



WHEN GLOBAL MEGATRENDS RUN AMOK

**Growth strategy in an era of
de-globalization, cybercrime, systemic
competition ... and European war**

Crises change our world. History tells a simple lesson — the deeper and more severe the crisis, the stronger the transformative effects on long-term societal development. Informative cases are abundant, ranging from the Black Death's influence on reorganization of medieval agriculture to the ways the experiences of the combined tragedies of WWI and WWII transformed principles and mechanisms of managing the world economy. In retrospect, the long-term impact of these historical transformations has been associated with increasing growth and welfare.

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“Businesses now have a vested interest in helping to shape the environment. I mean environment in the larger sense of the word — not the physical environment, but the legal, political, economic, regulatory environment in which they operate.”

**Richard Haass, President
Council on Foreign Relations**

And now? The business climate will continue to be affected by disruption brought on by COVID-19 and the Russia war with Ukraine — and will be challenged further by China’s increasing assertiveness, the rise of new nationalism, and the growing destructive capabilities of cyber warfare and cybercrime. In the context of these broad themes, our international business environment has clearly become uncertain, characterized by an unusually **high frequency** and **high magnitude of change**. Individual events — even basic facts — within the world economy have become more difficult to interpret and frame correctly. Where traditional strategy development mainly emphasizes firm-level adaptation to changes in the external environment, today’s realities require a much stronger emphasis on capability building and shaping of the environment through coevolution with external actors. Consequently, multinational corporations (MNCs) will need to add a geopolitical (“foreign policy”) layer to their strategy and ensure that their organization, operations, and resources align with that strategy and are adaptable to a changing environment. Of course, the COVID-19 pandemic, with its catastrophic loss of life and substantial damage to the global economy, immediately changed the situation even more for all. At the same time, as in previous periods of severe business downturns, some firms and some countries experienced both increasing growth rates and profitability.

ENTANGLEMENT OF BUSINESS & POLITICS

Just a few years ahead of COVID-19, several disruptive macro trends were already impacting our society — especially digitalization and artificial intelligence (AI), but also the need for policies, products, and services that would place the global society on track to a fossil-free future. Facing massive uncertainty, policy makers are currently undertaking a frenzy of regulatory actions with the aim of building the post-pandemic recovery on the integration of digital and green growth. However, since 2017, if not earlier, policy makers, business executives, and scholars have expressed concerns about geopolitical conflicts, de-globalization, and the faltering rule of law in international business relations. Business strategies have become increasingly intertwined with national politics, affecting both short- and long-term planning.

The short-term impact is immediately obvious with Russia’s increasing nationalistic and autocratic direction and its war on Ukraine and horrible loss of life, unraveling the international security order that has been in place since the 1990s. On the longer-term side, the rise of China as a major force that increasingly shapes the governance of global product markets and industries, with added technological, geopolitical, and ideological shifts, is multiplying uncertainty in the international environment. There are, however, clear differences between the impact of Putin’s Russia and Xi’s China on the international business environment.

Russia is presently tied into the world economy through its exports of raw materials and oil and gas, rather than through advanced technologies and manufacturing. Russia's Ukraine invasion could be a global economic game changer. As long as the conflict between Russia and Ukraine does not escalate into a conflict between Russia and NATO, it will affect the global economy through five main channels: (1) financial sanctions, (2) soaring commodities prices, (3) supply chain disruptions, (4) intensified cyber threats, and (5) the abrupt withdrawal of Western business operations from Russia. In addition, the conflict has shown the tight linkage between politics and corporate strategies, direct as well as indirect. For example, Huawei UK lost its remaining British board members as a result of Huawei's unwillingness to go against the Chinese government line and to condemn the invasion.

By contrast, China has forged its relations with advanced Western economies through deep interdependencies in sophisticated manufacturing, electronics, solar panels, and other goods that incorporate high-tech components. Indeed, the Chinese regime has proved capable of playing a far more complex hand. It is clearly looking to reshape the liberal economic world order in its favor by deploying coordinated protectionist trade and investment policies and government intervention aimed at accessing and acquiring foreign intellectual property (IP). Internationally, China has increasingly moved from being a "rule taker" to a "rule maker" of high international relevance. Especially, if China coordinates more closely with Putin's Russia — and gathers a following among emerging economies — we are most certainly heading toward a more bifurcated and likely de-globalizing economic world. The global institutions that allowed for the formation of an integrated production system are currently withering, and we have entered into systemic

competition, maybe even a "technological cold war," where techno-nationalism is an integral element of the business strategy of multinational firms. By playing by a separate set of rules, China is challenging the viability of existing global innovation systems, requiring strategic adaptations by both allied and Western actors.

From the US perspective, negative distribution effects in the country that has benefited most from the existing world economic order are now giving rise to "America first" anti-globalism, protectionist policies. The view of a global frictionless, homogeneous, rule-of-law, borderless world with a global leveled playing field is now clearly an illusion.

THE VIEW OF A GLOBAL FRICTIONLESS, HOMOGENEOUS, RULE-OF-LAW, BORDERLESS WORLD WITH A GLOBAL LEVELED PLAYING FIELD IS NOW CLEARLY AN ILLUSION

Moreover, the sudden turmoil in the global supply chain laid bare our dependence on a stable international trade and investment regime for the seemingly simple job of getting a product from one place to another. Those developments, combined with the US-China trade war, have reinforced the rise in techno-nationalism. At the end of 2018, China's Rear Admiral Lou Yuan said that the ongoing China-US trade spat was "definitely not simply friction over economics and trade" but instead a "prime strategic issue." These are clearly unfamiliar waters for top management and a source of great uncertainty.

FROM CYBERCRIME TO ESPIONAGE

“Cyber threats are a concern for every American, every business regardless of size, and every community.”

US President Joe Biden

Although Western defense officials warned, as early as 2001, of a “cyber Pearl Harbor” or “cyber 9/11,” Russia’s and China’s use of malign cyber threats have not materialized as “the big one” thus far. Rather, a better analogy suggests that cyber operations resemble termites gradually eating away the very structures designed to support societies and people’s lives. They threaten our trust in democracy (e.g., Putin’s manipulation of elections), fundamental social functions (e.g., North Korea’s WannaCry ransomware attack on the UK’s National Health Service), businesses (e.g., North Korea’s attacks on Sony Pictures and Maersk), as well as faith in fair returns on R&D investments (as cyber espionage increases). Ironically, the turn to cryptocurrencies, most of which are linked to ransomware operations, make cyber operations even more effective threats. Ransomware provides a high return on investment for criminals, as well as for rough states like North Korea, and the rapid growth of liquidity in cryptocurrency markets creates more opportunities for lucrative attacks on businesses. Compared to Western adversaries, China has downplayed the use of disruptive and destructive cybercrime. Instead, the country has focused on high-tech espionage, including IP theft that has now, both in scale and duration, moved beyond “normal” spying.

EU policies reveal a growing concern about the rise of Huawei as a potential vector for espionage around 5G, a technological area of special interest to Europe, as well as China’s international ambitions more generally. Huawei has found itself locked out of many major markets, with China

retaliating and limiting Swedish telecom Ericsson in the Chinese market. As countries that are now prioritizing industrial policies aimed at acquiring or controlling foreign technology and innovation are pursuing those goals by deliberately eroding the rule of law, the EU Commission, among others, describes China not just as a strong international competitor in high tech, but as a **systemic rival**, pointing toward the use of techno-nationalistic tools to protect and develop its technological capabilities.

THE NEW WORLD OF COMPETITION

“The emerging bifurcation of the global economy between liberal democracies and autocratic regimes creates additional uncertainties that we must acknowledge in strategic management theory and practice.”

David J. Teece, Thomas W. Tusher
Professor in Global Business, Haas School of Business, University of California, Berkeley

Beyond China and Huawei, the EU is grappling with balancing technological development, privacy, and competition. On the one hand, it is developing policies that promote Europe’s tech ecosystem by emphasizing the role of AI, semiconductor manufacturing, and digital platforms in the European Green Deal. On the other hand, it is clear to the European Commission, as well as to member-state governments, that the rise of mega platforms calls for new regulatory frameworks to grapple with the power of large platforms in the digital economy. The EU is reacting with profound skepticism to the overwhelming market power of US-based Big Tech — especially the three platform companies Google, Apple, and Meta — which is seen as challenging both from the perspective of consumer protection and in the potential for competitive growth of European digital platforms.

EXECUTIVES WILL NEED TO CAREFULLY COORDINATE STRATEGIES

As the examples presented in this Viewpoint show, geopolitics has already had severe cascading, **cross-level interaction effects** on the governance of international product markets, global value chains, and decision making within individual firms. Under systemic competition, executives will need to coordinate strategies that address critical questions pertaining to global political interfaces, such as:

- What are the geopolitical sensitivities of our growth ambitions?
- How does our domicile impact relations with stakeholders in key geographies and how we can react to changes in other markets?
- What are the geopolitical risks to the segments and markets we are currently active in, or planning to grow into? What can we proactively do, or lobby for, to decrease the risk?
- What are our contingency plans to secure supply chains and protect sales?

The future strategy of MNCs cannot be set without answering the broader question of how to build and protect those capabilities when new contingencies arise from geopolitically driven, cross-level effects. An incumbent MNC's ability to lead and/or adapt to change is rooted in its dynamic capabilities to **sense, seize, and transform** resource and capability combinations into new innovations.



CONCLUSION

PREPARING FOR THE FUTURE

MANAGEMENT STRATEGIES AND CORPORATE OPERATING MODELS MUST REMAIN ADAPTABLE TO THE CHANGING ENVIRONMENT

Going forward, management strategies and corporate operating models will need to be set up in a way that not only enables MNCs to respond quickly and adapt, but also to shape and manage cascading effects and to build and protect innovative capabilities through coevolution of politically based partnerships outside of traditional economics. They must remain adaptable to the changing environment, focusing on:

- 1 Sensing opportunities and threats.** Businesses must develop a solid understanding of geopolitics and learn to embed geopolitical analysis into their growth strategies to think in a more future-oriented, proactive way. Such preparation requires people tasked with monitoring international politics, negotiations, and conflicts that occur, as well as developments within supranational institutions. This will, perhaps paradoxically, trigger the need to widen the scope of non-market (political) strategies that MNCs will need to develop and mobilize around.

- 2 Seizing opportunities (and neutralizing threats).** Leadership should emphasize political astuteness, improvisation, and orchestration abilities that elevate leader character and competence. Actively shaping the business environment (as opposed to simply adapting to a changing external environment) will be critical to creating and appropriating value. Businesses will need their own equivalent of a foreign policy to guide and protect revenue growth. MNCs should actively devise their own destiny and should engage, where possible, in collective responses utilizing a multi-level, multi-national, and multi-stakeholder approach, thereby triggering “their own” first-order cascading processes. Individual firm actions should be augmented with coordinated industry (or ecosystem) and state-level responses by working with supranational and national institutions (e.g., G20, New Development Bank, EU).
- 3 Building transformational capacities.** Firms have typically focused on taking advantage of new opportunities in a timely and efficient way. Under new macro conditions, however, the “global” organizational approaches to exploiting, recombining, and augmenting technology are no longer enough. In the presence of systemic competition, firms must strike a new balance between value creation and value protection. When reinforcing growth-driving transformational capabilities (e.g., leveraging new M&As and strategic technology partnerships), decisions should be anchored in a de-risking strategy that protects resources and capabilities from the “forced sharing” of IP and considers the likelihood of targets, collaborators, and technology partners being blocked out, or voluntarily leaving key markets for political reasons.



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