How big business copes with the rise of protectionism

"As technology and globalisation race forward, people understandably fear their impact on jobs and incomes and distrust the motives of companies and government," says GE chief executive Jeffrey Immelt. Goh Seng Chong

GE is one of the world's most successful and, yes, innovative big companies. It operates in more than 170 countries with over 300,000 employees and a market cap of $US280 billion ($375 billion).

It has also managed to transform itself from being a maker of largely physical industrial products to one focused on making much greater use of digital technology and software to increase productivity and efficiency to provide better services to customers.
Yet its executive chairman Jeffrey Immelt expresses a surprisingly different view of what constitutes success for a global company now and in the future.

In a recent speech to business school graduates called "Preparing for what's next", for example, he warned globalisation is under attack as never before. That is despite the record of hundreds of millions of people being lifted out of extreme poverty over the last two decades.

Big companies, Immelt said, are distrusted while governments and global institutions are failing to address the world's challenges.

**Feeling left behind**

"Many people feel left behind," he said. "The global economy is growing too slowly. Some workers have been displaced by outsourcing, the middle class has been squeezed and income inequality has risen to unacceptable levels.

"As technology and globalisation race forward, people understandably fear their impact on jobs and incomes and distrust the motives of companies and government."

It's this type of sentiment, often anger, driving the rise of populist and protectionist movements on show in many advanced economies – most spectacularly with the appeal of Donald Trump and Bernie Sanders in the US and the appeal of Brexit in the UK.

In Australia, that mood is far less pronounced, in part due to the country's continuing growth and export income despite the shock of the global financial crisis. But Bill Shorten is still able to politically leverage a version of a sense of grievance via his attacks on big business and the banks and the argument that multinationals don't pay enough tax.

Even the Coalition is fixated on the virtue of closing tax "loopholes" for multinationals, an electorally painless way to be seen to be supposedly doing something about budget repair and "fairness".

Yet rather than trying to fight this new mood, inevitably fanned by social media as well as the new power of consumers, Immelt's response as the head of such a mega-corporation is to implicitly accept much of the social and political criticism as a given.

**More localised approach**

He argues GE needs to become ever more localised in its approach in order...
to deal with that reality and with the threat of protectionism. In his view,
that includes rejecting the very notion of global companies offering global
solutions in favour of far more individualised operations – and certainly
without relying on the US government for leadership it seems incapable of
providing.

But are local community concerns about "mega-corporations" and profit
shifting that different from the more traditional criticism of multinationals,
as well as the once common arguments of previous decades over issues such
as "transfer pricing"?

The speed of change is certainly different, as new mega-corporations rise
within the space of a few years rather than decades and with a reach that is
both instantaneous and truly global. Their size is also much larger.
Facebook and Google are just some of the more extreme examples of a
revolution as well as being a radical version of modern corporate wealth
creation.

Yet that also means the threat of constant disruption, where start-ups can
completely overturn the benefits of scale, where no business model is safe
from being disrupted by challengers no one had even heard of only a short
while ago.

This can surely only challenge the supposed might of big global
businesses. So is this increasingly antagonistic attitude towards their power
and the ideal of free trade an enduring phenomenon or a mere interruption?
A temporary fusion of social and economic trends that will attract attention
only to fade away as the benefits of free trade and the irreversible,
irresistible forces of globalisation and technology reassert themselves?

**Attitudes 'no blip'**

GE's head of global government affairs, Karan Bhatia, told the annual
Crawford Australian Leadership Forum on Monday that he certainly doesn't
consider the current attitudes towards large corporations a "blip". He
describes the potential scenario of a political environment that is "anti-
trade, anti-government and anti-foreign" as "profoundly dangerous".

So as well as greater localisation and attention to very specific needs of
customers, he insists multinationals or mega-corporations will have to
change in some fundamental ways to continue to thrive.

That not only includes radically simplifying processes and bureaucracy but
also creating new models of business that involve much greater
collaboration and openness with others. So instead of the old mindset of a company selling what it regards as the best product regardless of local circumstances, that also means working at the most local level to conceptualise and create what might suit particular markets and customers.

For many companies based in advanced economies, no matter how large, that sort of innovation and evolution can’t come fast enough.

Diane Smith-Gander, chair of the about to be de-listed Broadspectrum, pointed out China is now the country with the single largest number of global corporations. In 2005, New York City was the global headquarters for 22 of the largest but that has since dropped to 17. Over the same period, Beijing's share has climbed from 12 to 51. According to statistics from McKinsey, emerging market firms also use revenue growth – rather than profit margin growth – to maximise their return on capital. That changes the traditional rules of the game for public companies, no matter their size.

Most Australian companies are still missing in action in this debate. Its effects won’t miss them.