BUSINESS STRATEGIES FOR THE DIGITAL AGE
[CONTEXT]

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CEO USER'S GUIDE

Corporate globalization may be inevitable, but it won't be as easy as most people seem to think. BY MARVIN ZONIS

CAUTION: curves AHEAD

With so many people acting as though the complete globalization of business is hard upon us, students of history might reflect on the 1920s and 1930s. That was the last time when barriers to international business were disappearing as fast as they are in today's Internet-driven world. The results weren't pretty. Businesses helped cause the worldwide depression, creating massive upheaval that led to a nationalistic backlash against globalization and helped create the environment that produced World War II.

Now, I'm not predicting another depression. Neither am I suggesting that another World War is in the offing. I'm actually optimistic that the emphasis the U.S. and some other countries are placing on free trade will ultimately distribute economic benefits widely and increase personal freedoms around the world.

But the history of the '20s and '30s is still worth noting because so many people seem to have forgotten that globalization is inherently destabilizing. It causes cultural crises in many countries, leads to discomfort among workers in a wide array of jobs, and usually produces a dangerous backlash.

Companies that want to take advantage of today's wealth of international opportunities while protecting themselves against the risks need to focus on three issues. Let's look at each:

REGIONAL RISKS: Governments pose the greatest risks. Government actions may sometimes be aimed at a particular company—as when Yugoslav President Slobodan Milosevic ordered the seizure of American-owned ICN Pharmaceuticals in Belgrade. But companies generally face greater liabilities from broadly targeted changes in government policies affecting areas such as taxes, profit repatriation, and currency conversion. In a prime example, the United Kingdom recently imposed a "gas moratorium" to support its ailing coal industry. It thus began denying approvals for new, gas-fired power plants. Several gas plants being developed by foreign owners face a highly uncertain future.

Even more damaging than fickle economic policy is poor public policy. Unwise governments can debase their currencies, drive inflation up, and stimulate political unrest. Investors in Indonesia and Pakistan recently rediscovered that truth. Because of the economic crises there, foreign companies are finding that their contracts with local companies are being unilaterally rewritten, and companies are facing corruption investigations by officials looking for scapegoats.

Weak political institutions create another set of risks. In India, one foreign investor was hit with contract renegotiations, nuisance lawsuits, and bureaucratic hassles that eventually added up to $27 million. The company finally abandoned the project. Countries that once were communist usually welcome foreign firms, but their political institutions often are too ineffective to protect those companies.

Even more menacingly, corrupt government institutions may make local competitors nearly invincible. In China, for instance, counterfeiting has devastated major global packaged goods companies. As much as half of the goods sold there under their brand names are actually knockoffs by Chinese companies. In Russia, where "gangster capitalism" prevails, an investor negotiated a deal to develop a Siberian diamond mine. Once development was under way, though, the firm's local partner claimed exclusive control, with the tacit blessing of the Russian government.

CULTURAL/POLITICAL CRISES: Globalization inevitably produces a "sense-making crisis" in each new country it touches. The conventional expectations of the way the world works are upset by American or other foreign culture. Young people are likely to adopt the new, "foreign" ideas. They change the most. But the loss of a "sensible" world generates alienation, anomie, rootlessness, and boredom among those who resist the change. The responses can be violence, alcohol and drugs, crime, divorce, even suicide. Indeed, these cultural crises can lead to political instability and revolution.

Despite the social costs, few countries actually try to wall themselves off from globalization. Most political leaders seem willing to tolerate some decline of cultural vitality and political stability. Remarkably, hostility to Americanization has actually decreased. Nowhere is this more true than in Latin America, where the fear of "Yankee imperialism" has diminished—witness the dramatically greater commitment to free trade. Latin states also seem confident of their ability to preserve the distinctiveness of their own cultures.

Still, globalization disrupts modes of production and consumption. Cheaper imports undercut domestic production, which leads to factories moving across national boundaries. The disruptions are not equally distributed. Different regions suffer differently. So do various groups within the population, with workers usually being hit particularly hard. The difficulties can lead to resentment and unrest.

NEW GLOBAL GROUPS: Antiglobalization groups have arisen and, through sophisticated use of the Internet, are forming alliances across national boundaries. The power of these nongovernmental groups, or NGOs, has been seen on the streets of Seattle and Washington, D.C., and in Ching Mai, Thailand, where some 4,000 demonstrators recently protested the policies of the Asian Development Bank.

Some NGOs, such as the International Chamber of Commerce, work to counter the broad protests seen in Seattle. But the opponents of global business have also begun a guerrilla public-relations war, choosing to target operations of specific companies with attacks that can hit their stock prices. Nike and Reebok, for instance, find themselves on the defensive concerning sweatshop labor. Monsanto has to defend itself against charges that it is making food dangerous through genetic engineering. Canada’s Talisman Oil was crippled by NGOs critical of its operations in Sudan.

NGOs will continue to batter companies to get them to "protect" the environment, adopt "fair" labor practices, and hire local people. NGOs have become powerful arbiters of reputation at a time when any company wanting to do business globally absolutely must have a strong brand. They have a lot of leverage.

None of the barriers to globalization will stop it. Even the mullahs of Iran are beginning to acknowledge the inevitability of globalization. So, few countries will go the route of the Taliban in Afghanistan, who recently ordered the destruction of all television sets in their country.

Still, as NGOs spur the backlash to globalization, governments will follow. Thus, we can expect legislation against companies believed to be despoilers of the environment or exploiters of labor in emerging markets.

France will continue to pass laws to preserve its language and culture. So will countries that see themselves as models for the rest of the world. These include Russia, the Islamic countries, Israel, and Malaysia.

The efforts to limit the effects of globalization may indeed lessen cultural upheaval, but they will also slow needed economic development and create a tricky environment for businesses that operate on a global basis.

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