
Three Key Global Strategy Challenges Companies Face



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Multinationals are adapting and redesigning their global strategies in response to mounting pressures.

The future of multinational corporations hinges on their ability to address three main forces affecting globalisation today: geopolitical tensions, sustainability and digital transformation. It is no surprise that these challenges are also high on the agenda at the [World Economic Forum Annual Meeting](#) in Davos this year.

Until recently, multinationals have adapted their global strategies in response to changing consumer preferences, competitive landscapes and economic conditions. As I outline in the Fifth Edition of [Global Strategic Management](#), all companies currently operating across different countries now need to put geopolitical issues, sustainability and digitalisation at the heart of their strategies for how to compete globally.

The Covid-19 pandemic and Russia's invasion of Ukraine have further accelerated these pressures, forcing multinationals to re-examine their global strategies.

Geopolitics issues impact more industries than ever

Recent geopolitical issues, translated into commercial wars, are affecting the globalisation process. The constraints put on Huawei's development of its 5G network, the ban on export to Iran enacted by the United States and the economic and financial sanctions imposed on Russia are but three examples.

While geopolitical problems are certainly not a new phenomenon, they have become increasingly prevalent and pertinent for many different industries.

Governments, in the interest of national sovereignty, are intervening more than before. As a result, firms are changing tactics and considering "friendshoring" or "ally shoring" - relocating supply chains to trusted countries with shared values.

One company that has taken great strides to diversify geopolitical risk is Taiwan Semiconductor Manufacturing Company (TSMC). As the world's largest contract chipmaker, it manufactures chips for tech giants including Apple and Alibaba. In response to China-Taiwan tensions and the US-China trade conflict, TSMC began building factories in the US and Japan. It recently outlined a US\$40 billion plan to expand the US production hub it is building in Arizona, and is in advanced talks with suppliers about setting up its first European plant in Germany, according to media reports.

By taking geopolitical concerns into account, TSMC recognised the need to be present in several key regions to mitigate political risks and increase supply chain resilience. Indeed, when it comes to developing and implementing a global strategy, geopolitical tensions can be as important as cost considerations and customer demand.

But it is not only sensitive industries such as chipmaking that are subject to geopolitical tensions. In the wine industry, for instance, research shows recent trade disputes between the US and the European Union, as well as China and Australia threatened to reduce wine trade by nearly US\$340 million annually. Another clear example is how the Ukraine war's impact on energy prices is being felt by companies across several different industries.

Global enterprises need to move away from having one single strategy for the world to more regional strategies that are better equipped to deal with the local impact of political tensions. That is not to say that multinationals require individual strategies for each country they operate in, but rather that

different ecosystems may be required for some regions that simply cannot be replicated in others.

Sustainability considerations need to drive strategy

Multinationals have taken different approaches to addressing pressing sustainability issues. While some simply comply with regulations and standards in each country, others recognise the need to completely integrate sustainability into their overall strategy. Forward-looking firms demonstrate a commitment to sustainability by aiming to set the highest standards everywhere, even if governments and regulatory bodies aren't pressuring them to do so.

Energy giant Enel, for example, made sustainability a pillar of growth and aligned its strategic plans with the UN Sustainable Development Goals (SDGs). As outlined in the book and my case study, Enel's aim was to create long-term sustainable value for all its stakeholders by adhering to the SDGs in its investment decisions.

The multinational used open innovation to incorporate novel products and ideas from outside its own business units. "Innovability teams" – which blend innovation with sustainability – were integrated into each business line. The company then began pulling external innovation into the firm with a crowdsourcing platform where thousands of "solvers" were able to contribute solutions to important challenges.

Multinationals have a huge advantage when it comes to identifying and scaling sustainable solutions. A well-established idea in multinational management is that some foreign subsidiaries become "centres of excellence" with leverageable capabilities and expertise. By pinpointing subsidiaries that could become centres of excellence for sustainable solutions – such as European countries – multinationals can develop local, sophisticated solutions and scale them.

Multinationals have the potential to move the needle on sustainability through their operations and their influence on the wider business community. By learning what works and what doesn't work in different parts of the world, these firms can come up with tailored and deployable global solutions for global problems.

Digital transformation has disrupted traditional business models

On the technological front, the world has fully entered a digital era that permeates nearly all segments of human activities: health, industrial production, entertainment, communication, research, development and more. Digital technologies have revolutionised consumer behaviours, impacted core business models and blurred borders between industries and sectors.

Digital technologies have brought major structural change to how business is done and how global companies operate. The Covid-19 pandemic further accelerated digital transformation, forcing multinationals to quickly move their operations online and implement digital strategies.

For instance, FC Barcelona built on its digital presence through its Barça Innovation Hub to help generate revenues when Covid-19 struck. The club launched the Hub in 2017 with the aim to attract companies, research institutions and entrepreneurs to develop innovative technologies to increase the visibility and impact of the Barça brand and create new revenue streams. **Key domains of the Hub** include healthcare and well-being, sport performance, big data and fan engagement, smart facilities and social impact.

My **recent case study** details how FC Barcelona accelerated its content-sharing strategies and training platform during the pandemic in a push to become even more digitally affluent. For example, the club launched a freemium TV streaming service, film studio, digital magazine and entered a strategic partnership with Spotify.

A truly digital global enterprise has a competitive edge thanks to the data it collects. Multinationals can use data to better understand their customers, identify trends, pinpoint gaps in the market and evaluate the potential for new products or services.

Digitalisation has also paved the way for “born global” companies – such as Airbnb, Netflix, Spotify and Uber – that become multinational very soon after their creation. In order to stay competitive, traditional global firms are feeling the pressure to adapt and innovate.

In the current uncertain environment, I hope my book can help business leaders understand and respond to the new pressures global companies face. In the last 15 years that I’ve spent teaching global strategic management, much of the conversation has been about executing global strategy. Now it has shifted to revising and redesigning those strategies.

Firms looking to compete globally need to tear up the rulebook and go back to the drawing board.

Find article at

<https://knowledge.insead.edu/strategy/three-key-global-strategy-challenges-companies-face>

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About the research

Global Strategic Management, 5th Edition was published by **Bloomsbury** in November 2022 and is available on **Amazon**.