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GLOBALIZATION, DIGITIZATION & POLITICIZATION

Three Trends That Will Change How You Manage

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Over the course of the 20th century, gross domestic product (GDP) became the standard barometer of macroeconomic performance. This was due to a unique set of sociopolitical conditions of the 1930s and '40s related to Depression-era economics and wartime spending. Now, in the 21st century, CEOs face a new set of conditions related to three significant trends: Globalization, Digitization and Politicization. Think of these as "GDP" of an entirely different order.

Building on research in the field of strategic management, this article develops a framework to think about these three emerging challenges. We discuss how these challenges generate not only more uncertainty for decision-makers, but also more opportunity for changing the competitive rules of the game.

How can corporate leaders confront 21st century "GDP"? The strategic management framework on value creation and value capture that we employ at IESE is a good starting point to address the changing role of the CEO. If we apply it to the new "GDP" challenges, we realize that the key drivers of value creation and value capture are changing: emerging market multinationals are moving to the fore;

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competing digital business models are reconfiguring the landscape; customer and innovation communities are transforming the way businesses interact with consumers and suppliers; and the role of governments, regulators and other stakeholders is having an ever greater impact on the bottom line.

In light of this, CEOs will have to develop novel skills, changing how they allocate resources by becoming *Arbitrageurs*; adopting the mind-set of strategic *Experimenters*; and finally becoming *Orchestrators of Hybrid Organizations*, by harnessing diversity and ambiguity as a source of competitive advantage.

Why the Uncertainty?

When asked about the leadership challenges they face, CEOs typically emphasize the heightened levels of uncertainty and ambiguity regarding the future state of the world and the need to adjust their strategies as conditions change. The real question is: What is driving this uncertainty?

There is no doubt that certain forces are radically recalibrating the international business landscape and will continue to do so for the foreseeable future.

Technological development is driving this change, but it's not the only disrupter. There are other forces, economic as well as geopolitical. The years since the global financial crisis have been marked by tit-for-tat currency and trade wars – most recently between Russia and the West – the rise of China and stop-start recoveries for Europe and North America. For CEOs, this makes choosing the right strategy for the right market a highly complex affair.

EXECUTIVE SUMMARY

Building on research in the field of strategic management, this article develops a framework to think about three emerging challenges: Globalization, Digitization and Politicization. How can corporate leaders confront this 21st century brand of "GDP"? CEOs will have to change how they allocate resources by becoming *Arbitrageurs*; adopt the mind-set of strategic *Experimenters*; and become *Orchestrators of Hybrid Organizations,* harnessing diversity and ambiguity as a source of competitive advantage. Above all, they will need to get comfortable with blending different logics and thinking afresh about how they create, capture and sustain value.

Let's look at three vital trends – the so-called "GDP" that we believe most impact a company's performance today.

Globalization: A Mixed Blessing

Globalization – the intensification of social and economic transactions across national borders – has proven to be a mixed blessing for corporations.

The greater ease and faster movement of capital, goods and people across borders has opened up opportunities for corporations to rethink how they operate. This has facilitated the internationalization of operations as a means to reach and penetrate new markets with an adapted portfolio of products.

Of course, this phenomenon works both ways. For every Western multinational profiting from new or little-exploited opportunities in emerging markets, there is a growing breed of highly ambitious, competitive multinationals from emerging economies doing the same thing in established Western markets. Many CEOs in these markets now find themselves on the back foot on their own home turf. The number of Fortune 500 companies from emerging markets has grown substantially.

This indicates that for every executive delighting in the perceived benefits of globalization, there is an increasing number of others wringing their hands in despair over new market entrants. CEOs would do well to rethink how to create and capture value in this changing environment.

Digitization: Products, Business Models and Communities

Technological change comes in many forms. Digitization is one aspect and it poses three critical challenges for CEOs.

First, more and more industries are seeing their core products and services being transformed into digital formats. While this gives rise to novel means of creating value, it can also be more difficult to capture the value created. Barriers to entry are lowered and incumbents are left with little choice but to rethink their strategies drastically.

Second, this process has given rise to a new generation of corporate entities with markedly different business models. Amazon immediately springs to mind: Its dominance of digital retail has hastened the demise of traditional

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retailers, forcing brick-and-mortar stores to adopt multichannel strategies that embrace e-commerce, social media and click-and-collect services to ensure their survival.

But it's not just traditional business models that are feeling the pinch. As a colleague of ours in the Strategic Management Department at IESE, Govert Vroom, highlights in a new case study, even a wholly digital start-up like Spotify still finds itself struggling to translate its millions of active users into a sustainable, profitable business, despite shaking up entrenched interests in the music industry with its streaming service.

Though many praise the never-before-seen possibility of zero transaction costs afforded by digitization, others are pointing out a fundamental business problem: How can a business ever make a profit if industry and legacy costs can't be reduced and customers aren't willing to pay more?

This is the million-dollar question facing not just music services like Spotify but newspaper publishers and television networks, too. Amazon Prime Instant Video, Vudu, Netflix and other streamers of visual content are treading the same waters: paying out more money, getting less revenue per user.

As such, for both creators and vendors of digitizable content, products and services, survival is not merely a question of capturing and holding on to market share; it's about translating it into solid, sustainable economic returns.

Third, digitization has allowed different communities to coalesce that now have a significant impact on how businesses create and capture value. Customers and "fans" interact with the organization like never before. External innovators provide creative inputs in the innovation process and, in more extreme cases, such as open-source software development, innovation communities actually own the product and its creative process.

Politicization: Accepting Social Responsibilities

Another game-changing trend that CEOs must grapple with is the increasing politicization of the corporate world. Specifically, the decline of the nation-state is being matched by the rise to power of loosely linked, geographically dispersed communities and unexpected coalitions of grassroots activists.

The 17th century concept of the Westphalian Order – the belief in economic, political and legal sovereignty for individual nation-states, non-intervention in other states' affairs, and respecting national governments as the most powerful players in the world system – was a defining feature of the modern world, but has been on a downhill slide since peaking during the middle of the 20th century.

In the newly emerging global order, multinational corporations have a new role to play. Markets are no longer defined in purely geographic terms, and the state can no longer claim to be the sole arbiter of economic, political and legal activities within its borders. Given that many companies have revenues that far outstrip the real GDP of most countries in the world, they can no longer act as if they are disconnected from the broader world. CEOs will have to recognize their roles as full-fledged political actors and assume the responsibilities that go along with that.

Granted, corporate CEOs have always been aware of their public role, but this was rarely embedded into their responsibilities as chief strategists for their organizations' activities. Often, CEOs hide behind the identity of "private institution" to defend themselves against accusations of public misbehavior – as if the "private" goal of maximizing profits never had any bearing on public life.

Now, with the blurring of the boundaries between public and private, CEOs need to step up and fully own their "politicized" roles, recognizing that they enjoy more economic, political and legal influence and power than ever before. Back in 1957, the management scholar Philip Selznick wrote that CEOs should be "statesmen," not just "administrators." His words are even truer today: CEOs have little choice but to assume a more public, almost diplomatic role in brokering relationships between competing stakeholder demands and unavoidable social responsibilities.

Arbitrage, Experimentation and Orchestration

Now that we've considered the key "GDP" trends that CEOs need to get to grips with, let's consider how CEOs can deal with these shifts. They require CEOs to become *Arbitrageurs* in how they allocate resources; strategic *Experimenters* in how they deal with opportunities;

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