

perspectives

SAVING GLOBALIZATION AND TECHNOLOGY FROM THEMSELVES

IMPERATIVES FOR CORPORATE LEADERS

By Rich Lesser, Martin Reeves, and Johann Harnoss

AT A GLANCE



The free exchange of goods, capital, and labor—globalization—and technological advances have increased productivity and created opportunities for billions of people. But the way we have managed those two forces has contributed to income inequality and uncertainty for individuals and society. Political and corporate elites are increasingly distrusted as more people feel left behind. This turmoil could threaten firms' ability to invest, to access markets and talent, and to innovate.

BUSINESS LEADERS CANNOT AFFORD TO BE OBSERVERS

Business has traditionally left it to government to tackle large societal challenges. But governments are facing many constraints. Moral and political questions aside, it is in business's best interest to confront economic inequality and social dislocation—but that will require more than incrementally expanding corporate social responsibility activities.

A NEW AGENDA FOR BUSINESS

By embracing seven imperatives—such as shaping globalization's next phase by looking beyond cost-based offshoring, centering technology on customer value creation instead of just efficiency, and increasing support and rewards for those at the bottom—business leaders can create the conditions for continued prosperity and their firms' long-term health.

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WHAT DOES THE POLITICAL environment in many developed nations tell us about the sustainability of two of the major drivers of global economic progress: globalization and technology?

This piece offers a personal perspective on the root causes and implications of the current turmoil and what corporate leaders can do to shape conditions for continued prosperity. Given the tough constraints that CEOs face in attempting to transcend the intense focus on short-term returns, the “how” is at least as complex as the “what.” Nevertheless, we hope that this article will stimulate discussion on the business and society agenda for major corporations in developed countries and beyond.

We Live in a Time of Unprecedented Prosperity

We have had a great run. The world has never been more prosperous than it is today.¹ People around the world live longer, healthier lives than ever before.² In emerging markets, billions of people have moved out of extreme poverty.³ In the developed world, we enjoy better medicines, education, information, connectivity, and mobility than most of us could have imagined a quarter century ago.

These achievements have many fathers and mothers. Human inventiveness, political leadership, social activism, and entrepreneurship have all contributed to what Nobel Prize winner Amartya Sen described as human freedom.⁴

Carefully crafted policies for the free exchange of goods, services, capital, and labor—commonly known as globalization—and the march of technology have played essential roles. These two forces have increased productivity, opened up markets, and created opportunities for billions of people to improve their lives.

We Also Live in a Time of Growing Economic Inequality and Uncertainty

Societies in the United States and Europe are being fundamentally challenged in ways we have not seen for decades—with nationalistic rhetoric and agendas from the far right and a deep distrust of business, globalization, and technology from the far left. Many worry that such a polarization of public opinion and policy making could introduce new risks and uncertainties that would deter investment (which is already far too low, judging by current interest rates) and undermine the basis for future prosperity.

Why this polarization? While there are many causes, and they vary from country to country, it reflects in large part widespread and growing dissatisfaction with entrenched economic and social inequality and greater

personal uncertainty in a fast-changing global economy. It also reflects people's mistrust of political and corporate elites, who are seen as the architects of this state of affairs.⁵

Economic inequality within our societies is a byproduct of the way we have managed the past three and a half decades of global economic integration. At the same time, technology—in particular, recent advances in robotics, machine intelligence, and distributed ledgers (blockchain)—could replace human labor in many areas, further compounding dislocation, inequality, and discontent.⁶

Economic inequality is a byproduct of the way we have managed globalization and technology.

Brexit was a watershed. The British vote to leave the European Union was motivated in large part by frustration with economic stagnation and inequality, and it has created fertile ground for nationalistic, anti-immigrant sentiment. The English West Midlands, the region with the highest “leave” vote, has experienced stagnating median household incomes for nearly two decades.⁷

The division between those who have captured the vast majority of the benefits from global integration and technological progress and those who haven't runs between major cities and smaller communities, between young and old, and between people with different levels of education.⁸ And it's not just Great Britain—70% of the US workforce has experienced no real wage increase in the past four decades.⁹ Similar patterns can be observed in Canada, Germany, and other European countries.¹⁰ Wealth concentration has also increased globally, with around 1% of people controlling 50% of the world's assets.¹¹

The Consequences for Business Are Real

What if Brexit was only the beginning? In polls, sizable majorities in the United States and key European countries now demand a reorientation around narrow national interests, proclaiming, “Let other countries deal with their own problems.”¹² As more people feel left behind by economic progress, this sentiment could grow and percolate into politics and then policy. And such policies could prove to be contagious across nations.

Firms could soon find themselves in an environment of escalating political risk in terms of trade, access to talent, regulatory rules and constraints, and restrictions on new technologies. Political uncertainty could become the major business risk, compromising firms' ability to innovate, to access markets and talent, and to invest and create wealth.

In short, it appears that many are so dissatisfied with the current game that they are threatening to end it, even at significant cost to themselves, thereby jeopardizing two major drivers of global economic prosperity: globalization and technological progress.

Business Sits on the Twin Fault Lines of Globalization and Technology

Today's economic inequality is a result of how we have chosen to manage globalization and technology.¹³ These two drivers have always been latent fault lines. Wealth creation does not automatically result in a fair distribution of rewards. Freedom of trade, capital, and labor movement creates winners and losers, as does the advent of new technology.

Popular support for globalization has always rested on the premise that most would benefit, many could succeed through their own efforts, and a social safety net would protect temporary losers. Traditionally, it has been government's role to provide equality of opportunity (particularly through education), an effective safety net, societal balance, and political and economic stability. Meanwhile, business could focus on generating growth, productivity, innovation, and, ultimately, societal wealth.

Governments now find it harder and harder to play their role. Reshaping policies to help struggling individuals and communities in times of transition requires political stability and consensus, both of which are lacking right now. Broader economic realities are not helping, either. The ability of governments to intervene is constrained by feeble macroeconomic growth in the United States and Europe, which greatly limits the scope of fiscal and monetary policy.

The cracks are beginning to show. Many people now think the game is biased (two-thirds of Americans say that the economic system is "not fair").¹⁴ Some conveniently blame immigrants and foreigners for their woes. Others appeal to moral notions of fairness and demand distributive justice.¹⁵

Moral questions aside, addressing the distributive challenge in our societies is in business's best interest. It is hard to imagine that business has anything to win from ending today's game and replacing it with one characterized by restricted trade and access to talent, a backlash against technology, and persistent political and economic uncertainty.

Searching for practical solutions to hard challenges is precisely the forte of business. Yet business leaders have traditionally shied away from controversial societal issues like the sustainability of the current economic system, preferring to entrust them to government. In this environment, we believe that corporate leaders can no longer afford to stand by as observers.

A Corporate Leadership Agenda to Shape the Future

Our societies need the voices and efforts of corporate leaders in order to tackle the inequality and social dislocation caused by technology and

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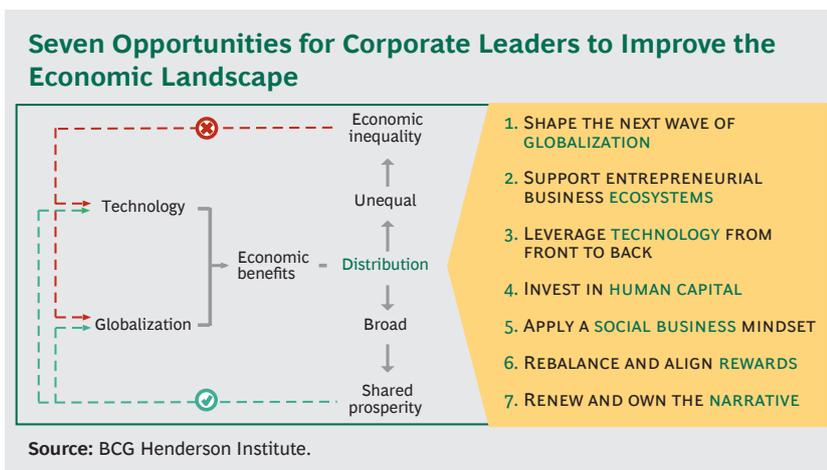
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globalization. An incremental extension of corporate social responsibility activities will not be sufficient. The growing divide between winners and losers has become a specter that haunts both business and society—and it is time to confront it.

Business leaders need to balance two apparently conflicting objectives. First, they need to secure the sustainability and prosperity of their own companies. This remains a CEO's prime responsibility, and it has become much harder in an era defined by lower growth, impatient investors, geopolitical uncertainty, and extremely rapid technological change. Second, they need to shape the conditions for continued and more inclusive economic prosperity and, in particular, for global economic integration and technological progress.

To achieve those ends, we propose that business leaders embrace a new agenda comprising seven areas of opportunity. (See the exhibit.) It will not be easy, and it will entail unfamiliar and uncomfortable choices, including, in some cases, deemphasizing short-term returns in order to support economic and societal progress and strengthen the enterprise for the longer term. But we see this as a tradeoff worth making.

- 1. Shape the next wave of globalization.** Globalization has been fluid across its several centuries of development and will almost certainly continue to evolve. Whereas the last wave of globalization centered on accessing foreign markets and creating low-cost global supply chains, the next wave could follow a very different pattern.¹⁶ In his 2016 commencement speech at New York University, GE CEO Jeff Immelt described what this could look like: more decentralized, more geographically differentiated, more digitally interconnected, more cognizant of social impact and the importance of building capabilities rather than exploiting labor cost differentials.



Businesses can take advantage of technology to reconnect with their customers and their communities.

Business leaders can take an active role in shaping the next phase of globalization, looking beyond cost-based offshoring and emphasizing the benefits of trade and technology across a wider geographic and demographic base. Advanced manufacturing technologies, for example, are starting to reorder the globalization roadmap that's been in place for the past few decades: flattening scale curves, increasing flexibility, and enabling production to move closer to end markets. Software, sensors, and analytics are shifting value creation from stand-alone products to products plus services. Businesses can take advantage of these trends to reconnect with their customers and their communities. We already see companies localizing time-sensitive and highly customizable forms of production, particularly in the fast apparel and automotive industries, thus turning global supply chains into two-way streets.

- 2. Support entrepreneurial business ecosystems.** Several decades of economic progress have resulted in a concentration of economic activity in larger enterprises and a decline in startup activity.¹⁷ Depending on how we harness it, further technological progress could either exaggerate or ameliorate this divide.

The emergence of platform businesses, which facilitate the collaboration of thousands of individuals and enterprises in dynamic ecosystems, could help restore balance and sustainability. Such ecosystems make it possible for individuals and small firms to participate in technological progress, catalyzing both employment and innovation.

As corporations rethink their global supply chains and business models, creating ecosystems of suppliers and aspiring entrepreneurs could be part of the journey. Take, for example, providers of cloud-based web services, which give young companies access to scale benefits and flexibility previously unavailable to them. Such ecosystems are not just the purview of web companies. Leading energy companies are investing in decentralized energy grids, demonstrating the broad feasibility of such approaches. Toyota's integrated and highly collaborative supply network, much celebrated for both its leanness and resilience, illustrates that ecosystems are also important for traditional manufacturing companies.

- 3. Leverage technology from front to back.** The effect of technology on humans depends on how we choose to develop and use it. If we leverage it from the back office forward, focusing mainly on increasing efficiency and optimizing internal processes, then our use of technology will result primarily in the displacement of labor. We will miss opportunities not only to enhance value for customers but also to create innovative jobs and improve people's lives. Instead,

Helping people acquire transferable skills *during* their careers is a large social challenge.

businesses should start from the front, with a clear focus on solving unmet customer needs and delivering tangible new value.

Using technologies to spur innovation and give people more fulfilling lives is an opportunity in nearly all sectors of the economy. But this inclusive approach may require some uncomfortable choices. Take emerging blockchain technology applications, which could have vast potential in financial services (currency, payment solutions, digital assets), insurance (contract and identity management), entertainment (performing rights management), and many other sectors. The benefits could be extracted either primarily through efficiency enhancements—by eliminating intermediaries and probably shedding many jobs in the process—or through the creation of valuable services and markets.

Could we imagine that those who originate and develop technologies take some responsibility to apply them in an inclusive manner, creating benefits and services while addressing transitional frictions?

- 4. Invest in human capital.** An increase in the dynamism and diversity of business environments means that people need to adapt their skills at a faster pace. This includes their ability to take part in the production as well as the consumption of new goods and services.

Finding effective and affordable ways to help people acquire transferable skills *during* their careers, not just before they start out, is a large social challenge. Education is critical in creating career mobility and equality of opportunity, which are at least as important as—and closely tied to—income gaps. But it takes too long for new work skills to become codified and for the education system to deliver them.

Firms can help close the loop—for example, by working with online education providers or taking direct responsibility for reskilling. As new tools become available to build or rebuild human capital more effectively and efficiently, corporations could seek to broaden their mandate in this area, both with their own staff and in the communities where they operate. We also see it as paramount that business leaders be consistent, passionate advocates for improving access to high-quality education for all ages and income levels.

- 5. Apply a social business mindset.** To contribute to society, and to gain its support, businesses must be deeply embedded in it. One way corporate leaders can achieve this is to establish social businesses that are adjacent to their core business models. This puts corporations in a position to solve some of society's most fundamental problems by leveraging their core skills, not by making tangential and ultimately unsustainable philanthropic contributions.

A social business mindset can lead to meaningful progress on hard-to-crack issues.

Nobel Prize winner Muhammad Yunus has been a passionate champion and advocate of social business and its ability to create sustainable value for challenged communities. He defines social businesses as those that provide clear benefits to underserved populations, return the initial invested capital, and reinvest dividends to create sustainable enterprises. Social businesses founded by Danone (small, low-cost portions of vitamin-enhanced yogurt produced in small community factories) and Essilor (affordable vision care for millions of low-income individuals around the world) show the feasibility and potential of such approaches. Social businesses can also build capabilities inside the sponsoring corporation and surface innovations that can be deployed more broadly.

Financial inclusion is often pivotal in making social business models work. Giving underserved groups access to payment and money transfer services, deposit accounts, credit, and other financial tools can have a far-reaching impact on well-being. It has been cited as an important factor not only in poverty reduction and economic growth but also in gender equality.

While governments can lay the groundwork for financial inclusion, the private sector can play a major role in driving rapid innovation and expanding access in a sustained and scalable way. Just four years after telecom company Safaricom launched the mobile-phone-based money transfer service M-Pesa in Kenya, for example, 70% of adults had adopted it.¹⁸

A social business mindset can also lead to meaningful progress on hard-to-crack issues like long-term youth unemployment. In Europe, business-led alliances work closely with public agencies, thousands of volunteers, and employers to offer structured education and skill building programs.¹⁹ These social business vehicles have been three to four times more effective than standard programs in re-integrating young Europeans and immigrants into labor markets, thus helping companies tap new pools of talent.

- 6. Rebalance and align rewards.** People's sense of self-worth is closely linked to the nature of their work and their relative compensation. This is especially true when we consider not only wages and benefits but also career mobility, merit-based recognition, and the intangible value of purpose (often related to some higher social goal) in work.

Mismatches between rewards and performance along the entire pay scale, from entry-level workers to leaders, undermine perceptions of fairness and faith in the system. Aligning performance with rewards presents an opportunity for corporate leaders to directly shape people's perceptions of self-worth, fairness, and access to opportunity.

Many companies are starting to increase remuneration and support for lower-paid employees. In the years ahead, more will be needed.

- 7. Renew and own the narrative.** The current crisis is as much about inspiration and ideas as it is about economics. The case for globalization is a hard sell if it doesn't address the obvious distributive side effects of overall economic advancement. The same goes for technology, in which the absence of a more inclusive narrative has already sparked vigorous backlash (for example, taxi strikes in France and elsewhere). What's more, the storytellers—the “elites” of business and government—are increasingly mistrusted and have lost their audience. In this vacuum, stories appealing to instinct, fear, and emotion take hold.

It is time for a credible, inclusive, and trust-inspiring narrative.

This matters. Narratives shape perceptions and political reality, which in turn shape economic reality. Business leaders have traditionally avoided broader societal issues and have focused on their narrower role. In the coming years, we believe that they will need to take a more active stance—to play offense and not just defense. It is time for a credible, inclusive, and trust-inspiring narrative, both for the direction of our societies and the sharing of benefits and opportunity within them.

Defining what needs to be done is a first logical step, but it is only a start. In conversations with CEOs about their role in supporting economic and societal progress, many pointed out the challenging context in which they operate. Between boards, major investors, activists, and potential acquirers, there is tremendous pressure to focus on short-term profitability and value maximization. The regulatory frameworks in many markets do not make a broader focus any easier.

A Positive Future Is Ours to Shape

“Resist the beginnings, and consider the end.”²⁰ Many business leaders are beginning to see the plausible endpoint of the current political polarization in our societies. Many privately confide that they don't like what they see, and they are open to considering novel measures to address the new challenges. The opportunities we propose are intended to soften globalization's and technology's sharpest edges, thereby perpetuating a more balanced game that creates broader prosperity and greater societal openness to change.

This is not an easy mandate. But if we, as business leaders, don't step up to shape a more positive future, it is increasingly clear that we risk a backlash that will limit our ability to create value in our own enterprises and for our customers. Now is the time to take on this broader agenda.

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NOTES

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12. Richard Wike, “Where Americans and Europeans Agree, Disagree, on Foreign Policy,” Pew Research, June 2016.
13. For a deeper analysis, see Branko Milanovic, *Global Inequality*, Harvard University Press, 2016.
14. Hannah Fingerhut, “Most Americans say US Economic System Is Unfair, but High-Income Republicans Disagree,” Pew Research, February 2016.
15. What is “just” is a philosophical question. In *A Theory of Justice* (Harvard University Press, 1971), John Rawls suggested that a society should aim to improve the well-being of its weakest members.
16. See “What You Need to Know About Globalization’s Radical New Phase,” BCG article, July 2016.
17. BCG Henderson Institute analysis based on US Census Bureau, Business Dynamics Statistics; OECD.
18. See *The Private-Sector Opportunity to Improve Well-Being: The 2016 Sustainable Economic Development Assessment*, BCG report, July 2016.
19. See, for example, a BCG co-initiated one: Joblinge.
20. Attributed to Roman poet Ovid and to Greek fabulist Aesop. The saying suggests gauging unsettling developments by assessing the ultimate consequences and—if needed—stopping the unfolding of events early.

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