

# ‘What’s needed for national security is expanding.’ A Global Shift in Trading



# T

he growth in world trade has been nothing short of an economic savior since the end of WWII. As America reigned supreme, international trade grew from a mere 4.2 percent of world GDP in 1945 to 31 percent, reaching that peak first in 2008, and again in 2022 after retreating for a decade or so.

This trade growth coincided with what economists expected: Over those many decades, increased trade lifted millions of people out of abject poverty and made some others rich. Unfortunately, those halcyon days seem to be ending—and quickly.

In short, the system of global trade that we used to know is fragmenting. The causes are many, but you can start with the outbreak of major wars and increased geopolitical tension, both of which have changed trade patterns significantly. “European and US exports to Russia have fallen dramatically,” says Harold James, professor of history and international affairs at Princeton University. Indeed, in the wake

of Russia’s invasion of Ukraine, EU imports from Russia plunged by 82 percent by the end of last year. US imports dropped too.

But you don’t need an actual war in order to fracture trade relations. The mere threat of military conflict has made powerhouse nations focus on producing their own advanced technology. In the US, this includes ensuring that the most sophisticated semiconductors are manufactured domestically. Plus there are export rules restricting who gets to buy the goods. “The goal is not to let the potential enemies get the high-tech stuff,” James says. Renewed tension in the Middle East only adds to the concern.

The process of favoring allies when sourcing goods and services has been dubbed “friendshoring.” But James says “de-risking” would be a better term. Broadly, the practice is about avoiding dependence on a major supplier. One obvious example is semiconductor supplies, 70 percent of which come



from three places, according to Statista: China, Taiwan, and South Korea.

Some basic materials, such as aluminum and steel, have also been pulled into the “national defense” category, a reflection of the idea that metal is in some ways the key component in military materiel. But the reality is that while steel is needed in war, it’s high-tech that’s really making the difference, experts say. “There seems to be an ever-expanding definition of what’s needed for national security,” says Marc Chandler, chief market strategist at Bannockburn Global Forex.

However, Robert Wright, a lecturer in economics at Central Michigan University, says that what trade restrictions mostly do is make trade routes ever more complicated. Specifically, he points to boycotts of Russian energy and restrictions on semiconductor sales. The truth is that plenty of traders are willing to buy something, then turn around and sell it. Already, US-made chips have

been discovered in Russian war materiel, and it’s clear Russian oil is leaking into the global market. “There are a lot of people in the middle who are gaining a lot,” Wright says. “All that governments do is raise the costs of goods.”

The ongoing fragmentation is also due to the moving of manufacturing from China to other places. Companies, after all, got a jolt during and after the pandemic when supply chains, many focused on China, all but shut down. China is also no longer a low-cost producer of many goods. These developments have been a boon to places such as Vietnam, Thailand, and Mexico, all of which have lower labor costs than China.

US imports from Vietnam, Thailand, and Mexico increased over the five years beginning in January 2019—while imports from China dropped. “Moving production to lower-cost areas allows other countries to climb the modernization ladder,” Chandler says. ▀

Constable, a former TV anchor at The Wall Street Journal, is a fellow at the Johns Hopkins Institute for Applied Economics, Global Health, and the Study of Business Enterprise.

# ‘Plan for board transitions over three to five years.’ Progression, Not Succession, in the Boardroom



# N

ot too long ago, a company’s nominating and governance chair approached me for help in replacing two board directors who plan to retire at the end of 2024. I was about to start work on the project when I asked, “Is anyone else expected to retire soon?” Indeed, there were three other directors who would reach the mandatory retirement age within the next four years. So I asked the board chair if they would be open to thinking about how the company would fill all five seats—creating a thoughtful plan that was not only about future recruitment, but also about developing the board as a team.

There are plenty of trends in the boardroom right now. For instance, companies want directors with global experience in specific geographies. Experts

in technology and cybersecurity can write their own director tickets. Sitting CEOs, who took a back seat to functional experts for several years, are once again in high demand. But the idea of “board progression”—or thinking about several years’ worth of board openings, rather than just an individual director’s departure—is quietly taking root in boardrooms big and small.

Sure, it might seem ambitious to think about board seats that won’t actually be open until the late 2020s. But the idea isn’t to look for these future directors all at once. Instead, it’s to develop the board into the most effective team possible.

The best boards have what large-cap board

director and former PepsiCo CEO Steve Reinemund calls “corporate wisdom.” Collectively, their directors have the skill sets, viewpoints, and experiences to guide and challenge management, evaluate the current business, and anticipate the future of the organization.

When board members leave, however, the team dynamic changes. And over the next couple of years, a lot of directors will likely leave. In 2023, directors aged 66 to 70—a time when many people are thinking about retirement—held 24 percent of S&P 500 director seats, up from 21 percent in 2019. Not all of these older directors will retire in the same year, which is where board progression comes in.

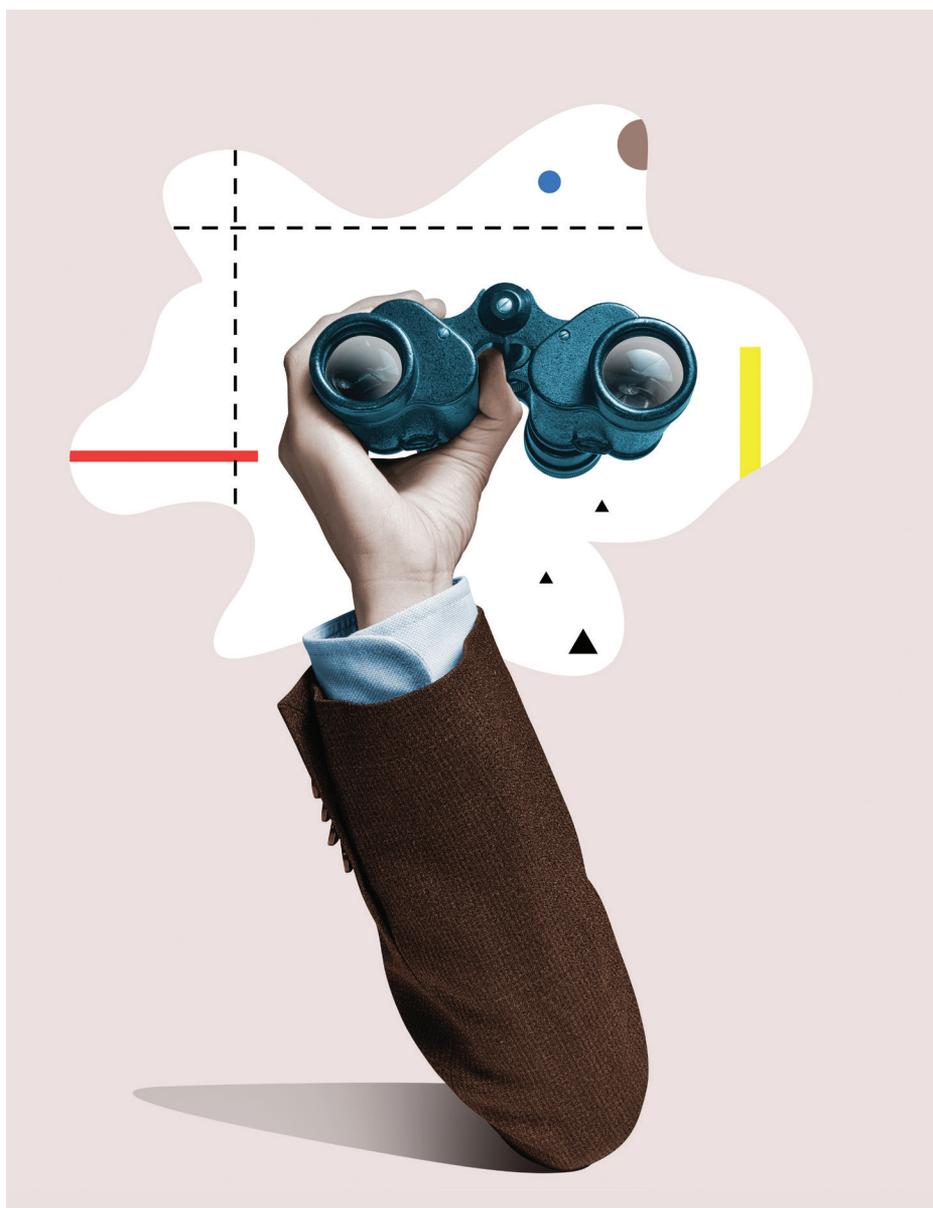
Boards adopting the progression concept can start exploring which skill sets, experiences, and even leadership styles they’ll need, and identify candidates who could have the right fit.

Board progression also acknowledges a simple fact: If you wait until a director’s seat opens before reaching out to top candidates, many will already be spoken for. Incumbent CEOs can almost never serve on more than one board outside their own. It’s also particularly hard to find board candidates from underrepresented groups, who are often sitting on multiple boards already. Planning out a board’s composition over a period of years, however, expands the candidate pool considerably. A current CEO might leave their executive position or board-director seat in a year or two. Additional diverse board candidates will emerge in the near future because of the increasing number of diverse senior executives moving up through the corporate ranks.

Because board progression isn’t done overnight, some firms may want director candidates to join the board in an advisory capacity. Even if these people don’t have the bandwidth immediately, they can spend a little time over the next couple of years getting to know the organization while the board gets to know them as well. As someone who has placed hundreds of directors, I can tell you that how a director meshes with other directors is far more important than what’s on his or her résumé.

By the time one of these progressed candidates becomes a full voting member, they’ve developed the right relationships and insights. Plus, they’ve had time to build a good working rapport with their director peers. How well can this work? A few years ago, a board client brought on an advisory board member who a year later assumed an open seat—and in 2023, his director peers elected him chair. ▀

Stevenson is vice chair of Korn Ferry’s Board & CEO Services business.



# ‘This kind of empathy builds trust.’ The Case for Emotionally Intelligent Leaders



# J

ohn Murphy had just become head of Progressive Insurance’s customer-relations division when he began vocally championing emotional intelligence (EI) among the regional heads and the 7,000 agents who sold policies.

Then he made a controversial move: He required top-tier leaders to get emotional-intelligence assessments. At first, he recalls, there was resistance: “It was hard for leaders to hear they weren’t where they wanted to be” on this crucial set of people skills.

But he persisted, dedicating annual leadership meetings to the topic, and emphasizing key elements like emotional self-management and empathy. After all, talking about insurance means smoothly handling difficult topics like death. And that kind of upsetting conversation requires both deft emotional self-management and empathy. As Murphy said, “Relationships are the heart of everything we do.”

Murphy, now in a new role at Progressive, was not alone. Leaders at entities from Microsoft to MD Anderson, the nation’s preeminent cancer-treatment center, have championed the emotional-intelligence skill set—or its key components—for their leaders. On his first day as Microsoft’s CEO, for example, Satya Nadella sent a company-wide memo urging that empathy with customers be a key skill set going forward.

Even an engineering-driven company culture like Microsoft’s needs emotional intelligence, in addition to highly honed technical skills. Consider a study at a multinational manufacturing company whose engineers rated each other on their effectiveness. Turns out IQ and cognitive abilities did not predict their effectiveness—but emotional intelligence did.

This personal skill set matters in businesses of all kinds. A massive study of more than 65,000 entrepreneurs found that emotional intelligence was twice as important as IQ in predicting their success.

In my new book *Optimal: How to Sustain Personal*



and *Organizational Excellence Every Day*, co-authored with Cary Cherniss, we've harvested a critical mass of studies underscoring how essential EI is to high-performance leadership.

While mental abilities and business expertise have long been prized in the top echelons, emotional intelligence is increasingly viewed as crucial to success too. A *Harvard Business Review* study of postings for C-suite positions over nearly two decades found that demand for soft skills (like emotional intelligence) rose by 30 percent, while the need for hard skills dropped by 40 percent.

No wonder: The art of leadership means getting work done well through other people. And if leaders' success depends on the performance of those they lead, then best to lead with emotional intelligence.

There are four parts to emotional intelligence: self-awareness, self-management, empathy, and putting all that together for managing relationships well. The boss people love exhibits these qualities.

Take empathy. There are three varieties of empathy, each based in different brain circuitry. The first is cognitive empathy, knowing how the other person thinks; this lets you message that person in language he or she understands. The second is emotional empathy, sensing how he or she feels. With

## If leaders' success depends on the performance of those they lead, then best to lead with emotional intelligence.

this empathy you keep interactions smooth.

And the third kind of empathy, technically called "empathic concern," means you care about that person. This kind of empathy builds trust, strengthens relationships, and makes guiding and inspiring someone come naturally to a leader. As Gary Burnison, CEO of Korn Ferry, recently wrote: "It's a fact of life and leadership: When people are noticed, they know someone cares. And when they know someone cares, they feel valued. And when they feel valued, they will believe they are indeed part of something bigger than themselves.... We all want—and need—to be seen, especially today." ■

Goleman, author of the international best-seller *Emotional Intelligence*, has a new book, *Optimal: How to Sustain Personal and Organizational Excellence Every Day*.