

# GLOBALIZATION AND GLOBAL PROBLEM SOLVING

## Five Basic Design Principles

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**Is the scope of global problem solving too broad and too unmanageable, given the constraints on our capacity for global governance?** This paper develops five principles for designing or guiding the evolution of Global Solution Networks that will increase our capacity.

Two of these principles offer advice on how to set the proper agenda for global problem solving. Two provide guidance about the where, what, and how of an organization's pursuit of its mission across borders, and whether it is the right instrument for that pursuit. The fifth suggests that individual attitudes toward globalization and foreigners can constrain both the global agenda and what organizational actors can hope to accomplish.



# Table of Contents

The Idea in Brief	1
Rio Redux	2
Approaching GSNs	4
Five Design Principles for Global Problem-Solving	7
The Devolution Principle	7
The Distance-Sensitivity Principle	11
The Distance-Directedness Principle	14
The Distinctive Competence Principle	18
The Debiasing Principle	23
Implications for Network Leaders	27
Endnotes	29
About the Author	32
Global Solution Networks	33



## The Idea in Brief

This white paper focuses on the implications of research on globalization for Global Solution Networks (GSNs). It presents five principles for designing or guiding the evolution of global solution networks and processes that are anchored in stylized facts about globalization or responses to it:

- Recognizing that most interactions are less than 20%—and even 10%—internationalized suggests the power of the *devolution principle*: not everything needs international coordination.
- Recognizing that most international flows occur between countries that are close to each other reveals the *distance-sensitivity principle*: even if international coordination is required, high levels of distance-sensitivity typically favor subglobal (e.g., regional/subregional) approaches.
- Remapping the world in terms of multiple forms of distance also reveals the power of the *distance-directedness principle* in guiding choices about the locus of activity or operation (“where”), which activities to perform (“what”) and ways to organize to get them done effectively (“how”).
- Realism about the general difficulties of cross-border operations and the management challenges confronting the not-for-profit sector in particular underlines the usefulness of the *distinctive competence principle*: ask not only whether something is worth doing, but also if you, your organization or your network are or can become capable of doing it particularly well.
- Remembering that most individuals are still quite distrustful of foreigners reinforces the *debiasing principle*: the broader importance of building cross-border trust by reducing home bias due to ignorance or lack of interactions.

These five design principles or 5Ds should help define the agenda for global problem solving (GPS), structure and focus GPS efforts, and remind us of the importance of targeting people’s hearts and minds as well as technocratic efficiency.



## Rio Redux

The 20th anniversary of the first Earth Summit in Rio in 1992 triggered not only another Earth Summit, known as Rio+20, but also some stock-taking. The UN itself reported diplomatically that “There has been significant progress since the Earth Summit, but the track record for implementing Agenda 21 and sustainable development is decidedly mixed.”<sup>1</sup> More scathingly, a review in *Nature* gave Rio an “F” with respect to the three major treaties that came out of it— on climate change, biodiversity and desertification.<sup>2</sup> And the World Wildlife Fund called the 53-page follow-on declaration issued at Rio+20 “a colossal failure of leadership and vision.”<sup>3</sup>

The Rio process has proven to be a disappointment despite the very high hopes with which it began. Its failure does, however, offer some useful lessons about the challenges facing global problem solving as well as some clues about the way forward—clues that will foreshadow the design principles that are proposed in this white paper.

Consider the Rio process from the perspective of the four pillars of society described in Don Tapscott’s white paper—governments, businesses, non-governmental organizations (NGOs) and individuals.<sup>4</sup> Focusing first on the governmental perspective, Rio ’92 resulted not only in the three treaties mentioned above but also in Agenda 21, the far-reaching action plan that covered the following items, with 27 program areas under them, on just its economic and social dimensions (one of the four sections in the agenda<sup>5</sup>):

1. International Cooperation to Accelerate Sustainable Development in Developing Countries and Related Domestic Policies
2. Combating Poverty
3. Changing Consumption Patterns
4. Demographic Dynamics and Sustainability
5. Protecting and Promoting Human Health
6. Promoting Sustainable Human Settlement Development
7. Integrating Environment and Development In Decision-Making

The expansiveness of this agenda reminds us that the scope of global problem solving is potentially very broad—and potentially unmanageable given the constraints on our capacity for global governance. But it also offers some clues as to how we might do better. While Rio ’92 was supposed to be a global discussion of global issues, none of the 27 program areas, by my reckoning, called on global intergovernmental organizations such the UN as the primary change agents. In contrast, local governments (national or subnational) were invoked one-half of the time, and a mix of local and global—with local often dominating—another 40% of the time, with (supranational) regional organizations added into the mix for the remainder.<sup>6</sup> My



sense, foreshadowing the first two design principles developed below, is that not all the problems discussed at Rio required international coordination and that even of the ones that did, some were addressable at a subglobal level.

In addition to the 172 governments that took part, Rio '92 also featured 2,400 representatives of non-governmental organizations (NGOs), not to mention the 17,000 attendees at the parallel NGO “Global Forum,” which was accorded “consultative status.” And Rio+20 featured a further explosion in the number of NGOs participating—more than thrice as many were accredited to participate officially as in 1992. While there were some obvious attractions to bringing civil society into the picture to supplement traditional government-to-government interactions, as elaborated in the next section, the dismal results remind us that broad participation doesn't guarantee that problems will actually be solved.

“ This agenda reminds us that the scope of global problem solving is potentially very broad—and potentially unmanageable, but it also offers some clues as to how we might do better. ”

One clue about how to do better is provided by the observation that participation by business—the third of the societal pillars cited above—in Rio '92 was limited to the Business Council for Sustainable Development created by Stephan Schmidheiny with 48 business leaders in tow. In contrast, more than 1300 participants from the business and investor communities attended the Rio+20 Corporate Sustainability Forum, which was organized by the UN Global Compact in the days leading up to the United Nations Conference on Sustainable Development.<sup>7</sup> Broader participation by business was generally regarded as one of the bright spots in a generally bleak picture.<sup>8</sup> Thus, according to Manish Bapna, then head of the World Resources Institute, the “Lack of ambition in the text...should not be seen as a proxy for what we see as some fairly significant action that is taking place, often with the private sector in a lead role.”<sup>9</sup> The point here is not that business can substitute for participation by NGOs in GSNs—there is an important difference between private and social value—but rather, that the former may offer some lessons for the latter in terms of how to improve their effectiveness.

Finally, individuals, the fourth pillar of society, were, understandably, not directly present at Rio; adding them to the mix would have made the process even more unwieldy. But perhaps this absence was not unrelated to one key omission from the Rio process. As Yilmaz Argüden, Turkey's representative to the UN Global Compact, observed in the aftermath of Rio+20:

*“A ‘global education initiative’ is required to ensure that people fully understand their mutual dependence, rather than seeing neighbors and other foreigners as scapegoats for local problems... Only when such an understanding has become prevalent can we create global institutions with adequate resources and decision-making powers that are shared and exercised equitably.”<sup>10</sup>*



This broad educational imperative, which was not emphasized in the otherwise expansive discussions of global problem solving at Rio and Rio+20, is at the core of the fifth and final design principle discussed in this white paper.

## Approaching GSNs

The Rio process took on an overpowering number of issues and did so without any clear design for dealing with them. If that approach to global problem solving didn't work then, it is even less likely to work now. To see why, note that the Rio process was basically launched at a more auspicious time: the world economy growing rapidly, globalization even more so, and the easing of cold-war tensions raised hopes of a real shift in attention to issues of development and sustainability. The current environment is more complex in several respects, adding to the pressure to improve how we approach global problem solving:

- Economic conditions are generally bleak in advanced economies and even faster-growing emerging economies (e.g., China, India and Brazil) have seen their growth rates slump. General economic malaise already seems to have been responsible for such unwelcome developments as creeping protectionism and the apparent death of WTO's Doha round of trade talks.
- After surging until the financial crisis, globalization has faltered. The Rio process, for its first 15 years or so, unfolded against a backdrop of booming cross-border flows: between the early 1990s and the global financial crisis, international trade intensity doubled and FDI intensity tripled. But since then, trade flows have stagnated and capital flows have dropped sharply. Without rapid growth in the first 15 years, the state of globalization today would matter less; without the lull/reversal in the last five years, there wouldn't be much to concern pro-globalizers, at least.
- Then there are all kinds of other threats to stability and cooperation: regional crises (e.g., in the Eurozone), increases in income inequality in many countries and of xenophobia in some; continued trade imbalances, talk of currency wars, uncertainty about the dollar's future as the world's reserve currency; the obsolescence of multilateral institutions for varied reasons (e.g., questioning of the WTO in the wake of problems with the Doha trade round; US withdrawal from UNESCO); and issues around renewed multi-polarity, particularly China's arrival as a great power. These further reduce the margin for error.



So we need principles for GSN design! The interesting question concerns their content. The approach adopted here is to ground them in what research has revealed to us about globalization and responses to it. This white paper starts with five structural attributes of the world that we live in—the evidence for which is discussed at length in my book, *World 3.0: Global Prosperity and How to Achieve It*<sup>11</sup>—and focuses on discussing some of the implications for GSNs. While the substrate of globalization may not be the only set of considerations relevant to the design of GSN initiatives, it surely constitutes one of the relevant sets of factors.

The discussion of Rio in the previous section supplied inklings of what these principles might be; the discussion in the next section goes into some detail to argue the generalizability of some of the learning points from Rio (despite the changes described above). The first two design principles rely on my 15 years of work mapping the structure of globalization—and much more work by many others—to generalize the observations that not all the problems discussed at Rio required international coordination and, even among the ones that did, not all need to be addressed at a fully global level. The second pair of principles—focused on what NGOs/GSNs can learn from business—is anchored in the same substrate of observations about the structure of globalization but also reflects my (even longer) involvement in researching, writing cases about and consulting to businesses confronting globalization challenges and, more broadly, strategic choices. The final principle, on the fear factor and the need to do something about it, is grounded in an observation about individual attitudes toward foreigners rather than international flows, but the treatment inevitably reflects my three decades of experience as an educator.

It is time to present the principles themselves. They are summarized in Table 1, which presents five matched pairs of observations about globalization and implied design principles that I refer to as the 5Ds of Global Solution Network design: devolution, distance-sensitivity, distance-directedness, distinctive competence and debiasing.

“ *In this sense, the 5Ds are responsive to the one key advance that Rio did embody from a global problem solving perspective: it marked a practical recognition that the traditional state-to-state view of how international issues should be managed that can be traced back to the Peace of Westphalia nearly 350 years earlier, topped off more recently with intergovernmental institutions of international governance, is not a sufficient basis for tackling the worlds’ problems.* ”



State of the World	Implications for GSNs: The 5Ds
1. Semiglobalization: Most activities are less than 20% and even less than 10% internationalized.	<b>The Devolution Principle:</b> Not everything needs international coordination
2. The Law of Distance: The lion's share of international flows occurs between countries that are close to each other; flows between distant countries are much more limited.	<b>The Distance-Sensitivity Principle:</b> Even if international coordination is required, high levels of distance-sensitivity favor subglobal (e.g., regional/ subregional) approaches.
3. CAGE Distances: International flows are affected by degrees of difference—cultural, administrative, geographic and economic.	<b>The Distance-Directedness Principle:</b> CAGE Distances can help direct choices about where to operate, what to do and how to organize.
4. Adding Value: Adding value is a better strategic objective than simply seeking to expand the activities performed.	<b>The Distinctive Competence Principle:</b> In addition to cost-benefit analysis of GSN initiatives, the concept of distinctive competence can help a player assess whether it is adding value or likely to do so.
5. The Fear Factor: Most of us as individuals are still quite distrustful of foreigners and biased towards nationals.	<b>The Debiasing Principle:</b> It is important to build cross-border trust by reducing home bias due to ignorance or lack of interactions.

Table 1: Globalization and the Five Design Principles (5Ds) for Global Solution Networks.

While it was convenient to tie the 5Ds to specific pillars of society when they were foreshadowed above, they can also be thought of as applying at a higher level as well, to GSNs that involve more than one pillar of society. The first two principles help set the agenda for global problem solving and therefore, for GSNs. The second two principles supply guidance from the for-profit sector to NGOs and to GSNs about where to operate, what to do and how to organize to get it done—and whether to operate at all! And the final principle reminds us that what GSNs can hope to achieve is still heavily conditioned and constrained by individuals' attitudes.

In this sense, the 5Ds are responsive to the one key advance that Rio did embody from a global problem solving perspective: it marked a practical recognition that the traditional state-to-state view of how international issues should be managed that can be traced back to the Peace of Westphalia nearly 350 years earlier, topped off more recently with intergovernmental institutions for international governance, is not a sufficient basis for tackling the world's problems.



An explanation might be anchored in the observation that trade and FDI-intensities are now five to ten times as high as they were in the 1950s—by which point most of today’s multilateral institutions for global governance had been established. Inevitably, there has been institutional lag in keeping up with rapid increases in cross-border integration. Specifically, traditional state-centered institutions and initiatives haven’t proven quite up to the job, generating demand for new initiatives and institutional forms. At the same time, on the supply side, there have been some important changes as well, most notably, the extent to which information technology has expanded collaborative possibilities at the inter-organizational, intra-organizational and even individual levels. The implications are potentially profound: e.g., the increased emphasis on internet-enabled networks for global action as opposed to traditional organizational structures in international organizations, as discussed by Don Tapscott in his overview chapter.<sup>12</sup>

So the profusion of new initiatives and institutional forms, of which the interest in GSNs is one important manifestation, has its own logic. But that said, the lessons of the Rio summit continue to apply: bringing some design principles to such initiatives would seem to be useful—for the reasons already articulated and especially if the number of issues and of interests to be considered are, in the aggregate, large.

## Five Design Principles for Global Problem-Solving

The approach adopted in this section is to work principle-by-principle through the items in Table 1. Each subsection starts with an attribute of the world that we live in—evidence for which is summarized here but discussed at length, and with extensive citations, in my book, *World 3.0: Global Prosperity and How to Achieve It*<sup>13</sup>—and proposes a design principle predicated on that evidence.

### The Devolution Principle

State of the World	Implications for GSNs: The 5Ds
1. Semiglobalization: Most activities are less than 20% and even less than 10% internationalized.	The Devolution Principle: Not everything needs international coordination



Not all the issues raised at Rio really required the powers of global problem solving (as opposed to global exhortation). This seems to be a common pattern given the tendency to attach the handle “global” to issues for no other reason than to give them extra emphasis. Given the limits to our capacity for global governance described above, cutting back on such excess is one way to concentrate that capacity where it really matters.

In the case of Rio, much of Agenda 21 apparently focused on action at the local rather than the global levels and was therefore an obvious candidate for cutbacks. Might this be the case more generally? Are there a significant number of dimensions for which localization is so high that attempts at global coordination are basically irrelevant—and exclusion from the domain of global problem solving sensible?

Believers in a flat world, the death of distance, the end of the nation state etcetera—the (close to) completely integrated view of the world that I refer to as World 2.0 and that predominates in surveys I have run—would presumably be skeptical of significant exclusions of this sort. But in preference to such popular preconceptions, let’s look at the evidence: data on levels of internationalization of activities that can take place either domestically or across borders.

Most international flows represent a small fraction—typically less than 20% and often even less than 10%—of total flows, international and domestic. Only 2% of telephone calls cross national boundaries. Only 3% of people live outside the country where they were born. Foreign direct investment (FDI) was about 10% of global fixed capital formation in 2010. And even in the heady years before the financial crisis,

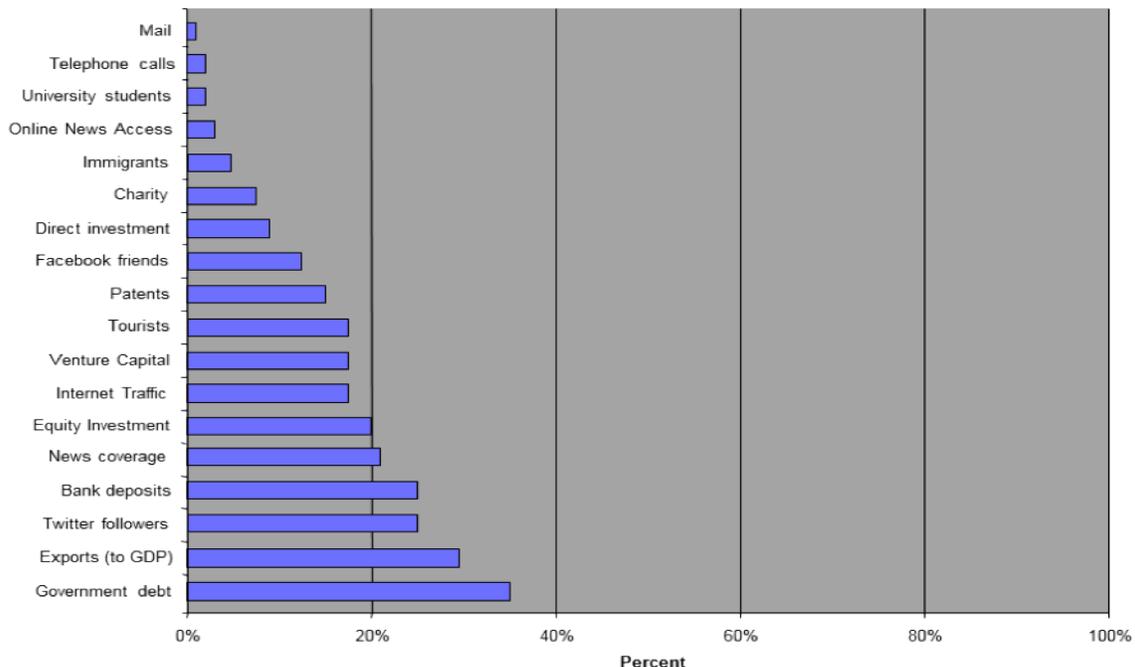


Figure 1: Degrees of Internationalization

Source: Pankaj Ghemawat, *World 3.0: Global Prosperity and How to Achieve It*, Harvard Business Review Press, 2011.

only about 20% of equity investment was in foreign stocks. Data on the degree of internationalization of a much broader set of flows are summarized in Figure 1 and strongly support the structural diagnosis of “semiglobalization” rather than complete globalization. Actual levels of globalization are not only much, much lower than the levels we would see if the world were flat, which would lead to expectations typically in the range of 85% or more; they are also significantly lower than most people would intuitively expect. Thus, in an

online survey that Harvard Business Review conducted for me, respondents pegged international phone calls at 29% of the total, immigrants at 22% of the world’s population, foreign direct investment at 32% of total capital formation and foreign equity investment at 29% of total investment in equities—an average estimate of 28%, or over three times the actual average.<sup>14</sup> (The CEOs sampled overestimated by a factor of

four rather than three!) And an online survey I conducted recently of Americans with masters’ degrees yielded estimates that were higher still! For compactness, I refer to such exaggerations about the globalization of the world as “globaloney.”

“*Actual levels of globalization are not only much much lower than the levels we would see if the world were flat, which would lead to expectations typically in the range of 85% or more; they are also significantly lower than most people would intuitively expect.*”

The assessed extent of globaloney is increased further by the observation that some of the interactions that Figure 1 depicts as being the most internationalized are actually overstated. Thus, after eliminating double- and triple-counting associated with trade in intermediates, exports probably account for closer to 20% than to 30% of world GDP. And estimates of cross-border holdings of governmental debt—the only category listed as more internationalized than exports-to-GDP—have declined sharply since the financial crisis, as have other measures of financial connectedness. (Most of the non-financial data points in Figure 1 are for more recent years.)

That last point also starts to shed some light on the most frequent counter to such data: that even if the world isn’t fully globalized today, a borderless world is just around the corner. But, looking backward, the pattern of changes is actually rather mixed. The percentage of the world’s population comprised of immigrants, for example, is the same now as it was in 1910. Some of the pre-crisis measures of cross-border financial flows/stocks reported in Figure 1 are actually comparable to earlier peaks more than 100 years ago. Trade and capital flows actually dropped significantly in the aftermath of the recent global financial crisis, reminding us that monotonic increases in globalization are not a given. So too the threats to stability and cooperation cited in the previous section: they suggest that increasing fragmentation may be a more plausible prediction than increasing integration. But of course, what will happen isn’t predetermined: it will depend in a very real sense on how well we practice global problem solving.



A second common counter to the data presented in Figure 1 is to harp (a la Thomas Friedman's *The World is Flat*) on the Internet and, more broadly, on the notion that in the last few decades, the cost of communication has plummeted and the richness of what can be transmitted has exploded in a way that *changes everything*. But the best available estimate of the proportion of internet traffic that crosses international borders (included in Figure 1) pegs it at 17-18%—ten times as high as plain old telephone service but again, far below the level one would expect in a flat world. Of course, the Internet itself is just one of many newer forms of connectivity enabled by digitalization and the convergence of communications and computing that have progressed several times faster than plain old telephone service. But others are subject to clear limits as well. Thus, between 10 and 15% of people's friends on Facebook are non-domestic,<sup>15</sup> as are 25% of the people they follow on Twitter.<sup>16</sup> Just because we are notionally able to befriend anyone, anywhere, anytime on Facebook doesn't mean we will: there is an important distinction between (potential) connectivity and connectedness, of which further examples as well as explanations will be provided below.<sup>17</sup>

Returning to the empirical observation that levels of globalization are generally limited but variable suggests that the agenda for global problem solving can indeed be simplified by deemphasizing areas where the key phenomena mostly unfold at a local (or national) level; in such situations, that is where change initiatives presumably need to focus. As very rough benchmarks, one might, based on Figure 1, suggest that levels of internationalization significantly less than 10% are an indication that global problem solving may not be (primarily) what is required, whereas levels significantly greater than 20% are an indication that it is. But more important than such heuristics is the logic of looking at whether key effects spill over national borders or not.

The environmental externalities caused by pollution provide an interesting application. For distance-sensitive pollutants that stay more-or-less within national borders—most ground and water pollution—local solutions are generally appropriate. Pollutants that cross national borders to a significant extent—usually airborne pollutants—are the ones that require cross-border cooperation.

The growth and sustainability of cities—another topic taken up at Rio—is another interesting case, and a potential candidate for exclusion from global problem solving. It may make sense to build a Knowledge Network to share information on, say, sustainable cities around the world and even build an Advocacy Network to engage in cross-border lobbying for more enlightened urbanism, but those are limited functions, meant to affect outcomes by shifting the local calculus of self-interest, but without actually assuming or requiring coordination of those decisions across borders. That is because, to a first approximation, one polity's decisions about how to build and operate its cities don't directly affect and aren't directly affected by others. As a result, key decisions about cities are mostly taken nationally or—as played up in the recent literature on mayors—at a metropolitan level.<sup>18</sup> The broader point is that a problem needs to be more than globally widespread to be a candidate for global solutions that go beyond simple information-sharing: the requirement of some coordination of responses across borders, rather than simply sharing information



about different types of possible responses, is the acid test for global problem solving in the sense discussed here.

Hence the *devolution principle*: not everything needs coordination across national borders and many issues are, in fact, tackled most effectively at the national or local levels. This principle has obvious instrumental appeal since it helps lighten the load on what is probably limited capacity for global problem solving. In addition, there may also be intrinsic reasons for using this principle to delimit the global agenda, e.g., the argument for subsidiarity in political economy. Thus, perhaps because of the disastrous experiments with totalitarianism in the twentieth century, most of the thinkers currently working on cosmopolitan democracy and related notions support decentralized democracy instead of a unified structure hegemonically controlling the world.<sup>19</sup>

## The Distance-Sensitivity Principle

State of the World	Implications for GSNs: The 5Ds
2. The Law of Distance: The lion's share of international flows occurs between countries that are close to each other; flows between distant countries are much more limited.	The Distance-Sensitivity Principle: Even if international coordination is required, high levels of distance-sensitivity favor subglobal (e.g., regional/ subregional) approaches.

If the devolution principle was about what will be coordinated internationally versus devolved to local/national levels, the distance-sensitivity principle is about how to structure what does make it onto the international agenda. This principle is predicated on the law of distance: the observation that the lion's share of international flows occurs between countries that are close to each other, whereas flows between distant countries are much more limited. The variation around this average tendency is critical: while low levels of distance-sensitivity may require fully global coordination, higher levels of distance-sensitivity favor subglobal approaches.

The distance-sensitivity principle can be illustrated by extending the earlier discussion of pollution. Most ground and water pollution is so distance-sensitive that it stays within one country. Airborne pollutants can range across borders, but in very different ways. Acid rain, for example, tends to have a regional footprint, accounting for the success of intra-regional initiatives such as cooperation between the US and Canada (most notably their 1991 Air Quality Agreement), which has helped reduce North American acid rain by 65% since 1976. In contrast, carbon dioxide emissions of the sort that cause global warming have an unusually low distance-sensitivity and therefore warrant a fully global focus.



It is not just (some) pollutants that obey the law of distance;<sup>20</sup> it also applies to the voluntary international interactions that are more commonly studied in the context of globalization: trade in products and services and flows of capital, people or information. Instead of being randomly distributed, these flows have a structure to them that can be illustrated by the cartogram of Germany's merchandise exports, displayed in Figure 2. Countries other than Germany are sized in proportion to its merchandise exports to them and the shading reflects intensity of trade, with red indicating that Germany's share of a partner's total merchandise imports is high and the blue indicating that it is low.

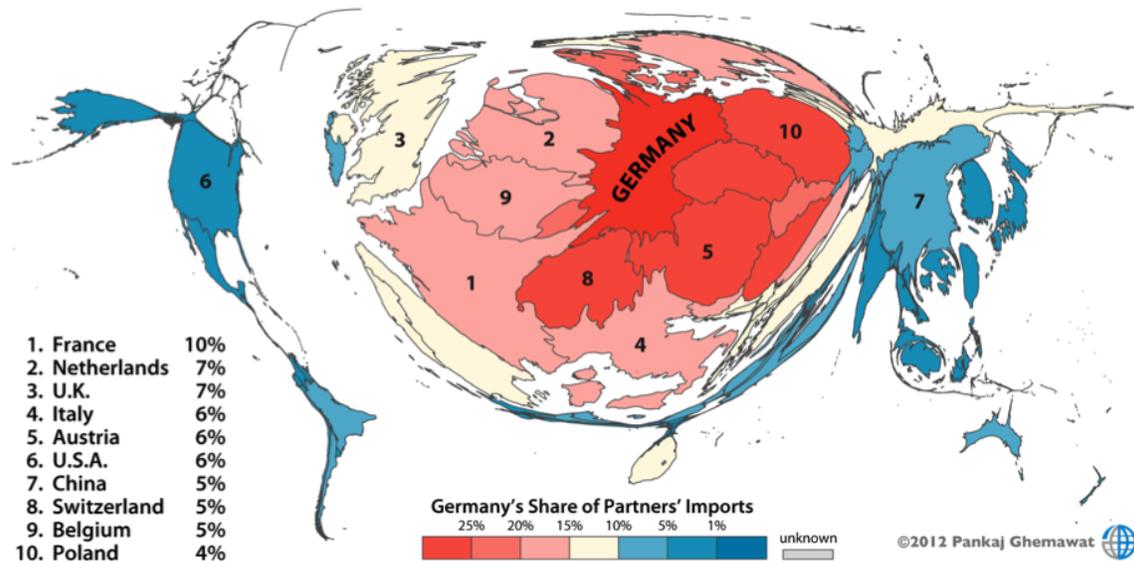


Figure 2: German Merchandise Exports (and Share of Partner Imports), 2011

Source: Generated based on data from United Nations Commodity Trade Database (Comtrade)

Note that despite Germany's status as a global export powerhouse, 60% of its exports still go to other EU countries. Including the rest of Europe and Turkey pushes that figure past 70%. Europe also accounts for all the pink and red shading on the map—the countries for which imports from Germany account for more than 15% of the total. And within Europe, there are significant variations as well: Germany's share of imports is particularly high for Austria, followed by Switzerland, the Czech Republic and Hungary. Note that these countries are not only close to Germany geographically and linguistically but also historically: apart from Switzerland, they, along with Germany, constituted the Holy Roman Empire circa 1500CE. In contrast, German exports' share of national imports is significantly lower for the Iberian Peninsula and the British Isles. Finally, outside Europe, apart from Russia and South Africa (with which there are colonial-era ties), Germany's share of other major partners' imports is less than 10%.

Similar patterns are evident for other kinds of international interactions as well. Thus, 60% of German banks' foreign lending is to the rest of Europe, which accounts for 70-85% of Germany's foreign direct investment, portfolio equity holdings, international phone calls and international tourist arrivals as well! And while Europe is

a continent that is more integrated internally than most others, similar patterns also apply to countries in other parts of the world. Thus, for the United States, Canada is the largest bilateral trading partner, the largest supplier of crude oil imports and the largest destination of US phone calls—with Mexico figuring within the top three along those dimensions as well as being the largest source of inbound immigrants. And while US FDI is much more dispersed, when US companies go overseas, 60% of them choose Canada as the location of their first foreign operation.

Looking at the world as a whole, 50-60% of most types of international flows tend to take place within regional borders: see Figure 3.<sup>21</sup> The high average level of regionalization suggests that many issues that require international coordination might mostly be addressable at the regional rather than global level. And the range of variation suggests, as a very rough benchmark, that if the intraregional component of international flows is (significantly) greater than

60%, particular attention to the regional (or subregional) level is likely warranted, but that if it is less than 40-50%, regions may not be a useful basis for aggregation. Of course (continental) regions represent just one geographic level of analysis that may or may not be suited to a particular situation. Thus, returning to the example of water pollution, the international issues that do arise are typically confined to two to four neighboring countries, which is the level—rather than the fully regional or fully global—at which cross-border coordination is likely to make the most sense.

“ Looking at the world as a whole, 50-60% of most types of international flows tend to take place within regional borders. The high average level of regionalization suggests that many issues that require international coordination might mostly be addressable at the regional rather than global level. ”

More broadly, international interactions are typically subject to distance-sensitivity that creates room for less-than-fully-global approaches. And geography isn't the only possible basis for distinguishing between the near abroad and the far abroad: others include cultural ties, political alignment vs. antagonism, and advanced versus emerging countries. These possibilities remind us of the importance of distance along multiple dimensions, not just geographically—implications explored further in the next subsection. Recapping this one, the distance-sensitivity principle goes beyond the global/local dichotomy underlying the devolution principle by focusing the fully global component of the agenda: where influences are projected far across borders rather than just in the immediate vicinity.



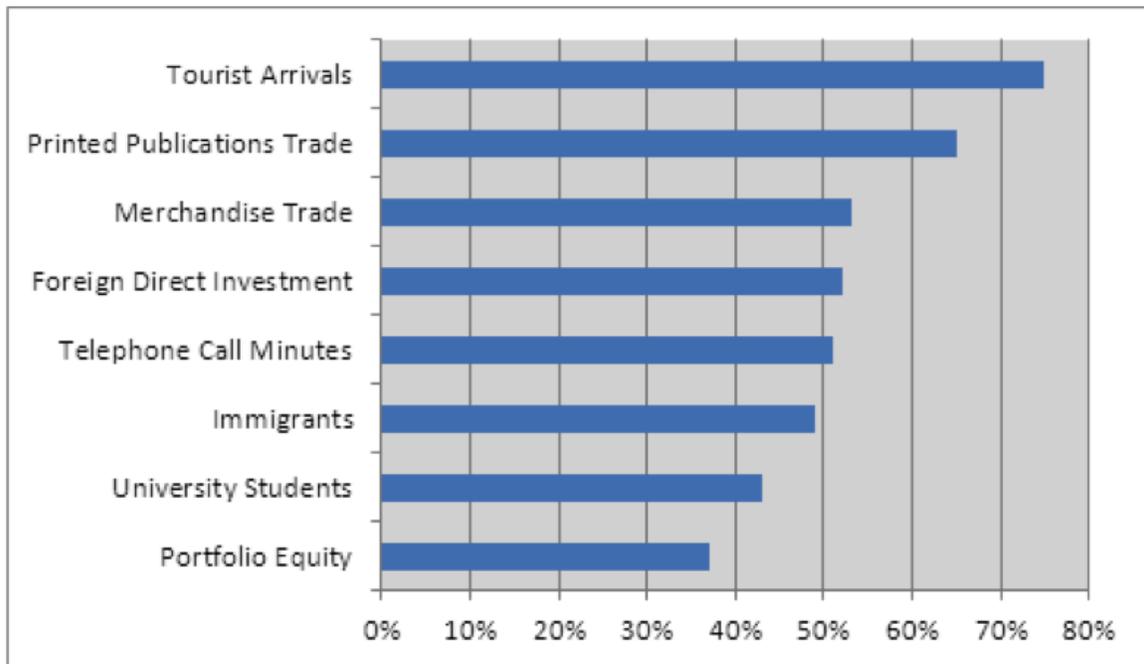


Figure 3: Percent of International Flows that are Intra-Regional  
 Source: P. Ghemawat and S.A. Altman, DHL Global Connectedness Index 2011, Report, Deutsche Post DHL (2011).

## The Distance-Directedness Principle

State of the World	Implications for GSNs: The 5Ds
3. CAGE Distances: International flows are affected by degrees of difference—cultural, administrative, geographic and economic.	The Distance-Directedness Principle: CAGE Distances can help direct choices about where to operate, what to do and how to organize.

The distance-directedness principle relies, like the distance-sensitivity principle, on the law of distance, but shifts the focus from structuring the agenda to shedding light on what the actors involved with it should do. The most interesting research in this regard consists of the thousands of studies that use “gravity” models to study the factors underlying the law of distance, particularly when it comes to trade. The nomenclature highlights the analogy with Newton’s law of gravity: gravity models in international economics link interactions between countries to the product of their economic masses divided by some composite measure of distance incorporating some of the factors listed in Figure 4. Such gravity models not only help us understand why, for instance, the US-Canadian trading relationship is the largest in the world; they also explain, in a statistical sense, two-thirds or more of all the variation in bilateral trade flows between all possible pairs of countries.

The CAGE distance framework summarized in Figure 4 implies that distance is multidimensional—cultural, administrative/political, geographic and economic—not just geographic. And while there are many differences between countries, the seven measures of distance highlighted in Figure 4 explain 70-90% of the variation in country-to-country flows (or stocks) of trade, capital, people and information. To be more specific, 10 types of international flows—merchandise and services exports, foreign direct investment stocks, portfolio equity assets and portfolio long-term debt, migrants, university students studying abroad, international tourists, phone calls and exports of printed publications—were regressed on the seven variables highlighted in Figure 4.

Five of the seven differences have the predicted, statistically significant effects on at least eight of the ten types of international interaction. A common language achieves significance nine times out of ten, with huge effects on people and information flows, and also appreciable ones on merchandise trade, which it more than doubles, and foreign direct investment and portfolio equity, where it comes close to that mark. A colony-colonizer relationship (in the past—as in the “Holy Roman Empire” effect visible in Figure 2) has significant positive effects on 8 out of the 10 flows, with effects ranging from +62% on international tourists’ arrivals to >400% for emigrant-intensities. Geographic distance (logged) works across the board, with the effects of halving geographic distance (roughly a shift from the average intercontinental distance to the average intracontinental distance) ranging from +75% for portfolio long term debt to >280% for printed publications exports.

Increasing the ratio of richer-to-poorer country per capita incomes has the predicted negative effects nine times out of ten and increasing the sizes of the countries considered has the predicted positive effects eight times out of ten. Auxiliary administrative and geographic variables—the existence of a regional trade agreement or a regional bloc, and sharing a common border—have positive, significant effects of five times and four times respectively.<sup>22</sup>



	<b>Cultural Distance</b>	<b>Administrative Distance</b>	<b>Geographic Distance</b>	<b>Economic Distance</b>
<b>External Distance (Bilateral/Plurilateral/Multilateral Attributes)</b>	<ul style="list-style-type: none"> <li>• Different languages</li> <li>• Different ethnicities/ lack of connective ethnic or social networks</li> <li>• Different religions</li> <li>• Differences in national work systems</li> <li>• Different values, norms and dispositions</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of colonial ties</li> <li>• Lack of shared regional trading bloc</li> <li>• Lack of common currency</li> <li>• Different legal system</li> <li>• Differences in corruption levels</li> <li>• Differences in political stability</li> <li>• Political hostility</li> </ul>	<ul style="list-style-type: none"> <li>• Physical distance</li> <li>• Lack of land border</li> <li>• Differences in climates (and disease environments)</li> <li>• Differences in time-zones</li> </ul>	<ul style="list-style-type: none"> <li>• Differences in consumer incomes</li> <li>• Differences in availability of:</li> <li>• Human resources</li> <li>• Financial resources</li> <li>• Natural resources</li> <li>• Intermediate inputs</li> <li>• Infrastructure</li> <li>• Supplier/ distribution structure</li> <li>• Complements</li> <li>• Organizational</li> <li>• Capabilities</li> </ul>
<b>Internal Distance (Unilateral Attributes)</b>	<ul style="list-style-type: none"> <li>• Traditionalism</li> <li>• Insularity</li> <li>• Spiritualism</li> <li>• Inscrutability</li> </ul>	<ul style="list-style-type: none"> <li>• Non market/ closed economy (home bias versus foreign bias)</li> <li>• Lack of membership in international orgs.</li> <li>• Weak legal institutions/ corruption</li> <li>• Lack of govt. checks and balances</li> <li>• Societal conflict</li> </ul>	<ul style="list-style-type: none"> <li>• Landlocked-ness</li> <li>• Geographic size</li> <li>• Geographic remoteness</li> </ul>	<ul style="list-style-type: none"> <li>• Economic size</li> <li>• Low per capita income</li> <li>• Low level of monetization</li> <li>• Limited resources, inputs, infrastructure, complements, capabilities</li> </ul>

Figure 4: The CAGE Distance Framework.

Source: Adapted from Chapter 3 of Pankaj Ghemawat, *World 3.0: Global Prosperity and How to Achieve It*, Harvard Business Press, 2011. Highlighted differences are the ones included in the regressions summarized later in this section.

So the CAGE framework works empirically. And conceptually, it improves significantly on the traditional insistence that different countries are different: to leave matters there would be to bog down in the details of country idiosyncrasies. Recasting differences in terms of distances emphasizes not just the differences between countries but also of degrees of difference or distance along cultural, administrative, geographic and economic dimensions as metrics for organizing thinking about them. And the attractions of the approach are enhanced by the concordance of the CAGE factors across different types of flows—which makes a CAGE-based mental remapping of the world much more attractive than if those factors mattered only for trade or mattered in very different ways for other flows (e.g., if the US and Canada were close in terms of trade but distant in regard to other flows).

To illustrate some of the uses of the CAGE Distance framework, consider some of the questions that businesses have found it helpful in addressing—applications that might be adapted to the social sector, where there seems to be less explicit consideration of them.

**Where?** Businesses recognize that where they are coming from affects where they should go—and that the answer usually isn't everywhere. Thus, in 2004, of all US companies that had foreign operations, the largest fraction operated in just one foreign country, the median number in two, and 95% in fewer than two dozen—summary statistics that hadn't changed since the mid-1990s! Especially since fully global action is unlikely to be warranted in the short run (see the principles of devolution and distance-sensitivity), do social sector initiatives take adequate account of where they are from (in terms of administration, donors, etc.) and relevant experience sets to decide where to go next? An issue that confronted, for example, Worldreader.org, a nonprofit that aims to bring ebooks to African schoolchildren: which African market(s) should it begin focusing on first? Its founders, a Briton and an American then based in Barcelona, chose Ghana because Anglophone Africa seemed the most natural target, Ghana's public administration was reputed to be relatively clean and efficient, and time zone proximity to Barcelona would likely simplify coordination.

**What?** Businesses also seem more inclined than amidst pre-crisis hoopla to recognize that their strategies in the countries they do operate in must respond in some fashion to cross-country differences. That said, they often fail to consider the full range of strategy levers for dealing with the differences that matter the most in their industries: most broadly, using multiple levers and sublevers of adaptation to adjust to differences, aggregating across countries to (partially) overcome differences, and arbitrage to exploit (selected) differences. Analogues can be specified for social sector initiatives. Does a family planning initiative targeting poor, strife-torn, traditional societies, which often have high gender-inequality as well as fertility rates, make adequate allowance for effective approaches in male-dominated societies? Can the Grameen Foundation, the hugely successful pioneer of microlending in Bangladesh, identify important common social needs that cut across or aggregate (segments in) poor countries that it can effectively help meet? Some degree of confidence that it can must (or at least should) underpin its expansion into nearly three dozen additional countries. And arbitrage or targeting differences along



selected dimensions raises important issues ranging from building low-cost but adequate delivery structures for very low cost income countries to questions about the focus of social sector initiatives on extreme deprivation as opposed to on some other area for improvement.

**How?** Some businesses also understand that their ability to address cross-country differences depends not only on the objective distances out there to be traversed but on their internal capabilities for dealing with them. I have developed a basic self-diagnostic for businesses to think through what they are doing in terms of reducing internal distance-sensitivity—and to think about what they aren't doing that they might want to—that includes the following kinds of questions (and implicit action implications). Do the key people in your organization understand how global we actually are, or are they prey to globaloney? Do they have a framework for understanding the underlying differences between countries—and differences in differences—that underlie limited levels of cross-border integration (think CAGE)? Are they housed in one location or dominated by one nationality? Are they involved in cross-border projects and networks and ideally even rotated abroad to some extent? Are they prepared to engage in the debate about the social consequences of globalization in general and your organization's involvement in it in particular? One can see some of the same questions and possible actions to reduce internal distance-sensitivity applying to social sector initiatives that aspire to be “global.”

To summarize, the CAGE Distance framework can not only help identify differences that need to be dealt with but also flag what is relatively easy versus hard to address given your background or your organization's context—with important implications for both content and process. And so the framework can indeed guide a number of different types of choices.

## The Distinctive Competence Principle

State of the World	Implications for GSNs: The 5Ds
4. Adding Value: Adding value is a better strategic objective than simply seeking to expand the activities performed.	The Distinctive Competence Principle: In addition to cost-benefit analysis of GSN initiatives, the concept of distinctive competence can help a player assess whether it is adding value or likely to do so.

The distinctive competence principle extends the where, what and how questions posed above to ask whether? Whether a particular GSN really is the right one to pursue a particular opportunity—or if the cause would be served better by joining up with an existing network or organization. Measurement, involving at least some



attempt at cost-benefit analysis, is one way of addressing that question. Another is provided by the strategic heuristic of distinctive competence.

While this question of whether can be raised more broadly—it certainly crops up in the business domain in regard to diversification decisions and, in a cross-border context, in concerns about flag-planting—it seems even more urgent in the social or nonprofit sector given suspicions of excessive fragmentation, with too many subscale organizations going after the same problems. Thus, one study by former US Senator Bill Bradley and a pair of McKinsey consultants finds that “over 70% of [US] nonprofits spend less than \$500,000 per year; these small outfits can’t possibly achieve scale efficiencies” and elaborates how this can contribute to excessive fundraising expenditure, “From the point of view of any individual organization, it’s rational to keep spending [on fundraising] as long as the marginal dollars raised are greater than the marginal dollars spent. For the sector as a whole, however, the competition to tap a finite pool of funding drains billions of dollars from social causes.”<sup>23</sup>

The same study also documents wide efficiency variation across US nonprofits, an indicator—if not of excessive entry, then perhaps of insufficient pressure for poor performers to exit or consolidate. Looking at affiliates of three youth-services organizations, they found top performers spending 20-67% less than laggards on program delivery. And their broader analysis of US nonprofits revealed gaps of 41-69% in the share of the organizations’ total budgets devoted to administrative spending.<sup>24</sup>

I cite this study in some detail despite its limited geographical coverage because it at least embodies some minimal attempts at measurement—or guesstimates, to be more accurate. Measurement is generally more of a problem with nonprofit initiatives than for-profit ones, for reasons ranging from more complex (and sometimes inconsistent) objectives to the inherent difficulties of assessing impact on large, complex social phenomena.<sup>25</sup> Still, two basic points about measurement seem worth making, at least at an aspirational level. First, the frequently-expressed preference for stories over data/evidence misses the distinction accountants have long drawn between information for purposes of reporting versus information for purposes of control: good stories are often indeed more effective ways of tapping into public/donor support than good data, but some type of measurement is needed for control—in this context, for an approach to global problem solving that goes beyond seat-of-the pants.

*“Measurement is generally more of a problem with nonprofit initiatives than for-profit ones, for reasons ranging from more complex (and sometimes inconsistent) objectives to the inherent difficulties of assessing impact on large, complex social phenomena.”*



Second, when measurement is attempted, it often focuses on costs/spending (e.g., the study cited above); this should ideally be supplemented with some attempt to measure benefits as well, i.e., some attempt at cost-benefit analysis. The fact that benefits or impact are often hard to measure should not rule out attempts to get at least a rough handle on them over some appropriate time horizon. Without a sense of this, one would effectively be flying in the dark, not just by the seat of one's pants.

All that said, the ineradicable limits to measurement must be recognized.<sup>26</sup> The distinctive competence principle attempts as much by suggesting triangulation on imperfect cost-benefit. It asks individuals or organizations that would enter or expand in the social sector to ask themselves whether their involvement will lead to significantly more value being created in total than would happen otherwise. Note the corollary that organizations should ideally account for the opportunity costs of donors' resources, even if those resources are contributed for free. This is a more stringent—but conceptually correct—test of value addition by an organization in the social sector: it recognizes that the organization should not only ask whether it represents a channel for social value creation but whether it represents the channel for more value creation than if the resources contributed to it were employed elsewhere.

This is not how most NGOs or GSNs measure their performance. But it should be, for reasons related to the surge of interest in the social sector, the proliferation of NGOs and even GSNs, and the concerns cited above about fragmentation. We know from industrial organization economics that in the absence of product differentiation, at least, there is a tendency toward socially excessive levels of entry because of “business-stealing” effects that figure in the private calculus of entry even though the diversion of business from one firm to another is a matter of social indifference.<sup>27</sup> And note that these are predictions about interactions among bloodless players intent on maximizing their own profits. They might be aggravated in the social sector by “messianic complexes” that might lead to even more entry than the for-profit benchmark.<sup>28</sup> The good news is that in the social sector, at least, it seems reasonable to ask players to internalize the social costs of their entry or expansion (or at least more reasonable than in the private sector). Another implication of the same line of reasoning: initiatives that add to variety, whether in terms of means or ends, are generally more deserving of grace from this perspective than initiatives that simply pile additional resources onto established, relatively well-funded efforts.

To be a bit less stringent and a bit more practical, an NGO or GSN might not be the best in the world at what it does or is targeting, but it does have to be—or have to have plans to become—pretty good, in relative terms, in the relevant respects. Without those, the adage due to Kenneth Andrews, who wrote the classic text on business strategy, applies: “Opportunism without competence is a path to fairyland.” While measurement is obviously a good idea, the point extends well beyond it. Discussions of distinctive competence inevitably intertwine with discussions of organizational mission in a way that can be both clarifying and energizing. More specifically, a shared sense of what an organization is particularly good at (or must become good at) and how it ties into what it is supposed to do is generally helpful for an organization's purposiveness. And so the reasons for relying on distinctive



competence range from triangulating on imperfect performance measurements to figuring out future directions.

This also seems the right place to discuss briefly some of the hypotheses suggested by organization theory about how organizational form might vary across different types of GSNs because appropriate organization is critical to realizing the potential implied by distinctive competence. Consider the simplified list of GSNs in Figure 5. The core functions of acting and deciding—the focus of operational and delivery networks and of policy networks, governance networks and global standards networks respectively—generally require relatively formalized structures. The direct support functions of influencing, enabling, orchestrating and monitoring—the focus of advocacy networks, platforms, networked institutions and watchdog networks respectively—seem to require less formalization (although there are large variations within this category), and the indirect support function of informing, performed by knowledge networks the least of all. And in terms of relationships across these different groups, core functions and direct support functions have to be relatively tightly aligned or tuned to each other, although the relation is more one of influence-dependence (with core functions setting the parameters for direct support functions) rather than bilateral dependence. The indirect support function of informing is relatively autonomous, in contrast, in the sense that knowledge networks can be structured in whichever ways make (standalone) sense.<sup>29</sup> Those are, of course, just some preliminary hypotheses rather than propositions that are either definite or complete—more work in this area is clearly needed!



Type of GSN	Key Function	Mode of coordination	Organizational Elements	Process
1. Operational and Delivery Networks	Acting	Concrete Activity	Organizational Integration	Formalized/Complex <-----> Self-awareness and self-interest
2. Governance/ Policy/ Global Standards Networks	Deciding	Centralizing Decision Making	Rules and Enforcement Structures	
3. Watchdog Networks	Monitoring	Prescribing Behavior	Manual/ Standards/ Metrics	
4. Networked Institutions/ Platforms	Orchestrating/ Enabling	Coordinating Nodes/ Facilitating Collaboration	Star Structures, Modularity, Events	
5. Advocacy Networks	Influencing	Forming Coalitions	Issue/ Relationship Management, Task Forces	
6. Knowledge Networks	Information Sharing	Informing	Minimal	

Figure 5: GSN Core Functions, Modes of Coordination and Organizational Elements.

For applications of these ideas, reconsider Worldreader.org, the nonprofit introduced in the previous subsection. Its two founders focused their nonprofit on education because of their backgrounds in the sector. And one's preexisting tech connections helped suggest the focus on ebooks. Such knowledge and connections increased the odds of being able to do something special within the implied zone of distinctive competence rather than outside it. But while this context guided their choices, they also set up a clear evaluation mechanism by hiring MIT Professor Esther Duflo, a world leader in the careful assessment of the efficacy of such interventions, to help design

and analyze their first field trials. And since Worldreader.org was designed to be an operational and delivery network, it clearly did require the development of some significant organizational capabilities as well as a structure to house them, rather than an attempt to “organize without an organization.”

## The Debiasing Principle

State of the World	Implications for GSNs: The 5Ds
5. The Fear Factor: Most of us as individuals are still quite distrustful of foreigners and biased towards co-nationals.	The Debiasing Principle: It is important to build cross-border trust by reducing home bias due to ignorance or lack of interactions.

The final principle shifts the focus from the other three pillars of society to the fourth, individuals: it recognizes that distrust of foreigners is rampant and, in addition to reducing cross-border interactions directly, imposes important constraints on global problem solving. The implication: building cross-border trust is a categorical

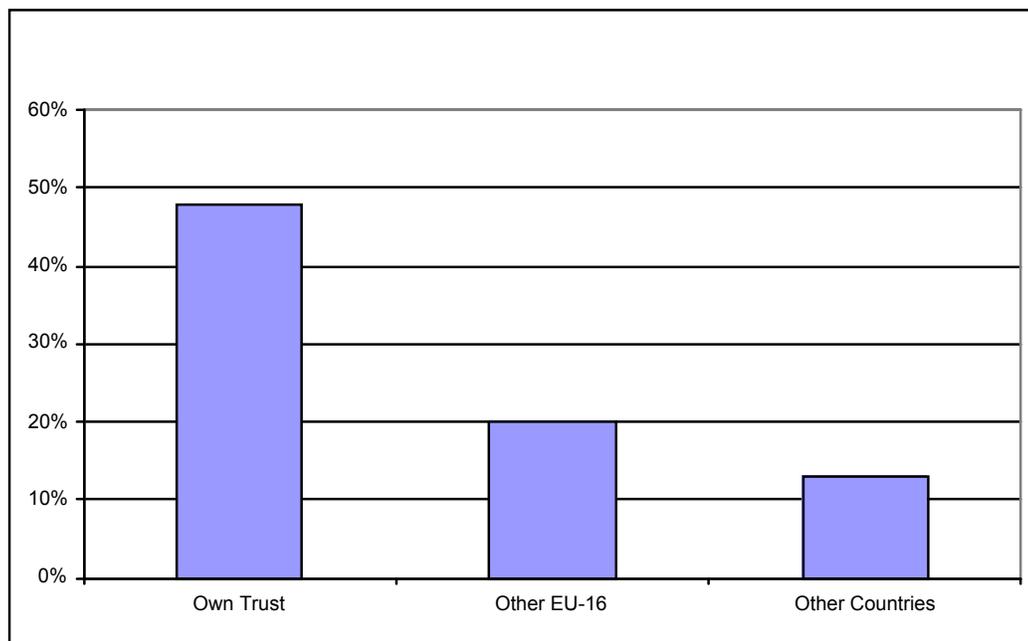


Figure 6: Levels of Trust in Europe.

Source: “The Importance of Trust for Investment: Evidence from Venture Capital,” discussion paper 2010-S49, Tilburg University, Center for Economic Research, 2010.

imperative, even though it was, unusually, not emphasized by the Rio process. In building towards it, it is best to start with some data—in this case, concerning the extent to which citizens of various European countries reported trusting their co-citizens and others “a lot.” See Figure 6.

While there is some variation by country (e.g., Italians report trusting the Swiss more than other Italians), on average, nationals of EU-16 countries express “a lot” of trust twice as often in co-nationals as in nationals of other “nearby” EU countries, and four times as often compared to nationals of countries that are further away. Scholars looking to explain patterns of international trust have concluded that trust falls as the populations of any two countries grow more different in terms of their languages, religions, genes, body types, geographic distance, and incomes, and if they have a more extensive history of wars (i.e., multiple CAGE dimensions are hit on, but particularly the cultural one<sup>30</sup>). It also seems that the more pleasant people in country “A” perceive people in country “B” to be, the more they trust people in country “B,” while more news coverage tends to reduce how much people in one country trust people in another, probably because of the well-documented negative bias in foreign media coverage.<sup>31</sup> And this differential distrust of foreigners is estimated to have big effects. Statistical studies suggest that moving from lower to higher levels of bilateral trust can increase trade, direct investment, portfolio investment, and venture capital investment by 100% or more, even after controlling for other characteristics of the two countries.<sup>32</sup>

“*Statistical studies suggest that moving from lower to higher levels of bilateral trust can increase trade, direct investment, portfolio investment, and venture capital investment by 100% or more, even after controlling for other characteristics of the two countries.*”

This direct impact of fear of foreigners, particularly the ones who are most “foreign,” is compounded by the constraints that cross-cultural mistrust imposes on attempts to reduce other kinds of barriers to international flows. Consider some additional examples from Western Europe—a region where nationalism has (recently) been more or less held in check, where countries have pursued formal administrative integration to an extent unparalleled in other regions, and where education levels are generally high. Despite this context, cultural fears have loomed very large as economic pressures have mounted. Much of the surging protectionist and, especially, anti-immigrant sentiment has not just nationalistic but cultural roots. The economic case for large-scale immigration into Europe is clear; most of the fears around immigrants—while they find a political manifestation—really have to do with cultural fears more than ostensibly economic dimensions. In terms of financial flows, solutions to the Eurozone crisis still appear technocratically feasible but lack of solidarity, not to mention crude stereotypes (e.g., by Northern Europeans of freeloading Southern Europeans, and countervailing resentment and suspicion in Southern Europe as well)



have so far gotten in the way of reaching for them. And on information flows, just look at the extent to which people still get most of their news from domestic sources, even when they go online: news page views from foreign news sites constitute 1% of the total in Germany, 3% in France and 5% in the United Kingdom (and are in single digits everywhere—as low as 0.1% in China). Since domestic coverage is overwhelmingly domestic—and foreigners tend to be depicted negatively rather than positively if at all—this does not help build mutual understanding. Yet there is no technological or—in most countries—political reason for such home bias online: this is, at best, cross-cultural indifference.

So cross-cultural trust matters because of both its direct and indirect effects. In figuring out what to do about it, it is also useful to note that much cross-cultural mistrust seems to be rooted in cultural insecurities. Thus a survey of 47 countries around the world indicates a strong positive correlation (0.68) between perceiving one's own culture to be superior and perceiving it to need protection. Overall, there are high levels of belief in cultural superiority (with two-thirds support in the median country) and in the need for cultural protection (with three-quarters support in the median country). The list is headed, to my personal distress, by India, where 93% of respondents agreed that their culture was superior and 92% agreed that it needed to be protected. India is followed by Indonesia, Tanzania and Bangladesh with 80-90% agreement levels. In contrast, the bottom of the list is occupied by laid-back Sweden, where only 21% of respondents agreed that their culture was superior and 29% that it needed protection. Interestingly, Swedes are, as within the European survey discussed earlier, highly trusted as well as trusting, illustrating a more general pattern across the countries included in both surveys: countries that are the least superior/defensive about their own cultures also tend to be the most trusting—and well trusted.

In keeping with the distance-directedness principle, the challenge of building cross-border trust is likely to be different in, say, the Netherlands than in Nepal, not least because the former is already, by some measures, more than one hundred times as connected with the rest of the world as is the latter. But both countries do present challenges: think of the success in the Netherlands, traditionally a haven of tolerance, of Geert Wilders' wildly misnamed Freedom Party with its anti-immigrant and now Europhobic posturing. And research on the determinants of cultural chauvinism and related fears does identify some apparent commonalities across countries—and some broad paths forward.

Higher education levels in a country cause levels of nationalism and suspicion of outsiders to decrease; one study found this to be true across the board in ten countries with quite different educational systems. The extent to which an individual participates in the network of global economic, social, and cultural relations and of inclusive social identification with the world community seems important; as one study found, increased participation raised individuals' willingness to contribute to global public goods. Traveling and living abroad seems to broaden individuals' perspectives while also improving creativity. Finally, scholars have found that security of property rights and the rule of law serve as prerequisites for trust to emerge, rather than what they often seem, vital substitutes for trust. Scholars have also



emphasized the importance of private and public-private initiatives aimed at building up and sustaining public trust or at least mitigating its absence.

Based on these findings, we can identify several concrete steps for building trust and reducing excess cultural fear, so that we can then move more smoothly to increased openness under World 3.0.

These steps include more education; monitoring of negativism in the media and in political discourse; encouraging more interpersonal contacts across cultures, and ensuring that they are as “pleasant” as possible; and building a more cosmopolitan global social identity. We might also try to focus on building cross-cultural understanding among countries where economic potential exists yet political and cultural relationships are strained (India-Pakistan and Israel-Palestine come to mind); prioritize support for the rule of law; and encourage the private sector to become involved in building bridges across cultures.

*“...we can identify several concrete steps for building trust and reducing excess cultural fear, so that we can then move more smoothly to increased openness under World 3.0. These steps include more education; monitoring of negativism in the media and in political discourse; encouraging more interpersonal contacts across cultures, and ensuring that they are as “pleasant” as possible; and building a more cosmopolitan global social identity.”*

The necessity of an education explicitly aimed at building cross-cultural trust follows from the prior discussion in this section. And it gets additional impetus from the strains both in the fabric of cross-cultural relationships and in our current system of global governance.

To supplement this discussion of necessity and opportunities, consider in a bit more detail the structure and content of the educational component of the agenda. On structure, one could imagine every GSN initiative being required to account for how it affects cross-border trust levels. But the likelihood of this degenerating into a check-the-box exercise suggests a separate focus and set of initiatives are warranted around education for cross-cultural trust. Remember that the broad area of global education somehow got lost in the shuffle at Rio. It also does not seem to fit too well as the primary function of any of the types of networks described in Don Tapscott’s overview chapter (“knowledge networks” have some overlapping attributes but like most educators, I think of education as being much broader than knowledge-sharing). All of this suggests structural separation, with new structures exploiting new technologies, instead of loading the educational function onto existing structures. On content, the specific proposals I have developed are discussed at length in my



white paper, issued as part of the official report by the AACSB on the globalization of management education, on what business schools should teach their students and how. But rather than get into that level of detail, I will simply, in keeping with the overall motivation of this white paper, remind readers of the power of even very basic data about globalization to alleviate fears about it caused by globaloney such as the following:

- The French guess that immigrants make up 24% of France's population when the figure is actually 8%.
- British air travelers guess that international air transport accounts for >20% of energy-related greenhouse gas emissions when the figure is actually 2%.
- Americans guess that foreign aid accounts for more than 30% of the US federal budget when the figure is actually about 1%.

Imagine the relevance of the first data point to the debate about immigration in France or the second to the global debate about global warming. In the case of Americans and foreign aid, we don't have to imagine: when confronted with the actual data, Americans generally become more willing to consider increases in foreign aid levels! By implication, even some basic de-biasing, meant to correct very basic globaloney, can be a big help. And that takes us back to basic observation about globalization versus globaloney with which this section began.

## Implications for Network Leaders

Rather than simply rehashing the five design principles (5Ds) for Global Solution Networks developed in this white paper, I will summarize them even more simply and reiterate some of the practical implications for global problem solvers.

**Defining the agenda for global problem solving.** Principles 1 and 2, on devolution and distance-sensitivity, offer systematic advice on how to set—and particularly limit—the agenda for global problem solving. Individuals and organizations should analyze the extent of globalization and the distance-sensitivity of the problems they wish to address. Calculate what percent of the relevant activity takes place domestically vs. internationally, and of the international component how much crosses regional boundaries. Even if a similar problem appears in many countries, if it requires little coordination across borders, most of the effort expended toward solving it should be local, national or regional, rather than global. Limiting truly global efforts to the problems that really demand them can help make better use of our still very limited bandwidth for worldwide cooperation.



**Structuring the focus and nature of global interventions.** Principles 3 and 4, on distance-directedness and distinctive competence, look at some of the same observations about limited globalization and considerable distance-sensitivity from the perspective of the organizational actors involved in GSNs: distance-directedness supplies guidance about the where's, what's, and how's of an organization's pursuit of its mission across borders—and distinctive competence about the more basic existential question as to whether it is a good instrument for that pursuit. A starting point for operationalizing principles 3 and 4 is to use the CAGE framework to understand how where you are coming from impacts where you might want to try to contribute and what kinds of adaptation to cross-country differences might be required. Having applied the CAGE framework to get a more realistic sense of the border-crossing and distance-bridging challenges your effort faces, ask whether your GSN is really the right one to pursue a particular opportunity—or if the cause would be served better by joining up with another network or organization.

**Working on people's attitudes towards globalization.** Principle 5, on debiasing, goes even more micro: it emphasizes that individuals' attitudes toward globalization/foreigners constrain both the global agenda and what organizational actors can hope to accomplish within it. Somewhere within global problem solving, room must be found for consideration of educational initiatives, broadly defined, that aim to shape people's attitudes—by connecting them better with the systematic evidence about the extent, patterns and consequences of globalization as well as with each other. The substrate of globalization—semi-globalization, distance-sensitivity, CAGE distances, home bias—may not be the only way to arrive at useful principles about the design of GPS initiatives, but it is hard to imagine it being irrelevant.



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- 18 See, for instance, Bruce Katz and Jennifer Bradley, *The Metropolitan Revolution* (Brookings Institution, 2013), and Benjamin R. Barber, *If Mayors Ruled the World: Dysfunctional Nations, Rising Cities* (Yale University Press, 2013).
- 19 See for example , Daniele Archibugi and David Held, “Cosmopolitan Democracy: An Agenda for a New World Order,” *Polity* (April 1995).
- 20 The usefulness of distance-sensitivity as a metric also extends to other kinds of market failures, e.g., the market failure of small numbers/market power. The distance-sensitivity principle implies that where markets are localized, market power can be dealt with through local regulation; it is only when they are globally integrated that global coordination of anti-market power initiatives may be required. Consider the example of global soft drink manufacturers and fast food chains that seem to be exerting a discernible influence on global girth. While they have market power in many distinct geographies, the relevant markets for a Coke or a Big Mac are still local. As a result, local regulation, e.g., a tax or even the proposed ban on large size soft drinks in New York City, is generally an adequate instrument: no global treaty is required, although global information sharing (e.g., on how well different policy measures work) may be useful. Also note that this would not be the case if markets for, say, soft drinks were perfectly integrated across borders: then, attempts to raise the costs or reduce the availability of soft drinks domestically would simply be offset by import inflows.
- 21 P. Ghemawat and S.A. Altman, “DHL Global Connectedness Index 2011,” Report, Deutsche Post DHL (2011).
- 22 The regressions also shed additional light on the strong regionalization of international interactions that was identified in the previous section. Countries randomly selected from the same continent are more likely to be similar/proximate than pairs randomly selected from the world at large along all ten dimensions of differences tested in the regressions, not just physical proximity and sharing a common border—the only two evoked by purely geographic conceptions of regionalization.
- 23 Bill Bradley, Paul Jansen, and Les Silverman, “The Nonprofit Sector’s \$100 Billion Opportunity,” *Harvard Business Review*, May 2003.
- 24 Bill Bradley, Paul Jansen, and Les Silverman, “The Nonprofit Sector’s \$100 Billion Opportunity,” *Harvard Business Review*, May 2003.



- <sup>25</sup> See Jane Wei-Skillern and Sonia Marciano, “The Networked Nonprofit,” *Stanford Social Innovation Review*, Spring 2008 and Alnoor Ebrahim and V. Kasturi Rangan, “The Limits of Nonprofit Impact: A Contingency Framework for Measuring Social Performance,” Harvard Business School Working Paper 10-099, 2010.
- <sup>26</sup> See, for instance, Andrew Natsios, *The Clash of the Counter-bureaucracy and Development*, Center for Global Development Essay, July 2010, [www.cgdev.org/content/publications/detail/1424271](http://www.cgdev.org/content/publications/detail/1424271).
- <sup>27</sup> N. Gregory Mankiw and Michael D. Whinston, “Free Entry and Social Inefficiency,” *The RAND Journal of Economics*, Vol. 17, No. 1 (Spring, 1986), 48-58.
- <sup>28</sup> Thus, it has even been suggested that “While social entrepreneurs are driven by an ethical obligation and desire to improve their communities and societies, egoism can drive them to follow unethical practices. Egoism is especially relevant because the identity and passions of social entrepreneurs usually compel them to create and lead social ventures.” See p. 528 in Shaker A. Zahra, Eric Gedajlovic, Donald O. Neubaum and Joel M. Shulman, “A Typology of Social Entrepreneurs: Motives, Search Processes and Ethical Challenges,” *Journal of Business Venturing*, 24 (2009) 519-532.
- <sup>29</sup> For further discussion of dependent and autonomous choices, see Pankaj Ghemawat and Daniel A. Levinthal, “Choice Interactions and Business Strategy,” *Management Science*, Vol. 54, No. 9, 2008, pp 1638 - 1651.
- <sup>30</sup> Guiso, Sapienza, and Zingales, “Cultural Biases In Economic Exchange?”
- <sup>31</sup> As an aside, it is tempting to conjecture that this is due in part to our history as a species where we were wired to be suspicious of strangers or people whom we didn’t know. As numerous authors such as Robin Wright have pointed out, our history over the last several millennia has been one of expanding the locus of collaboration beyond people whom we already know. Having said that, there has been some lag to which our instincts, particularly in troubled times, are subject in keeping up with this evolution and the ongoing changes in the structure of our relationships with the world. So from time to time, particularly during bad times, one sees a reversion to earlier attitudes of heightened levels of suspicion, etc., of what is foreign. And even during normal times, there is that underlying bias that is responsible for the observed degree of home bias in international economic interactions. And so there seems to be some deep-seated instinct, rather than just accident, at the core of this idea of culture being a key constraint.
- <sup>32</sup> On the first three flows, see Guiso, Sapienza, and Zingales, “Cultural Biases in Economic Exchange?” On venture capital investment, see Laura Bottazzi, Marco Da Rin, and Thomas Hellmann, “The Importance of Trust for Investment: Evidence from Venture Capital,” discussion paper 2010-49, Tilburg University, Center for Economic Research, 2010.



## About the Author



Pankaj Ghemawat is the Anselmo Rubiralta Professor of Global Strategy at IESE Business School at the University of Navarra. Between 1983 and 2008, he was on the faculty at the Harvard Business School where, in 1991, he became the youngest person in the school's history to be appointed a full professor. Ghemawat is also the youngest "guru" included in the guide to the greatest management thinkers of all time published in 2008 by *The Economist*. Other recent honors include the McKinsey Award for the best article published in the *Harvard Business Review* and the Irwin Educator of the Year award from the Academy of Management. He also serves as the Chairman of the Strategy Research Foundation.

Ghemawat is a specialist on globalization and emerging markets as well as having done foundational work on sustainable competitive advantage, competitive dynamics and strategic investment. His latest book, *World 3.0: Global Prosperity and How to Achieve It*, (Harvard Business Review Press), should, according to *The Economist*, "Be read by anyone who wants to understand the most important economic development of our time." It won the Thinkers50 award for the best business book of 2010-11.



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