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GLOBAL CATALYSTS OF CHANGE IN STRATEGIC MANAGEMENT DOCTRINE: RECOGNIZING THE CUMULATIVE IMPACT OF DEGLOBALIZATION, GEOPOLITICAL TRIBALISM, AND SOCIAL MEDIA ACTIVISM ON THE RISE OF HYPER-RISK MANAGEMENT

ABSTRACT

The practice of strategic management has quietly but dramatically changed in the last twenty years. Three global, macro trends are examined in detail which, when added to existing Sarbanes-Oxley regulations, are interacting to create an unprecedented hyper-risk environment. The three macro trends include changes in long-term risks associated with the emergence of an alternative path of globalization, medium-term risks due to the recent rise of the nationalistic populism movement, and nearly instantaneous risks associated with social media activism. The combination and interaction of these factors is incentivizing executives to reprioritize their behaviors away from their traditional fiduciary objectives of overtly pursuing the maximization of shareholder value (agency theory) to a pre-emptive strategy of avoiding catastrophic risks. Risk mitigation is leading to purposeful obfuscation of strategic activities, which is one reason scholarship has not kept up with the evolutionary changes in practice. Observations and implications at the firm level are then discussed.

Keywords: Hyper-Risk Management, Geopolitical Tribalism, Domestification, Social Media Activism, Deglobalization, Strategic Management

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INTRODUCTION

The processes and focus of executive decision-making have changed substantially in the last twenty years. There has been a noticeable evolution away from the doctrine of the overt pursuit of maximizing shareholder value to a more obfuscated but preeminent canon of first avoiding catastrophic risks. Following the excesses of the dot com bubble bursting and the very publicized cases of corporate corruption by companies such as WorldCom and Enron in the late 1990s and early 2000s, governments of the world significantly increased the monitoring, controls, and penalties of corporate malfeasance beginning with the enactment of the Sarbanes-Oxley Act ("SOx") in the United States in 2002 (particularly sections 302 and 906). These laws created significant and entrenched governance, reporting systems, and penalties inside companies which, in turn, changed the fundamental risks faced by individual executives and board members.

However, there has recently been an exponential increase in the risks facing corporations resulting primarily from disruptive trends at the global political-economic level – e.g., the Nationalistic Populism movement (e.g., 2016 Brexit, 2016 Trump election), the recognition of the effects of declining population growth demographics on the path of globalization, the emergence of near instantaneous global messaging and stakeholder activism via social media platforms beginning roughly in the 2004 timeframe, the outbreak of wars in the Ukraine (2022) and Israel (2023), the increased threat of military conflict between China and regional neighbors, the momentum of over-extended debt spending by governments during and post Covid, the contradictory signals of global economic entropy versus stability (currently ongoing), and although somewhat nascent at the moment, the rise of artificial intelligence which could potentially have a profoundly good or profoundly bad impact on the world. The rapid onset of global political and social media-based risks on top of existing SOx-based monitoring and governance risks is having a profound but underrecognized impact on how executives and board members do their jobs.

Having served as a Fortune 500 C-level executive, board of directors member, and then Wall Street private equity executive for the last thirty years, I have witnessed profound changes in how corporate strategy is formulated and implemented, as well as in the willingness of corporate leadership to discuss these changes outside of very small groups of trusted friends and colleagues. But a corollary result of this underrecognized phenomenon impacts academic scholarship in that, although still generally valid, the efficacy of traditional strategic management theory in terms of describing – and normatively prescribing – the behaviors of firm-level management is becoming increasingly less salient to the realities of the modern corporate entity, especially multinational enterprises ("MNE").

This paper is primarily focused on three pivotal global trends and their impacts on corporate strategy (especially MNE strategy) – and more insidiously on strategic management doctrine itself. Specifically, it is argued herein that barring world war or the evolution of artificial intelligence into a global threat, the following three drivers are having and will likely continue to have a profound impact on the practice and study of strategic management over the next thirty plus years. In other words, the following three factors – *and their cumulative interactions* – need to be recognized, studied, and accounted for if the theories of firm-level management are to retain their descriptive and prescriptive validity and relevance.

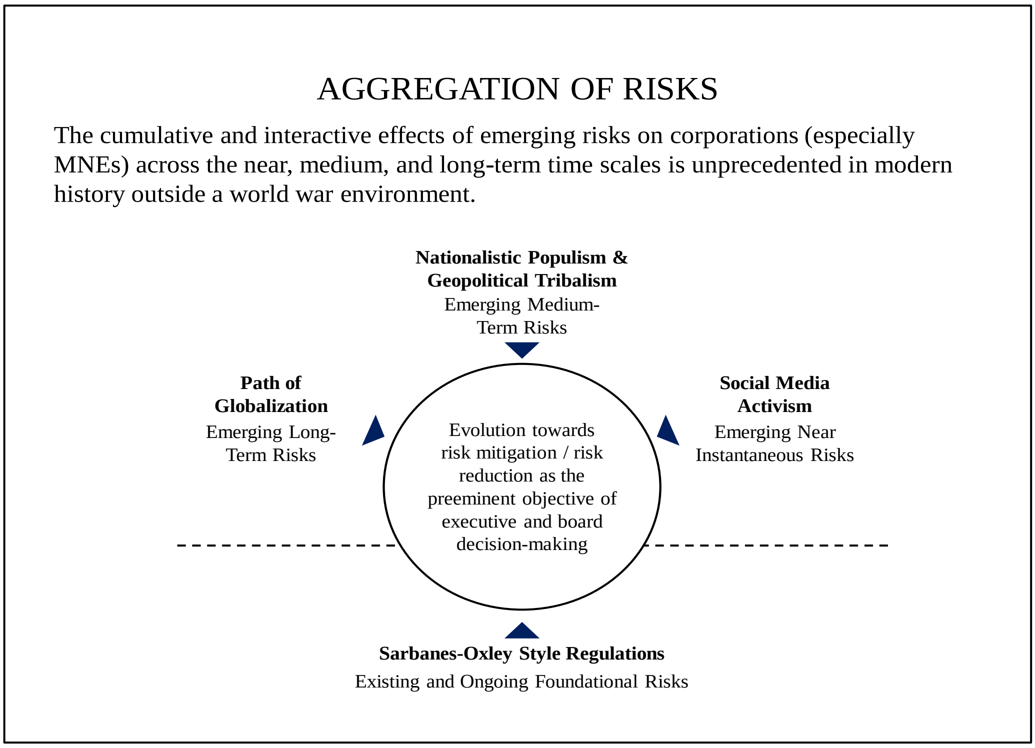
- **Alternative Path of Globalization** (due in large part to Population Growth Demographics) – Resulting in a substantial change to the location of future economic epicenters, supply chains, the direction of global financial transactions, etc.
- **Nationalistic Populism Movement** – Resulting in a general trend of deglobalization, i.e., the lessening of globalization, via country-centric regulations, tariffs, tax policies, etc., (described herein as the catalyst of "Geopolitical Tribalism").
- **Social Media Activism / Coercion** – Driving an unprecedented immediacy and magnitude of threat to shareholder value and even to individual executives and members of boards.

Cumulative effect. Although each of the three trends is macro in scale and justifies its own stream of research, it is believed that the interaction of these issues – the cumulative effect of these issues occurring simultaneously on top of existing SOx mandates – is fundamental to understanding and adjusting to new trends in modern executive behavior. This is not meant to imply that senior executives and boards are not also pursuing traditional strategies for building and leveraging distinctive competencies to gain a sustainable competitive advantage. On the contrary, the drive to find and exploit above normal economic rates of return – preferably from sources that are difficult or costly to imitate (Barney, 1991) – remains a fundamental premise of strategic management practice. Instead, the point is that the rise of the hyper-risk global environment is so new and so purposefully obfuscated by risk-averse executives and boards that traditional scholarship has not fully recognized its existence or identified possible gaps in strategic management literature.

Specifically, Agency theory, Stakeholder theory, globalization/deglobalization, and social media activism are all discussed and assessed in detail below. The main limitations of traditional scholarship primarily hinge on not accounting for the cumulative and combined effects of the following issues/trends – conflicts between fiduciary shareholder vs stakeholder dynamics, long-term vs instantaneous risk perspectives, and country (nationalistic) vs global loyalties, all within the context of newly emerging changes in the direction and scale of globalization and on top of the increasingly risky governance rules with Sarbanes-Oxley style regulatory regimes. The combined and interactive effects of these market dynamics are a relatively new phenomenon and something executives have a disincentive to discuss or acknowledge openly which makes it difficult for traditional scholarship to understand and test. As such, traditional research does not adequately explain the increased level of purposeful obfuscation of executive and board decisions, the realignment of organizational structures to account for geopolitical tribalism and deglobalization trends, the creation of ostensibly decentralized processes to create plausible deniability for corporate executives, and the overall subjugation of the pursuit of traditional fiduciary objectives (the overt pursuit of maximizing shareholder value) to a preemptive strategy of avoiding catastrophic risks.

It is important to note that although large in scope, this 'aggregated' level of analysis merits consideration in its own right and is a fundamental premise of this paper. When combined, at no time in modern history have corporations and individual senior leaders faced the type of hyper-risk and chaotic environment that is emerging across the global community. It is vital that strategic management practitioners and academicians recognize this new confluence of risks and find ways to not only survive but capitalize on this long-term macro political economic tsunami.

Figure 1. Conceptual model



EXISTING LITERATURE ON GLOBALIZATION, MULTI-POLARITY, AND DEGLOBALIZATION

This brief summary is meant to provide a foundational background on key aspects of globalization literature on which a discussion of recent trends can have greater context.

Globalization and multi-polarity

For well over thirty years, the concept of globalization has been explored at great length across multiple disciplines from economics to political science to sociology and beyond; thus, its definition has been hotly contested for decades (Robertson and White, 2007). However, because this paper focuses on business applications, we will use a well-established definition that is often taught to students of organizational strategy, “Globalization is the increasing economic interdependence among countries and organizations as reflected in the flow of products, financial capital, and knowledge across country borders” (Hitt et al., 2019: 10).

Of the various streams of research regarding globalization the construct of an emerging multipolar world has become one of the most well recognized. The principles of the multipolarity theory originally rose to prominence in the mid-1960s within the context of the Cold War between the U.S. and Soviet Union (Deutsch and Singer, 1964; Rosecrance, 1966). However, this concept has since evolved such that a widely accepted future scenario now involves the rise of an Eastern versus Western (mostly China versus the U.S.) bipolar equilibrium, with a potential second scenario including the rise of Europe as a third pillar (Crespo and Zuzuárregui, 2020).

For example, from a more mainstream practitioner perspective, many leading consulting firms and business periodicals have promulgated the narrative that China is on the rise while the U.S. is either stagnant or in decline. McKinsey and Company (2019) argued that "China has given rise to a vast middle class that is an engine of global demand," (p. 59), and "the map of global demand is being rewritten… with China (being) the largest part of the story" (p. 58). Similarly, Harvard Business Review describes multiple factors affecting globalization but highlights a few conclusions about China's continued rise and separation as an economic center, "Expect supply chain shifts to accelerate when business travel opens up again, but with most pre-pandemic trends, such as China plus one sourcing, continuing." (Altman and Bastian, 2021: 2) In addition, they argue, "The DHL Global Connectedness Index 2020 report also looks for evidence of the global economy fracturing into rival blocs. U.S. – China decoupling has advanced somewhat since the onset of the trade war in 2018, but these economies remain highly intertwined." (Altman and Bastian, 2021: 4).

This East versus West multipolar perspective also permeates more recent scholarly literature, but the main thrust of many of these analyses involves an evaluation of political economic systems. For example, Owen (2021) explicitly identifies and focuses on the emergence of two international orders – China and the U.S., with the premise being that the separation will be driven by the incongruence of two political systems. "China is attempting through various means to build a niche that will eliminate the liberal bias in international institutions and safeguard its own Market-Leninist regime." Alternatively, Paul (2021) argues that the ongoing decay of globalization has been strongly influenced by the decline of the West due primarily to failures of income distribution and institutional malaise. Other papers also identify the emergence of a bipolar economic order including the idea that a "realism" model of deglobalization, "sees the end of U.S. hegemony and the rise of China as a geostrategic competitor…" (Witt, 2019: 1054).

Deglobalization

If globalization involves the *interdependence* of products, supply chains, capital, and implicitly the political frameworks that allow and facilitate these cross-border exchanges (Dynkin, 1992; Keohane and Nye, 2020), then it must follow that any lessening of cross-border interdependence must lead to a reduction of classical globalization into a state of lesser globalization, i.e., deglobalization (Ambos et al., 2020; Kim et al., 2020; Goldberg et al., 2023). Although not as large as the globalization literature, research into deglobalization is both significant and gaining momentum.

A slowing global GDP, the economic shock of Covid-19, trade wars between the U.S. and China, and a larger resistance to geoeconomic expansion are all factors being analyzed under the deglobalization umbrella and given euphemistic labels such as "Slowbalisation" (The Economist, 2019) and "Glocalization" (Malmgren, 2022). For example, since the 2019 Economist article, numerous papers have examined slowbalisation in terms of possible impacts of the slowing global GDP on globalization processes (Feffer, 2019) or in terms of predicted negative effects of policy-driven geoeconomic fragmentation from the rise of national populism (Aiyar and Ilyina, 2023). Alternatively, Glocalization is a somewhat broader concept that started mostly in the late 1990s and early 2000s in the sociology literature with a concern that cultures may be internationalized (Robertson, 1995), or which took a decidedly anti-business/anti-capitalism predilection regarding the globalization phenomenon (Bauman, 1998), but it has risen to such significance that entire academic books were written on the subject (Roudometof, 2016).

Population growth demographics: A catalyst of an alternative multi-polar future

Population demographics are generally outside of governmental control in the near to medium-term, relatively easy to predict, and essentially inevitable across a twenty to thirty-year timeframe – barring some type of war, epidemic, or sudden mass-migration. This is important because many of the current centers of economic gravity – Europe, Japan, South Korea, and China – that have been bedrocks of traditional views of globalization are facing population trends that are not supportive of sustaining historical levels of economic growth. For example, major economies within the European Union, such as France, Spain, Germany, and Italy, have some of the lowest birth rates per capita in the world (CIA Factbook, 2022) with some forecasts showing an overall decline in population beginning in or near the 2020 – 2023 timeframe (United Nations, 2022). Similarly, South Korea, Taiwan, and Japan have birth rates that are lower than in Europe (CIA Factbook, 2022), and China's low birth rate plus its historical one child policy has resulted in reports that China's total population may have already started to decline raising questions about China's longer-term economic power (Peng, 2022; Lavin, 2022).

Although there continue to be alarms sounded regarding possible overpopulation of the earth by those who are highlighting pressures on the environment (Ehrlich, 1968), the macroeconomic problem of population decline in industrialized economies has been known for many years but without as much media attention. Initial efforts to stop or stabilize population decline have generally failed. Specifically, birth rates have generally not improved, and the crisis is now causing more governments to implement additional emergency policies to increase births and net immigration. For example, France identified the problem back in 2005 and instituted more maternity benefits (Henley, 2005), but this failed to have a significant impact, so current officials are again voicing concerns about a threat to the French social order and installing policies both to incentivize more births and to increase net immigration (Bayrou, 2021). Similarly, Japan has begun paying new mothers for each child born (Baseel, 2022), and China is discouraging non-medical abortions and offering fertility treatments to have more children but only for married women (Stevenson, 2022).

Alternatively, India, South Asia (ASEAN), and many countries encircling the Atlantic Ocean, e.g., Central America, South America, and Africa, are expected to see substantial increases in their net populations over the same timeframe (United Nations, 2022). The United States and the United Kingdom both have below average birth rates, but their total population growth rates remain stable and slightly increasing due in large part to substantial immigration (United Nations, 2022).

Although still controversial to assert, it is illogical to assume that, unless there are substantive changes in the population demographics, China and Europe will rise to be <u>stable</u> economic counterbalances to the U.S. over the next thirty plus years; thus, it is difficult to justify long-held views of a stable China-U.S. or China-U.S.-European multipolar future. Instead, population demographics suggest a rise in the economic power of India, ASEAN, the larger Western Hemisphere community, and potentially parts of Africa. Assuming the U.S. maintains its ability to provide fossil fuel energy to itself and its allies in the next thirty years while continuing to make progress on renewable and sustainable energy technologies, it is also unlikely that this key driver of the geopolitical order, i.e., access to reliable, low cost energy, will unseat the U.S. from its currently strong economic position. If this prediction based on population growth demographics proves accurate, the impact on corporate-level financing, supply chains, and similarly impactful strategic decisions for multinational corporations will likely require substantial revision from current expectations. This is the underlying, longer-term phenomenon with which the next two trends, below, are occurring simultaneously.

NATIONALISTIC POPULISM – THE RISE OF "GEOPOLITICAL TRIBALISM" AND COERCIVE DOMESTIFICATION.

"Geopolitical Tribalism" is a phrase coined herein which recognizes the nationalistic populism movements in North America, Europe, Russia, and China, the rise of military tensions in the Pacific region and Ukraine, and the formation of new – or enhancement of existing – economic and military alliances.

> *Geopolitical tribalism generally refers to the creation or enhancement of national alliances, legislation, and regulations that not only promote the increased relative security of domestic and/or intra-tribal populations but also specifically includes legislation and regulations that promote the economic competitiveness <u>and loyalty</u> of domestic and intra-tribal companies.*

"Domestification" – a major subcomponent of tribalism – is a play on words also coined herein that specifically refers to efforts by a government to bring economic activities home to a more controlled or friendly jurisdiction. This can also include potential punishments for companies that operate in or have suppliers from a specific rival tribe – i.e., "Coercive Domestification."

> *Domestification is defined herein as the purposeful aggregation of governmental incentives, disincentives, and regulations promoting domestic manufacturing, production, supply chain, financing, tax payments, and employment, as well as promoting nearshoring, backshoring, and public demonstrations of loyalty to the primary sovereign.*

Nearshoring can be defined as "relocating some previously offshored manufacturing activities so that they are now close to previous core locations, but not so close as to suffer from disagglomeration effects" (Piatanesi and Arauzo-Carod, 2019), while backshoring can be defined as a "re-concentration of parts of production from own foreign locations as well as from foreign suppliers to the domestic production site of the company" (Kinkel and Maloca, 2009).

In addition to Russia's invasion of Ukraine leading to the strengthening of long-held alliances such as NATO, there are a number of examples of emerging tribal clusters based firstly on China's perceived ambitions in the Pacific Basin, South America, and Africa, and secondly on the inherent demographic challenges of Japan, South Korea, and Europe. Examples include, but are not limited to, the "Three Seas Initiative" in Eastern Europe (Zbińkowski, 2019), the "Quadrilateral Security Dialogue" (the "QUAD") between India, Japan, Australia, and the United States (Gale and Shearer, 2018), and the "Anglosphere Alliance" which involves strengthening and making more formal the commercial, intelligence, and military relationships between English-speaking countries such as the UK, Canada, the US, Australia, and New Zealand (Peters, 2021).

Examples highlighting the trend of geopolitical tribalism and domestification. The evidence of an evolution towards a greater level of national independence is substantial and growing, including trends covering the political realm, immigration, supply chain, monetary policy, and energy production, among others – with a more dramatic manifestation brought to light by the Covid-19 pandemic and the invasion of Ukraine by Russia. For the sake of brevity, the following examples summarize only a small portion of this evidence.

Political underpinnings

One of the most obvious recent examples of deglobalization from a political perspective includes the separation of the UK from the EU, i.e., Brexit, based in part on arguments regarding national sovereignty over EU-level economic, social, and immigration regulations. Other examples include the recent and possible future election of more populist nationalistic leaders such as President Donald Trump in the U.S. and of President Viktor Orban in Hungary. Specifically, within the four years of his term, President Trump overtly pursued policies focused on increasing domestic independence regarding key factors of the economy and national security under the motto of "America First." A few examples includes aggressively incentivizing U.S.-based companies to build or move manufacturing facilities back to the U.S., punishing companies that chose to move existing domestic manufacturing out of the country, and forcing the restructuring of the North American Free Trade Agreement (NAFTA) into a new agreement called the United States-Mexico-Canada Agreement (USMCA) with more favorable terms for domestic U.S. producers.

More recently, similar nationalistic movements have arisen in the Netherlands, Germany, and Argentina. In the Netherlands, the rise of politician Geert Wilder and the NVV party has coincided with a push for "Nexit," which is the idea of the Netherlands leaving the European Union like the UK's Brexit departure in 2020 (Daltan and Sarcar, 2023). In Germany, "Dexit" (Deutschland Exit) and the rise of the AfD party (Alternative für Deutschland) has gained sufficient momentum that the current German Chancellor is warning of imminent economic doom if this trend continues (Chazan, 2024). And finally, the election of Javier Milei in November of 2023, an economic libertarian, as President of Argentina was based in large part on his fiery anti-socialist, pro-nationalistic rhetoric. Together, these examples suggest that the nationalistic populism of Hungary, the UK, and Trump's tenure in the U.S. is still gaining momentum across Europe and now parts of South America.

Examples emerging from or highlighted by Covid-19

The rise of the Covid-19 pandemic brought increased awareness of controversial global interdependencies and further energized the push for greater national independence. One example was the realization during the early stages of the pandemic that China controlled a significant portion of the global production of antibiotics and supposedly threatened to restrict supply to foreign countries during contentious parts of national supply chain and tariff negotiations (Taylor, 2020) leading to multiple calls in Washington for increased domestic manufacturing of basic medicines on the grounds of national security (U.S. Congressional Bill S1176, 2021).

Examples highlighted by the Russian invasion of Ukraine

The invasion of Ukraine by Russia on February 24, 2022 has further highlighted growing concerns over interdependent global supply chains as well as to vulnerabilities to global economic and financial interdependencies. For example, the war in Ukraine highlighted the growing concern over the interdependency of economies and currencies and how government sanctions and very fast corporate activism can be used as a weapon of war. Many major corporations were the first to act, followed soon thereafter by more formal governmental sanctions. Within a matter of a few weeks, Russian citizens found that their ability to travel on major airlines (e.g., American, Delta, KLM, and Lufthansa), access food and restaurants (e.g., Heineken, Coca Cola, McDonalds, Starbucks), send packages (e.g., FedEx, UPS), and even access to the use of their credit cards (e.g., Visa, Mastercard) had been cut off or severely limited due to major corporations shutting down operations in Russia. Governments (e.g., U.S., Japan, European Union) then imposed sanctions that shut down the Russian central bank's ability to access reserves that were held in gold or foreign currencies (Gordon, 2022).

Whether these governmental sanctions prove to be impactful longer-term or not, the immediate reaction of the world's major economic powers as well as many of the world's largest corporations against a specific military antagonist will not go unnoticed by military and governmental strategists. In short, this example proved that the interdependency of global commerce and currencies can be used as a weapon in ways never before witnessed. It is not unreasonable to assume that governments will seek to erect barriers against or to separate themselves from the types of punitive economic actions brought to bear against Russia, and this will likely include the pursuit of greater levels of supply chain, food, energy, medicine, and monetary independence.

From a strategic management perspective, a major reason for defining geopolitical tribalism and domestification is, in part, to recognize that the complexity of legal and regulatory risks for corporations will likely increase dramatically over the next few decades as the calculus includes not only understanding and abiding by the rules and regulations within a given country, *but also by the potentially negative ramifications of punitive and dynamic sanctions associated with engaging in trade with companies domiciled in politically adversarial countries*. Understanding which countries are likely to form political and legal alliances, at the same time that global economic epicenters of power are likely realigning due to differences in population growth demographic, will further complicate the longer-term supply chain, financing, structuring, and governance decisions of individual corporations.

SOCIAL MEDIA ENABLED, NEARLY INSTANTANEOUS STAKEHOLDER ACTIVISM

The examples above demonstrate that trends towards nationalistic populism are continuing to gain momentum which has the potential to substantively change the rules, regulations, incentives, and disincentives governing the structure and strategies of corporations, especially multinational corporations. Transitioning to accommodate these changes carries substantial risks, but this rise in geopolitical risk is coinciding with a surge in risks from nearly instantaneous corporate activism via social media platforms. To understand how modern multinational corporations are changing how they execute strategic planning, governance, and stakeholder communications, it is critical to understand the interactive effects of operating under the gaze of often viscerally opposed stakeholder communities.

The emergence of social media as a global, impactful medium for change generally coincides with the exponential rise in volume of online stock trading, and both of these are relatively recent phenomena. For example, most of the famous social media platforms are fewer than twenty-years-old. Google was founded in 1998, but many others were founded much more recently, e.g., Facebook in 2004, YouTube in 2005, Reddit in 2005, Twitter in 2006, Sina Weibo (China) in 2009, and WeChat (China) in 2011. Alternatively, the online trading market officially started somewhat sooner due to a ruling by the U.S. Securities and Exchange Commission on May 1, 1975 allowing for price deregulation of the brokerage industry which quickly led to the creation of discount brokerages such as Charles Schwab, Ameritrade, and E*Trade. However, the exponential growth in the volume of stocks traded online did not fully manifest until after 1998 when the U.S. Securities and Exchange Commission published its ruling allowing computerized and algorithmic trading. By 2010, the exponential rise of algorithmic trading had become a major topic in the mass market business media (Salmon and Stokes, 2010).

The key point is that only within the last two decades has the infrastructure been in place for millions of people (many of whom are not trained in basic economics or business fundamentals) to buy and sell a company's securities or publicly comment on a company's activities in a nearly instantaneous way based on information that is often unvetted, unsubstantiated, and frequently counter to economically rational practice. In this type of world, rumor often rules the day, and the value of a company's financial assets can change radically within hours instead of weeks or months. The 2020-2021 trend regarding "meme" stocks, e.g., GameStop, AMC Entertainment, and Blackberry Limited, is a classic example where the rise of commission-free online trading platforms like Robinhood and online social media platforms like Reddit greatly increased the amount of online trading by untrained traders.

The ability to have an almost instantaneous impact on a company's stock, often based on rumor or innuendo, is very important to understanding how hyper-risk management is driving modern strategic decision-making, especially when considering the sophistication of various consumer and stakeholder activist groups. Once again, a deep exploration of this topic is beyond the scope of this paper, but there are a variety of examples where either grassroots or formally organized campaigns to "cancel" companies or individuals were pursued to achieve a certain political or ideological objective. From a more progressive ideological perspective, a few examples include, but are not limited to, attempts to cancel JK Rowling, author of the Harry Potter series (Transgenderism), Ted Sarandos, CEO of Netflix (Transgenderism); SeaWorld (Animal Rights); Chick-fil-a restaurants (Same Sex Marriage), and innumerable examples of environmental activism on companies' carbon emissions (various utilities and oil companies), green energy, deforestation, chemical use, and genetically modified crops and foods (e.g., Cargill). From a more conservative ideological perspective a few examples include Target and Bud Light Beer (Transgenderism), Tractor Supply Company (Reversal of DEI programs), and various state governments withdrawing pension plan investments from banks promoting ESG mandates (Texas v Blackrock).

The primary conclusion here is that competitors, consumers, and stakeholder groups can use social media and legal strategies to exert almost instantaneous pressure that can have a tremendous impact on an individual company's market value and political capital if they are perceived to be out of compliance with the preferences of those groups. As a result, social media enabled shareholder activism further complicates, and frequently threatens, specific corporate leaders as well as the decision-making environment in which they must operate. In other words, corporations must navigate the increasing risks of dynamic changes in and across geopolitical tribes and an evolving set of multipolar hubs while avoiding attracting the negative attention from stakeholder activists who can dramatically alter the company's economic viability if they are seen taking actions against the ideologies of conflicting stakeholder groups.

IMPLICATIONS AND OBSERVATIONS: STRATEGIC MANAGEMENT IN THE EMERGING HYPER-RISK WORLD

Strategic management is primarily the study and practice of management at the level of the firm (Cory, 2024), and this serves as a primary distinction between this subdiscipline and all other areas of management practice and scholarship. As a result, strategic management focuses primarily on senior executives and board members of a company, the content and drivers of their decisions, and the processes they use to formulate, implement, and govern those decisions. Because executive leaders are typically responsible for the most impactful decisions facing organizations, there has traditionally been a very close link between strategic management theory and agency theory (Eisenhardt, 1989) in that a primary objective, a primary doctrine, of strategic management is to faithfully serve as an agent of the owners of the company and to perform one's fiduciary responsibility to maximize the interests of the owners, i.e., the principles, i.e., the common shareholders. But a basic argument of this paper is that this canonic pillar of the field is evolving to a point where the day-to-day behaviors of senior executives and board members are changing such that a different, preeminent objective is taking its place. In other words, how they do their jobs is changing profoundly but in a purposefully obfuscated way due to the need to avoid the wrath of overly aggressive regulatory agencies and/or the wrath of heterogeneous stakeholders who are typically well organized and often viscerally opposed to each other.

It is argued herein that this phenomenon is due primarily to the confluence of at least three major global trends being stacked on top of increasingly invasive government monitoring and enforcement regulations, such as Sarbanes-Oxley. This confluence has given rise to a set of risks so substantial that, when combined, senior executives are replacing the goal of maximizing shareholder value with the preemptive goal of avoiding catastrophic risks. To be clear, this is not meant to imply that executives and boards are now making decisions solely on risk avoidance, or that MNEs are deciding in which countries they will operate only for the perceived benefits of risk mitigation. Executives are still formulating and implementing strategies that are based on traditional rationale such as the desire to create or leverage distinctive competencies to gain a sustainable competitive advantage. For example, many MNEs are moving investments away from China to other countries such as India not just to reduce country-specific risks to China but to leverage unique benefits that India provides which are not available in China.

Similarly, one could counter-argue that maximizing shareholder value from an Agency theory perspective is cryptic shorthand for maximizing "risk-adjusted" shareholder value (Meckling and Jensen, 1976; Skomp, 1990) so any adjustments made towards avoiding or mitigating catastrophic risks are still in line with agency theory mandates. However, at some point this argument becomes tautological in that most any activity could be obliquely described as adjusting for risk, therefore most any action is potentially defendable under traditional agency theory logic, and subsequently, most any action taken by executives potentially maximizes shareholder value. As with any tautology, such an argument removes the explanatory value of the theory it purports.

The recent changes in behavior of top management teams and boards, and the drivers causing those changes, merit deeper scholarly examination. Evidence and scholarship regarding the globalization / deglobalization phenomena is vast and compelling, but many of the emerging trends appear to be underrecognized with respect to their impacts on the practice of strategic management. For example, it seems clear that the growing trend of geopolitical tribalism is affecting (and is likely to continue to affect) the speed and trajectory of cross-border commerce, but although there has been an explosion of research on nationalistic or nativistic populism since 2019 especially in political science and sociology domains (Brubaker, 2020; Singh, 2021) there is very little research addressing how these policies are likely to affect the formulation, implementation, and governance of strategic plans across multinational corporations (White, Rajwani, and Lawton, 2021; Charpin, 2022). Furthermore, although there is a growing literature on the effect of social media on corporations and to some extent strategic managers (Kim, Welbourne Eleazar, and Lee, 2024), there is relatively little research exploring how the exponential growth in the use of social media to launch near real-time activist campaigns *interact* with the recent trends regarding nationalistic populism (deglobalization) further increasing the speed and magnitude of risks faced by senior executives trying to balance and mitigate inter-stakeholder conflict. Finally, because prevailing wisdom and scholarship has tended to accept an East-West bipolar future paradigm, it is also important for strategic management research to examine what changes will be required by executives to adapt to a substantially different landscape of global economic power – while simultaneously juggling the interdependent issues of geopolitical tribalism and social media activism. It is not hyperbole to suggest that the risks currently facing multinational corporations are unprecedented and that in the next few decades risk reduction and mitigation strategies may well become a primary driver not only of organizational survival but of sustainable competitive advantage.

Three key categories of hyper-risk management strategies being deployed. The following three categories of strategies are currently being implemented and will likely continue to grow in response to aggregated risks facing multinational companies, 1) "Ostensible Decentralization," 2) Supplier Optionality by Tribal Affiliation, and 3) Increased competencies in the areas of Governmental affairs, Financial engineering, and Compliance.

Category one: Ostensible compliance

Ostensible Compliance is a category of risk reduction strategies intended to reduce potential governmental and stakeholder pressures via the actual decentralization and/or the *appearance* of decentralization of operations, administration, governance, and communications activities.

Proposition 1: (***Ostensible Decentralization of Operations***) *For those companies where the international portion of the business is so significant that retraction back to or nearer to the home country is not economically feasible, it is likely that those organizations will be incentivized to further decentralize operations (or to be able to claim they are decentralizing operations) or to restructure into more elaborate partnership arrangements.*

As nationalistic and tribal pressures increase, greater levels of local responsiveness and personal relationships will be increasingly beneficial. However, in addition to the implementation of greater decentralization, public messaging about moving to a more decentralized structure carries a potential benefit in that it lays the foundation for claiming a degree of separation from the decisions made by an organization in countries outside the main geopolitical tribe and therefore provides a certain level of plausible deniability for executives and board members at the corporate level.

It is important to recognize that this proposition is not focused exclusively on the actual structural and process-based changes of decentralizing operations which are well established in the field, but it is overtly recognizing how executives and boards are changing the risk postures of their traditional strategic decisions. It is also important to recognize that this proposition is not an advocacy of anything illegal or purposefully harmful to an executive's fiduciary responsibility. To the contrary, executives are increasingly aware of the threat of nearly instantaneous attacks on social media by antagonistic and often uninformed stakeholders who seek to spin or misrepresent an organization's actions to the harm of the organization. It is logical to reduce the risk of such attacks by restricting the amount of information available to the market regarding topics that have a higher probability of triggering stakeholder or intra-tribal governmental / regulatory angst while simultaneously lessening the risk to individual executives and board members should an attack occur.

Proposition 2: (***Ostensibly Decentralized Governance***) *As incentives to decentralize international operations and regulatory compliance increase, companies will also be incentivized to increase ostensibly decentralized governance personnel, policies, and oversight.*

Similar to the previous proposition, the need to demonstrate local responsiveness while having increased layers of preemptive bureaucratic policies will likely extend to governance and compliance processes of a corporation. This is a continuation of the argument regarding overt operational risk rebalancing while increasing the plausible deniability for corporate-level executives and directors. Risk mitigation and reduction is and will likely continue to occur for the organization, the members of the executives team, and increasingly for the board of directors due, in part, to the greater personal liability of regulatory regimes such as Sarbanes-Oxley.

***Proposition 3**: (**Ostensibly Formalized Political/Social Commentary**) There will be continued and potentially increased pressures on individual companies by home countries and stakeholders to proactively participate in nationalistic and social proclamations even if it results in lower near-term financial returns. As a result, companies will likely seek to preemptively establish more formalized policies and monitoring practices regarding political and social commentary to help avoid or mitigate castigation by governments in other tribes or by potentially impactful stakeholders.*

Being compelled to make proclamations for a given political or social agenda in an increasingly adversarial macroenvironment raises myriad ethical concerns as well as potentially serious agency costs. However, organizations often find some semblance of reprieve from these types of external pressures if they can refer to existing, objective, and preemptively established policies dictating when and how it engages in such demonstrations. Although this will not eliminate the pressure to "take a side" in a public debate, using internal bureaucracy and ostensibly decentralized policies and governance as a protective cloak has the potential to deflect and delay all but the most virulent of pressure groups.

Category two. supplier optionality by tribal affiliation

***Proposition 4**: (**Supplier Country Diversification and Optionality**) The increase in tribal political rivalries will likely extend beyond the location of a company's headquarters and tax jurisdiction to an organization's supply chain of goods and services. As a result, companies will seek to benefit from increased supplier diversification, not just in terms of the <u>number</u> of potential suppliers from a price negotiation standpoint (e.g., reducing monopolistic or monopsonistic price pressures), but in terms of the <u>political tribe(s)</u> in which the supplier(s) operates.*

Given the trade disputes between the Trump administration and China, 2017-2020, the significant supply chain problems with China due to Covid, and the ongoing threat of military action in the Pacific region by China, many companies have already begun to move all or a significant portion of their supply chain from China to other low-cost countries such as Vietnam (Samuel, 2020). In fact, it seems logical to assume that most companies that have a significant *percentage* of their products supplied by China (which is purposefully a different metric than the *absolute number* of suppliers of a given product) and that expect to have a tribal primacy with North America, Japan, South Korea, etc., will or should be preemptively planning for possible alternative supply chains. Supplier optionality also helps to mitigate ongoing social media attacks against the ethics / morality of manufacturing some or all of a company's products in countries with high levels of poverty and/or that have safety standards that are below that of first-world countries. However, the practitioner and scholar should be careful to realize that many of the sub-components used in manufacturing in countries such as Vietnam are still produced in China, so the process of decoupling from China or from other countries where there might be a geopolitical tribal concern is often more complicated and time consuming than might be first recognized.

Category three. competency enhancements

Proposition 5: (***Government Affairs***) *Increasingly heterogeneous rules and regulations, plus increased risks of legislative and regulatory punitiveness by antagonistic tribal governments, will incentivize the creation of increasingly large and complex government and regulatory affairs departments, which in turn will likely rely more heavily on decentralized and preemptively formalized corporate policies.*

This is a basic tenet of Public Choice Economics (Buchanan and Tollison, 1984). As the intrusion of governmental mandates increase, so too does the need for companies to increase their competencies and involvement related to government and regulatory affairs. From a geopolitical tribalism perspective, local jurisdictional relationship building and an increased degree of separation from corporate headquarters (perceived or real) through more formalized corporate policies have the potential to provide non-trivial benefits to the firm.

Proposition 6: (***Financial Engineering***) *Increased tribal-based sanctions, tariffs, and punitive tax policies are all likely to be deployed to establish and maintain geopolitical tribal loyalty; thus, organizations will be incentivized to expand the financial and accounting capabilities needed to refine their spending and capital structures in a way that minimizes regulatory and tax liabilities as well as stakeholder provocation.*

Governmental policies are often enforced by monitoring, regulating, taxing, and restricting the flow of capital into and out of companies. As a result, it is logical to assume that tribal loyalty will be enforced using similar financial tools. In a world with increased financial scrutiny and the likely advent of digital currencies – both traceable and less traceable using distributed ledger – multinational corporations will almost certainly need to expand their competencies in these areas as well as to the board of directors who govern these activities.

Proposition 7: ***(Compliance)*** *Increased governmental and regulatory scrutiny to promote and ensure tribal loyalties will necessitate an increased ability to demonstrate compliance; thus, companies will be incentivized to expand internal auditing and compliance departments and probably specialize by tribal affiliation to accommodate this increased intrusion and potential liability.*

As discussed earlier in this paper, the rise of Sarbanes-Oxley style legislation throughout the industrialized world is an important foundational catalyst for the additional global risks emerging today. Specifically, riding the momentum of outrage caused by the scandals of Worldcom and Enron, among others, the U.S. Congress quickly passed overtly interventionist legislation known as the Sarbanes-Oxley Act of 2002 that focused primarily on increasing governance and independent oversight of publicly traded corporations and the public accounting firms that provided audits of companies' financials. Variations of Sarbanes-Oxley were then quickly adapted and passed in a large number of other countries, including but not limited to Canada, Germany, France, India, and Japan (Tafara, 2006). An in-depth discussion of this law is beyond the scope of this paper, but two sections of particular importance are 302 and 906. Sections 302 and 906 essentially defined broad situations where executives and board members could be held personally liable for various issues related primarily to corporate reporting. This fundamentally changed the risk profile for top management teams and boards of directors as well as the very relationships between executives and members of the board.

SOx is highlighted in this proposition because it is not unreasonable to assume that the sections allowing for personal and criminal prosecution of executives and board members could be refined by particularly aggressive governments to include compliance with tribal requirements thereby greatly increasing the decision-making complexity and risks borne by executives and members of the board.

CONCLUSION

This paper identifies an underrecognized but profound evolution in how executive management and board members have been performing their jobs over the last twenty years, wherein they are increasingly subjugating their fiduciary (agency theory) responsibility to overtly maximize shareholder value in order to prioritize the mitigation and avoidance of catastrophic risks to the company and to themselves. This evolution of how executives view what their primary objective should be is underrecognized, in part, because managing a hyper-risk environment incentivizes executives to obfuscate, or to make more opaque, how and why they do what they do. It is an intrinsic part of the risk avoidance paradigm to lessen transparency and to create plausible deniability about the company's formulation and implementation activities; thus, it has been difficult to recognize and study the causes and impacts of this evolution in strategic management scholarship.

This paper identified three global, macro-level trends that are emerging simultaneously and are interacting in such a way that they are at the heart of the rise of the hyper-risk environment. These trends include a change in the path of globalization (which is driving long-term corporate risks), the rise of the nationalistic populism movement and geopolitical tribalism (which is driving medium-term corporate risks), and the continued rise of social media activism and coercion (which imposes near instantaneous risks on corporations). The aggregation of these emerging trends is amplified by the existing risks to corporations and executives due to the ever growing and invasive monitoring, reporting, and enforcement systems imposed in the early 2000s through the enactment of Sarbanes-Oxley style regulations, which included specific punishments not only on corporations but to the individual executives who lead them.

Although each of these three macro trends is very large and impactful on its own, only when seen as a larger, interdependent confluence of risks can the magnitude of the phenomenon be more realistically understood. It is hoped that this paper and the examples provided herein will serve to bring the evolutionary changes in the practice of strategic management to the attention of the scholarly community. Specifically, we identified gaps in the combined existing literatures on Agency theory, Stakeholder theory, deglobalization, and social media activism and offered concrete suggestions for how existing theories needed to expand to accommodate a hyper-risk global environment. It is also hoped that bringing these activities to light can provide a sense of comfort and clarity to those practitioners who were not aware of how widespread this phenomenon is or what the drivers of this change might be. And finally, it is hoped that the ideas and examples described herein will serve as a foundation for much deeper theoretical and empirical analyses of this transformative evolution.

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