Globalization and Its Discontents

KINO BROD

How can CEOs of multinational companies skirt the hurdles of globalization? Follow these four policies.

BY ROBERT LAWRENCE KUHN

U.S. President George W. Bush's grand vision is of a Western-style "Democracy World," where all countries have a similar system of selecting their leaders in a majority-rule, one-person-one-vote, free election. Chinese President Hu Jintao's grand vision is of an Eastern-style "Harmonious World," where all nations live together in mutual respect and peace, even though they have and maintain different systems of government.

The problem with President Bush's grand vision is what happens when majority rule initiates or instigates more, not less, belligerent and violent acts against perceived foes, such as rival ethnic or religious groups, whether in foreign countries or within their own populations. The problem with President Hu's grand vision is what happens when certain countries do not respect their neighbors and will not tolerate peace with them.

To most CEOs, that globalization is efficient economics is obvious; that it embeds psycho-political intricacies is not. Human beings are rarely rational actors; what they do may not be in their own best interests. Why do poorer people, say, in America or in China, feel more disaffected today than they did 30 years ago, even though their standards of living are much higher now? And why do people in developing countries, by and large, still honor their despotic leaders who perpetrate, instigate or allow monumental violations of common decency?

To appreciate the political psychology of globalization, consider two overarching principles of human emotions: "feelings are relative" and "pride trumps comfort."

Feelings are Relative

Human cognition is such that how we feel is almost always a function of short-term comparisons. In assessing our current status our mental methodology is to use relative, not absolute, standards, and the grounding of these relative standards is usually recent circumstances. If you are worth $10 million and stocks plummet so that your worth is reduced to $9 million, you are depressed, whereas if you are destitute and find a modest job, you are ecstatic.

Now assume that both situations describe you—you are the same person just shifted in time—so that your rich self exists today and destitute self 20 years prior. Although you have intellectual appreciation of your continuing good fortune—to be worth the $9 million is certainly wildly better than that old modest job—you still cannot help but feel dejected today because your previous circumstance of destitution has no affective impact on your present emotions. Similarly, if you are sick with a terminal illness and told that a new drug might extend your life for two years, you are happy, but if you then cut your finger while cooking you are unhappy.

Pride is a powerful and persistent human trait; but it can also warp common behaviors and priorities.

The application to economic perceptions is direct. When the Chinese people were all financially equal 30 years ago—all equally poor—envy of lifestyles and material possessions did not exist. Today, while all Chinese are dramatically better off, the fact that some are now wealthy while others are not is increasing social strains.

Blame the ubiquitous media, which highlight disparities, exaggerating them too, by skewing to glamour and elegance and by glorifying physical possessions and sybaritic behaviors. Today in the Muslim world, and soon across Africa, television and the Internet make social and economic differences with the developed world stark and disturbing. One should not be surprised that attitudes of poor people are deteriorating and levels of their anger are rising.

Pride Trumps Comfort

Pride is a powerful and persistent human trait; it can motivate great acts of artistry or bravery, but it can also warp common behaviors and priorities. When struggles of national independence movements bring about economic hardships, people are usually willing to accept sacrifices in order to gain their freedom from foreigners. When national leaders restore pride to their people, particularly those who had been humiliated by invading oppressors, they are given wide latitude for error. Witness the Chinese people's continuing appreciation (though no longer adoration) of Mao Zedong, who enabled the Chinese people to "stand up" in the world and regain their long-lost dignity, even though, not much later, he was responsible for divisive mass political movements, including the devastating Cultural Revolution, in which millions suffered and many died.

When multinational corporations invest in developing countries they almost always bring economic gain to the local population, yet their presence is not always welcomed. To some, foreign factories are a constant reminder of their own secondary status or subservient place in the world and no economic benefit is worth such anguishing and continuing dishonor. This endemic and enduring psychology presents a challenge for multinationals as they plan global strategies.

Prescriptive Policies

Recognizing these psycho-political problems, what can multinationals do? Corporate executives should sensitize themselves to needs of local people for whom disparities in economic status can be psychologically devastating. Consider an analogous problem that faced Chinese President Hu Jintao when he took leadership and faced the growing problem of multiple disparities between sectors of Chinese society. As a priority of his administration, he adopted a "close-to-the-people" policy that seeks to construct a "Harmonious Society" through a "Scientific Development Perspective," balancing social and environment factors with pure economic growth. Though disparities remain severe, President Hu's resultant popularity in China facilitates his change-making policies.

But to be effective, a leader's philosophy can rarely be of recent mintage. Expediency is a graceless and obvious motivation. Policies work best when a leader's philosophy is founded on his or her long-standing beliefs or personality. When President Hu was a young official in west China's poor Gansu province in the 1970s, he *was* close to the people. I spoke with a former subordinate of Hu's who told me how he had accidentally burst into his boss's office. Hu, though at first startled, invited him to sit and talk for an hour. Hu is a people person who works to turn crisis into opportunity.

Is there prescriptive advice we can draw from a psycho-political perspective? What can CEOs of global companies do to ameliorate the dangers of globalization? I have four suggestions:

- **Steady Progress.** Seek managed, modulated improvement rather than unexpected big spurts, particularly in wages or working conditions. Even if the "big-spurt strategy" would produce better absolute results over time, people will not be as happy in the gap periods between these spurts, when there will seem to be stagnation.
- **Local Hires.** Use local managers whenever possible, and develop a systematic method of training and promoting them. Limit ex-pat executives as much as possible. When this is not practical at the beginning of a foreign operation, evince progress by increasing the number and seniority of local leaders. Sony, for example, stresses local hires, even selecting a non-Japanese CEO.

CEOs must vote with their bodies, not only with their mouths, and travel to countries that are important to their firms... superficial visits wear thin.

- **Respect.** CEOs must vote with their bodies, not only with their mouths, and travel to countries that are important to their firms; words alone are not sufficient and superficial visits wear thin. Trips should be regular and substantive, including meetings with local managers and staff, as well as government officials. Some language learning doesn't hurt either, if only to demonstrate an effort to appreciate the culture. Four of the most successful firms in China are Goldman Sachs, AIG, Morgan Stanley and Citigroup; for years, their senior executives, Henry Paulson, Maurice Greenberg, John Mack and Chuck Prince/Bob Rubin, respectively, traveled to China multiple times every year.
- **Transparency.** People are naturally suspicious and secrecy feeds their fears. Rumors can be so rootless and virulent that they are hard to source and impossible to stop. Whenever operating internationally, companies—like countries—should learn to be more open, even though overt honesty may go against the grain of leaders, who by nature tend to be guarded and controlling.

The importance of transparency in a media-intense, tightly wired world cannot be overstated. A case in point is China's financial and banking markets, which are critical for the country's economic development and which have been legitimately criticized in the foreign press for lack of transparency, credit culture, controls, and the like. If the Chinese government would react by seeking to further control bad news, it would just feed the fire of international doubt. Part of the long-term solution is for China to enable its best financial scholars to assess and analyze the industry, and then to publish their findings publicly, in Chinese for domestic consumption and in English for the international community.

Globalization is an inevitable, inexorable trend. Getting it right means understanding the psychology of people as much as the economics of productivity. ▲

Dr. Robert Lawrence Kuhn is an international investment banker and corporate strategist, adviser to the Chinese government, and senior adviser at Citigroup. The author or editor of more than 25 books, he is editor-in-chief of *China's Banking and Financial Markets: The Official Report*, (John Wiley).