How to respond to the new geopolitical order

Businesses are facing everything from tariffs to supply chain disruption to technological rivalry. They must build greater resilience into their strategy and business model.

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For more than 30 years, globalization has offered companies a stable framework to grow in emerging markets, seek greater efficiency and optimize costs. But this model is now faltering. A new era is beginning, marked by geopolitical tensions, power rivalries, technological disruptions and aggressive industrial policies.

As the rules of the game change rapidly, companies must compete in a fragmented and highly volatile environment. To help, IESE professor Jordi Canals makes a series of recommendations in a new technical note (available in Spanish).

The end of global innocence

Over the past three decades, globalization and market openness have driven the internationalization of companies, allowing them to grow, reduce costs and access new markets. However, many companies have failed to develop greater adaptability or global learning.

The recent history of Volkswagen illustrates this well. Since the 1990s, this car manufacturer was the paradigm of a global company: its roots were German, as was its R&D department; it was a leader in the Chinese market; and it was strongly positioned in North America. Today, however, Chinese electric vehicle manufacturers are leading the market, thanks to the development of more advanced electric and digitally connected cars, as well as generous industrial policies from the Chinese government.

This phenomenon goes beyond the automotive sector. Pharmaceutical, technology and retail companies are rethinking their global strategies faced with a combination of risks: geopolitical tensions, tariffs, regulatory changes and government pressure.

How to assess new geopolitical risks

Geopolitical risks are not more complex than commercial or financial ones. However, companies have been paying such concerns less attention until recently, after three decades of globalization.

Canals proposes analyzing a company's geopolitical risk in four stages:

1. Identify risk factors (higher tariffs, non-tariff barriers, relationships with local governments, policies protecting local manufacturers, etc.)
2. Examine the possible development of these risks in detail.
3. Estimate their probability and impact on the company.
4. Develop contingency plans to mitigate potential damage.

Recontextualizing strategies and business models

Geopolitical risks represent a radical shift in the international strategy of many companies, requiring a different mindset.

Over the past 30 years, there have been three main drivers of globalization: expansion in search of lower costs, penetration of new markets and experiential learning. Canals identifies several relevant variables companies must now address:

- **Reduced efficiency.** In a more fragmented world, inefficiencies, costs and even the prices of many products and markets will rise.
- **Difficulty accessing local markets.** Higher tariffs, restrictions on exporting or importing certain products, and the use of national identity as a requirement for public subsidies can limit international trade and restrict companies' access to markets.
- **Greater demand for resilience and security.** Terrorist attacks, regional political crises and suppliers' preference for working with local companies are driving a greater need for security.
- **The double edge of alliances.** Local partners are no longer just a gateway to a country. They have become a potential geopolitical risk.

In this new context, the drivers of international strategy have changed. The potential for international growth and improved efficiency will be lower. Companies must accelerate their capacity to learn from international experiences and design more resilient organizations.

How to build organizational resilience

Building a resilient company is more expensive. It requires diversifying production, working with multiple suppliers, investing in secure technology, strengthening human capital and assuming higher logistical and financial costs. However, limiting the definition of resilience to simply acquiring more resources would be a mistake. The experience of some companies suggests the need to understand five key dimensions of organizational resilience:

- **Financial capacity.** Companies must be able to handle unexpected investments, sustain operations under pressure and absorb economic shocks.
- **Business model.** This must be adapted to markets with lower growth potential.

Adapting to customers and innovating beyond the potential size of a market is crucial.

- **People.** Companies must develop individuals who can operate and lead in an atmosphere of ambiguity, learn quickly and adapt with agility.
- **Technology and cybersecurity.** Digital infrastructures must be robust and autonomous, capable of supporting the business in critical scenarios.
- **Reputation.** Striving to do the right thing is an intangible asset that protects a company's reputation in the countries where it operates and helps maintain the trust of customers, employees and investors.

Leadership and organizational design amid disruption

Canals identifies seven essential qualities needed to lead in disruptive times:

1. **Authenticity.** Act consistently according to the company's values and purpose.
2. **Trust.** Create environments that promote human development and engagement, even when the future is unclear.
3. **Constant learning.** Own your mistakes, correct them quickly and create a culture of continuous improvement.
4. **New capabilities.** Develop strategic, technological and operational skills to adapt (and readapt) the business model to the new reality.
5. **Simplicity.** Strive for simplicity when formulating solutions to facilitate quick and concrete decisions.
6. **Personal resilience.** Manage pressure and create contexts where people can thrive amid uncertainty.
7. **Integrative vision.** Connect disparate aspects of the business and build integral responses to complex problems.

Executive committees face new challenges in this context: setting goals and policies that are both realistic and inspiring; bringing together complementary skills, experience and knowledge among members; diagnosing and responding rapidly to crises; and maintaining strong communication across the organization.

Meanwhile, boards of directors must understand changes and their impact, approve strategic and business model adjustments and ensure the right leadership is in place. They also need to address new challenges quickly, protect the company from unwanted investors or interventionist governments, and help define the company's future alongside management.

With a constructive outlook, Canals concludes that "the new geopolitical context opens the door to opportunities that until now did not exist or remained latent, which senior executives should look at with an entrepreneurial spirit."

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