Business Strategy in a Fragmenting World: Firms, States, and Civil Society

Highlights and Essential Themes from the June 2025 Event

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Event Motivation

Businesses and the private sector are increasingly embroiled in national security issues in a world that is transitioning away from the heyday of happy globalization. While the economy remains globalized, all actors are now aware that the interdependence it creates can be leveraged to exert power. Firms are key actors as the networks and supply chain they established are a terrain on which states are waging their rivalries through, for example, the imposition of economic sanctions. The capabilities firms develop (e.g., New Space, AI, semi-conductor fabrication) have become the stakes of acute inter-state rivalries, motivating clashes between states as well as a renewal of industrial policies.

This conference sought to establish a dialogue among (1) academics from business schools, (2) think tank researchers, (3) businesses, and (4) policymakers to address these emerging challenges through a multidisciplinary lens. Despite the critical importance of these issues, these four communities rarely engage in substantive dialogue - business schools focus on competitive strategy while remaining largely detached from geopolitical realities, think tanks analyze state behavior without sufficient attention to business constraints, companies navigate these tensions with limited strategic frameworks, and policymakers craft regulations without fully understanding their operational implications. Thanks to the conference's location in central Paris, the event successfully brought together this diverse audience. By doing so, the conference established a precedent for creating a broader stakeholder community invested in globalization's future.

This document offers an executive summary of each panel and a call to action on the research, analytical and pedagogical fronts. The annex provides a more detailed overview of the panels.

What's next? A Call to Action: Business Strategy in a Fragmenting World

The challenges highlighted at this conference demand urgent action from business schools and academic institutions worldwide.

Traditional frameworks are proving inadequate for today's complex, fragmented environment. To prepare future leaders and advance knowledge, we must fundamentally rethink both our research agendas and our approaches to education.

Research Imperatives: Frameworks for Sovereignty, Resilience, and Social Cohesion

The weaponization of economic activity has created unprecedented strategic dilemmas that call for immediate scholarly attention. How do asymmetric actors bootstrap alternatives in winner-take-all markets dominated by massive economies of scale? This question lies at the core of debates on European competitiveness and sovereignty.

To address it, we must build new frameworks for governing economic flows—not only mapping where goods and capital move but analyzing the institutional structures and relationships that create resilience. Europe's fragmentation represents both a risk and an opportunity: a challenge to integration, yet also a laboratory for innovative governance models that could defragment markets while preserving democratic accountability.

Importantly, fragmentation does not equal disintegration. Distinguishing media narratives from economic realities requires rigorous research into how firms sustain beneficial interdependencies while minimizing dangerous vulnerabilities.

The shifting social role of business also requires closer study. As traditional institutions lose credibility, firms increasingly act as sites of sociability and cohesion—whether leaders intend it or not. This transformation demands research into organizational culture, leadership models, and stakeholder governance that recognizes business as a social institution with responsibilities beyond markets.

Educational Imperatives: Cultivating Multidisciplinary Risk Literacy

Business education must move decisively beyond disciplinary silos as risk becomes more complex and interconnected. Tomorrow's leaders need literacy across geopolitics, technology, environmental science, sociology, and international relations. They must be able to navigate worlds where supply chain choices have military consequences, AI development carries diplomatic weight, and climate policy reshapes competitive advantage.

The people we train require tools to understand how technological dependencies become national security vulnerabilities, how workforce fragmentation reflects broader political polarization, and how financial markets can amplify or dampen geopolitical shocks. This demands curricular integration across traditionally separate fields.

Risk assessment itself must evolve—from probability-based prediction toward the assumption that disruption is inevitable. Education should emphasize scenario planning, systems thinking, and adaptive capacity. Rather than training leaders to optimize for stability, we must equip them to build organizational agility and stakeholder resilience in unstable environments.

Equally important is cultivating an exploratory mindset: the ability to formulate new questions when established frameworks fall short, to identify emerging interdependencies, and to improvise solutions under conditions of radical uncertainty.

HEC Paris's Commitment

This conference marks a beginning. Business schools must act as laboratories for experimentation in research, teaching, and public engagement. The boundaries between executive education, degree programs, and dialogue with policymakers and civil society must blur if we are to meet the challenges ahead.

We commit to advancing these insights through sustained research, innovative programming, and deeper partnerships with practitioners and public institutions. The complexity of our fragmenting world demands nothing less than institutional transformation in how we generate and share knowledge about business, strategy, and leadership.

The experiment begins now.

Panel Insights

Panel 1: A Fragmenting World - Are Firms Actors or Bystanders?

1. Executive summary

Fragmentation is better understood as an ongoing process of increasing friction rather than a binary outcome. The challenge for businesses is reducing the downside of interdependence without sacrificing its benefits. Success requires new capabilities for political risk management while maintaining beneficial global connections.

2. The fragmentation paradox

Trade has remained surprisingly resilient despite fragmentation fears. Global trade levels haven't significantly declined even after Trump's first presidency and COVID disruptions. The main exception: Europe-Russia energy decoupling following Ukraine's invasion.

In addition, companies proved adept at geographic arbitrage, moving final assembly while keeping Chinese components. Furthermore, bilateral tariffs create surface-level changes but don't achieve true economic decoupling.

But financial markets tell a different story: While goods move freely, money is getting nervous. Currency volatility, Treasury bond sell-offs, and massive hedging operations signal deeper stress in the global financial architecture.

This is why financial markets may be the real battleground ultimately. The dollar is experiencing “peak dollar,” which isn’t a collapse but a relative decline as countries diversify, and as treasury bonds face unprecedented volatility as countries question their “risk-free” status. Notably, bond markets may provide the only effective check on disruptive policies.

3. Three transformations reshaping global business

China’s role is complicating fragmentation: China’s shift from property-driven to export-led growth creates massive global surpluses ($1.1 trillion). This makes true fragmentation difficult: Surplus countries need deficit partners. China's unwillingness to import limits Europe's pivot options.

The Trump factor is a game-changer: Trump applies a “one-size-fits-all” approach to all relationships, treating allies like adversaries and adversaries like domestic enemies. His three-part strategy: (1) Eliminate constraints (bureaucracy, alliances, international institutions), (2) Transform culture (attacking DEI values, promoting “warrior” culture), (3) Subjugate opposition (financial pressure, extreme negotiating positions). This creates fragmentation not through design but as an unintended consequence.

Europeans face many challenges: Defense spending is hitting a reality check, as free-rider problems persist from within and as fiscal constraints limit ambitious rearmament plans. COVID is a cautionary tale, too: Responses led to massive inequality, unsustainable debt, and market dislocation. Politicians use "war" rhetoric to avoid scrutiny of spending.

4. Business implications

Businesses are already acting, as major financial institutions creating “war plan ahead” teams. Allianz now dedicate 30-40% of senior management time to geopolitical risk. this represents a massive shift in how major corporations allocate executive attention. There is evidence of extensive dollar hedging operations, stress-testing for extreme currency scenarios (euro at 1.4 to dollar) and companies reducing cross-border exposures.

Options on the table include:

1. Maintain efficiency while building agility: Don't abandon trade benefits but develop substitute sources quickly.
2. Invest in geopolitical risk management: This is becoming a core business function.
3. Prepare for gradual, not sudden, fragmentation: This is a process, not an event.

Panel 2: Civil Society and the Crisis of “Doux Commerce”

1. Executive summary

The theory that commerce leads to peace (doux commerce) is facing its greatest challenge since 1945. While civil society organizations multiplied after the Cold War with hopes for international cooperation, they now operate in an increasingly hostile environment where the normative framework underpinning global governance is crumbling. New coalitions between governments, businesses, and civil society could help tackle this challenge, but building these partnerships demands moving beyond traditional consultation toward genuine strategic dialogue and shared long-term vision.

2. The challenge: the global collapse of norms

The "doux commerce" theory shows mixed historical evidence - despite extensive trade between Germany, UK, and France before WWI, war still occurred, and China's integration into the global economy hasn't led to political liberalization as predicted. Trade policy is increasingly weaponized as countries use export controls, anti-dumping measures for political purposes, and energy threats to achieve geopolitical objectives rather than economic ones.

Civil society operates in a shrinking space as the post-Cold War expansion of international cooperation has reversed. Trump's administration systematically dismantled foundational pillars of international order that the United States itself helped create - sovereignty claims on Greenland, Panama, and Canada undermine principles sacred to post-colonial nations, while USAID closure represents a "nuclear bomb" in the aid world, cutting off HIV treatments and destroying decades of relationship-building.

3. The accelerators: how global challenges speed the collapse

Traditional state-to-state diplomacy has proven insufficient for addressing interconnected global challenges including climate change, AI regulation, global health, and humanitarian aid. Climate change requires meaningful private sector engagement, while in technology regulation, major tech companies often wield more influence than individual states. Meanwhile, the world's twenty-five most fragile countries face abandonment unless new coalitions emerge to sustain humanitarian aid.

4. Business implications

Despite major events, 2023 CEO surveys showed less concern about geopolitical conflict than expected – until Trump's return triggered renewed attention. Many European companies still lag French firms in developing systematic geopolitical risk management capabilities, while EU initiatives like Global Gateway's business advisory forum suffer from poor execution.

Options on the table include:

1. **Develop "Geopolitical Social Responsibility":** Prioritize long-term European investment over short-term gains from selling strategic assets to American or Chinese firms.
2. **Build strategic government partnerships:** Move beyond regulatory compliance toward Biden-style CEO councils focused on long-term vision across five areas: Europe's global role, supply chain diversification, digital governance, sustainability partnerships, and economic security.
3. **Support new coalitions:** Partner with think tanks and civil society on technology governance and multi-actor diplomacy to fill gaps left by retreating American leadership.

Success requires moving from consultation to genuine collaboration: traditional transparency measures don't create meaningful impact without shared strategic vision. Companies need to understand that geopolitics now permeates all business operations, from cybersecurity to employee safety abroad to managing internal tensions over global conflicts.

Panel 3: Industrial Policies and Supply Chains - Can Resilience be Engineered?

1. Executive summary

Industrial policy must balance efficiency gains from global value chains against vulnerabilities to supply shocks and weaponization. Building resilience requires moving beyond simple redundancy toward "agility," that is, rapid response capabilities when disruptions occur. Current approaches suffer from information failures between governments and firms. The challenge lies in engineering supply chains that maintain efficiency benefits while reducing catastrophic risks.

2. Efficiency v. Resilience

Global value chains created massive efficiency gains through the 1990s-2000s: About 50% of world trade now flows through complex production networks, and tradable goods experienced consistently lower inflation than non-tradables, meaning consumers benefited from increasingly cheaper imported goods.

Efficiency drives dangerous concentration. Between early 2000s and late 2010s, the number of products where a single country controls over 50% of world trade roughly doubled. TSMC produces half the world's semiconductors - when COVID disrupted their production, cascading failures hit global value chains.

Weaponization transforms trade into coercion as countries increasingly use export controls, anti-dumping measures, and supply restrictions to achieve political objectives rather than economic ones.

3. The strategic selection challenge

Defining what constitutes strategic requires combining political judgment with private sector expertise, since governments lack detailed knowledge of global value chains. The IPCEI system allows European member states to collectively identify strategic sectors, prove market failures exist, then support projects where public funding equals the negative present value.

The innovation-production link proves critical. France lost photovoltaic capabilities when it ceded production to China and focused only on high-value innovation - but when researchers later developed improvements, no factories or firms remained to implement them.

4. Building resilience

Systematic market failures exist where purchasing agents focus on unit prices while costs of disruption affect other departments. The solution requires "agile capability" rather than just stockpiles - the US had mask reserves during COVID, but they were expired and unusable. Effective resilience means rapid surge capacity using general-purpose equipment, broader worker training, and domestic production that can scale quickly when needed. This follows Toyota production system principles of reducing lead times and building problem-solving capabilities through relationships and coordination mechanisms, not just redundant suppliers.

5. Business implications

Recent major disruptions have not led to meaningful solutions for coordination problems between governments and firms. Information failures persist across different systems - manufacturers discussing benefits often stay silent because they depend on imports, while governments struggle to provide the demand forecasts that firms need for investment decisions, whether through European IPCEI processes or American industrial legislation.

Options on the table include:

1. **Build agile response capabilities:** Invest in surge capacity and general-purpose equipment rather than just redundant suppliers.
2. **Engage in strategic definition:** Share technical expertise with government efforts to identify critical dependencies.
3. **Develop collaborative relationships:** Move beyond arm's-length procurement toward partnerships that enable rapid coordination during disruptions.

Success requires recognizing that innovation depends on production capability. France's loss of photovoltaic production capacity meant that subsequent innovations couldn't be commercialized. Similarly, building competitiveness in emerging sectors like cloud computing and AI requires sustained commitment despite high initial costs, as massive economies of scale and first-mover advantages compound rapidly. For businesses, the challenge lies in maintaining the capability to participate in future innovation cycles while balancing global efficiency with strategic domestic capacity.

Panel 4: AI Development - Convergence or Divergence?

1. Executive summary

AI development faces a fundamental tension between convergence through global cooperation and divergence through geopolitical competition. While AI requires massive international collaboration for enterprise adoption and safety, nations are simultaneously building sovereign capabilities across the entire technology stack. The DeepSeek disruption revealed both the fragility of US dominance and the potential for alternative development models, but Europe's primary challenge remains internal fragmentation rather than external competition.

2. The AI technology stack dependencies

AI is built on a complex stack of technologies and resources, starting from critical raw materials at the bottom, moving up through electronic chips and semiconductors, network connectivity including submarine cables and 5G systems, cloud computing infrastructures providing storage and computing capacity through data centers, software platforms and applications, and finally AI models and algorithms at the top.

The cloud sector is largely dominated by American companies, with Amazon, Microsoft, and Google together holding nearly 65% of global market share as of late 2024. Certain states occupy strategic positions within supply chains through niche capabilities - Taiwan and the Netherlands serve as key hubs for semiconductors and lithography machines, while countries like China control critical materials needed for chip production.

Supply chain bottlenecks become weaponized during tensions. China has reduced gallium exports, a material needed for chips in radar systems and data centers. Microsoft revoked the ICC prosecutor's email access. Washington continues restricting semiconductor technology exports to China to slow AI development. This instrumentalization of interdependencies drives what the panel called pluralization of AI development as countries build sovereign capabilities.

3. The DeepSeek disruption paradigm

DeepSeek's emergence challenged fundamental assumptions about AI development models. The Chinese startup claimed to match American model performance at fraction of the cost using fewer computational resources, questioning US export control effectiveness and the necessity of resource-intensive development approaches.

While DeepSeek likely required more resources than initially claimed, it demonstrated the viability of alternative technical approaches to the dominant American model of closed-source, proprietary, resource-intensive development. This challenges the winner-takes-all assumption driving current AI competition and legitimizes open-weight licensing models.

The disruption revealed communication gaps in European AI achievements. Mistral had developed similar mixture-of-experts approaches a year earlier but failed to generate equivalent attention, highlighting Europe's challenge in translating technical capabilities into market recognition and strategic influence.

4. European opportunities

Europe's biggest challenge is internal division rather than external competition. Member states hold different views on American technology partnerships: Some see collaboration as economic opportunity, others view American companies as threats to autonomy.

These divergences became apparent in European cloud certification debates. The EUCS certification sparked disagreements about excluding American providers from highest security levels, illustrating fundamental tensions about digital sovereignty versus interoperability.

Europe possesses significant advantages: abundant high-quality data from digitalized societies, clean energy benefits for AI training, and regulatory frameworks like the AI Act that prevent unauthorized data collection while creating space for European alternatives.

5. Business implications

Enterprise adoption remains the critical determinant of AI success globally. Leadership commitment at senior levels, robust infrastructure for training and inference, and employee buy-in that makes tools genuinely productive drive successful implementation regardless of geographic location.

Options for European actors include:

1. **Develop vertical specialization**: Focus on domain-specific applications leveraging European sector strengths rather than general-purpose model competition.
2. **Leverage regulatory advantages**: Use AI Act protections to build sustainable data strategies without depending on unauthorized collection.
3. **Build European scale**: Work across fragmented national markets to achieve necessary scale while maintaining regulatory compliance.

Success depends on using resources efficiently when developing algorithms and focused applications while still overcoming internal market fragmentation.

Panel 5: New Dilemmas for Firms

1. Executive summary

Companies face three overlapping fragmentation zones that create contradictory stakeholder demands: geopolitical tensions where dual-use products force impossible compliance choices, social cohesion breakdown imported through diversity initiatives, and intergenerational environmental conflicts where current mobility benefits clash with future sustainability costs. Private equity firms have shifted from probability-based risk assessment to preparedness planning, while trust data reveals businesses as the only institution rated both competent and ethical despite widespread belief that leaders deliberately lie.

2. The legitimacy-operations gap

Only 7% of Western firms actually divested from Russia within a year despite massive public pressure and two-thirds of survey respondents supporting boycotts. Companies with highest Russian revenue exposure faced strongest exit pressure, contradicting conventional wisdom about easy exits for smaller operations. Firms redirected trade through Central Asian countries while maintaining clean public profiles, demonstrating the gap between reputation management and operational reality.

Dual-use products create impossible compliance scenarios. Tire manufacturers cannot serve both NATO armies and Russian forces, yet controlling downstream supply chains proves nearly impossible when distributors in Turkey sell to Stan countries that export to Russia. Export controls extend to customers-of-customers-of-customers, making true compliance unachievable for global companies.

3. Trust Hierarchy Inversion

Businesses emerge as the only institution rated both competent and ethical, creating a 70-point differential with government in France. Yet 67% believe business leaders deliberately lie through gross exaggerations, revealing the paradoxical nature of institutional trust. My employer ranks as most trusted entity while generic businesses score lower, indicating personalized versus institutional trust patterns.

The workplace becomes the last bastion of civility while society demands corporate political action. Companies import societal polarization through diversity initiatives designed to access collective intelligence, creating internal tensions that mirror external fragmentation. No foreign company achieves trusted status in France, demonstrating how nationalism shapes stakeholder acceptance.

4. Open questions over the horizon

Private equity has abandoned probability-based risk assessment in favor of preparedness planning. The sector now operates under "iceberg theory," that is, the assumption that disruptive events are inevitable rather than calculable risks, requiring readiness for impact rather than predictions of likelihood. This shift has fundamentally altered executive priorities, with major institutions dedicating 30-40% of senior management time to geopolitical risk management rather than traditional operational concerns.

Technology amplifies these strategic contradictions. AI can automatically generate compelling investment memos arguing both sides of any deal, creating decision-making paradoxes that push investors toward "rhinoceros over unicorns"—resilient, enduring businesses rather than magical growth stories. Environmental tensions represent the most persistent challenge, as companies like Michelin face challenging trade-offs between current social benefits and future environmental costs, generating 150 million tons of CO_2 annually while providing essential mobility services.

5. Business Implications

Options for businesses include:

1. **Build adaptive architecture through compass-destination models:** Maintain fixed purpose and values while adjusting tactical responses. Create trust foundations where stakeholders understand your foundation and direction despite operational fluctuations.
2. **Develop geopolitical risk management as core function:** Move beyond traditional risk assessment toward rapid preparedness capabilities. Invest in exploratory mindsets and science capabilities that AI cannot replace for uncertain environments.
3. **Navigate permission matrices for stakeholder engagement:** Act where you can make major impact, improve business performance, or contributed to problems. Distinguish policy engagement from partisan politics while demonstrating competence and ethical approaches through transparent communication.

Success requires maintaining operational efficiency while building legitimacy across fragmented stakeholder groups. Companies must develop capabilities to manage reputation-operations gaps, recognizing that fragmentation emerges as an ongoing process rather than a binary outcome requiring new forms of political risk management alongside beneficial global relationship.

Acknowledgements

The report was made possible thanks to the contribution of many professors and professionals who participated to the conference "Business Strategy in a Fragmenting World: Firms, States, and Civil Society" on June 2, 2025 at the Ecole Militaire in Paris.

The authors Paul Charon, Researcher, Director for Influence and Intelligence at the Institut de recherche stratégique de l'Ecole Militaire (IRSEM); Olivier Chatain, Professor of Strategy and Business Policy at HEC Paris and Jeremy Ghez, Professor of Economics and International Affairs at HEC Paris would like to thank each of them:

Belin, Célia – European Council on Foreign Relations
Blum, Olivier – CEO of Schneider Electric
Bômont, Clotilde – EUISS
Chatterji, Ronnie – Duke University and OpenAI
de Valck, Kristine – HEC Paris
Dross, Nicolas – EU Commission Representation in France
Dumoulin, Contre-Amiral Bertrand – Académie de Défense de l'École Militaire
Girard, Guillaume – Jolt Capital
Hara, Fabienne – Paris Peace Forum
Helper, Susan – Case Western Reserve University
Kefalas, Patrice – Michelin
Korengold, Emlyn – Edelman
Malizard, Julien – Chaire Économie de Défense, IHEDN
Méjean, Isabelle – Sciences Po Paris
Mengus, Eric – HEC Paris
Nefussi, Benjamin – DG Entreprise, Ministry of the Economy and Finance
Okano-Heijmans, Maaike – Clingendael Institute
Parakilas, Jacob – RAND Europe
Rapp, Vincent – Hi! Paris (IPP and HEC Paris)
Setser, Brad – Council on Foreign Relations
Subran, Ludovic – Chief Investment Officer, Allianz
van Soest, Henri – RAND Europe
Wernicke, Georg – HEC Paris

The organizers also wish to thank Nayla Ibrahim, Senior Executive Director of Corporate and Public Partnerships at HEC Paris, and all of her team, as well as Barbara Stöttinger, Dean of Executive Education at HEC Paris, and all of her team. Last but not least, we are also grateful to the tech teams at Ecole Militaire and to Kristen Rakow for their invaluable help.

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