unnerving. Finance is oxygen to business. Without access to capital, short-term liquidity issues can become fatal. Long-term projects are halted, sending ripple effects through the rest of the economy. Many of the benefits of globalization were put on hold and nearly undone. For example, Starwood was forced to consider stopping work on a half-completed $700 million project in Bal Harbour, Florida. To stop the project would have meant eliminating jobs at a time when unemployment was mounting. Exposed to the elements, the structure would quickly have deteriorated and become unsavageable.

The financial crisis had many causes, which show that poor regulation can create the wrong incentives for businesses. Running up to the crisis, the financial institutions that issued mortgages were allowed to "securitize" their loans. Even hospitality companies, at least those with time-share divisions, got in on the act, issuing loans to time-share buyers at high interest rates and reselling those loans as securities. In effect, the legal system allowed lenders (loan originators, technically speaking) to sell the mortgages with no financial incentive to ensure that the mortgages were repaid. Rating agencies were in place to inform investors of the degree of risk embedded in the pools of mortgages they were buying.

The rating agencies, however, were paid by the same loan originators that were selling the mortgages, creating a dangerous, but legal, conflict of interest. Many homebuyers took on debt that was beyond their reach. Some investors bought the securitized mortgages based on the mistaken belief that houses would continue rising in value. Others insured their pools of mortgages against loss. Insurers collected short-term profits by writing the policies, apparently ignoring their own long-term exposure.

One root cause of the crisis was a financial system that had become global, while regulation remained national. Prior to the crisis, governments had been making bank regulations more lenient—to keep banks from moving offshore and taking taxable profits and highly paid jobs with them. In the absence of more stringent rules, lenders' behavior became reckless. The mismatch between a global system and national oversight still exists years after the crisis, as banking regulation is still led by national governments and driven by national self-interest.[37] In their efforts to forestall the next crisis, regulators have created a geographic patchwork of different rules and approaches.[38] These differences involve complex issues, such as ways to minimize financial risk and leverage; legal structures to prevent future problems from spreading across borders; and rules that limit which business activities are appropriate for banks. It is hard to tell what unforeseen and unintended consequences will emerge from these new regulations. Meanwhile, the global financial system continues to appear vulnerable. Central banks across the developed world have held interest rates close to zero for nearly seven years for fear that raising rates would slow fragile recoveries.[39] As a result, debt levels have increased, setting the stage for another possible crisis.[40] Contagion is also still a danger. Fears of a chaotic Greek exit from the European Union in 2011 contributed to a 10 percent drop in global equity markets—despite the fact that Greece amounts to little more than 1 percent of the world's population.[41]

Prior to the financial crisis, governments had been making bank regulations more lenient—to keep banks from moving offshore.

Cybersecurity

Digital connectivity has made globalization possible. That same connectivity has set the stage for widespread hacking and cybercrime. The author's own experience is that attempts to breach corporate systems are practically constant. Facebook revealed in 2011 that it was the target of 600,000 hacks per day.[42]

The vast majority of these attempts fail, but by one estimate, hacking costs businesses worldwide about $450 billion per year. When it comes to cybersecurity, governments and business need to work together. Law enforcement agencies can notify companies when they are being breached, as the FBI has done with over 3,000 U.S. companies.[43] In 2013, Pentagon officials admitted that "Chinese computer spies raided the databanks of almost every major U.S. defense contractor and made off with some of the country's most closely guarded technological secrets."[44] The U.S. Director of National Intelligence puts cybercrime at the top of the list of national security threats. In fact, the U.S. federal government suffered 61,000 such breaches in 2014.[45] Chinese, Russian, and North Korean governments, among others, are also known to have used hackers to further their national interests.

The complicated aspect is that cybersecurity also pits business, individuals, and governments against one another. Businesses want information about consumers in order to market, serve, sell, and collect. Individuals need to feel they can trust companies to use their information responsibly and to guard their privacy. And governments work to find the right balance between national security and the rights of individuals. Companies like Starwood have to meet guest expectations for service and privacy, while contending with government demands. Companies also have to guard against the access points into its systems in different countries. As the data arena evolves, government and business need to work together with NGOs representing individuals' concerns.

Human Rights

Good governance creates the conditions that businesses need in order to operate fairly. Weak or corrupt governments, conversely, stand in the way of the benefits of globalization. About a billion people still live without electricity, and about 750 million people do not have access to clean water.[46] Most of these people live in countries where governments cannot guarantee security and rule of law, thus preventing most global companies from setting up operations. Starwood received numerous offers, for example, to build hotels in places such as Iraq and the Democratic Republic of Congo. A hotel project in such places would have brought much-needed jobs and opportunity to those communities, but the risks were too high. For similar reasons, the company stopped operating hotels in Papua New Guinea, Syria, Ukraine, and Yemen.

Individuals can also play an active role in ensuring that companies support human rights. Nike's commitment to corporate social responsibility (CSR) emerged after consumer backlash against its labor practices in developing countries. The company quickly realized that addressing this issue was vital to its brand health and business success. Nike embraced a new way of working, engaging the support of NGOs and other corporations to develop labor standards for working conditions, the minimum age of workers, hours per week, and wages. Where people have a choice of employers, they can opt to work for companies whose values match theirs. Across over a thousand hotels, Starwood employee engagement was consistently higher—and turnover lower—at hotels that were more active in sustainability and social responsibility.[47]

Individuals can also choose to invest in companies that demonstrate responsible behavior. Companies use CSR reports to highlight their practices. Shareholders can thus gain insight into companies' CSR practices. In the early 2000s, Nike launched its CSR Report. Available online, it details Nike's approach to labor practices, the environment, local communities, and public policy.[48] About 10 years later, Starwood issued its first CSR Report. It describes, for example, the company's ongoing progress in reducing per-room energy usage by 30 percent and water usage by 20 percent during the period between 2010 and 2020.[49] In the years since CSR reports have been issued, shareholders have not raised major objections to either Nike's or Starwood's CSR practices.[50]

Global companies have played a significant role in globalization, for better and for worse. On the negative side, their actions (or lack thereof) have exacerbated problems for environmental sustainability, financial stability, cybersecurity, and human rights. The examples discussed show how governments, NGOs, and individuals can play important roles in shaping businesses' behaviors. This kind of cooperation and influence is crucial to reaping the benefits of globalization.

Past Relations Between Business and Society

The era of globalization is still defining the new paradigm for the relationship between business and society. To understand how this paradigm can change, it is useful to take a quick look at how the relationship has evolved in the past.

Prior to World War II, international trade was dominated by colonial exploitation and hegemony. The British Empire, for example, controlled a worldwide system of trade that was more or less self-sufficient. After World War II, global trade was dominated by the United States. A military superpower, it alone also accounted for over 50 percent of global GDP.[51] U.S. trade policies were shaped by the geopolitics of the Cold War, bringing allies together and securing strategic natural resources. The Marshall Plan tied Europe to the

United States through trade, and U.S. oversight supported the export-driven model for Japanese reconstruction. Oil interests motivated the United States to sponsor the ruling family in Saudi Arabia and establish the Saudi Arabian Oil Company (ARAMCO).[52]

Starting in the 1970s, the business community began to reject the burden of government intervention. Milton Friedman, a Nobel Laureate in Economics, captured the laissez-faire sentiment in his 1980 book and television series *Free to Choose*. Friedman went on to advise Ronald Reagan, whose election was a watershed moment in the move away from big government. The philosophy extended to social responsibility as well. An article written by Friedman provides an insight into this mindset. Its title sums up its basic message: "The Social Responsibility of Business is to Increase its Profits." Friedman warned that companies advocating for social responsibility would "strengthen the already prevalent view that the pursuit of profits is wicked and immoral" and play into the "iron fist of government bureaucrats."[53] NGOs such as Greenpeace showed contempt for government and business. The NGO became famous in its 1971 attempt to halt nuclear testing in Alaska by deploying militant tactics to challenge whale hunting, deforestation, and climate change.

Past paradigms for the relationships between business and society were driven by national interests or antagonism. As globalization spreads, these past paradigms are not suited to the kind of collaboration that is needed to shape business behaviors.

Collaboration In The Era Of Globalization

Business has been at the center of globalization and, in many ways, is its primary beneficiary. Companies around the world control trillions of dollars in assets, influence the behaviors of billions of people, and develop technologies to improve lives. They hold the potential to address the problems of globalization. Some companies have found ways to be responsible while meeting obligations to shareholders. In the author's opinion, however, shareholder pressures make it impossible for businesses to deal effectively with the problems of globalization. Governments, NGOs, and individuals must engage constructively with business. Governments can create a global framework of rules and regulation. For example, they can set standards to eliminate environmental destruction and create global incentives such as carbon taxes. National governments should come together with each other and with financial institutions to create regulations and incentives to build a stable financial system, while finding the right balance between national security and protection of privacy rights.

NGOs can prompt business leaders to share their best practice. As CI puts it, "we work with companies...to make sure that industry doesn't undercut nature's ability to support us."[54] Nike turned to NGOs to gain independent monitoring of its factory practices. Individuals have far more influence than they currently exercise. Their choices as consumers and investors speak loudly to companies. Individual donations to NGOs give those organizations the resources to take on companies. As voters, individuals can choose candidates with a sober view on global issues and the role of business. In other words, we all share in both the benefits of globalization and responsibility to make it better.

The influence of globalization on daily life and commerce is widespread and likely to become more ubiquitous as businesses use technology to extend their reach across borders. Globalization driven by global corporations has helped raise the living standard of billions of people, while at the same time intensifying environmental destruction, financial instability, cybercrime, and inequality. The behavior of companies will determine whether globalization's drawbacks outweigh its benefits. Governments, NGOs, and individuals must play a crucial role in ensuring that the private business sector does the right thing.

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