

# James Manyika speaks with Richard Haass about businesses as 'global entities'

"We've got to expect that we're going to be in a world of greater, not less, geopolitical turbulence," explains the author of *The World: A Brief Introduction*.



**“We’ve had something of a holiday from history for a while,”** says Richard Haass. But with more global issues demanding international cooperation to address, businesses are operating in a highly complex, increasingly transparent environment. As the business world has become much more like the public policy world, should global corporations become largely participants rather than observers?

James Manyika, co-chair and director of the McKinsey Global Institute, interviewed Richard N. Haass, president of the Council on Foreign Relations and author of *The World: A Brief Introduction*. An edited transcript of the highlights from their conversation is below.

## Why global issues matter

**James Manyika:** Why did you write your new book? Why do you think we should be reminded that the world matters?

**Richard Haass:** Here we are, three decades after the end of the Cold War. The popular tome at the time was *The End of History*. What we’re seeing now is “the return of history.”

If it gets much worse, we may call it “the revenge of history.” And for businesspeople, what they’ve got to think about is that we’ve had something of a holiday from history for a while. And we’ve got to expect that we’re going to be in a world of greater, not less, geopolitical turbulence. And perhaps even an increase in conflict.

What really makes this era of history fundamentally different from any other in modern history—and by that I mean the last few hundred years—is the importance of global issues: climate, terrorism, infectious disease, a nonregulated cyberspace, proliferation, trade, investment. The flows are so fundamental, and for better and for worse, that’s qualitatively different than what we’ve seen historically in terms of the number of issues and their power and importance. We’ve had infectious disease before a century ago. But something like climate change is fundamentally different.

And then there’s the United States.

For the last 75 years I like to describe this country as having been the architect and the general contractor of the world, building the institutions in the post–World War II moment, creating alliances, leading the world in many cases.

I’m not saying we always got it right. We obviously didn’t. We’ve overreached, we’ve underreached. But more often than not, we did get it right. And it’s been a remarkable run in history. Now this country is having a collective set of doubts—second thoughts, essentially. Asking whether the game is worth the candle.

But the world’s not going to say, “Okay, you Americans. Take a few years. Sort yourself out. We’ll just sit here and wait for you. And when you’re ready to return, we look forward to it.” History doesn’t work that way.

Just because we’re not paying attention to the world doesn’t mean it’s not paying attention to us. Now, we may be tired of the virus. Well, the virus has got a lot of energy left. We may not have the bandwidth to focus on climate change. But look at these fires in California or these floods and storms in the middle of the country. We’ve got social media problems where foreign governments are trying to interfere with the context in which democracy is playing out here.

But there’s also the positive side. Millions of jobs stem from access to international markets. The United States is obviously very dependent on investment coming in this direction. Historically, immigrants from all over the world have been a major asset for the economy and the strength of the society here. By definition, the world matters fundamentally.

## Supply chains are diversifying

**Richard Haass:** There’s certain pushback against globalization. Until recently, when people thought about supply chains, they were mainly thinking about efficiency and cost—single sources, often foreign and, basically, very small stockpiles and inventories. Efficiency was what really mattered. I think the idea of being 100 percent dependent on a single foreign source of a critical material, those

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days are over. Now, for some, it may be diversifying foreign supply. But this resilience is easier said than done.

I think you'll see a greater push for domestic stockpiling around the world. I also think you're going to see a greater push for domestic production requirements, because that would actually also dovetail with the need to put more people back to work.

The ground rules of how we move to a world where we change the paradigm for supply chains, that's got to be worked out collectively and not simply by every country on its own or it can turn into protectionism. I haven't seen a lot of interest in that.

## A shift from global to regional standards

**James Manyika:** What do you think is lost when countries, particularly ones that have been leaders on the international stage, retreat?

**Richard Haass:** Well, if the basic point about the world we're living in is global issues matter a lot and that globalization is a reality, the corollary to that point is that responses are better when they're collective. I can't think of anything any country does that they're better off doing on their own.

Rather, they want to find partners. Now, obviously, the partners need to be like-minded and so forth. It may not align with people's images of the world and collective action—the all-or-nothing universal approach suggested by the United Nations.

Increasingly, we need to think about how to forge what I call coalitions of the willing, able, and relevant to deal with particular challenges. And it may be

enough, or as good as you can do initially, to get 40 or 50 or 60 percent of the world's countries or economies together to work on this or that particular challenge, whether it's setting rules for the internet or dealing with climate change.

And they went to outsiders and said, “Hey, you want to export to us? Here are the environmental standards. Here are the climate-related standards you have to meet. We're going to place a tariff on anything produced by a factory that uses coal as its energy source.” That might be far more effective than anything that comes out of Paris.

My guess is we're probably moving to a world where some of these considerations are going to matter more. But it's not going to be a single global standard. Business is probably going to have to get used to regional standards, or the standards of the few who join this or that arrangement.

## What role do global institutions play?

**James Manyika:** You've talked about the regions that are the major global actors to a large extent. One of the things that you've written about is the role that multilateral institutions have played in stabilizing things over the last 50 to 75 years. As you think about the 21st century and the changed landscape, both economically and geopolitically—what is the role of those global institutions going forward? Are they still fit for purpose?

**Richard Haass:** As a diplomat, it's one of the most important questions because, in many cases, they're not fit for purpose. I would simply say that a lot of these institutions were created after World War II. And they've had a pretty good run. But that's three-quarters of a century ago. No one watching

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or reading would design this Security Council if they were building a United Nations today.

Take climate. Even if everyone lived up to their pledges on Paris, it still would be woefully inadequate. In the case of the internet, there really is nothing in the way of serious international arrangements. It's essentially unregulated. We face this reality where the institutions we have now fall short of what we need, and we probably can't get the global institutions we need because there's no consensus.

One of the phrases that's always used in this business is “international community.” Well, there is very little of one. We're heading toward a future of much narrower multilateralism. And it won't just be countries. What's so interesting about the future of multilateralism is that it'll be selective when it comes to participation as well.

You might have a dozen or 15 countries that are prepared to work together. But if the issue, say, is technology, if it's IT, they're going to have to bring in the Googles and the Apples and the Facebooks and the Twitters. If the issue is biotech or health, they're going to need to bring in big pharma, the Gates Foundation, and the Bloomberg Foundation.

In the future, we're going to have multilateralism that's narrower on one hand. It's not going to look like the United Nations with 193 countries sitting together. But it's also going to be broader. It's not going to be just governments.

We're looking at a future of multilateralism that's much more creative. It's much more mixed and much more decentralized. And issue by issue, possibly partly by geography, we may have different collective responses to challenges.

For businesses, I think they're going to be behaving less as observers and more as participants.

## **How businesses shape the legal, political, and economic environment**

**James Manyika:** What's the role of business when it comes to these global issues beyond just simply making money? How do you think about that?

**Richard Haass:** Businesses have now a vested interest in helping to shape the environment. I mean environment in the larger sense of the word. Not the physical environment, but the legal, political, economic, and regulatory environments in which they operate.

If you're in the technology space, you've got to be involved in these issues. I mean everybody's got to basically be global now. You've got various domains that set their own regulations. It's probably better for these companies if they have global standards.

My own view is that businesses have got to be participants. It's almost as if businesses are going to need their own layer of foreign policy understanding. That they are going to need people who are tasked to think about the negotiations that are going on, or the institutions that exist that affect their welfare, or more future-oriented, more proactively, what needs to happen?

Businesses need to be much more creative and innovative and really think more in foreign policy terms. And it's hard because there are very few people, I've learned, who understand technology, who have the legal and economic background, and also have the foreign policy background. My sense is we're going to have to have teams at a lot of businesses that are going to need to be working on these issues.

And they may need the equivalent of embassies in the sense of having people around the world in critical geographies who are regularly consulting. Because normally, you want to consult before you

negotiate. And certainly before you think about anything legal.

Drawing up the regulatory environment, the rules environment, and so forth in which you operate increasingly will become critical for successful businesses, regardless of whether they buy into Milton Friedman's notion of what their priorities ought to be in terms of profit or satisfying other stakeholders and constituencies.

Their ability to succeed is going to require that, in some ways, they take matters into their own hands. And obviously, they've got to be sensitive to their host governments.

### **Who holds global corporations accountable?**

**James Manyika:** We've already started to see businesses move beyond Milton Friedman's statement that the social responsibility of business is to increase profits. For example, the Business Roundtable made a much more expansive view of their purpose. How do you think about that in the context of accountability? Because, arguably, if governments are functioning well, they are accountable ultimately to their citizens. How should companies think about that and how should we think about companies in that sense? Who will they be accountable to?

**Richard Haass:** They're going to have to be accountable to several constituencies. And we're seeing it. One is their own government.

To some extent, they operate in an environment. And they have to be careful not to run afoul of it, whether it's a legislature in the United States, the Congress, or the executive branch.

Companies operate in a world in which nation-states are the principal actors. What we were talking about previously is that nation-states now share the chessboard or share the stage.

But—and it's an important but—they're still the most important pieces on that chessboard, or actors on that stage. And any business that doesn't take its own government or the views of multiple governments into account, but particularly its host government, is risking real problems.

Second of all, they've got to think about their own workers. They've obviously got to think about shareholders, and they've got to think about public opinion. And I think what's happening is companies are catching up to this.

The attack on a lot of the big technology companies is interesting—it seems to me that they were operating for too long under the old rules and the old assumptions. And suddenly, things changed on them. And they're so big and so powerful and so important that essentially the world has said, "Hey, they can't act in a totally independent, unregulated fashion."

That's simply the new reality. And we're going to see it in other domains as well—such as the energy industry or industries that use energy, in IT, and obviously in pharma and things that affect health.

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There are going to be precious few areas of economic activity that are not going to be of considerable interest to host governments, other governments, and other international bodies and agencies. There is also going to be much more scrutiny, given the nature of modern life and social media.

I would just assume that if you're in the business world, everything about management has changed, and the old command management styles look like dinosaurs, the idea that companies essentially can have a narrow perspective, that they operate in some kind of splendid isolation. I think they're public entities in every sense of the word.

They're increasingly seen as global entities that should be accountable too in every sense. They have to adjust to that. It doesn't mean they don't have their own self-interests. It doesn't mean they don't push back. But they have to assume that they are now working in a far more complicated, transparent environment.

## **The confluence of policy management and business**

**Richard Haass:** I used to teach management at the Kennedy School. And one of the conceits of the management literature was that business management was on a higher plane than non-business management.

And I will show uncharacteristic restraint and not go to town on that conceit [laughs]. But what's so interesting to me, James, is that increasingly, business management has had to move in the direction of public policy management, rather than the other way around.

It used to be that businessmen and -women always said, "You in the public sector have got to become more like us." And in some cases, that's true. But increasingly, people in the business world, the corporate world, have to become more like people in the public policy world. They've got far more independent constituencies to contend with. And that, to me, is what's so interesting about, say, the 21st century. It's global as well as domestic. There are more stakeholders, whether it's employees, or state, local, or federal governments, or international bodies. Far more transparency thanks to social media.

When I look at a CEO's world, their calendars are filled up more, and it's hard for me to get the amount of time I used to be able to get from them. The reason is that they are being looked at, attacked, regulated, and questioned from far more directions. That's essentially what it used to be like, and still is, in the public sector. You just don't have the freedom of action that businesses and companies used to have a generation or two ago. Their world has become much more like the public policy, political world. And I think they're catching up to that reality.

**Richard N. Haass** is president of the Council on Foreign Relations. **James Manyika** is co-chair and a director of the McKinsey Global Institute.

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