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PERSPECTIVES

BOARDROOMS FACE CHALLENGES IN NEW ERA OF GLOBALISM

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"Globalisation is over," proclaimed many headlines after the Brexit and Trump victories in 2016. People have been sounding the death knell for global growth for several years. The trends behind this are undeniable. There has been a strong populist movement in many regions against globalism and its perceived association with job loss and security threats. The overall trade in goods has flattened since the onset of the global financial crisis nearly 10 years ago. And the likely renegotiations around NAFTA and inevitable move to Brexit will have further impact on regional and global trade.

But for companies, these developments require not a turning away from globalism, but rather a shift in thinking about how one responds to events and prepares for the risks ahead. Instead of a time for contraction of business and markets and capital flows, we are entering a new phase of global business, and boards must think expansively but thoughtfully about where their companies are headed.

The past few years have generally been good ones for US business, but companies can no longer sit back and eye new markets and investments on autopilot. The new globalism means a greater responsibility for directors, who must push management to address key issues from trade to regulation to talent. There is much that is still uncertain about the new administration's policies and how much they will indeed change the business landscape, but boards must bring to their agenda these issues that define the new global era.

The rapid pace of cross-border trade growth seen in the 90s and 2000s has indeed slowed since the global financial crisis. Several structural factors (e.g., the slowing of cross-country supply chain formation) and cyclical factors (including a weakening of demand) have, according to the Federal Reserve, reset the lower level of global trade to a "new normal".

However, the movement of goods is just one aspect of globalisation, and one that is being supplanted by rapidly increasing flows of data and information. As the McKinsey Global Institute reported in its 2016 'Digital Globalization: The New Era of Global Flows': "digital flows – which were practically nonexistent just 15 years ago – now exert a larger impact on GDP growth than the centuries-old trade in goods". The boon to providers of internet-based products and services – from logistics

to customer support to media – has offset much of the slowdown in the trade of more tangible goods.

But even the sale of more traditional goods has made a huge shift, with digital economies – from Amazon to eBay – enabling small, very local businesses to turn into exporters overnight. Whereas trade was once limited to large multinational companies in mature economies, digital globalisation has allowed small companies from any country to join the world e-commerce marketplace.

So while the North American Free Trade Agreement (NAFTA) remains a target for debate in the US and the UK weighs its 'hard' and 'soft' Brexit options (with many company boards having audit committees and 'Brexit committees' sort out possible scenarios), the reality is that companies now compete with anyone, anywhere for customers, and for capital. For boards and management, this requires a completely different perspective on one's 'competitive set', as small to mid-market companies increasingly enter the global market.

A recent American Express survey of small- and mid-sized US companies reports that of those companies selling outside the US, 26 percent of their revenue growth can be linked to international sales alone. In other countries, such as India and Kenya, local but connected entrepreneurs are entering the e-commerce, social media and FinTech industries, and are able to attract capital from the US and other financial markets.

In addition to consumer markets, decisions about talent markets demand a top place on board agendas. US companies are facing greater scrutiny over outsourcing practices, and increasing public and political pressure to 'keep jobs at home'. Boards must weigh the optics of these decisions more than ever, as the social and reputational impact of where talent is coming from has very different implications in different industries. Domestic infrastructure-related companies, for instance, would be able to take advantage of Trump's promised investments in this area, which is a cornerstone of his goal of greater employment at home. Silicon Valley, however, which relies heavily on workers from overseas, has decried new administration policies regarding

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immigration and isolationism – policies that fly in the face of the very globally minded companies there.

Changes in the regulatory structure, both in the US and Europe, will have a vast range of implications on trade, currency, capital, disclosures, and, of course, taxes. The sheer complexity of Brexit-related issues requires careful oversight from boards in companies with financial and trade ties in Britain and the rest of Europe. The regulatory shifts in the US may be no less complicated, as the new administration targets dozens of Obama-era policies for rollback. Many companies may benefit significantly from these deregulations, but it is incumbent on boards to determine how they will implement any changes. Questions to be considered include, for example, whether to roll back safety procedures – regulations affecting the health and safety of workers, the local communities in which they operate, and the environment.

As directors weigh all the monumental shifts of late, they must adjust to this new global era and bring a whole new set of questions to the boardroom and discussions with management. The rhetoric of isolationism does not create an end of globalisation – it cannot shut the barn door on our new global world. But the accompanying policy changes are indeed transforming what it means to be global, and the risks and rewards that come with each critical decision the board makes. R&C

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