



## How Business Can Respond to Populist Pressures

**The rise of public-sector power obliges firms to get serious about emotional capital and rely on middle managers.**

The rise of populism has changed the game for multinationals. The pendulum of power has swung dramatically toward the public sector after a lengthy period of relatively unbounded globalisation.

The evidence is plain to see. Companies unlucky enough to elicit Donald Trump's displeasure might become the subject of the president's next incensed tweet, watching **billions in market value** wiped out in 140 characters or less. During Theresa May's successful campaign, she declared, "It doesn't matter to me whether you're Google, Amazon, or Starbucks...you have a debt to your fellow citizens...It is not anti-business to suggest that big business needs to change."

But the rebalancing of power did not begin with Trump and Brexit. You could trace its origins to the immediate aftermath of the financial crisis. The shift had surely commenced in earnest by 3 April 2009, when newly minted President Barack Obama warned 13 CEOs from America's biggest banks, "My administration is the only thing between you and the pitchforks." Over the following six years, Big Finance was slapped with a staggering total of more than US\$160 billion in fines and penalties.

Now that the pitchforks have reached the White House and 10 Downing Street, with other leading

economies likely to follow suit, top corporate executives should be asking themselves two questions: "How did we get here?" and "What do we do next?"

### **The long view vs. the here-and-now**

To answer the first question, you have to look at technology. Mounting technological sophistication – including the advent of the internet and digital automation – has transformed global business. The outsourcing of jobs as facilitated by technological change is, of course, a common populist complaint. Further, the value of human labour – especially unskilled labour – as compared to machines has been declining.

The consequences have been dire and much-publicised: stagnating productivity growth rates leading to stalled wages, worsening income inequality and labour force participation reaching a 30-year low in the United States.

While large portions of the populace feared for their immediate future, global corporations were focused on a much more distant horizon. As a general rule, business leaders prefer to believe in the power of the "invisible hand" to shape a brighter future. Put your trust in the free market and it will all turn out

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okay in the end.

And they are not entirely wrong. Disruptive technology is not an invention of the digital era. Most sweeping technological changes, from the printing press to the Industrial Revolution, have initially been viewed as destructive because their benefits had yet to spread throughout society. The ongoing wave of digitisation and automation will ultimately prove no different.

In their globalising zeal, however, executives failed to anticipate that their farsighted optimism would be publicly perceived as cruel indifference to suffering in the here-and-now. The perception gap provided ample rhetorical space for populist politicians to churn fear into outrage aimed at “international elites” and foreigners (who have forever been convenient scapegoats).

Making good on his protectionist campaign rhetoric, Donald Trump’s tweets suggest he’s prepared to lord it over the private sector in a way that recalls centralised economies such as China more than the U.S., historically a staunch defender of free markets.

### Solutions from unlikely places

Western companies, therefore, should learn from how their Chinese counterparts deal with the heavy hand of an interventionist ruling Party. In a recent **Strategic Management Journal** article (co-authored by Yidi Guo and Zhixing Xiao), I describe how China’s state-owned enterprises (SOEs) depend on middle managers to resolve tensions between market imperatives and Communist Party mandates. It is often no easy feat, as political appointees embedded within these firms effectively act as nodes of Party influence.

In my research, I found there are two “bridging strategies” Chinese middle managers use to great advantage. The first is to find a distinctive common solution to the conflicting demands of commerce and Communism. For example, a certain firm may opt to undergo a round of layoffs, prompting apparatchiks to fear disruption of “social peace” (a central Party value). It falls to middle managers to square the circle by any means necessary. If they have to leverage their own business contacts to find new jobs for retrenched employees, so be it.

The second “bridging strategy” involves building personal relationships with local Party officials, establishing a level of mutual trust and candour that makes doing business a whole lot easier. In China, this is often best accomplished in social rather than professional environments. One manager explained how he endeared himself to officials when, after downing half a litre of liquor, he vomited then returned to the drinking table for more.

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In short, these managers are tasked with building and maintaining emotional capital, i.e. the goodwill among internal and external stakeholders that in effect gives firms permission to pursue market goals.

**Middle managers** are best equipped for this role because they have skills and contacts not yet acquired by frontline employees, but are close enough to the grassroots to understand their feelings and needs. Senior leaders lack the time and relationships required to execute such delicate emotional manoeuvres.

### Learning from Michael Moore

Outside the Chinese context, middle managers could be used to reconcile the “invisible hand” with the insistent tug of the here-and-now. As in China, their proximity to the grassroots may **help them rebuild emotional capital** among sceptical communities. Through their interactions at the local level, they may also capture precious insights senior management could never catch from their lofty perch.

Documentarian and activist Michael Moore, for example, was one of the few prominent Americans to predict **how Donald Trump would win the presidency** – besting the smartest Beltway wonks – simply by virtue of being on the ground, engaging in honest chat with actual voters.

If more companies had middle managers like Michael Moore, they’d be better equipped for the interesting times ahead.

*Quy Huy is Professor of Strategic Management at INSEAD. He is also Programme Director of the Strategy Execution Programme, part of INSEAD’s suite of Executive Development Programmes.*

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