International strategy in a time of global disruptions

Here is what boards of directors and top management teams need to consider to move on from a past that no longer exists.

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Boards of directors around the world are trying to understand the new world order and its implications for corporate strategy.

We are moving away from an international order based on well-established multilateral institutions, such as the United Nations and the World Trade Organization, and widely recognized international rules on trade and foreign investment.

In its place, a new era of trade wars, weaponization of the dollar, exorbitant government subsidies to private firms and the prohibition of foreign investment by certain companies in some countries is emerging.

Major powers — mainly the United States and China — are trying to shape the world according to their own unilateral rules.

This marks the end of globalization and international economic integration as we have known it over the past few decades.

Past strategic decisions need to be reconsidered in the new context

For many companies, globalization has meant access to new markets and supply-chain networks distributed around the world in search of efficiency. Their strategies rested on the belief that international economic integration and the ongoing reduction of barriers to trade and investment were irreversible. In fact, they weren't, and many strategic decisions that companies adopted need to be reconsidered in this new context.

History suggests that this trend could endure for many years. Boards of directors and senior management teams, particularly in companies with international operations, need to reflect on these radical changes and take thoughtful action. In doing so, boards should consider the short-term as well as the medium- and long-term effects of their decisions.

Critical areas that should be examined in the short term

Short-term decisions reflect the need to protect the company from sudden disruptions and their negative effects. These may include dwindling sales in certain countries, inefficiencies in the global supply chain or new barriers to exporting to or importing from certain countries.

Such changes will directly impact not only short-term profitability but also the viability of the strategy and the business model.

Understanding and accepting changes and their effects as the new normal in today's business landscape requires that boards and top management teams reassess the value of their international strategy in three critical areas.

- The first area involves assessing how new conditions may be changing the firm's **access to some markets** in terms of sales, manufacturing and the global supply chain.
- The second area concerns **global supply-chain resilience** and the company's capacity to keep serving customers on time and effectively.
- The third focus is on assessing the strength and adaptability of the firm's **business model**, with the global supply chain and market access being crucial factors.

Key areas that boards may want to examine in the medium to long term

Medium- and long-term decisions look beyond protecting the company in the short term, to consider how the board and the top management team can define a new corporate strategy for this new world.

The first area is value differentiation and the need to be unique for local customers. Some Western food-and-beverage companies operating in emerging markets are losing market share not only because of protectionism but also due to a failure to adapt to local needs. Strong Western brand recognition is no longer enough to compete in emerging markets. A clear and compelling value proposition tailored for local customers is indispensable.

The second area is the need to strengthen the firm's presence in certain markets. In recent decades, many companies have expanded into too many markets, often attaining only a minimal market share, resulting in wide breadth but shallow depth. It is clear that these strategies have been largely ineffective.

A credible international strategy is not about having many countries in the portfolio but instead entails focusing on those countries where the company can effectively reach and serve local customers with a clear competitive advantage. Wishful thinking is never a useful strategy, especially in a world with major disruptions.

The third area centers on organizing and promoting entrepreneurship locally or regionally. The globalization process is broken not just for political reasons but because each country has different cultural values and historical traditions. As many of these countries leave poverty behind, natural factors often reinforce deep-rooted differences.

In this context, companies should better adapt to local environments by seeking to understand and respect them. Adaptation and local learning were often seen as nice objectives to have, but tough for international companies to achieve from a distance.

This means that global operations should no longer be led by a group of managers based in headquarters far away from actual customers and markets.

Companies with sound international strategies should have clear overall goals and policies, while developing strong local management teams who can make decisions that build a relevant presence in their respective markets.

This implies a significant shift in the mindset of boards of directors and CEOs — a change that should precede any organizational redesign.

Empirical evidence indicates that strong local teams are better at understanding local customers and organizing operations to serve them. This does not exclude sharing past experiences and best practices across the organization.

The new international strategy calls for developing a redefined balance between what should remain centralized and global, and what needs to be decentralized and more locally driven.

Companies need to make these decisions sooner rather than later — and move on from a past that no longer exists.

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