

# **STRATEGY AND GEOPOLITICS**

Understanding Global Complexity  
in a Turbulent World

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Understanding Global Complexity  
in a Turbulent World

BY

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INVESTOR IN PEOPLE

*To my family, friends, and colleagues for supporting me, helping me find the time and space to think and write, and for sharing their ideas with me.*

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# Introduction

Many firms today are living in a schizophrenic period. On the one hand some of their largest and most profitable markets are faced with a sluggish economy, intense competition, and the need for constant innovation coupled with relentless cost cutting.

At the other extreme, these same companies are investing enormous sums to acquire or grow positions in emerging markets in Asia, Latin America, and Africa which are all about growth and in many cases are years away from showing significant profits. These investments are often made based on available data on economic growth and optimistic forecasts showing rising prosperity.

The problem is that such decisions do not always look deeply enough at the political and geopolitical issues at play in many of these countries. Often it is these kinds of issues, as opposed to more conventional business concerns, which can upset the forecasts and cause serious problems.

The ups and downs in the price of oil, Brexit, the election of Donald Trump to the Presidency of the United States, and continued tension in the South China Sea are only a few of the geopolitical issues that currently threaten the status quo upon which many businesses have crafted their international operations and global supply chains.

Today, more than ever, companies need to be able to navigate these issues and build resilience into their way of doing business. Unfortunately, the men and women who run and govern most large international companies are ill equipped to do this.

One of the reasons is that although they possess vast industry expertise and functional knowledge, many of the senior executives and members of Boards of Directors often do not know enough about such issues and how they play out in some of the countries and regions that they do business in.

In the first place, many such people have studied business or engineering and simply do not spend their time reading history or studying comparative cultures and languages. Furthermore, their 24/7 schedules and wide ranging responsibilities make dedicating time to deep reflection extremely difficult. Faced with overwhelming global complexity it is also hard to even know what they should look at if they could squeeze out a few hours or days for the task. The result is that too often they rely on consultants or oversimplified frameworks to make decisions about critical investment decisions.

Typically, senior executives fly into a foreign country, are picked up at the airport and divide their time between hotels, restaurants, and meetings with colleagues, clients, and partners. During such trips, they rarely have time to see the country around them or to appreciate important cultural, political, and geopolitical issues.

To make matters more complicated, once investments are made, many large companies rely on complex matrix organizations to make things happen. The matrix will have business unit heads with global responsibility, other executives managing large parts of the world such as Asia Pacific, and global functional heads responsible for finance, human resources, and the global supply chain. What they often no longer have are Country Managers.

In the past, it was often this figure who would reliably inform headquarters about local issues and also act as corporate ambassador at the national level. Even when companies do have a local representative today, many of these people are on rotational assignments and sometimes do not find the time to learn the local languages or dig deeply into the country's history and political situation. Others are simply too junior to play either role effectively.

When critical events do happen executives and the companies they lead are often taken by surprise.

Attacks by terrorist groups such as Boko Harum in Nigeria and Al-Shabaab in Kenya are neither anticipated nor even remotely expected. Larger events such as the civil war in Syria, the *de facto* partition of Iraq or Brexit have also taken managers by surprise as did the election of Donald Trump.

The objective of *Strategy and Geopolitics* is to offer Executives and Board Members of international companies a geopolitical perspective on the world as it is today as well as a tool kit to think through the issues affecting their businesses in the parts of the world in which they operate. The purpose of the book is not to replace deep analysis and the work of specialized consultants but to give decision makers sufficient grounding in the field so that they can ask better questions and decide for themselves what to do when faced with contradictory information.

In his book, *Power Rules*, Leslie Gelb relates a story about U.S. President John Kennedy who, in 1963, listened to reports from a General and another from a diplomat on the situation in South Vietnam. After the General said the South was doing well and the diplomat said the situation was hopeless Kennedy felt compelled to ask if they had “visited the same country?”<sup>1</sup>

The problem is that many of the people tasked with doing such analysis have incentives built in to show things in a favorable light. It is, moreover, easier and more politically acceptable to show how an investment can be made to work rather than point out problems with a specific course of action or potential risks such as civil unrest or war.

For senior executives and Board Members of firms pursuing international expansion, *Strategy and Geo-politics* provides a framework with which they can approach global complexity at a deeper level and make up their own minds. Specifically the book will:

- Underline the need to go beyond a simplistic understanding of different countries and territories

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1. Gelb, L. H. (2009). *Power rules: How common sense can rescue American foreign policy*. New York, NY: Harper Collins..

- Discuss geopolitical issues that can be the cause of success or failure in different markets
- Provide rich examples and illustrations of how geopolitical and nonmarket issues can affect business success in different places around the world
- Provide a strategic framework for dealing with global and local complexity and introduce innovative ideas on strategy formulation, organization, and governance which can improve the situation

*Strategy and Geopolitics* begins with three chapters that endeavor to unpack the global complexity facing business. Chapter 1 begins with a discussion of a series of well-known examples of recent events including Brexit, the Arab Spring, the nationalization of YPF, and the evolving situation between Russia and Ukraine.

The various examples were chosen to deal with different parts of the world and illustrate geopolitical forces at play. The key idea is that while many of the business interests involved were essentially surprised by what happened, the underlying geopolitical logic was plain to see.

Chapter 2 goes into detail on the logic of global expansion and explores five aspects of the present phase of globalization which make it particularly difficult for Senior Management and the Board of Directors to foresee the kinds of events described in Chapter 1.

Chapter 3 offers a framework for business leaders which can guide them in looking at the geo-politics which is inspired by looking at the way business people look at assets. The framework deals with the *fixed* aspects of a country or region's geopolitical situation which will not change over time, *semi-fixed* aspects which might change in 20–30 years and finally *current* issues which are in play in the present and over the next five years.

The next seven chapters then apply the framework outlined in Chapter 3 to different parts of the world and spells out the most critical issues facing the countries and the business community in each place. The structure is designed to allow readers to use the

book to focus on the countries and regions they are most interested in.

Chapter 4 looks at Europe in its broadest sense including the 28 member states of the European Union as well as other countries in the region and the Russian Federation. Chapter 5 deals with North and South America as both a region in and of itself and also in terms of the United States' particular role in the current world order which has been highlighted by the election of Donald Trump as U.S. President .

The next three chapters cover China, East Asia, and India in turn due to Asia's increasing importance in the world today and potentially determinant role tomorrow.

Chapter 9 focuses on Africa and makes an attempt to synthesize the very complex situation in the 54 countries that cover about one-fifth of the earth's surface and represent one-seventh of humanity.

Chapter 10 discusses the Middle East defined as the region around the Arabian Peninsula extending to Egypt (also discussed in Chapter 9) in the East, Iran to the West, and Turkey to the North. The geopolitics in that region revolve around the continuing tension between Israel and its neighbors, the looming Shia — Sunni conflict, and the rise of radical groups such as the Islamic State.

After looking at different parts of the world through this geopolitical lens, Chapter 11 then builds on that analysis to offer a path forward for international firms and the men and women who run them. This has to do with developing strategy that will withstand geopolitical shocks, building organizations able to implement such a strategy, and working effectively on the governance and process issues which are increasingly required.

As the world gradually shifts to a multipolar and less stable geopolitical structure, only those firms which acquire a better capability to foresee and prepare for change will prevail over the long term. Firms with such resilience, moreover, will be in a better position to make a positive impact on the world as it develops.