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11-2014

Dynamic advantage

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Citation

WYATT, Stephen. Dynamic advantage. (2014). Asian Management Insights (Singapore Management University). 1, (2), 62-66.

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DYNAMIC ADVANTAGE



Building sustainable competitive advantage for global firms

Reaping the advantages of a global resource network

By Stephen Wyatt

How do leading firms with global operations extend their success in today's context of business environments, geo-political uncertainty and demanding customers that threaten to switch loyalty at the swipe of a smart phone screen? Many global firms may have expanded internationally, yet still continue to operate in geographical or functional silos. These firms have not reaped the advantages of their global resource network.

Frankly, global firms need to do more to stay ahead of the curve. They have to share and leverage knowledge and resources available to them from across their global operating networks, and efficiently adapt and apply these insights in other markets and across their organisation. This ability to learn and adapt across a network of territories can create value and sustainable competitive advantage for the firm, a characteristic that I call Dynamic Advantage.

Leading firms have altered their strategies, organisation, governance, products and even branding to enable them to act seamlessly across their geographically dispersed markets. Based on the experience of such companies, this article outlines how the tenets of Dynamic Advantage can be used to ensure successful globalisation strategies.

can offer many more advantages: it can be a means to tap into know-how, talent and other scarce resources, as well as to exploit opportunities for reducing costs, minimising

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Why Dynamic Advantage?

Jack Welch, the former chairman and chief executive officer of General Electric, commented, "Market success is only part of globalisation. We must globalise every activity in the company....our challenge is to capitalise on the vast intellectual capital available around the world."

Firms pursue international expansion to improve business performance—seeking advantages of scale, access to new markets and the consequent sales they provide—while being able to better serve key clients and extend their market power. But globalisation

fiscal burdens or accessing incentives.

There are three mechanisms through which Dynamic Advantage heightens the ability of the firm to create and capture value. The first, replication and reconfiguration, refers to the set of processes that enables a firm to apply learning from one market directly to another; leveraging the benefits of experience of external market actions and reactions, together with learning about internal processes for effective implementation that will enable competitive advantage in other markets.

For example, Unilever continuously

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works at improving the firm's ability to share and apply experience and learning between markets—be it fine-tuning relationship management with channel partners across markets in Asia, or then rolling out major social campaigns across geographies such as the Lifebuoy handwashing drive that targets reducing diarrhoea through handhygiene in developing countries.

The second, **business innovation**, emphasises that firms with Dynamic Advantage are particularly adept at drawing on insights from multiple markets to see new possibilities for extending and creating new product categories; simplifying and/or enriching the offer; or building a product experience. They also innovate across the global value chain, minimising the complexity in any one stage or location and fluidly adjusting activities across borders.

Syngenta, the Swiss agribusiness corporation, is a case in point. The company successfully leverages the diversity of the markets in which it operates by testing different innovations in different markets, learning from each 'live experiment'. The combined learning from these experiments helps to develop new solutions, such as new techniques to increase the productivity of rice farming through pre-germination, reducing the time the crop is in the ground, and new go-to-market strategies that help to deter the overuse of chemicals.

The third mechanism, portfolio transformation, offers firms the opportunity to shift their business focus. Few firms are as famous as IBM for having demonstrated their ability to transform themselves, entering new areas of business and harvesting, or even exiting, businesses that had previously 'defined' them. More often than not, the notion of entry and exit of businesses is associated with the portfolio management activities of conglomerates and investment funds. Firms exhibiting high Dynamic Advantage are able to shift their business focus in a timely manner as they sense the changes in the industries and markets in

which they compete.

Honeywell has transformed itself over the past ten years from a struggling industrial giant to a dynamic diversified conglomerate, significantly reshaping its portfolio of businesses, making over 80 acquisitions and divesting more than 50 businesses. Honeywell's chief executive officer, Dave Cote, calls the new operational model 'Diversity of Opportunity', whereby the corporate centre is responsible for growth and risk management across the global portfolio, and has built core competencies in the timing and execution of mergers, acquisitions and divestments."

How can a firm achieve Dynamic Advantage?

Business leaders need to focus on the three critical drivers that create Dynamic Advantage: organisation systems and structures; leadership practices, policies and characteristics; and diversity of market and competitive contexts.

ORGANISATION SYSTEMS AND STRUCTURES

Firms that are pursuing a strategy of Dynamic Advantage have the ability to draw on and leverage knowledge sources from outside and across the organisation to enable informed decisions, and the translation thereof into timely action. This ability goes beyond just insight

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seeking—these firms have invested in systems and structures that enhance knowledge sharing across internal boundaries and transform the knowledge into actionable learning. They work hard to overcome the structural inhibitors to knowledge flow.

At IBM, knowledge acquisition and sharing is not only a priority—it is mandatory and enabled with continuous investment in infrastructure, as well as social media. Executives are expected to be active participants in several online

communities via the company intranet, discussing and sharing topics of interest. They are also required to prioritise updating their skills and knowledge regularly, and to participate in external communities and forums. Selected executives are positioned as thought leaders responsible for insight collection, integration and dissemination from both within the firm and externally with customers and partners. As one executive observed, "We are industry leaders in knowledge creation and sharing, this has a very positive impact and is a key source of competitive advantage, enabling us to behave dynamically."

Firms, whose senior-most executives are located remotely from one another, yet collectively provide leadership to the organisation, exhibit a greater capacity to absorb and share knowledge across the network. Such polycentric firms have a heightened ability to sense insight from markets globally, and are able to bring a diversity of perspectives into Top Management Team (TMT) decision making. These polycentric structures are visible at Unilever, where both the global chief operating officer and global talent officer are based in Singapore, while the chief executive officer and other corporate leaders are located in Europe. Similarly, senior-most officers of Standard Chartered Bank are based in Hong Kong and Singapore as well as in London.

Dispersed decision-makers and remote management of operations are increasingly feasible (and practiced) due to technologies enabling real-time coordination of operations



globally. However trust must be explicitly nurtured through shared experience and familiarity between the individuals, which may imply a premium on tenure and the social networks that develop between members of the TMT. As the talent officer for a global oil company stated, "We know that our Asian talent serves us best by being in the region, but they are required to do multi-year postings [to global headquarters] if they are going to move into top executive leadership. It is like a 'rite of passage', building relationships and trust whilst being taken out of the region where they are most effective."

LEADERSHIP PRACTICES, POLICIES AND CHARACTERISTICS

At the core of Dynamic Advantage is the mindset of senior management—the management philosophy—that permeates the culture of the firm. Common to firms with a high level of Dynamic Advantage is a sense of mission or journey of discovery for the members of the TMT. Such a sense of purpose enables the members of the TMT to work remotely from one another, but as though on a common 'quest'. For example, Syngenta describes the senior-most stakeholders as having come together to

identify a new 'breakthrough question': How to feed the world's growing population while safeguarding the natural resources in the process? Subsequently, the TMT adopted a charter of six goals in a 'good growth plan' that has helped to motivate and give direction to all activities in the organisation.

Firms with Dynamic Advantage invest heavily in developing the skills and mindset of their executives, perhaps even tending to over-invest, with an expectation that this enables greater adaptability as well as allows them to be better able to make sense of the evolving context. They design and rollout development programmes across the globe that combine learning skills and competencies, while also strengthening values such as integrity, trust and professionalism. In this way, they help to increase the executives' ability to sense and respond to the dynamic context, whilst not only being aligned with the values of the firm, but also with a broad network of colleagues who can enhance collaboration and knowledge sharing.

When firms with high Dynamic Advantage confront a difficult challenge or a particularly exciting and relevant market opportunity, they quickly determine 'who' should be deployed to lead the team or organisation to address that situation, rather



Firms with a higher Dynamic Advantage invest and rely on exploration, that is, the pursuit of new knowledge and discovery, from their activities throughout their networks.

than establishing a committee or taskforce that will report-in progress to the existing power structure and reporting lines. This helps to minimise the risks of the 'important' being subjugated to the 'urgent'. Addressing the issue with a 'who' instead of a 'how' requires that a leader with sufficient stature, skill and energy is appointed—one who is also able to obtain and command all the resources that are required to get the job done. Thus the length of tenure of the senior executives becomes very important, as well as the depth of trust between the executive and the rest of the TMT.

The Tata Group has achieved an enviable record of success in integrating acquired companies, relying on a formula of complementing the insight and energy of the leadership of the acquired company with the resources, capabilities and perspectives of the Tata Group. By deploying a key executive to work with the leadership of the acquired company, it has achieved success even in notoriously difficult contexts such as Daewoo Commercial Vehicles in Korea.

DIVERSITY OF MARKET AND COMPETITIVE CONTEXTS

Firms with a higher Dynamic Advantage invest and rely on exploration, that is, the pursuit of new knowledge and discovery, from their activities throughout their networks. New markets bring new challenges, and leading firms look inward for knowledge and experience from successfully established markets. As one executive from McCann

Worldgroup reported, "We seek ideas everywhere, continuously, no matter who you are, in whichever division, in whichever part of the world—if you see something that you think is relevant and important, you are encouraged to share it."

Sourcing knowledge globally through participation in diverse markets is a key driver of Dynamic Advantage of a firm. As researchers Doz, Santos and Williamson state, "Innovate by learning from the world. Tomorrow's winners will be companies that create value by searching out and mobilising untapped pockets of technology and market intelligence that are scattered across the globe". iii

The key attributes here are the willingness to share, and receive, knowledge and insight, as well as the ability to transform the knowledge shared into actionable learning. Sune Karlsson, a vice-president of ABB Power Transformers describes this capability: "Our most important strength is that we have 25 factories around the world, each with its own president, design manager, marketing manager and production manager. These people are working on the same problems and opportunities day after day, year after year and learning a tremendous amount. We want to create a process of continuous expertise transfer. If we do that, it is a source of advantage none of our rivals can match."iv

A learning journey

Globalisation can reap tremendous value for a firm if its operations across

geographies are well integrated, and draw on information, activities and resources across the corporate network. Companies need Dynamic Advantage to compete in a dynamic business environment. Therefore, this capability to seamlessly integrate across geographies, functions and business units is one that firms need to continuously review, revise and reinvest in order to stay competitive in the global marketplace. Stressing the unceasing learning journey of every successful global firm, Ginni Rometty, chief executive officer of IBM, concludes, "A constant change, test, change, test [in] real time... I think all businesses are going to move into that: experiment, learn, try."v

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