KORN FERRY Institute

Executive Outlook

Globalization morphs

The golden opportunity for CDOs to be strategic leaders

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Introduction

Just when diversity leaders thought they had a handle on globalization and what it had done to the economy, their organizations, and how and where work gets done, some of the defining characteristics of globalization have started to morph in dizzying, Snapchat-minute iterative cycles.

As globalization moved at broadband speed, many chief diversity officers (CDOs) were dial-up slow to grasp its implications for their own efforts to promote workplace diversity and inclusion. D & I best practices on globalization emerged only in the last few years: Don't just export the made-in-USA concepts; make it "glocal" so that the strategies are both globally leverageable and locally applicable; hire native resources on location; and build cross-cultural dexterity.

Now the ground is shifting—again. There are new globalization trends that go way beyond the goalposts most D & I practitioners have just reached.

This time, CDOs—like the emerging markets that leapfrogged telephone landlines to mobile—have a chance to get out ahead and lead on these new fronts rather than play catch up. They will become strategic leaders for their organizations if they can grasp four major talent issues stemming from globalization today:

- Beyond BRIC: get ahead on emerging markets.
- Local companies find they have home-talent advantage.
- Re-shoring: the boomerang of jobs back to the United States.
- Failing schools? The skilled talent pipeline collapses.

If they can't, they'll quickly face irrelevance.

Beyond BRIC: get ahead on emerging markets.

Jetting off to Sao Paulo, Moscow, Mumbai and Shanghai has become de rigueur for with-it CDOs striving to understand how D & I plays out in those cultures. But a working knowledge of these massive four economies—Brazil, Russia, India, China—isn't enough anymore.

Here come BRIC's extended families: *BRICET* (BRIC + Eastern Europe and Turkey), *BRICS* (BRIC + South Africa), *BRICM* (BRIC + Mexico), and BRICK (BRIC + South Korea). Or their new separate reconfigurations of *MIKT* (Mexico, Indonesia, South Korea, and Turkey), *Next Eleven* (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey, and Vietnam), or *CIVETS* (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa). Others refer to whole "rising continents"—specifically Africa (with a GDP growth rate of 5.2%) and South America (4%)—which at least might provide relief from the alphabet soup of acronyms.

This is a key area of opportunity for CDOs to lead their organization through the maze of globalization. This addition of more and more markets is a challenge of massive proportion to the business leaders responsible for growing the top line through new markets and customers, and managing the bottom line through global economies of scale. It's also defying the comprehension of support functions of HR, legal, IT, real estate, etc.

Businesses need CDOs' strategic skills, cross-cultural dexterity, global mindset, and sociological understanding of diversity issues to navigate the complexity of working across borders, languages, cultures, mores, and interpretations of laws.

The dilemmas are myriad. Latin Americans often say they have no racial issues, but it is indisputable that darker-skinned people there are stuck lower on the economic ladder. A highly successful South Korean multinational is struggling in Vietnam to penetrate the market and be an attractive employer. Indian multinationals in the United States are perceived as "too Indian" for American workers. And as Africa and Latin America look less to Europe or North America as primary trade partners, and more to India and China, the questions will multiply. How are Peruvian migrant workers viewed in Argentina? How do the South Africans view the Chinese who are investing in building up their infrastructure but may be seen as not investing in understanding their cultures? And so on.

These never-before-seen challenges increase in complexity each year. Understanding them and having the acumen to thread the needle to the right solutions are essential for businesses' health. CDOs are in the best position to be leaders in creating new pathways in these uncharted territories.

Local companies have home-talent advantage.

By 2020, China and India combined will be a $10 trillion consumer market. Not surprisingly, Western multinationals aren't the only players interested. Very large local and regional companies have been rising to compete with the American and European multinational companies (MNCs).

Local companies are not only seizing market share, but they also have become very attractive employers because they have the cultural advantage of better understanding the mindset, aspirations, preferences, and desires of local talent. The luster of joining a foreign multinational has dulled, as disillusionment has set in about the paltry career advancement opportunities many MNCs offer local workers.

The competition for skilled labor, by itself, is driving up wages, so US and European MNCs are losing any advantage there to the more muscular local companies. At the same time, MNCs are getting hammered on their employer value propositions. Companies are going to be forced to take concrete steps just to secure the labor force they need, according to Boston Consulting Group's David Michael and the author of "The $10 Trillion Price: Captivating the Newly Affluent in China and India." Companies will need to:

- Focus on training and development to attract talent and increase productivity.
- Recruit talent from second- and third-tier cities, where the cultural divide is even greater between local talent and MNCs' business culture.
- Eliminate any two-track system that treats local talent differently for development and advancement opportunities.
- Award smaller but more frequent promotions to give a continual sense of progress.
- Provide work conditions that get women closer to the "trifecta": a happy home, rising secure income, and good health.
- Show genuine concern for the environment, a de facto priority for younger workers worldwide.

Notice that nearly all of these prescriptive items have a D & I component—and that they are not yet common practice in MNCs. But without implementing such strategies, MNCs will simply lose the war for talent in these geographies.

Re-shoring: jobs boomerang back to the West.

Some CEOs seem to have awakened to the fact that shifting millions of jobs offshore decimates the domestic consumer market, stifles business growth, and generates social and political blowback. But more importantly, the business case for outsourcing jobs to emerging markets has weakened. Consider these trends:

Labor costs. The China-to-US wage ratio is on track to jump from 3 percent in 2000 to 17% by 2015. This is because of accelerating wage increases in the emerging markets and slowing wage raises in the United States.

Risks. More corruption in emerging markets also drives up costs and risks. Transparency International created a widely used 100-point index to gauge how aggressively countries combat corruption. The BRIC countries score between 28 and 42, compared with North American and Western European countries, which score in the 70s and 80s.

Automation. Progress in automation also enables factories to operate with fewer people. This, of course, cuts both ways: it reduces the total number of jobs but also slows down the number of factories that close completely. GE executives have notably been reopening more automated plants in New York and Kentucky as they found them more cost effective.

Transportation costs. Rising energy prices make shipping goods great distances a major cost concern. Let's do the math. In January 2000, crude oil cost $36.50 a barrel. Ten years later, it was $81.82 a barrel. In January 2014, it was $94.53 a barrel. Along with GE, American firms such as Master Lock, Caterpillar, and Seesmart (a manufacturer of lighting products) are finding the balance sheet more favorable to domestic production. This also plays well with a more environmentally conscious consumer as a way of reducing the carbon footprint these long hauls leave in their wake.

Speed to market. Consumers demand items be newer, faster, and better, and manufacturing closer to the market helps speed up delivery to them. Mitch Free, who runs MFG.com, one of the world's largest online marketplaces for the manufacturing industry, told Time magazine: "It's all about regionalization and localization rather than globalization."

Job complexity. An increasing number of manufacturing and construction jobs require a higher level of education: Tech workers have to run robots on the assembly line; welders must now get special certification. By 2018, 63% of US jobs will require postsecondary training. At least for the moment, US workers in some blue-collar sectors have an educational edge—though it might not last.

It all adds up. In fact, the Boston Consulting Group estimates that within five years, as many as 3 million high-skilled, high-demand manufacturing jobs could come back to the United States. And diversity leaders can help accelerate this trend by doubling down on efforts to expand the talent pipeline.

Failing schools? The skilled talent pipeline collapses.

Globalization exposed just how vulnerable Western countries were to lower-cost labor. But the gaps coming to light in educational attainment show that it could wreak havoc on highly skilled labor too, particularly in the United States.

After decades of its students being among the top in every discipline, the United States is now holding steady at the mediocre middle. Students in countries as different as Latvia, Portugal, Germany, Poland, Colombia, and Lithuania are making academic gains two to three times faster than their American counterparts, according to a report by the Harvard Program on Education Policy and Governance and Education Next.

African American and Latino students have been the hardest hit. Half of black and Latino kids don't graduate from high school. Of those who do, only half go to college. And of those who do go to college, only half graduate. So even though racial and ethnic minorities make up more than a third of the young working-age population, only a small fraction are attaining four-year degrees.

This has broad economic implications. Those who don't graduate from high school earn about a third of what those with a bachelor's degree do. Unemployment rates also correlate to educational attainment: Even during the recession, unemployment for those with a college degree topped out at 4.7%; for those without a high school diploma, it reached 14.9%.

Figure 1

Mean earnings by highest degree earned.
College graduates earn almost twice as much as those with a high school diploma and nearly three times as much as those who don't graduate from high school. Source: US Census Bureau Current Population Survey 2010.

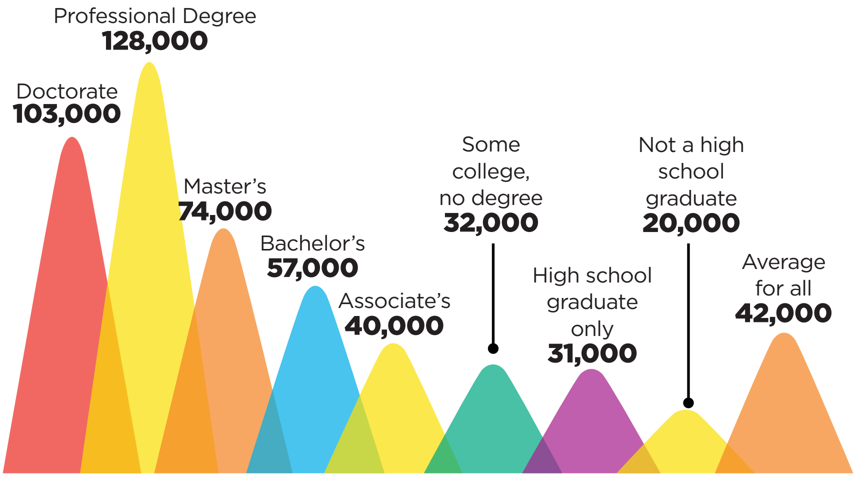
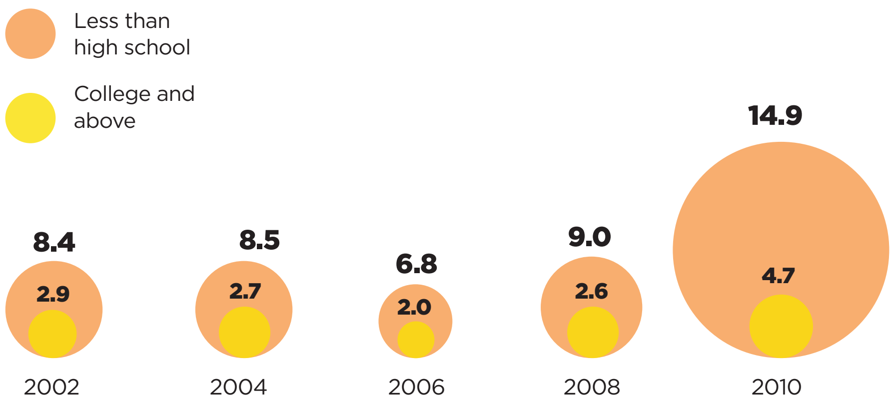


Figure 2

Unemployment rate by highest degree earned.

Even at the height of the US recession, unemployment for college graduates was never higher than 5%. For those with no high school degree, it almost reached 15%. Source: Bureau of Labor Statistics.



The demographic reality in the United States is this: people of color will be half of the population by 2040 or sooner. So if the nation can't successfully educate its Latinos and African Americans, particularly for STEM jobs—science, technology, engineering, and math—that will represent a failure of the *entire talent pipeline* of the US economy.

In the meantime, countries such as India and China went on a tear of a massive investment in higher education. And like a generation ago for the United States, this investment is now yielding dividends for the emerging markets: China and India graduate roughly 1 million engineers annually from their universities, whereas the United States ekes out a meager 120,000 engineers (even as there are 3 million STEM jobs sitting vacant here). Globalization has said "busted!" to the United States' under-producing the college-educated talent it needs.

CDOs must recognize that globalization is, in part, a reaction to the talent shortage in the United States and other economically advanced nations. China, India, and other countries are already stiff competitors for highly skilled labor. They are doing what needs to be done in a open market for talent: investing in building the workforce for today's and tomorrow's economy.

So while it might be easy to underplay the needs of US students of color in a global context, successfully investing in young Americans' education will have synergistic benefits.

A strong US talent pipeline not only keeps the United States competitive, it contributes to a virtuous economic growth cycle. A healthy globalized economy—which raises millions out of poverty in burgeoning economies—still requires a vibrant US economy with a positive outlook.

The golden opportunity for CDOs to lead.

In the past five years, the talent paradigm of “there’s just the United States and the rest of the world” was replaced with one that implied that the “rest of the world” was ascending as the United States declined. But that’s not right either. The correct frame is “a whole world” paradigm in which the United States is not the center but *one of various global regions* that needs tending.

Diversity leaders must manage the paradoxes this entails. They must pivot back to US concerns while maintaining a global mindset. They must attend to the inclusion and engagement of marginalized groups *wherever* their companies operate in the world. They must drive initiatives that will help win the war for talent in international markets, even as they build a competitive talent pipeline at home. In short, they must see the big picture: diversity issues and globalization issues are two sides of the same coin.

CDOs, more than any other senior leader in corporations today, are positioned to head this charge. But they cannot do it by falling back on outdated diversity paradigms and language. They must make their work relevant in this contemporary globalization context.

Globalization is morphing in ways that few business leaders grasp. Diversity leaders, rather than having to play catch up, can instead lead in bold new directions.

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