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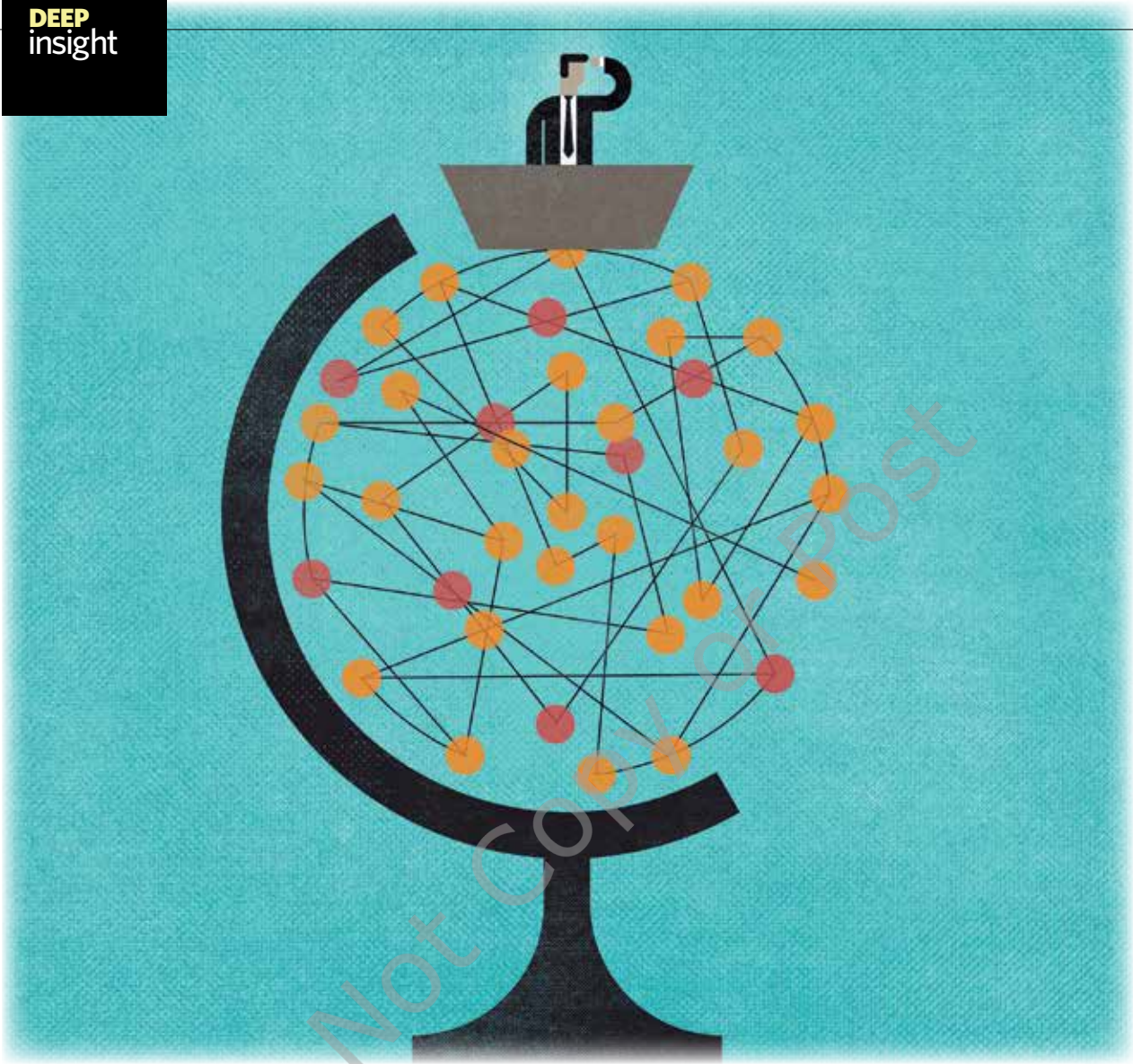
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BUSINESS & GEOPOLITICS

3 Keys to Shockproof Your Global Supply Chain

By MIKE ROSENBERG

Imagine a military standoff or even war breaks out in one of the world's busiest shipping lanes: would your business be able to cope with the knock-on effects on your supply chain? This is a question that more companies should be asking themselves, especially with two of the world's

most strategically important shipping routes already on high alert.

The Strait of Hormuz – the only sea passage from the Persian Gulf to the open ocean – and the South China Sea are two regions at the epicenter of escalating tensions. The Iran agreement brokered under Barack Obama



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risks being scrapped under Donald Trump. If Iran should retaliate by trying to cut off the strait through which 20 percent of the world's oil passes, global energy supplies would be seriously disrupted, even assuming it could be reopened in a few days or weeks. Similar disruptions could occur in the South China Sea, where Brunei, China, Indonesia, Malaysia, the Philippines, Taiwan and Vietnam all make competing territorial claims. With Trump pulling out of the Trans-Pacific Partnership, which was partly designed to safeguard free passage through the South China Sea, coupled with rising tensions between North Korea and the United States, there is plenty of fuel for a potential fire.

As such, managers ought to be keeping a very close eye on geopolitical events. Just because the issues may be in far-flung locations doesn't mean they should be far from mind. This is particularly true in a world where many manufacturers and retailers have embraced a lean approach to inventory management, minimizing stocks and the associated carrying costs. While lean supply chain management may make financial sense, helping to boost the firm's efficiency and reduce waste,

it leaves companies with a much slimmer margin for error. If there is an accident, miscalculation or armed conflict affecting these global supply chains, many companies could find themselves with serious interruptions, resulting in stock-outs or plant shutdowns.

Preparing for geopolitical uncertainty is something that I teach at IESE and that I recently published a book on, called *Strategy and Geopolitics: Understanding Global Complexity in a Turbulent World*. For too long, executives have accelerated business expansion abroad, using simple frameworks that are inadequate for increasingly complex realities. As the world shifts to a less stable geopolitical structure, these executives may find themselves ill-equipped to handle the geopolitical issues that can determine their success or failure in different markets. When critical events do happen – such as terrorist attacks or civil unrest – companies are often taken by surprise. Indeed, in recent months, I have been surprised to find myself caught up in the kind of situation that I normally only ever write about. It is sobering to live through such events firsthand.

In order not to be taken off guard, it is crucial to anticipate and prepare for change. Those who do are more likely to prevail over the long term. This article explains the corporate drift that may be putting your operations at risk. Then I suggest some practical actions that you can take to reduce your exposure to geopolitical shocks.

Why the Myopia?

A study commissioned by the World Customs Organization listed what it considered to be the 14 most important drivers of change for cross-border supply chains. Besides those you would expect – consumer demand, raw materials, customs regulations, corporate taxation – the list also included energy concerns, security issues and natural hazards.

EXECUTIVE SUMMARY

As the world shifts to a less stable geopolitical structure, executives may find themselves ill-equipped to handle critical events, from terrorist attacks to civil unrest, which could disrupt supply chains and put operations at risk. Despite growing tensions in the world and the increasing fragility of global supply chains, management teams don't seem to pay sufficient

attention to geopolitical threats, for a variety of reasons. This article explains the reasons behind the myopia. The author suggests some practical actions that readers can take, in three key areas, to anticipate and prepare for change, thereby reducing their supply chain's exposure to geopolitical shocks, so that their business prevails over the long term.