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STRATEGY

The Impact of Internationalisation on Strategic Agility

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Internationalisation affects the strategic agility of firms in two opposite ways.

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Strategic agility is one of those probably overused expressions that firms have embraced in recent years. It is a term that executives often employ to explain that a firm can respond or even anticipate and drive change by redefining its strategy. In the current adverse economic situation, characterised by unexpected events that impact countries' economies and, thus, their firms, strategic agility has quickly captured the interest of top and middle executives. This period of volatility is accompanied by a **global economy still recovering from the effects of the pandemic, global financial markets reeling from the effects of the war in Ukraine and stagnation in the three largest economies** (the United States, China and the European Union). Against this background, firms face the risks of sustained inflation leading to higher input prices, tighter financial conditions that may impede the financing of new projects and ventures, and geopolitical fragmentation among the largest economies, which might hamper trade.

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In such a context, it makes sense that there is a growing interest in the topic of strategic agility as firms seek the most suitable ways to navigate through turbulent environments, although the concept is not new.[1] For example, consider the historical case of Tencent, a Chinese company that succeeded in pivoting from its desktop-based QQ software - its cash cow in the 2000s. At the end of that decade, the company realised that the world was increasingly using mobile phones and invested time and resources into developing and releasing WeChat, a smartphone application that surpassed QQ's functionality. Moreover, over the years, **WeChat has managed to incorporate additional services such as payments and gaming**, which has helped Tencent grow outside China and join the list of the world's largest companies by market capitalisation.

Or consider the more recent example of Glovo, a Spanish-based unicorn that was recently sold to Delivery Hero. Glovo was born in 2014 as an 'order something' app, which allowed its customers to ask a courier to deliver a task, such as running an errand to pick up a parcel at point A and deliver it to point B. With limited success, the company actively listened to customers overwhelmed by 'too large a menu' and focused on food delivery, which helped the company grow in different cities. Subsequently, Glovo started sensing continuous changes in the market and testing new businesses, such as dark stores or dark kitchens (which were not customer-facing, but rather served the customers who ordered groceries or food through the application). Glovo integrated those businesses that showed promising results, and discarded those which didn't, such as electric scooters. Glovo hit a $1 billion valuation in late 2019, and Delivery Hero completed its acquisition last July.

However, achieving strategic agility is not straightforward, as it requires three different enabling capabilities.[2] First, firms need strategic sensitivity to quickly understand the environment and anticipate market trends and changes to maintain their competitive advantage. Second, firms need to exhibit leadership unity. In other words, firms need to make decisions swiftly, which requires their senior executives to dialogue, integrate and align their interests. Third, there is a need for resource fluidity, which requires firms to promptly deploy resources where they are most needed.

There is little evidence on which drivers lead firms to achieve greater levels of strategic agility. For example, a recent study found that strategic agility decreases as firms grow older but not as firms grow larger.[3] Environmental turbulence (i.e., competing in a market heavily impacted by accelerated changes or disruptions) has also been mentioned as a driving force towards strategic agility. Still, there isn't a magic recipe for what these drivers are. On top of that, these drivers might impact the different enabling capabilities in different ways.

International firms are, as a whole, not only more productive and innovative,[4] but also more complex than those that compete only in one country (by exporting to other geographies, setting up subsidiaries abroad, or both). These firms need to keep up with multi-faceted competitive environments, so executives and managers who run these firms are likely to be even more interested in how they can achieve strategic agility.

To help understand the impact of internationalisation on strategic agility, we conducted a survey of over 200 companies in the services sector (e.g., hospitality, tourism, transport) in Spain. We surveyed top executives and asked them about multiple aspects of their organisations related to internationalisation and strategic agility. On the former, we sought to know when they became international, what was the weight of exports in their sales, or in how many countries they were currently competing. On the latter, we inquired at the extent to which the firm was aware of changes in the environment, how united its leadership team was and whether they were able to quickly relocate resources across different parts of the firm.

Our study revealed two key insights. First, there is a positive effect of internationalisation on strategic sensitivity. In other words, as firms become more international and compete in ever wider geographic areas, they need to pay more attention to the environment(s) in which they compete. Strategic sensitivity requires firms to combine backward- and forward-looking to anticipate upcoming changes and how these might affect them in the light of historical data. For example, companies will be interested in anticipating whether the government is expected to pass legislation that affects "the rules of the game", or whether an emerging competitor is better capturing market needs with a different value proposition. As a firm competes in a wider set of countries, there are increasing local points of view to take into account, such as local legislation and niche competitors that might be sprouting only in one country.

The second insight deriving from the study is that there is a negative effect of internationalisation on leadership unity. This second capability requires that the leadership team of a firm dialogue frequently and align their interests. As a firm becomes more international, its leadership team will likely have to balance local and global interests. For example, a company might have to decide whether to acquire a local competitor in a particular country, and the local leadership team will push in favor of the acquisition if this competitor is hampering its local business. However, the central team might consider that competitor as an isolated threat, being misaligned with the local team. In short, as a firm becomes more international, making swifter decisions becomes more complex.

We also examined whether there was any relationship between internationalisation and resource fluidity, but found no statistically significant association. Altogether, the study yields interesting results that have a twofold implication, depending on whether a firm is currently international or only competes in a given country (but might consider international expansion at some point). For those firms that are currently competing in their home country, it is important to understand that becoming international will not necessarily have a positive impact on their strategic agility. In other words, expanding operations to new countries as a means of being more agile will not work. It may force the firm to be more aware of the environment (considering additional geographies), but it will likely diminish its capability to make swift decisions. Therefore, a firm should not pursue internationalisation only as a means to increase its strategic agility, but rather as a means to gain additional revenue sources or diversify its existing customer base. If a firm aimed to increase its strategic agility through internationalisation, then it should strive to ensure that it puts in place mechanisms to prevent its leadership team from not remaining as united as before.

For those firms that are already international (such as Tencent or Glovo, mentioned above) it is likewise important that they consider how this impacts their strategic agility. While they may be well-versed in understanding the environment and adapting to changes, they also need to ensure that they work hard to align and integrate the views of their leadership teams.

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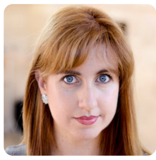

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