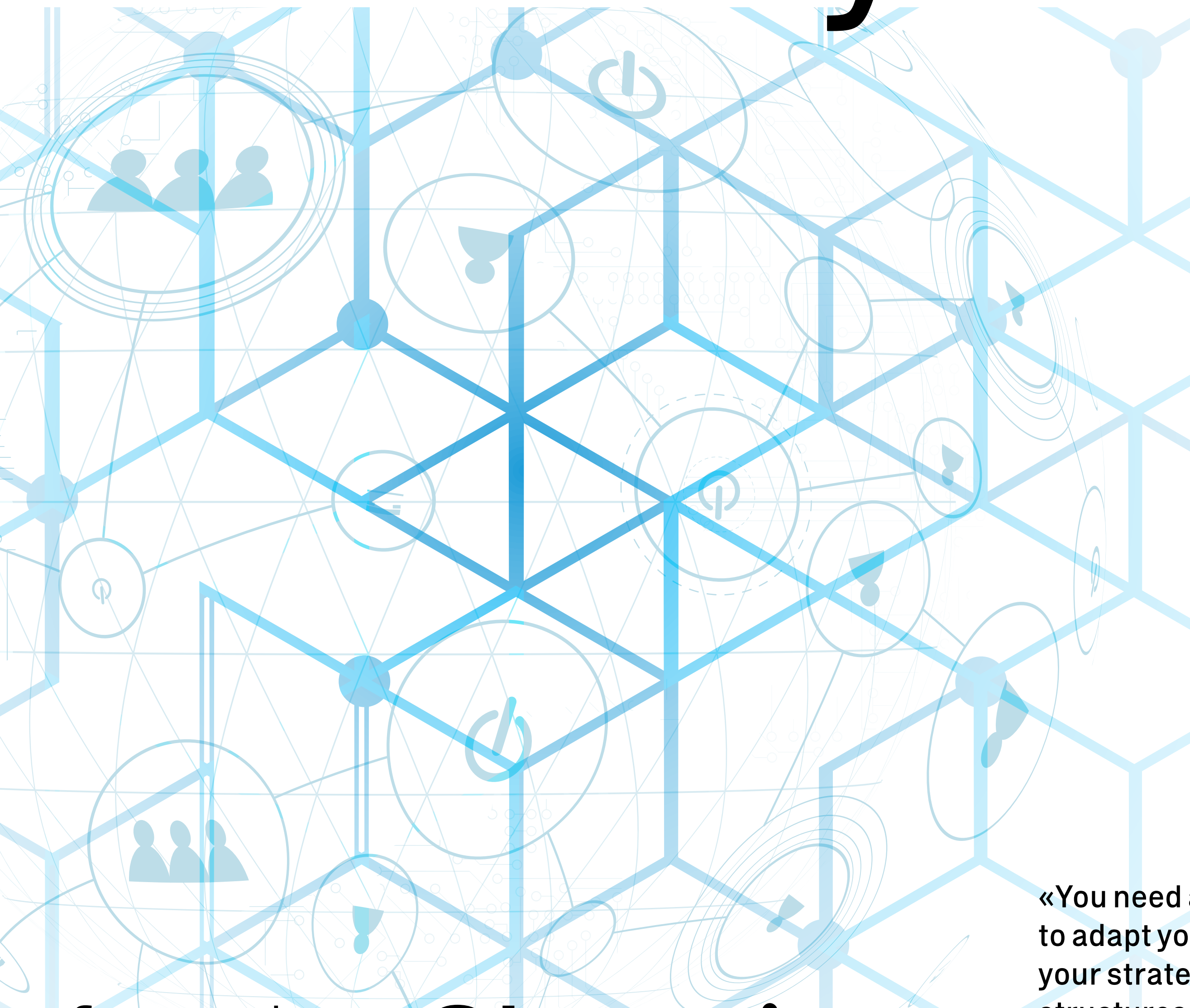
Omar Toulan
Get Ready



for the Changing Nature of Globalization

MACIEJ BAZELA

«You need agility to be able to adapt your organization, your strategy, and your structures to increasing volatility, because it is not going to change».

Omar Toulan believes there are four major forces of disruption currently transforming the face of the globalized world. In this interview, Dr. Toulan emphasizes that, more than ever before both multinational and local businesses need agility to be able to thrive in a context marked by sustained volatility, and that businesses must face forthcoming risks head on. Omar Toulan is Professor of Strategy and International Management at IMD Business School. His areas of expertise include strategic management, international business, growth strategies, and managing the multinational. Professor Toulan's research has focused on offshoring and outsourcing, global account management, emerging market multinationals, and the impact of the digital disruption on the retail sector.

What is you reading of the changing nature of globalization and impacts it may have on business?
Globalization is being reshaped by a number of forces. Specifically, we could talk about four disruption forces. The first one is changes in competition: we have to reassess who we are competing against. If we look back to the Fortune 500 ranking twenty years ago, there were only four Chinese firms in the list. Today there are over 115. By next year, they will surpass the U.S. in terms of having the largest number of firms among the Fortune 500.

Second, there are changes in technology and business models. Robotics and digitization are fundamentally changing global businesses. Whether you are in manufacturing or in retail, advanced technologies will have sustainable, long-term impacts.

The third force has to do with the economic outlook. We are currently entering a period of economic downturn, especially given the recent events of the past weeks.[1] Firms have to be able to adapt and build capacity to react and work in either a slow growth or a recessionary environment.

And finally, there is a geopolitical disruption. Across the globe –and not just in North America, but also in Europe and parts of Asia and of the Southern Cone– we are seeing the rise of populism, and with it, the rise of protectionism. The challenge facing firms is how to adapt to a period marked by increased protectionism and challenges to their globalization potential.

Geopolitics is always connected, one way or another, to country risk. What is the business case for country risk analysis in business schools and companies?
First of all, let me define what country risk means. As I see it, country risk is not simply about volatility in terms of changing governments. Country risk is essentially the impact of politics, economics, and social activities on business behavior and business activities. The mere fact that there are frequent government changes does not mean the country is risky. Paradoxically, having somebody in power for ten or twenty years does not mean that the country is risk free either. So, what is the rationale, then, for companies to consider country risk? In a nutshell: it is state intervention. Up until 2008, a lot of companies discarded for all intents and purposes the issue of country risk. We were operating under the Washington Consensus –or neoliberalism– according to which the prosperity of multinationals was a key priority of the world economy. To that end, tariffs were set low and barriers to investment were marginal. However, we do not see that anymore today. We are seeing a rise in the role of governments in the economy. And if you are not prepared, if you do not follow what is happening at the national

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Omar Toulan is Professor of Strategy and International Management at IMD Business School.

and international level, you are definitely going to be at a disadvantage.

In a way, it would seem that political risk is very important only for multinational companies. But what about local companies? Is there a strong business case for local or domestic companies to carry out political risk analysis?
Although you may not be directly exporting to international markets or selling abroad, but if your local customers depend upon their sales ending up in the U.S., or China, or other parts of the world, a decrease in demand by China or an increase in protectionism by the U.S. will impact your customers and, in second order, your sales. Given the expansion of supply chains, there is really no way that today any firm is completely isolated from the international market.

Country risk, as you have said, is not only threat. It also implies opportunity. In that sense, what are major threats and opportunities for companies specifically in the Latin American context?
In my view, there is a unique opportunity right now. We are focusing on the trade war between China and the United States in terms of the challenges it poses, but the reality is that it also presents a great opportunity for countries that in the past might have been overpassed. Investment might have gone straight to China, but today it opens the door for secondary supply chains —diversified supply chains— to go outside of China. If you are a firm and you are concerned that the relationship between China and the United States will be such that you will not be able to export to the U.S. from China, you need a second supply chain. Where could that be? It might well be Panama, Costa Rica, Mexico. Again, as a sort of conduit to the United States.

The challenge is that these opportunities are opening up right now. Once these firms make their future decisions for this year or for next year, those decisions are done. What is important for these countries is to act on this opportunity right now, because once that plant is built in South Africa or Vietnam, it is not coming here.

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Talking about the practical dimension, some experts point out to the difference between analyzing political risks and managing political risks. There is arguably a gap there: you can be very good at one but not necessarily at the other. What is your take on that? Do you think such a gap is real?
What we see often times in companies is that the role of country risk is allocated to a risk manager, somebody who conducts analyses to assess the overall situation. But in many cases, it does not necessarily get translated down to the functional operations. What companies need to do, even before doing the analysis, is, first of all, to elevate the role of country risk inside the organization. And that begins with having a common understanding of what country risk actually is and what the risk tolerance of the organization is. So long as you do not understand how much risk you are willing to take, it is hard for you to instruct the different managers across the organization to behave in a certain way. First and foremost, it is about understanding the risk.

Second, you do have to analyze it. You need to assess what the risks are —the threats in the different locations in which you are operating. But then, third, you need to mitigate them. And this is where the management part comes in. Analysis is one thing but, at the end of the day, you want to see what you can actually do to reduce those risks. There is a variety of things that can come into play, from partnerships to forms of protecting the organization towards management approaches, but it really does mean getting the local managers involved. You must make country risk an issue for front-line managers, not just for corporate headquarters.

To conclude, considering the near-to-medium term political and economic outlook, what is your key advice to companies operating in extremely volatile and uncertain contexts? How can they thrive and be successful despite risk and uncertainty?

The first thing that you need to take into account is the mindset. Volatility creates opportunities just as much as it creates challenges. Just think about the past week in the stock market. Monday it was up a thousand points, Tuesday it was down seven hundred, Wednesday up a thousand, and today down nine hundred. A lot of people probably lost a lot of money in that period, but at the same time some people made a lot along the way. One part of this, thus, is having a mentality, and correlated to that, you need agility to be able to adapt your organization, to adapt your strategy and your structures to this increasing volatility, because it is not going to change. If anything, it is just going to continue to increase. We need to become more agile as organizations, and we can't shy away from these risks. We must face them head on and see how we can actually try as best as we can to make the best of these opportunities. </>

Maciej Bazela: Chair and Professor, Social and Political Environment Department, IPADE Business School.

[1] The interview was carried out in the first week of March 2020.

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