I by IMD

#18
June-Aug 2025 / 20 CHF

WHY CHINA IS UNBREAKABLE
China considers itself the 'homeland of innovation' and is uniquely equipped to weather the geopolitical storm.

EUROPE NEEDS A TECH REVOLUTION
France's ex-finance minister calls for a second Chips Act to prevent the EU from falling further behind in the tech race.

WHO REALLY RULES AMERICA?
The tech broligarchs invested heavily in Donald Trump but are not getting the payback they perhaps expected.

HOW TO SOLVE THE GEOPOLITICAL PUZZLE

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Values only have value when tested

Dear Reader

Some leaders have always studied geopolitical shifts very carefully, understanding that the environment we are operating in is as critical and often more critical than the firm's strategy. In this edition of *I by IMD*, we focus on geopolitics – more precisely, the frames that help leaders identify, interpret, and address the geopolitical changes that impact their organization.

Jerry Davis starts this issue by sharing with us what's behind President Donald Trump's many surprising moves and how the tech oligarchs are undermining the basic tenets of democracy.

In their article "How to thrive in a fractious world", David Bach, Richard Baldwin, and Simon Evenett advise leaders to accept the new normal, to design for uncertainty and make risk management a strategic advantage, to protect internal team cohesion from polarization, and to build a comprehensive geopolitical intelligence and literacy.

Bruno Le Maire, the French economy and finance minister from 2017 to 2024 and a visiting professor at the Enterprise for Society Center (EPFL, University of Lausanne, and IMD), argues that the EU needs a Chips Act 2.0 or otherwise risks being left behind in the global tech race. When it comes to semiconductors, time is of the essence. Europe's standing in the 21st century is at stake, along with the possibility of our continent reducing its dependency on the US and China.

Ongoing dramatic changes in US economic policies can only be understood in the context of China's rise and increasing global influence. However, it would be shortsighted just to focus on the tariffs that Trump has announced during his second term. Mark Greeven shows how China's competitiveness and approach evolved during Trump's first term: it had already anticipated the changed reality in 2017 and prepared its key industries for a new world order. It focused on innovation and building new trade partnerships, especially by focusing on the Global South. Many Western companies and governments have been surprised at the speed and resilience of their Chinese counterparts and have often failed to see that these competencies were built in and nurtured over years and decades. Improved geopolitical intelligence and literacy for organizations and executives must include developing a better understanding of China and its pathway in a more fractured world.

The contributions by Martin Fellenz, Michael Yaziji, and Katharina Lange provide leaders with additional guidance to prepare their organizations for success in times of disruption.

The Trump administration is not only changing the nature of global trade but is also fighting actively against sustainability topics, notably DE&I and net-zero initiatives. As André Hoffmann explains, Trump's mantra of "Drill, baby, drill" when leaving the Paris Agreement on Climate Change in January 2025 directly impacted business in the US and worldwide. Hoffmann argues that, despite these pushbacks, leaders must stay the course and expand the movement for a new nature of business.

As leaders, we must find the time to pause during this relentless news cycle and reflect on what matters most in times of disruption and uncertainty. Especially in leadership positions, we must separate the noise from the music and remind ourselves that our values only have value when tested. I hope this edition of *I by IMD* helps you find clarity in these reflections. ■

Stefan Michel

Stefan Michel,
Professor of Management, Dean of Faculty and Research

Illustration: Jörn Kaspuhl

[CONTENTS]

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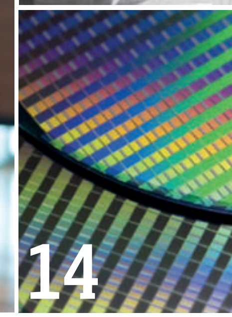

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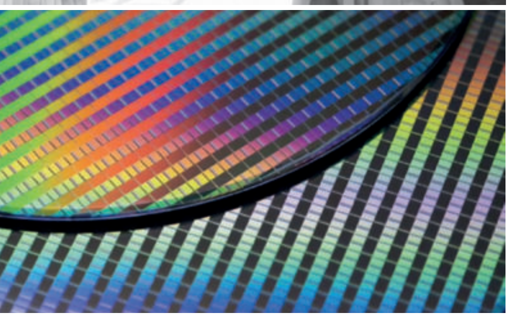

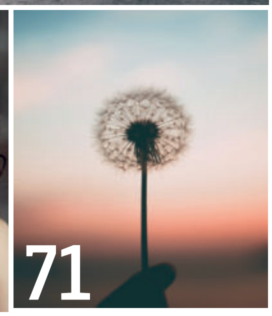

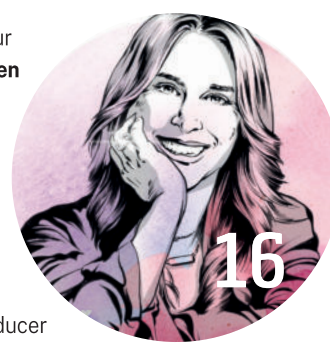

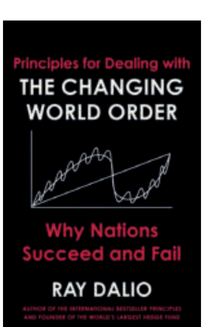

31

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Welcome to the Gilded Cage: who really rules America?

The tech broligarchs have invested heavily in Donald Trump but are not getting the payback they bargained for, observes **Jerry Davis**. Do big business and the markets still shape US government policy, or is the President playing a more sinister game?

How does business get its way with politicians? And how does this dance between business and politics change when the regime is authoritarian rather than democratic? The second Donald Trump administration offers a revealing case study in how political leaders respond to business interests, whether through direct influence from elite donors, the structural incentives of capitalism, or feedback from financial markets.

This article explores competing theories of business influence, from overt oligarchy to more diffuse market-based pressures, and asks whether corporate elites truly rule, or whether politicians simply act in their interests without explicit orders. By examining the early months of Trump's return to power, we can assess whether he served his business backers, responded to market signals, or followed a more autocratic model in which loyalty matters more than capitalism. The answers may tell us as much about the nature and health of American democracy as about Trump himself, and where he might be taking us.

The frenzied return

Trump's return to office has been a whirlwind. The early months were chaotic, with executive orders gushing from the White House like crude oil from an uncapped well; many were illegal, some unconstitutional. What explained this frenzy? Was "Big Business" pulling the strings from behind the curtain?

The inauguration offered a striking visual: front-row tech broligarchs grinning for the cameras – Jeff Bezos, Mark Zuckerberg, Sundar Pichai, and Elon Musk – having shelled out millions of dollars for the privilege. As savvy investors, they surely expected a return on their contributions. Some observers were surprised to see the very tech leaders who had pulled the plug on Trump's online megaphone after 6 January smiling at his side. Others saw it as par for the course: the rich always find their way back to power.

Yet months into Trump's second term, Big Tech remained under siege. Federal lawsuits and antitrust investigations loomed, threatening to break up firms or force divestitures of prized assets. This was odd for a regime known for doling out legal favors and pardons like Halloween candy. Hadn't the checks cleared? Or was something else at work; something deeper about how corporate power actually operates?

Who really rules America?

The American political system serves its wealthy elites remarkably well. A 2014 landmark study by political scientists Martin Gilens and Benjamin Page examined hundreds of policy outcomes and concluded: "Economic elites and organized groups representing business interests have substantial independent impacts on US government policy, while average citizens and mass-based interest groups have little or no independent influence." In other words, government mostly dances to the tune of CEOs and the ultra-rich, not the public.

Illustration: Jörn Kaspuhl

How do politicians choose policies that serve those elites? One possibility: they take orders directly, like tuxedoed waiters at a Michelin-starred restaurant. Billionaire donors like Sheldon Adelson and Peter Thiel were prominent backers of Trump's first campaign, and the cash-funneling methods in the current round – such as winning seats at a dinner in exchange for investing in a worthless meme coin – are nothing if not imaginative. The Qatari royal family offered to donate a luxury 747 jet to replace Air Force One, which would be ceded to Trump's presidential library after he left office. In this world, access requires tribute.

'How do politicians choose policies that serve those elites? One possibility: they take orders directly, like tuxedoed waiters at a Michelin-starred restaurant'

The 2010 Citizens United Supreme Court ruling only intensified this dynamic. The court ruled that to ban corporations spending funds on political advertising violated freedom of speech, opening the floodgates for unlimited "dark money" in politics and fueling what some called "a fusion of private wealth and political power unseen since the Gilded Age."

Still, business doesn't speak with a single voice. Steelmakers love tariffs; automakers hate them. Employers with aging workforces might welcome national health care, while insurers and pharmaceutical companies fiercely oppose it. How does government decide what's best for business as a whole?

Sociologists and political scientists have long studied how elites from business and politics develop a shared worldview. C Wright Mills, writing in the 1950s, described how the power elite attend the same prep schools, join the same clubs, and serve on the same corporate and nonprofit boards. They gather at elite events – Davos in January, Bohemian Grove in July – and often come to internalize similar ideas about governance and markets. Organizations like the Business Roundtable and Chamber of Commerce further coordinate elite consensus.

But maybe such coordination isn't always necessary. In his influential 1977 essay "The Ruling Class Does Not Rule," sociologist Fred Block argued that politicians don't need to take explicit orders. They simply respond to structural incentives: governments depend on economic growth to survive, and growth depends on business confidence. The ruling class does not rule, yet it still gets its way – no cabals required. But that raises another question: if politicians don't receive direct orders, how do they know whether their policies are pleasing the business class? After all, economic impacts take time to manifest. Is there a quicker form of feedback?

The market as messenger

If you've taken a finance class, you've likely encountered the efficient markets hypothesis – the idea that markets swiftly incorporate all available information into asset prices. In this view, the stock market serves as a real-time, forward-looking performance review for corporate management. Good decisions are rewarded with higher valuations; bad ones get punished. In the realm of shareholder capitalism, stock price becomes a kind of GPS for corporate strategy, aligning managers' incentives (via stock-based pay) with investors' desires.

The same logic can apply to political leaders. The S&P 500, in this framework, becomes a fitness tracker for the macroeconomy, providing instantaneous signals about the health of the system. Presidents, like CEOs, may come to treat the market as a running referendum on their performance.

President Bill Clinton famously obsessed over markets. He promoted fast-track trade authority by arguing, "If it passes, I think it will have a very positive impact on the stock market here and around the world." Gene Sperling, Clinton's economic advisor, once quipped that a speechwriter asked him: "When you were a little kid watching Bobby Kennedy and dreaming of social justice, did you ever imagine whispering in the President's ear, 'Sir, there was a big bond rally today'?" On Wall Street, they call that "trusting the tape".

It's not just elites who monitor the markets. Roughly 58% of American families are invested in stocks, mostly via 401(k)s and college savings plans. For them, a 20% drop in the S&P might mean delaying retirement or settling for a less prestigious university for the kids. Grocery prices are annoying, but a market crash can be devastating.

In this sense, the stock market becomes an invisible dog fence delivering shocks to presidents who veer too far from policies acceptable to capital.

Trump certainly noticed. During his first term, he often treated market performance as a personal report card. "The reason our stock market is so successful is because of me," he boasted in 2017. "I've always been great with money, I've always been great with jobs, that's what I do." Later, he warned, "If I ever got impeached, I think the market would crash. I think everybody would be very poor."

In his second term, Trump has largely tuned out the usual guardrails, such as polls, protests, and legal constraints, but one signal still seemed to get through. After imposing sweeping new tariffs, he abruptly reversed course. His economic advisor, Kevin Hassett, » explained: "The bond market was telling us, 'Hey, it is probably time to move.'" Economist Paul Ashworth added: "Although Trump was able to resist the stock market selloff, once the bond market began to weaken, it was only a matter of time before he folded on his eye-wateringly high tariffs." Of course, business leaders also weighed in through covert (and sometimes overt) lobbying campaigns, prompting a haphazard set of carveouts, but the potential increase in costs for issuing government debt may have had the last word.

Oligarchy or noligarchy?

So, is it the market, not the oligarchs, that's really in charge? In today's economy, the two may be hard to distinguish. By the start of Trump's second term, just seven tech firms –Apple, Nvidia, Microsoft, Amazon, Alphabet, Meta, and Tesla – accounted for one-third of the S&P 500's total value. In 2024 alone, their 63% average gains drove over half of the market's total increase.

In other words, what's good for the broligarchs is good for the market. And what's good for the market is, at least nominally, good for the American public, or at least the 58% who hold shares. (Of course, the top 1% own a disproportionate slice of those gains.)

In such a landscape, any rational president would surely do everything in their power to keep Big Tech happy, right?

But there's another model worth considering, one borrowed from autocracy. In Russia, a coterie of oligarchs helped Vladimir Putin rise to power. They controlled the media, energy, and banking. Yet as Putin consolidated authority, he systematically turned on them, jailing or exiling those who defied him.

Perhaps the US administration's continuing efforts to curb Big Tech suggest something similar is happening here.

As Anastasia Edel, author of *Russia: Putin's Playground – Empire, Revolution, and the New Tsar,* wrote in a recent Atlantic op-ed: "America's tech oligarchs may discover sooner rather than later that, by undermining democratic governance, they are empowering an authoritarian president who can pick them off one by one – just as Putin did with the oligarchs who helped cement his rule."

I have written extensively about the threats to democracy posed by the consolidation of power among Big Tech corporations. When a handful of companies control the pathways by which people communicate, work, shop, learn, and engage in basic day-to-day activities, the potential for nondemocratic control is great. Ironically, Big Tech's rapid and unified response to 6 January illustrated this especially well: Twitter and Facebook cut off Trump's social media accounts; Apple and Google deleted Parler (the social media platform used by insurrectionists) from their app stores; and Amazon deleted Parler's account from Amazon Web Services. At a stroke, the infrastructure for the insurrection – and Trump's communications to his followers – evaporated.

'America's tech oligarchs may discover sooner rather than later that, by undermining democratic governance, they are empowering an authoritarian president who can pick them off one by one – just as Putin did with the oligarchs who helped cement his rule'

ANASTASIA EDEL

The evidence on the influence of Big Tech so far is mixed. Certainly, Elon Musk's business interests have benefited massively from his service to the administration: Musk's companies (Tesla, SpaceX, Neuralink, and X) faced dozens of government investigations and legal cases from the Biden Administration, but many have been dropped. As NBC News notes, "in more than 40 other federal agency matters, regulators have taken no public action on their investigations for several months or more – raising questions about whether those cases may have become dormant." His Department of Government Efficiency (DOGE) has gutted many of the agencies charged with overseeing his businesses, which accumulated potentially billions in new government contracts. But after three months, he felt compelled to cut back his government role.

Meanwhile, other behemoths such as Google, Amazon, Apple, and Meta remain the focus of Federal Trade Commission and Department of Justice efforts to rein in Big Tech, with little sign of a reversal. Perhaps this time really is different. ■

Links to the sources and references for this article are available in the online version at www.imd.org/ibyimd

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The world on his shoulders: the statue of Atlas in the Rockefeller Center, New York

Photo: Unsplash

How to thrive in a fractious world

A strategic playbook for the geopolitical age

As governments lock horns in our increasingly multipolar world, long-held assumptions are being upended. Forward-looking executives realize the next phase of globalization necessitates novel approaches, say **David Bach**, **Richard Baldwin**, and **Simon J Evenett**

Geopolitics has returned to the top of international business concerns, exacerbated by Donald Trump's return to the White House. The President's on-again, off-again confrontational trade policy is a case in point. "Liberation Day" on 2 April will be hard to forget. Despite its intensity and relevance for business leaders, geopolitics' re-emergence is widely misunderstood and treated as a continuation of traditional political or country risk. That is a mistake. Geopolitics introduces a different logic, one with sharper edges, deeper implications, and longer shelf life.

For companies engaged in international commerce, recognizing this shift and its differentiating factors is essential to understanding the structural forces now shaping market access, supply chain design, team management, and commercial footprint. Without this understanding, companies are more likely to be tripped up by geopolitical risks and less likely to seize the commercial opportunities that often arise from uncertainty. Corporate playbooks need revision for globalization's next chapter.

Beyond political and country risk: a different logic at work

To grasp how geopolitics departs from conventional risk categories, it is useful to begin with what those categories typically involve. Political risk refers to government actions that may affect commercial operations, such as tax changes, regulatory shifts, expropriation, and civil unrest. Country risk assesses macroeconomic, legal, and institutional stability. It includes factors like debt sustainability, inflation, or contract enforcement. In both cases, the general assumption is that, for governments, absolute performance enhancement is key.

By contrast, geopolitics concerns the pursuit of national advantage in a contested international environment where relative performance matters most for government. While all states are motivated by survival instincts, the most powerful states care deeply about their regional or global primacy and capacity to preserve or exert influence. The "geo" in geopolitics means its motivation and effects are inherently cross-border. They alter the logic of international cooperation and frequently treat markets not as neutral arenas for exchange but as theaters for power projection.

Most critically, the metrics for success in geopolitics diverge from those driving domestic economic and regulatory policy. Relative performance only matters for the latter within countries (for example, do the poor benefit more than the rich?). Geopolitical strategy, however, is often judged by relative outcomes across geographies; steps that harm a rival more than they harm themselves count as a win. More thoughtful or perhaps more honest defenders of export controls on critical technologies invoke this "win through greater harm" argument.

With the return of geopolitics, what hasn't changed is that presidents and prime ministers typically manage different constituencies within their governing coalition. The result is mixed messaging that leads business executives at home and abroad to surmise a policy's "real" objective. We see that now with the rollout of the America First Trade Policy. Parts appeal to different groups (protectionists/isolationists, those seeking to revive US manufacturing, those seeking to contain China, etc.) Mixed messaging raises the premium on companies' geopolitical radars and related capabilities.

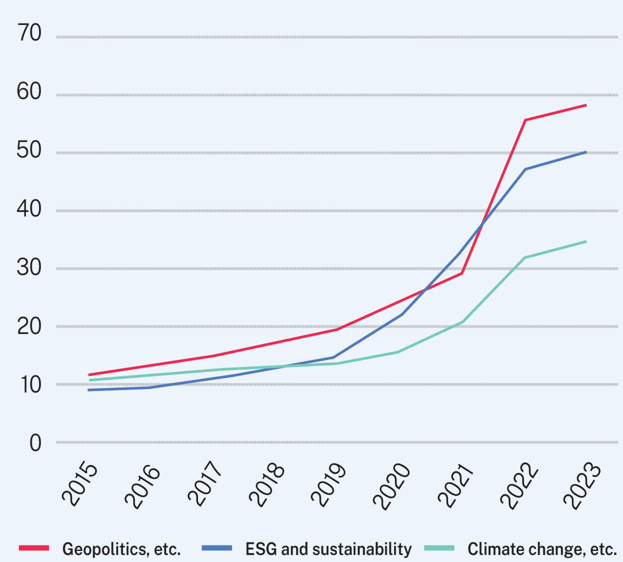
Strategic pain as a win: the logic behind modern trade policy

The evolution of US trade policy in recent years offers a revealing case. Tariffs, long associated with protecting domestic industries or generating negotiating leverage, have taken on a new role in US strategic thinking – one rooted in the deliberate imposition of costs on a rival power.

From this vantage point, a tariff that harms both sides can be deemed successful if it is expected to impose disproportionate damage on the other. Consider US-Canada trade. Regardless of what President Trump says publicly, no one in his inner circle doubts that imposing tariffs on Canada will hurt US businesses, consumers, and the economy. However, the US accounts for 78% of Canadian exports, while Canada represents only 14% of US imports. The logic isn't to maximize net benefits but to weaken a rival's capabilities, slowing its industrial and technological progress and disrupting its ambitions. It reflects a shift from mutual gain to managed confrontation. In one of his last

GEOPOLITICAL RISK HAS RACED TO THE TOP OF THE

PERCENTAGE OF INTERNATIONALLY-ORIENTED FIRMS MENTIONING GEOPOLITICS, ESG AND SUSTAINABILITY, AND CLIMATE CHANGE IN 10-K AND 10-Q FILINGS



Evidence from US SEC filings

acts as Canadian prime minister, Justin Trudeau called out what he views as motivating US tariffs: "What [Trump] wants is to see a total collapse of the Canadian economy because that'll make it easier to annex us."

This approach underpins a growing suite of policy tools, such as export controls and technology bans, deployed to constrain adversaries rather than secure commercial benefits. In this framework, markets are not insulated from geopolitics; they are shaped and, at times, weaponized by it. By extension, companies operating in those markets may become pawns in a global web of competing state interests.

China's re-emergence as catalyst and symbol of a multipolar world

This change in US posture is not abstract. It is targeted above all at China. In recent years, the bipartisan consensus within US national security circles has hardened. China is no longer seen as merely a competitor within the liberal international economic order but as the principal actor capable of reshaping or displacing that order. In short, China is seen as a threat to a century of American primacy.

This assessment is not limited to economic concerns. It spans military capability, technological leadership, and ideological competition. Recent official US documents describe China as:

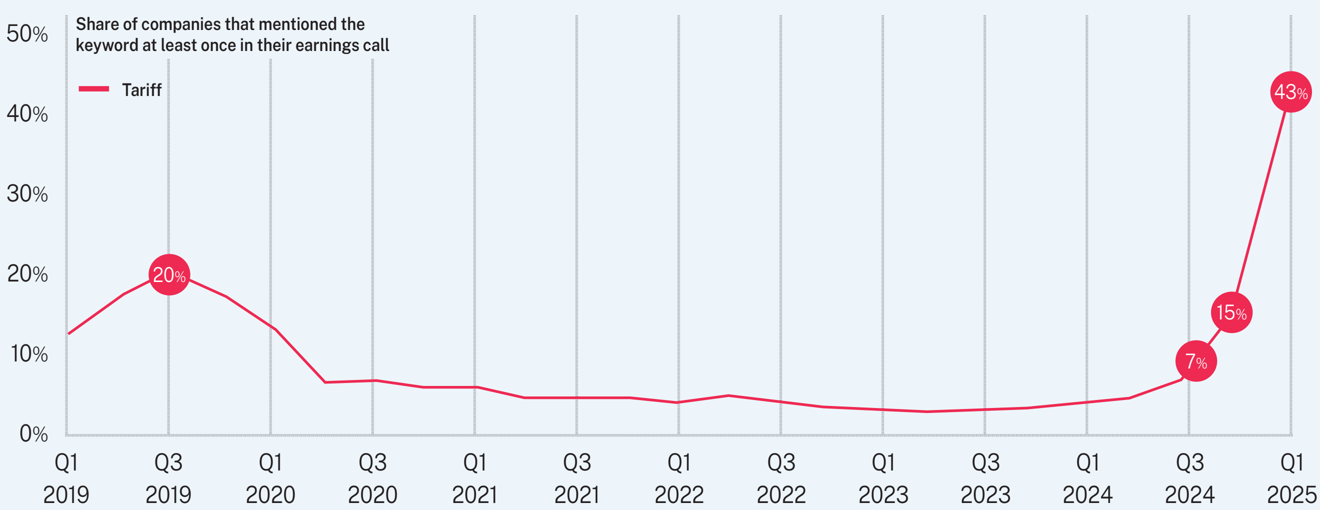
- The actor most capable of threatening US interests globally.
- The most comprehensive and robust military threat to US national security.
- The most active and persistent cyber threat to the US government, private sector, and critical infrastructure networks.

Such language is not diplomatic positioning – it reflects a strategic reframing. The perception that China is pursuing a distinct model for global order, backed by growing economic weight, partnerships, and coercive tools, has triggered a profound rethink of US economic engagement. No longer is interdependence assumed to be benign. Instead, it is seen as a potential liability that rivals could exploit or "weaponize", as Abraham Newman and Henry Farrell noted in a recent influential book, *Underground Empire*. China's trajectory has reinforced these concerns. Over the past two decades, it has moved from being the world's low-cost manufacturer to a technological contender with global aspirations. Its firms lead in sectors from telecommunications to electric vehicles. Its "Belt and Road" infrastructure development initiative extends economic influence across about 150 countries in Asia, Africa, and parts of Europe. Its political leadership has signaled a willingness to use state resources to achieve strategic aims.

In this context, the rise of China is not simply a shift in market shares or trade flows – it is a systemic challenge. That framing accounts for the transformation of US policy. »

CORPORATE AGENDA... AS HAVE TARIFFS

CEO MENTIONS OF TARIFFS Q1 2019 - Q1 2025



Note: The analysis is based on 130,000+ earnings calls from 6,300 global companies listed in the US between Q1 2019 and Q3 2025.
Source: IsT Analytics Research 2025 Quarterly Trend Report: what CEOs talked about 01/2025.

THE NEW SECURITY PLAYBOOK REWIRES INTERNATIONAL BUSINESS

Approach to US security and *premise*	US acts through alliances	US unilateralism
GLOBAL APPROACH *America is safe when it is dominant globally*	• Predictability through global rules • Moves toward freer trade, cross-border data flows, and capital • Positive sum logic *before first-term Trump*	• Growing tariff instability • No new trade deals, friendshoring encouraged • Zero-sum thinking spreads *Trump 1.0 and Biden terms*
SPHERE OF INFLUENCE APPROACH *A pre-requisite for American safety is dominance in the Western Hemisphere*	• Regional rules grow but global and inter-regional trade deals wither • Regional business models replace those based on global scale • Positive sum logic within regions	• Regions dominated by extractive hegemons • Regional supply chains unwind; secondary powers dependent on hegemon • Zero sum logic within regions

‘The line between economic diplomacy and national security has blurred. Importantly, this is not a uniquely American dynamic. Other advanced economies are making similar calculations’

Other traditional and emerging powers eye China’s rise with a more nuanced, pragmatic caution rather than the confrontational rhetoric the Trump administration expresses. The European Union describes China as a “partner for cooperation, an economic competitor, and a systemic rival.” India and Japan remain wary of their regional rival. However, a recent meeting between Indian Prime Minister Narendra Modi and Chinese President Xi Jinping appeared to signal a thawing in relations. In addition, China, Japan, and South Korea have restarted their tripartite economic dialogue.

A new security playbook: US strategy for a multipolar world

The implications of this strategic reorientation are now visible in US initiatives that cut across trade, defense, and technology. The guiding logic is to reduce dependence on China, prevent the transfer of critical capabilities, and build resilient networks of trusted partners, all of which have involved rethinking longstanding doctrines. The assumption that global commerce is most secure or beneficial for the US when universally open has given way to a more selective and security-driven calculus. Allies are urged to “friendshore” supply chains, sensitive technologies are shielded from foreign acquisition, and defense partnerships are fused with industrial policy.

For trade, this manifests as a retreat from universalist agreements and a rise in pacts among smaller numbers of like-minded nations. For defense, it means integrating regulatory tools, such as export controls or digital standards, into broader strategic frameworks. The line between economic diplomacy and national security has blurred.

Importantly, this is not a uniquely American dynamic. Other advanced economies are making similar calculations. The EU has introduced a toolbox to screen foreign investments, regulate outbound technology flows, and investigate dependencies in critical sectors. Japan, South Korea, and Australia have adopted variants of the same playbook. The resulting environment is one of converging policy instincts, even if tactics and priorities differ.

What this means for global business: a new operating reality

These developments have direct implications for the global business community. Multinational firms are accustomed to managing political risk at the country level. However, they now face systemic geopolitical risks that cut across jurisdictions and redefine the terms of engagement. Three dimensions merit consideration:

1. Fragmented integration. Under this scenario, the world does not split into closed blocs, but the global trading system becomes increasingly compartmentalized. Dual supply chains emerge, one geared to Western standards and alliances and the other to Chinese-led networks. Firms must navigate divergent rules, standards, and expectations, often with duplicated operational structures.

2. Deliberate containment. Here, the emphasis is on stalling or reversing rival influence. Governments compete to shape regulatory norms, subsidize strategic sectors, and enforce export curbs. Cross-border flows remain, but they are increasingly politicized. Companies are required to signal alignment as well as compliance with the strategic priorities of key jurisdictions.

3. Sectoral decoupling. In this more extreme outcome, interdependence in key sectors – semiconductors, artificial intelligence, quantum computing, and biotechnology – is deliberately unwound. Trade in these domains becomes highly restricted. Whether they liked it or not, global firms would have to choose sides; neutrality becomes increasingly untenable.

Each aspect entails a high degree of uncertainty, and transitions in focus may be sudden. The default assumption of a single, rules-based trading system is clearly no longer valid. The global economy is being reshaped not by market forces but increasingly by strategic and political intent.

Global businesses can no longer rely on reactive measures or outdated risk-management playbooks. Strategic deliberation must now revisit operational design, executive accountability, and even which customer segments to target. To navigate a world where geopolitical calculation increasingly overrides classic commercial logic, companies must adapt at the level of business model, mindset, and organizational capability. This calls for a deliberate, systemic response that turns geopolitical exposure into a source of strategic advantage rather than vulnerability.

Transform geopolitical risk into competitive advantage

Meeting this challenge requires more than vigilance; it may amount to the next transformation of forward-looking business. The following 10 imperatives offer a roadmap for executives seeking to future-proof their organization against geopolitical disruption. These are not theoretical recommendations but actionable shifts in leadership orientation, organizational structure, and strategic focus. Embracing them can help firms evolve from passive observers of geopolitical events to proactive shapers of their destiny in a fractious world.

1. Accept the new normal: geopolitical dynamics are here to stay
The era with a stable, predictable global business environment is over. Geopolitical uncertainty, supply chain disruptions, and regulatory fragmentation are not temporary challenges to overcome but permanent features of the operating landscape. Organizations must shift from seeking stability to building capabilities that thrive in recurring volatility.

2. Design for uncertainty: make risk a competitive advantage
Instead of traditional risk mitigation approaches that seek to mitigate uncertainty, design business models that exploit volatility as a core feature. Build uncertainty into strategic planning as an opportunity generator, create organizational structures that benefit from market disruptions, and develop competitive strategies that turn competitors' risk aversion into your market advantage.

3. Design for fragmentation: not just market but digital too
So many previously successful formulas for creating value were based on scaling globally intellectual property, brands, or tech. As trade barriers, nationalistic regulations, and tribal industrial policies spread, worldwide scale isn't realistically on the table for firms operating in sensitive sectors. That's the bad news. The good news is that there are other ways to create value, particularly charging premiums after adapting product offerings to deliver the enhanced security that firms and governments crave as fears about geopolitical rivals intensify.

4. Owning the big picture is at an ever-greater premium
Without dedicated senior leadership attention, geopolitical considerations will fragment across departments and lose strategic coherence. Assign clear C-level accountability for geopolitical strategy integration, or watch competitors exploit opportunities while your organization delays.

5. Embrace structural transformation: from focused multinationals to more diversified and decentralized forms
Geopolitical pressures are driving a fundamental shift away from lean, centrally managed multinationals toward more diversified business portfolios and decentralized structures. Consider expanding into broader ranges of business activities to build resilience by diversifying and reducing dependence on any one sector or geography. Stakeholder management and customer relations imperatives will push international firms toward greater decentralization, with regional units gaining autonomy to respond to local imperatives.

6. Protect internal team cohesion against geopolitical polarization
Geopolitical tensions threaten to fracture internal teams along national lines, undermining organizational effectiveness. Proactively manage how global events impact internal workforce dynamics, from addressing diverse perspectives on international conflicts to preventing talent flight when geopolitical tensions affect specific employee populations. Build deliberate management practices that maintain professional unity while acknowledging legitimate personal concerns about geopolitical developments affecting employees' home countries or communities.

7. Align external stakeholders across fragmented geopolitical contexts
External stakeholders – investors, customers, regulators, suppliers, and local communities – increasingly hold conflicting expectations shaped by their geopolitical mileu. Develop sophisticated external engagement strategies that satisfy divergent demands without compromising core business objectives. This requires moving beyond universal messaging to contextualized relationship management tailored to each stakeholder group's geopolitical reality.

8. Expand executive accountability beyond traditional silos
Navigating geopolitical risk is no longer the sole job of strategy or government affairs – it's a shared obligation across the executive team. Functional heads will be expected to comment insightfully on proposals from senior colleagues to address geopolitical factors, even if only part of their day-to-day responsibilities is implicated. As to the latter, finance directors need to understand the impact of sanctions, HR leaders must navigate talent mobility restrictions, and operations executives require supply chain resilience strategies. This isn't optional expertise – it's table stakes for leadership credibility.

9. Build comprehensive geopolitical intelligence and literacy
Combine systematic early warning capabilities (geopolitical radar) with deep organizational expertise to create sustainable competitive advantage. Deploy geopolitical intelligence systems that trigger specific business responses while developing internal fluency programs that reduce reliance on external consultants. Establish centers of excellence that merge regional expertise with functional knowledge, creating career pathways that reward geopolitical competence alongside technical skills. »

THE 'GRIEVANCE DOCTRINE' OF US PROTECTIONISM, AND WHY IT WILL OUTLAST TRUMP

Whatever happened to the architect of the rules-based global trade system? The answer is not as simple as "Donald Trump" and lies in a much longer story.

The American Dream was underpinned by Franklin D. Roosevelt's New Deal policies: government should help people navigate hardship and build better lives. In the 1980s, Reagan recast government as a barrier to growth, not the guardian of fairness. The national narrative shifted from "help the little guys" to "the little guys have to help themselves".

And then came globalization and automation. While other advanced economies pulled policy levers to protect their people, US workers faced those shocks alone: a three-pincher middle-class squeeze. Automation replaced them, globalization undercut them, and offshoring displaced them. Wages fell, millions of jobs disappeared, and factory towns wasted away.

The shockwaves tore through America's social fabric: school shootings, an opioid crisis, an obesity epidemic, medical bankruptcies, high maternal mortality rates, alarming suicide rates, massive student debt, the highest incarceration rate in the developed world, old-age poverty, and homelessness. The rich pulled away from the middle class, and the poor caught up. No other advanced economy shared this scale of social pain.

While a backlash and the election of a populist seems understandable in these circumstances, why has the US become so anti-trade? It's because of the beliefs of its populist president: in the 1980s, Trump took out newspaper advertisements against US tariff liberalization. He has channeled middle-class rage into anti-globalism: what we can call the "Grievance Doctrine".

This doctrine says foreigners won because they cheated, not because they were better. China is the cheater-in-chief, a predatory state that weaponized the rules-based multilateral system. American leaders were in on the betrayal, too. They sold out the middle class and worshipped at the altar of multilateralism and Wall Street while Main Street withered.

Under this doctrine, trade policy and tariffs punish this betrayal and right wrongs through coercion and disruption. Loyalty and submission replace rules. Countries who want access to the US must earn it.

THE RISE OF CHINA: A LESSON IN INDUSTRIAL POLICY, NOT TARIFFS

China is more than a manufacturing heavyweight; it is the only manufacturing superpower. When it comes to gross production, China's share is three times that of the US, six times Japan's, and nine times Germany's. China's industrialization is unprecedented. The last time the global manufacturing crown changed hands was when the US overtook Britain before the First World War. That transition took the better part of a century, while China dethroned the US in 15 to 20 years.

China's rapid rise began with a strategy of joining global supply chains by opening up on the import and export sides to become the workshop of the world. It welcomed foreign firms – mainly from the G7 – to set up operations that slotted into global production networks. It made China attractive to foreign direct investors, and G7 firms did the rest. G7 firms brought the technology, capital, and know-how. China provided the labor, infrastructure, and policy stability. Demand came from exports. Inputs came from imports. China plugged into the world economy at both ends: importing intermediates and exporting final goods.

But joining wasn't the end of the story. After 2005, China began to shift. It started producing more of the parts it had been importing. The government began nudging firms to localize inputs, investing in infrastructure, talent, and financing. The country started exporting parts and relying less on foreign demand. Over two decades of patient, whole-of-government strategy, China built the largest industrial base in the world.

China used tariffs and subsidies but didn't build its industrial might by blocking imports. It was built by mastering exports, first joining and then building. The irony? Much of this was made possible by G7 firms. In trying to cut costs, they helped create their most formidable competitor.

China's share of global manufacturing is close to that of the next 10 countries combined. No nation in history has industrialized faster or on a larger scale. This helps explain the intensity of US-China trade tensions. This is what real industrial strategy – patient, strategic, and state-supported – can accomplish. This is not something that spray-and-pray tariffs can match.

WHY EVERY COMPANY NEEDS A GEOPOLITICAL RADAR AND SONAR

In conjunction with the World Economic Forum and Boston Consulting Group, we have been exploring how companies can most effectively scan, anticipate, and respond to geopolitical risks through radar techniques to detect state acts and events, and sonar techniques to surface root causes. Too heavy a focus on the cut and thrust of acts and events can result in a lack of attention paid to potentially more materially significant trends and drivers shaping the future.

Based on interviews with executives from 25 major companies, our most recent white paper, *From Blind Spots to Insights: Enhancing Geopolitical Radar to Guide Global Business* (scan QR code below to read), highlights six commercial benefits of developing these capabilities (see right).

Our interviews identified more than 80 geopolitical risks that executives viewed as relevant to their businesses, from the US-China tensions to the configuration of supply chains. Our next round of interviews will explore how executives and organizations are developing their own geopolitical muscle.

Type of activity	Payoff | Opportunity
Geopolitical risk migration	Diversification of suppliers in more friendly or non-aligned locations
Replacing sales lost due to trade wars	Discovery of new underserved markets supporting customer base diversification
Increased focus on localization	Development of local sourcing but also new products tailored to specific geographic needs, which could be adapted to other markets
Reaction to sanctioned firms or countries	Opportunity for a rival to take sanctioned firm's business, talent, and suppliers, or acquire that firm
Reaction to sanctioned technologies or components	Creation of own substitutes or vertical integration with remaining accessible suppliers
Managing security-related risks	Closer collaboration with government, with opportunity to influence design and implementation of regulations and industrial policies

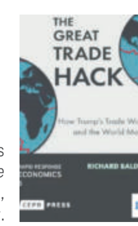
10. Upgrade business continuity protocols

Traditional business continuity planning assumes discrete, temporary disruptions. Geopolitical volatility demands continuous adaptation protocols that treat disruption as the new normal. Develop dynamic continuity frameworks that can manage multiple interconnected geopolitical pressures while maintaining operational effectiveness. This requires moving from crisis response to sustained proactive vigilience.

Thriving as the next chapter of globalization unfolds

The reassertion of geopolitics is not a transient shock but a structural transformation of the global business environment. It is dismantling long-standing assumptions about the even-handedness of trade policy, the permanence of market access, and the applicability of efficiency-driven models that can be scaled globally. The firms that will thrive in this new era are those that recognize geopolitics not as a peripheral concern but as a central pillar of competitive strategy.

Successfully navigating this environment demands a reorientation of the executive mindset. Resilience, agility, and geopolitical fluency are becoming as critical to success as innovation and scale. By embedding these imperatives across the enterprise, companies can withstand unanticipated shocks and seize opportunities born of disruption. Geopolitics is now a defining variable in international business. The question is no longer whether and when firms should respond but how they will do so decisively. ■

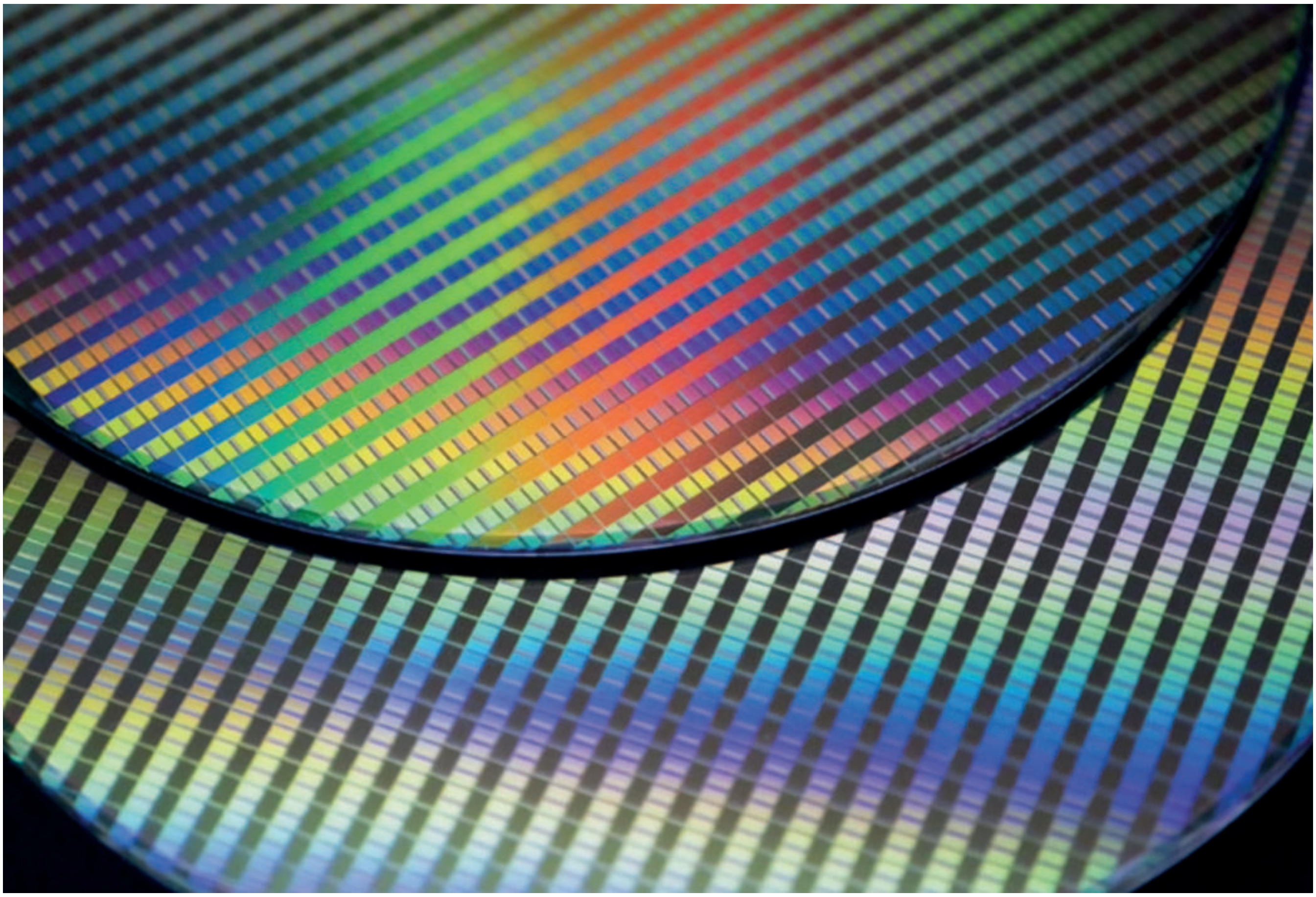


To go further, read Richard Baldwin's *The Great Trade Hack: How Trump's trade war fails and global trade moves on,* available at www.CEPR.org.

DAVID BACH is President of IMD and Nestlé Professor of Strategy and Political Economy. Recognized globally as an innovator in management education, Bach previously served as IMD's Dean of Innovation and Programs. Under his leadership, the school won awards for groundbreaking pedagogy and executive programs. He was previously Deputy Dean at Yale School of Management.

RICHARD BALDWIN is Professor of International Economics at IMD and Editor-in-Chief of VoxEU.org since he founded it in June 2007. He was President/Director of CEPR (2014-2018), and a visiting professor at many universities, including MIT, Oxford, and EPFL. He worked in the Bush Sr White House in 1990-91 following trade matters for the Council of Economic Advisors. Baldwin will lead a stream at IMD's Orchestrating Winning Performance program.

SIMON J EVENETT is Professor of Geopolitics and Strategy at IMD and a leading expert on trade, investment, and global business dynamics. In 2023, he was appointed Co-Chair of the World Economic Forum's Global Future Council on Trade and Investment. Evenett founded the St Gallen Endowment for Prosperity Through Trade, which oversees key initiatives like the Global Trade Alert and Digital Policy Alert.



Well-connected: Taiwan is the only country capable of producing reliable two-nanometer (2-nm) chips

Now the chips are down, Europe must act fast to compete in the digital race

The 2023 European Chips Act was an important first response to the semiconductor crisis but, argues former French finance minister **Bruno Le Maire**, the EU needs a Chips Act 2.0 if it is not to be left behind in the tech race

Who was the world's number one semiconductor chip producer in 1990? The US? China? No, it was the European Union. In 1990, the EU produced 50% of all the chips in the world. Since then, its market share has fallen to less than 10%. US market share has dropped from 45% to 10%, while China's has grown from zero to 25%.

At the same time, Taiwan has become the only country capable of producing reliable two-nanometer (2-nm) chips, the cutting-edge technology enabling the fastest computing speeds. TSMC, the

Photo: TSMC

Taiwanese tech company, is not far from commanding a monopoly when it comes to these super-powerful, strategically vital chips.

This would not be such a big problem if semiconductors were not at the heart of the devices we rely on every day. Our cars, trains, planes, smartphones, and laptops cannot work without millions of semiconductors. Let's not forget that during the COVID-19 crisis, the interruption of global supply chains resulted in the temporary shutdown of many car factories due to the lack of semiconductors from China. The latest 2-nm chips will be pivotal in the future of the global economy, including the development of next-generation AI, robotics, and data centers.

Our dependence on semiconductors could lead to weaker economic growth (or worse) and an increased rivalry among the great powers. We have seen the war in Ukraine having a major impact on Western economies. Tensions between China and Taiwan could prove far more damaging. A "chip war" could lead to a global economic disaster, with all the political consequences we might imagine.

We must wake up to the risks associated with Europe's dependency on imported chips and the impact of the likely reinforcement of the US export control regime that could prevent European companies from exporting goods to China. Fewer exports will impact profitability and lead to less investment and innovation. It's time to react, quickly and firmly.

The 2023 European Chips Act was an important first response to the semiconductor crisis, putting in place crucial measures to increase production, invest in research and talent, and protect supply lines. But we must go further: Europe needs a Chips Act 2.0.

Three steps to secure Europe's chip supply

What would the Chips Act 2.0 look like? Here are three key steps:

1. Simplify the European legal framework to provide greater clarity and transparency for all industrial actors. We must eliminate the excessive red tape that prevents our industries from competing globally. We must allow private firms to extend their production and to build new capacities without an overly restrictive regulatory burden. A new legal framework is urgently needed: simplification must be the new motto.

2. Guarantee access to cheap, reliable, and sustainable energy. An increase in nuclear energy production, alongside the development and adoption of renewable energies, represents the best option to meet that requirement. Developing small and medium-sized reactors and fusion research programs should be part of this strategy.

3. Create access to money. The total cost of a new European chip strategy ranges from €50-100bn ($57-113bn) a year. Our chip program cannot be funded without the mobilization of private funds. There is an urgent need to implement the European capital market union, which we have been working toward for more than a decade. Nobody can understand why, in such a time of radical change, the EU member states cannot overcome the technical difficulties that prevent our trade union from becoming a true financial union. With growing chaos on the international stage, a unique opportunity exists to make a breakthrough.

Together, these steps would form the foundations for a new era of innovation in Europe.

What success looks like

What should be our strategic goal? For semiconductors, a credible target would be to stabilize our global market share at 10%, considering the rapid growth of chip production in the US and Asia. »

8 AIMS OF THE CHIPS ACT

The **European Chips Act (ECA)** is a legislative package that encourages semiconductor production in the European Union.
The key aims are:

1. Investments in next-generation technologies.

2. Providing access across Europe to design tools and pilot lines for the prototyping, testing, and experimentation of cutting-edge chips.

3. Certification procedures for energy-efficient and trusted chips to guarantee quality and security for critical applications.

4. A more investor-friendly framework for establishing manufacturing facilities in Europe.

5. Support for innovative start-ups, scale-ups, and SMEs in accessing equity finance.

6. Fostering skills, talent, and innovation in microelectronics.

7. Tools for anticipating and responding to semiconductor shortages and crises to ensure the security of supply.

8. Building international partnerships with like-minded countries.

> 'Nobody can understand why, in such a time of radical change, the EU member states cannot overcome the technical difficulties that prevent our trade union from becoming a true financial union'

We must build on Europe's strongholds, which are far more significant than we might suppose. We have everything needed to build a strong semiconductor ecosystem on European soil, with leaders in equipment like ASML in the Netherlands, world-class laboratories like IMEC in Belgium, and top producers like Infineon in Germany and STMicroelectronics in France. An efficient network of competitive and innovative small and medium-sized enterprises must also be nurtured to ensure the strength and resilience of our supply chain. The current European strategy on rare earth materials can complement this strategy.

Producing more chips in Europe is just one side of the challenge. The other is improving access to the most cutting-edge technology – those super-powerful 2-nm chips. Why? There are two obvious reasons. The first is profitability, considering the profit margin associated with that technology. The second is our strategic interest, considering the needs of the defense and space industry in Europe. Let's be blunt: this goal cannot be reached without the support of foreign companies like TSMC or Samsung. Therefore, contacts must be developed and strengthened to attract those companies to Europe.

When it comes to semiconductors, time is of the essence. Europe's standing in the 21st century is at stake, along with the possibility of our continent reducing its dependency on the US and China. Either Europe will become an innovative superpower in the coming decade, or it will be condemned to becoming a continent of consumers. The latter will mean we will not be able to fund our welfare state, the fight against climate change, or the means to protect ourselves against emerging threats.

A coalition of member states has been established to foster initiatives on semiconductor production. I wish them every success. Let's make a Chips Act 2.0 a shining example of what can be achieved when Europe has a clear view of its interests and the determination to defend them. ■

BRUNO LE MAIRE, French Minister of Economy and Finance from 2017 to 2024, is a visiting professor at the Enterprise for Society (E4S) Center. He teaches public policy and geopolitics courses, including the master's program in Sustainable Management and Technology coordinated by E4S and offered to students at IMD, EPFL, and UNIL.

Exponential leadership will guide us through the new world (dis)order

We need a new blueprint for business that combines vision, design, and human connection, writes **Shelley Zalis**. Here are the skills you need to be a future-ready leader

Illustration: Jörn Kaspuhl

We're not navigating a new world order. We're leading through a new world (dis)order. From global conflicts and climate disruption to economic volatility and digital acceleration, every system we rely on is being stress-tested. Change is no longer linear but exponential. In a world evolving at warp speed, traditional leadership models are struggling to keep up. The future isn't business-as-usual; it's business-as-possible. We need a new blueprint designed for complexity, fueled by adaptability, and powered by human connection. This is the era of exponential leadership where bold vision meets intentional design to drive innovation, resilience, and sustainable growth.

At The Female Quotient, we've always believed in evolving how we lead. We started with conscious leadership, raising awareness, and making the invisible visible. Then we moved into brave leadership, choosing action over observation and possibility over status quo. Now, the moment demands a bold reimagination. We call that exponential leadership: rewriting the rules, redesigning the systems, and reshaping the narrative.

It's about anticipating the future and designing differently. That takes visionary thinking, the courage to build what's never existed, and a deep belief that people – our employees, customers, and communities – are the greatest source of strength and possibility.

What does exponential leadership look like in action?

Exponential leadership is a methodology as much as a mindset. It comes to life in three ways:

• **Visionary thinking**: anticipating change before it hits.
• **Intentional design:** building adaptive systems that scale innovation and inclusion.
• **Human-centric strategy:** putting people at the heart of decision-making.

Across industries, leaders are putting these principles into practice. At Microsoft, Satya Nadella transformed a legacy tech company into a platform for continuous innovation. He said it best: "In a world where every company is a software company, we must adopt a mindset of continuous innovation." This is ***visionary thinking*** in action, reimagining the role of a technology company and designing for continuous transformation.

Delta Air Lines is rewriting the way we think about talent. CEO Ed Bastian connected workforce evolution directly to business performance: "It's not just the right thing to do; it drives better outcomes," he noted. Through skills-first hiring and apprenticeship models, Delta is building a more agile, future-ready pipeline. That's intentional design, structuring talent systems to expand access, equity, and agility.

At Cisco, Chuck Robbins embedded innovation into the operating system by investing in inclusive leadership, psychological safety, and the power of diverse perspectives. As he put it, "You cannot argue with the fact that a diverse workforce is better. There's too much business value." Cisco weaves inclusive leadership into its operating DNA, strengthening creativity, trust, and collaboration. This is a ***human-centric strategy***, empowering people as the engine of growth and innovation.

When Marriott International faced external social pressures, CEO Anthony Capuano reaffirmed the company's commitment to its values: "We welcome all to our hotels and we create opportunities for all, and fundamentally those will never change." The message resonated with more than 40,000 employees because when your values are clear, they unify your team and future-proof your culture. This is ***exponential leadership*** at the intersection of all three principles: vision, design, and human connection.

The most resilient companies don't react; they redesign

AI systems trained on broader, more inclusive data sets are delivering smarter, safer, and more ethical results. Healthcare technologies designed with women's biology and life stages in mind are saving lives and raising the standard of care. Consumer brands across finance, tech, and beauty that reflect broader identities are earning deeper loyalty and driving faster growth. When organizations lead with adaptability, intentionality, and humanity, they withstand disruption and shape the future.

Want better results? Start with better reflection

Here's the real unlock: the best business decisions come from teams that reflect the real world. To get there, we need to cast the widest possible net – not to meet a quota, but to access the strongest, most innovative talent available. Exponential leadership means removing barriers, expanding opportunity, and designing systems where the best ideas and brightest minds can rise. When your teams mirror your customers, you unlock better insights, faster innovation, and stronger performance.

This is not a compliance issue; it's a path to competitive advantage, relevance, growth, and future-proofing your business. Representation is the catalyst, and exponential leadership is the strategy.

The leaders who will define this next era aren't protecting the status quo; they're designing the future with vision, intention, and heart. The question isn't if disruption is coming because it's already here. The real question is: will you lead the evolution? ■

SHELLEY ZALIS is Founder and CEO of The Female Quotient. She is an unwavering advocate for gender equality and an influential voice in redefining leadership for the modern era. She has recently been selected for Leaders50, a biennial listing of inspiring leaders from around the world.

Business redesigned: why China is uniquely equipped to deal with disruption

China's shift from reaction to reinvention is a long-running transformation built on policy foresight and internal restructuring, which global turmoil and the tariffs war have only served to intensify, argues **Mark Greeven**

When BYD Executive Vice-President Stella Li said China was "the homeland for innovation", she wasn't just talking about the dynamism of its electric vehicle market but also making a case for China's economic model. In Li's view, foreign companies should see China, not as a fortress, but as an opportunity for growth and innovation. "The Chinese government is more open, so maybe there are a lot of wrong perceptions here," she told the *Financial Times*.

Just weeks later, the US unveiled new tariffs of up to 54% on Chinese imports, alongside a 10% levy on other global goods, escalating to 125%, with some carveouts for sectors like automobiles, critical minerals, energy products, and consumer electronics. In Washington, it was framed as a hard line. However, it was business as usual in Beijing, or rather, business redesigned.

Then, in a symbolic meeting in Geneva, US Treasury Secretary Scott Bessent and Chinese Vice Premier He Lifeng struck a temporary truce: both countries agreed to reduce their respective tariffs, with US duties dropping from 145% to 30% and China cutting from 125% to 10% for a 90-day period.

While markets rallied, the structural issues underpinning the trade conflict remain unresolved. This is a 90-day breather, not a breakthrough. For Chinese firms, it only reinforces the importance of agility, scenario planning, and long-term resilience over short-term relief.

Over the past three decades, China has weathered its share of crises: financial shocks, pandemics, and escalating geopolitical headwinds. Yet what has driven its trajectory isn't external turbulence, but mounting internal imperatives: rising labor costs, demographic transitions, and the natural limits of an export-led growth model. Through it all, China has maintained a relentless commitment to long-term transformation. The latest round of US tariffs is undoubtedly disruptive. It adds friction to an already tense global environment and puts near-term pressure on exporters and supply chains. But it doesn't fundamentally alter China's destination. The structural shifts we're seeing now – from monetary recalibration to a tighter integration of industrial and trade policy – were already underway.

For China, this isn't a crisis; it's a forcing function that reinforces the direction of travel. This shift from reaction to reinvention is a long-running transformation built on policy foresight and internal restructuring, now intensified by global disruption.

Built before the storm

Long before the latest wave of tariffs, Chinese policymakers and business leaders had begun reshaping the country's growth model. The focus shifted firmly inward: stimulating domestic consumption, accelerating technological self-reliance, and upgrading industrial capacity.

The priorities laid out at the 2025 Two Sessions – including "high-quality growth", "new productive forces", and dual circulation – reaffirmed a trajectory already years in motion.

This redirection was not reactive but calculated and, more importantly, inevitable. Even without external pressures, internal dynamics were pushing China toward a new development model focused on quality, resilience, and innovation.

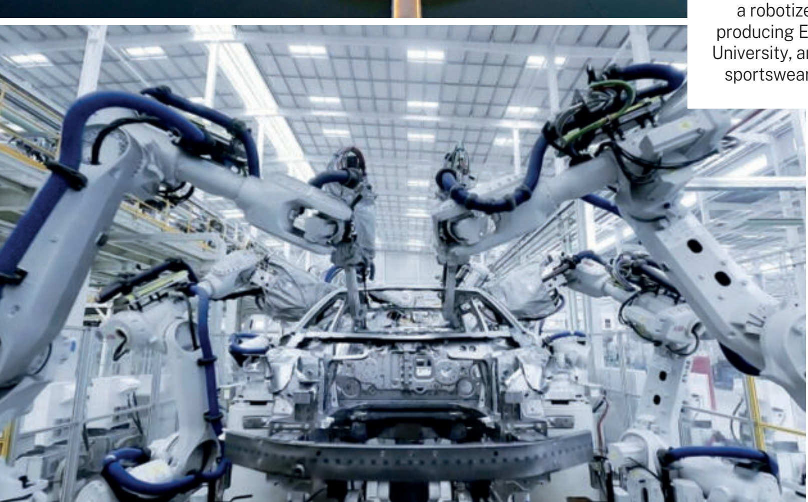
By investing early in supply chain resilience, digital transformation, and domestic demand, China positioned itself to absorb external shocks and adapt faster than many of its global peers.

What the world sees as a sudden disruption, China sees as a catalyst.

From reaction to reinvention

The shift we're witnessing is not a reaction to new tariffs. It's a scaled-up version of the pivots Chinese companies began making during Trump's first term. What started then as contingency planning has »

Photos: lining.com (2), BYD, Qiang Zhao, Hanny Nnaibaho via Unsplash



CHINA'S CUTTING EDGE
The Shanghai skyline, a robotized factory producing EVs, Zhejiang University, and innovative sportswear by Li-Ning

matured into coordinated, ecosystem-wide reinvention. It's the culmination of years of deliberate positioning and strategic patience. What looks like a pivot under pressure is, in fact, reinvention by design.

Back in 2018, when tariffs first spiked under Trump's administration, many Chinese companies paused, then pivoted. They began sourcing from ASEAN partners, reassessing export dependencies, and investing in automation.

The apparel sector exemplifies this resilience. In 2023, despite global economic headwinds, China's apparel industry, particularly sportswear, saw a 12.9% year-on-year growth in retail sales, reaching RMB 1.4tn, according to the 2025 IMD China Company Transformation Indicator (CCTI) rankings. Government initiatives like the Outdoor Sports Industry Development Plan (2022–2025) further bolstered this growth, highlighting the synergy between policy support and industry innovation.

Sportswear leaders like Anta and Li-Ning expanded not only through product innovation but also by establishing digital retail ecosystems tailored to domestic preferences. This ability to blend design, tech, and culture offers a competitive model for global brands facing fragmented markets.

Industry clusters in provinces like Guangdong and Jiangsu are investing heavily in smart manufacturing and green tech, while local governments are working with universities to build city-level innovation hubs. The response isn't improvisation; it's orchestration.

The end of one global market, and what China sees next

Where there was once a single, liberal global marketplace, there is now a fragmented system of regional blocs, which is governed as much by politics as by price. The world has not deglobalized; it has reorganized.

China anticipated this shift early. As far back as 2017, it began preparing with its dual circulation strategy, designed to strengthen domestic demand and build self-sufficiency in innovation while maintaining selective global linkages, especially across Asia, Africa, and Latin America.

Today, that strategy is accelerating. The Regional Comprehensive Economic Partnership (RCEP) has emerged as the world's largest trade bloc, while Belt and Road 2.0 (arguably version 1.0 did not meet the desired objectives) is targeting digital infrastructure, green energy, and new development corridors. This isn't a retreat; it's rebalancing. China is cultivating parallel channels of capital, talent, and technology that reduce exposure to geopolitical chokepoints.

Still, this strategic diversification doesn't insulate China from all shocks. Foreign investor sentiment, global brand trust, and cross-border tech cooperation remain exposed to policy and perception risks.

Chinese firms are following suit: diversifying production, localizing supply chains, and aligning operations with regional ecosystems. CATL is anchoring battery production in Thailand and Indonesia. Cainiao, Alibaba's logistics arm, is expanding through partnerships in Malaysia and the UAE. These are not short-term risk responses, but long-horizon positioning in a multipolar trade landscape.

Consider Lenovo. Once a symbol of China's global expansion through acquisition, it has now pivoted to building a regional supply architecture that balances operations across the Americas, Europe, and Asia. Each market operates with autonomy in sourcing, compliance, and product development – a model that reflects the company's strategic sensitivity to regional fragmentation. Lenovo's CEO, Yang Yuanqing, captured this mindset succinctly: "Our ambition is to build Lenovo as a global local company. So, in key markets, we want to build a local footprint, either organically or through acquisition."

This shift to regional autonomy reflects a broader lesson for global firms: resilience and proximity increasingly matter more than scale alone.

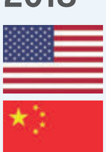
Innovation by design: how China builds competitive advantage

In early March, BYD captured global attention with a breakthrough battery platform capable of delivering 470km of range with five minutes of charging. More than a technical milestone, it signaled a broader shift: China is no longer playing catch-up but is setting the global pace of innovation.

That momentum now extends far beyond electric vehicles. China's position in consumer tech, fintech, and AI-enabled platforms is strengthening. Tencent and Baidu, for example, earned top rankings

US-CHINA TRADE FRICTION SINCE 2018

2018



March: The US imposes 25% tariffs on steel and 10% on aluminum imports globally.
July: The US implements 25% tariffs on $34bn of Chinese goods; China retaliates similarly.
September: The US adds 10% tariffs on $200bn of Chinese imports; China responds with $60bn.

2019

May: The US increases tariffs on $200bn of Chinese goods from 10% to 25%.

2020

January: The US and China sign a Phase One trade deal; some tariffs are reduced or suspended.

in the 2025 CCTI, reflecting deep, sustained investments in AI, including Tencent's RMB 64bn R&D spend in 2023.

In parallel, startups in hubs like Shenzhen and Hangzhou are scaling AI applications across education, logistics, and urban infrastructure, often outpacing their Western counterparts in speed and deployment.

CATL is expanding into Southeast Asia with sodium-ion batteries that prioritize safety and affordability, fueling the rise of micro-mobility across regional markets. DeepSeek's large language model, DeepSeek-R1, outperformed OpenAI's GPT-3.5 on mathematics and reasoning benchmarks, despite operating under export restrictions. It is a striking example of China's efficiency-driven approach to frontier innovation.

At the heart of this innovation is a new model: scale fused with speed, institutional support aligned with entrepreneurial autonomy, and a long-term view of capability-building.

Institutional infrastructure is central. Leading firms are forging deep partnerships with top universities, investing in national research platforms, and building robust mid-career upskilling programs. ByteDance, for instance, has co-developed R&D centers with Tsinghua and Shanghai Jiaotong University to advance content algorithms and behavioral analytics.

Though the CCTI currently covers a limited number of sectors, early findings suggest innovation in China is increasingly systemic. It's not confined to labs or executive teams, but embedded across procurement, compliance, design, and customer experience.

The hidden edge: how Chinese firms are managed

Western observers often marvel at the speed of Chinese companies. Fewer ask where that speed comes from. The answer lies not just in strategy or scale but in how these firms are managed.

Haier's transformation into a platform of autonomous microenterprises is a textbook case. Every unit, from fridge design to customer service, runs as a semi-independent business. They compete, collaborate, and share profits across a digital backbone. As Zhang Ruimin, Haier's founder and longtime CEO, once explained, "We encourage members of our team to become entrepreneurial and start their own micro-enterprises. In this process, we eliminated 10,000 middle-level managers who didn't create value for the users." His belief in distributed entrepreneurship reshaped the organization from a traditional appliance manufacturer into one of the world's most innovative business ecosystems. Huawei's internal project teams operate in sprints, not quarters. Managers lead horizontal collaborations and not just vertical chains. Despite facing export bans and component shortages, Huawei restructured its innovation engine around in-house design and ecosystem partnerships.

Ping An has built modular platforms integrating healthcare, finance, and AI. Each is tailored to local regulatory environments yet unified through central governance. This enables rapid iteration without sacrificing strategic alignment.

Even in traditionally rigid sectors like insurance and energy, change is underway. China Life has launched internal incubators to fund and test new service models. State Grid, the country's dominant utility, deploys regionally distributed teams to lead smart grid pilots across provinces, which brings local insight into a national innovation framework.

This is China's hidden edge: management innovation. It's a competitive moat that doesn't depend on any single product, technology, or founder. It's difficult to replicate and impossible to sanction.

Strategic lessons from China's playbook

Of course, China's path is far from frictionless. Innovation ecosystems vary across provinces, and many firms still navigate regulatory uncertainty and uneven market access. Yet even within these constraints, lessons are emerging.

1. Resilience is engineered. Chinese firms are restructuring supply chains not in response to isolated shocks, but to align with a fragmented, politically charged global economy. Regional ecosystems aren't just defensive – they are growth strategies. CCTI insights show that top-performing Chinese companies are designing their sourcing and logistics with redundancy, regulatory flexibility, and local responsiveness baked in from the start.

2. Compliance is now a strategic function. In a world of overlapping regulatory regimes, adaptability is a source of speed, trust, and long-term value. Companies that succeed treat compliance not as a cost »

2025

February: The US raises tariffs on Chinese imports by 10%; China retaliates with 15% on US goods.
March: The US imposes additional 10% tariffs; China responds with tariffs on US products.
2 April: The US increases tariffs to 54% on Chinese goods; China retaliates with 34% tariffs.
9 April: The US escalates tariffs to 125% on Chinese imports; China responds with 84% tariffs.
11 April: China raises tariffs to 125% on all US goods; restricts exports of critical minerals.

Source: The Peterson Institute for Internation Economics

CHINA'S GROWING ECONOMIC PARTNERSHIPS

The Regional Comprehensive Economic Partnership (RCEP)

Launched: Negotiations began in 2012; the agreement was signed in November 2020 and entered into force in January 2022.

Members: 15 Asia-Pacific nations, including the 10 ASEAN countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and five of their FTA partners (Australia, China, Japan, New Zealand, and South Korea). India was initially involved but withdrew in 2019.

Purpose: To create the world's largest free trade area by harmonizing and building upon existing ASEAN+1 FTAs, aiming to reduce tariffs, streamline trade, and enhance economic integration among member countries.

Belt and Road Initiative (BRI)

Launched: Announced in 2013 by President Xi Jinping.

Scope: As of early 2024, over 140 countries have joined the BRI, encompassing nearly 75% of the global population and accounting for more than half of the world's GDP.

Purpose: To enhance regional connectivity and economic integration through infrastructure development, including transportation, energy, and digital projects. The BRI aims to boost trade, stimulate economic growth, and foster cultural exchanges among participating countries.

Global South Alignment

Initiated: China's engagement with the Global South dates back to the early 1950s, with significant expansion in recent decades.

Scope: China has established 15 free trade agreements with Global South countries, among its 21 FTAs worldwide. It has also increased trade and investment ties with regions like Africa, Latin America, and Southeast Asia.

Purpose: To reduce reliance on Western economies by strengthening economic partnerships with developing nations, promoting South-South cooperation, and supporting infrastructure and industrial development in partner countries.

but as an enabler, embedding it into design, procurement, and customer engagement.

3. Innovation must be locally embedded. Leading firms empower in-market teams, plug into regional talent ecosystems, and adapt platforms to local norms, not just consumer preferences. This localization ensures relevance and resilience, allowing firms to innovate around constraints rather than be slowed by them.

4. The Global South is central. Chinese investment in Africa, Latin America, and Southeast Asia is about setting standards and building durable influence. Huawei's training hubs in Kenya and BYD's factories in Brazil are examples of this embedded presence. By co-creating local infrastructure and knowledge, Chinese firms are cementing long-term footholds beyond traditional markets.

5. Geopolitics now belongs in the boardroom. Executives must develop tools and foresight to manage political risk, just as CFOs once did with currency volatility. Geopolitical fluency is fast becoming a core leadership competency, as shifting alliances and regulatory climates influence supply decisions, talent mobility, and product design.

6. China can't be copied, but it can be studied. Its model of alignment between state priorities, corporate architecture, and ecosystem strategy offers a powerful example of how to operate with coherence in an increasingly incoherent world. Global firms must find their own version of this coherence, where purpose, capability, and policy align across geographies.

From multipolar chaos to strategic clarity

The global trade environment may appear chaotic, but for China, the signal is unmistakable: the world is fragmenting, and the strategic response is integration. At home, across ecosystems, and into new regions, Chinese firms are aligning for resilience. As trade tensions rise and technological decoupling continues, China's long-term outlook remains focused on capability-building in energy, semiconductors, biotech, and digital infrastructure. This steady orientation offers a roadmap for how to build strategic depth amid global volatility.

What might seem calm on the surface is, in fact, the result of a deliberate redesign that has been years in development and is now accelerating under external pressure. It's about building institutions and systems that thrive under uncertainty rather than outmaneuvering headlines. China's transformation is not reactive but reflects a long-cycle strategic mindset that prioritizes structural advantage over short-term wins. The lesson for global leaders? Resilience isn't built in the storm. It is designed before the storm arrives and continuously adapted as the weather shifts. ■

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Unexpecting the expected

Adopt a fresh way of thinking to face the challenges of an uncertain world

In volatile, fast-changing, and complex situations, received wisdom and expertise can become a liability that's hard to overcome. **Martin Fellenz** suggests seven ways to change your mindset

When the world stops making sense: Escher's Relativity

Photo: Wikipedia

Domestic and international political dynamics, technological acceleration, and the era of poly-crisis and perma-crisis create events with consequences no one can foresee or fully understand. Existing playbooks – be they economic, strategic, organizational, or interpersonal – used by executives to guide their actions provide insufficient guidance. Similarly, the existing mental models they use to make sense of new realities prove increasingly inadequate. Decision-makers are told to "expect the unexpected". That may sound good, but it is profoundly unhelpful and logically impossible: as soon as we expect something, it is not unexpected anymore. More fundamentally, trying to conceive of frame-breaking events and their consequences is based on prediction, and research shows that humans are not good at that. Our brains are designed to find regularity. We (over) simplify, rely on often inaccurate memory, and trust previous experience. All this leads us to expect and predict stability and continuity.

The more expertise we build up, the more we value our understanding of the world. We trust our intuitive ability to make sense of and understand the world and how it is evolving. At the same time, we have less and less of an incentive to question our existing mental models because doing so challenges our sense of our identity, expertise, and value. In volatile, changing, and complex circumstances, expertise can become a liability that is hard to overcome.

For this reason, I suggest to individuals, teams, and organizations that want to improve their ability to operate in complex and changing environments to learn to "unexpect the expected". To do this, we must become aware of our existing mental models, develop a different way to perceive and interpret uncertainty, and – maybe most importantly – replace an implicit performance orientation with a deliberate and committed learning orientation » in our engagement with the world. The first step is to let go of our need for certainty and actively embrace curiosity.

Letting go of familiar mental models is uncomfortable because it is cognitively demanding and emotionally challenging. It often feels like admitting we are wrong. Suspending our expertise to adopt the mindset of a novice learner can be especially difficult for experienced professionals and requires courage. Leading others through this shift demands strong, empathetic leadership.

In rapidly changing environments, success is less a function of past knowledge and more about how quickly and accurately we can learn. In such conditions, clinging to what we already know is more dangerous than exploring and embracing what we have yet to fully understand. That's why learning through testing and disconfirmation – actively challenging our assumptions – is essential. So, how can we do that?

1. Embrace disconfirmation

One of the most effective ways to challenge entrenched thinking is to deliberately adopt a skeptic's perspective – a disconfirming stance. This doesn't mean being negative for its own sake. It means insisting on high standards of evidence before accepting something as true, even things we have learned in the past. In medicine, for example, an approach known as differential diagnoses helps to distinguish multiple plausible diagnoses and indicates tests that can help determine the true cause of experienced symptoms. In any organization that has developed the capacity for disconfirmation, you will regularly hear people say, "Have you tested this?" or "What does the data say?"

This reflects the core logic of the scientific method: insisting on quality data and testing rather than defending ideas. This scientific mindset builds intellectual robustness. In business, we too often neglect this discipline, preferring confirmation over challenge. We must work hard to reverse that tendency.

2. Leverage cognitive diversity

Diverse teams (across age, background, culture, training, etc.) bring different mental models, which is a strategic advantage, especially when facing novel challenges. However, inclusion is not enough. Minority perspectives must be actively amplified. If they don't exist, they can be deliberately introduced through roles such as "devil's advocates" or debates designed to surface dissent before consensus ossifies.

These interventions only work if there is psychological safety. Individuals will not voice dissent if they fear it is socially or professionally risky. In addition, when high-status team members signal a preferred view, alternatives will quickly fade. Real learning requires a climate in which speaking up is not just permitted but enabled, expected and supported. This can be signaled with evidence events where everyone is invited and expected to bring different and challenging evidence. The more senior members show publicly that they are open to changing their minds, the more such cognitive diversity can take root across the team and organization. This is how diverse thinking can inform collective sensemaking.

3. Explore the power of counterfactuals

Counterfactual reasoning forces us to step outside current assumptions. "What if" questions challenge accepted facts or logic and create space for alternative explanations. For example: "What if our access to a critical resource drops by 30% for the next 18 months?" These provocations may initially seem unrealistic, but the more outlandish they feel, the more they push us to test and revise entrenched models. In real life, we can extend this logic with red-team/blue-team events common in cybersecurity tests where a red team attacks the existing security arrangements to test assumptions and find weaknesses. Alternatively, in a new product development, instead of asking, "What can we learn from the needs and wants of our customers?" we say, "What can we learn from those who choose not to buy from us?"

4. Flip causal logic

We often default to linear cause-and-effect reasoning, but new insights can emerge when we reverse that logic. Instead of asking how X causes Y, ask, "What if Y causes X?" For example, instead of assuming overeating causes obesity, ask, "What if obesity leads to overeating?" These inversions don't need to be correct to be useful because they help expose blind spots, uncover assumptions, and broaden how we interpret complexity. For example, Charlie Munger's inversion approach urges us to consider not just how to achieve an objective but how to avoid its opposite. It might also be helpful to ask questions that turn symptoms into causes (like in Toyota's "five-why" root cause analysis: "Why did the machine fail? A tripped fuse. Why did the fuse trip?"), but fully flipping causal direction is a more powerful way of challenging automatic thinking patterns and identifying hidden assumptions.

5. Zoom out: change scope, time, and perspective

Reframing a problem in a broader context or a longer time horizon can loosen the grip of existing models. Techniques such as scenario planning, future-back reasoning, "multiple states of the world", and "pre-mortem" analysis all shift the interpretive frame. They reveal hidden assumptions and open space for new interpretations. While pre-mortems can be used for specific issues such as new product launches, projects, or startups, these approaches deliver useful insights for issues of all sizes. Take scenario planning: Project 201 was a comprehensive coronavirus pandemic simulation conducted with various stakeholders at Johns Hopkins University three months *before* COVID-19 struck. To deploy insights arising from different timeframes, Singapore plans its land use and transportation development with three parallel and interconnected plans with 50-year, 10 to 15-year, and short-term horizons. Each perspective informs the others to maximize the value of investing limited resources.

A different way to change the scope is to consider the evaluation of a current solution 10 years in the future or in the present with a very different set of stakeholders. "Zooming out" offers a highly effective means of fundamentally changing perspectives and exploring different truths.

6. Shift from after-action review to ongoing-action learning

Waiting for outcomes to review what worked is too slow in fast-mov-

‘Moments of resistance – emotional, tense, or even hostile reactions – often signal that we are touching deeply held and rigid beliefs. These strong reactions are not primarily driven by facts but by perceived threats to identity or ideology’

ing, uncertain environments. We can adopt ongoing-action reviews (OARs) by borrowing from after-action reviews in healthcare and the military. These involve making short-term predictions based on current understanding, tracking specific indicators, and updating mental models as new data emerges. The US Special Forces Command instituted a “Team of Teams” approach to share close-to-real-time information across many otherwise siloed units. This evolved into an interactive forum for flagging problems, learning from mistakes, and identifying high-impact responses and solutions. The focus of such OARs is continuous adjustment, not retrospective analysis. To ensure OARs have the impact needed, some project firms have instituted governance structures for learning, not just for progress and performance review. Yet, this is also important for the adaptive work required by non-project units and systems in times of change, complexity, and uncertainty.

7. Use micro-experimentation

Micro-experimentation – running fast, low-risk tests to gather real-time data – is even more dynamic. While not suitable for all strategic questions, this approach is invaluable for probing emerging realities and testing hypotheses in complex systems. Insights may be incremental, but their value compounds quickly. Such an approach allows broad engagement across the organization and provides high-quality data that can be shared to inform decision-making. One large financial services firm that introduced micro-experimentation fundamentally changed decision-making across many parts of the organization. Rather than relying on expertise, tradition, and hierarchical power (the proverbial HiPPO: the highest-paid person’s opinion), micro-experimentation created the expectation that those with the best data should sit at the decision-making table. This led to a democratization of decision-making, hugely energized people across all parts and levels of the organization, and helped create a much more future-oriented, adaptive culture.

These approaches share a common goal: to test, refine, and where needed change our mental models, not to reinforce them. Yet knowing how to evolve our mental models is only half the battle.

A role for leadership

Decision-makers must shift from interpreting new developments through outdated frameworks to actively questioning those very frameworks in light of what is unfolding. Sensemaking – interpreting uncertain contexts to enable constructive action – is no longer a solitary cognitive task but a core leadership responsibility. Our ability to “give sense” to others depends on our willingness to release outdated assumptions and remain open to the signals that the emerging reality is sending. Doing so collectively demands emotional attunement as well as cognitive agility.

Leaders must be attentive to how others respond to having their thinking challenged. Moments of resistance – emotional, tense, or even hostile reactions – often signal that we are touching deeply held and rigid beliefs. These strong reactions are not primarily driven by facts but by perceived threats to identity or ideology. When people trust the evidence, they rarely react that strongly. When they don’t, the reaction is often a clue that we’ve stumbled onto a core assumption worth exploring further.

Responding to these reactions requires a balance of persistence and empathy. Shifting mental models isn’t just about providing better arguments; it’s about building trust, creating psychological safety, offering a sense of belonging, and strengthening the belief that the person, team, and organization involved can cope and deliver even in hugely complex and dynamic circumstances. Leadership in uncertainty is as much about emotional connection as intellectual clarity.

One of the most effective ways to support this shift is to involve others in the process of joint sensemaking. By modeling openness, curiosity, and a willingness to change our views (in other words, by modeling genuine humility), we invite others to do the same. This is leadership by example, not through providing certainty but through facilitating a learning orientation and shared exploration.

If we are to “unexpect the expected,” we must test not only our assumptions but also support others in doing the same. Outdated mental models must give way to evolving, co-created ways of understanding and acting in the world. The future will not reward those who cling to what they once knew; it will reward those who remain curious, adaptive, humble, and willing to learn together. ■

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BASF In the energy crisis of 2022, a nonmarket strategy helped the company secure priority access to limited supplies of natural gas and influenced the design of price caps and subsidy mechanisms

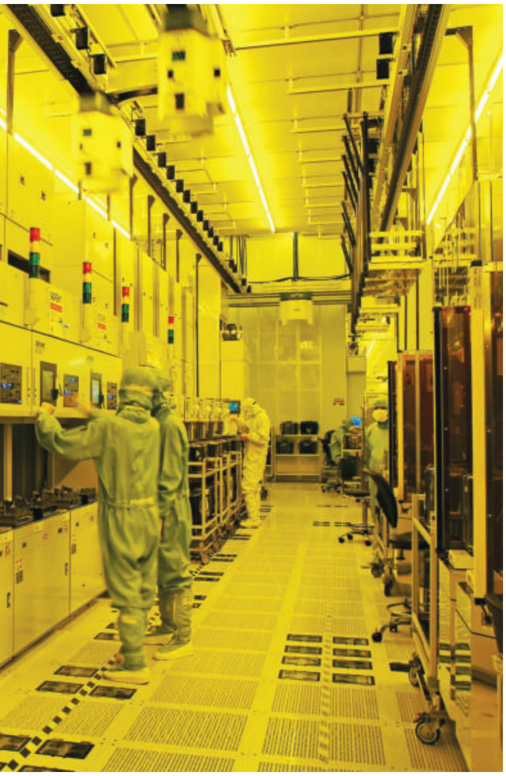
TSMC Through steady diplomacy, the Taiwanese semiconductor producing behemoth has strategically positioned itself as indispensable to the US and China amid intensifying technological competition

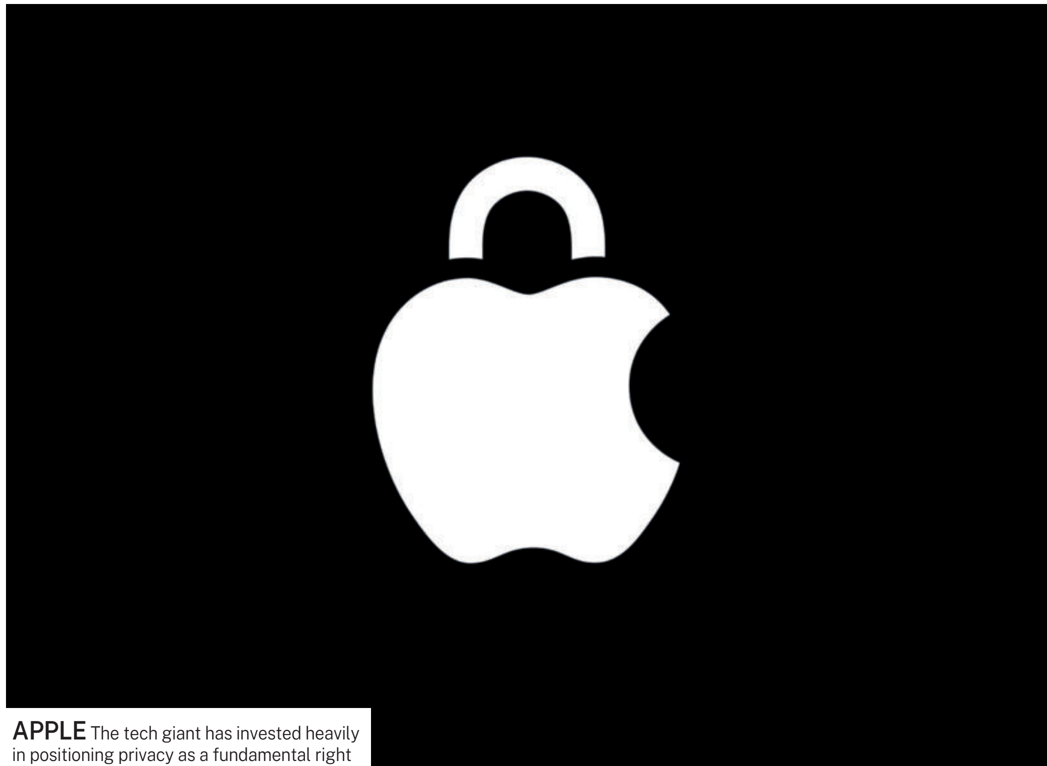
Harnessing the power of nonmarket strategy to reduce uncertainty and add value

Forward-thinking leaders proactively shape their external environment, turn uncertainty into certainty, and create substantial value in the process. **Michael Yaziji** presents a practical framework for developing effective nonmarket strategies

Liberation Day, 2 April: businesses worldwide grapple with the uncertainty triggered by President Donald Trump's proposed tariffs; executives face sudden and daunting strategic challenges; supply chains, already strained by years of geopolitical tensions and economic volatility, are hit by renewed disruption and unpredictability; companies wonder whether to relocate manufacturing, increase inventory buffers, or lobby policymakers directly. The uncertainty forced many business leaders to pay attention to nonmarket strategy, a crucial but often underutilized dimension of strategic leadership.

Now consider an earlier example: in 2022, as Europe struggled with its most severe energy crisis in decades following Russia's invasion of Ukraine, the German chemical giant BASF faced an existential





APPLE The tech giant has invested heavily in positioning privacy as a fundamental right by using multifaceted nonmarket approaches, including building coalitions with privacy advocates and policymakers

threat. Natural gas prices had increased tenfold, a resource the company relied heavily upon as a feedstock and energy source. Rather than focusing solely on market solutions like hedging or raising prices, the leadership deployed a sophisticated nonmarket strategy: coordinating with competitors across the chemical industry to jointly engage with policymakers, building coalitions with labor unions concerned about job losses, and working directly with German and EU officials to shape energy policies. The approach helped secure priority access to limited supplies and influenced the design of price caps and subsidy mechanisms, ensuring the industry weathered the crisis.

While most executives excel at competitive market strategy (pricing, positioning, and resource allocation), far fewer have mastered the art of nonmarket strategy: the deliberate shaping of the broader environment in which market competition occurs. In a world characterized by geopolitical tensions, regulatory shifts, and technological disruption, success increasingly depends on navigating the "uncertainty environment" that exists outside traditional market boundaries. The ability to address these uncertainties represents the most significant untapped source of competitive advantage available to leaders.

Here we present a framework for developing effective nonmarket strategies based on our research with global companies across sectors over many years. We show how forward-thinking leaders are moving beyond reactive approaches to proactively shape their external environment, turning uncertainty into certainty, and creating substantial value in the process.

From market to nonmarket: the evolution of strategic focus

Strategic management has evolved considerably over the past five decades, with each era introducing new frameworks to help companies secure a competitive advantage.

The 1970s and 80s emphasized competitive positioning, with Porter's frameworks guiding companies to find defensible positions within industry structures. The 90s and early 2000s shifted focus to a resource-based view, emphasizing unique internal capabilities and core competencies. By the mid-2000s, value innovation and "blue ocean" thinking encouraged companies to create uncontested market spaces. More recently, digital platform strategies have dominated, emphasizing network effects and ecosystem orchestration.

In each phase, scholars and executives focused on the variables they believed were influential in impacting sustainable competitive advantage and which should be central to strategic planning. Nonmarket strategy focuses on shaping the wider landscape in which market competition occurs. Earlier strategic frameworks treated regulatory, social, and political factors as external constraints to be *navigated*, but today's most sophisticated companies view these nonmarket elements as strategic variables to be *influenced*.

Take the world's largest chip maker, Taiwan Semiconductor Manufacturing Company (TSMC). Beyond its technological excellence, the company's extraordinary success stems from masterful nonmarket strategy. The company has strategically positioned it- »

Photos: BASF; TSMC, Apple.com

self as indispensable to the US and China amid intensifying technological competition. It has balanced relationships with both powers while working to influence US policy on semiconductor manufacturing. The 2022 CHIPS and Science Act, which provides $52bn in subsidies for domestic semiconductor production, was shaped partly through TSMC's strategic engagement with American policymakers. Simultaneously, the company has maintained vital access to the Chinese market through diplomacy.

This approach reflects a crucial insight: market strategy focuses on competition within a defined arena, but nonmarket strategy may include pre-competitive cooperation to shape the arena itself as well as competitive moves to shape the environment to your advantage relative to competitors. Most executives underinvest in this dimension, leaving significant value on the table.

The uncertainty challenge ... and opportunity

Four primary types of uncertainty characterize the nonmarket environment:

1. Technological: Which standards, designs, or frameworks will prevail?

2. Regulatory: What rules will govern the market, and how will they be enforced?

3. Commercial: Will supply and demand develop as predicted?

4. Political: How will geopolitical tensions affect global operations and supply chains?

These uncertainties create significant strategic challenges for individual firms. These can include:

- Difficulty determining where, when, and how much to invest.
- Increased risk of making "wrong bets" on technologies or markets.
- Vulnerability to being left behind as markets evolve.

At the industry level, these uncertainties lead to broader negative consequences:

- Collective underinvestment in critical infrastructure and R&D.
- Inefficiencies across value chains.
- Suboptimal market growth.
- Vulnerability to substitute industries or technologies.

The 2021-2023 semiconductor shortage provides a telling example. Individual manufacturers hesitated to invest billions of dollars in new fabrication facilities due to uncertainty about future demand. This collective hesitation exacerbated shortages, causing estimated losses of over $200bn across automotive, electronics, and other sectors – far exceeding what rational investment would have cost.

Crucially, where most executives see only risks in this uncertainty, strategic leaders recognize extraordinary opportunity. Nonmarket strategy provides tools to transform uncertainty into certainty, not by predicting the future, but by collaboratively shaping it.

In practical terms, this means:

- Replacing insufficient R&D with coordinated, joint research initiatives.
- Developing clear standards rather than competing with incompatible technologies.
- Creating regulatory certainty through industry-led frameworks.
- Aligning investments across supply chains to reduce boom-bust cycles.

This approach creates value at both firm and industry levels. Individual companies benefit from better investment decisions, reduced risk, and access to best practices. Industries gain optimal value chains, accelerated market growth, superior technologies, and stronger positions relative to substitute products.

A practical framework for nonmarket strategy

Developing an effective nonmarket strategy requires answering six key questions:

1. WHAT ARE YOUR MARKET GOALS?

An effective nonmarket strategy explicitly supports market objectives. Common goals include:

- **Increasing demand:** Nestlé led industry efforts to establish food safety standards in developing markets, expanding the overall market for packaged foods while building consumer trust.
- **Reducing costs:** The pharmaceutical industry has coordinated to streamline regulatory approval processes globally, significantly reducing compliance costs and time-to-market.
- **Increasing willingness to pay:** The Wi-Fi Alliance's certification programs increased consumer confidence in compatible products, supporting premium pricing for certified devices.
- **Managing competitive dynamics:** Apple has advocated for stringent privacy regulations that disproportionately impact advertising-dependent competitors like Meta while aligning with Apple's hardware-focused business model.
- **Supporting brand and reputation:** The outdoor clothing company Patagonia's environmental advocacy reinforces its brand positioning while influencing regulations that affect its industry.

A clear understanding of these goals should guide all of your nonmarket activities.

2. WHAT IS THE ISSUE CONTEXT?

Nonmarket strategy requires an understanding of the broader context of the issues you're seeking to address:

- **What stage of evolution is the issue in?** Early-stage issues offer more opportunity for shaping, while later-stage issues may require adaptation.
- **Who are the active stakeholders, what is their relative power, and what are the dynamics among them?** Map the key players, their influence, and how they might respond to different approaches.
- **What tactics are available or excluded?** Consider formal constraints (laws and regulations) and informal norms that affect available strategies.

The rapidly evolving regulatory landscape for artificial intelligence illustrates the importance of this analysis. In 2023, as the EU finalized its AI Act, companies that had engaged early in the standard-setting process gained significant advantages. Microsoft's proactive approach helped ensure its responsible AI framework aligned with emerging regulations, reducing future compliance costs. In contrast, companies that remained passive faced greater uncertainty and potential competitive disadvantages.

3. WHO ARE THE KEY STAKEHOLDERS?
Successful nonmarket strategy requires detailed stakeholder mapping:
• **What are stakeholders' ideologies, goals, and priorities?** Understanding motivations beyond immediate policy positions is crucial.
• **What is their ability to influence and their susceptibility to being influenced?** Some stakeholders have formal authority but may be constrained, while others lack formal power but wield significant influence.
• **What are their strategic approaches and tactics?** Anticipating how stakeholders operate helps in planning engagement. It is essential to understand that nonmarket dynamics are much more complicated than market dynamics and often involve long chains of indirect influence across a range of stakeholders.
• **What is their intensity of interest in the issue?** Highly motivated stakeholders with focused interests may exert outsized influence.

For example, when Volkswagen faced its diesel emissions crisis, it deployed a sophisticated stakeholder strategy. The company identified that German labor unions could serve as powerful allies with their deep political connections and shared interest in the company's survival. By engaging unions early and ensuring worker protections, VW mobilized significant political support that helped moderate regulatory responses and provide time for the company to address environmental concerns.

4. WHAT STRATEGY WILL YOU PURSUE?
Nonmarket strategies typically focus on three goals:
• **Creating, supporting, or blocking laws and regulations:** This involves direct engagement with legislative and regulatory processes.
• **Influencing regulatory interpretations:** Even when laws are established, their implementation often involves significant discretion.
• **Developing voluntary industry standards or practices:** Industry self-regulation can preempt or shape formal regulation.

In the aftermath of the 2008 financial crisis, JPMorgan Chase pursued a two-pronged nonmarket strategy. Publicly, the bank accepted the necessity of increased regulation while actively shaping its form. Behind the scenes, it worked to influence technical implementation details that would affect competitive dynamics. This nuanced approach helped the bank maintain regulatory relationships while securing operational advantages within the new framework.

5. WHAT METHODS, COALITIONS, AND TACTICS WILL YOU EMPLOY?
Implementing a nonmarket strategy requires careful consideration of the following:
• **Resources:** What financial, organizational, and reputational resources will you commit?
• **Coalitions:** Will you work with competitors, supply chain partners, or cross-sector allies? How will roles and responsibilities be allocated?
• **Influence paths:** Will you engage stakeholders directly or work through intermediaries?
• **Tactics:** Will you focus on lobbying, public campaigns, participation in standards bodies, or some combination?

Apple's privacy campaign illustrates this approach. The company has deployed significant *resources* toward positioning privacy as a fundamental right; built *coalitions* with privacy advocates and select policymakers; created direct *influence paths* through executive engagement and indirect paths through marketing to consumers; and combined *tactics* such as product design changes, policy advocacy, and public messaging. This coordinated approach has shifted the competitive landscape in Apple's favor while advancing legitimate privacy concerns.

6. HOW WILL YOU EVALUATE SUCCESS?
Effective nonmarket strategies include clear evaluation criteria:
• **Ethical considerations:** Does the strategy align with your organization's values? What are its broader social and environmental impacts?
• **Feasibility:** What is the probability of success given stakeholder dynamics? One challenge in measuring the feasibility of nonmarket strategy is that firms often have less direct control over outcomes.
• **Return on investment:** What are the expected benefits relative to costs, considering financial and non-financial returns?
• **Strategic alignment**: How well does the nonmarket strategy complement your market strategy?

Organizations can develop coherent nonmarket strategies that create substantial value by systematically addressing these six questions.

Reducing uncertainty

Companies that successfully implement nonmarket strategies employ several key mechanisms to reduce uncertainty and gain a competitive advantage.

Joint R&D initiatives
When technological uncertainty threatens market development, collaborative R&D can accelerate progress and reduce risk. »

The Bluetooth Special Interest Group demonstrates this approach. Rather than competing with proprietary wireless standards, companies including Ericsson, Intel, and Nokia collaborated to develop an open standard. This cooperation created certainty around technological direction, enabling the entire ecosystem to invest confidently in compatible products.

Collaborative approaches to early-stage research have become increasingly common in the pharmaceutical industry. Initiatives like the Innovative Medicines Initiative in Europe bring together competing companies to address fundamental scientific challenges, allowing participants to share risk while accelerating innovation.

Standards development and adoption

Standards reduce market fragmentation and create certainty for producers and consumers. The USB Implementers Forum exemplifies this approach, bringing together competitor companies to establish uniform standards for connectors and protocols. This collaboration has created billions of dollars in value by facilitating interoperability and reducing duplication of effort.

Matter, the smart home connectivity standard launched in 2022, is another example. Amazon, Apple, Google, and Samsung, all of which are fierce competitors in the smart home market, collaborated to address consumer confusion and market fragmentation. By reducing technological uncertainty, they collectively expanded the market for connected devices.

Regulatory engagement

Proactive regulatory engagement can transform unpredictable regulatory environments into sources of competitive advantage. The automotive industry's engagement with safety regulations is an example. Through organizations like the European New Car Assessment Program (Euro NCAP), manufacturers have helped develop standardized safety requirements that provide certainty for product development while raising barriers to entry for less sophisticated competitors.

Similarly, when autonomous vehicle technology emerged, companies like Waymo and General Motors didn't wait for regulators to act. They proactively engaged with transportation authorities to develop frameworks for testing and deployment. Companies participating in these discussions gained valuable insights to guide their development efforts while helping create regulatory certainty that encouraged investment.

Supply chain alignment

Nonmarket strategies often focus on aligning investments across supply chains to reduce uncertainty about future capacity and demand. The semiconductor industry offers a strong illustration. Leading manufacturers like TSMC work closely with key customers, equipment suppliers, and even competitors to coordinate capacity expansions and technology development roadmaps. This coordination reduces boom-bust cycles while ensuring that complementary technologies evolve in tandem.

In the electric vehicle space, automakers are taking a similar approach to battery supply chains. Companies like Ford and Volkswagen have established joint ventures with battery manufacturers and raw material suppliers to create certainty around critical inputs. These arrangements go beyond traditional supplier relationships to include shared investments, technology development, and risk management.

The leader's role in nonmarket strategy

For executives accustomed to competitive market thinking, nonmarket strategy requires a significant mental shift from competition to cooperation, either with competitors to improve the industry context (often over substitute industries) or with other nonmarket players, such as NGOs, to develop standards or regulations that favor their own company. Leaders must recognize that in many cases, the greatest value comes not from outperforming rivals within existing markets, but from shaping the broader environment in which they operate.

This shift demands several key capabilities:

1. **Systems thinking:** Understanding how market and nonmarket factors interact within complex systems.
2. **Stakeholder empathy:** Seeing issues from diverse perspectives to identify collaboration opportunities.
3. **Long-term orientation:** A willingness to invest in activities with extended payback periods.
4. **Diplomatic skills:** The ability to build coalitions with competitors, regulators, and other stakeholders.
5. **Ethical judgment:** Ensuring that nonmarket strategies serve not only corporate interests but broader societal needs.

The uncertain global environment makes nonmarket strategy more important than ever. Trade tensions, supply chain disruptions, technological change, and regulatory evolution create risks and opportunities. Leaders who develop sophisticated approaches to these challenges can create substantial competitive advantage while helping navigate today's most pressing business challenges.

Rather than viewing nonmarket factors as constraints to be managed, forward-thinking executives see them as strategic variables to be shaped. In doing so, they reduce uncertainty and create value for their organizations and society. Nonmarket strategy represents the next frontier of strategic management, and perhaps its most powerful frontier yet. ■

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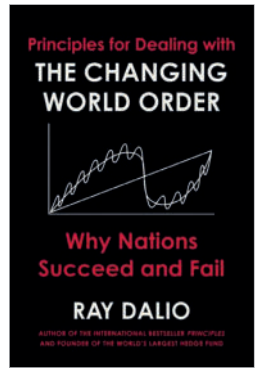
How to survive on PLUTO, a radically different planet

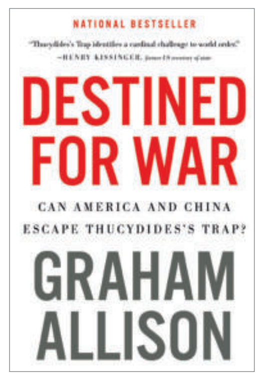
A new framework encourages leaders to see the world as PLUTO – polarized, liquid, unilateral, tense, and omnirelational. **Mike Rosenberg** believes it's time to think differently and embrace stakeholder capitalism

In his book *The Changing World Order*, former hedge fund manager Ray Dalio argues that we are witnessing the end of one of the big cycles in history, and that a new world order will emerge from a drastic restructuring of debt and the reconfiguring of the global system. Dalio may go too far, but the center of economic gravity is moving east, and the US is forfeiting its leadership in some spheres. The strength of China and a reassertive Russia requires careful management by the US and Europe. The upheaval has given many senior executives serious strategic problems. To cope, it is important to adopt new frameworks to understand the situation, and adjust strategies to prioritize a stakeholder approach and build resilience. But what does the optimal framework look like?

Frameworks to understand a changing world

Over the years, scholars, journalists, and academics have produced easy-to-remember phrases to describe reality, which can help with »





Landmark books by Ray Dalio, David Baron, and Graham Allison changed the way we thought about the world

> ‘When companies are mindful of all stakeholders, they are more committed to maintaining employment, bringing prosperity to their communities and suppliers, and delivering medium-term returns to shareholders’

what Stanford’s David Baron calls nonmarket strategy. Baron’s essential idea, developed in his landmark 1992 textbook *Business and its Environment*, is that sustained business success depends on looking beyond simplistic analyses of markets and understanding the environment in all its complexity.

A quick review of some commonly used frameworks indicates how the business context has changed. Among the first was the neutral PEST framework, created by Harvard professor Francis Aguilar in 1967 to encourage business leaders to look at political, economic, social, and technological factors. Legal and environmental factors were added later to complete the PESTLE concept.

In 1985, professors Warren Bennis and Burt Nanus began describing the world as volatile, uncertain, complex, and ambiguous, or VUCA. At the time, Bill Clinton was US President, Mikhail Gorbachev became Chairman of the Soviet Communist Party, Spain and Portugal had just entered the European Union, and Deng Xiaoping was beginning work on building China into an economic powerhouse. VUCA became a common theme in business schools and corporate boardrooms. The futurist Jamais Cascio upped the stakes three decades later, introducing BANI: an increasingly chaotic context that was brittle, anxious, non-linear, and incomprehensible.

Introducing a PLUTO world

The emerging world order of 2025 calls for new concepts. Some of my colleagues at IESE have coined the term PLUTO to describe a situation that is polarized, liquid, unilateral, tense, and omnirelational. With PLUTO, we signal that it’s a different world, and one which can sometimes feel like a different planet.

POLARIZATION refers to how divided the political scene is in so many countries. While Donald Trump scored a sweeping victory in the electoral college votes in November 2024, his lead over Kamala Harris in the popular vote was only 1.5%, and almost as many people chose not to vote as voted for the two candidates combined. A similar situation exists in many other democracies, including Germany, Spain, the UK, Chile, Argentina, and Turkey.

LIQUID means that things are changing fast. The Trump administration upended 60 years of US trade policy in just a few months, sometimes announcing and reversing decisions within days. Traditional alliances are quickly unraveled, and former enemies are approached. This sense of liquidity is felt beyond politics. The race to develop generative artificial intelligence and the battle over which companies and countries will take the lead is happening at breakneck speed.

UNILATERALISM is replacing multilateralism in the US, China, and Russia. The Trump administration, like that of George W Bush, rejects multilateral agreements and prefers to go its own way. Even if the American electorate chooses to limit this administration in mid-term elections or elects a very different leader in 2028, the trust the world has placed in the US as the principal leader in cooperation and free trade will take years to recover. Regardless of what happens in Ukraine, Russia will pursue its policies unilaterally, and there is no easy answer to what happens post-Vladimir Putin. China’s development policy has long been centered on economic and technological self-sufficiency, and it has resisted international pressure for political reform.

Unilateralism makes the situation **TENSE**, although the strains between China and the US did not start with Trump. Eight years ago, former Dean of Harvard’s Kennedy School of Government Graham Allison wrote about what he described as the Thucydides Trap, which is when a nation’s ascent threatens the position of the dominant power and causes conflict (*Destined for War: Can America and China Escape Thucydides’s Trap?*).

However, there is no denying that tensions have risen under Trump, and even allies haven’t been spared. Europe faces problems and divisions as it struggles to support Ukraine, doubles down on sustainability, and seeks unity in the face of a possible divorce from the US. In the Middle East, there is an omnidirectional conflict between Israel and Palestine, Saudi Arabia and Iran, Shiite and Sunni, and essentially all the countries in the region. For example, Saudi Arabia is in the middle of a remarkable transition whose success depends on the continuing flow of profitable oil exports, which could be jeopardized if China transitions to a low-carbon economy.

Southeast Asia is trying to retain military links with the US while growing closer to China, which is an increasingly difficult balance. African and Latin American nations are also struggling to gauge where to position themselves in the China-US contest.

The climate crisis and a technological shift that threatens to open a Pandora's box of radical change add to the tension. It's hard to imagine how our polarized political process will rise to these challenges without major disruption.

Finally, the current context is **OMNIRELATIONAL**. The global shake-up means that countries and regions need to forge new allies and agreements and look for opportunities in new places. For example, if Europe can no longer rely on the US, it must speed up trade agreements with other countries and regions, including Mercosur, India, Malaysia, and the United Arab Emirates.

Shifting to stakeholder capitalism

Despite the 2008-2009 financial crisis and the COVID-19 pandemic, many business leaders somewhat complacently believed that global expansion would continue, sea lanes would be safe, and "business as usual" was a reasonable future scenario. But even before Trump supercharged global disruption, there had been several illustrations of the fragility of international trade. For example, rebel attacks on shipping in the Red Sea, war in Ukraine cutting vital energy and agricultural supplies, and around 1,500 Western companies exiting Russia.

Business leaders must change their thinking and double down on the stakeholder model for companies. In 1984, Edward R Freeman introduced the stakeholder approach, arguing that companies must balance the needs of all stakeholders – employees, customers, suppliers, etc. – rather than simply maximizing shareholder returns. Many leaders speak about taking a wider view, but for many years, corporate behavior has largely emphasized driving down costs while boosting willingness to pay and capturing value.

On the cost side, this meant outsourcing activities, including moving manufacturing and back office functions to low-cost countries, and underpaying suppliers. On the value capture side, it meant leaning in to business models that put the company first, well ahead of customers or others. A more comprehensive stakeholder approach stresses value creation and then talks about how to share that value with customers and the supply chain.

When companies are mindful of all stakeholders rather than reacting to market volatility to protect only their stock price, they are more committed to maintaining employment, bringing prosperity to their communities and suppliers, and delivering medium-term returns to shareholders. Stakeholder capitalism provides stability in decision-making, which is crucial in turbulent times.

Three perspectives to build resilience

This pivot away from seeking the lowest cost and maximizing shareholder value implies putting the resilience of a company's value chain over its leanness. To do this, business leaders and boards of directors should consider three levels of potential challenges. The approach echoes the "Three Horizon" framework proposed by McKinsey in 1999, which categorizes growth initiatives in companies by existing business, emerging opportunities that build on the existing business, and fundamentally new businesses and breakthrough innovations.

Companies are accustomed to considering direct impacts, but the interconnectedness of global geopolitics, the climate crisis, national politics, and resource scarcity makes it difficult to predict where the next crisis will come from. Executives should look at three levels of complexity:

• What may directly impact the business today?
• What may indirectly impact the business now or soon?
• In the worst-case scenario, what may have an impact but is not expected?

Direct impacts are measures such as tariffs applied to a country where you source material, or semi-finish or complete projects. Adding 145% to your cost base may well price you out of the market. To examine direct impact, conduct a deep geopolitical and geoeconomic analysis of those countries and regions critical to your business, either as markets or supply sources.

Indirect impacts involve looking in detail at the supply chain and trying to understand the degree to which your key suppliers depend on others who operate in places you normally do not include in risk planning. For example, you may source something from Japan, but a more thorough investigation might reveal that the supplier is sourcing components from China or Thailand.

The final level of analysis concerns potential risk or events we do not consider or even imagine. For example, business leaders typically do not contemplate war. It is essential to think the unthinkable and develop scenarios for such events. Referring to the war in Iraq, former US Secretary of Defense Donald Rumsfeld famously spoke about "unknown unknowns" (in addition to known knowns and known unknowns) or the things we don't know we do not know.

The tariff dispute between the US and China could be a suitable topic for a three-tier analysis: **»**

• **Direct impact:** Have tariffs been applied on materials or products your company purchases in China?
• **Indirect impact**: Have local suppliers been subjected to tariffs? Do competitors have more or less exposure?
• **Potential risk:** The worst-case scenario would be a war between the US and China over Taiwan, cutting off supplies from China.

What would be your plan B in the event of war? To avoid disruption, Schneider Electric has at least two sources of supply for every component it buys, located in different parts of the world. As a result, it managed better than most during the COVID-19 pandemic.

New organizational capabilities and structures

This three-part planning requires new analysis capabilities. Companies must be able to monitor world events and react accordingly. Public affairs departments, for example, typically explain the company to governments and work to influence legislation; they may now also need to help interpret the world to senior management. There is a need for talent with expertise in geopolitics and emerging events, and how those may impact specific sectors and companies.

Managers must develop an understanding of systems thinking and complexity. Many business majors, engineers, and finance people have a linear way of viewing the world. In addition to training them in strategy and leadership, they must learn about global complexity and how to process non-linear, omnidirectional developments. This will prepare them to develop a resilient strategy and give them the functional capabilities to make it real. Scenario planning may be the best tool for strategy development, but you also need supply chain capabilities to develop alternatives and sales capabilities to shift to safer markets.

The size and structure of the operation will depend on your business. Marriott International, for example, developed a 24/7 command center that monitors global news to detect threats to its 9,300 hotels. The center is linked to the company's global response capability; some are in-house, and others are outsourced to companies that provide security and emergency response.

To protect customers, employees, shareholders, and communities, business leaders need to embrace today's complexity and develop strategies that will prove resilient come what may. ■

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A confident India is ready to play a central role in emerging new world order

Mridul Kumar, India's ambassador to Switzerland, gives his personal view of his nation's growing role as a leader in a multipolar world

The Trump 2.0 presidency has triggered significant geopolitical realignment. India believes this is best understood not as an isolated trigger, but as a manifestation of a sweeping, decades-long upheaval in international economic and political dynamics. This upheaval has been propelled by an uneven model of globalization that, while generating unprecedented prosperity for some, has also introduced new layers of insecurity and uncertainties – conflicts, pandemics, climate emergencies, etc. – and by rapid technological integration that binds nations ever more tightly together even as it weaponizes trade, markets, and financial instruments. There has been growing disenchantment with the UN and other post-Second World War institutions that have failed to adapt with time and no longer reflect the emerging international political and economic order. Trump has swiftly re-implemented and expanded his "America First" approach. New tariffs against trading partners worldwide signal a continued shift from multilateral trade frameworks towards bilateral agreements. Alliance relationships face renewed pressure as the US demands increased defense spending from NATO members and Asian allies, creating uncertainty about American security commitments. The US administration's reduced engagement with multilateral institutions – including the UN,

India is the world's fourth largest economy. Bangalore and other major cities have become a tech hub for international business, attracted by a young, highly skilled workforce

WHO, and climate initiatives – has created leadership vacuums in international forums that other players are moving in to fill.

There is an accelerated trend toward a more fragmented, competitive international system characterized by great power politics, reduced institutional constraints, and a zero-sum game approach. This environment of flux creates risks and opportunities: heightened competition increases conflict potential through miscalculation or escalation, particularly in the South China Sea, while at the same time creating opportunities for imaginative diplomacy and new partnership configurations.

The emerging international system is defined neither by a return to Cold War bipolarity nor a continuation of post-Cold War American predominance, but by complex multipolarity with distinctive regional dynamics and issue-specific alignments. The most successful international actors will combine clear strategic vision with adaptability to rapidly changing circumstances, recognizing that the choices made during this period of realignment will shape international relations for decades to come.

India is well-positioned in a changing world

In this volatile milieu, where the US seems poised to pivot toward a narrower, transactional foreign policy driven by competitive compulsions rather than stewardship of a world order based on shared values and principles, India finds itself advantageously positioned. Unlike nations deeply invested in preserving the status quo, India's vital stakes lie more in seizing the openings created by the ongoing global churn.

India's foundation for navigating these tides rests upon its political stability and flourishing, though at times cacophonous, democracy. A third consecutive electoral victory for the ruling National Democratic Alliance led by Prime Minister Narendra Modi in the world's largest democracy not only signals widespread domestic approval of its governing agenda but also provides the continuity necessary to pursue bold structural reforms – be they economic liberalization, infrastructure expansion, or social welfare schemes – without the paralysis of political uncertainty. This democratic resilience comforts foreign investors and partner governments alike, assuring them that commitments made by India will be upheld and that ambitious development plans will be seen through.

In April 2025, India became the world's fourth-largest economy, surpassing Japan, and is on a credible trajectory to claim third place by 2028. Its vast pool of skilled talent, competitive labor costs, and maturing manufacturing capabilities render it an attractive hub for companies seeking to diversify and derisk their supply chains. In an age when overconcentration in specific geographies – whether for semiconductors, pharmaceuticals, or critical minerals – has proven perilous, India's scale and reliability offer a compelling alternative. India positions itself not merely as a source of low-cost inputs but as a partner capable of delivering advanced, trustworthy solutions across sectors from pharmaceuticals and electronics to green »

Photos: Bagmane Group, Adobe Stock

technology and digital services. Yet India's global strategy transcends mere economic calculus. It is guided by a principle of "strategic autonomy", whereby India deepens relations with democracies and market economies that share its commitment to pluralism, rule of law, and respect for sovereignty, but without entangling itself in exclusive alliances that might compromise its freedom of choice.

India's emphasis has been on a collaborative win-win model rather than a zero-sum game. This approach derives from the philosophy of Vasudhaiva Kutumbakam, a Sanskrit phrase meaning "the world is one family", and a deep understanding of the opportunities and limitations presented by the current international environment.

This principles-based multi-vector approach has led India to play a leading role in flexible, issue-based coalitions, such as:
• The Quadrilateral Security Dialogue (the Quad), comprising the US, Japan, Australia, and India, which addresses challenges from maritime security to infrastructure resilience.
• BRICS, which brings together emerging economies on topics ranging from development finance to technology.
• The Shanghai Cooperation Organization (SCO).
• The India-Middle East-Europe Economic Corridor (IMEC), which aims to create a new logistical spine linking Asia and Europe.

India's leadership of the G20 in 2023 demonstrated its intent to contribute constructively to the changing global governance at a time when the elite grouping of the G7 is losing its dominance in dictating the international agenda. India does not seek dominance but relevance, so that it can influence outcomes in favor of a rule-based, inclusive, and development-oriented order.

Empowerment, not exploitation, in trade

India's foreign economic policy also reflects a mature outlook toward a free trade regime based on agreed principles of non-discrimination and transparency. India has adopted a more open stance that favors market access. The approach aims to promote competitiveness while protecting sectors critical for sustainable and equitable growth. The decision to negotiate and conclude free trade arrangements that align with India's national interest is accompanied by a willingness to engage in partnerships where mutual benefit is defined and agreed upon.

Within this framework, the India-EFTA grouping of Switzerland, Liechtenstein, Norway, and Iceland, which is not a part of the EU Trade and Economic Partnership Agreement (TEPA), is an example of India's commitment to cooperative trade and business. Though TEPA represents only one aspect of India's broader strategic vision, it underscores a shift toward a model that emphasizes balanced outcomes, investment-driven trade strategies, and long-term development. The agreement was concluded in March 2024 after extensive negotiations lasting 16 years, reflecting India's ability to negotiate successfully with a long-term perspective. What distinguishes this agreement from conventional trade deals is its integrated approach. TEPA combines investment flows with trade incentives, ensuring that the benefits are not limited to tariff reductions but extend to job creation, technology transfer, and sustainable development.

With Europe, India has stepped up engagement at the EU level and with individual member states. We are the only country apart from the US with which the EU has established a joint Trade and Technology Council, reflecting mutual recognition of the importance of resilient supply chains, secure digital infrastructure, and collaborative research in cutting-edge sectors. Negotiations on a free trade agreement with the EU are underway, and a pact with the UK was concluded on 6 May this year, signaling the growing strategic importance Europe places on India as a partner for diversification, resilience, and innovation.

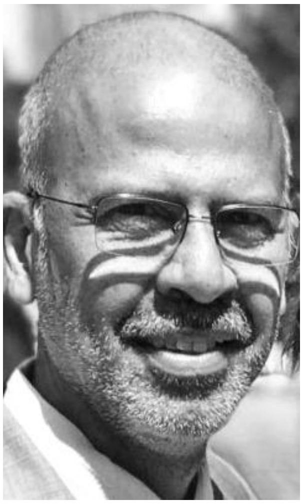
Though TEPA represents a broader shift in how India engages with the world, the real transformation lies in the way India has positioned itself as a credible interlocutor that can speak for the Global South and advanced economies. As a major economy that positions itself in the company of the Global South, India has shown a willingness to champion development-centric issues, from climate finance and equitable energy transitions to digital inclusion and debt relief. Its leadership in these areas is based on tangible policy action and capacity-building initiatives.

Building resilience and prosperity at home

India's response to global uncertainty also focuses on creating domestic resilience. We have invested in building a world-class physical and digital infrastructure, innovation ecosystems, and wide-ranging institutional reforms. These steps have made it easier to do business in India.

Domestically, India's transformative agenda is exemplified by its digital revolution, which underpins the delivery of social welfare and public services on a massive scale. Through platforms like Aadhaar (a biometric identity system), real-time UPI (Unified Payments Interface), and the Unified Health Interface, India delivers subsidized food grains to 815 million citizens, free or heavily subsidized health services to 340 million, and microloans to 58 million small businesses.

This digital infrastructure has enabled the construction of 40 million affordable homes in the past decade, alongside record expansions in airports, metro networks, highways, railway lines, and educational institutions. India's physical infrastructure growth is demand-driven, and loans are available to private players on a commercial basis and not through government subsidies. This has ensured efficiency and high quality at a competitive cost. The "Make in India" campaign encapsulates the ambition to rejuvenate the manufacturing sector, reverse decades of deindustrialization, and foster homegrown innovation. Legal reforms that replace colonial-era penal codes with modern statutes and educational initiatives promoting instruction in regional languages and strengthening vocational training complement this industrial push. India's startup ecosystem, now the third largest globally, attracts domestic and foreign venture capital and has led to innovations in fintech, edtech, biotech, and clean energy.



‘India does not seek dominance but relevance, so that it can influence outcomes in favor of a rule-based, inclusive, and development-oriented order’

With power comes responsibility

India’s rise carries with it an expanding set of global responsibilities. Recognizing the limitations of an outdated multilateral architecture, in which the UN Security Council remains locked in a 1945 paradigm despite a quadrupling of UN membership, India advocates for institutional reform, including permanent Security Council membership for itself.

In parallel, India leverages established bodies and new coalitions to shape global agendas. It is the founding force behind the International Solar Alliance, which promotes the deployment of solar energy in developing nations; the Coalition for Disaster Resilient Infrastructure, which champions infrastructure designed to withstand climate extremes; and the International Day of Yoga, which celebrates wellness and cultural diplomacy worldwide.

As a first responder to humanitarian crises, India has demonstrated its capacity and willingness to deploy naval assets for antipiracy patrols in the Gulf of Aden, dispatch medical teams and supplies during pandemics, and extend rapid relief after earthquakes in Turkey and Nepal or cyclones across the Indian Ocean. These actions signal India’s intent to translate its growing capabilities into contributions to the global public good.

India remains at the forefront of the global fight against international terrorism, having been a victim of this scourge for several decades. Cross-border terrorism, in all its forms and manifestations, constitutes one of the most serious threats to international peace and security. In the aftermath of the deadly terror attack of 22 April in Pahalgam (Kashmir), India responded firmly through Operation Sindoor by destroying cross-border terror infrastructure, setting a new normal in the fight against international terrorism.

In the economic domain, India urges the world to pursue the derisking of supply chains rather than wholesale decoupling. Its expanding manufacturing base offers companies the chance to diversify production, while its emerging semiconductor ambitions and robust digital infrastructure add layers of technological resilience. Nearly 1,800 Global Capability Centers – multinational service and innovation hubs – operate in India, exporting high-value services across finance, technology, and research. These trends promise to reinforce its role as a lynchpin in reglobalizing economic networks. Demographic dynamics further enhance India’s appeal. With many advanced economies confronting aging populations and shrinking workforces, India’s young, English proficient talent pool becomes ever more valuable. Recognizing this, India is exploring mobility arrangements to channel its human capital toward global opportunities, while ensuring that its own industries and research institutions benefit from the inflow of expertise and best practices. India’s climate and sustainability credentials add another dimension. As one of the largest contributors to the UN’s Sustainable Development Goals, India has embarked on ambitious renewable energy targets, invested heavily in green urban infrastructure, and promoted sustainable agricultural practices such as nanofertilizers. Its experiences in managing large-scale welfare schemes digitally have lessons for other developing countries. India offers a model of development that seeks to harmonize rapid economic growth with ecological stewardship and social inclusion.

Underlying all of these endeavors is the role of India’s diaspora, a living bridge that amplifies India’s soft power, business linkages, and cultural outreach. From Nobel laureates to technology entrepreneurs, the global Indian community bolsters the nation’s visibility and serves as a conduit for ideas, investment, and goodwill.

Connectivity remains at the heart of India’s strategic imagination. By spearheading consultative, multistakeholder corridor projects – IMEC to the west, the Trilateral Highway and Chennai–Vladivostok route to the east – India aims to weave itself into the fabric of Eurasian trade and transit, bridging the Atlantic and Pacific largely over land.

India views its ascent as synchronous with the needs of a world in flux. Its political stability provides a haven for investments; its economic dynamism furnishes alternatives to over-concentrated supply chains; its strategic autonomy enables principled but flexible partnerships; its domestic transformation showcases the potential of digital governance, infrastructure expansion, and inclusive growth; and its diplomatic activism and idea leadership offer new templates for collective action on climate, health, and security.

As global volatility intensifies, India is convinced that its growing capacities and its willingness to shoulder greater responsibilities will make it a beneficiary of emerging opportunities and an indispensable architect of a more resilient, multipolar, and equitable international order. ■

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Time for a reboot: what open-source models can teach us about global trade

The rules-based order that underpinned globalization is lurching from an open-source to a closed-source model. But even without the participation of the US, an 'open hybrid' system will ensure stability in the long run. **Richard Baldwin** and **Michael Yaziji** explain how it works

For internationally engaged companies, the rules of the game have been ripped up, and no one knows how they will be rewritten. International commerce hasn't seen this level of uncertainty since the Second World War. With the US retreating from trade leadership, the challenge for the rest of the world is clear: protect the operating system of globalization before it forks into a fractured, less productive future.

It may help to think of globalization and the rules-based world trade and financial systems that support it as the world economy's operating system: the invisible infrastructure that keeps goods, services, capital, and know-how flowing across borders.

Like any operating system, this one has an architecture. For the last few decades, it's looked a lot like open-source software: decentralized, collaborative, and built on shared standards. But now? We're watching it drift toward a closed-source model. And that shift is reshaping the logic of how the global economy works.

In software, open-source systems are built by communities. They're open, flexible, and constantly improved by a broad base of contributors. They are fantastic at leveraging diverse skills and perspectives but require trust and a baseline set of rules. Think Wikipedia.

Closed-source systems, by contrast, are proprietary. They move fast, centralize control, and often deliver sleek performance, but at the cost of openness and interoperability. Think Encyclopaedia Britannica. In thinking about the contrast, an old saying comes to mind: "If you want to go fast, go alone. If you want to go far, go together."

That same tension is now playing out in globalization. The open trading system based on reciprocity, trust, and diffuse benefits is under pressure from protectionist policies, tech decoupling, and a return to national interest economics. Just as some firms prefer the control of closed-source code, some governments are embracing economic closure to insulate themselves from global risk.

The point isn't that one model is always better than the other, but the trade-offs are real and becoming more visible by the day. Thinking about globalization through the lens of open versus closed systems can help us understand what's changing and why it matters.

Two lessons from the open/closed sourcing analogy

Two lessons emerge when we put open-source software and open trade systems side by side: one about trust and the other about the distribution of expertise and resources. They help explain how openness succeeds and why sometimes it fails.

Lesson 1: Trust is the operating system's substrate

Open systems, whether codebases or trade networks, run on trust, not goodwill alone. Software developers share code freely because they trust the system to protect their contributions. They don't expect their work to be misused and believe that improvements will be shared and that the rules of the community won't change suddenly. The collaborative engine stalls if contributors fear their code will be hijacked or locked behind paywalls.

The global trade system is the same. Firms invest abroad, share technology, and build global value chains because they believe the system is stable and rules-based. They count on low tariffs, predictable regulation, and respect for property rights. Firms pull back when that trust falters – when tariffs spike overnight, or supply chains are weaponized. They hedge, relocate, or reshore, and openness gives way to defensiveness.

The breakdown of trust between the US and China, the disruptions of the COVID-19 pandemic, and the strategic shock of the Ukraine war

Photo: Midjourney V6 @ paulandcat

‘Closed-source systems are proprietary. They move fast, centralize control, and often deliver sleek performance, but at the cost of openness and interoperability. Think Encyclopaedia Britannica’

have exposed the fragility of this operating system. Openness collapses when countries no longer trust each other to play fair. A once collaborative platform is becoming a contested space.

Lesson 2: Openness wins when expertise is diffuse

Open systems thrive when no single actor holds all the cards. In software, no one developer or company has the full range of skills to build, maintain, and scale today’s most complex systems. That’s why open-source communities, from Linux to Python to Hugging Face, are so powerful. They mobilize talent globally, allowing innovation to emerge from the edges, not just the center.

The global economy works in the same way. No country has everything it needs. Even the most advanced economies depend » on others for raw materials, intermediate goods, talent, and capital. The rise of global supply chains wasn't just about cutting costs; it was about tapping into a distributed network of expertise and resources that no single nation could replicate alone.

When capabilities are spread out and no one can go it alone, openness isn't a luxury but a necessity. It's the reason why globalization and open-source software scaled so quickly in the 1990s and 2000s: the world was full of underused capabilities and complementary assets. Openness unlocked them.

On the flip side, closure begins to look viable or even attractive when expertise or resources become concentrated (when, for instance, one country dominates the supply of critical minerals or semiconductors). If you control the chokepoint, closing the gate is a form of power.

In short, the more distributed the system, the greater the gains from openness. But the more asymmetric the system, the stronger the temptations to close parts (or all) of it.

A multipolar world should head toward a more open operating system

In the post-Cold War era, the US sat at the center of a largely unipolar world. It led in military power, economic scale, technological innovation, and global rule-setting. The global operating system – globalization – reflected a kind of de facto "made in America" architecture. Others plugged in because the center was strong, stable, and hard to replace.

Today's world is far more multipolar: China is a manufacturing powerhouse and, increasingly, a technological rival to the US, India is rising, Southeast Asia is dynamic, and Africa and Latin America are asserting more economic and political agency. Talent, capital, innovation, and ambition are more dispersed than ever. That should point us toward openness, not away from it.

An open-source architecture makes more sense when capabilities are distributed as it allows countries, firms, and individuals to contribute what they do best and benefit from the strengths of others. Closing the system through protectionism, export controls, or techno-nationalism means cutting yourself off from valuable inputs, ideas, and partnerships.

If no one nation can build the whole system on its own, then we all have a stake in keeping the system open. Strategic openness is pragmatic as well as moral and ideological. It's how we best harness a more diverse and distributed world.

When do closed systems make sense?

No analogy is perfect, and closed systems *can* outperform, at least in the short run. In software, proprietary models often win on speed and integration. Apple's iOS is a tightly controlled ecosystem, but its coherence makes it attractive. OpenAI's GPT models owe much of their success to the fact that they're not open. The organization moved fast, monetized early, and avoided the messy governance that often slows down open-source projects.

> 'Friends of the multilateral trading system must act now to protect the open-source architecture of globalization, even as the US increasingly opts for proprietary code'

Trade is no different. Sometimes, closure makes strategic sense, especially when national security is at stake. China's "dual circulation" strategy and its push for tech self-reliance are textbook cases. So, too, is the US CHIPS Act, which aims to re-shore semiconductor production and reduce vulnerability to geopolitical shocks.

Closure can work when three conditions are met: interdependence feels too risky, control is more valuable than scale, and the closed player has enough internal capacity to go it alone.

But here's the catch: closed systems often win the sprint, not the marathon. They deliver early returns but usually come at the expense of long-run adaptability and resilience. By walling themselves off, they risk falling behind the broader ecosystem, where innovation builds cumulatively and progress accelerates through collaboration.

In today's interdependent world, going it alone is rarely sustainable. It may buy time, but it rarely builds the future. If full openness is vulnerable and full closure is short-sighted, what is the way forward?

Strategic openness: avoiding false choices

The status quo is no longer viable. Guided by the principle of "enlightened self-interest", pre-Trump America provided a "trust substrate" on which the open trade system worked. So, which architecture should we use to write the new rules? Open-source (Wikipedia) or closed-source (Britannica)? We don't need to choose between the two extremes.

Just as the software world has evolved hybrid models that balance openness with control, the global economy can and should embrace strategic openness.

In open-source software, hybrid models are everywhere. Dual licensing allows companies to offer free access to most users while reserving commercial rights for paying clients. Communities like the Linux Foundation or Apache Software Foundation create governance structures that manage contributions, enforce standards, and deter bad actors. These arrangements don't abandon openness, but they manage it.

In trade and investment, something similar may be taking shape. Policymakers are experimenting with "friend-shoring", "trusted trade", and industrial strategies that aim to retain the benefits and mitigate the risks of international integration. The idea is to stay open, but only with partners who share values or strategic interests. Trade agreements increasingly include digital and security clauses, and investment screening has become the norm. Globalization hasn't stopped, it's just becoming more conditional.

This strategic openness is messier than the old model. It's not the clean multilateralism of the 1990s, but it reflects today's realities: trust is fractured, power is more dispersed, and security matters more. The goal is to upgrade the old global operating system to serve a more complex world.

Strategic openness still requires governance, transparency, and reciprocity. Without rules of the road and institutions to mediate trust and manage conflict, it risks collapsing into ad hoc nationalism. However, with the right architecture, this middle path can preserve what matters most: access to ideas, markets, and talent beyond our borders.

Openness is a spectrum, not a binary. In a world that is neither fully cooperative nor fully fragmented, the challenge is to find and defend the sweet spot on that spectrum.

Can we stop our operating system from crashing?

The US is careening toward a closed-source system, at least for the next four years. But it is no longer as dominant as it once was, accounting for less than 15% of world trade. What should the nations that account for the other 85% do now?

First, don't panic, at least not yet. Trump's April 2025 tariffs may look like the start of a seismic shift, but we've seen this movie before. Season 1 of the Trump Tariff Show ended in a whimper. Symbolic deals, tactical ceasefires, and a resilient trading system muddled through. This time might be no different. So, the first thing to do is be patient and avoid overreacting.

However, the stakes are higher in the medium term, and the job is clearer. Friends of the multilateral trading system must act now to protect the open-source architecture of globalization, even as the US increasingly opts for proprietary code.

If the world economy is an operating system, then the WTO is its kernel. It may be clunky, and its rulebook may need updating, but throwing it out would be catastrophic. Nations should continue to retaliate within WTO rules, make clear that their actions are compliant, and file legal complaints to maintain institutional clarity. Above all, they should support the rule-keeper, the WTO secretariat, and invest in its relevance.

What happens when the traditional maintainer of the codebase stops updating the software? Others step in. That's what happened with the Trans-Pacific Partnership (TPP). When the US walked away, Japan picked up the leadership baton, stripped out the Washington-specific features, and recompiled the deal as the CPTPP. Trump didn't object; he just ignored it. The CPTPP didn't kill US trade, but it proved something crucial: leadership gaps can be filled, and openness can be preserved and even enhanced without US initiative.

That's the real takeaway: in a world where capability and influence are increasingly distributed, we need a distributed model of leadership. The international community, especially middle-sized powers, should stop waiting for Washington to reboot the system and start patching it themselves.

Open systems depend on trust, predictability, shared governance, and, crucially, stewardship. We are at a moment when the global operating system risks being splintered into incompatible, siloed versions. That path leads to inefficiency, fragility, and long-run stagnation. However, it is not inevitable.

The better path is strategic openness: updating the rulebook, building coalitions of the willing, and recommitting to the core logic of the system. Like open code, trade works best when many contribute, many benefit, and no one actor tries to control it all.

The multilateral system is under strain, but it is still running. If those who believe in open trade continue to maintain, protect, and modernize it, it will keep running, even if the US temporarily logs off. ■

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Hiring on genuine merit can still lead to good DE&I outcomes

Polarization is a defining trend in the changing global order. **Michael Skapinker** offers guidance on navigating the Trump-led pushback against diversity programs

A 2023 note from Goldman Sachs said many of the biggest technology groups "exercise near-sovereign power and are increasingly challenging nation states as geopolitical actors". Two years later, those companies have discovered just how potent one nation state remains: the US under President Donald Trump. Soon after taking office for the second time, Trump announced a clampdown on companies' diversity, equity, and inclusion (DE&I) policies. In an executive order called "Ending illegal discrimination and restoring merit-based opportunity", Trump made it plain that he would no longer tolerate corporate policies that strove to increase the hiring and promotion of ethnic minorities, women, and other groups that had previously struggled to enter and climb corporate hierarchies. In the future, he said, companies must recruit and promote purely on merit.

Trump's move raised two questions: what right did the US government have to interfere in the affairs of private companies? And why didn't companies announce that, as it wasn't the administration's business, they would simply ignore the executive order?

The answer to the first is that the White House has long intervened to shape companies' policies. In 1965, President Lyndon Johnson gave a push to what would become known as DE&I with an executive order requiring all companies that were federal contractors to tackle the underrepresentation of ethnic minorities and women. This instruction answers the second question: tell Trump to get lost and kiss goodbye to any federal government contracts. What's more, a federal contractor violating the new policies risks criminal action.

The US federal government's contract-giving powers are vast and far-reaching. In March, the *Financial Times* reported that US embassies in Paris and other EU capitals had sent letters to large European companies warning them to comply with the DE&I ban if they did work for the US government. Some business leaders remained defiant. Goldman Sachs told ABC News that it believed "organizations benefit from diverse initiatives", and Jamie Dimon, CEO of JPMorgan Chase, told CNBC: "We will continue to reach out to the Black community, the Hispanic community, the veterans' community, and LGBTQ."

However, others quickly folded. Meta said it would continue to look for diverse recruits but was scrapping its DE&I program because of the "shifting legal and policy landscape". Amazon said it was "dedicated to delivering inclusive experiences" but was "winding down outdated programs and materials". McDonald's, Target, and Walmart also beat a retreat.

It's easy to tell those abandoning DE&I policies to stick to their principles, but there could be a cost to the business that affects not just shareholders but employees.

When 'merit' looks like discrimination

So, what should leaders do? They should reassess what their DE&I policies were for, which they should retain (even if they think it politic to drop the label), and how to improve them. To do that, it is worth reviewing why DE&I programs were introduced in the first place. The Johnson administration's aim in the 1960s was to break a pattern of entrenched racial and sexual discrimination. The Trump view is that DE&I brought in new discrimination in which people were hired and promoted for their race and gender rather than on merit. This may have been true in some cases, but DE&I policies also aimed to deal with the many instances where what looked like merit was really hiring people who looked like their bosses.

Take the five most prestigious orchestras in the US: the Boston Symphony, the Chicago Symphony, the Cleveland Symphony, the New York Philharmonic, and the Philadelphia Orchestra. They all select their musicians through auditions but, until around 1980, fewer than 12% of their players were women. The orchestras began experimenting with something different: the would-be orchestra members auditioned from behind a screen so that the selectors couldn't determine the candidates' gender. Some put down carpets so the sex of potential recruits couldn't be guessed by the sound of their footsteps. By 2000, the proportion of women in all the orchestras had increased markedly, and at the New York Philharmonic, it had risen to 35%. As Claudia Goldin and Cecilia Rouse wrote in a paper published in the *American Economic Review*, this was a remarkable increase given that the number of players in an orchestra is static and the turnover is low. Many corporate leaders have become aware of the dangers of fool-

The times they are a-changing: in 1965, President Lyndon Johnson gave an executive order aimed at helping ethnic minorities and women

ing themselves into thinking they are being meritocratic. We all have preferences we're unaware of. Some companies have worked to eliminate these unspoken prejudices, such as through "name-blind" hiring (not telling recruiters who the applicants are). The idea is to prevent them from making unconscious assumptions about whether people are suited to the job based on their ethnic backgrounds.

This followed research that found applicants with "white-sounding" names were more likely to be called for interviews than others. However, name-blind applications have had mixed results. The *FT* reported in 2016 that while some studies found that more ethnic minority candidates were called for interviews, other name-blind exercises were less conclusive, possibly because recruiters had other clues on people's backgrounds, such as their language skills. There were hopes that artificial intelligence would eliminate such discrimination until it emerged that AI recruitment programs were pulling in human biases.

Toward a true meritocracy

The aim shouldn't be to resurrect DE&I in a new form, but rather to ensure the merit-based recruitment that the Trump administration claims to care about. If most of your recruits are white males, they probably aren't the best because talent doesn't reside in one group. True merit requires going beyond the usual recruiting grounds into areas and groups where organizations may have had little contact.

Leaders should hang on to another DE&I principle: having a diverse workforce means reaching a larger range of customers. If you're a company in the Americas, having Spanish speakers to deal with Spanish-speaking clients is a good idea. A cosmetics company that employs people with different skin colors will better understand what products work on customers with varying skin tones. Did DE&I policies boost the bottom line, as some diversity advocates claimed? The results aren't conclusive. In a 2020 study, its third on the subject, McKinsey said: "The most diverse companies are now more likely than ever to outperform less diverse peers on profitability." The consulting firm said its research into 1,000 large companies in 15 countries had found "that companies in the top quartile for gender diversity on executive teams were 25% more likely to have above-average profitability than companies in the fourth quartile, up from 21% in 2017 and 15% in 2014."

However, some were unconvinced. Jeremiah Green of the Mays School of Business at Texas A&M University and John Hand of the Kenan-Flagler Business School at the University of North Carolina said they were unable to replicate McKinsey's findings and that "they should not be relied on to support the view that US publicly traded firms can expect to deliver improved financial performance if they increase the racial/ethnic diversity of their executives."

Having a diverse workforce is not enough if those from different backgrounds are expected to conform to the prevailing culture or don't feel included. "Taking an 'add diversity and stir' approach while business continues as usual will not spur leaps in your firm's effectiveness or financial performance," Robin Ely of Harvard Business School and David Thomas of Morehouse College wrote in the *Harvard Business Review* in 2020.

Rather than trumpeting their DEI metrics, leaders will have to work hard to extend their recruitment networks to get the best people, to have a range of employees to ensure a flow of new ideas, and to create a culture in which people feel they can speak up. What is required is smart management, whether we call it DE&I or not. ■

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Photo: Warren K. Leffler (Library of Congress)

How to turn turmoil into transformational capacity

Political and market upheaval inflicts severe strain on organizations undergoing change. Rather than choosing between crisis mode and future planning, leaders should learn to focus simultaneously on both short and long-term goals, argues **Katharina Lange**

Leading corporate transformations has become harder than ever. The unpredictability of the direction and the speed of change, particularly regarding international trade tensions and tariffs, has created additional planning uncertainty for businesses. Business investment choices like production diversification or relocation follow very different timelines and rationales than political decisions. For many organizations, this magnifies lingering anxiety, fueled by negativity bias, while the long-term ripples of the pandemic and the war in Ukraine continue to take their toll.

But, as best-selling management author Jim Collins says, whether you prevail or fail does not depend on what the world does to you; it depends on what you do to yourself. So, what can leaders do? How do they prevent organizational temperatures from rising too high, conflicts from worsening along divisional fault lines, and colleagues from retreating into survival mode?

A typical reflex in periods of consistent external threat is to reduce outward exposure and turn inward: reducing footprint, streamlining operations, and cutting costs often form the prevailing defense strategy in a crisis. However, losing sight of an organization's outward orientation can reduce its ability to respond or anticipate customer needs. This will prove detrimental in the mid term.

Counterintuitively, in times such as these, companies must increase their transformational capacity and invest in the range of resources needed to create, deliver, and capture performance. This will help to emerge from the storm with tailwinds. In essence, leaders need to run two change trajectories at the same time: one to navigate near-term turbulence and ensure continued performance. The other transformation is focused on the long term, finding new ways of doing business for future success. Both change trajectories have very different dynamics and require almost opposite leadership capabilities.

Let's explore these two change dynamics and what balancing them effectively looks like in practice.

Reactive change: Don't jump in at the deep end

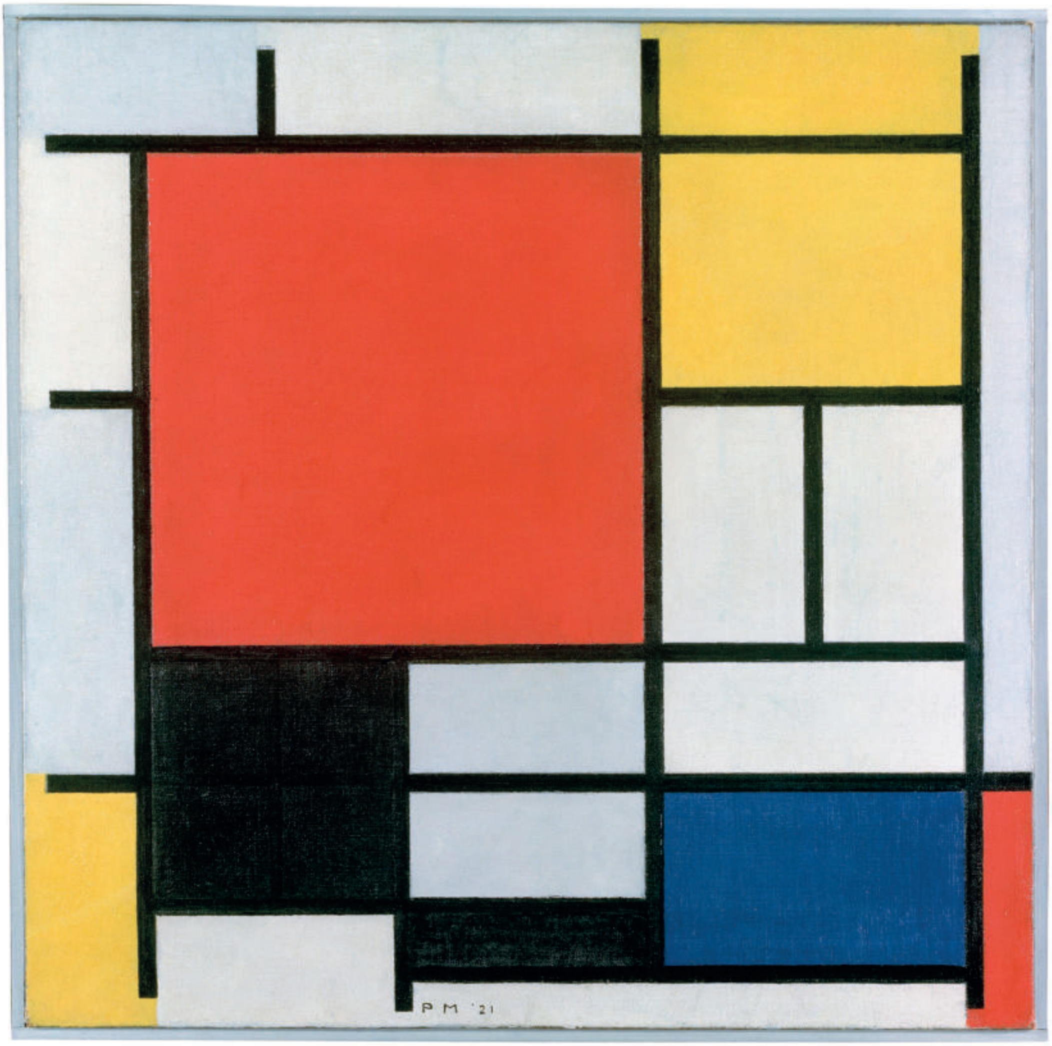
Reactive change is characterized by an urgent need to address sudden gaps stemming from unforeseen disruptions. For example, if a product is faulty or a service is substandard, the company must act to stay in business. Reactive change brings high levels of stress. The urge to respond fast to current economic turmoil can feel equally compelling. However, executives should pause and reflect to avoid damaging hasty reactions. A responsive rather than reactive approach allows firms to navigate crises while keeping their operations robust and adaptable. As chaotic as the world might feel, leaders have a chance to make the changes that will drive their companies forward and add value, rather than leave them exposed to additional and unnecessary risk. For example, ask yourself how disruptive measures, such as strategic reorganizations, might be leveraged to maintain performance and ensure continuity.

Acknowledging the instinct to turn inward when times get tough is important. It's no surprise that many companies are looking to reduce their workforce, delay projects, and postpone investments. However, simply "shedding weight" risks missing the next upswing and derailing your transformation journey.

Many companies learned this lesson the hard way after the COVID-19 pandemic. For example, the CHRO of a large Middle Eastern airline released a large part of its core workforce, including flight attendants and security personnel. When the crisis passed, the company had to rehire talent at huge opportunity cost, a task made more difficult because HR staff had been made redundant too. Security personnel and technical staff are not fast hires, given all the required background checks. Any Airbus 380 that could not take off due to a lack of personnel represented a missed opportunity.

Anticipatory change: look beyond the chaos

Leaders need to transform their organizations continuously to create new pathways for long-term success. They pilot these transformations to develop market opportunities, anticipating changes and translating customer needs into new business models. Anticipatory change unfolds at a slower pace than reactive change. It is characterized by deliberate, strategic planning and intentional execution.



Harmony from chaos: like Piet Mondrian, executives must balance dynamic, contrasting forces to transform their organizations in uncertain times

Photo: Wikipedia

‘As chaotic as the world might feel, leaders have a chance to make the changes that will drive their companies forward and add value, rather than leave them exposed to additional and unnecessary risk’

Anticipatory change aims for long-term growth and innovation rather than immediate fixes. The process is nonlinear and calls for enduring adaptability. For example, advancements in artificial intelligence have been ongoing for a long time, but only recently accelerated across various industries. By employing a forward-thinking approach, leaders can navigate uncertainty and position their organizations to capitalize on future opportunities.

Balancing short-term agility with long-term goals

Finding the right balance between strategies that maintain or increase performance amid short-term turbulence and long-term transformational strategies is daunting. Managing these two dynamics simultaneously is a challenge for organizations, leaders, and their teams.

Boost capacity to perform in the short term

1. Structure and processes: prune for growth, rearrange for agility, invest in smart simplicity. »

Organizations tend to layer complexity over time by adding new initiatives on top of each other. A crisis can present a chance to reduce this complexity and gather and refocus resources for future growth. After all, strategy is a choice about what to do and what not to do. The second half of that management maxim is easily forgotten, especially in times of crisis.

Pruning the structure of your organization for growth could mean shaving off hierarchical layers or removing leadership levels. To do this strategically, leaders might take inspiration from their peers in Scandinavian countries. In Sweden and Finland, organizations must present proposed changes to organizational structures to trade unions before any decisions are taken. This might feel time-consuming, but it will avoid hasty decisions and increase the likelihood that the new structure delivers the desired results.

Any pruning process must include abandoning unproductive processes and non-strategic initiatives and tasks. Merely redistributing existing workloads to the shoulders of fewer people will lead to burnout and a loss of productivity. Done well, however, this “systematic abandonment” will free resources to target growth.

Take the example of a global machine manufacturer. After the supply chain crunch caused by the pandemic, they embraced "smart simplicity”. Due to shortages in essential machine components, they rearranged the assembly lines modularly. These lines can be recalibrated within hours to produce different machines, enabling the company to respond to circumstances and keep output steady. Running agile production lines is not easy: routines and procedures need to switch swiftly and constantly, requiring well-trained personnel and sophisticated education programs. However, this investment in people pays off fast.

2. A high-performance culture: focus on people and relationships, not tasks.

A high-performance culture is often associated with high task output. It’s hardly a surprise, therefore, that leaders under stress might be tempted to prioritize task output in an effort to secure performance. However, relational, affective leadership skills that prioritize people and culture over tasks are more effective in a crisis and will yield higher performance.

Uncertainty and volatility trigger anxiety and stress. At first, personal connections and experiences within a team might override political or national divisions, but eventually, geopolitical tensions can exacerbate fault lines in organizations. Physical distance across an organization and remote working further erode the vital human connections that keep those fault lines in check.

To manage this risk, leaders should openly address the uncertainty in which the organization operates. Embed any “tough message” in a cushion of seven to 10 positive messages, such as sharing the first successes of new initiatives or good customer feedback. Linking the short-term response with the company’s long-term vision helps widen the aperture, lifting perspectives beyond today’s challenges. Embracing this visionary leadership style creates a positive, engaging work environment, even in difficult times.

> ‘Leaders should inspire their teams to adopt a more scientific mindset by conducting experiments to test a hypothesis. Data should be considered a valuable learning opportunity, not to confirm biases or assumptions’

A shared belief in psychological safety is crucial here as it enables colleagues to be constructively candid while addressing critical challenges, and it gives employees the space to express their anxieties and ideas. Such openness must be paired with accountability, however. As Amy Edmondson and Michaela Kerrissey point out in a recent *Harvard Business Review* article, psychological safety does not mean job security or that everyone gets what they want. Accountability for outcomes must be maintained in a high-performance culture.

More than ever, the alignment of top leadership teams is paramount. Heightened anxiety and negativity bias during crises can make even minor disagreements within a top team damaging. When transmitted down the hierarchy, this misalignment is amplified and can be perceived as significant discord. Nonetheless, it remains crucial for top teams to engage in productive conversations and “mine for conflict” to uncover underlying issues. Once discussions conclude, however, the team must align on what and how to communicate precisely and consistently.

3. The high-performing manager: leading and recharging self.

High-performing organizations require high-performing leaders. In a crisis, everyone has to be at their very best. Yet, the anxiety and negativity of uncertainty can rub off even on the sturdiest individuals.

John Davison, former CEO of Zuellig Pharma, said: “As CEO, I have to absorb the chaos and transmit clarity to my team.” This means an enormous conversion of negative into positive energy. Leaders always need to manage their energy, not their time. In a crisis, effective recharge mechanisms for mental and physical health become even more vital. Meditation has been proven to be an excellent method to tackle negativity, calm the mind, and bring back positive energy. Another helpful tool is the "office hours for thoughts" concept, a form of expressive writing that works like this:

• Reserve a time as an "office hour for thoughts" – a time to allow thoughts and feelings to "come in".
• Write down these thoughts and feelings on paper. Writing it down will per se create distance, while expressing ourselves this way with language uses the cognitive capacity of our brains. Cognitively processed negative emotions become less threatening.
• When negative thoughts or feelings occur during working hours, tell them to "go away and come back" at the time you have reserved. This creates the perception that we are in control, something we often feel is missing in times of great uncertainty.
• Writing down your thoughts sometimes surfaces an interesting idea, but not very often, so you can safely destroy your notes. This process removes negativity and helps you get a good night's rest.

Recharging your batteries could also mean something as simple as visiting a museum or having dinner with family and friends. Keeping negativity at bay might mean writing down three good things that happen each day. Whatever works for you, managing your energy and attitude is an important part of leading through uncertainty.

Transform for long-term success

1. Looking inward and defending the status quo risks missing important signals from external stakeholders.

Observing, analyzing, and discerning your ecosystem of stakeholders is key. Be it your competitors, customers, or nonmarket players such as regulators or activist groups, retaining an outward focus is essential to keep the long-term transformations on track.

For this analysis, leaders should move beyond the traditional influencing grid (attitude versus power and influence) and ask themselves:

• What does each player really want? What are their goals? Note: it is typically not what they say they want, so leaders must observe what they are actually doing.
• What is the nature of the influence of each player? Are they bringing political influence, monetary prowess, or networking capital to the table?
• Are they susceptible to influence? Economically motivated players typically have a price; others may not.
• How do they behave? Whom have they targeted before, and whom are they currently coordinating with? (Being a good chess player might come in handy at this stage.)

Your company's customers and their position in the wider network should be central to this analysis. To orchestrate the necessary internal transformation required in these critical times, leaders can ask the same questions about their internal stakeholder network. A discerning view of an organization's sources of power and influence only adds to its transformational capacity.

2. Transformational capabilities enable organizations and leaders to bring the future to the present.

A leader must have a clear understanding of the capabilities necessary to capture longer-term growth opportunities. Such capabilities need to be built, often through experimentation. This requires discipline, skill, and a culture of psychological safety and accountability.

Leaders should inspire their teams to adopt a more scientific mindset by conducting experiments to test a hypothesis. Data should be considered a valuable learning opportunity, not to confirm biases or assumptions.

This requires a highly competent and disciplined team (and leader). Everyone can learn how to do this. Start with micro-experiments: small, inconspicuous, but intentional changes in the (working) environment that are observed, and whose data points are analyzed. This trains the "experimentation muscle" and develops transformational capacity.

3. Leading self means learning about self: how can I grow in this turmoil?

Leaders should use today's turbulence as their own learning opportunity. Reflect on what can be learned and how it feeds into your long-term professional or private plans. Ask yourself:

• Is there a skill I want to learn?
• What did I learn about my values and motivations in life? Do I need to add a value or de-prioritize one?
• Which of the experiences will help me tackle future projects with more confidence?
• Has my perspective on my future trajectory changed? If so, how?

The leaders who see chaos as an opportunity to analyze and grow their capabilities will strengthen their competitive advantage to succeed in the future. As Nelson Mandela said: "I never lose; either I win, or I learn." ■

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In an age of grievance, find every opportunity to listen

Richard Edelman, CEO of the communications firm Edelman, explores in a conversation with **Cynthia Hansen**, Managing Director of the Innovation Foundation, why so many people are dissatisfied with authority and institutions

Richard Edelman: 'Business can contribute to diversity and sustainability but is not a social welfare organization. Government has to perform better'

Cynthia Hansen: *We've been thinking about geopolitical and economic uncertainty and how people are quick to blame institutions when they do not feel heard. What underpins this feeling of disenfranchisement, and how does that relate to trust?*

Richard Edelman: We're living in an age of grievance, and grievance is a lack of belief in the future. It's also a sense that the system doesn't work, that I don't have an equal chance and that it's rigged. It's reinforced by an immensely changed information ecosystem, where two-thirds of our respondents across 28 countries (2025 Edelman Trust Barometer) believe journalists lie to them to achieve their goals, such as clicks. It's a rebellion against the establishment. In 50 elections in the past year, most were won by the opposition because they were different: we want change.

Where do you think this sense of disenfranchisement comes from? Has it changed significantly over the last decades? How did we get here?

Three or four fundamental changes have occurred. The first is a lack of belief in top-down authority figures. It started with the Iraq war. Then we had the global financial crisis in 2008, in which you had a loss of belief in capitalism and CEOs. Then with COVID-19, you saw the destruction of belief in science and government institutions because of a sense of the rushing of vaccines and lockdowns.

Then, this incredible dispersion of authority of the media: the decline of local newspapers and the rise of podcasters – all of whom have a sense of proximity to me as opposed to being far away. Trust has gone local; that's the thesis. Instead of being derived from top-down or even peer-to-peer, it's people close to me.

How does hyper-personalization of information impact trust?

We began with thought bubbles. If I was on the left, I read a certain thing. If I was on the right, I read a certain thing. It's morphed into a self-reference: I'm my own content creator. As a patient, I believe that, through search, I can find information that makes me as informed as my doctor about health outcomes. I'm rejecting expertise because my experience is as important as a professional's lifetime of experience.

I spoke in Davos this year with the President of Dartmouth University. She feels that her students, the kids in high school during COVID-19, lost the ability to engage, particularly with people who don't share their beliefs or points of view. If I can no longer have a dialogue with you because you don't share my views, does that mean I don't trust you? And how might I regain that trust or re-establish that ability to engage?
Research by Cambridge University and Google indicates that a Gen Z person reads an article by looking at the headline, reading the comments, and then deciding whether the article is fair – and only then reading the article. It speaks to a crowdsourcing of opinion. Gen Z has established its own health ecosystem of information: social, friends, and family, rejecting anything that's top-down and establishment.

Peter Maurer, the former President of the International Committee of the Red Cross, once said that almost all conflict comes back to a sense of fairness. What does that mean for the way people make decisions and form opinions?
Fairness in a post-George Floyd world meant equity and, in a certain way, an ability to make up for historical shortcomings, such as racism, etc. That's been recast as the need to have opportunity. We can't guarantee outcomes, but we can ensure people get a fair shot. Our research shows deep skepticism among the young that they're going to do as well as the previous generation. Only 9% of French and 15% of Germans believe they'll be better off than their parents. It's the first generation that doesn't believe they're going to do better. That's what creates this whole theory of hostile activism. More than half of Gen Z believe they are entitled to damage property, spread disinformation, or any other way to show their dissatisfaction. That's a stunning finding that, in some way, may explain the horrible shooting of the insurance executive (UnitedHealthcare CEO Brian Thompson) in New York.

What do you think leaders need to be comfortable with ambiguity while giving people confidence that we're going in the right direction?
It's a tricky balance. The presumption has always been that innovation is a public good, and this generation doesn't see that. What this generation sees is that AI is going to take away the jobs of programmers, agency creatives, or any number of others. That there's been a lot of lip service, but no specific program oriented to upskilling, so they're going to be left behind. Put that on top of fears of climate change, inflation, and downward economic mobility, and you've got a very toxic brew.

The solution that many politicians put forward is: let's go back to the good old times. Let's go back to nationalism and local sourcing. That's certainly a questionable policy program, but that nationalism is on the rise is true and that people are agitated is also true. It's fascinating to see that business continues to be the most trusted institution by far, significantly more competent – like 50 points – and 30 points more ethical than government in most cases. It's also fascinating to see that single-party states perform much better on trust in developing countries than democracies.

‘The more you can explain how your business fits into society and what you do, the better. You have an outsized importance in people's lives’

Are leaders in the business sector better equipped to lead through this ambiguity than those in the public sector?
The default in the last three years has been: we have problems, and business has to solve them. There's been a reset in the last six months. Business can't solve all these things; a lot has to be done by government. Business can contribute to diversity and sustainability but is not a social welfare organization. Government has to perform better. You're seeing a much more activist government, certainly in the US and seemingly in Canada and Mexico. Government leaders have gotten the message: pick it up.

If you were to advise leaders on what they need to do to create more stability, a stronger way forward – a North Star – what would it be?
The first is to go out and listen. Don't just talk. Be a more multinational, polynational person. After 7 October (the 2023 Hamas attack on Israel), I wrote a blog post and mourned the murder of those Israelis. I also said I know what's coming, and I'm sure there's going to be a lot of loss on the other side of the border, and I mourn that too. But my employees, especially in the UAE and Saudi (Arabia), felt the blog was too oriented to the Israeli side. So I sat with them and listened to their stories. I heard the story of a guy whose family lost 20 people in a church in Gaza. And I said, ‘I cry with you’. I only give you an anecdote because I think it's complicated. You have to go and listen to this storytelling from your employees.

The second thing for leaders is trust. In a way, you're *in loco parentis*. You've got to put your arms around your people, and you must talk to them frequently. I do it through my blog and by having updates on the business: find every opportunity to do that.

And lastly, many CEOs feel most comfortable just talking about business, so the more you can explain how your business fits into society and what you do, the better. You have an outsized importance in people's lives. »

What would the world look like if more CEOs and leaders could take this approach?
I'm not arguing for some utopian world without government. Government has to be the referee, set the playing field, and ensure that there are good rules and that they're followed. They have to work together on climate issues and things like that. But business is much more flexible and faster. Business had a great COVID-19 because it delivered PPE and vaccines and kept people working. Business has to be steady on its feet, keep its values, recognize it's not a political institution, and that CEOs are not elected. Your people and your customers need you – they need to feel you.

Do you feel optimistic about the direction we're going?
I'm always optimistic. I always find the pony in the pile of "you know what". I feel optimistic because AI can be an incredible accelerator of knowledge. Think about it. If there are 500,000 possible drug compounds, you can use AI to shorten the period of experimentation massively. We're going to have much better outcomes and make people healthier. Rinse and repeat with AI. We have to make people faster and smarter, but AI is going to enable our people in the junior category to do more. In our case, I'm looking forward to competing. We're ahead with advertising and can do a thousand pieces of content for a client a month. I couldn't have done that before. So, it's going to be Darwinian, but I love that. ■

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A BOARD'S EYE VIEW

A new nature of business can become a reality despite Trump's last stand

The 'drill baby, drill' mantra of the US President is the last gasp of the old order. The push for a more ecological way of doing business championed by Europe and China, among others, is cause for hope, believes **André Hoffmann**

The Donald Trump roller-coaster ride throws into doubt the quest for a new nature of business. Can it still be achieved, or will we be thrown back into harmful and wasteful old ways? I remain optimistic: science doesn't change because of regulations any more than climate change stops because of an executive order.

The early signs from Washington were not hopeful. In January 2025, the US left the Paris Agreement on climate change for the second time in a decade. Weeks later, the US government announced funding cuts for everything from UN agencies to the Environmental Protection Agency. Some of the world's most important climate research sites, including the National Oceanic and Atmospheric Administration, were also affected. However, censorship is the biggest cause for concern in Trump's agenda, with major government departments, from defense and state to agriculture and transportation, removing references to climate change from their websites. Increasingly, federal funding for scientific research that even mentions the word "climate" has been blocked. In other words, the new administration is attempting to rewrite history.

Photo: Mike Hindle via Unsplash

Don't stop believing: this eco-housing project in Milan is a fine example of how to build a sustainable future

These radical policy changes also affect the world of business. After Trump's election, six major US banks announced they were leaving the Net Zero Banking Alliance. In 2024, some companies revised their climate ambitions downward or scaled back their scientific validation. In recent months, the government has instructed companies active in the US to play by the new rules, whether on DE&I or sustainability.

As a result, the fossil fuel industry in the US and around the world is reviving. For example, Exxon never fully embraced the renewable energy transition and is doubling down on oil exploration and exploitation. BP and Shell are among the companies that are retracing their steps and moving back to their oil and gas core. American business lobbying groups, emboldened by Trump, have begun advocating for a loosening of sustainability rules in the EU. None of this bodes well for the new nature of business.

But the darkest hour comes just before the dawn. Indeed, corporate climate action is under severe pressure, but efforts in other areas, such as nature and biodiversity or the development of capital accounting, are moving forward. And, while the US government is moving backward on the new nature agenda, other countries and regions, including Switzerland, the EU, China, Japan, and other parts of Asia, are pressing ahead.

President Xi Jinping inserted the pursuit of an "ecological civilization" into the Chinese People's Charter in 2017. The idea has permeated much of society and Chinese policymaking. Chinese companies lead the world in developing and commercializing electric vehicles and their batteries, solar power, and other "clean" technologies, such as hydrogen. And the government is acting on citizens' demands for cleaner and greener cities.

The Chinese efforts (and those in the EU and Switzerland) will need to go much further and faster still. They will also need to encompass the parts of the economy still heading in the opposite direction, such as the many coal plants that power large parts of its economy.

The trend toward more sustainability in China seems unaffected by the second-term Trump agenda. While Trump asks American companies to "drill baby, drill" and exploit more fossil fuels, China and other Asian and European economies are unquestionably still headed toward more climate and nature action. Thanks to market forces, scientists claim that even the US green transition is moving ahead. The same is true for grassroots movements, such as B Lab in Switzerland and France, and academic and employee groups like INSEAD.

Major companies such as IKEA, Schneider Electric, and my family company Roche, along with local firms like Innergia, a Swiss communal renewable energy cooperative, are charting the path forward in establishing and making mainstream the new nature of business. They are doing so regardless of the political agenda elsewhere.

International collaboration in updating the world's accounting systems to include climate and nature metrics is rapidly gaining pace, as Emmanuel Faber, the former CEO of Danone and now the chair of the International Sustainability Standards Board, shows in his foreword to my recent book, co-authored by Peter Vanham, on the new nature of business. Accounting may seem boring, but it is the yardstick on which capital allocation happens, and it creates systems change as a result.

It is more important than ever to stay the course and expand the movement for a new nature of business. By maintaining this critical mass, the balance between business and society will shift definitively toward a more sustainable and inclusive future. Rather than letting ourselves be demotivated by the last gasps of the old system, we should hold on to the notion that the new one is on the way. ■

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Just as an orchestra conductor may feel undermined if the lead violin is spending their weekends in a jazz band, so too may a team leader who finds a talented employee is working successfully with other groups

Learning to love the 'boundary spanners'

Why managers can undermine cross-silo collaboration, and what to do about it

Entrepreneurial talent who work with other teams often run into trouble with their managers. **Eric Quintane** suggests ways to get the most out of your 'boundary spanners'

The most resilient and innovative organizations work fluidly across internal boundaries. Cross-silo collaboration enables firms to harness diverse perspectives, producing more integrative and impactful ideas. At the heart of this process are "boundary spanners": employees who connect across departments, bridge expertise, and facilitate knowledge exchange. Yet, despite their value, these employees can unintentionally provoke tension. For managers, the boundary-spanning activities of their subordinates may feel less like a welcome display of taking the initiative and more like a threat to their authority.

In our paper *Protecting Their Turf: When and Why Supervisors Undermine Employee Boundary Spanning*, we uncovered a surprising dynamic: managers may become obstacles to collaboration across

Photo: Carolin Windel @ elbphilharmonie.de groups. Even when cross-silo work aligns with corporate goals, some supervisors respond with undermining behaviors, driven by fears of losing control, harming their reputations, or diminishing their status. Our study examines when, why, and how managers react negatively to boundary-spanning behavior and what organizations can do to prevent it.

The research: boundary spanners and supervisors

To investigate why supervisors might react negatively to boundary spanners, we conducted a two-part study combining real-world survey data and a controlled vignette experiment. This mixed-method approach allowed us to identify behavioral patterns and the psychological mechanisms driving them.

The first part of our research involved a field study with 302 full-time employees from various industries and organizational settings. Each was asked to reflect on their work routines and report how often they sought advice from colleagues outside their team. This behavior, known as informational boundary spanning, captures the extent to which employees venture across organizational silos in search of knowledge or problem-solving perspectives. We also asked how frequently employees sought advice from their supervisors and whether they experienced undermining behavior from them. Such behavior might include public criticism, exclusion from decision-making processes, or a lack of support in advancing career opportunities.

The results revealed a striking pattern: employees who frequently engaged in boundary spanning were more likely to be undermined by their supervisor when they did not seek "upward" advice. In other words, the positive relationship between boundary spanning and supervisor undermining was stronger when the supervisor was not included in the advice network (represented by the solid line in the graph (Page 54). This changed when employees sought advice from their supervisor (the dotted line), suggesting that including the supervisor in the boundary-spanning effort, arguably a sign of deference, served as a protective buffer.

The field study did not explain *why* such behavior occurs, so to address this, we designed a second study involving 410 managers who participated in a scenario-based online experiment. Each was randomly assigned to read a vignette describing a fictional employee. The scenarios varied in two dimensions: whether the employee engaged in boundary spanning and whether they sought advice from their supervisor. Managers were asked to respond to statements measuring their perceptions and intended behaviors. We assessed whether managers felt they had lost control of their team's image and decision-making, whether they attributed political or malicious motives to the employee's behavior, or whether they intended to respond with undermining behavior.

The data revealed that managers who read about an employee engaging in boundary spanning without seeking their advice reported a greater sense of losing control over their team. They were likelier to

'Employees who frequently engaged in boundary spanning were more likely to be undermined by their supervisor when they did not seek 'upward' advice'

attribute harmful intent, such as political maneuvering or disloyalty, to the employee. Managers were especially likely to consider undermining their employees when they felt both a loss of control and believed the employee had acted with questionable intent.

These results suggest that managers' reactions are not purely emotional or impulsive but are shaped by a structured psychological process. When managers are excluded from collaborative decisions or cross-team interactions, they often interpret these actions through the lens of territoriality. They feel they are losing influence over how their team is represented and how decisions are made. If they believe the employee's motives are self-serving, they retreat into defense mode and take steps to reassert their authority, draw boundaries, and punish perceived disloyalty.

Together, the studies reveal a consistent pattern: when employees reach outside their team for advice without involving their manager, some supervisors respond with defensiveness and even retaliation. But these reactions aren't arbitrary. They follow a recognizable psychological logic rooted in how managers interpret threats to their authority, identity, and control.

Why managers react defensively

It may seem puzzling that a leader would resist behavior that benefits their teams and organization. Cross-silo collaboration often leads to new ideas, better decisions, and increased learning. Yet our findings show that boundary-spanning behavior can trigger specific psychological responses in managers, particularly when they feel left out. These reactions reflect concerns about authority, alignment, and loyalty. Boundary spanning can be ambiguous for a manager: it can be seen as proactive and prosocial or political and disloyal. The way it is perceived determines how a manager responds. Three mechanisms help explain this dynamic:

1. Perceived loss of control

Many managers view themselves as responsible for their team's strategic direction and external image. When employees bypass them to collaborate across teams, managers may feel that their influence over key decisions and narratives is slipping away. This perceived loss of control over team boundaries, especially in hierarchies where » managerial oversight is emphasized, can trigger defensive behaviors intended to assert authority.

2. Attribution of harmful intent

Managers don't just respond to what employees do; they respond to what they think it means. If an employee's boundary-spanning behavior is interpreted as genuine curiosity or collaborative effort, managers may welcome it. But if the same behavior is seen as self-serving, politically motivated, or designed to bypass authority, it becomes a perceived threat. Our study shows that this attribution of harmful intent is a key trigger of undermining responses.

3. Absence of affirmation through upward advice-seeking

When employees seek advice from their supervisor, it signals deference, inclusion, and alignment. This simple act reassures the manager that they remain valued and consulted. In our study, this behavior significantly reduced the likelihood of defensive responses. When that advice element was absent, supervisors were more likely to feel bypassed and react negatively. It's not just what employees do outside the team; it's whether they maintain the symbolic link inside it.

These dynamics don't just affect a single interaction. Over time, they can influence how employees approach collaboration, especially when similar signals repeat across different teams or contexts. Let's look at what can happen when such reactions become a pattern.

What happens when collaboration is undermined

When managers respond defensively to cross-silo collaboration, the effects may start small (for example, a hesitation to support a new idea or a subtle signal of disapproval), but they rarely stay contained. Over time, these behaviors can discourage initiative, weaken trust across teams, and reduce the likelihood that employees will take the interpersonal risks that cross-silo collaboration requires. What begins as a moment of interpersonal defensiveness can contribute to broader patterns of hesitation, fragmentation, and missed opportunities.

A chilling effect on innovation

Subtle signals from managers can shape what employees are willing to share. When cross-functional efforts are met with skepticism or resistance, even informally, employees take notice. Prior research shows that employees who experience undermining behavior are less likely to trust their leaders or feel safe speaking up. This lack of psychological safety can discourage the behaviors organizations depend on: sharing ideas, testing new approaches, and proposing cross-team solutions.

Initiative slows down

Over time, employees adjust their behavior to fit what the environment seems to reward or punish. When those seeking new perspectives are met with disapproval or subtle resistance, others quickly learn that staying in their lane is safer. Initiative gives way to caution, and learning opportunities are lost. Employees may become more hesitant, less curious, and increasingly disengaged. This gradual withdrawal can reduce energy, job satisfaction, and commitment to the organization.

Adaptability starts to suffer

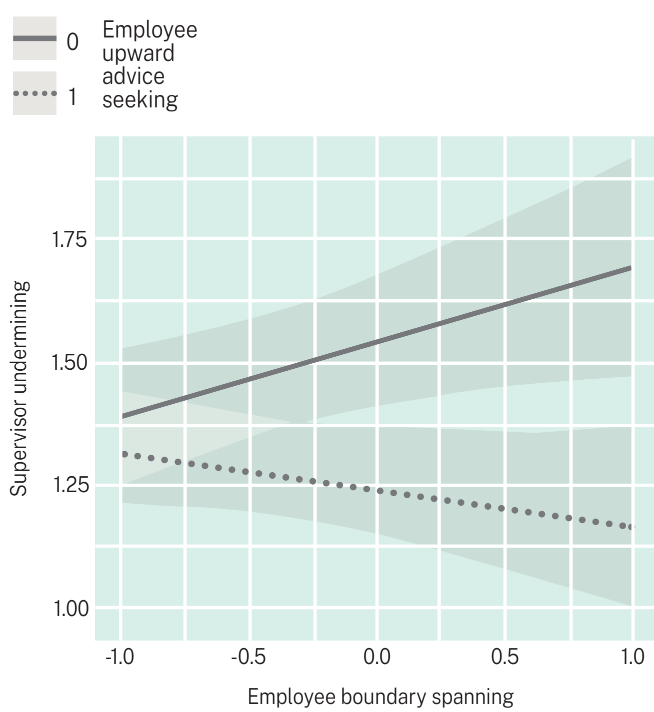
Teams retreat into their silos when boundary spanning becomes risky. Knowledge remains compartmentalized, and challenges requiring cross-functional solutions are addressed in isolation. As collaboration narrows, the organization becomes less responsive to change, slower to spot emerging trends, less coordinated in decision-making, and more reliant on rigid structures. What suffers is not just speed, but adaptability: the quality organizations need to navigate uncertainty and compete in complex environments.

Hidden costs accumulate

The consequences of managerial defensiveness are rarely captured in formal metrics. Undermining behaviors tend to be subtle: a manager might delay a project involving external collaboration, an employee might be left out of a conversation, or a subtle comment in a team meeting casts doubt on an employee's motives. The impact of

THE BENEFITS OF SEEKING ADVICE

The solid line shows that the positive relationship between 'boundary spanning' and 'supervisor undermining' is stronger when the supervisor is excluded from the advice network. In contrast, the dotted line shows what happens when they are included.



these small acts gradually accumulates and takes a toll. Employees on the receiving end may report greater emotional strain and lower confidence. Talented employees who value autonomy and intellectual freedom may eventually disengage or leave. As more employees disengage or exit, institutional memory fragments, and cross-team coordination suffers. The organization loses the connective tissue that enables collaboration to thrive.

The solution: how to prevent managerial resistance

Our research points to a simple yet powerful insight: inclusion can disarm defensiveness. When employees seek their manager's advice before or during boundary-spanning activities, it signals respect and alignment. This small gesture reassures managers that they remain part of the process and are not being bypassed or sidelined. It addresses the root of the threat response by preserving the managers' sense of control and relevance.

What employees can do:
• Involve supervisors early. Don't wait to be asked: initiate brief, respectful conversations about planned collaborations.

• Clarify intent. Make it clear that the goal is to strengthen the team's work, not to circumvent authority.

• Acknowledge the supervisor's role. Ask for their input, credit their support, and reinforce their value in the process.

What managers can do:
• Recognize the impulse to defend territory. Self-awareness is the first step toward supporting, rather than resisting, collaboration.

• Foster openness. Encourage transparency around external relationships, even if they fall outside the formal chain of command.

• Reward initiative. Create a climate where employees feel safe to connect, explore, and bring outside insights into the team.

Three organizational strategies to support this shift

1. Clarify the role of managers in collaboration. Provide clear frameworks for when and how boundary spanning should occur, and explicitly position managers as enablers, not gatekeepers. When expectations are clear, managers are less likely to interpret employee initiative as a threat.

2. Increase visibility without micromanagement. Use shared dashboards, team check-ins, or collaboration tools that keep supervisors in the loop without requiring constant oversight. When managers feel informed, they are less likely to feel excluded or blindsided.

3. Redefine leadership success. Shift the criteria for strong leadership to include enabling innovation, facilitating cross-team work, and creating psychological safety. When these qualities are rewarded, the organization signals that power-sharing is a skill, not a weakness.

Building a culture that supports cross-silo collaboration demands deliberate design. The following practices can help ensure that boundary-spanning behaviors are recognized, supported, and sustained:

• **Invest in leadership development.** Focus on relational leadership, emotional intelligence, and adaptive power-sharing.

• **Reward collaborative behaviors.** In performance evaluations, recognize the underlying actions that enable innovation, and not just the outcomes: boundary spanning, knowledge sharing, and mentorship.

• **Create forums for open dialogue.** Establish cross-functional communities of practice or shared digital platforms where collaboration is visible and valued.

• **Foster psychological safety.** Support employees in taking interpersonal risks, including reaching across team lines, by reinforcing that initiative is valued, not penalized.

Cross-silo collaboration offers clear benefits for organizations, from unlocking innovation to building adaptability. Yet these outcomes depend on employee initiative and managerial support. To realize the full potential of collaboration, organizations must address the psychological dynamics that shape how it is perceived, especially concerns about control and recognition. When managers feel respected and included, cross-team work shifts from being a perceived threat to a shared opportunity. It's not enough to tell teams to collaborate; leaders must be prepared to support it, not just in principle, but in practice.

The research paper *Protecting Their Turf: When and Why Supervisors Undermine Employee Boundary Spanning* was co-authored with **Julija N Mell** of the Rotterdam School of Management, **Giles Hirst** of the Research School of Management, Australia National University, and **Andrew Carnegie** of Carnegie Consulting Group, Melbourne. ■

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Empathetic assertiveness: how to navigate tough negotiations

Negotiating in conflict zones or during a hostage crisis demands skill, courage, and emotional intelligence, all of which can transfer to the business world. **Fiorella Erni** and **Kirk Kinnell** share lessons from the frontline

Even seasoned negotiators can hesitate when addressing sensitive issues in difficult situations. Take the following simulation exercise: participants were tasked with confronting a military commander about serious allegations of sexual violence committed by soldiers under his command at a displaced persons' site. Despite the gravity of the situation, the negotiator – fearing that a direct confrontation could jeopardize humanitarian access for critical services like food deliveries – softened the message, saying something along the lines of: "Commander, I just want to raise a small issue about a few violations that we heard about."

In doing so, they unintentionally diminished the severity of the crimes, jeopardizing not only justice for the victims but also undermining their credibility during the negotiation. The military commander likely interpreted the message as referencing unconfirmed rumors of misconduct, rather than serious, substantiated allegations. As a result, the chances that he would take meaningful action became minimal, and he was likely unimpressed that such vague and seemingly minor concerns were even raised to his level of authority.

This raises crucial questions: What went wrong? How could such a sensitive and serious concern have been communicated in a way that maintained both access and integrity?

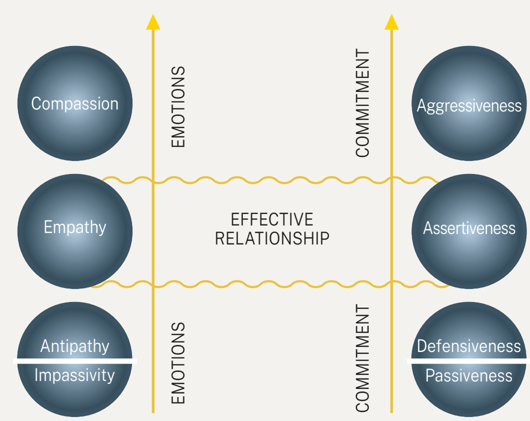
Effective communication is shaped by a combination of skills, cultural influences, personality traits, and individual confidence. While some people are naturally direct in addressing issues, others may avoid making a clear point. Directness can sometimes come across as harsh or confrontational, while hesitating to speak up can lead to confusion and make you appear weak or indecisive in the eyes of the other party.

How can we address sensitive topics openly and honestly without antagonizing the other party and, instead, foster a conversation that leads to a mutually beneficial solution?

In this article, we explore our concept of empathetic assertiveness, which provides guidance on how to communicate effectively in difficult situations at work while maintaining positive, productive relationships.

GETTING THE RIGHT BALANCE

The strength of any negotiator and leader lies in mastering empathetic assertiveness. This involves acknowledging the other party's emotions with empathy while asserting yourself without aggression or defensiveness – hard on the point, soft on the person



Assertive vs. submissive communication

Avoiding conflict often leads to submissive communication, which may prevent confrontation in the short term. However, submission comes at a cost: you risk losing your self-respect and the respect of others. People who fear conflict may convince themselves they are simply being patient, but this avoidance can lead to growing frustration over time.

When conflict is acknowledged, it creates an opportunity for productive confrontation. With the right balance of assertiveness, this confrontation can evolve into a negotiation that benefits all parties. However, too much assertiveness can quickly shift the dynamic. If a negotiator becomes overly aggressive or defensive, the conversation can escalate into a standoff, effectively ending the discussion without resolution. The key lies in striking the right balance between assertiveness and empathy: navigating conflict with respect and purpose, asserting your position while simultaneously demonstrating genuine respect for the perspectives of others.

We recognize that the strongest place in any relationship is the combination of empathy and assertiveness, but that is not the same as merely stating your demand and then respectfully holding that position, which is known as "anchoring".

In our experience, it is often more advantageous to delay asserting your position until you fully understand the other side's perspective. It may initially feel submissive, but it is actually a strength. By choosing the right moment to present your position, you can shape it in a way that resonates more deeply with the other side. Applying the "Empathy First, Assertiveness Later" approach asserts your position at the optimum time – when the other party feels heard, understood, and more open to considering perspectives beyond their own, including yours.

Mere assertiveness is not enough in a negotiation

Assertiveness can take many forms, and people often believe that to be perceived as strong, they must make forceful points and assert themselves, sometimes at the expense of acknowledging the other side's needs. However, assertiveness alone is not enough to navigate complex negotiations; it must be accompanied by an awareness of your own and the other party's emotional dynamics.

Four emotional states can accompany assertiveness in negotiations:

1. EMPATHY is the ability to perceive and understand the emotions that others may be feeling. It involves recognizing and articulating what you see, hear, and understand, while also considering the surrounding context, which adds depth and value to the connection. Think of it as having an insider's view into their situation and feelings, without passing judgment.

2. SYMPATHY occurs when you feel the emotions that the other party is experiencing. You internalize their feelings, often creating a deeper emotional bond, which can naturally lead to offering support or assistance.

3. ANTIPATHY is when you recognize the emotions of others but consciously choose to disregard or ignore them, often as a form of self-protection. This response can arise when you feel overwhelmed by negative emotions or intentionally create emotional distance to maintain objectivity or resilience.

4. IMPASSIVITY is when you do not feel any emotional response at all. You may appear indifferent or emotionally detached from others, which can be a sign of emotional disengagement. In extreme cases, this can resemble psychopathy, where emotional connections are absent.

Understanding these emotional stages is crucial in a negotiation, as the way you engage with the other party's emotions can significantly shape the outcome. Skilled negotiators balance assertiveness with emotional intelligence and empathy to foster productive, mutually beneficial discussions.

The ability to recognize others' emotions within their specific context is vital in negotiation. When both parties genuinely share an »

Photo: iStock

LEARN HOW TO USE THE FIVE STEPS TO EMPATHETIC ASSERTIVENESS

EXERCISE 1
Think of a recent situation where you avoided a difficult conversation or entered it too forcefully. Ask yourself:

- What was I trying to protect: myself, the relationship, or an outcome?
- How did I feel before, during, and after the conversation?
- What did I lose or gain by approaching it the way I did?
- If I had to do it again, what would I do differently?

Write down your reflections and look for patterns across multiple situations. This awareness is the first step in knowing and shifting your default response.

Tip: Before your next negotiation or difficult conversation, reflect on the questions above. Carefully consider who you'll be speaking to, how they will likely respond, and how your message might be received based on how it is delivered. Thoughtful preparation, especially with the other person's perspective in mind, can make all the difference in achieving a constructive outcome.

Others can often interpret how we phrase our requests in ways we never intended. As the message sender, we are responsible for anticipating how the other party may read between the lines. They might perceive that we are appealing for their action, that there is an imbalance of power in the relationship, or that we have revealed deeper opinions or values through the way we framed our request.

It's not enough to claim they "took it the wrong way." Communication breakdowns usually occur because we fail to craft our message with sufficient sensitivity.

EXERCISE 2
Think back to a recent negotiation or emotionally charged conversation. Ask yourself:

- Which emotional stage was I operating from: empathy, compassion, antipathy, or impassivity?
- How did my emotional state influence my tone, body language, and ability to listen?
- How did I respond to the emotions of the other party? Did I acknowledge them, ignore them, or feel overwhelmed by them?
- What impact did that emotional dynamic have on the outcome of the conversation?

Consider how the conversation might have unfolded differently if you had engaged from a different emotional stage.

Tip: Before entering a negotiation, pause to assess your emotional state. Ask yourself: am I open and connected? Am I emotionally guarded or disengaged? Then consider the likely emotional state of the other party. Preparing this way allows you to show up with greater empathy and emotional agility, essential ingredients for navigating complexity without losing clarity or composure.

EXERCISE 3
Imagine you're managing a team of 40 people who have grown comfortable working from home since the COVID-19 pandemic. However, you've noticed communication gaps, and client complaints have begun to surface. As a result, you need some of your executives to return to the office more regularly. There is clear resistance to this change, and now you must address this delicate issue by calling them into your office for a conversation.

Your task: Record a voice note where you deliver this message with empathetic assertion.

When you are done, replay the recording and listen as if it were directed at you.

- How does it feel?
- Do you feel supported and understood?
- Is the message clear, and do you know the next steps?

Photo: iStock

If you're nodding along, congratulations! You've nailed compassionate assertiveness.

• Are you not sure what you were told?
• Do you feel that many issues were raised before you were told why you ended up in your supervisor's office?

If so, you should practice your empathetic assertiveness. When delivering a difficult message or raising a critical point, get to the point quickly and aim to be **hard on the point, soft on the person**. This helps maintain trust and dignity while addressing what matters most.

In Exercise 3, the message could have been delivered as follows:

1. Prepare yourself first.

Understand the business reasons why the person needs to return onsite (e.g., team collaboration, service delivery, client needs). Be ready with clear facts, not opinions.

2. Start with empathy.

"I really appreciate the way you've adapted to working from home, and I understand it's brought benefits for your work-life balance and focus."

3. Be clear and honest about the business needs/issue at hand.

"At the same time, we're at a point where the clients' needs require more in-person presence. We're seeing gaps in communication and team support that we can't fully address remotely."

4. Stay firm on the issue, but kind to the person.

"I know this might not be what you were hoping for, and I acknowledge this is a big change. I'm here to discuss how we can make this transition work for you, while meeting the team's and the clients' needs."

5. Invite collaboration without compromising the non-negotiables.

"Let's explore what support or adjustments would help you feel more comfortable returning. While we do need more in-person presence, I'm open to talking about how that might look in practice."

emotion, such as sadness or happiness, the connection formed is often deeper and more meaningful than a simple demonstration of understanding.

The sweet spot: empathetic assertiveness

The strength of any negotiator and leader lies in mastering empathetic assertiveness. This involves acknowledging the other party's emotions with empathy while asserting yourself without aggression or defensiveness.

It's a way to establish an effective relationship where the other party respects you, yet you remain neither hurtful nor confrontational – hard on the point, soft on the person.

For senior leaders, mastering empathetic assertiveness is a strategic leadership asset. The ability to address complex issues with clarity and empathy enhances your credibility and shapes the culture of communication across your organization. When leaders model assertiveness grounded in respect, they empower their teams to tackle challenges head-on, speak up without fear, and collaborate more effectively even under pressure.

In high-stakes environments, the instinct may be to prioritize results over relationships or to soften critical messages for fear of backlash. However, the most effective leaders can do both: drive performance while fostering trust. Empathetic assertiveness offers a way to achieve that balance. It enables you to hold others accountable, communicate with integrity, and build alignment without sacrificing humanity.

Ultimately, senior leadership isn't just about making the right decisions; it's about creating the conditions for others to do the same. By practizing and championing empathetic assertiveness, you set the foundation for a culture where difficult conversations become opportunities for growth, connection, and meaningful progress. ■

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Anchored, alert, and agile: how Keppel CEO engineered a change in fortune

Loh Chin Hua, CEO of Keppel, tells **Jean-François Manzoni** how bold restructuring, strategic discipline, and a long-term vision transformed an industrial conglomerate into a global asset manager

When Loh Chin Hua became CEO of Keppel in 2014, the company epitomized a not-uncommon Asian conglomerate model: diversified across sectors, asset-heavy, and driven by project-based revenue. Its operations – offshore rig construction, shipyards, infrastructure, real estate, and telecommunications – had long contributed to Singapore's economic development.

But by the mid-2010s, investor expectations had shifted. Markets increasingly favored focused companies with higher returns and scalable recurring income. Keppel's complexity and exposure to cyclical industries meant its valuation lagged behind the sum of its parts.

Over the next decade, Loh led one of the region's most ambitious corporate reinventions – transforming Keppel into a global alternative asset manager and operator with deep expertise in sustainable urbanization and digitalization. This was more than a portfolio shift; it was a strategic and cultural redefinition.

From conglomerate discount to strategic clarity

Keppel's diverse activities had served it well. But by 2018, the model was under strain.

"We'd been very successful as a conglomerate for many decades, but the market was changing," Loh explained. "Our recurring income was low, and we were not attracting the kind of growth multiples that we wanted to see. To add insult to injury, the market was further penalizing us through a conglomerate discount."

"For all these reasons, we started to look at how we could transform ourselves into a company that would attract a better valuation," he said. "And, of course, if the sum of the parts of your businesses is greater than your market capitalization, there's always a danger you're inviting attention that is not necessarily desired."

Loh launched a strategic review involving future leaders and the board. Three paths emerged: maintain the status quo, become an engineering firm, or pivot to asset management. Keppel chose the latter but combined it with its historical expertise.

"Unlike most asset managers, we are also very strong operators," Loh said. "As a result, investors see us as quite a different animal compared with a typical general partner."

Letting go of legacy

A defining moment came with the decision to divest Keppel's offshore and marine (O&M) business, which was its original core.

"If you look back at the source of Keppel, we started from the shipyard," reflected Loh. "This is the business that built up all our other businesses, so to spin it off or divest was a pretty tough decision." Keppel recognized early that the 2015 oil downturn was structural and required a significant reduction of the cost base, achieved by right-sizing operations and divesting underperforming yards. The result: stronger performance.

In 2023, Keppel merged its O&M business with Sembcorp Marine, forming a new entity – Seatrium – with Keppel's unit arguably emerging as the stronger partner. The transformation was more than financial. Loh and his team placed equal emphasis on morale and engagement, especially among employees facing uncertainty. "When the chips are down, it's very important, as a leader, to provide some hope and to remember to shout out to them for all the good work they did. There were not many things to celebrate, but whatever small victory we had, we celebrated it very hard."

Freeing up capital, doubling down on focus

Monetizing underused assets was another critical move. Loh's team identified S$17.5bn ($13.3bn) on the balance sheet that Keppel no longer needed to own.

Photo: Keppel Ltd.

‘You just have to believe that if you keep doing the right things and you keep moving the chains, as they say in American football, then eventually you will get there, and the market will change’

"These were not bad assets by any means," Loh said. “But they may be better off with somebody else, for example, someone looking for a stable yield.”

Rather than fully exit, Keppel often retained operational roles, continuing to manage assets while transferring ownership to Real Estate Investment Trusts (REITs), private funds, or other third parties. This approach allows Keppel to maintain recurring income and operational oversight. Over S$7bn ($5.3bn) has already been monetized, with the company on track to reach its S$10-12bn ($7.6-9.1bn) target by 2026.

This shift supports Keppel’s asset-light model while deepening investor partnerships and preserving operational capabilities.

Tearing down silos

To support its new direction, Keppel reorganized its structure under Vision 2030, moving from vertical business units to three horizontal platforms focused on real estate, infrastructure, and connectivity. These are supported by integrated investment, operating and fund management functions.

Preparation began years earlier. “We started to work together across divisions, which was not natural for Keppel, being so siloed,” Loh said. “Then we privatized our subsidiaries to bring everything under one roof. It allowed us to deploy capital more strategically and manage our talent across the group. Finally, in 2023, we completed the integration.”

By January 2024, Keppel was operating as one integrated firm. “When we made the move, it wasn’t chaotic,” Loh said. “People embraced it because we had been preparing for some time, and the rationale was very clear. We had removed friction points, organizational and human, and we had the right people in place to lead.”

Among those leaders was Cindy Lim, now CEO of the infrastructure division. “She wasn’t necessarily the obvious candidate on paper,” Loh said, “but she had a willingness to take on challenges and consistently exceeded expectations. We saw potential, and we acted on it.”

Proving sustainability pays

Keppel’s reinvention has also been philosophical. Once viewed primarily as a risk mitigation issue, sustainability is now seen as a commercial opportunity.

“It’s about doing more with less,” Loh said. Take Keppel Bay Tower, the company’s headquarters, which was retrofitted into a net-zero energy smart building. It became Singapore’s first commercial development to earn the BCA Green Mark Platinum Zero Energy certification, boosting net operating income by 31% and creating S$150m ($114m) in asset value. »

That success underpins a new line of business: helping clients refit and future-proof real estate for a lower-carbon future. “You can be sustainable, but at the same time, it doesn’t create a lower return for you,” Loh stressed. “That’s important for people to understand.”

Navigating uncertainty with vigilance

This sustainability mindset mirrors Keppel’s geopolitical posture: anchored, alert, and agile. Operating in over 20 countries, the company must continuously assess shifting global currents. Loh, who began his career at Singapore’s sovereign wealth fund GIC and worked across global hubs, brings a critical perspective.

He noted that while Keppel has benefited from global integration, both the company and Singapore must remain vigilant amid rising tensions. “We can’t take anything for granted. It's important that we are able to keep evolving and making sure we remain relevant,” he said.

Leading through crisis and into the future

Undoubtedly, one of Loh’s defining qualities is his composure in crisis. In 2020, as Keppel’s stock hit record lows, oil prices collapsed and a major shareholder withdrew a takeover bid, he managed to stay – and keep Keppelites – focused.

“You just have to believe that if you keep doing the right things and you keep moving the chains, as they say in American football, then eventually you will get there and the market will change,” he said. “Of course, it's easy to get frustrated if you allow yourself to think things like: ‘I'm doing all these things, but the market doesn’t value them – how unfair!’ But better to stay focused on our own actions and trust the process.”

In his 12th year as Keppel’s CEO, Loh remains curious, engaged, and energized. “I remain very grateful to be given this opportunity to be in this great country, leading this amazing organization called Keppel at such an exciting time in its history, and working with such passionate and committed colleagues.” Commenting on his ongoing curiosity, he added: “I believe I'm a good student in life. And I don’t mean a student in the traditional sense in the classroom. I continue to observe and learn quite a bit when I visit people and places.”

Keppel’s reinvention continues. But the direction is clear, and the foundation is strong. ■

Scan the code to hear more of Loh Chin Hua’s insights, including on board-CEO dynamics, talent selection and development, and how he transformed Keppel’s portfolio of businesses.

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An unlikely icon

Why no one foresaw the impact of the ‘thumbs up’ button

Photo: iStock

We click on the 'like' button seven billion times a day, but the tech pioneers who came up with the idea never saw its true potential. The best innovations are messy, serendipitous, and deeply social, say **Martin Reeves** and **Bob Goodson**

The seemingly inconsequential digital thumbs-up icon we know as the like button originated around 2000 and had unexpectedly momentous consequences. Today, we collectively click the like button around seven billion times a day. It became the core of the social media business model and triggered the disruption of the $700bn advertising industry and the rise of digital marketing. It changed how we pay attention, communicate, relate, create, promote, and transact. And, as with other pervasive innovations, it also created a host of unanticipated social side effects, like social anxiety and polarization. Who invented it and what accounts for this meteoric rise?

Despite three years of research, it's hard to say who should take credit. Facebook popularized the button in 2009, but its origins go back far earlier. Many people in Silicon Valley were working on a related set of challenges in parallel, like how to rank content (Everything2, 2000) or encourage user-generated content such as restaurant reviews (Yelp, 2005). They did so in an environment where informal sharing and learning across companies was common.

In solving these tactical challenges, the like button created several positive feedback loops that magnified its utility and inadvertently solved some bigger issues beyond the imagination of the early pioneers.

More recognition for content creators led to more user content. More feedback on who liked what content led to more targeted content feeds and increased user engagement. More "like" data meant better predictions. Eventually, the tech community recognized that this ability to attract attention and finely segment audiences according to their preferences and affiliations could create a better value proposition for advertising. It addressed a well-known quip about the industry: half of advertising was wasted, but it was impossible to know which half. So was born the advertising-based business model, fueling the rise of social media and digital advertising.

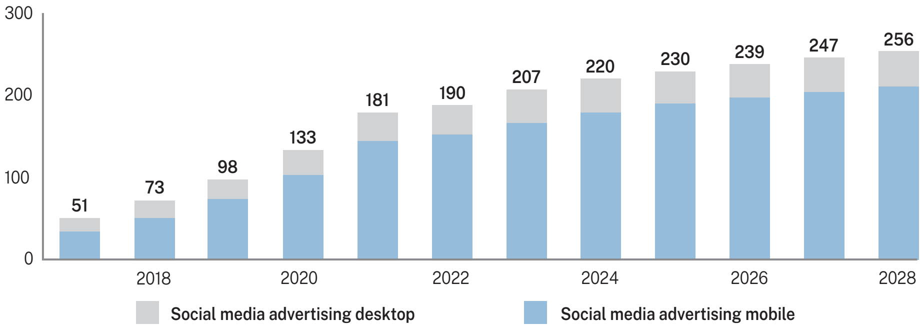
The impact of simple, inexpensive, analyzable, predictive, real-time feedback didn't remain confined to social media. Online and offline retail businesses started to use like-type data to refine product portfolios and optimize promotional spend. Even industrial business began to understand their customers' experiences more effectively.

Increased internet bandwidth supercharged the positive feedback, permitting engaging video content, and cheap, powerful consumer electronics that democratized content creation and created the fast-growing influence marketing phenomenon.

The entire advertising and marketing industry was forced to reinvent itself due to the spread of the "like" button. One reason for the meteoric rise of the like button was that it mirrors our neurological wiring. Studies of brain chemistry and anatomy confirm that the frisson »

RISE OF SOCIAL MEDIA AD SPENDING

Global spending in billion USD



Source: "Social media advertising spending worldwide from 2017 to 2028, by device", Statista Market Insights (2024), https://statista.com/outlook/dmo/digital-advertising/social-media-advertising/worldwide#ad-spending, BCG analysis

we experience when liking or being liked – the release of dopamine in the nucleus accumbens – is the same mechanism that rewards real-world pleasures like social interaction or sex. The like button stimulates ancient evolutionary circuits tied to our survival and sociality.

Yale sociologist and physician Nicholas Christakis told us that what's being rewarded and reinforced is a "social suite" of behaviors underpinning the human superpower of social learning – our ability to learn not only from direct experience but also by watching or listening to others. One key behavior in this suite is homophily, our preference for associating with and learning from people like ourselves. The like button encapsulates this perfectly, capturing both meanings of "like" – preference and similarity.

Another element of the social suite is our preference for mild hierarchy. Unlike dominance hierarchies in the animal world, which are maintained by violence or the threat of violence, humans tend to admire and affiliate with those others like to learn from. The counter beneath the thumbs-up symbol supports this tendency, providing a visible measure of social capital.

The familiarity of the pre-existing thumbs-up gesture also facilitated the spread of the like button. From gladiatorial depictions to paintings of hands in ancient caves, the human hand and our opposable thumb have been embedded in gestural language for centuries, albeit with shifts in meaning over time. No surprise then that the like button pioneers reflexively repurposed this.

Innovation as a social process

We were struck by how well the notion of social learning mapped onto Silicon Valley, which at the time was a giant collaborative learning lab overflowing with diverse examples of wins and losses to learn from.

Yelp was a pioneer of one-click reaction buttons in 2005. It was a watershed moment, removing the need for users to endure painfully slow page refreshes and URL redirects when expressing their preferences. It ensured that users could continue enjoying content without being disengaged. Russ Simmons, Yelp co-founder and the CTO at the time, coded the buttons using JavaScript. He only thought it possible because he had observed engineers at Gmail using JavaScript to embed different user features. We may never have had the joy of "liking" or being liked on the web had such knowledge been hidden in organizational silos. We traced a web of such influences underpinning the development of the like button.

There is a lesson here for all innovators: do not isolate yourselves – share your experiences and be curious about the experiences of your peers and rivals. Don't assume you work in a unique context; it's almost certain others are working on similar problems with similar solutions.

Innovation does not need a lightbulb moment

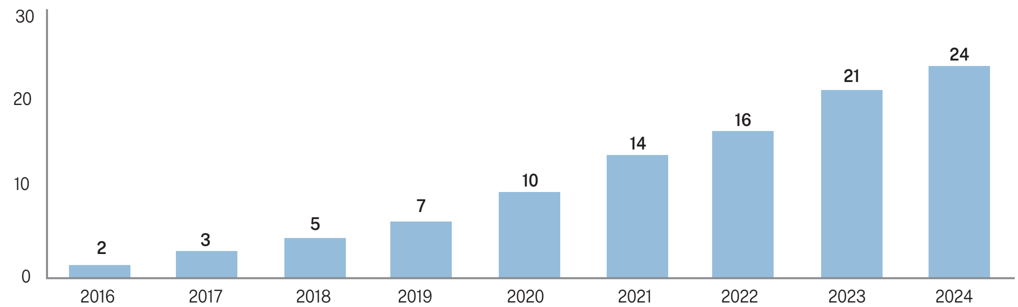
We conducted over 100 interviews with the pioneers of the like button. Not one of them foresaw its eventual consequences, or regarded it as more than a solution to one of the countless tactical design challenges they faced daily. It is surprising that something so world-changing could be born as the cumulative impact of many unremarkable moments of routine problem-solving.

We like to frame momentous innovations and discoveries as hero stories, where a single farsighted individual solves a well-defined problem in a flash of inspiration. But the process is often characterized by sociality, serendipity, delay, and unpredictability. Whether it's the CAPTCHA software, the jet engine, or the miner's safety lamp, multiple individuals tinkered simultaneously, building on each other's efforts, recombining preexisting elements, often inadvertently solving problems they didn't set out to solve. Reinforcing this messier view of innovation, a recent study showed that most scientific papers reported discoveries different from the ones anticipated in their grant applications.

A popular book among web designers and engineers, Steve Krug's *Don't Make Me Think*, influenced the early pioneers of the like button.

INFLUENCER MARKETING ON THE RISE

Global market size in billion USD



Source: "The State of Influencer Marketing 2024: Benchmark Report", Influencer MArketing Hub, September 2024, https://influencermarketinghub.com/influencer-marketing-benchmark-report|, BCG analysis

Its central idea was that for innovations to spread virally, they should not seem novel or require any special cognitive effort from users. The like button's success came about more through familiarity than novelty. It never needed instructions; instead, it tapped into deep human instincts. We are averse to friction: actions must be easy, social, attractive, and timely if they are to stick. It's worth reflecting on what this means for your approach to innovation. Are you trying too hard to be original or the first and missing something glaringly obvious in the familiar or the mundane? Don't gold-plate or make things unnecessarily futuristic. Pare it back. Simple is often the best.

The unexpected impacts of innovation

It's now apparent that the unforeseen benefits of the like button came with equally unintended side effects. How could this symbol of affirmation, rooted in our evolutionary biology, lead to consequences like digital addiction or self-esteem issues in teenagers?

The difference between online and offline liking is not one of *kind* but rather one of *quantity*. Real-world social interactions are limited by time and space. We can only interact physically with so many people per day. But digital likes can be given (or withheld) in higher quantities, at high frequencies, and without physical constraints. This can overload our dopamine circuitry, especially in young, developing brains. Ironically, by perfectly following the dictum of *Don't Make Me Think*, the designers of the like button created something so frictionless that it could overwhelm the very instincts it tapped into.

The fact that the pioneers of digital liking foresaw neither its benefits nor drawbacks introduces a complex regulatory challenge. How do you regulate for unforeseeable consequences without stifling innovation? Regulation will always lag, compounded by the fact that regulators will often be the last to become fluent in a new technology, and that the science to sort out causality and test interventions takes time. The bumbling process of sorting through potential side effects and remedies may be more of a feature than a bug, as with the original innovation process.

With surprising benefits came surprising new problems, requiring new rounds of technological and regulatory innovation and retesting our capacity for social learning. The crucial difference with some digital technologies is that the spread may be faster and more pervasive than we are used to coping with, requiring innovation to speed up the regulatory learning process, through public observatories, adaptive regulations, or other means.

As the next technological wave of Gen AI takes off, the 20-year history of the humble like button has much to teach us about how innovation and regulation work: not as a clean, linear, intentional process, but as a messy, serendipitous, and deeply social one. ■

Martin Reeves and Bob Goodson are the authors of *Like: The Button That Changed the World* (Harvard Business Review Press, April 2025)

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Follow the yellow brick road: how the magic of a good story can transform your business

Dorothy and her friends in the film 'The Wizard of Oz' set off for an uncertain future. As the lion can attest, all it takes is a little bit of courage

Photo: Pictorial Press Ltd / Alamy Stock Photo

Inspirational tales remove the fear of change and pave the way for a successful corporate transformation. **Jyoti Guptara** and **Günter Müller-Stewens** offer some tips and tricks to add sparkle to your narrative.

Does this scenario sound familiar? Your company is embarking on a transformation to recalibrate its offer for a changed world. There has been much fanfare, task forces, and presentations, but the journey hasn't started well. Employees are confused by all the jargon and don't see where they fit in with the plans. The C-suite struggles to inspire its workers about the roles they need to play in this new story. This disconnect leads to a lack of buy-in; disillusionment spreads, and trust is eroded. Many factors are to blame: competing interests, skepticism, and fear of the new. Before you know it, the new strategy is consigned to the scrapheap and heads roll. It's back to the drawing board.

Why do corporate transformations fall flat and fail to resonate with employees? The problem frequently lies in management's inability to convey their vision, leaving employees struggling to grasp its significance or how it is meant to play out. Leaders need to be compelling storytellers, not just expert strategists or managers.

Here, we explore why storytelling can be a potent tool for leading successful change initiatives and offer a method to empower leaders to turn their strategic visions into compelling stories that inspire their teams.

Before we get started, however, be mindful that storytelling, while a powerful and practical way to influence people, always requires an ethically sound foundation. A compelling narrative can be harmful: demagogues and autocrats spin baseless propaganda, and even the most bizarre conspiracy theories will find a following. Effective storytellers use their powers carefully.

Why storytelling supports transformation

Stories reflect how we experience life: characters encounter and navigate change, tackle conflict, and emerge transformed. Crucially, stories address the *processing* of change – part of transformation.

• **Stories simulate experience.** When navigating uncharted waters, managers want experienced and motivated employees. Here's the dilemma: individuals typically resist changing their behavior until they have experienced the new, but they can't experience the new until they have changed their behavior. What if you could transfer experience instantly and without cost? Harvard psychologist Dan Gilbert calls the brain an "experience simulator". Thankfully, storytelling removes the dilemma of what to do first (change behavior or experience the new) because it models both simultaneously (action and result). Stories allow us to experience situations vicariously.

Subconsciously, we cannot fully distinguish between reality and fantasy. That's why we get tense watching a thriller, even while fully aware that we are sitting safely on the sofa. Our brains respond similarly to direct and indirect experiences. Physiological reactions, like adrenaline production, don't fully differentiate between the real and the imagined. As a result, stories shape our thoughts, feelings, and actions. Stories can communicate a new strategy and help execution effectively by making the abstract tangible and actionable. If desired behavior is modeled in a story, employees will likely follow suit because they can grasp the idea (thinking) and relate to it (feeling). They will have enacted the behavior along with the story's character (acting), paving the way for real-world application.

• **Stress management.** Change can mean uncertainty, a steep learning curve, and new decision-making principles. All of these can be stressful. Stories help by making new concepts and ideas *understandable* while also providing a sense of being *understood*. Both enable clearer thinking as fear, confusion, and uncertainty inhibit rationality.

Furthermore, "experiencing" conflict in a story activates the stress hormone cortisol, and the feeling of catharsis as the narrative tension resolves triggers an endorphin release that helps manage stress.

What makes a good story?

Impactful narratives transport us, stir our emotions, and engage our senses. But what elements should leaders focus on to make stories compelling for business transformations?

• Powerful stories are **personal and connect.** They involve people who have achieved something special and reveal where they plan to go next. The listeners can relate to, and may even know, these people. In this way, stories can forge or strengthen bonds.

• They **resonate and engage**, capturing and maintaining attention, inviting the listeners to co-create the narrative. This encourages relational exchanges as people learn from each other and make sense of developments together. Well-crafted stories foster a sense of ownership and commitment to a shared future, engaging everyone in a collaborative process of shaping what lies ahead.

• They **captivate the audience** by offering insights into past events and stoking curiosity about the future. They articulate the need for change, the path ahead, and what's attractive about the destination.

• Successful stories provide **powerful imagery as mental anchors.** They employ metaphors that inspire dreams and foster yearning for something better. These metaphors simplify complexity and make the message accessible, creating a concise shared vocabulary.

• They offer **new interpretive frameworks** to help listeners make sense of their surroundings, akin to how superstitious narratives explain natural phenomena. Sensemaking cannot be foisted upon individuals. These frameworks assist them in their quest for meaning, as understanding unfolds gradually through daily experiences.

• Compelling stories **create unity in diversity**, crafting a vision that provides direction, appears desirable, and fosters solidarity.

Concise yet rich, an effective transformation story distills several narrative threads into a coherent whole. The question then arises: where and how do we find these stories?

Unearthing your narrative

Effective change management stories are not off-the-shelf products, but must be crystallized from experience. Consider these four factors as you craft your own story:

Leverage heritage. Companies with a rich history of success have a unique asset. They should harness this legacy to illustrate their trajectory, emphasizing that the future is built on historic foundations. Acknowledging a proud past, like Porsche's engineering excellence »

A MAGIC CARPET RIDE: HOW A RUG COMPANY LEARNED TO TELL A DIFFERENT STORY

Aladdin sets off on a fantastic journey that transforms his life

In 2023, the traditional rug market faced saturation, particularly for hand-knotted rugs. Jaipur Rugs was a leading player in the handcrafted rug industry, but they sold mainly to retailers, which limited their reach to end consumers and control over brand messaging and pricing. To grow, they would need to reach new customer segments directly. Part of the company's ambitious pivot was to start selling to individual households not just in India, but globally.

Instead of highlighting technical aspects like design and durability (important for B2B), Jaipur Rugs recognized the importance of connecting with consumers on an emotional level. Repositioning the brand necessitated moving the focus from their product (carpets) to the stories of the artisans who create them. This storytelling highlighted the heritage, craftsmanship, and social impact behind their rugs (overarching framing narrative), which they illustrated by telling the individual stories behind a particular carpet or the sourcing of materials.

While the branding and marketing storytelling were in full swing, Jaipur Rugs' management recognized that the transformation of the business model required a cultural transformation. Founder Nand Kishore Chaudhary was already an advocate of stories, having used them in his public talks. He decided to leverage stories *internally*. Following the framework outlined in this article, the company systematized its approach to storytelling, which included categorizing stories and using a narrative approach to leadership and change.

Storytelling has been a key factor in Jaipur Rugs' successful transformation to a B2C company that has expanded its market footprint with a new e-commerce platform, 11 flagship stores, and six franchise stores. It has unified the company's vision and motivated employees by emphasizing the significance of their work and its impact on artisans' lives. This cultural shift within the organization has driven a more customer-centric approach and innovation in product offerings.

or Hermès' leather craftsmanship, also gives the narrative a *human touch*. It shows respect for those who shaped the organization's legacy. In times of difficulty, the leadership must also show *candor* about the present, acknowledging and taking responsibility for the financial and human cost of change. At the same time, the narrative and its storytellers need to radiate *confidence* in a successful and achievable future. They should provide compelling reasons to embark on the journey, explaining why it's the right path and the consequences of inaction. The story should motivate stakeholders to co-create the future with the organization, highlighting the mutual benefits of shared value creation.

An authentic, hopeful narrative helps stakeholders reflect on (and be inspired by) past achievements and the organization's ability to navigate change from within. This is a powerful antidote for fear and skepticism about change.

Messenger before message. If transformation is a journey, the trustworthiness of the guides is key. The audience must trust the messenger, especially when change seems threatening. Is the story merely being "sold", or is it embodied? Are leaders "in the trenches" with us? Is the story *and* the storyteller authentic?

Two levels of storytelling can help here: a high-level, overarching narrative and practical examples of its application. The overarching narrative secures intellectual agreement and sets the framework, but a narrative alone can be flat, impersonal, and abstract, like a deflated balloon. It is only made tangible and authentic through smaller, concrete stories: the air that fills the balloon. When this dual-track storytelling succeeds, it fosters a strong sense of identification and connection for employees with their organization and the transformation. A collective narrative does double duty in enabling change: concrete stories that can be "vicariously experienced", and the "enactment" of the overarching narrative. This feeling of connection – empathy for a character or belonging to a larger narrative arc – is very real: it is triggered by oxytocin, the same bonding hormone that accompanies physical embrace.

In our experience, unfortunately, corporate transformations often lack both storytelling levels, with disastrous consequences. An organization that neglects one or both levels of the story soon encounters the death knell of change: a *narrative void*. This void demands to be filled with stories (explanations). If you don't tell your story, others will, and often their version isn't pretty.

Start with deep listening. A story only resonates when it conveys a deep understanding of the subject matter. This is challenging and takes time, given the complexity of organizations and their environments. Developing the necessary sensitivity depends on listening to others in a focused and unbiased manner: "When you talk, you are only repeating what you already know. But if you listen, you may learn something new." The goal is to capture as many perspectives as possible and step out of your echo chamber to engage your stakeholders. Without their support and participation, transformation is unattainable. The process should also include critics, skeptics,

Photo: Adobe Images

FIVE MUST-HAVES FOR EFFECTIVE STORYTELLING

Crafting a powerful and authentic story to support transformation is a great start, but it must be supported by the right skills, mindset, and environment.

- **Storytelling skills.** Few people are naturally gifted storytellers. Narrative competence cannot be learned just from theory; it must be consistently practiced and refined over time. Consider seeking external help to hone your skills.

- **Persuasion, not coercion.** Leaders might be tempted to use their hierarchical position to force strategic change through directives or coercion, but what might appear quicker and easier will soon backfire. Instead, focus on empowering individuals to embrace change. Changes should be chosen to align with individuals' goals, which they are already committed to achieving: help them see themselves as the "heroes" in their own story.

- **Opportunities for personal experience.** In transformation narratives, the path into the future is unknown and can't be described in detail. Instead, provide opportunities for individuals to explore their envisioned future in their daily activities. This experimentation helps employees perceive an unsuspected realm of opportunity for themselves, which business administration academic Shubha Patvardhan refers to as "prospective sensemaking". As they playfully venture into this imagined tomorrow, they will generate stories of their discoveries, which will validate the framing narrative and build enthusiasm.

- **Open communication in multiple formats and channels.** Most organizations have a communications strategy, but many neglect to involve narrative techniques. Effective communication of the story benefits from various formats (text, speech, images, video, cartoons, etc.) and channels (training sessions, social media, branding campaigns, etc.), making the narrative accessible and engaging across different mediums. The story needs to be constantly repeated and applied. Jack Welch, the former CEO of General Electric, said: "You've got to be out in front of crowds, repeating yourself over and over again, never changing your message no matter how much it bores you." This approach can include starting every management meeting with the story and briefly reflecting on its progress.

Leaders should not shy away from expressing their emotions. This includes positive feelings such as enthusiasm, happiness, joy, or gratitude, as well as negative sentiments like frustration, regret, or discomfort. Transparently sharing these emotions signifies that the story is genuinely theirs.

- **Dialogue with stakeholders.** Without participation and buy-in from an organization's stakeholders, the story will have no impact. The relationship with them should be perceived as reciprocal: engaging with them as equals in the value creation network of the organization. Dialogue helps earn and maintain stakeholders' enduring trust. Attentive listening to stakeholder expectations leads to a well-informed sense of balance in the distribution of the created value. A purely economic perspective is not sufficient for distributive justice; a moral assessment is also needed to determine when and whether a distribution is fair and equitable.

and self-appointed guardians of tradition. Interlocutors should feel their opinions and questions are welcomed and valued. Take Albert Kriemler, co-owner and chief designer at the Swiss fashion house Akris. Kriemler prepares his new collections based on discussions with sales staff in boutiques worldwide to understand exactly what his customers want. He collaborates with other artists and creatives (painters, photographers, architects, etc.) to grasp the zeitgeist, casting a wide net to inform his "story".

You should listen to yourself too – an introspective exploration of one's true desires and convictions, and how they relate to your organizational values. Before deciding on transformation strategies, there must be a shared understanding of what constitutes good or bad, and right or wrong decisions for the organization.

Purpose as an anchor. The cornerstone of a transformation narrative should be the organization's purpose, which shapes its identity. This purpose serves as a *programmatic core*, defining what the organization stands for. A clearly articulated purpose provides a sense of direction, offering inspiration and orientation to meet the need for increased freedom, flexibility, and agility.

The task for leaders is not simply to communicate more clearly, but to think narratively. They must understand that meaning precedes metrics, purpose and belief come before behavior, and transformation doesn't succeed because of the plan but because people feel it's worth the effort. In a world where uncertainty is the norm, stories can offer the one thing strategy alone cannot: belief. And belief, more than anything, is what moves people. ■

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BRAIN CIRCUITS

Train your brain to thrive amid the strain

Uncertainty can trigger two very different brain responses: one that broadens thinking, enables connections, and fosters innovation, and one that can undermine judgment via a stress response. Take this quick test devised by **Michael Netzley** to check if your brain needs a tune-up.

1. How often do you get a good night's sleep?
a) most nights, b) sometimes, c) rarely.

2. How healthy is your diet from a nutritional point of view?
a) very healthy, b) mixed, c) not healthy at all.

3. How often do you practice breathing or mindfulness techniques?
a) daily, b) sometimes, c) rarely or never.

4. How often do you feel stressed at work?
a) rarely, b) often, c) most of the time.

5. How often do you do meaningful exercise?
a) daily, b) sometimes, c) rarely or never.

How did you do?

Mostly As: Congratulations – you are caring for your brain, enabling it to cope with uncertainty.
Mostly Bs: You're doing some things well, some of the time – you just need to commit to a brain-healthy routine.
Mostly Cs: Your gray matter needs a rest! The following tips will give you the best chance of coping in uncertain times.

Understanding the effect of uncertainty

Uncertainty can activate the body's sympathetic nervous system, triggering the brain's fight, flight, or freeze response. Focused energy can create productive "flow states" for work that requires intense concentration in the short term. Most often, however, the stress response backfires, constricting thinking just when complexity and volatility demand broader cognitive capacity.

The alternative is to spend more time in the brain's default mode, using the parasympathetic nervous system. This is a division of the autonomic nervous system responsible for conserving energy and maintaining restful bodily functions. Often called the "rest and digest" or "feed and breed" mode, it counteracts the fight or flight responses of the sympathetic nervous system: heart rate and breathing slow down, and the brain operates more widely, being comparatively open to possibility, diverse perspectives, and creative problem-solving – exactly the mindset needed for today's world.

Three ways to retrain your brain

With the right habits, you can rewire your brain to more easily shift toward the parasympathetic system and unlock better decisions, creativity, and curiosity.

Increase brain energy
Your brain is an energy hog. Higher-order thinking – strategy, innovation, and judgment – consumes vast amounts of energy. To excel when uncertainty strikes, your brain needs energy reserves more than it needs resilience. The most effective way to boost brain energy is through better sleep, fitness, and nutrition. These three habits recharge your brain at night and fuel it during the day. Without this foundation, you're far more likely to get stuck in a stress-triggered, narrow-minded state.

Learn breathwork techniques
Begin shifting your brain out of fight-flight-freeze mode through breathing. Techniques like box breathing – or simply taking two sharp inhales followed by a long, slow exhale – signal safety to the brain and activate the parasympathetic system. Yoga and similar practices can offer additional breathing tools that help leaders stay calm and centered when facing uncertainty. Elite special forces and athletes use breathwork to great effect, and we should, too.

Practice mindfulness and meditation
Mindfulness and meditation are powerful tools to build a brain that doesn't immediately react to triggers. They help leaders stay present, maintain perspective, and welcome complexity instead of resisting it. Over time, mindfulness can rewire the brain to respond to uncertainty with more creativity, composure, and cognitive flexibility.

Every decision and judgment call you make begins in your brain. In a world of non-stop uncertainty, the leaders who thrive won't be the ones who "fight, take flight, or freeze" – they'll be the ones who respond with energy, openness, and clarity. ■

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How are you breathing today?

It's a question we should ask ourselves more often


Photo: Aleksandr Ledogorowia Unsplash

Leaders can find emotional balance, feel less stressed, and improve decision-making if they learn the art of conscious breathing, says **Christoph Glaser**. So, why are so few of us doing it?

Every air traveler has heard the flight attendant's instruction: "Put your oxygen mask on first before helping others." It's a survival principle, yet leaders often do the opposite – they sacrifice their well-being in the pursuit of results. What if prioritizing self-awareness, breath control, and resilience wasn't a luxury but a competitive advantage? In the past, leadership was about command and control, but the role has shifted from providing answers to enabling others to find them: asking the right questions, empowering teams, and fostering a culture of collective intelligence. It's no longer about accumulating knowledge but expanding self-awareness and nurturing adaptability and innovation. This calls for a new set of leadership muscles: emotional intelligence, self-awareness, and intuition, in addition to strategic thinking.

It's not easy to be emotionally intelligent, self-aware, and intuitive. The constant bombardment of emails, back-to-back meetings, and relentless pressure to deliver erode the mental clarity leaders need most. Neuroscientific research confirms that chronic stress impairs the prefrontal cortex, the part of the brain responsible for strategic thinking, decision-making, and emotional regulation. Leaders are expected to be more aware and intuitive than ever, yet they exist in an environment that actively depletes these abilities.

In our work supporting nearly half a million leaders in more than 50 countries over 25 years, I have witnessed what research on the world's most successful people confirms: sustainably successful leaders have rituals that enhance focus, manage stress, and optimize energy. Warren Buffett spends 80% of his time reading and thinking. Bill Gates isolates himself for "think weeks". However, just having time to think is not enough. We need to be in the right mental state with the right energy levels to access our full creative potential. A tool that is always available, free, and yet vastly underutilized is conscious breathing. Breath is more than a physiological function; it is a gateway to resilience, self-regulation, and enhanced decision-making. »

The power of breath

Our breath follows our emotions. It is long and deep when we feel good and relaxed and sharp and shallow when we feel nervous. Our breath is a reflection of our inner world. And yet, most of the time, we do not even use 50% of our lung capacity. We commonly ask colleagues, "How did you eat?" or "How did you sleep?" But have you ever asked a colleague, "How is your breath today?" or "Have you breathed well today?" Most people underutilize their breath, failing to tap into its full potential. Similarly, many leaders overlook that they can influence their nervous system, balance emotional states, and enhance decision-making by consciously regulating breath patterns. Through our breath, we can directly access our autonomic nervous system (ANS) – the part of our nervous system that functions autonomously without our conscious control or the ability to give direct commands. The ANS controls all life-supporting functions, such as the heartbeat, blood pressure, release of hormones, and digestion. It is responsible for our "fight or flight" response to stress. If out of balance, it may keep us in "fight mode", not allowing us to wind down at night and get a good night's rest. It can lead to a constant state of tension, racing thoughts, and restlessness, robbing us of our self-awareness, intuition, and emotional intelligence.

> 'Our breath is a reflection of our inner world. And yet, most of the time, we do not even use 50% of our lung capacity'

When we take long, deep breaths, we bring back balance to the ANS by activating the vagus nerve and the parasympathetic nervous system, which is the part of the ANS responsible for resting, digesting, and regeneration. Dynamic, fast breathing helps activate the sympathetic nervous system – that's the part that helps us to be fully focused, alert, and able to achieve high performance.

Widening 'the gap' through the breath

The breath allows us to increase our self-awareness and widen "the gap" in our thinking. Between stimulus and response is – if we are self-aware – a gap that allows us to not merely react to a situation in the way we have always done but to act creatively, in a way that we consciously choose. Imagine you are in a meeting and a conflict among your team members arises (stimulus). You would usually try to downplay the issue and avoid the topic (response) as you may fear it could open a Pandora's box. This process mostly happens automatically when you are on autopilot.

YOUR RESPONSIBILITY AS A LEADER

As an executive and leader, you may influence your team members and followers more than you realize. The phenomenon of emotional contagion shows that the way leaders feel, think, and act profoundly influences the group dynamics of their teams. Emotions are highly contagious, especially when they originate from leaders. Studies show that shared positive emotions enhance cooperation, reduce conflict, and increase task performance, while shared negative emotions have the opposite effect.

Similarly, how leaders care for their health often has an unexpectedly strong influence on their followers. The health-oriented leadership approach identifies leaders as key players in enhancing health within an organization. Leaders serve as role models for their followers even if this process happens unconsciously for both parties. If a leader is constantly stressed, overworked, staying late at the office, and sending emails on weekends, it can subtly signal to team members that they should do the same or even create a sense of guilt if they don't. On the other hand, when team members see their leader prioritizing health and engaging in recreational and restorative activities like breath-based mindfulness, they feel more encouraged to practice healthy self-care.

TRY THE 'WAVE BREATH'

A simple breathing technique to instantaneously induce calmness by activating the parasympathetic nervous system is the "wave breath".

- Sit straight and place one hand on the chest and the other on your belly.
- Take a few conscious breaths into your belly, allowing it to expand as you inhale.
- With your next inhale, direct your breath into your belly, then continue into your chest, letting it expand.
- As you exhale, release the breath by allowing your belly to release first, followed by your chest.

Take several long, deep breaths in this wave-like breathing pattern.

Through breath-based mindfulness, leaders can increase self-awareness and widen the gap between stimulus and response. A quote ascribed to Viktor Frankl describes it aptly: “Between stimulus and response, there is space. In that space is our power to choose our response. In our response lies our growth and our freedom.” In the example above, the gap allows you to become aware within a split second of your tendency to avoid the situation out of fear, even while the meeting is ongoing. You might realize that avoiding the problem is not the optimal way to handle the situation. You might choose to give it your full attention: asking probing questions to get to the problem’s root cause. By widening the gap through regularly practicing breathing techniques and meditation, we allow ourselves to grow and implement changes in our actions and lives that we want. We are able to switch off the autopilot when conscious steering can be more effective than an energy-saving automatic reaction.

Training the ‘presence muscle’

The gap is closely connected to the “presence muscle”. Presence is the ability to be aware of the present moment, being fully mentally in the here and now instead of caught up with past or future events. Everyone knows that feeling when you struggle to focus on the work or person in front of you because your mind is racing – preoccupied with the next important meeting or the difficult conversation you had with a team member a few hours before. A strong presence muscle allows you to temporarily set aside everything that has happened or still needs to be done so you can focus on the present moment – whether that means truly listening to your conversation partner or dedicating your full attention to the task at hand. Being mentally present enhances our ability to enter the flow state, a state of deep focus where we feel engaged, relaxed, and even joyful while working on a task. Flow not only brings a sense of ease and fulfillment but also significantly boosts productivity. A McKinsey study found that executives perceived themselves as five times more productive when in flow.

I describe presence as being a muscle because mental presence is something that can be trained. It is an innate ability we all possess – one that we can nurture with a few minutes a day of breath-based mindfulness.

How to utilize the breath for success and health

What does it mean to practice breath-based mindfulness, and what is the best breathing technique? The best breathing and meditation technique is the one practiced regularly: five to seven times a week for at least 12 minutes. For optimal activation and balancing of the ANS, I recommend a combination of slow and fast breathing techniques. Remember, slow breathing activates the parasympathetic nervous system, which is responsible for deep rest and regeneration, and fast and dynamic breathing activates the sympathetic nervous system, which is responsible for focus and performance. I have described such a set of breathing techniques, called the 12-Minute Method, in my book *Breathing: The Key to Successful and Healthy Leadership*. Breathing techniques like the 12-Minute Method are highly effective in quieting the mind, making it easier to sit in meditation for a few minutes afterward. There is a common misconception that meditation means concentrating on something. However, as Sri Sri Ravi Shankar, a world-renowned meditation teacher and pioneer in introducing breathing techniques to the West, explains: “Meditation means de-concentration – fully relaxing and letting go.”

‘The best breathing and meditation technique is the one practiced regularly: five to seven times a week for at least 12 minutes’

The regular practice of breathing techniques and meditation helps increase awareness, enhance intuition, widen the gap between stimulus and response, strengthen the presence muscle, and foster greater empathy – ultimately enhancing our emotional intelligence. It also helps to improve our well-being, performance, and health competency, as demonstrated by an independent study conducted with managers of a DAX company who learned the 12-Minute Method.

I have experienced the positive effects of breath-based mindfulness firsthand, having practiced it daily for more than 30 years, as have many of the people I have coached and trained over the past 25 years. For most of the people my team and I have worked with, discovering the power of their breath has been a revelation. One of the greatest aspects of the breath is that it is always with you – readily available to serve and support you at any moment, free of charge. Pay attention to your breath, for it is your greatest asset. ■

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The energy trilemma: why it pays to get the balance right

Dealing with the conflicting demands of price, sustainability, and security of energy supplies is challenging, but it's a useful way to assess your firm's resilience and agility, write **Ann-Christin Andersen** and **Karl Schmedders**

A decade after the Paris Agreement, the consensus on climate action is showing signs of strain. The energy transition is underway – investments in renewables are rising, net-zero pledges abound, and sustainability is on the agenda in boardrooms – but the context has changed dramatically. A sharp rise in energy prices due to COVID-19 and war in Ukraine has jolted markets. For many governments, climate ambitions have been tempered by the need for energy security and energy affordability. Corporate leaders need to understand how energy impacts their businesses at the macro (energy markets) and micro levels (energy consumption and usage).

Energy security in Europe was taken for granted for years. Underinvestment in domestic capacity and overreliance on imported fossil fuels, particularly Russian gas, left the region vulnerable. Soaring energy bills made headlines, fueling populist narratives and prompting costly government interventions.

The energy trilemma, an old but powerful concept, encompasses the interlocking goals that must be balanced: environmental sustainability, energy security, and energy affordability. In recent years, the emphasis has tilted toward sustainability, but the center of gravity is shifting. It's a strategic challenge for business leaders with direct implications for competitiveness, supply chain resilience, and long-term value creation. Navigating the energy trilemma is becoming basic strategic foresight.

More than just an academic framework, the energy trilemma is a reality for governments, industries, and citizens. It describes the competing and often conflicting demands placed on energy systems: achieving environmental goals (sustainability), ensuring uninterrupted access to energy (security), and keeping energy costs manageable (affordability). While aligned in principle, these goals frequently pull in different directions during crises or when technologies underperform. Ideally, all three dimensions should balance, but progress on one front often comes at the expense of another: a rapid decarbonization drive may create volatility or raise prices; efforts to subsidize fossil fuel consumption may keep prices low but delay clean energy investment; overreliance on a single energy source, even a clean one, can make countries dependent on external suppliers.

Tackling one dimension on its own is impossible. Political cycles, technological breakthroughs, climate disasters, and market disruptions can all shift the balance. Companies that commit to sustainability goals, electrify operations, and invest in clean energy are becoming active participants in the trilemma. Their choices can tilt the balance, and their success depends on recognizing the trade-offs.

From global consensus to strategic fragmentation

The 2015 Paris Agreement marked a rare moment of global alignment. Nearly all nations pledged to reduce greenhouse gas emissions and transition toward a more sustainable energy future. Business responded enthusiastically: ESG investing surged, climate risk disclosures became mainstream, and "Net zero by 2050" entered the corporate lexicon.

That momentum has now faltered. In the US, a political backlash against ESG and climate regulation has gained traction. In Europe, the war in Ukraine forced a temporary return to coal and triggered massive subsidies to cushion energy inflation. In developing economies, climate finance pledges remain unmet, leaving governments torn between clean energy ambitions and immediate development needs.

Geopolitically, the shift has been even more dramatic. Energy has emerged once more as a strategic asset. The US Inflation Reduction Act (IRA) channeled hundreds of billions of dollars into domestic clean energy, triggering concerns over green protectionism. China dominates global solar and battery supply chains, even as it continues to produce coal-fired power to ensure economic stability. In the EU, the REPowerEU strategy seeks to accelerate renewables and end dependence on Russian fuels. In practice, it has reinforced national-level energy strategies, notably through bilateral gas deals,

CASE STUDIES: THE TRILEMMA IN ACTION

AFFORDABILITY

BASF, the world's largest chemical producer, announced in 2022 that it would significantly downscale its European operations due to the cost of energy. The German firm's margins had collapsed as Russian pipeline flows stopped and gas prices soared. The company decided to shift investment and production toward China and the US, where energy prices were lower and supply more secure. The case illustrates how energy security and energy affordability can overpower sustainability commitments in the face of shocks. In addition, it highlights how energy price volatility can become a deindustrializing force, raising broader questions about Europe's ability to lead the clean transition while maintaining competitiveness unless access to affordable energy is secured.

SUSTAINABILITY

Apple has made ambitious climate commitments, including a pledge to achieve carbon neutrality across its supply chain by 2030. This cascaded down to suppliers, especially in Asia, where many are now under pressure to decarbonize operations, often without the resources or infrastructure to do so. Sustainability is the driving force, led by brand, investor, and consumer expectations. But for many suppliers, especially in countries where grid emissions remain high and capital is expensive, the move to clean energy can strain energy affordability and even energy reliability. Apple responded by helping some suppliers secure long-term renewable power purchase agreements and offering support for energy audits. This case shows how multinationals must engage deeply with energy realities in different geographies because, otherwise, decarbonization risks becoming a top-down mandate with limited traction.

SECURITY

Ireland has become a significant hub for data centers, attracting major investments from tech giants like Amazon, Microsoft, and Google. In 2023, data centers consumed over 21% of the nation's metered electricity, up from 5% in 2015. This surge has outpaced the electricity consumption of all urban households combined, which stood at 18% in the same year. The concentration of data centers, particularly in the Dublin area, has strained the local electricity grid. In response, EirGrid, Ireland's state-owned grid operator, imposed a de facto moratorium in 2021 on new data center connections in the Dublin region, with the restriction expected to last until 2028. Here, the economic benefits and digital growth driven by data centers are at odds with the challenges of ensuring a secure and sustainable energy supply. It underscores the necessity for infrastructure planning and energy policy to keep pace with technological and industrial developments.

BALANCING THE ENERGY TRILEMMA

Energy security

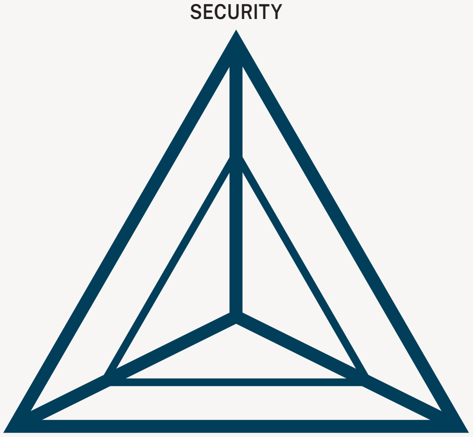
The effective management of primary energy supply from domestic and external sources, the reliability of energy infrastructure, and the ability of energy providers to meet current and future demand.

Energy affordability

Accessibility and affordability of energy supply across the population.

Environmental sustainability

The achievement of supply and demand side energy efficiencies and the development of energy supply from renewable and other low-carbon sources.



domestic subsidies, and fast-tracked local infrastructure. The result is strategic fragmentation. Where once there was a sense of global coordination, today we see overlapping national priorities and competing industrial strategies. Supply chains are being redrawn, and energy alliances are shifting. These geopolitical shifts make the trilemma more localized and unpredictable for firms with international operations. In this fractured landscape, companies can no longer assume energy will flow smoothly across borders, nor can they take policy stability for granted. Energy resilience and geopolitical literacy are fast becoming core business capabilities.

Electricity is harder than oil

For all the optimism around renewables, the energy transition comes with physical constraints, especially in infrastructure. Unlike fossil fuels, which can be stored in tanks, shipped globally, and priced » through global markets, electricity is more like a local product. Electrons must travel through wires, and due to limitations in storage, electricity is produced, sold, and transported on demand.

Solar and wind production is intermittent, making the renewable energy system more complex and creating extra volatility if not carefully managed. Grid bottlenecks are a further obstacle to decarbonization. In many regions, connecting new solar or wind projects to the grid takes years, with permit delays, local opposition, and outdated infrastructure slowing progress.

This mismatch between ambition and physical capability creates new risks for businesses. A firm may want to decarbonize operations but discovers that the local energy system cannot reliably support electrification. Alternatively, it may invest in on-site renewables, only to face curtailment or regulatory barriers. These are not theoretical issues; they're already happening in parts of Europe, the US, and Asia.

The contrast with fossil fuels is stark. Molecules like coal, oil, and gas can be traded, stored, and rerouted. They offer flexibility in a crisis, whereas electrons do not. Companies must prepare for a new kind of exposure as they lean in to electrification: how dependent they are on the energy system.

Strategic questions for leaders

The energy trilemma is a strategic lens to assess your firm's resilience and agility. Boards and executives should regularly ask themselves the following:
• **How is energy impacting our business model?**
(How critical is it to our operations)?
• **How reliable is the energy system we depend on?**
(Do we suffer regular blackouts? Should we consider moving production or installing our own off-grid power production?)
• **Is the footprint of our energy system key to our climate commitments?** (Are we credible, and can we deliver on them?)
• **Do energy prices make a difference to our business model?**
(Is price volatility an issue?)

From risk management to competitive advantage

For years, decarbonization was treated as a cost or a reputational risk, but now, clean, reliable, and cost-effective energy is becoming a competitive differentiator. Leading firms are building resilience into their operations by embedding energy strategies into their core business planning.

Some secure long-term renewable power purchase agreements to lock in costs and reduce their volatility, while others invest in on-site generation or battery storage. A few are rethinking geographic footprints entirely and locating operations in regions with abundant clean energy and political stability. This is especially visible in semiconductors, manufacturing, and heavy industry sectors. These moves can create value, but there is no one-size-fits-all playbook. Firms that solve the trilemma more effectively than others can enjoy more stable margins, faster regulatory approvals, and stronger brand equity. This type of energy management is becoming a signal of strategic maturity in finance, supply chains, and consumer goods.

The energy trilemma is an evolving challenge that reflects the shifting priorities of governments, markets, and societies. There may be moments when sustainability leads the way, when climate targets, innovation, and investor momentum align. At other times, energy affordability or energy security may come first, often driven by crisis or political factors.

In this context, the real test of leadership is not perfection but finding a sound balance. Business leaders must recognize that energy is now central to competitiveness, resilience, and value creation. They must build "trilemma literacy" into corporate decision-making, board-level discussions, and scenario planning. This means tracking energy exposure as carefully as financial risk and understanding infrastructure and regulatory timelines as thoroughly as market demand.

The companies that best manage the tensions between sustainability, security, and affordability will do far more than just survive. They will build stakeholder trust, attract capital, retain talent, and gain strategic flexibility. In a world of fractured geopolitics and growing volatility, the trilemma is a compass, not to eliminate risk but to lead through it – boldly, pragmatically, and with eyes open.

FIVE REFLECTION POINTS FOR BUSINESS LEADERS

• The energy trilemma – sustainability, security, and affordability – is back at the center of global strategy.
• Recent shocks have exposed infrastructure gaps, political contradictions, and economic trade-offs.
• Firms must assess their energy exposure and scenario readiness across geographies and supply chains.
• Innovation, foresight, and geographic agility are emerging as sources of resilience.
• Strategic leadership means embracing instead of avoiding the tension at the heart of the trilemma. ■

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COACHING CORNER

How to respond to painful feedback

Pascal Chauvie offers four ways to emerge unscathed and even empowered from difficult performance reviews

The challenge

Mario is VP of sales with a multinational pharmaceutical company headquartered in Brussels. He leads a large, dispersed team and is well-known for his vibrant leadership style and commitment. While Mario has enjoyed sustained success over his career, something has happened that is causing him severe stress.

Quarterly metrics reveal that Mario's team has failed to meet sales objectives in a couple of product lines. A meeting with his boss, Louis, to discuss the team's performance leads to some stringent feedback; Louis emphasizes that the organization has high expectations for sales in the coming quarter and hopes that Mario and his team will "step up".

Coming out of this discussion, Mario feels triggered. He takes Louis' comments to heart and struggles to see them as objective feedback, interpreting them as personal criticism of his leadership, decision-making, and capabilities. As time goes by, Mario cannot detach from feelings of self-doubt. He replays the exchange with Louis in his mind and starts questioning his ability in every aspect of his work.

This creates a vicious cycle of uncertainty and confusion. Mario starts imagining scenarios in which he is failing at some element of his leadership, and relations with his reports are becoming strained. In team meetings, his body language and tone of voice betray tension and even hostility, and his decisions are becoming increasingly risk-averse. In response, team members find it harder to be open and fresh in their interactions with Mario and also feel stressed about their work. Meanwhile, the tension is seeping into his home life, and his family voices their concern for Mario's equilibrium and well-being. Struggling to unshackle himself from self-doubt and urged by his family to find support, Mario seeks out the help of an executive coach.

The coaching journey

The first session kicks off with what Mario's coach calls anchoring exercises: techniques to help Mario breathe more deeply and feel fully physically present in the moment. Together, they practice guided meditation and controlled breathing, channeling stress from the body and mind and allowing Mario to feel more grounded. This is a significant first step. Mario is surprised to discover that he can almost instantly create distance between himself and his emotions. He is able to step back and observe himself as though from a balcony. For the first time in days, Mario feels that he has some agency and control over what he is experiencing emotionally and psychologically and can change his emotional state.

Mario tells the coach that he would like to acquire tools that will help him manage stress and address the unsettling scenarios that play repeatedly in his mind. He describes the tense exchange with his boss and the slew of self-limiting thoughts that have gained traction as a result. The coach suggests a series of short role plays to unpack some of the cognitive and emotional dynamics at play, in the moment and in Mario's reactions.

In the first role play, Mario's coach takes the part of his boss, and they re-enact parts of the meeting, debriefing afterward to explore the specifics of what is triggering Mario and his feelings, emotions, and thoughts.

Then they switch roles, with Mario playing the part of his boss. The coach deploys four techniques (see box) whenever Mario says or does something that might cause a stress reaction. The techniques have an immediate impact, and the role play goes something like this:

Mario (as boss): I expected a lot more of you and your team. You clearly haven't been focused on these objectives.
The coach (as Mario) listens intently and pauses for a beat before responding calmly:
To be sure I've understood, are you telling me that you think we have lost focus as a team?
No, I'm saying you haven't performed. You haven't done your job!
Thanks for the clarification. From your perspective, which part of my job do you think I haven't done?
I've never heard you speak like this. I don't recognize you.
So, the question I asked surprised you, or is there something else?
Yes, I don't recognize your reaction here, and I don't understand why you didn't perform like you used to.
OK, I understand. Would you like to hear what led to this from my point of view?
I guess so.
Is now a good moment to have this conversation, or shall we schedule another meeting? »

THE 'FABULOUS FOUR' TECHNIQUES TO MANAGE DIFFICULT CONVERSATIONS

Anchor yourself and be aware of your own state: In an intense situation, bring yourself back into the moment physically. You'll gain time and prevent yourself from reacting to your triggers. Concentrate on your breathing or try something like feeling how your feet are touching the ground. Focus on your breath or posture to avoid getting carried away by too immediate a reaction. Use your emotions as a reminder to anchor yourself.

Listen deeply and observe non-verbal cues: Pay close attention to verbal and non-verbal cues, listening for the context and the purpose of what the other person is telling you instead of immediately reacting to what they say. Ask yourself why they are sending these messages and whether or not you agree. If you spot something inaccurate, don't be passive. Speak up, repeat what you have heard, and ask for clarification.

Search for agreement on the process: A conversation is a process. If you arrive at an impasse, instead of escalating, give a choice on how to continue this process, or create a break or a pause and search again for clarification. Ask your colleague if what you have understood so far is correct, and then if they would like to carry on speaking now or resume the conversation later: shall we continue now, yes or no? And remember: "No" is also an agreement here.

Ask sincere and open-ended questions to collect information: De-escalate a difficult conversation by asking questions that show interest in the other person's opinions and ideas. This means changing from an argumentative mode based on opinion to a coaching mode based on collecting information. This will invite a more nuanced understanding of the situation and bring it back to agreement and collaboration. Avoid "yes/no" questions. Instead, ask questions like: "What do you see as the biggest contributing factors to this problem?" or "How do you think we can best resolve this?"

Following each role play, Mario and his coach debrief, exploring the dynamics and the impact of the techniques used by the coach as "Mario". Mario is then invited to play himself in a final role play and to reflect on how it feels to change his approach and use these relational tools. Some critical insights emerge.

First, Mario discovers that he has "debunked" some perceptions about his boss. Playing the role of Louis, he says, has "humanized" his boss: Mario can begin to see him as a colleague and not an adversary. Then, there is the power of what his coach calls the "fabulous four" relational techniques. As they talk, Mario expresses a new sense of agency and control that comes with feeling more anchored, deep listening, seeking agreement, and asking open questions.

The impact

Over several weeks, Mario practices these techniques with his coach. The aim is not to become a better actor but to work together to identify and unpack Mario's limiting beliefs, personal triggers, and natural reactions in close-to-life cases. This leads to exploring how these responses can be transformed to help him become more objective at work and about his work.

Mario gradually becomes more self-aware. He learns to build distance between himself and the power that triggering factors or situations have held over him. Critically, he now understands that he has real agency in terms of his emotions and responses and that he is not trapped by stress or imprisoned in a survival mode with no control.

Using this new understanding and practicing the "fabulous four" techniques regularly, Mario finds that he is better able to anchor himself in difficult conversations. He is building resilience and self-affirmation to reframe "criticism" as "feedback," and he is breaking the cycle of negativity that has been holding him back and preventing him from thinking boldly, taking risks, and trying new approaches.

His team has noticed this shift in attitude and body language. They report feeling renewed trust and engagement. For Mario, it feels like a new chapter in his leadership.

Questions to ask yourself:

1. Does Mario's story resonate with you?
2. When you are triggered, what is your reaction? Do you fight back, freeze, or flee?
3. If you had a chance to change your reaction, what would you change and why? What impact might this have on your life? ■

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Electrifying performance: how BYD went above and BeYonD Tesla

BYD's race to the top spot of IMD's Future Readiness Indicator shows how keeping an eye on your core business while scaling up a few clear priorities is key to success, writes **Howard Yu**

Illustration: Jörn Kaspuhl

Chinese EV manufacturer BYD edged out Tesla to take the top spot in our Future Readiness ranking released in May. It came as a report showed that BYD outsold its US rival in the European market for the first time. The feat is all the more impressive given that the EU has recently imposed tariffs on Chinese-made EVs. So, what has changed? Elon Musk has promised many innovative products over the past decade, including robotaxis, humanoid robots, and fully autonomous driving. However, he has consistently missed deadlines, and some experts predict that most of these projects will be years in the making. Conversely, BYD's Wang Chuanfu has remained focused on developing the company's capabilities. Today, it is the world's biggest EV manufacturer powered by batteries with an impressive range. In March, BYD announced a five-minute battery charge would add 400km of range.

Established in 1995, BYD was initially focused on producing rechargeable batteries, principally for mobile phones. By the late 1990s, the company had become a leading supplier, but the market was maturing fast, and margins were reducing.

Wang was searching for the next growth area. In the 2000s, the demand for simple, battery-powered bikes and scooters exploded in cities across southern China. They were cheap, practical, and perfect for overcrowded streets. Cities across Asia followed suit. Building millions of battery packs for bikes and scooters gave BYD a crash course in real-world durability. The company learned how to lower unit costs, extend battery life, and scale manufacturing under pressure. Then Wang spotted an even bigger opportunity: fleets.

BYD didn't chase luxury sedans. Instead, it targeted the workhorses: buses, taxis, delivery vans, and trucks. In 2010, it rolled out its first all-electric bus, the 12-meter K9, and became the first in the world to commercialize electric buses at scale. In 2018, DHL began using BYD's T3 electric vans in Shenzhen for last-mile delivery. By 2019, BYD had built 50,000 electric buses that served over 300 cities worldwide.

BYD doubled down on vertical integration, designing and manufacturing in-house batteries, motors, and electronic controls. Engineers had to master every nut and bolt. Where others saw scraps, BYD saw strategic ground. It quietly dominated the niches everyone else ignored.

The lesson is clear: always maintain a strong focus on your core business. Lose focus and passion for what you do, and the competition will slide in and take over.

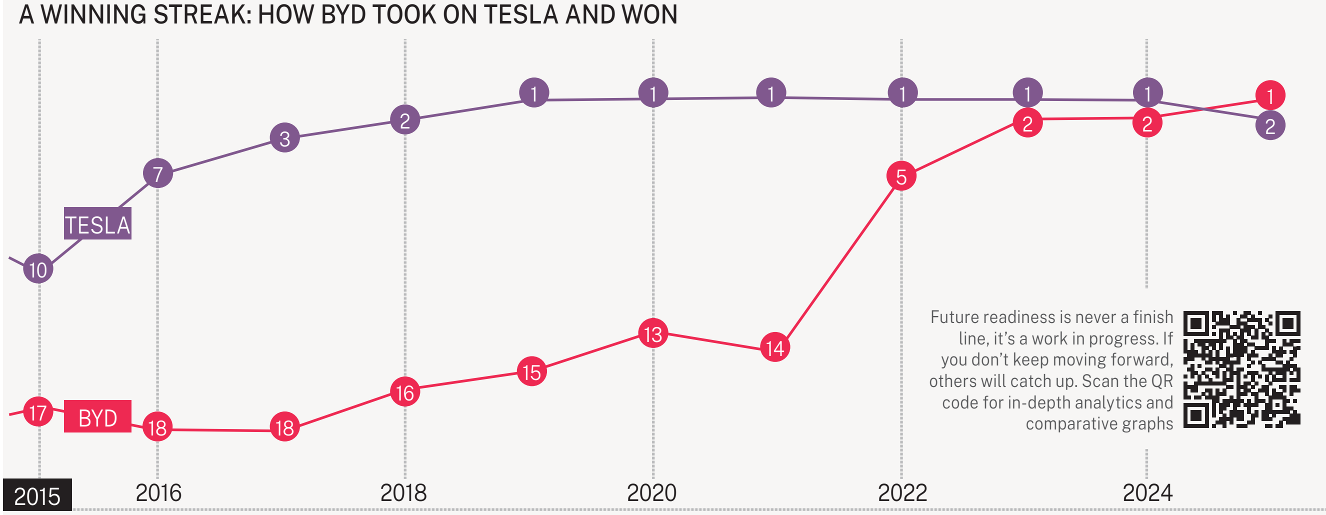
There has been much speculation about whether Musk still cares about selling cars, with Donald Trump, SpaceX, X, and xAI all vying for his attention. Meanwhile, BYD has pulled ahead while receiving less government support globally than Tesla. BYD has surpassed Tesla in all key metrics, from pure EV sales (on top of a booming hybrid segment) to innovation output. »

2025 FUTURE READINESS INDICATOR RANKINGS FOR THE AUTO INDUSTRY

Ranking 2025	Company	Score 2025	Movement since previous ranking	HQ country
1	**BYD Company Ltd.**	100	+1	China
2	Tesla Inc.	98,1	-1	USA
3	Geely Automobile Holdings Ltd.	82	+14	China
4	Li Auto Inc.	56,1	+5	China
5	Kia Motors Group	49,3	+3	Korea
6	Volkswagen AG	48,8	-3	Germany
7	Toyota Motor Co.	48,7	+4	Japan
8	Xpeng Inc.	48,3	+7	China
9	General Motors	47,2	-2	USA
10	Ford Motor Co	43,1	-4	USA
11	Mercedes-Benz Group AG	40,4	-1	Germany
12	Hyundai Motor Co., Ltd.	39,2	-7	Korea
13	Stellantis N.V.	23,3	-9	The Netherlands
14	Nio Inc.	16	+5	China
15	Nissan Motor Co., Ltd.	11,2	+3	Japan
16	Harley-Davidson	9,7	0	USA
17	Honda Motor Co.,Ltd	8,8	-3	Japan
18	Renault S.A.	8.4	+2	France
19	Bayrische Motoren Werke AG	3	-7	Germany
20	Tata Motors Ltd.	2,3	+2	India
21	Suzuki Motor Corp.	1	0	Japan

‘In an era obsessed with disruption and chasing the next big thing, BYD’s methodical march reminds us that sustainable advantage often comes from mastering the boring stuff first’

A WINNING STREAK: HOW BYD TOOK ON TESLA AND WON



Future readiness is never a finish line, it’s a work in progress. If you don’t keep moving forward, others will catch up. Scan the QR code for in-depth analytics and comparative graphs

The 2025 ranking is based on a smaller sample (21) compared to 2024 (23).

BYD has captured a huge share of the EV market with class-leading battery technology

Photo: Wikipedia

How the tortoise overtook the hare

BYD's success demonstrates how strategic patience and compound capability-building are redefining competition. When launching the e6 electric vehicle, first as a taxi and later for consumers, BYD wasn't leaping into EVs like a startup. The company was extending a system of capabilities that it had spent 15 years perfecting.

This is the classic playbook of low-end disruption. Each rung wasn't just a win but a learning platform for the next win: batteries taught BYD about energy storage, scooters taught it to build efficient electric drivetrains, and buses demanded system integration at scale. Each step up the value chain was built on the previous one.

Master the fundamentals first

In a 2011 Bloomberg interview, Musk laughed when the journalist suggested BYD as a potential rival for Tesla and chuckled: "Have you seen their car?" Musk was looking at the surface and missed the iceberg beneath: 15 years of accumulated capabilities, millions of batteries tested, thousands of buses deployed, and a manufacturing system that could scale beyond anything that Silicon Valley had imagined.

Inside BYD's mammoth Shenshan Auto Industrial Park factory in Shenzhen, the blade battery line runs with 50 workers per gigawatt-hour, 80% fewer than a typical Western plant. Autonomous robots shuttle trays between stations, while warehouse drones reorder stock by scanning QR codes overhead. The factory is a glimpse of the future.

In an era obsessed with disruption and chasing the next big thing, BYD's methodical march reminds us that sustainable advantage often comes from mastering the boring stuff first. Our longitudinal data shows how a few selected companies have moved in our Future Readiness Indicator rankings over time. It's hard not to be impressed by BYD's meteoric rise to the top. ■

HOWARD YU is LEGO® Professor of Management and Innovation at IMD and director of the Center for Future Readiness. Recognized globally for his expertise, in 2023 he was honored with the Thinkers50 Strategy Award and inclusion in the Thinkers50 list.

Jialu Shan, Lawrence Tempel, and Alexandre Sonderegger contributed to this article.

The final word

Alexandra Kosteniuk, the Swiss-Russian chess grandmaster and former world champion, reveals her best moves and motivations in our quick-fire round of questions

1. *What is your personal motto?*
"Chess is cool!"

2. *Name three traits that make a great leader.*
Strong communication skills, intuition, and the ability to anticipate what's coming next.

3. *What experience has had the greatest influence on your leadership style?*
I've mostly been leading chess pieces in my life, so I can't say I have a defined leadership style outside of the chessboard. But I've always believed in the power of leading by example.

4. *How do you balance your well-being and personal life with performance?*
To perform well in chess, I need to feel good mentally and physically and have the support of my family. That's why I try to dedicate enough time to every aspect of my life. Of course, my number one priority is my family.

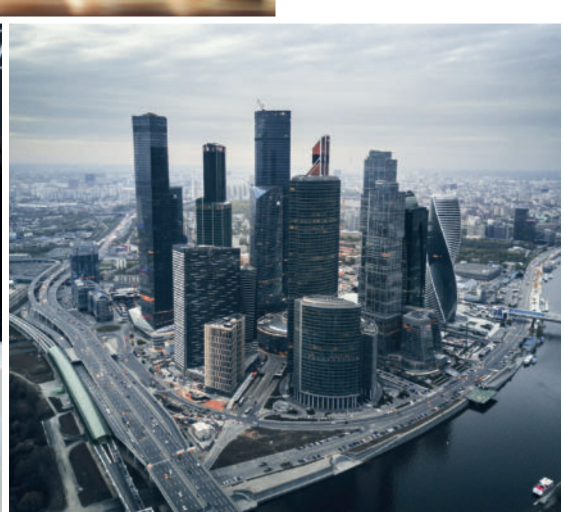
5. *What advice would you give to an aspiring leader?*
Observe, listen, and be open to new ideas.

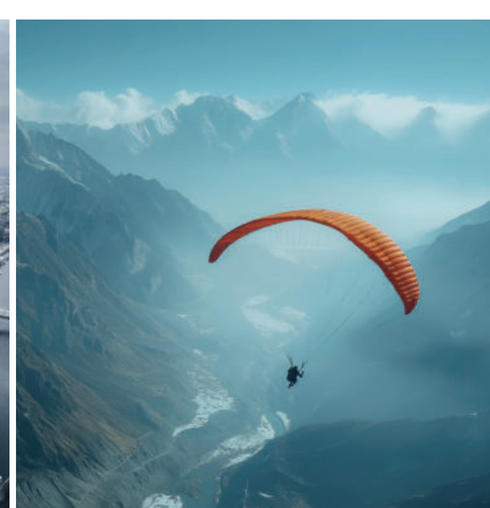
6. *What one factor or trend will change the world in the next five years, and why?*
AI will impact many areas of our lives, and changes will arrive faster and faster.

7. *What is the most important trait leaders will need in the future?*
In a fast-changing world, business leaders will need to stay on top of new trends, be adaptable, and quickly learn about many innovations throughout their careers.

8. *Name one thing people might be surprised to learn about you.*
When I was around eight to 10 years old, I played chess for money near hotels in Moscow to help support my family.

9. *What talent would you like to have?*
I'd love to be able to sing well.





10. *What trends are undervalued today?*
With so many tasks becoming automated, people are forgetting how to use their hands. Being able to sew or craft something out of wood is becoming a lost art.

11. *What is the best advice you have ever received?*
Do your best and let it be.

12. *Who would you love to be for just one day?*
I'd like to be a doctor. Being able to help people in need and having that as your life's purpose sounds incredible to me.


A


B


C

A) Simone de Beauvoir
B) Vera Menchik
C) Sofia Kovalevskaya

13. *Name a place that inspires you – and tell us why.*
I've been lucky to travel to and live in many beautiful places around the world. Many are dear to my heart. In recent years, I've missed Moscow deeply. I left in 2022 and can only hope that one day I'll be able to return.

14. *What is the craziest thing you have ever done?*
Skydiving with a parachute. I dislike situations where I'm not in control of the outcome, so this experience was definitely "jumping out" of my comfort zone.

15. *Who would you like to have dinner with, and why?*
If it's a chess dinner, I'd love to talk with brilliant players from the past, like Vera Menchik, the first women's world champion, François-André Philidor, or José Raúl Capablanca. Otherwise, I'd be fascinated to dine with women who were ahead of their time or left a mark on history, like Cleopatra, Sofia Kovalevskaya, and Simone de Beauvoir.

Photos: Emelianova, Przemyslaw Nikiel, iStock, Astemir Almov via Unsplash, Wikipedia (3), Casey Horner via Unsplash

How to win the energy transition

The necessary drive towards a cleaner energy future is facing a rocky future. Will political and investor pushback derail progress? What are the implications of China's domination of green technology? Are concerns about short-term energy security casting a shadow over long-term clean transitions? How should executives balance the risks across regions and sectors in such a complex environment?

In the September 2025 edition of *I by IMD*, we welcome a diverse cast of experts from industry, academia, and beyond to explore how organizations can successfully navigate the global energy transition.

Scan the QR code to visit ibyimd.org

P.S. PRESIDENT'S SOLILOQUY

Let's remain energized and positive amid the turmoil

A lesson learned from my leadership faculty colleagues is that a leader must watch her energy levels. What energizes me? And what drains energy from me? The balance has to remain positive if you wish to be an impactful and inspiring leader. As I approach the nine-month mark of leading IMD, I have found that engaging with alumni and our institution's many friends greatly energizes me. I have been able to participate in about 25 alumni events since September. These include in-person meetings with alumni in Hong Kong, Shanghai, New Delhi, The Hague, Amsterdam, Riyadh, Kuwait, Abu Dhabi, Mexico City, and Monterrey, as well as closer to home in Zurich, Geneva, and, of course, Lausanne. In addition, there have been virtual exchanges with alumni from Australia to South America. Particular highlights were our two reunions this May when we welcomed back to Lausanne record numbers of MBA and EMBA alumni, including 460 MBAs. As always at our alumni events, the agenda was two-thirds learning and one-third networking and catching up.

As a new president, the opportunity to meet and learn from our alumni is immensely valuable. I always discover something new about our institution. For instance, members of the class of 1990, the first after the merger of IMEDE and IMI that created IMD, told me during the reunion that since the faculty of the two merging institutions couldn't quite agree on whose MBA curriculum to teach, they just taught one on top of the other. This made for perhaps the most intense curricular experience of any MBA class at any institution in history!

Because our alumni are often in senior leadership roles, I learn what is happening on the ground and how organizations in different parts of the world are coping with the geopolitical shifts and uncertainties that are the focus of this issue of *I by IMD*. IMD alumni in Mexico shared with me just how devastating the impact of President Donald Trump's tariffs might be. "The US and Mexican economies are like scrambled eggs – you can't separate them once they're mixed," as one of them put it. Mexico has benefited immensely from the nearshoring wave and now finds itself particularly vulnerable, with 80% of its exports slated for the US. Alumni in Hong Kong described the impact of prominent family offices relocating to Singapore as the US-China rivalry intensifies. Alumni in New Delhi, in contrast, were bullish, convinced that domestic and international politics, demography, and the development of India's economy are aligning perfectly to benefit from the global reshuffling. I picked up similar optimism in the Gulf region despite regional conflicts and an oil price down 30% from its one-year high. One reason is that the conversion of local economies away from an overreliance on fossil fuels and toward data, AI, and innovation is in full swing. In contrast, optimism in Europe has been hard to come by as alumni struggled with the implications of Trump's perceived disdain for the transatlantic partnership and new security challenges amid anemic economic growth.

I can't claim to have discovered through my travels and conversations the key to understanding this current moment. My contribution to this issue, which I co-authored with my colleagues Richard Baldwin and Simon J Evenett, highlights just how little we can say with certainty. However, what is clear is that the era of a predictable, rules-based, and increasingly integrated global economy is over and that bolstering organizational and strategic agility is essential in this far more transactional era marked by profound uncertainty. What I did realize through engaging with our alumni, however, is just how important it is that leaders remain globally connected, that we keep dialogue high on the agenda, compare notes, learn from one another, and engage in collective sensemaking even if – and especially when – we disagree. This issue's cover features the world as a Rubik's Cube. It's an apt analogy, not just because the world today is puzzling. What does an experienced player do before attempting to solve the multi-faceted cube? They look at it from all sides. That's exactly what we must do now. What does the current geopolitical panorama look like from Jakarta? Or from Johannesburg? What about Shanghai versus Stuttgart? Dubai versus Dallas? Or Bogota versus Brisbane?

When people ask me what the current global business context means for IMD, I say boldly that IMD was made for moments like this. I mean that. We are one of the most global institutions, strongly connected to all corners of the world, closely linked to business practice, yet academically objective and independent. As my colleagues have demonstrated on these pages, we are well on the way to developing a deep expertise in geopolitics that is actionable for business. This means we are well positioned to continue to offer our participants and clients real learning with real impact even in – and particularly during – these times of rapid change. ■

David Bach
IMD President

PPS: Scan the code to join my co-host Felix Zeltner and me in the IMD podcast series Leaders Unplugged!


Live.
Learn.
Play.
It's go time.
Time to get yourself out of bed and get going, because the day belongs to those who claim it.
It's go time.
Time to live, love, learn, teach, work and play on SA's Bozza Network.
It's go time.
Time to rewrite your story, stake your claim, or start that start-up. Time to slay, make your moves, and add your own unique flavour to the world.
It's go time.
The time for waiting is over. The time for going is here.
It's go time everywhere you go
SA's BEST MOBILE NETWORK*
MTN
*Based on MyBroadband 2020


How is
America's
new direction set
to impact your
business?
Geopolitics Series:
Navigating
America's
New Direction
Your business playbook for
a shifting political landscape
IMD / Real learning
Real impact