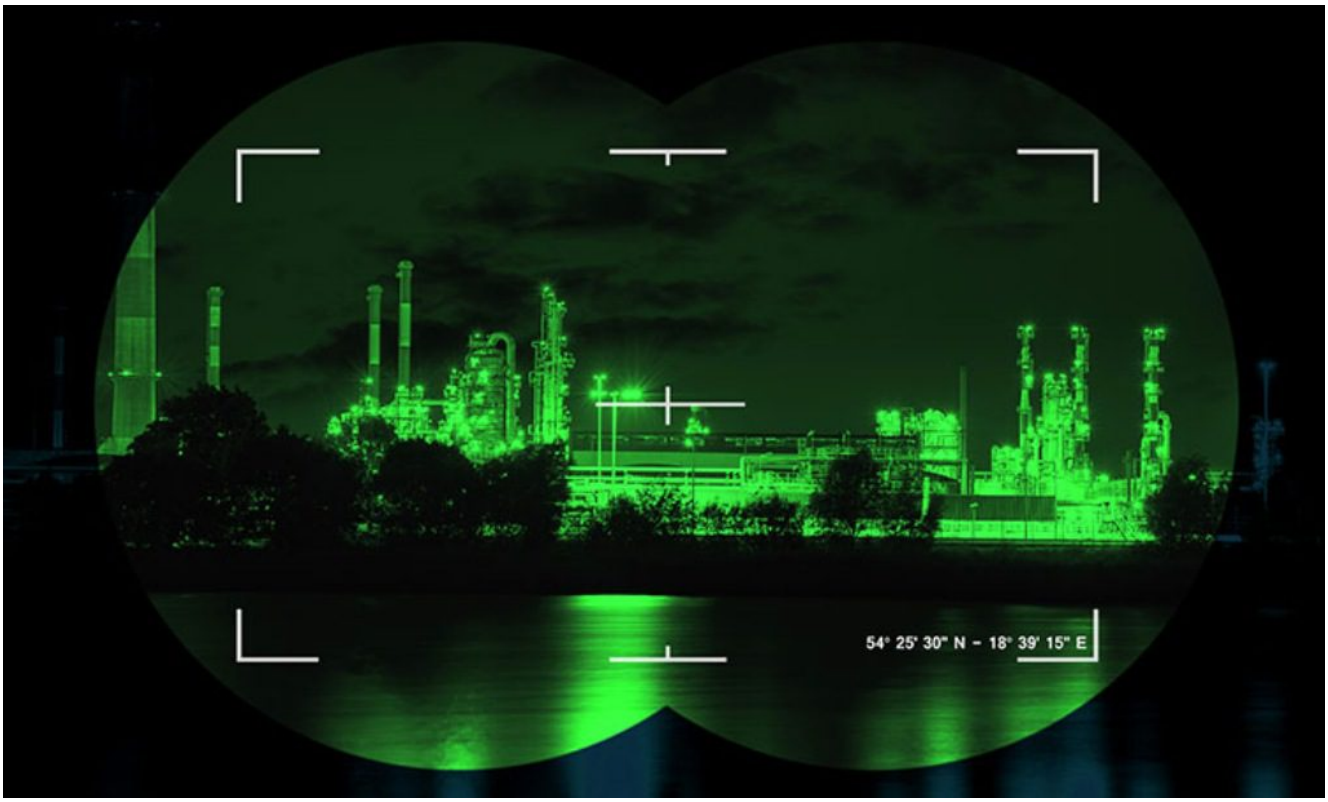
Geopolitics: what you don't know can hurt you

Blindsided by Brexit or Trump? Is your organization proactively planning for the next geopolitical developments? This strategy book provides a framework for dealing with tumultuous times.



July 18, 2017

The UK's decision to exit the European Union in 2016 came as a huge shock to many international businesses. Some companies have found themselves ill-prepared to adjust their workforces, supply chains and market entry strategies. Uncertain about the future, those companies may now make rushed, ad-hoc decisions.

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But Brexit should have been thought through and considered as a real possibility, says IESE's **Mike Rosenberg**. The UK's decision to leave the EU was the culmination of factors both modern (a new wave of anti-immigration sentiment) and historical (Britain's resistance to European integration since Roman times). To those who were keeping a close eye on Britain's current and fixed geopolitical aspects, Brexit was not so much a surprise as a possible, if unlikely, scenario.

And Brexit is but one example. According to Rosenberg, with better geopolitical understanding, businesses could consider and plan for radical upheavals — such as the Arab Spring, Argentina's nationalization of YPF, or even the Trump presidency.

These upheavals affect almost every aspect of business strategy — from supply chains to staffing decisions. So why do so many companies lack deep cultural knowledge of the areas they work in? And how can managers better inform themselves, to prepare for risks and increase global success in these tumultuous times?

Rosenberg's 2017 book, *Strategy and Geopolitics*, takes on these questions from the point of view of CEOs, board members and senior executives. He explains why modern matrix organizations have a blind spot preventing them from anticipating (and thus, planning for) big political and environmental changes. And he proposes a solution: a new model for analyzing international business environments.

A toolkit to deepen knowledge

Rosenberg's framework for understanding geopolitics is inspired by the way executives look at their corporate assets. Think of a country's geopolitical situation in terms of *fixed* assets (really, fixed aspects), which will not change over time; *semi-fixed* ones, which might change in 20 to 30 years; and current issues, affecting the present and the next few years. This framework can help managers identify a country's geopolitical situation and perform more targeted risk analysis based on scenario planning.

Why is this exercise crucial now? With many Western companies facing saturated markets at home, international expansion may be the key to growth. And while most companies conduct research before expanding to a new territory, many still overlook factors that have the potential to turn their global strategies upside down. Rosenberg offers several reasons for this blind spot:

- **The fall of the country manager.** While companies used to have senior

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executives responsible for each country, managers in modern matrix organizations now oversee multiple parts of the world, perhaps specializing by function. This can mean shorter overseas assignments and a lack of deep regional knowledge necessary to flag country-specific threats. And the people who really know a particular country may not have a direct say in top management.

- **Short-term strategy.** Businesses typically think about maximizing success in the short-to-medium term future. Many geopolitical events simply fall outside of their planning horizon.
- **Gaps in training.** Managers are usually experts in finance, operations or marketing — and they may not spend time on the historical and cultural reflections needed for geopolitical understanding. Business leaders are taught to be pragmatic and action-oriented, rather than reflective and diplomatic.

From framework to strategy

This book offers evidence that, at both board and management level, companies urgently need to improve their abilities to monitor political and environmental developments.

In 11 chapters, Rosenberg provides an overview of how his framework of fixed, semi-fixed and current aspects applies to different regions so that managers can begin to understand the geopolitics that affect them. With that work done, managers can better craft a global strategy that makes their companies more resilient to geopolitical shocks.

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