



Geo-politics and Business

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$$P(A|B) = \frac{P(B|A) P(A)}{P(B)}$$

US-China relations

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US revokes licences for supply of chips to China's Huawei

Move marks Biden administration's latest effort to target Chinese tech sector



A Huawei store in Shanghai © Qilai Shen/Bloomberg

Attack on oil tanker in Red Sea threatens 'severe ecological disaster'

Warning from EU task force comes after Houthis claim to have struck vessel carrying 150,000 tonnes of crude



A screen grab from a video posted on X showing the Sounion oil tanker after it had been struck © Houthi account on X

Robert Wright in London AUGUST 24 2024



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The impact of throwing Russia out of Swift

The messaging network has become the embodiment of the “weaponisation of finance”



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Vladimir Putin’s declaration of war on Ukraine has revived calls to kick Russia

Similarity of three cases

- Business operations were adversely impacted
- This impact was driven by geo-politics
- Businesses had to find a way to deal with the immediate threat in the short term
- But also adjust their business model to deal with the threat in the longer term
- Requires an understand of geo-political risks from executives
- . . . And the ability to deal with them

Some questions

- So what is geo-politics?
- Why should business school researchers look at geopolitics?
- What are the main geo-political dynamics impacting business?
- How have other disciplines thought about geo-politics?
- What levers do businesses have to influence geo-politics?
- What questions does changing geo-politics raise for various aspects of business?

What is geo-politics?

- Geo (land, earth), Politics (use of power)
- Typically refers to international relations (relations between states)
- But can include sub-state actors (separatist regions, movements etc)
- The focus is on control over territory
 - Initially focused on land but focus has moved to other kinds of territory as well
 - Control of territory gives you control of resources which builds power
 - Focus is often on control of strategic points (eg. Istanbul)
- Often major changes in geo-politics have significant impact on business
 - Eg. End of cold war gave rise to large scale economic changes

Why should business schools care about geo-politics?

- Geo-politics is at the top of the corporate agenda
 - . . . and its only likely to become more important
- Corporates have become important global political actors
- Business schools were initially a creation of geo-political tensions
- And many disciplines in business schools have their roots in war

What are the main geo-political dynamics impacting business?

- Climates change and shifting resources
- Fragmentation of global power
- Transformation of technology
- Changing global demographics
- Shifting sources of energy
- A restless elite

Climate change

- We live in a warming world
- This will also make precious natural resources more scarce
 - Water
 - Arable land
 - Habitable environments
 - Access to ocean resources
- This will drive movement of population
 - Which will create conflicts
- People are more likely to engage in conflict in heat
- The green transition will lead to new resources becoming increasingly contested
- A solution requires co-operation, but often resource competition leads to conflict

Fragmentation of global power

- American hegemony is waning
 - Rise of new powers (eg. China, India)
 - Increased assertiveness of existing powers (eg. Russia)
 - Shifting patterns of alignment (eg. Race for Africa)
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- Result is shifting global power blocks or spheres of influence
 - Movement from 'world order' to 'world orders'
 - Tensions appear where spheres of influence meet (eg. Taiwan, Ukraine etc)
 - Dangers of the 'Thucydide's Trap'

Transformation of technology

- Changes in technology usually lead to rise of new forms of conflict
 - E.g. Air Power and WW2, Nuclear power and the Cold War.
- Nations which effectively harness technologies could have decisive advantages in a conflict
- Technology races become arms races
- New technologies have driven new competitive dynamics
 - Social Media and conflicts
 - Drone technology and Ukraine conflict
 - Artificial Intelligence and analytical abilities
 - Robotics and advances in battle field capabilities

Changing global demographics

- Global population will reach a peak in around 2080 (from from about 8b today to 10b)
- Declining population in many former powers (eg. Europe, Russia, Japan)
- Plateauing population in new powers (eg. China, India?)
- Only growing population is Africa and Central Asia

- This means population balance will change
- Demographically older societies are usually less conflict prone
- But simply having large numbers of people may not be vital source of power
- Previously powerful countries with shrinking population will face challenges (eg. Japan)

Shifting sources of energy

- Control over sources of energy gives significant power
 - Eg. Britain in 19th C, Middle East today
- Often conflicts have been around control over energy
 - Eg. Gulf war
- Recently we have seen shift in sources of energy which has altered geo-politics
 - Fracking boom and US energy self sufficiency
- We are witnessing the rise of new forms of energy
 - Boom in alternatives
 - Shift towards resources requires for 'green transition'

A restless elite

- One of the major drivers of change or conflict are fractured elites
 - Eg. French revolution
- One drive of fractured elites is elite overproduction
- The danger of ambitious people without opportunities

- How surplus elites use geo-political fault-lines to create opportunities for themselves
- Or . . . Sometimes create these fault-lines which create opportunities

How can we think about geo-politics?

- Realism
- Liberalism
- Constructivism
- Critical approaches

Realism

- You can establish order within states
 - However, the international order (between states) is essentially anarchy
 - States pursue their self interests
 - States gain power through a range of factors (in particular ability to wage war)
 - States with more power will push their self interests ahead of others
 - States will enter into alliances if this serves their self interest
 - But these alliances can be fragile if self interests shift
-
- Firms need to think about self interests of states, how these are changing and how they can be served

Liberalism

- States usually prefer stability to anarchy
- So, they club together to create international order
- This usually solidifies into an international regime
 - Eg. Post world war two order (international agencies, rules, law etc)
 - This order is fraying and some would argue challenger institutions are being created
- Businesses often play a role in influencing or even implementing aspects of this international order

Constructivism

- States go about creating international order is shaped by their own sensemaking or understanding of the international order
- Different states can see the international order in totally different ways
 - Eg. China as 'rising power' vs 'middle kingdom'
- They can also see the roles of different participants in international relations very differently
 - Eg. Role of companies as agents of state power or independent actors
- The different ways of understanding international relations in each state will mean different ways a firm will need to position itself and act

Critical approaches

- There is international order
- It is embodied not just by force but also institutions and ideology
- This order is often established and perpetuated by dominant groups within states as a way of defending their own interests (both internationally and domestically)
 - Eg. International order as a means of defending interests of corporate elites
 - Eg. Gender domination being supported by military and international order
- Challenging this is not just about conflict between states but also tensions between different groups

- Business can play a role in either perpetuating or even potentially challenging this order

Realist

How does this new source of energy change the relative international balance of power?



Constructivist

How do different states understand this new source of energy and what it means for their own industry?

Liberal

What new international rules and regulations do we need to create to ensure this industry can develop?

Critic

Which groups might benefit (or not) from this new technology and the way it is governed?



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What tools do states have to influence the international arena?

- Diplomacy
- Sanctions (both tariff and non-tariff)
- War (or the threat of it)
- Information
- Mobilization of shame
- Cultural diplomacy
- Rule setting

What tools do firms (or groups of firms) have to influence the international arena?

- Innovation
- Expertise
- Acting as information conduits
- Resources
- Access to capital
- Networking
- Convening power
- Lobbying and petition
- Private rule setting
- Control of key infrastructure
- Control of means of violence

State One

Tariff and non tariff barriers
Diplomatic pressure
Rule setting
Control of information



State two

Tariff and non tariff
inducements
Subsides
Diplomatic pressure
Rule setting
Control of information

Company

Innovation
Expertise
Lobbying
Private rule setting
Etc

An example of geo-political challenges faced by business: China (Witt, 2019)

- Substitution on inbound knowledge transfer
- Resolving critical dependencies on foreign suppliers
- Managing hostility abroad

An example of geo-political challenges faced by Business: US

- Diversifying supply chains ('near shoring')
- Gaining access to new growth markets
- Considering sources of supply of capital

What questions do changing geo-politics pose for business school research?

- Strategy

- What is the link between geo-political strategies of states and strategies of lead firms?

- Supply chain

- How can you manage geo-political risks in international supply chains?

- Sustainability

- Which new geopolitical risks are opened up adoption of green technologies?

- Marketing

- How are marketing techniques being used in information warfare?

- Informational systems

- How are information systems threatened by geopolitical tensions?

- Leadership

- How do military approaches to leadership transfer into firms (and visa versa)?

- Etc



Geopolitical volatility and subsidiary investments

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Abstract

Research Summary: We examine how geopolitical volatility—the instability of bilateral political affinity between countries—affects foreign subsidiary investments. Building on prior work that shows that the level of political affinity between countries facilitates foreign investments, we argue that the *volatility* of political affinity impedes firms’ ability to form expectations about stakeholder behavior and reduces subsequent investments in subsidiaries. We further argue that the effect of volatility of political affinity on foreign subsidiary investments is less pronounced when the level of political affinity between countries is high and when the firm has strong political connections at home. Our analyses examine 1054 US firms and their subsidiary investments in 106 countries from 2000 to 2015.

Managerial Summary: Geopolitical risk has emerged as an important factor in foreign investment decisions



STIGMATIZED CATEGORIES AND PUBLIC DISAPPROVAL OF ORGANIZATIONS: A MIXED-METHODS STUDY OF THE GLOBAL ARMS INDUSTRY, 1996–2007

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Using qualitative and quantitative methods, I draw on the categorization and stigmatization literatures to predict the amount of negative social evaluations—that is, disapproval—received by firms. Association with a stigmatized category does not automatically result in disapproval, because straddling multiple categories dilutes stakeholder attention to the stigma. In addition, category saliency moderates the effect of category straddling on disapproval. Findings from the global arms industry highlight how managers can modify categorical associations at the industry and customer levels to decrease disapproval, and I discuss implications for diversification and internationalization strategies. Results also highlight how an exogenous shock (the 9/11 terrorist attacks) modified the saliency of the categories used by arms industry stakeholders. Finally, this study shows that category straddling results in more neutral social evaluations for firms, making positive evaluations less positive, and negative ones less negative.



Article



Indirect Compellence and Institutional Change: U.S. Extraterritorial Law Enforcement and the Erosion of Swiss Banking Secrecy

Florian Überbacher  and Andreas Georg Scherer 

Abstract

Based on an in-depth, qualitative case study about a conflict between governmental authorities from the United States and Switzerland over the regulation of Swiss banks, we introduce *indirect compellence* as a novel triadic and indirect mechanism through which coercion leads to institutional change. Hostage-taking being a prototypical example, indirect compellence is typified by a coercive actor who takes a third party hostage to gain influence over a targeted actor. In our case, it meant that U.S. authorities (coercers) compelled Swiss policy makers (targets) to erode the famed Swiss banking secrecy rules by threatening the targets to otherwise enforce U.S. law extraterritorially against Swiss banks and bankers (hostages). Our constructivist and target-centered perspective explains this type of coercive pressure in detail, and it also suggests that targeted policy makers judge and respond to it contingent on their political ideologies. Our study contributes to research on power and influence in institutional environments and to research on global business regulation and transnational governance. Most generally, it also expands scholarly understanding of triadic relationships. In contrast to Simmelian perspectives' focus on triads in which the third party is in a powerful brokerage position and frequently benefits as a *tertius gaudens*, our study suggests that the third party can also become a rather powerless *tertius miserabilis* who suffers rather than benefits from others' conflict.

Keywords

coercion, institutional theory, resource dependence, triadic relationships, brokerage, global business regulation, transnational governance, extraterritoriality, constructivism, political ideologies

Insights that business schools can offer to geo-political issues

- How innovation processes work (particularly across org boundaries)
- How to develop more flexible org structures
- How to formulate and implement dynamic strategies
- How to deal with competitive dynamics
- How to manage and lead knowledge workers
- How to harness the power of social movements
- How to co-ordinate supply chains

Conclusion

- Geo-politics has become more uncertain
- It is at the top of many corporate agendas
- Understanding the geo-political situations often means looking at them from multiple perspectives
- Many geo-political issues often involve influence from both corporates and states
- This opens up some interesting questions for business school researchers
- But it also offers opportunities for business school researchers to inform discussions about geo-politics