The Strategic Posture Development of Multinationals: Geography and Politics

Abstract: This paper presents a preliminary conceptual and research approaches to provide a launching pad for an empirical investigation of corporate geopolitical leadership readiness. The aspiration of the results is to establish a foundation that would enable corporate leadership to navigate effectively through environmental shifts and to provide an optimal political response capability that maximizes economic profitability. Furthermore, it aspires to establish a preliminary instrument that facilitates the geopolitical posturing of the firm by suggesting what type of managerial political behavior and capability will be appropriate at different levels of environmental turbulence.

Introduction

In today’s world it is apparent business has become more global, but the debate still remains to the extent we have become globalized across production and markets (Filatotchev, et. al, 2016; As-Saber, Liesch, & Dowlin, 2001; Bartlett & Ghoshal, 1989). Arguably, a company may need a foreign policy considering events such as the takeover of Crimea, Russian threat to Ukraine, British exit from the European Union, continuous financial crisis in Greece, or the expansion of China in South East China (Chimpan, 2016).

This paper attempts to research different aspects of the geopolitical environment a multinational company (MNC) should be concerned with. It is in the interest of a MNC and its managers to understand the complexity of the international geopolitical arena and to have the foresight to comprehend the implications of events and how they can impact their business continuum (Bartlett & Ghoshal, 1989; Prahalad & Doz, 1981). A conceptual model is guiding the development of key elements but also future research. Moreover, the research is attempting to coalesce the strategic posture of the global business as they relate to geopolitical issues.

Major themes in geopolitics and business include presence in emerging and unstable markets and the factors of terrorism, corruption and expropriation (Bremmer & Keat, 2009; Chevalier & Hirsch, 1981; Korbin, 1979), shifting personnel trends, (Friedman G., 2009; Wattenberg, 2004; Turner, 1998), headquarters location (Johnston, 2005; Kramer R. J., 1989), supply chains (Friedman T. L., 2005; Levinson, 2006; Taft, 2005), market volatility (Dent, 2008; Kose, Prasad, & Terrones, 2003; Smick, 2008; Hassler, 1999), capital risks (Rao, 2008; Feng, 2001), and information vulnerability through poor information and cyber security, the restriction of information flows and the dangers that arise within an international company (Jordan & Silcock, 2005; Drake, 1993; Matwyshyn, 2009). This paper concludes with a summary of the findings of the research and an assessment of these seven topics and the overall importance of geopolitics on international business.

The relationship of business and politics has been well established (Back and Blake, 2016; Geppert, et.al., 2016; Schepers, 2010; Jennings, 2008; Baron, 1995). Recent failures of major corporations during the financial crisis exposed the corporate leadership style and behavior exercised within those firms. However, this is a rather recurring theme with fshaping monopolies, regulating industries, and controlling trade issues; hence illustrating a new mosaic for the business institution. The political landscape of the modern firm emphasizes the critical
importance of business success as a result of the global leadership in non-market activities, minimally as a fiduciary responsibility (Richter, et. al. 2014; Baron, 1995). The transformation of the business institutions into socioeconomic institutions (Brown, 2001; Ansoff and McDonnell 1990; Drucker, 1980; Drucker, 1985) raises the question of whether firms must institutionalize and/or develop the corporate political leadership capability (Amsler, 2016; Wei, 2008; Ali, 2008; Martin & Swank, 2008; Baron, 1995; Useem, 1982) into the overall strategic posturing by the firm; hence, the capability to lead the political landscape of the post-modern firm.

The political environment of the global business corporation is complex and uncertain (Lam, 2014; Teece, et. al., 2016; Steiner and Steiner, 1994). Complexity of the societal environment of business has increased (Teece, et. al., 2016; Buchholz & Rosenthal, 1995; Steiner & Steiner, 1994; Baron, 1995; Carroll, 1996; Marcus, 1993) with multiple stakeholders influencing the decision making process of the firm (Garcia-Castro & Francoeur, 2016; Doh & Quigley, 2014; Ansoff and McDonnell, 1990; Carroll, 1989; and Drucker, 1980). Consequently, stakeholder management became a necessity (Garcia-Castro & Francoeur, 2016; Doh & Quigley, 2014; Carroll, 1989; Freeman, 1984; Keim & Baysinger, 1988) which leads to the degree of power possessed and exercised by the various stakeholders (Lee, et. al., 2013; Freeman, 1984; Wood, 1990). Hence, the political nature of the non-market environment commands a multi-disciplinary arsenal of leadership capabilities (environmental scanning of the political landscape, comprehensive stakeholder management, choice of political strategy, power-exercised etc.) and most importantly a correlation to performance (Bonardi, Holburn, & Vanden Bergh, 2006); usually business leaders are not trained to have such capabilities. Despite the public policy approach (government affairs divisions, lobbyists, political parties, trade agreements, global politics, international coalitions etc.), ultimately the corporate leaders are responsible to all stakeholders (customers, government, shareholders, general public etc.). The leadership is responsible for both market and non-market activities (Baron, 1995), globally. Hence, we propose a model that provides a theoretical overview of the critical factors to facilitate interaction among such factors. Primarily, we attempt to use the environment, behavior, capability and performance elements to illustrate the geopolitical posture of MNEs.
Environmental Turbulence: Upon management’s subscription to open-systems models of organization, scholars have postulated the dependence and influence upon the environment (Ali, et al., 2016; Chong and Bian, 2016; Aldrich & Pfeffer, 1976; Child, 1972; Hannan & Freeman, 1989; Lawrence & Lorsch, 1967; Pfeffer & Salancik, 1978; Thompson, 1967). Furthermore, the research typology has depicted environments primarily as stable, uncertain, complex, static, dynamic, discontinuous, and turbulent (Ansoff, 1979; Emery & Trist, 1965; Duncan, 1972, Lawrence & Lorsch, 1967; Post 1978) and the variability is known as environmental turbulence. Furthermore, strategy is often determined as a result of environmental turbulence (Ansoff and McDonnell, 1990; Buchholz & Rosenthal, 1995; Carroll, 1996; Drucker, 1980; Marcus, 1993; Peery, 1995; Post, 1978; Vernon-Wortzel, 1994; and Wood, 1990). We have summarized the levels of environmental turbulence based on the literature descriptions and typology of environmental conditions in Table 2.

Table 2

<table>
<thead>
<tr>
<th>Environmental Turbulence Descriptions</th>
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<tbody>
<tr>
<td>Stable Repetitive</td>
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<tr>
<td>Turbulence Level</td>
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Modified from Ansoff and McDonnell, 1990

Environmental turbulence was defined as the rate of change of the environment (Wilden & Gudergan, 2015;
Jurkovitch, 1974; Ansoff, 1979) and degree of complexity (Chong, et. al., 2016; Ansoff, 1979; Emery, 1985; Thompson, 1967). However, there is a lack of distinction in the literature of whether environmental turbulence measurements are for business strategies and/or corporate strategies. Some environmental turbulence measurement tools are future oriented (Ansoff & Sullivan, 1993) while others are past oriented (Tan and Litschert, 1994) and a third group maintains no clear distinction (Naman and Slevin, 1993). Typically, strategic leadership is associated with future developments and issues that may impact the firm (Ansoff & McDonnell, 1990; Armostrong, 1982; Hamel & Prahalad, 1994) while competitive management (Porter, 1980) is primarily involved with present and near-future (depending on the industry) strategy. Therefore, a distinction is required when using instruments that measure environmental turbulence. Finally, several theoretical and empirical postulations have suggested that performance is optimized when organizations undertake a careful diagnosis of the environment to assess the levels of turbulence and then decide to respond with the appropriate mode of strategic behavior (Ansoff & Sullivan, 1993; Morrison & Kendall, 1992; Post, 1978; Thwaites & Glaister 1992; Vernon-Wortzel, 1994).

**Strategic Orientation-Behavior:** Strategic behavior leads to different levels of performance (Morrison & Kendall, 1992). However, what type of strategic behavior produces optimal performance? The typology developed by Miles & Snow (1978) provided a foundation for other scholars of organizational behavior interested in the relationships between strategy, structure and process. The validity and reliability have also been affirmed as usable to explore organizations and their strategies (Shortell & Zarac, 1990). The typology is also consistent with theoretical and empirical studies (Powell & Baker, 2014; Ansoff, 1979; Ansoff & Sullivan et al. 1993, Hambrick, 1983; McDaniel & Kolari, 1987; Tan & Litschert, 1993; Ramaswamy, Thomas & Litschert, 1994).

Porter’s (1980) typology focuses on concentrated industries (Segev, 1989) and represents an excellent tool for an existing industry (therefore addressing the primary premise of low cost, differentiation) but offers little guidance for industries in highly entrepreneurial, creative and innovative settings which are still in a pre-infancy stage. Table 3 summarizes the types of strategic-political responses employed by an array of researchers and practicing managers. The suggestion is that organizations employ a different organizational response (endogenous driven behavior) depending on the environmental (exogenous driven process) conditions (contingency) which facilitates the goal of this research to associate environmental turbulence and strategic behavior-orientation to performance.

**Table 3**

<table>
<thead>
<tr>
<th>Selected Authors, Year</th>
<th>Levels of Strategic - Political Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Author</td>
<td>Strategy Type</td>
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<tr>
<td>-------------------------</td>
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</tr>
<tr>
<td>Miles &amp; Snow, 1978</td>
<td>Reactor</td>
</tr>
<tr>
<td>Ansoff and McDonnell, 1990</td>
<td>Stable</td>
</tr>
<tr>
<td>Sethi and Falbe, 1987</td>
<td>Exploitative, defensive adaptation</td>
</tr>
<tr>
<td>Sitkin and Bies, 1994</td>
<td>Standardization Formalization</td>
</tr>
<tr>
<td>Marcus, 1993</td>
<td>Defender</td>
</tr>
<tr>
<td>Vernon-Wortzel, 1994</td>
<td>Reactive</td>
</tr>
<tr>
<td>Carroll, 1979</td>
<td>Defensive</td>
</tr>
<tr>
<td>Lorange, 1994</td>
<td>Reorient and/or Dominant</td>
</tr>
</tbody>
</table>

*Note: The above variability of strategic-political responses is not based on absolute values but rather loosely representations of authors perceptions on the strategic response orientation. The table is utilized only as an instrument to show contingency approaches for strategic-political responses.*

**Leadership Capability for Geopolitical Understanding:** As the environment changes, there is not only the need to manage the social and political environment but also the need of developing leadership skills and capabilities for corporate political response (Lamberg, Skippari, Eloranta, & Mäkinen, 2004; Baron, 1995; Pfeffer, 1992; Post 1978; Sethi, 1982; Vernon-Wortzel, 1994). Leader are responsible for the formulation and implementation of strategies regarding corporate political activity that produces public policy outcomes that are favorable to the firm's economic success (Ansoff & McDonnell, 1990; Keim & Baysinger, 1988). An extensive body of literature explores the Corporate Political Activities (CPAs)(Baysinger, Keim & Zeithaml, 1987; Keim & Baysinger, 1988; Keim & Zeithaml, 1986; Keim & Zeithaml & Baysinger, 1984; Mahon, 1989; Mahon & Waddock 1991).

Until the 1940’s, society did not have any grand demands from corporations; and, leadership functioned without any interference from society (Galambos, 1975). However, this sheltered arrangement period ended and the corporate leadership’s entered the socialization period where corporate leadership was affected by society (Post, 1978) and the gap between organization’s performance and society’s expectations was broadened (Mahon & Post, 1987). In the socio-political environment of the firm, leadership needs to devise different responses for different levels of turbulence (Post, 1978).

It is suggested that leadership should possess capabilities of rethinking traditional beliefs and understanding the political process and skills in political behavior. Moreover, the leadership should develop a political infrastructure capable of recognizing the political market domain of the firm, which will facilitate necessary political networking and relations critical to the profit making activities (Ansoff & McDonnell, 1990). This type of leadership capability can claim success in the political arena only before issues become laws and regulations by facilitating the formulation and implementation of social goals (Vernon-Wortzel, 1994) with a clear understanding of the legislative process and the power of stakeholders affecting the firm (Useem, 1985). Leaders must understand the legal structure and political process to provide a contributing social strategy to the overall corporate strategy (Vernon-Wortzel, 1994).
Baron (1995) suggested that since nonmarket issues are critical to the performance of the firm, leaders are responsible for developing, formulating and implementing political strategies to facilitate the creation of favorable rules to the firm. Baron (1993) provided an extensive analysis of the leadership-managerial capability domains when engaging in political strategies. Several authors have suggested the need for leaders to have political capabilities that include lobbying, grassroots activities, coalition building, testimony, political entrepreneurship, electoral support, communication and public advocacy and judicial strategies (Ansoff & McDonell, 1990; Baron, 1993; Epstein, 1969; Holcomb, 1981; Sethi, 1977; Sethi, 1982; Vernon-Wortzel, 1994). In summary, there is a demand of a socio-political capability by the corporate leaders. However, we must also identify how this capability is manifested. For example, leaders display different propensities towards change (from resisting most/all changes to constantly seeking novel changes).

Table 4
Managerial Approach towards Change

<table>
<thead>
<tr>
<th>Level of Turbulence</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership Capability for Political Response</td>
<td>Evades Changes</td>
<td>Conforms to changes</td>
<td>Pursues familiar changes</td>
<td>Pursues new alternatives</td>
<td>Searches for novel changes</td>
</tr>
</tbody>
</table>

*Modified from Ansoff and McDonell (1990)*

**Model of Geopolitical Posture**

Subscribing to the theoretical postulations and empirical suggestions, it is suggested that the firm optimize its performance when the corresponding strategic behavior and leadership capability match the level of turbulence. Utilizing the environment-organization alignment as an indicator of performance, the research model is facilitating the operationalization of the research. Since different firms experience different levels of environmental turbulence, display different strategic behaviors and possess different leadership capabilities for geopolitical response, the gaps between environmental turbulence and historical behavior and capability will serve as moderating variables to indicate performance levels. Furthermore, to facilitate the operationalization of the research, we defined political events and issues as the laws and regulations relating the firm according to the leader’s perception as they were responding to the questionnaire.
Table 5
Global Environment-Strategic Behavior-Managerial Capability Fit

<table>
<thead>
<tr>
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<th>2</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Environmental - Political Turbulence</td>
<td>Politics, Trade and Non- Market Issues seldom change. Firms have ample time to respond</td>
<td>Politics, Trade and Non- Market Issues change slowly. Firms have time to respond</td>
<td>Politics, Trade and Non- Market Issues are changing fast. Firms can only keep up</td>
<td>Politics, Trade and Non- Market Issues are discontinuous but predictable.</td>
<td>Politics, Trade and Non- Market Issues are unpredictable.</td>
</tr>
<tr>
<td>Strategic Behavior-Geopolitical Orientation</td>
<td>Stability. Decision is based on past events</td>
<td>Reactive. Decisions are based on experience</td>
<td>Forecast. Decisions are based on projections</td>
<td>Political Entrepreneurship. Decisions are based on expected futures</td>
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Table 5 represents a combination of table 2, 3 and 4. It provides the foundation to operationalize this research. It offers different levels of environmental turbulence, strategic orientation and managerial capability. According to Table 5, previous research on environment-organization fit and empirical support (Ansoff & Sullivan, 1993), the optimal posture of the firm is when all three variables (Environmental - Political Turbulence, Strategic Behavior-Geopolitical Orientation, and Leadership Capability for Geopolitical Response) are at the same level of turbulence.
Table 6
Optimal Strategic Posture with Alignment of Leadership Capability and Strategic Behavior to Environmental Turbulence

<table>
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<tr>
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</tr>
</tbody>
</table>

Table 7
Sub-Optimal Strategic Posture with Alignment of Leadership Capability and Strategic Behavior to Environmental Turbulence

<table>
<thead>
<tr>
<th>Level of Turbulence</th>
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</table>
Presence in Emerging and Unstable Markets

Emerging and unstable markets present a number of risks for the MNC that need to be considered before choices are made. Unfortunately many of these risks are out of the hands of management, as they are heavily geopolitically based. Globalization and FDI by Western culture, most commonly the U.S., is met with transnational terrorism aimed at driving foreign involvement out of a specific region or country (Dai, et al. 2013; Braniei, O., & Abdelnour, S. 2010; Bremer & Keat, 2009; Li & Schaub, 2004). Transnational terrorism, which is the type of terrorism associated with geopolitics and globalization, is defined as an incident that occurs in one country that involves perpetrators, victims, targets, institutions or governments of another country (Li & Schaub, 2004; Enders, Sachsida, & Sandler, 2006). Expropriation is most common with natural resources, frequently involving mines and oil. Oil has its own geopolitical implications based on the fact that it is most heavily consumed by the West, with most of the world’s oil being in the Middle East, where there is a very heavy anti-western sentiment.

As political risk has become more prevalent and acknowledged, it has become a vital issue for MNCs to evaluate and assess when looking to do business internationally (Stevens, 2016 et. al.; 2016; Chevalier & Hirsch, 1981; Simon, 1984). While there are many variations to the definition of political risk, many agree that political risk is the risk associated with political changes that cause disruption or discontinuity within the business environment that is currently in place (Korbin, 1979; Clark & Tunaru, 2001). Within the broader definition of political risk lie a number of key factors that provide the makeup of what political risk actually consist of including: terrorism/war, corruption, and expropriation (Bremmer & Keat, 2009; Chevalier & Hirsch, 1981; Korbin, 1979). Those factors will be examined further.

One of the most difficult factors involved with terrorism is the ever-changing makeup between membership, new factions, and changes in both goals and tactics. Terrorism is an ever-evolving landscape (Kahan, 2015; Bremmer & Keat, 2009; Shapiro R., 2008). Less developed countries are often more susceptible to terrorism due to increased potential for political instability and radical change (Simon, 1984; Shapiro R., 2008). The major concern going forward regarding terrorism would be the use of an IND (improvised nuclear device) using HEU (highly enriched Uranium) (Naim, 2005; Shapiro R., 2008). Not only would this cause major human, structural, and financial losses, it would have far-reaching geopolitical consequences, most likely leading to a period of isolation and global conflict (Bremmer & Keat, 2009; Shapiro R., 2008; Naim, 2005).

Expropriation, or Nationalization, is the process where a host or national government will seize without compensation, or purchase ownership or a foreign firm (Chevalier & Hirsch, 1981; Wilson III, 1990). This tactic is utilized by less developed countries for one of two reasons: they are trying to offset the effect of external powers on their nation or they are trying to protect their national industries or valuable natural resources (Simon, 1984; Wilson III, 1990). During Hugo Chavez’s reign, he nationalized foreign investments in oil, steel, food, electricity, telecommunications, and concrete just to name a few (Everding, 2007; Hudson & Martinez, 2008).
Unfortunately, expropriation and corruption are usually found together. Endemic corruption usually leads to disregard of laws and contracts; expropriation falls directly under this seeing as it is usually the outcome of a disregarded international contract (Bremmer & Keat, 2009; Azfar, Lee, & Swamy, 2001). It is no surprise then that when expropriation is prevalent or widely practiced, corruption is as well. Corruption is normally not a significant risk to deter MNCs from entering a market, which is why many companies have admitted to paying bribes as a part of doing business (Watson, 2008; Bremmer & Keat, 2009). The costs associated with corruption must be kept secret; therefore they have no market value and the cost of goods increase (Robertson & Watson, 2004; Habib & Zurawicki, 2002).

**Distribution of Personnel**

Global depopulation and immigration will become a major geopolitical issue in the next decade (Batic, 2012; Friedman G., 2009; Wattenberg, 2004; Turner, 1998; Masson & Tryon, 1990). The population decrease, assuming no change in demographic structure, will cause a smaller labor force. This will have a slowdown effect of overall output growth (Wattenberg, 2004; McMorrow & Roger, 2003). Depopulation will result in fewer customers, aging issue and will not result in economic growth (Jackson & Howe, 2003; Wattenberg, 2004). As globalization continues it will increase rates of urbanization and industrialization, which can increase productivity which could create political risk, terrorism, conflicts and tensions that are associated with global growth process (McMorrow & Roger, 2003; Wattenberg, 2004; Barnett, 2004). Migration and immigration will be factors in growth of DC to enhance the workforce and keep productivity levels steady (Jenny & Obaid, 2004; Wattenberg, 2004; Jackson & Howe, 2003). There are methods that can be taken to reduce some of the geopolitical risk with migration and immigration issues (Barnett, 2004). Businesses should begin researching this issue sooner than later (Friedman G., 2009; Wattenberg, 2004).

Over the next 50 years, there will be a global decrease in population which will cause many geopolitical issues such as labor force issues, immigration, troop availability, environmental, commerce and globalization. Depopulation will alter the way people live and how countries behave (Friedman G., 2009; Wattenberg, 2004; Turner, 1998; Masson & Tryon, 1990). Countries such as, China and India which have placed restrictions on number of children have been working to control its population growth in order to push for economic development (Friedman G., 2009; Barnett, 2004). A decrease in output growth could also create issues with financial market trends, falling rates of capital accumulation and have an impact on productivity growth (Wattenberg, 2004; McMorrow & Roger, 2003; Turner, 1998).

As MNC continue to expand into emerging markets they will be placing their personnel at risk for political conflicts and/or violence in regions such as, Russia and the Middle East (Barnett, 2004; Shapiro R. J., 2008). Due to these risks many corporations keep their intangible assets, including intellectual property and newly developed processes and products in their home countries, leaving a smaller percentage of their workers at risk. MNC need
to develop strategic plans in response to these political risks in unstable areas where employees are at risk (Friedman G., 2009; Shapiro R. J., 2008).

Another immediate concern is the growing working-age population that is in search of work. If these jobs are not there, it could result in higher unemployment rates in LDC. Political volatility can occur and easily spill across borders, creating pressures for this group to begin migrating to more developed countries (Jenny & Obaid, 2004; Wattenberg, 2004; Jackson & Howe, 2003).

A diversity of shifting policies on immigration governs global politics with constant calibration as result of emerging issues (such a Syrian refuges) (Tamango, 2016; Friedman G., 2009; Shapiro R. J., 2008; Barnett, 2004; Jenny & Obaid, 2004; Wattenberg, 2004). Individuals need to continue to move around the globe otherwise productivity and economies will fall causing geopolitical issues (Friedman G., 2009; Shapiro R. J., 2008; Barnett, 2004). There are two other methods which carry less geopolitical risk, in which to keep globalization on track; virtual migration, such as India becoming the back office for the US and global commuting, which is best explained by looking at the Philippines mobile workforce, which was the first to go to Iraq to help the rebuilding process (Barnett, 2004). The global business world should begin analyzing some of these trends this with great care (Friedman G., 2009; Wattenberg, 2004). Based on how countries respond will affect global capital markets, it will affect developing and industrial countries (Jackson & Howe, 2003; Wattenberg, 2004).

Headquarters

Corporate headquarters are becoming the architect, sponsor, coach and surgeon of MNCs seeking ways to add value to the entire company (Conroy and Collings, 2016; Kramer R. J., 1989). The headquarters of a MNC should act as the coordinator of strategic objectives and operating policies across the businesses, the flow of resources and funds in the organization, and collection, storage and redistribution of the company’s knowledge, information, and experience (Kramer R. J., 1989; Porter, 1986). Corporate headquarters need to balance corporate control with adequate responsiveness and flexibility to the needs of local geographic and political demands (Turkina and Pustnikov, 2014; Johnston, 2005; Prahalad & Doz, 1981). The ability to manage knowledge within the corporation requires a decentralized heterarchical structure in contrast to the typical hierarchical structure of traditional MNCs (Bartlett & Ghoshal, 1989; Johnston, 2005).

From a geopolitical viewpoint, MNCs have recognized the multiple risks of traditional centralized headquarters that were effective prior to globalization (Johnston, 2005; Kramer R. J., 1989). To combat these business risks, companies have created subsidiaries or regional headquarters to address the complexities of running a large business across multiple borders and oceans (Kramer R., 2003; Johnston, 2005). In centralized headquarters, control adds complexity and impedes proactive changes in its relations with customers and the local political environment when located on the opposite side of the planet (Prahalad & Doz, 1981). Decentralized corporate headquarters provide more strategic control of ensuring overall corporate strategies are being implemented. This
allows subsidiary offices to proactively address changes in the political activities which affect their success (Kramer R. J., 1989; Johnston, 2005; Prahalad & Doz, 1981).

Early on, MNC implemented the knowledge management model known as the I-R (Integration-Responsiveness) grid which argued the need for global integration was driven by needs to lower cost and dismissed the demands to satisfy local differentiation (Johnston, 2005; Prahalad & Doz, 1987). It was the transnational strategy which took into account the pressures for local responsiveness and global integration (Bartlett & Ghoshal, 1989; Johnston, 2005). This strategy argued the capabilities to address these demands could lie anywhere within the corporation. The ability to manage knowledge within the corporation requires a heterarchical structure in contrast to the typical hierarchical structure of traditional MNCs (Bartlett & Ghoshal, 1989; Johnston, 2005).

For a heterarchical knowledge management structure to exist, the headquarters of a company needs to be tasked with the responsibility of gathering, maintaining and creating access to this information and not with the control and use of the knowledge gathered (Johnston, 2005; Argyris & Schon, 1996). Knowledge management consists of three core aspects - organizational knowledge, organizational learning and organizational memory (Johnston, 2005; Argyris & Schon, 1996; Bartlett & Ghoshal, 1989). This allows each subsidiary of a decentralized corporation to store their own information and to research and customize the knowledge of the entire corporation for their specific local needs without the restrictions and delays of going through the corporate headquarters (Johnston, 2005; Bartlett & Ghoshal, 1989).

Regional headquarters allows MNCs to be focused on the local political factors to respond to changing circumstances while minimizing their risk (Kramer R. , 2003; Blake, 1981). It signals commitment to the regional stakeholders (governments, religious groups, etc.) the company is committed to the region (Kramer R. , 2003; Blake, 1981). It is further established centralized headquarters cannot, nor are often willing to address the varying public policy issues MNCs’ face. These issues include maintenance of government relations, legislative and regulatory developments, negotiations with host governments and local organizations such as the media (Blake, 1981; Rugman, 2001). These issues are often handled by the regional country headquarters, not the corporate headquarters (Blake, 1981).

Many MNCs have a decentralized headquarters to prevent political backlash arising from trade disputes and retaliatory sanctions against the home country within their industry or other industries (Kramer R. , 2003). The constant changing of the business environment drives equally constant changes for a business. A centralized headquarters is not conducive to such constant change, especially across multiple regions simultaneously (Kramer R. , 2003; Blake, 1981). This is especially true for MNCs operating in the Asia-Pacific area where constant political and economic changes have a profound impact on how a business can operate within those countries. The vastly different cultures, religions, ethnic identity and governmental influence are a spider web which decentralized regional headquarters can maneuver through with greater knowledge (Kramer R. , 2003; Johnston, 2005).
Supply Chain and Partnerships

The supply chain is dependent on various means of transportation and/or information technology systems, which if disrupted could severely affect economic markets throughout the world (Hurn, 2013; Levinson, 2006; Friedman T. L., 2005; Mandel, 1980). Maritime trade continues to grow and is becoming essential to a growing economy and international commerce globalization (Levinson, 2006; Notteboom, 2004). Securing the supply chain from security and political threats is of utmost importance for shipping hubs (Friedman T. L., 2005; Lynn, 2005; Taft, 2005). In the global economy, MNCs need to protect their global investments against risk (Friedman T. L., 2005; Lynn, 2005; Taft, 2005). Outsourcing is one of the largest challenges in global supply chain management, central and local involvement is key to success (Lynn, 2005; Taft, 2005; Christopher, 1994). Countries that have built supply chains around global manufacturing hubs such as China have the most to lose if geopolitical conflict occurs (Levinson, 2006; Lynn, 2005; Taft, 2005). Keeping the supply chain stable ensures countries will continue to enjoy the rising standards of living they have achieved through equity built by the supply chain (Friedman T. L., 2005; Taft, 2005). Lack of security could be very detrimental to economic global growth in the region (Levinson, 2006; Friedman T. L., 2005; Taft, 2005).

The South China Sea is a vital gateway that transports energy and is also a strategic military gateway in this region (Storey, 2010; Bordonaro, 2006; Deen, 1999). However this area is becoming a geopolitical hot spot as China is emerging as a political and military economic power who would like to control more maritime shipping lanes in this region. This could pose a challenge to other countries if handled improperly (Storey, 2010; Bordonaro, 2006; Deen, 1999). Securing the supply chain from security and political threats is of utmost importance for shipping hubs. These hubs have been designed for accessibility and efficiency; this makes them vulnerable to attacks (Friedman T. L., 2005; Lynn, 2005; Taft, 2005).

MNCs must find ways to minimize these disruptions. Disruptions in one area can cause major disruptions literally shutting down the global supply chains, as in the instance of September 11th, when all shipping shut down for 5 days (Friedman T. L., 2005; Lynn, 2005; Taft, 2005). In the global economy, MNCs need to protect their global investments against risk. However much of this risk shifts from individual companies to society as a whole when geopolitics are involved (Friedman T. L., 2005; Lynn, 2005; Taft, 2005). MNCs have begun hiring individuals to monitor geopolitical conditions that could threaten their supply chains and preparing workarounds, if they should need them (Friedman T. L., 2005; Lynn, 2005).

Supply chains can provide stability and prosperity within countries, it is in the interest of the countries to ensure they have cohesive working relationships with their neighbors in order to keep the integrity of the supply chain intact and their place in the supply chain secure. Countries such as, China and Japan will need to find ways to work together with the US to ensure supply chains are stable and secure (Friedman T. L., 2005; Gereffi, Humphrey, & Sturgeon, 2005; Lynn, 2005). Otherwise it could have a massive effect on the investment and progress that has been made (Levinson, 2006; Friedman T. L., 2005). Also keeping the supply chain stable ensures countries will continue to enjoy the rising standards of living they have achieved through equity built by the supply
chain (Friedman T. L., 2005; Taft, 2005). If a geopolitical incident occurs companies may leave and not come back for a very long time (Levinson, 2006; Friedman T. L., 2005). This could be very detrimental to economic global growth within the region (Levinson, 2006; Friedman T. L., 2005; Taft, 2005).

**Market Volatility**

Market volatility has an effect on all corporations regardless of geographic location (Clements, et. al., 2016; Dent, 2008; Kose, Prasad, & Terrones, 2003). Two benefits of financial integration, global allocation of capital and shared risk by reducing consumption volatility (Dent, 2008; Ramey & Ramey, 1995; Kose, Prasad, & Terrones, 2003; Hassler, 1999). Global demand for oil and natural gas are expanding rapidly, which can have a major effect on market volatility and security issues (Friedman G., 2009; Dent, 2008; Saul, 2005). Emerging market alliances could create market volatility, with the alliances encompassing trade and military support (Dent, 2008; Saul, 2005). Countries most likely to take part in trade wars or military affairs will be China, India, Russia and the Middle East (Friedman G., 2009; Dent, 2008; Saul, 2005). This could potentially have a large effect on geopolitics in future years creating geopolitical concerns for the rest of the world (Friedman G., 2009; Dent, 2008; Saul, 2005). Geopolitics will have an effect on market volatility global nations need to generate new areas of cooperation, which will create new tensions and cause situations of financial interdependence that will have lasting effects (Dent, 2008; Kose, Prasad, & Terrones, 2003; Ramey & Ramey, 1995).

Most geopolitical changes wield great influence over economic issues worldwide; today's financial world is dangerous (Dent, 2008; Smick, 2008; Kose, Prasad, & Terrones, 2003). As markets integrate they will be more interdependent, which can either create or reduce market volatility (Dent, 2008; Kose, Prasad, & Terrones, 2003; Hassler, 1999).

China and India do not follow the typical principals of globalization, but have been successful none the less (Nye, 2009; Saul, 2005). These two countries have the potential of becoming the world's most powerful armed forces and armaments industries. They both believe in rigid defend of National Sovereignty which could cause market volatility (Nye, 2009; Saul, 2005).

Global demand for oil and natural gas as a source of power seems to be expanding rapidly, which can have a major effect on market volatility and security issues. Countries that export large amounts oil and gas will continue to gain political power, altering the geopolitical environment (Friedman G., 2009; Dent, 2008; Saul, 2005). Emerging countries such as China and India are beginning to create alliances with countries that have ample gas and oil resources (Dent, 2008; Pascual, 2008). Some of these alliances could create market volatility, especially if developed countries are also increasing their alliances with resource countries for trade and military support (Dent, 2008; Saul, 2005).

The Asian Rim of the Pacific demand for energy will continue to increase by double digits yearly (Sarkar, 2009; Zweig & Tianhai, 2005). They are also dependent on maritime trade and any interruption would be detrimental to their economy (Friedman G., 2009; Sarkar, 2009; Bustelo, 2005; Zweig & Tianhai, 2005). Chinese
leaders have concern about their energy security. They are looking for new and reliable imports, new resources, and to control imports and transport routes, while increasing their own oil production (Friedman G., 2009; Bustelo, 2005; Zweig & Tianhai, 2005). These issues will have considerable change for geopolitics of energy in the coming decade and the US will need to find ways to work with the Chinese government to enhance the relationship to eliminate market volatility (Friedman G., 2009; Bustelo, 2005; Zweig & Tianhai, 2005).

Russia is trying to reassert their power within the region using oil as their power causing a geopolitical power struggle (Friedman G., 2009; Finon & Locatelli, 2007). Currently Russia is dependent on Europe to export oil to but is trying to change this landscape (Friedman G., 2009; Finon & Locatelli, 2007). The largest oil reserves are located in political or economically insecure regions, Russia and The Middle East (Sarkar, 2009; Morse & Richard, 2002; Katz, 2001). The Saudi-Russian Relationship will become important moving forward, both countries are facing economic and security difficulties. Policies they have put in place will not only have negative consequences for them but other countries also, this will be worth monitoring moving forward (Morse & Richard, 2002; Katz, 2001). Russia has quietly begun increasing oil production output, and still has room for improvement. This new geopolitics of energy will help Russia improve both politically and economically (Morse & Richard, 2002; Katz, 2001). Russia sees the Saudi capacity to lower oil prices as threatening to their leadership. Russia will not become a global power in the next decade; they will become a regional power and that may lead to disagreements across Europe, certainly a situation to watch (Friedman G., 2009; Morse & Richard, 2002; Katz, 2001).

Signals of negative change, signs of warfare, politics, excessive government intervention as well as proposed fiscal and regulatory changes that will be counterproductive and can cause a great deal of market volatility (Smick, 2008; Hassler, 1999). One cannot eliminate all risk; it includes geopolitical unrest, unstable markets and worrisome economic fundamentals. There are lessons to be learned from the past, and market volatility can worsen if we do not pay attention. The ebb en flow of markets will be to grow and then decline (Smick, 2008; Kose, Prasad, & Terrones, 2003).

**Capital Hazard**

Unfortunately for MNCs, political shocks are prevalent and often unpredictable (Rao, 2008; Behrendt & Khanna, 2003). Political shocks have the ability to manifest themselves in an array of possible scenarios including both coups and changes to existing governmental policies, European crisis, (Paltaidis, 2015; Feng, 2001; Rao, 2008; Behrendt & Khanna, 2003). Potential policy changes include LCRs, land ownership restrictions, and tax rates. Recent history of the effects of a coup can be seen in Honduras, who experienced a coup in June of 2009. Investors were affected with curfews, limiting employee’s ability to work, along with political difficulties of other Latin American countries not recognizing the new president that had been elected (D'Ambrosio, 2009; Otis, 2009). When looking at the policies that the government is in control of, MNCs need to remember that these are all subject to change for the better or worse, and are strictly determined by the current government that is in control.
A Coup D’état, or a coup, occurs when an existing government is successfully overthrown by a smaller faction either illegally or by force. The threat of a coup, or the likelihood of a coup to take place, is not something for MNCs to overlook and in fact most have taken notice (Nigh, 1985; Emmert & Tuman, 2004). Potential for political shocks within nations leads to a lack of desire to invest long term in that nation due to the perceived instability that is present (Emmert & Tuman, 2004; Nigh, 1985). Governmental change and instability in turn result in either undermining or reversing property rights altogether becoming a major deterrent for investors due to the insecurity of their property rights (Everest-Phillips, 2008; Feng, 2001).

Many countries have restrictions regarding land ownership geared towards foreigners, and more specifically foreign companies and investors. In some instances, ownership is strictly prohibited, and land use is only permitted in the form of a lease, either long-term or shorter-term, allowed by the local government (Campbell, Cullinan, & Hodgson, 1999; Thomsen, 1999; Coelho & Tanzi, 1991). With government dictating the length and terms of the land lease, companies are susceptible to policy change in regards to lease terms or early termination.

LCRs (local content requirements) require foreign firms to use a required number of local products, resources, and inputs to produce their finished product (Lahiri & Ono, 1998; Qiu & Tao, 2001). The thought behind this is that the increased business for local firms due to increased orders for their products will result in an influx for local employment opportunities (Urata, 2005; Qiu & Tao, 2001). If content requirements are raised, they have the potential to lead to increases costs and decreased profits if there are inefficiencies in the local markets.

Taxation in foreign countries is not regulated, and it is determined by each individual country with local and regional governments having a strong influence on tax agreements (Bremmer & Keat, 2009; Hines, 1988). Tax-havens (countries with very low corporate income tax) are very attractive places for MNCs because they offer greater profit margins (Grubert & Mutti, 1991; Rice & Hines, 1994). This has caused concern globally amongst high tax countries, which fear that the departure of MNCs to tax-havens will erode their tax base (Grubert & Mutti, 1991; Rice & Hines, 1994).

**Information Vulnerability**

In order to minimize a MNC’s vulnerability to information loss, there are three core steps a company can take. Establish a strong Information technology policy, monitoring and enforcement strategy to restrict access and curtail the temptation to steal sensitive information (Zhu, et. al., 2016; Choucri, et. al., 2014; Rowe, 2009; Swartz, 2007; Holstein, 2007; Firth, 2006). Instill a strong education role in communicating the value of protecting intellectual property with employees, vendors and customers (Firth, 2006; Swartz, 2007). Finally, be vocal in their communication to governments, competitors and business partners on the seriousness the company places on its intellectual property protection (Firth, 2006; Lee & Mansfield, 1996).

A basic mistake MNCs make that exposes their sensitive information is assuming the operating environment and culture is similar to their home environment (Holstein, 2007; Jordan & Silcock, 2005). With the advancement of technology, computer-related crime including technological malfeasance, tortfeasance,
Manipulation and theft is a major security concern for international companies (Branscomb, 1983; Drake, 1993). The growing competitiveness of international business is also encouraging new forms of industrial espionage as competitors try to break into proprietary systems to obtain competitive information (Drake, 1993). This can impact a business in costs, exclusivity, replacement and confidentiality when information is stolen or compromised (Jordan & Silcock, 2005; Lee & Mansfield, 1996).

Furthermore, there is a strong relation between the amount of capital a company will invest in a market and the degree to which the market has enforceable intellectual property protection (Lee & Mansfield, 1996). When working with foreign business partners and vendors, a company can look to the international information security management standard, ISO/IEC 17799 certification, as a requirement before doing business with the other company (Saint-Germain, 2005). This standard provides a framework for ensuring business continuity, maintaining legal compliance and reduced levels of risk to their intellectual property (Saint-Germain, 2005; Manufacturing Business Technology, 2005).

Governments are also concerned with the flow of data and information across borders (Voss, 2016). The negative effects it can have on national economic, legal and sociocultural independence led some governments to impose regulations on the flow of data claiming national sovereignty issues (Voss, 2016; Drake, 1993). In these situations, governments are restricting the flow of information by MNCs, preventing them from continuing to conduct business in that country. Other governments have implemented regulations that promote the flow of data and information by protecting the rights to the information within their legal system. However, this debate lost substantial government support across the world and therefore many MNCs are left with little regulatory recourse if information is stolen or restricted by a third party (Drake, 1993). The core issues still remaining are trade in services, personal privacy protection, and intellectual property rights (Drake, 1993).

International companies can incur significant losses from incorrect or failed data transmissions when overseas service providers or networks fail, leaving the company paralyzed in a region (Drake, 1993; Jordan & Silcock, 2005). Furthermore, information protected in the country of origin, may not be protected in the country of transfer (Drake, 1993; Reidenberg, 1988).

MNCs often forget about threats to their information by internal sources including rogue employees, authorized service providers and vendors (Matwyshyn, 2009; Jordan & Silcock, 2005). Technology has allowed employees easier access to obtain and exploit sensitive company information for alternative motives (Matwyshyn, 2009; Rowe, 2009). Proper restrictions to trade secrets, data and information are key to preventing a company’s proprietary information from being compromised (Matwyshyn, 2009; Rowe, 2009; Swartz, 2007).

In order to mitigate exposure to information risks, a critical step is putting in place an information technology governance framework across the company (Rowe, 2009; Jordan & Silcock, 2005). Location of a company’s headquarters and offices is an important safeguard as the infrastructure and culture in select countries is designed to protect intellectual property (Holstein, 2007).
Discussion

As one can see, there are a number of factors that MNCs would need to consider and thoroughly evaluate before making a final choice on a market to enter into. Developed countries tend to have less risk associated with business ventures, but usually have higher entrance barriers, stiffer competition, and more saturated markets. LDCs and emerging markets offer more potential and a better opportunity for a higher return on investment, but the risks associated with these regions are also much higher.

Decisions to be made going forward for MNCs are going to have to be very industry specific. LDCs offer cheap, unskilled labor that is ideal for manufacturing and other less skill intensive industries. Industries requiring highly skilled or technical labor will be better suited for developed countries for a few reasons, one being the labor pool available for them in developed countries as opposed to LDCs, along with the increased security regarding property rights including intellectual property, trade secrets, etc.

There are certain “emerging” markets that cannot be ignored at this time, which include Brazil, China, and India. They account for a huge portion of the world’s population, and present a market that is exponentially larger than the domestic market that we have in the U.S. Couple that with the continued growth that their economies have been going through, especially in India and China. They are relatively stable compared to other emerging markets, and they are only going to continue to grow. Brazil also deserves strong consideration, and an eye should be kept on Russia due to its size and vast natural resources that it possesses.

Geopolitically speaking, the war on terror, the Middle East, and Western resentment should all be monitored closely. Terrorism has the potential to drastically alter globalization and the geopolitical landscape. A major catastrophic event involving a nuclear attack could reconstruct all the barriers that globalization and free-trade has been working to break down, and could send the globe into a period of isolation and high tension. There is also the risk anti-western regimes could attain power in what few allies remain in the Middle East having major effects and consequences on energy availability and costs.

MNCs should also be aware of new Free Trade Agreements that are reached and should keep tabs on the European Union. If it becomes a major success, it could become the model for regional organizations around the world to follow.

With such external factors outlined in this paper, along with these issues to maintain sight of, companies have the blueprint for how to become a successful MNC. In addition, we coalesce in this investigation, the development of strategic posture as it relates to these geopolitical factors. Naturally, there are other factors that could be as critical and of course certain factors are emerging as critical in a particular year. In short, this provides a conceptual guide to a global manager to create a systematic investigation of the external factors impacting the choice of strategic posture to engage the global geopolitical shifts effectively.

Finally, I have introduced a research model to guide the investigation of the relationship between strategic gaps and performance and impact on the regulatory and legal settings, and finally the relationship between the regulatory and legal settings and performance.
**General Hypothesis**: Geopolitical performance generates greater economic performance when the firm’s geopolitical turbulence matches its strategic behavioral approach and core managerial capability (modified from Ansoff & Sullivan et al, 1993 – See Table 6 and 7 as well)

This general hypothesis was divided into five sub-hypothesis.

**H1**: There is an inverse relationship between the strategic-geopolitical behavior gap and the impact of the rules of the game.

**H2**: There is an inverse relationship between the managerial political capability gap and the impact of the rules of the game.

**H3**: There is an inverse relationship between the strategic-geopolitical behavior gap and the performance of the firm.

**H4**: There is an inverse relationship between the managerial geopolitical capability gap and the performance of the firm.

**H5**: There is a direct relationship between the impact of the rules of the game and the performance of the firm.
**Research Design**

This was a descriptive correctional study. This research project investigated the relationship of the corporate political manager's perception of the political turbulence and the corporate manager's present political behavior and present political capability to influence the maintenance and/or creation of favorable rules (control variable) for the firm. It was also the purpose of this investigation to examine the relationship of the corporate geopolitical posture (degree of alignment between environmental turbulence, strategic behavior and political capability) and the performance (dependent variable) of the firm. The data collection method selected for this study will be a questionnaire. It is still undecided the sample we will use (small, medium, large companies, etc.). A preliminary telephone survey 13 firms was conducted to investigate the receptiveness for such a study. Results indicated that firms would be receptive to a study of such value.

**Instrumentation:** Data will be collected through a questionnaire. The first section of the questionnaire will included structured questions that targeted the assessment of the managerial perception of the global turbulence. The second group of questions targeted the assessment of the managerial strategic behavior and the third group of questions targeted the geopolitical leadership capability. Finally, the last two groups assessed the impact of the rules of the game and the performance of the firm. The questions were solely based on the theoretical propositions by Ansoff (1979) and previous findings (Ansoff, Sullivan et al., 1993; Moussetis, 1999).


Storey, I. (2010, April 29). *China's "Charm Offensive" Loses Momentum in Southeast Asia (Part 1)*. Retrieved May 12, 2010, from The Jamestown Foundation: http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Bswords%5D=8fd5893941d69d0be3f378576261ae3e&tx_ttnews%5Bany_of_the_words%5D=spratlys%20&tx_ttnews%5Btt_news%5D=36324&tx_tttnews%5Bbbid%5D=7&cHash=4be7e0a6


