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Dynamic advantage

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By

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Achieving Superior Performance by Competing Dynamically

Title Page

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Words of Wisdom

‘‘*It is not the strongest of the species that survive, nor the most intelligent, but the one that is most responsive to change*.’’

Charles Darwin

“Constant change, test in real time…..I think all businesses are going to move into that: experiment, learn try.”

Ginni Rometty

“The name of the game is innovation. We work really hard to try to turn innovation into a strategy and a process.”

A. G. Lafley

“The most vital skill of an elite footballer is not physical but mental: the ability to convert ideas quickly on the pitch. A great player can read the velocities and vectors of those around him and somehow pass the ball, or himself, into a future that he sees a split second before anyone else.”

Tor-Kristian Karlsen

“*Transient competitive advantage; strategy, innovation and organizational change [are] all coming together”*

Rita Gunther McGrath

Abstract

Approximately eighty per cent of the value of most listed firms is driven by expectations of their future earning stream. Yet past and current period results are **decreasingly** relevant as indicators of future performance as the speed of change in business, technology, trends and markets **increases**. For many companies instability is the new norm, agility and preparing for future changes are essential capabilities.

This research, drawing on experiences of 30 global corporations, shows that far from being giants with slow reactions, several global corporations are able to leverage their extensive networks and their participation in a wide diversity of market contexts to increase their capacity to act dynamically. Today they are out-performing both local and global competitors; they are achieving **Dynamic Advantage**.

I present an integrated model that describes how a global corporation can build its capacity to compete dynamically, exploring the drivers of motivation and ability for the leadership of the firm as well as identifying key enabling mechanisms and processes that should be developed. I also discuss the key strategic choices for a firm that decides to compete dynamically and the hurdles that must be overcome to align the organization with this approach.

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Section 1: Prologue

The skill of predicting the trajectory of an oncoming ball and coordinating your movement to intercept it is called Coincidence Anticipation Timing. It is pivotal in dynamic sports like tennis or soccer. Top players have excellent coincidence timing; they seem to have more time to get into the right position. The same is true for businesses in fast moving dynamic markets. The out-performing firms are those that are able to sense where the market is going and reconfigure their capabilities and assets to be in the right place at the right time, to make the right strategic plays.

Professor Clayton Christensen of Harvard Business School famously stated, *"the way the world is made is that we only have data on the present and the past. Yet we have to make decisions for the future of the firm. The only way to peer into the future is through the lens of a good theory"*. Firms need to improve their Coincidence Anticipation Timing to peer into and make plays for the future. A top tennis player does not wait until the ball arrives beside them before preparing for their shot. Similarly businesses cannot wait until data from the current market is collected before determining their strategic play for current market conditions.

Top athletes improve their coincidence timing and are repeatedly able to get into position, make great shots and win matches. Similarly firms must get into the right position and make the right plays to out-perform their competitors. In business I call this achieving Dynamic Advantage.

Section 2: Introduction

Approximately eighty per cent of the value of most listed firms is driven by expectations of their future earning stream. Yet past and current period results are **decreasingly** relevant as indicators of future performance as the speed of change in business, technology, trends and markets **increase**. For many companies instability is the new norm, agility and preparing for future changes are essential capabilities.

My research addresses the question of whether global corporations have a source of advantage that can enable them to achieve superior competitive performance in unstable, dynamically evolving business contexts.

The research builds on the strategies of global firms presented by previous authors, but who did not explicitly address strategy in dynamic contexts. Authors such as Ghemawat (Ghemawat, 2007) who introduced the three strategies of Aggregation, Arbitrage and Adaptation, or Prahalad and Doz (C. K. Prahalad, & Doz, Y 1987) who identified alternative approaches for balancing global integration and local adaptation. I also draw on the previous work by authors such as Doz (Y. L. Doz & M. Kosonen, 2008) in the area of Strategic Agility and Teece (D. Teece & Pisano, 1994) in the field of Dynamic Capabilities.

The four questions that I address with this work are:

1. Is there an attribute that can differentially advantage a global firm when it competes in dynamically evolving business contexts, i.e. a source of competitive advantage?

2. What are the capabilities and mechanisms that a global corporation should develop in order to enhance its capacity to compete in dynamically evolving business contexts?

3. What are the differentiating attributes and behaviours of the leadership of a firm that orientates to compete dynamically?

4. What barriers and hurdles must a global corporation overcome if it is to successfully compete dynamically?

My research shows that far from being lumbering giants with slow reactions, several global corporations are outperforming both global and local competitors in unstable contexts by continuously repositioning and reconfiguring themselves in response to and anticipation of market-place changes. These firms achieve what I call **Dynamic Advantage**. They are ‘forward-leaning’, preparing for and investing in competing for the future whilst also seeking to optimize their performance in the current context. For these firms, their global network of operations and market engagement is itself a source of advantage that they can differentially leverage to compete dynamically.

Similar to the prior findings of other authors in the areas of Dynamic Capability and Strategic Agility, my research identifies that there are three key capabilities that provide global firms with the ability to behave dynamically: Sensing, Seizing and Re-Shaping. I find that global firms are able to differentially enhance these capabilities and thereby heighten their capacity to compete in dynamic contexts, by drawing on nine mechanisms that each leverages the global network of the organization.

- Sense & Make-Sense:
    1. Global sourcing of idea-fragments.
    2. Accelerating development of insight through multiple, coordinated market-place quasi-experiments and market engagement.
    3. Global network of connected experts.
- Seize:
    1. Deployment of short-term enabling resources.
    2. Administratively clustering markets with similar dynamics to enhance acquisition and dissemination of relevant insight.
    3. Global insight applied to influence market evolution.
- Re-Shape:
    1. Morphing the scope of business and the activities of the firm.
    2. Developing and maintaining alternative solutions.
    3. Continuous transformation and adaptation.

I discovered that the development of the capacity of the firm to compete by behaving dynamically is significantly influenced by the Motivation and the Ability of the senior leadership.

- **Motivation** to lean-forward into the future rather than focus solely on optimizing results in the current period. Motivation is significantly influenced by whether or not a clear purpose that successfully motivates, unites and guides actions and decisions, has been adopted. The pursuit of the purpose needs to be supported by the alignment of performance indicators as well as the values and characteristics of the leaders themselves.

- **Ability** to build and leverage the dynamic capacity of the firm is significantly influenced by the ability of the leadership to simultaneously (ambidextrously) seek to optimize current period results as well as to invest and prepare the organization for tomorrow's future. Leaders should also develop a 'global mind-set' in order that they are able to perceive, receive, integrate and apply insights derived globally and to work effectively in teams with high nationality diversity.

For several of the firms in the research overcoming the cognitive hurdle, recognizing that they needed to orientate to compete for the future, was a difficult process that involved several years of poor performance whilst they persisted with previous strategies. Other hurdles that firms must overcome include determining if the firm should move away from previously core businesses and markets, realigning the structure and competencies of the organization, fostering a culture of collaboration as well as ensuring that there is alignment of expectations and performance measures with stakeholders. In overcoming these hurdles, several firms highlighted the importance of achieving broad stakeholder support for a new forward-leaning vision and purpose.

The main contribution of this research is the construct of Dynamic Advantage. I have demonstrated the relationships between the drivers of Motivation and Ability, of the leadership team of the firm, and the intermediary construct Dynamic Capacity.

Dynamic Capacity is the capacity of the global firm to compete dynamically through leveraging the capabilities of Sensing, Seizing and Re-Shaping (as noted, for global firms, these capabilities are strengthened by the nine mechanisms introduced previously). The Dynamic Capacity leads to the firm achieving performance that is superior to competitors (competitive advantage) under the moderating influence of the rate of evolution of the contexts in which the firm is operating (market and industry evolution), which I characterize as the level of Opportunity.

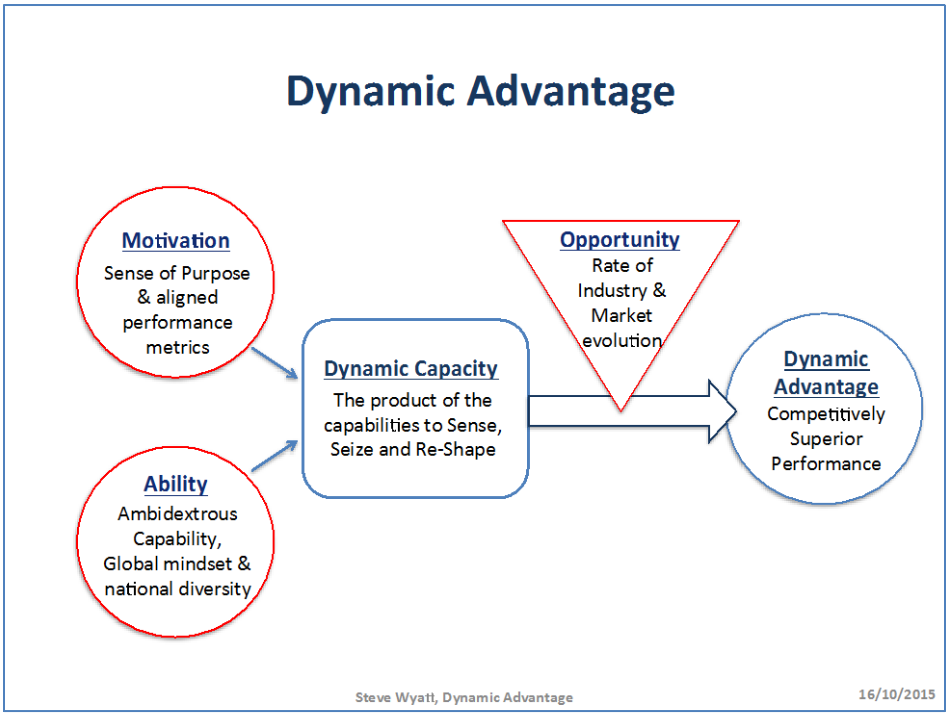

Figure 1

My research was supported by the participation of 30 companies with global operations. The main steps in the research were interviews with a senior executive at the firm who acted as an informed representative and the completion of an on-line survey in which most questions required a rating of 1-5 from the respondent.

Further research is encouraged in particular to explore if the model of Dynamic Advantage is applicable also to firms that have a more limited global presence.

Section 3: The capacity to compete dynamically

In this section I discuss in detail the three capabilities of Sensing, Seizing and Re-Shaping and the nine supporting mechanisms that enable a firm with a global network of operations to enhance its capacity to compete dynamically.

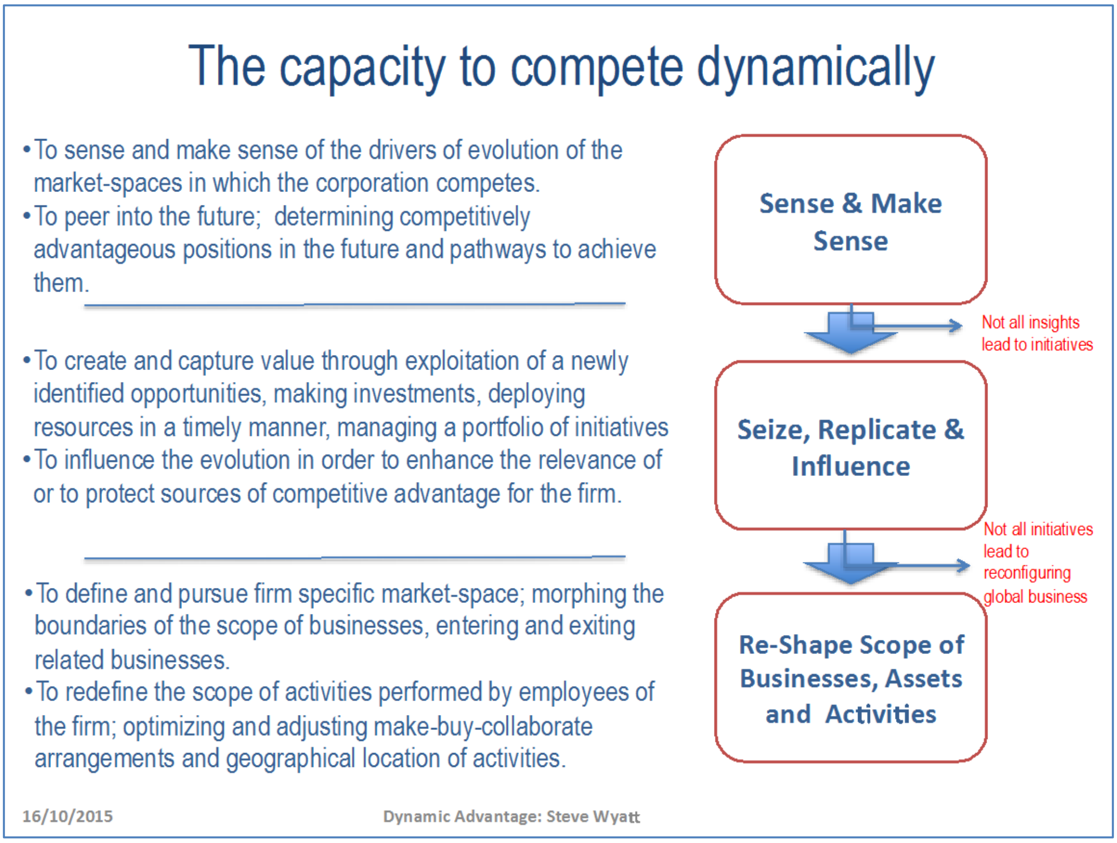

Figure 2

In 2009, Helfat et al. (Helfat et al., 2009) defined dynamic capability as the ability '*of an organization to purposefully create, extend, and modify its resource base*'. Dynamic capabilities enable a firm to move from one position of *"transient competitive advantage"* to another, as noted by Rita Gunther-McGrath (McGrath, 2013). Teece (D. J. Teece, 2007) grouped dynamic capabilities into routines & processes of supporting *Sensing, Seizing or Reconfiguring*, noting that such capabilities are *"difficult to develop and deploy"*. Building on these perspectives my research has identified specific ways that global firms are unlocking advantages of their extensive networks of operations to advantageously develop their capacity to act dynamically.

3.1. Capability to Sense and Make-sense

3.1.1 Global sourcing idea-fragments.

Looking for the weak signals

Global firms have the opportunity to look across a wide array of markets to watch for weak signals that could have significant repercussions in reshaping their industry. The extensive networks and dispersed employee communities of global firms provide an opportunity for these firms to see and experience multiple signals simultaneously. The greater the diversity of market contexts within their network, the richer the array of potential idea fragments and insights that can be harvested.

- [Engineering Co]'s global reach and listening network has highlighted a weak-signal; competitors from emerging markets, in particular China, who are challenging assumptions about customer needs and behaviours that underpin [Engineering Co]'s approach to market that has built an enviable reputation for the design and manufacture of excellent, robust machinery that holds its value well and meets or exceeds regulatory requirements.
    - As one industry executive noted "*we have been worrying about features such as operator safety, equipment security and effective life; whereas many customers expect the operator to sleep with the equipment, to be able to fix it themselves, cannibalizing other nearby machines if required and at the end of the job, they are as likely to*

bury the equipment as to take it back to the yard. We might not like it, but we have to deal with it."

- Airbus Group, present in 35 countries globally, has intentionally set out to gather idea-fragments from across the globe to give direction to the firm's technology development. They believe that their reach gives them a strong advantage of knowing what is happening around the world within their industry. They do this by:
    - Leveraging ideas from their network of partners
    - Seeking customer feedback through business collaboration
    - Launching several internal initiatives.
    - Promoting ideas externally through initiatives such as 'Fly Your Ideas', which engages universities globally.

- Google's global network of relationships helps them find the right talent and when appropriate acquire companies, teams or technologies. This may happen before other firms are aware of the opportunity. Google emphasises global reach and future market sense by highlighting its insight into emerging business models and technologies, often before they become widely known. Google's ability to interrogate billions of search enquires daily also provides it with the opportunity to spot not only emerging trends but also to identify specific companies and individuals who are active in particular fields.

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Almost all executives in the study believed that the diversity of markets in which the firm operates is an advantage to sensing how their industry is evolving. Visibility of emerging threats and opportunities and enhancing their frames-of-reference helps them to make better decisions by being aware of different perspectives. IBM and Xerox strive to maximize the capturing of idea-fragments and picking up on weak signals through establishing a culture of every employee being empowered to contribute insights, news and sound-bytes about their markets

3.1.2 Knowledge creation through market engagement

Accelerating development of insight through multiple, coordinated market-place quasi-experiments and market engagement.

All of the outperforming global firms acknowledged that the diversity of markets in their networks created an opportunity to accelerate knowledge creation, particularly through market-place experimentation "*using the real world as the test lab,*" quipped one of the interviewees. With a mind-set of driving the business results locally whilst retaining coordination across the network, the firm undertakes market-place initiatives that can be regarded as experiments. The new knowledge so created can lead to new business model and market discoveries.

- [Life-Sciences Co] is able to improve its speed of learning by being able to simultaneously conduct multiple market-place experiments across a wide range of market conditions. A structured series of trials for different models in several markets brings advantages to the development of new crop go-to-market solutions. [Life-Sciences Co] is then ready to synthesize the learnings into a new integrated approach.

- In Japan, [Media & Entertainment Co] was frustrated that the focus on the kids and youth segments was not delivering the required results and so started to explore other segments. Their experimentation produced a very effective model for engaging with the Young and Young-at-Heart adult markets, with the result of significantly increasing their sales of merchandise. Importantly they found a way to grow with the older age groups without alienating the kids and youth segments. The resulting commercial success provided experience and insight that could be learnt from and replicated in other geographies.

- [Financial Services Co] operates in contexts of great ambiguity and uncertainty due to shifting regulation and technology. They place a high priority on leveraging their global networks to identify insights that might help them decide how best to manoeuvre. This enables them to both lead markets as well as protect their reputation as a trusted, reliable partner.
    - By actively engaging in discussions with regulators and lobbyists in markets globally, [Financial Services Co] is able to assemble a highly informed and integrated perspective that regulators in other territories may struggle to obtain. [Financial Services Co] empowers senior leaders to open discussion to "*feel the way across the river, one step at a time.*" according to the research participant.

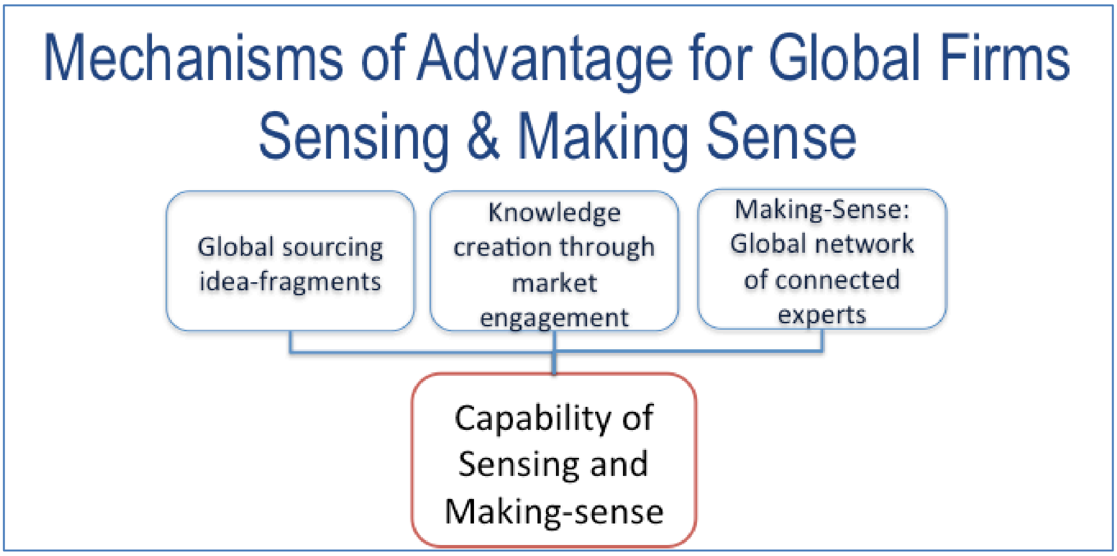


Figure 3

3.1.3 Making-Sense: Global network of connected experts

Most the executives representing outperforming companies believe that operating across a wide and diverse network of countries helps the subject experts of their firm to be on the leading edge of knowledge development within their industry. However they consistently highlighted the point that these individuals need to be connected to the market-places globally in order to be relevant to driving business performance.

- IBM has designated thought leaders whose role is to contribute industry leading insight in their topic area, publishing internal and external papers as well as benefiting from the flow of insight and information in the knowledge system. As one executive noted, this knowledge gathering needs to be structured in a global way. *"It is an advantage for the thought leaders to be based in the markets which are evolving most quickly as we need to be connected to the customers that are pioneering."*

- [Engineering Co] has research groups that are tasked with finding out what relevant projects other firms are doing and to explore what the future may bring. *"We have machinery search groups, PhDs really smart guys and gals. Their job includes finding out what else of relevance others are doing [inside and outside the industry] and what the future may look like. They just continually experiment and they're actually looking for what machines are going to look like in 20 years, what they're going to be powered by."*

Not all the insights gathered and created can be or should be converted into initiatives, but if the knowledge is not generated, shared and integrated, the firm will be hampered by a low capacity to sense and make sense of the drivers of evolution of the market-spaces in which it competes is low. Most executives describe pull-through by which global knowledge is integrated into local solutions and global initiatives, in response to business needs. There is also a strong recognition that they derive much value from the constant flow of relevant insight that comes through the internal systems and direct discussions with remotely located colleagues.

3.2. Capability to seize & replicate

Greater capacity to sense and make-sense of the evolution of the competitive contexts can enable the firm to see and configure to pursue opportunities or to reduce commitments in waning markets or those under threat. The study identified three mechanisms by which global firms are able to advantageously seize opportunities and shape market evolution.

3.2.1. Innovative market clustering

Administratively clustering markets with similar dynamics to enhance acquisition and dissemination of relevant insight.

When solutions pioneered in one market can be rapidly replicated in other markets, then the global corporation can achieve advantages over competitors who are less nimble or more locally focused. However, as respondents pointed out, the solution pioneered in one location can only be replicated in other markets where it is relevant as not all markets are the same. To address this, several of the firms in the survey have migrated away from regional groupings of country markets and instead created administrative clusters of markets that display similar characteristics. This approach can greatly facilitate the transfer of insights and business enhancing solutions between relevant markets. These cluster centres drive the dissemination of knowledge and the replication of solutions to country markets in a proactive manner. However, it is commonly expected that the insights and solutions will still require refinement in the receiving market. By organizing in this manner and through the exchanges of initiatives and insights the relationships between executive leaders of countries with similar contexts, are greatly strengthened. This facilitates greater communication, knowledge sharing and peer support.

- [Beverage Company] now operates with eleven clusters of countries and territories. The product mix thought to be most relevant for the countries within any one cluster is determined by global and cluster leadership. The cluster also provides guidance for brand activation, investment and channel management. The country management team is responsible for actual selection of the product mix, activation and operations.

- This structure provides an additional deepening of insight into the most relevant market-place activities and business solutions for the countries within the cluster. In turn, it also quickens insight into what works well and not so well.

- [Engineering Co] is faced with multiple and different challenges across markets. These can include emission level requirements, health and safety regulation, different competitor line-ups as well as differences in customer purchase and usage behaviour. To manage this, [Engineering Co] has adopted an internal classification of markets that considers regulatory regime (emissions and health and safety) as well as demand characteristics, the aim of deepening insight into how best to compete in each type of context.
    - This could be particularly helpful when considering the introduction of a new range of products for more cost sensitive markets. The global team can quickly estimate the market potential for the new range by considering countries with a similar classification. Country leadership, knowing the similarities and relevance between commonly classified countries, are able to understand the potential opportunities for the new range.

3.2.2. Deployment of short-term enabling resources

Enabling resources are technical, functional or project experts that can be flexibly deployed to add extra momentum to initiatives, for example quickly scaling a successful pilot or rolling out a new go-to-market approach or ensuring process learnings are efficiently rolled out across relevant operations.

Regional and Global management teams often temporarily reallocate pools of expert talent between markets in response to or anticipation of opportunities and challenges. If these resources are controlled at the global level, then the opportunity for deployment against global priorities is increased and more markets may in turn be covered. The executives in the survey identified three ways in which global firms have advantages over competitors with less extensive networks.

- Temporary reassignment of relevant staff can enhance additional growth or operational benefits particularly in developing markets experiencing unexpected break-through rates of growth.
    - Regional (or global) managers can deploy teams of what one executive called *"flying doctors"* (internal consultants) across multiple countries. By prioritizing deployment to locations where they will create most value enables such teams to operate at high levels of effectiveness.
    - Domain experts enhance their level of insight and expertise through the depth and variety of experiences. An executive at [Life-Sciences Co] noted that a crop disease expert through applying their knowledge across a wide spectrum of climates and farming systems across a wide diversity of countries not only enhances the local businesses but also, in the process, further enhances their own level of expertise.

- [Alcohol Co] global now manages flying doctors who travel into countries to provide required support in the areas of supply chain management, route-to-market strategy, production and other areas. Previously regionally controlled supporting resources were collocated at a regional HQ. Now the teams are deployed by global leadership and are based in cheaper locations, such as

Vietnam. Providing support in-country whilst benefiting from accumulated insight from overcoming challenges that have already been faced elsewhere.

- As an executive at a manufacturing company noted, *"Our new product programs are an example of people being staffed onto projects whilst they still have their main jobs. They're really the voice of the customer."*

- [Financial Services Co] has a less formal approach. *"We end up moving resources, people around and assigning them to projects. We are doing a lot of this, actually. This is what we end up doing. We say, "Hey, you know more about this than anybody. Put three people together and figure out what we're going to go and do in Vietnam."*

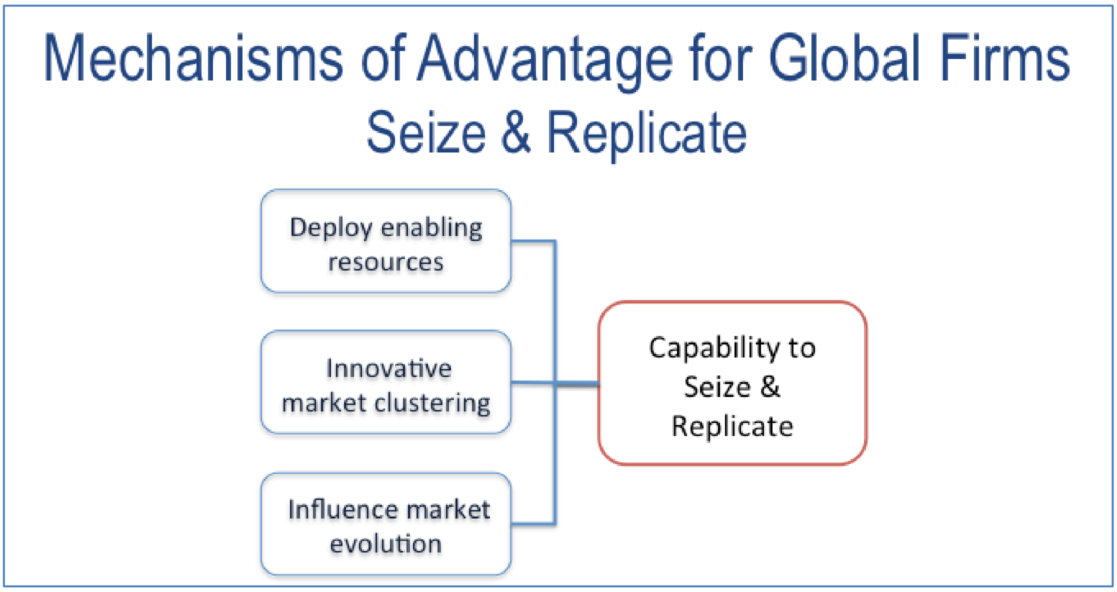


Figure 4

3.2.3. Influence market evolution

Global insight applied to influence market evolution

The out-performing companies invest significant attention to influencing the evolution of a selection of the markets in which they compete. Markets of significant potential value yet where there is high ambiguity attract the greatest investment of effort. In particular firms in market-spaces with high potential for disruption from changing technology or regulation have identified their ability to shape market evolution as a key determinant of their future competitive performance.

- [Financial Services Co] is concerned about the evolution of financial market regulation in major markets globally and also in emerging markets of major importance.
- [Media & Entertainment Co] is focussed on IP protection, market access and fair competition.
- [Engineering Co] sees the need to influence emission regulations and enforcement in addition to health and safety standards as key to future market performance.
- [Life-Sciences Co] is focussed on the regulation effecting the adoption of genetically modified crops as well as IP protection. It is also influencing practices and regulations for the prevention of residual chemicals entering the food chain and contamination of ground and water.

Major global firms with a reputation for strong corporate governance and acting in the interests of society are rightly included in discussions with regulators as they consider adjustments to policy regimes; they are knowledgeable partners. They can contribute intimate and up-to-date insight from multiple jurisdictions and markets. They can also provide examples of what has worked and what has not. They can inform and shape debates and highlight points of tension between policy-makers elsewhere. Global firms can and do facilitate the work of regulators, providing the opportunity to shape or have advanced information about the intended future evolution of the market.

Not all the initiatives that the company moves between markets or the efforts to influence market evolution will result in significant business value and many may be short lived. A degree of trial-and-error and redundancy is expected and considered necessary if the firm is to be leaning-forward into the future, being innovative and promoting a degree of entrepreneurial orientation. Several of the executives spoke of adopting a portfolio approach, not knowing at launch which initiative will prove most successful or long-lived, being attentive to support and quickly replicate or scale some whilst being ready to wind-down others.

3.3. Capability to Re-Shape the firm

As the firm acts more dynamically, seizing, scaling and replicating some initiatives whilst others are wound-down, there are opportunities at the level of the corporation to respond by adjusting the scope of the businesses and markets in which it competes, as well as the line up of the activities and capabilities that are inside the firm. As these changes are introduced the organization may also be restructured and realigned, potentially experiencing a continual journey of transformation.

3.3.1. Morphing the scope of business and activities

Many of the executives in this research stretch for a comfortable definition of the market-space that they compete in. A reflection that the market-space insights and choices that now define the firm have an increasing dissonance with previous industry definitions. The ability to transform and reconfigure the organization has become of strategic importance at most of the firms in the research.

- A [Media & Entertainment Co] executive reflected, "*We are expanding into new business areas. We bought the global businesses of Marvel and now Lucas Film. You could argue they are similar businesses to what we were in, that it is a sheer expansion, but they have also confirmed our thinking of ourselves as a consumer products and experience business – that is a better definition of how we think about ourselves now, not confined to media and entertainment. Another good example would be MakerStudio, the multi‐channel network that we bought, the world's largest multi‐channel network with over 50,000 artists."*

- An executive at Philips reflected on the advantages of their global reach in morphing the portfolio of activities, *"This is an advantage of being a global firm, we can be in a new line of business somewhere, with scale and learning a lot yet without having to fully commit the organization. We are heading towards a big transformation, by divesting a lot of businesses, and investing in new ones."*

- At [Beverage Company] an executive described their expansion of scope up the coffee value chain, leveraging the advantage of the scale of their business in Japan to capture greater value by backward integrating. *"Our coffee businesses used to buy the roasted coffee beans. Well, the suppliers basically did almost everything. What we have now done is gone back into the supply* *chain and basically looked from the green coffee beans forward…….Then by unbundling all those activities, we are now in a position where we can start to manage the different steps ourselves, even sometimes back to buying the green coffee beans ourselves rather than have a supplier do this at all…... We never used to think that we could reconfigure the supply chain and we probably wouldn't have seen the opportunity if we hadn't changed the structure and the culture."*

An advantage for many of the firms is that their global network enables them to see and explore changes that are happening in their industry.

- Google uses its global reach to find the most attractive teams and companies before they are widely known. Google's dominance of search has enabled it to build up a huge cash pile that it is using to fund expansion such as content creation, education and autonomous transportation. Google's wealth has also enabled it to acquire companies in the areas of robotics and artificial intelligence.
    - Among the companies recently bought are Schaft, a Japanese team developing a humanoid robot, and HUBO robots from South Korea. Google has also purchased Boston Dynamics and US startups such as Industrial Perception, Meka, Redwood Robotics and Bot & Dolly.

- When EADS announced its new strategy and rebranding to Airbus Defense & Space in 2013 it clarified that it would be focusing on commercial and defence aviation. The speed of the implementation of the Airbus Defense strategy has been aided by its global network, particularly in identifying suitable acquisition targets and opportunities for selling companies. *"We see what is happening in markets globally so we can reach out to partners in whichever location and explore collaboration with them; it's our reach that makes a difference."*

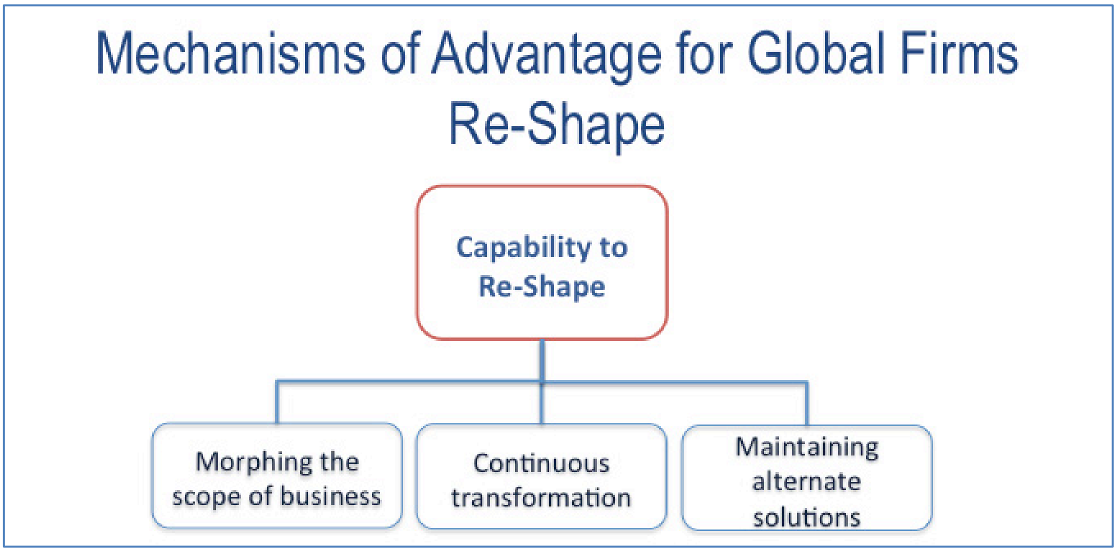


Figure 5

3.3.2. Continuous transformation and adaptation of the organization

For several firms managing internal transformations has become an almost continuous activity, reflecting the new normal of continuously evolving business contexts, requiring an agile organization and dynamic response. Managing transformations well has become a critical capability for the majority of the out performing firms in the research. A key enabler is having a strong sense of belonging that permeates the firm, the globally dispersed middle management cadre being critical to the successful implementation of transformation initiatives.

- IBM has spent the past 4 years undertaking continuous series of organization changes as it pursues the transition to a new set of business lines; *"Our choice* *is clear"*, says CEO Ginni Rometty, *"We pursue a model of high-value innovation, rather than commodity technology, products and services. Our commitment to this model compels us to reinvent businesses continually; grow new ones organically and through acquisitions; and occasionally divest businesses that do not fit our profile."* The latest restructuring moves away from the divisions of Hardware, Software & Services to create new business units for Research, Sales & Delivery, Systems, Global Technology Services, Cloud, Watson, Security, Commerce and Analytics.

- For [Industrial Products Co], their transformation journey was less caused by the financial crisis triggered in 2008 or technology disruption, but instead by the heights reached by gold prices in 2011. This triggered their client base into an irreversible review of their choice of materials for bonding wires. Transformation comes hard for a 160 year old company that excels in a niche industry, but when their clients were forced to seek out alternative solutions, [Industrial Products Co] was forced to seek efficiencies which resulted in the decision to transform their go-to-market strategy and organization, migrating from forty-two semi-autonomous business segments to now eleven globally coordinated divisions.

- Barclays, in adjusting to the new normal of the global banking industry has explicitly embraced transformation, for a while even naming the initial steps of the process as Project Transform; which laid out the aim to make the bank *"repositioned, simplified and rebalanced"*. Major changes include a very significant reduction in investment banking, reorganizing into 5 rather than 6 divisions and pulling out of retail banking in Asia and some parts of Europe. However, even Project Transform has since been superseded and a new transformation process initiated.

- [Data Services Co] is transitioning from being an organization orientated around technology platforms to instead be services led, a journey of transformation that is expected to take several years, and to be itself adjusted and updated whilst being pursued. *"this is a big change.....it is by far the biggest change of the company, the moving to a more services‐led company, rather than technology, copier company. There's a lot of reshuffling, moving people around, trying to embrace the whole [Data Services Co] culture....moving people from technology to services, making sure that they are able to do the portfolio right. Being relevant to customers sometimes is not just about selling products or selling solutions. You want to be able to do both, we are still going through the change. We are not there yet, honestly. I think it will take a while. For such a massive change, I think it will take a few years."*

3.3.3. Developing and maintaining alternative solutions in parallel

The out-performing firms in this research have embraced the principle that *one size doesn't fit all* in the new normal of global business. The dilemma for senior leadership is how to further pursue overall efficiency in the face of uncertain, evolving market contexts. Efficiency demands standardised process, product and governance. Yet the demands of rapid yet ambiguous evolution, diverse and uncertain markets does not allow for a uniform approach.

Parallel approaches are required because of differences in the dynamics of the evolution and the changing nature of demand in different markets. The opportunity is to have distinct alternative solutions that compliment or could replace each other, such as online retail as well as physical stores. Unanticipated events and volatility may drive the market to be better served by one model of the other; the optionality of the competing solutions provides the firm with the needed agility to win in either scenario. Over time the firm will be introducing new business solutions to address emerging needs & conditions but does so whilst also retaining existing offers that may, or may not be, harvested eventually. Parallel models equip the firm with flexibility but do not maximize efficiency.

The dilemma for senior leadership is how to further pursue overall efficiency whilst also being flexible in the face of uncertain, evolving market contexts: How to resist a drift towards one-size-fits-all processes, business model or KPI.

- [Life-Sciences Co], the Swiss based agrichemical company was formed in 2000 through the merger of the agribusinesses of Novartis and Zeneca. The traditional approach to markets reflected the pharmaceutical sector of the parent organizations, with products arranged by chemistry and targeted to address disease types. Starting in 2012 [Life-Sciences Co] reorganized into crop-based teams and formulated a range of products that correspond to the specific life-stages of those crops. Across the wide range of countries, cultures and climates that [Life-Sciences Co] serves there is an equally wide variety of types of farmer. [Life-Sciences Co] has discovered the benefits of maintaining two approaches; the traditional chemistry/disease model and the new crop/life-stage model provide the solutions required to best serve the diversity of its customers.

- In developing a second range of products, [Engineering Co] will face this dilemma and will have to maintain the tension between the desire to rationalize product overlap, to standardize processes and KPI, and the benefits of flexibility from maintaining two viable and potentially competing product ranges. Recognizing the value of agility they already invest in developing alternate supplier networks. Thus having flexibility when faced with currency swings or supply interruption due to political, terrorist or natural disasters. If required, the mix of supplies can be sourced from different locations. Receiving the 2013 Gartner award for Supply Chain management they noted, *"In our industry, the competitor that's best at managing the supply chain is probably going be the most successful competitor over time. It's a condition of success."*

- A [Financial Services Co] executive describes the need to be flexible, territory by territory and over time with the interrelationships with other global financial institutions, *"sometimes we are competitors, but most frequently we are suppliers and customers of each other; in some places we might be the supplier of services to our global peers, in others or at other times we might be the customer of the same services from these same global peers; we always need to adapt and leverage each other's strengths, and of course this changes depending on where and when we are."*

The diagram below (Figure 6) shows how the three capabilities (Sensing, Seizing, Re-Shaping) are supported by nine mechanisms that a firm with global network of operations can leverage to enhance its overall capacity to compete dynamically i.e. to lean-forward to compete for the un-folding future. The development of all three capabilities is required if the overall capacity to compete dynamically is to be maximized. The capability of the firm to Re-Shape in a timely and appropriate manner is dependent on the strength of the capability to Seize opportunities which in turn is dependent upon the capability to Sense the changes that are unfolding. The overall Dynamic Capacity is thus the product of the strengths of the capabilities of Sensing, Seizing and Re-Shaping.

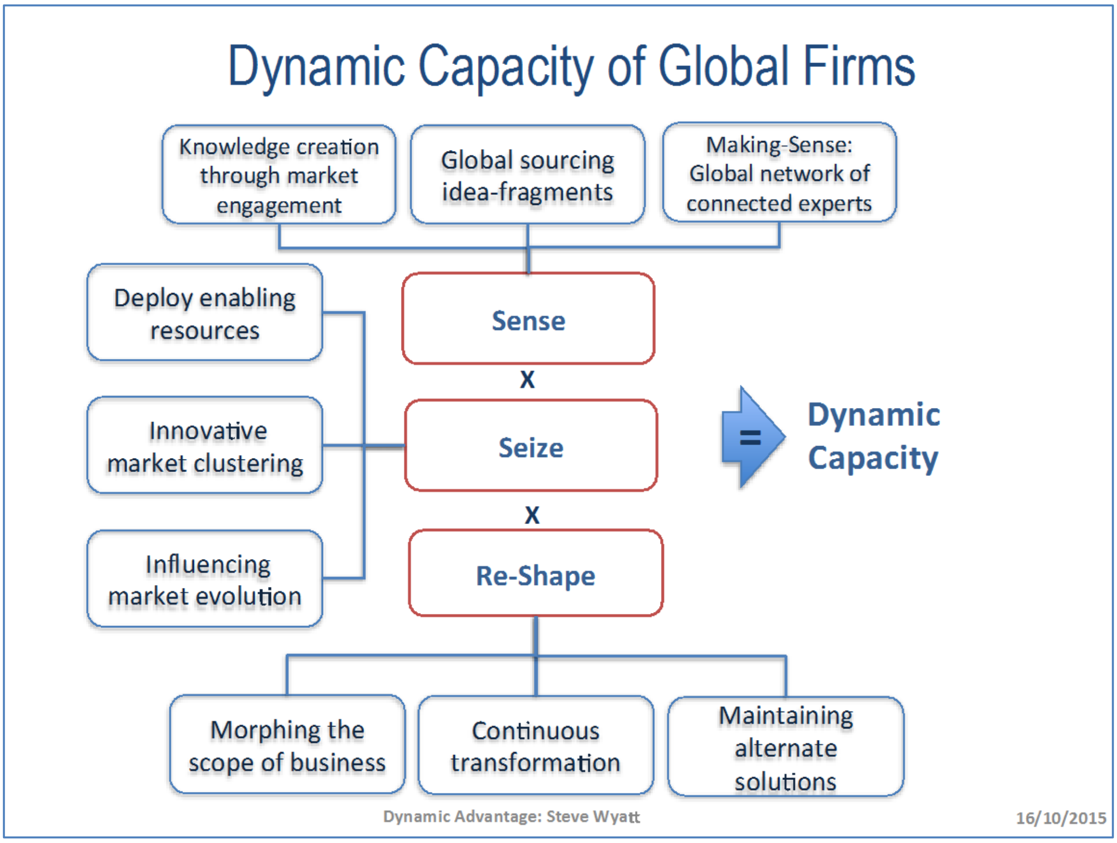


Figure 6

Section 4: Pursuit of Dynamic Advantage

In this section I describe how the Motivation and the Ability of the senior leadership to compete for the future whilst also managing the performance today have significant influence on the level of Dynamic Capacity the firm develops. I will also discuss how the rate of the evolution of the markets and industries in which the company is operating impacts the ability of the firm to realize competitively superior performance through leveraging its Dynamic Capacity.

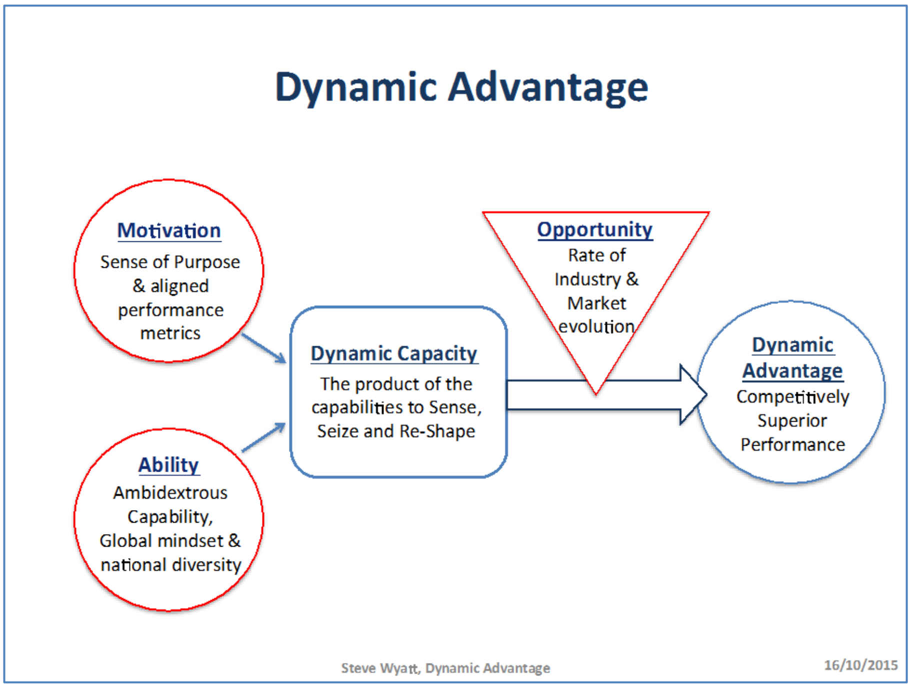


Figure 1

4.1. Drivers to build Dynamic Capacity

4.1.1. Motivation

Not all firms seek to build their dynamic capacity. Almost all the firms included in my research recognize the need to be able to evolve and respond to the dynamics in the markets in which they compete. However, it is possible that some firms, perceiving that they are competing in sectors or market contexts where there is relatively high stability, may be satisfied with strategies focused on reinforcing existing sources of advantage and maintaining existing industry structure. Even for those firms that do recognize that they compete in rapidly evolving contexts, they too will choose the extent to which they lead or follow the market and industry evolution. Thus all firms, irrespective of the perceived rate of evolution of the contexts in which they compete, will take a decision as to their own strategy for competing dynamically. Choosing the degree to which they lean-forward (leading or even shaping the evolution in the market) or elect a more reactive posture.

4.1.1.1 Strong Sense of Purpose encourages leaning forward

From my research the most important driver for a forward leaning global company intent on building its level of dynamic capacity is the strength of the Sense of Purpose in the top management team.

From the analysis of the survey data there is a very significant correlation between the strength of the sense of purpose and the level of dynamic capacity of the firm.

- As one executive described, *"A couple of years ago [the top management team] embarked on a quest to find a defining question that we could adopt, that answering it would become our mission as an organization, something that would unite and inspire us. It took us about 18 months but then we decided to focus on addressing the impending global challenge of a world that cannot feed itself, simply won't be able to produce enough food for the projected population with the land and water resources that are available within current farming practices. Now this is something important, meaningful* *and relevant for our business. It's inspiring and motivating and leads us to try harder in everything we do. As we succeed in addressing this we of course are moving the company forward and creating greater shareholder value."*

Many of the respondents describe their organizations as having adopted a strong sense of purpose. In pursuit of the purpose they are energized and able to navigate through short-term disruptions and uncertainties orientating towards future horizons and objectives.

- A global executive at a media conglomerate noted, *"A high sense of purpose and belonging enables us to go through transitions and transformations and market swings without losing too much morale, it's a characteristic of the company that I am proud about."*

The purpose of the organization aligns the efforts of managers who are facing very different market contexts and conditions.

- *"By definition, a total global strategy will fail, because tools in Nigeria don't work in New York, by definition, but a common purpose, well that's different; business is won separately in each market but we need to be aligned - flexibly!"*

For several organizations the purpose is derived from the origins of the corporation and the values of the founding fathers. For others the defining purpose has been adopted more recently, in part in response to discovering the weakness of trying to orientate around short-term financial results when the market is beset by significant turbulence.

- *“There’s a strong sense of what the company stands for and there is a sense that we are a good corporate citizen, here for the long term. It is also a firm that undertakes meaningful innovation.”*

Case example: Renewal at [Beverage Company]

> *“I think after what happened 2008 with markets and global economies ... going through difficult times changed us. Obviously the results for ‘today’ are crucial ..... But now, over the last few years there are a lot more deliberate choices made on what is the important for the long‐term. This focused us on the transformation efforts that have really taken hold since 2008, or 2010ish, which drove what we are going through now as a refocusing of our business.*
>
> *The mission statement is that the world is changing all around us. To continue to thrive as a business over the next ten years and beyond, we must look ahead, understand the trends and forces that will shape our business in the future and move swiftly to prepare for what's to come. We must get ready for tomorrow today.*
>
> *Our roadmap starts with our mission, which is enduring. It declares our purpose as a company and serves as the standard against which we weigh our actions and decisions. To refresh the world...To inspire moments of optimism and happiness...To create value and make a difference.”*

An executive at one of the global media companies in the research summarized the importance of a strong and clear purpose.

- *"To have a single purpose and consistently execute that, I think, has probably been the biggest contribution to why our share price has gone up because it has been a consistent focus regardless of some of the distractions [in the market and economy]."*

4.1.1.2. Performance metrics that support forward leaning

Whereas executives at all the firms are concerned with enhancing shareholder value, most respondents noted that there was a conflict between optimizing short term period-by-period KPI versus placing their energies against mid-term objectives and indicators that drive shareholder value creation.

- *"We need to meet the results that the analysts expect today, otherwise I won't be around to steer the company tomorrow."* quipped one respondent.

- However, another executive noted that *"If we were really only focused on quarterly results, our employment would go up plus or minus 25 thousand every quarter. We need to have [a longer term perspective], for the global network and portfolio to have any kind of stability."*

Most executives highlighted the fact that they are measured and rewarded on current period results and that this influences the choices that they make with regards to supporting initiatives that will equip the firm for higher performance in the future. When asked to rank the relative importance of KPI that they are measured on most executives ranked the shorter-term financial performance results higher. However when subsequently asked what measures they themselves thought most important for value creation given the dynamic nature of the industry and markets, most referenced business indicators (e.g. market share) and a mid-term time horizon.

- An executive in financial services said, *"When I stop and think about us performing against competitors I think in terms of things like market share, customer satisfaction surveys etc. It's such a professional thing. There are all kinds of analysts and consultants and people that spend all their time gathering information and telling us what they found out. That's wonderfully easy to do that. But when I think about [performance] results, I would say I consider multi-year trend."*

- An executive in manufacturing noted, *"We also look at our profitability performance versus competitors, our growth in profitability, our growth in sales compared to competitors. We look at how we're investing versus them: What is it? Basic R&D, product related? Is it machinery and equipment or buildings? That's certainly not a short-term measure, although market share we have a pretty keen focus on that is short term but with longer term implications."*

As described in Section 11 (Research Methodology), company representatives were invited to complete an on-line survey, analysis of the responses indicates that firms that create a balance between period-by-period results and relatively higher consideration of forward indicators tend to have higher dynamic capacity, which supports some of the comments made in the interviews.

- *"We want to keep that market leadership position, and the only way we can do that is to have better products and services for our customers. That comes at a* *cost. We need to invest effectively...to do that consistently we want the biggest slice of industry profitability so that we can reinvest in our factories and our product and our distribution organization etc."*

- A leading media company director stated, *"The CEO wants us to be the most admired company in the world. It is not just pretense or show. I guess we can put our customers, number one, because he wants to create the best fan experience, the best guest experience in the theme parks. That is number one, we can't slip on that."*

4.1.2. Ability

4.1.2.1. Ambidextrous Capability

Tushman & O'Reilly III (Tushman & O'Reilly III, 2006) described as ambidextrous, the ability to simultaneously pursue two seemingly conflicting objectives such as optimizing current firm performance (refining routines) whilst also seeking new configurations of activities and assets for future competitive advantage.

The senior leadership of the firm seeking to optimize the value of the firm needs to simultaneously manage the potentially conflicting objectives of optimizing results today and investing in capabilities for heightened performance tomorrow. This results in the process of *"establishing a balance between optimizing current firm performance (refining routines) and seeking new configurations of activities and assets for future competitive advantage."*

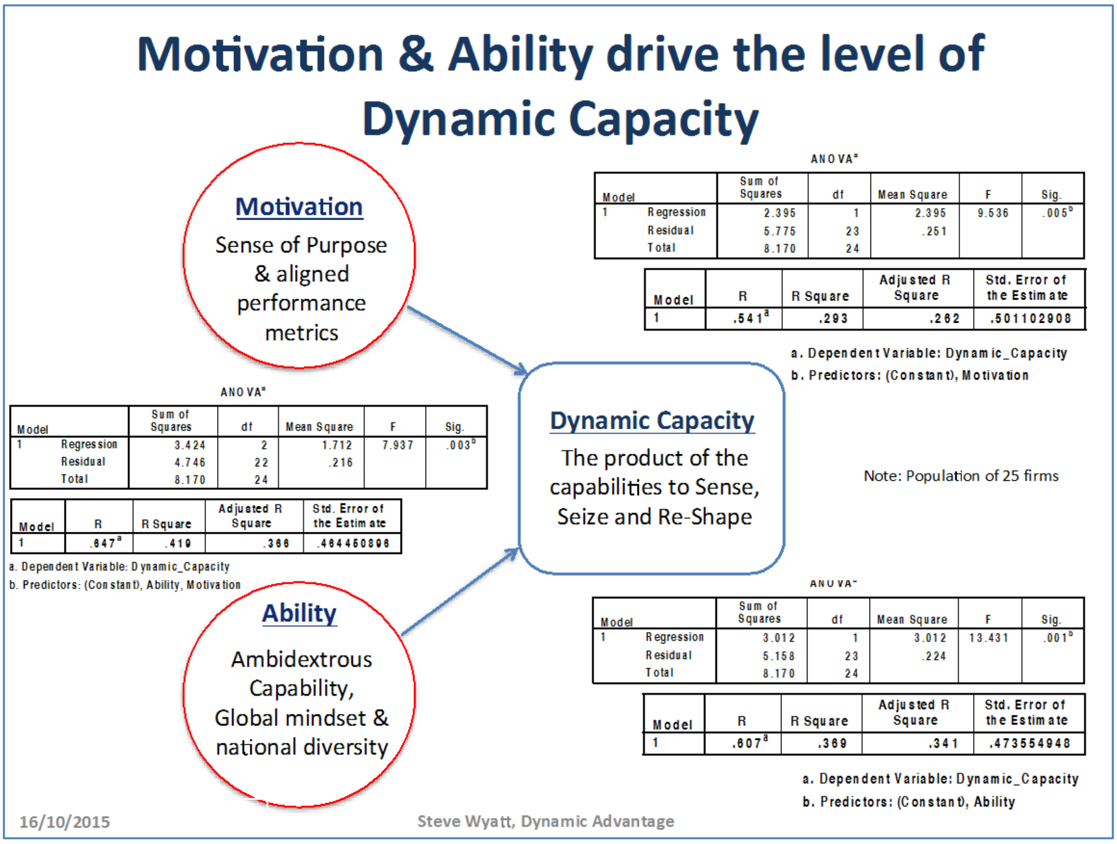


Figure 7

Additionally, another important consideration for global firms is the tension between global integration and coordination versus local adaptation, as initially identified by Prahalad and Doz (C. K. Prahalad, & Doz, Y 1987).

- As one senior executive admitted, *"I think this dynamic behavior of firms is a big challenge because firms are becoming more mobile, more multinational, there are big implications for how you develop leadership teams, how to build global understanding, and yes that concept of simultaneously managing short and long term needs."*

Most respondents noted that the senior most leaders of the firm (c-suite and c-suite-1) are expected to be able to act ambidextrously. Even at the senior most levels it is recognized that leaders who have grown through the ranks being tasked with pursuit of performance against a clear set of unambiguous metrics often struggle to adapt to a context requiring integrative, ambidextrous skill.

- "*Looking back, I think there has been a fair amount of turnover in the senior management team during transition. Different models have been implemented, you have a reorganization, which means that in our case definitely you have less units, and because of that, you need fewer senior managers. There's greater ambiguity and complexity now. Sometimes it's more driven by capabilities that need to change."*

However opinions differed as to whether executives at c-suite -2, and below, should be expected to act ambidextrously or whether they should orientate themselves to optimize performance according to the metrics and parameters that are cascaded down to them. An executive at a leading agricultural company believed that conflicting priorities should only be addressed at the senior-most level, however they have worked on increasing the awareness of competing goals and pressures through training of the top 300-500 executives as these are responsible for operations on the ground in every country globally.

- An FMCG company executive noted, *"Results today are crucial, but the ability to decide, commit to and consistently pursue longer term priorities is also essential. Now, there are a lot more deliberate choices on what is the important for the long‑term. Balancing the short and long-term objectives sits largely with senior management."*

4.1.2.2. Global Mind-set and Diversity of Nationalities

Global firms achieving higher levels of dynamic capacity tend to have higher awareness and investment in fostering a mind-set that embraces perspectives and insights from different cultures and countries. This is expressed differently at different firms but universally there is awareness of the need to engage with the diversity of perspectives and contexts represented across the network of countries in which the organization operates.

- Being respectful of and adaptive to insights from diverse international contexts reinforces the ability of the organization to Sense and Make-sense of leveraging the full extent of the network of markets in which the firm engages. Whilst also ensuring that managers develop personal networks of connections and have their own experiences internationally helps build the capacity of the firm to seize and replicate opportunities and initiatives globally.

Leading firms cited the importance of multiple international assignments during the careers of senior managers. These assignments not only exposed the managers to different cultural, social and political contexts but also to markets in very different stages of evolution.

- An executive at a US-based media conglomerate noted, *"My direct team is… Japanese, Indian, American, British, teams from all over, they sort of rotate around a little bit. Many of the international leadership that is based in HQ have had assignments overseas. The chairman was based in London before. The head of HR was based in Hong Kong for a while. The CFO was based in Hong Kong for a while. Increasingly the leadership has had actual assignments based in other locations. That's very important for changing the mindset. Even the leaders who haven't been based internationally have been traveling more and spending more time to engage with international* *markets."*

Interestingly most senior executives (themselves part of the top management team of their company) placed significant emphasis on developing a global mind-set, this is seen as growing an individual's international 'psychological, social and intellectual' capital (reference Najafi Global Mind-set Institute). However there is a surprisingly low level of national diversity within the top management teams of many of the firms in the survey.

- An executive at a leading FMCG company noted that "*five of the top eight members of the company have all been stationed in Kinshasa (DR Congo) during their careers*" (as well as numerous other international assignments) but that there is equally "*very little international diversity between us."* And *"in the top leadership there is no-one of the nationality of three of our biggest markets globally.'*

Some of the firms that have a greater capacity to act dynamically combine the adaptability of a global mind-set with an anchor of strong sense of belonging, identifying with the values and culture of the firm.

- An executive at an international manufacturer confirmed that they have a lot of international managers but, *"They have to adapt to the HQ culture. The HQ culture is very strong but fused with the global mindset."*

- A [Chinese] senior executive at a US firm reflected that *"being authentic, true to my own personality and character, is very important; I don't feel there is any conflict for me in [the corporation] as I identify with and am proud about the values we stand for. Yes we are an American company but we are a* *global organization, our values are global too."*

A higher sense of belonging that permeates the firm increases the sense of being part of a team and supporting one another. This can facilitate exchange of insight and information as well as support the functioning of virtual or temporary teams and the success of secondments and assignments. This capability in particular supports the dynamic capabilities of Seizing and of Re-Shaping.

- *"I've seen more of a shift away from the vertical, and silo, and very linear thinking to a lot more of the collaboration thinking. A lot more of the senior executives, even if it's not clearly stated in their KPIs, realize the culture is to support the whole company."*

- *"Traditionally we were a company that rewarded somebody who had a great idea and implemented it. Then somebody else would say, "I want the same success. I too need to come up with my brilliant idea." Nobody really was interested in taking somebody else's idea and then make it successful, because that was not really rewarded on a personal level, but now it is."*

- *"Collaboration. Sharing knowledge requires that there is both the willingness to give the knowledge as well as the willingness to receive it and use it. We have worked on this extensively."*

- *"Why are we better in Vietnam than the local guy? It's sharing...knowledge and resources. Particularly knowledge. Because we know what happened in Nigeria, it's what happened in South Africa ten years ago (and) it's relevant* *to Vietnam. The main advantage of being global is knowledge sharing but you have to put in place the systems for knowledge sharing and work at it."*

4.2. Opportunity to leverage Dynamic Capacity

The pace of evolution of the market and industry contexts in which the firm competes creates the opportunity for the firm to deploy its dynamic capabilities: the greater the rate of evolution, the greater the opportunity to achieve competitive advantage through leveraging their Dynamic Capacity. Hence the rate of evolution of market and industry contexts has a moderating influence on the relationship between the Dynamic Capacity of the firm and the level of its performance relative to its competitors.

The companies participating in the research self reported the rate of evolution of the markets and the industries in which they compete, using a 1-5 scale. They also reported their perception of their operating performance compared to their major competitors; providing an assessment of their Competitive Advantage compared to global peers as well as to major local players. For the comparison of performance they used a 1-5 scale, where 3 indicates that they have similar performance compared to competitors; 4 and 5 indicate that they are out-performing (4) and very significantly out-performing (5) competitors (performing twice as well). 2 and 1 indicate that they are under-performing (2) and very significantly under-performing (1) competitors (competitors are performing twice as well). Using survey responses to questions about the strength of the mechanisms underpinning the three capabilities of Sensing, Seizing and Re-Shaping, I also computed the level of Dynamic Capacity of each firm. With these inputs I was able to analyse the relationship between Dynamic Capacity, Opportunity (rate of industry and market evolution) and Competitive Advantage being achieved by each firm. Analysis by linear regression demonstrates a very significant relationship between the level of Dynamic Capacity and Competitive Advantage of a firm under the moderating influence of the level of Opportunity (Figure 8).

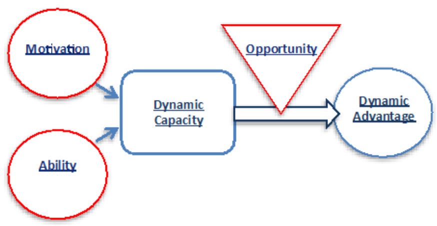
- As the research focused on twenty-five firms, future researchers could undertake a survey of much greater population to check the statistical significance of the relationships indicated by analysis.
- It would also be interesting to explore any perception bias of the respondents by checking with a group of companies from the same industry that all assess themselves relative to each other.

Opportunity moderates the relationship between Dynamic Capacity and Competitive Advantage

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.550	3	1.183	1.927	.156[b]
	Residual	12.894	21	.614		
	Total	16.445	24			
2	Regression	9.936	4	2.484	7.632	.001[c]
	Residual	6.509	20	.325		
	Total	16.445	24			

a. Dependent Variable: Competitive_Adv
b. Predictors: (Constant), Ability, Motivation, Dynamic_Capacity
c. Predictors: (Constant), Ability, Motivation, Dynamic_Capacity, DC_X_Opportunity



Conditional effect of X on Y at values of the moderator(s):

Opportun	Effect	se	t	p
3.3535	.1016	.3464	.2933	.7725
10.7600	.6096	.2766	2.2043	.0400
18.1665	1.1176	.4302	2.5979	.0177

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.840	.465		1.808	.085
	Dynamic_Capacity	.681	.360	.480	1.892	.072
	Motivation	.002	.006	.101	.402	.692
	Ability	-.005	.002	-.567	-2.140	.044
2	(Constant)	.773	.339		2.284	.033
	Dynamic_Capacity	.050	.298	.035	.168	.869
	Motivation	.006	.005	.258	1.389	.180
	Ability	-.004	.002	-.397	-2.018	.057
	DC_X_Opportunity	.048	.011	.710	4.429	.000

a. Dependent Variable: Competitive_Adv

Opportunity (rate of evolution of industry & markets) is particularly relevant at higher levels

Note: Population of 25 firms

Steve Wyatt, Dynamic Advantage 15/10/2015

Figure 8

The firm’s perception of the rate of evolution of the industry may also influence its desire to invest in building its capacity to act dynamically. For example, comparisons across the three global financial institutions in the survey indicated significant differences in their perception of the level of stability in the sector; these differences correlate with the differences in the level of dynamic capacity of these firms.

4.3. Competitive Advantage achieved: Dynamic Advantage

The chart below (Figure 9) indicates the positioning of the firms by their level of Dynamic Capacity and the level of Opportunity. Firms in the lower half of the chart compete in more stable market contexts, i.e. have a lower than median level of Opportunity to leverage their Dynamic Capacity. The average competitive advantage reported by the firms with higher than median Dynamic Capacity is 37% better than the average competitive advantage reported by the firms with a lower than median level of Dynamic Capacity (1.29 compared to 0.94). Similar assessment of the firms competing in the faster evolving markets and industries (i.e. with greater Opportunity for leveraging their Dynamic Capacity) shows that the firms with higher than median level of Dynamic Capacity achieve 63% better level of competitive advantage than those firms with lower than median level of Dynamic Capacity (2.36 compared to 1.45).

Whether a firm is operating in an industry with a high or lower rate of evolution the firms with higher level of Dynamic Capacity on average report higher levels of competitive advantage than those firms with lower levels of Dynamic Capacity. However whether the leadership of the firm decides to and succeeds in orientating the firm to compete for the future is dependent upon building their Motivation and their Ability.

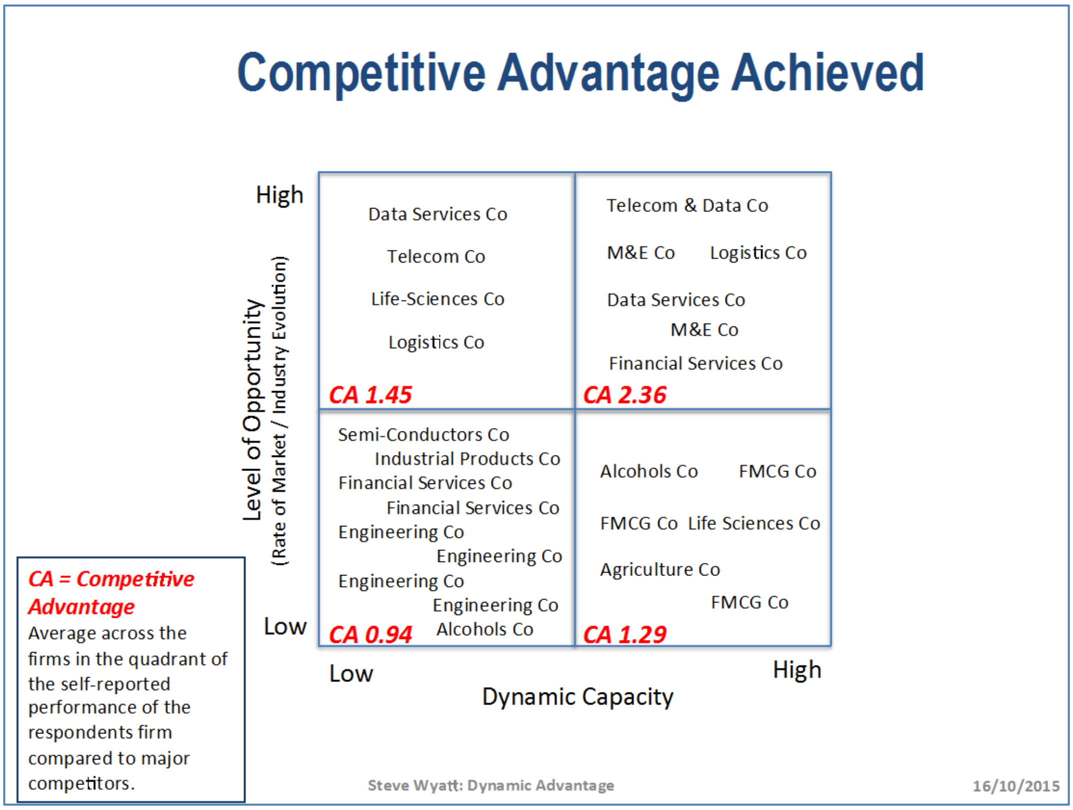


Figure 9

For firms that are under-performing peers a review of these key drivers and an assessment of the level of their capacity to compete dynamically could indicate specific management levers that could enhance performance. For firms that are already out-performing competitors an assessment of the mechanisms of advantage could reveal opportunities for further increasing the overall Dynamic Capacity or they might find opportunities in for greater leverage of their Dynamic Capacity by entering or deepening engagement in faster evolving markets.

Section 5: Implementing Dynamic Advantage

My research demonstrates that major firms with global operations can achieve (or extend) competitively superior performance through leaning-forward, competing to win in the unfolding future. Such firms have a source of competitive advantage in the diversity of the market contexts in which they are engaged. This approach is most productive in markets and industries that are more rapidly evolving, however it is relevant also in more stable contexts.

5.1. Deciding to compete for the future, today.

Whether or not to pursue Dynamic Advantage is a decision of corporate strategy.

As the speed of business and market evolution accelerates many firms are discovering that their traditional approaches to strategy are insufficient and they need to be leaning forward, orientating themselves to compete for the future whilst still managing the performance of the firm today. Some firms (e.g. Coca-Cola) have adjusted their approach to strategy only after long periods of weak or deteriorating performance whilst others have been forced to adopt a new approach after being hit with a major disruption in their market (e.g. Heraeus). These pressures culminated in a conscious decision to depart from previous models of strategy planning.

- For [Beverage Company] the combination of changing consumer behaviour (away from beverages with high levels of sugar) and the additional market downswing from the 2008 financial crisis, forced senior management to reassess its assumptions about the market and its approach to strategy.

Crisis does not need to be the driver of a decision to orientate to compete for the future, firms such as Google were borne with a dynamic evolutionary expectation, whilst others such as [Life-Sciences Co] have adopted a strong purpose that sets a strong forward-leaning orientation for the company.

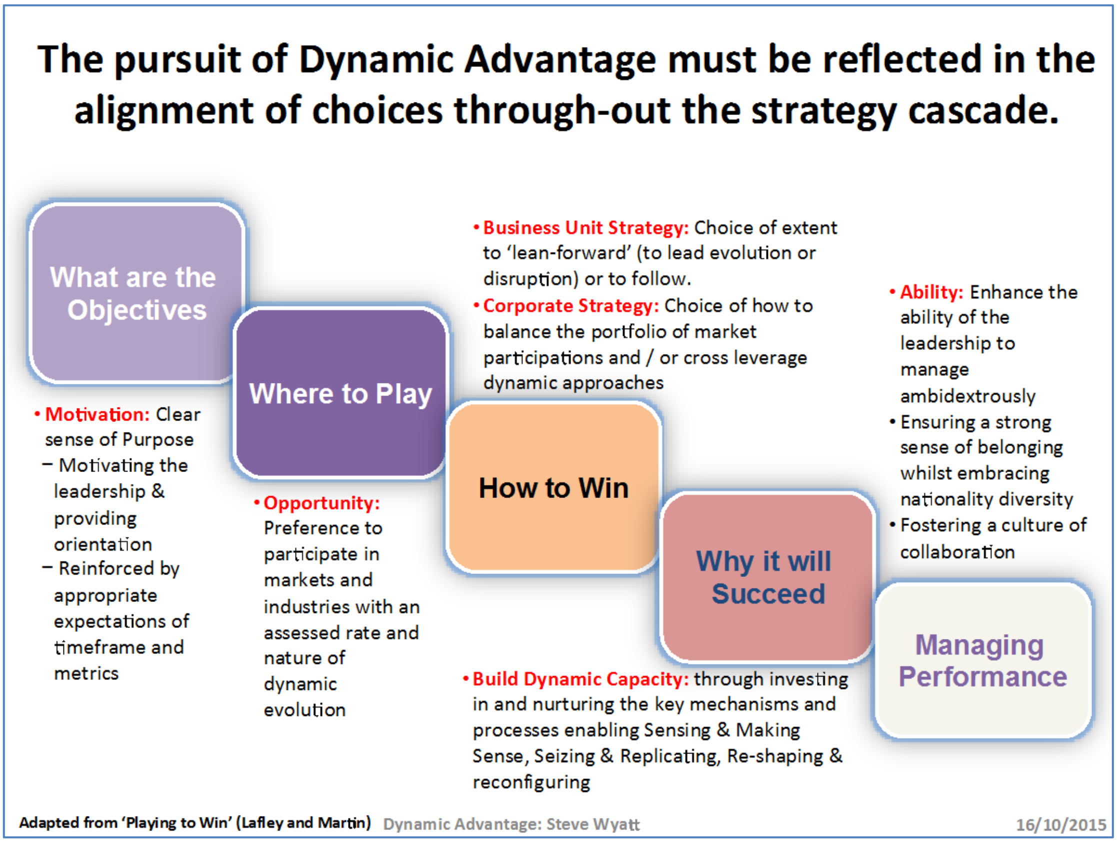


Figure 10

5.2. Aligning strategic choices and the organization

To successfully achieve Dynamic Advantage the strategic choices and the capabilities and processes of the organization must be aligned and mutually reinforcing. The Strategy Cascade is a useful framework for thinking through the relevant choices and checking for alignment. For reference, a version of the Strategy Cascade was presented in detail in the book Playing to Win by A.G. Lafley and Roger Martin

(Lafley & Martin, 2013). An adapted version of the Strategy Cascade, with reference to the review process and choices that a firm might take in adopting a strategy of Dynamic Advantage is presented above (Figure 10).

5.2.1. What are the Objectives?

Create a motivating vision and purpose.

Laying out the objectives is an essential first step in any strategy process, however for a firm that is migrating its strategy to pursue Dynamic Advantage, it is particularly important to define a clear and motivating purpose. The purpose should define the need and rationale for adopting a forward-leaning orientation. It must be clearly understood by all stakeholders such that expectations, operations and the organization can be aligned and management teams can self-adjust to improve alignment as the future continues to unfold. To help the organization to be forward leaning, the adopted purpose must be an effective call to action.

- [Life-Sciences Co] describes how the executive team went on a quest of discovery to understand what their higher purpose could be to unite and motivate them. Finally they adopted "*Bringing Plant Potential to Life"* with the goal of ensuring farming productivity increases so that the world can feed itself beyond the predicted crisis point of 2025.
- [Engineering Co] seeks to *"Enable economic growth*" in the communities they reach "*through infrastructure and energy development*", whilst also *"protecting the planet.*"

Whether the firm is participating in markets and industries that are evolving very quickly or that are more stable, the leadership can set out the objectives and vision such that the firm orientates more or less towards the future. Establishing a new set of objectives and laying out the purpose of the corporation will require polling and involving representatives of stakeholder groups, there should be careful consideration of the mega-trends, technologies and other forces that are reshaping the industry as well as consideration of the value sets, objectives and constraints of the stakeholder groups themselves. An audit of the capabilities and mechanisms that enable or prevent the firm from orientating for the future and competing dynamically should also be conducted. The findings of the audit will enable discussions to be structured on critical issues that might become a roadblock if the firm were to commit to pursing Dynamic Advantage (for example, changing the mix of the Key Performance Indicators for the leadership of the firm such that there is a new balance between short-term and medium-term measures).

5.2.2. Where to Play?

Align the choices of Where-to-Play with the expectations for the emerging future. Create and maintain options.

If the decision has been taken to pursue Dynamic Advantage, then a critical review of the portfolio of businesses in which the firm competes is required. In particular with the perspective of understanding the dynamic nature of each of the industries and markets and the anticipated impact of the mega-trends and forces previously considered. As shown in my research, more dynamic markets provide greater opportunity to leverage the Dynamic Capacity of the firm to achieve competitively superior performance but even in the more stable contexts a significant positive increase was reported the competitive advantage achieved by the firms with higher levels of Dynamic Capacity compared to those with lower levels. From the review of the portfolio should emerge opportunities for entry, exit and harvesting as well as developing a nomenclature to describe and help categorize markets by their dynamic nature.

Creating and maintaining options increases the agility of the corporation. Investments in alternative business lines, platforms and capabilities can all provide options that can be dialled up or down as the future unfolds. In the Where-to-Play? review of the portfolio of businesses and markets careful consideration is required of value of maintaining options weighed against the costs of diluting focus and stretching resources. An IBM executive noted, *"We have been harvesting our business in enterprise software and we have divested from several businesses that have been core, but now we see the market is not swinging as quickly as we had hoped to our new areas of focus Cloud, Watson, analytics etc. at least we can re-emphasize those that we haven't exited, they give us an option for recovery."*

5.2.3. How to Win?

Define How-to-Win choices, with the perspective of competing for the future.

Win locally, support globally: Connect insight with decision-making.

For the markets in which the firm chooses to compete, it then must also assess the choice of positioning within that market, particularly reviewing the customer segments from the perspective of the drivers of their purchase and usage behaviours and the relevance of such for a firm that is leading or following the evolution of the sector. This insight, market-by-market will indicate how-to-win in the market and if there would be advantages adjusting the orientation to be more forward-leaning. Many of the executives shared the belief that business is won on the ground, in the local market as such the extent of the forward-leaning orientation in each market should be determined to maximize local market success; some markets will maintain a more traditional posture whilst others may be identified as a test-bed of learning for the future.

Across the network of the markets the corporate strategy to pursue Dynamic Advantage will support the winning in individual markets through the ability to accelerate the development and sharing of relevant insights. However, too much noise from unstructured and voluminous information flow can make it difficult to distinguish the more important insights and interesting anecdotes. Central leadership easily becomes over-loaded leading to negative consequences of slowed processes, over filtered insight or disengaging with the knowledge sharing platforms.

- Firms such as Heineken and ABB seek to address the challenge of achieving a high flow of quality information by placing a high value on connectivity between the top members of the leadership team and personal experience in country.

5.2.4. Why it will succeed

Design in the mechanisms that will enable the firm to act dynamically.

With clarity established of why? (Motivation) and Where-to-play? (Opportunity) and How-to-win? (Leaning forward) the firm must align the resources, processes and organization that create and extend the Dynamic Capacity. My research identified nine mechanisms that can differentially build the Dynamic Capacity of a global firm, the relevance of each should be considered for the particular firm. For example,

- The markets may be clustered with reference to the nomenclature established to describe their dynamic nature. The organization structure could be reviewed to reflect a new clustering of markets. Processes and decision rights may be defined to facilitate the rapid development, sharing and replication of knowledge and solutions across similar markets.
- Platforms and expert resources may be refined such that the capability to Sense and Make-sense fully benefits from the extent of the global network.
- The skills of the strategy planning team may need to be expanded to support decision-making in uncertainty and the orientation to compete for the future.
- Small teams of specialist skilled resources that can be deployed to support local market initiatives may need to be established.

As the firm transitions to the forward-leaning future orientation it may pass through reorganization and transformation. It should seek to master simultaneously transforming whilst achieving current performance results and preparing for the future as the firms that compete dynamically are in a constant state of evolution and momentum.

5.2.5. Managing Performance

Establish the skills, culture and competencies to be able to mange the firm that orientated to compete for the future, today

In order to successfully pursue Dynamic Advantage the leadership of the firm must possess the ability to ambidextrously manage the conflicting goals of preparing the firm for future success whilst also optimizing performance results today. Managing ambidextrously requires training and an integrative mind-set as well as support and reinforcement from stakeholders.

The leadership may also need to develop aspects of the culture of the firm. There should be high propensity to collaborate, to share ideas and insights and a willingness to contribute to the initiatives of others. Furthermore the culture of the firm should absorb and integrate a diversity of perspectives, particularly on issues such as insights for market evolution and models for winning in different market contexts and this might benefit from embracing multiple nationalities.

- An executive at [Media & Entertainment Co] noted, *"Personal networks are essential for finding the right people with the right knowledge in the organization. We are so big that someone somewhere is likely to know what you need, but you have to find them. You start by asking your network and then they pass you along. Pretty soon I'll be talking to the right guy even if I've never met them or heard of their work before."*

- At [Beverage Company] one executive noted *"only a few years ago, we had a bit of a hero culture in which someone would have break-out growth in their*

> *market and get rewarded for it so the rest would redouble their efforts to find their own solution to stimulate their sales. It was competitive. Now we actually stop and ask each other what's working and what is not and we actively share ideas and support each other. It's a big change and makes us move much faster."*

The metrics and performance indicators that the leadership is held accountable for may need to be adjusted to align with the strategy of Dynamic Advantage. Performance metrics and operating ratios may differ by market and at the corporate level there will need to be a balance between longer-term and short-term indicators of performance. In particular the corporation should adopt metrics that reflect the progress of the firm in the pursuit of the adopted purpose and that indicate that it is acting in accordance with the values laid out in the objectives. One set of metrics for businesses and markets may not be sufficient, but adopting different sets of metrics for different parts of the business may be difficult for the firm to manage. As one IBM executive described, "*Front of firm is dynamic as they are engaged in the market realities but administration processes and functions are sclerotic."*

Today, most business contexts are far from stable and for many the speed of evolution is accelerating further. This is due to technological evolution, including the harvesting of unprecedented amounts of data and its analysis, sometimes in real-time, as well as due to the increasing systemic complexity due to greater interconnectivity between firms. Uncertainty may be further accentuated by instability in regulatory and socio-political regimes. In such contexts firms are less able to rely on the analysis of experiences from the past to inform decisions for future strategies. Orienting the company to compete for the future can enhance its competitive advantage even if it primarily participates in more stable contexts. The steps outlined in this section will assist a firm to align their choices of strategy and organization such that they can successfully implement the corporate strategy and achieve Dynamic Advantage.

Section 6: Summary

In the fluid and uncertain context of business today, strategy planning and implementation need to be considered as continuous processes rather than a sequence of separate moves. More like a game of tennis or soccer match, rather than a game of chess, the players are all in continuous motion. Business leaders need to sense the velocity and vectors of multiple players and of the ball, to be able to predict where they will be at moments into the future. They need to have insights into what shots to make and when to intercept the ball or other players, to optimize their performance in that future that is not yet present; recognizing also that their own actions will influence how the future unfolds. They need to reposition themselves, moving to the right place in the field, to reach it at the right time and reconfigure themselves to be able to place the right power behind the right play that they have determined to make, and being able to adjust to the unexpected in real-time.

The speed at which professionals play tennis is much faster than the typical game that families and friends may enjoy together. However, in both the ability to predict where the ball is going, to decide meaningful plays and to position for execution is essential. The higher the rate of evolution of the arenas in which a firm operates, the better it must be at competing dynamically.

As eighty per-cent of the value of the firm is s driven by expectations of future earnings the firm should be orientated towards competing and winning in the future. The key questions for predicting the future performance of the firm should focus on the capacity of the firm to act dynamically as he future unfolds. Specifically, its ability to:

- **Sense and Make-Sense** of the forces and trends that are reshaping the competitive context (i.e. to see where the ball and the players are going as early as possible)
- **Seize upon opportunities and insights** in such a way as to be able to determine what plays to make and to influence the evolution of the match and the movements of the other players.
- **Re-shape** assets and capabilities and the scope of its businesses (i.e. to move into the right position and to align the body of the corporation to empower it in making the right play at the right time).
    - This capability enables the firm to enter new market spaces by beneficially leveraging existing corporate assets, relationships and activities. To advantageously harvest positions by migrating activities elsewhere whilst maintaining reach to existing markets. Such firms are also able to sustain an almost continuous process of change and transformation.

Through this research I have shown that some global firms, those that have made a deliberate choice to orientate towards competing for the future and succeed in developing their capacity to compete dynamically achieve superior performance, **they win.** The greater the rate of evolution of the market, the greater the opportunity for the firm to achieve competitive advantage from leveraging its dynamic capacity.

I have shown that for large global corporations their expansive network of operations and market engagement can be leveraged as a differentiating source of competitive advantage. I have identified nine mechanisms by which the firm can leverage its global network to enhance its capacity to behave dynamically.

I have presented an integrated model, Dynamic Advantage, which shows how the motivation and ability of the leadership of the firm significantly influences the development of the dynamic capacity of the firm. I have shown how the level of opportunity, defined by the rate of market and industry evolution, moderates the relationship between dynamic capacity and the resultant competitive advantage that the firm achieves.

Groundstrokes are essential building blocks of a tennis player's repertoire, so too for a business leader are prevailing frameworks of strategy formulation (e.g. industry analysis, the resource-based view, game-theory). Business, like the game of professional tennis, is increasing in speed and intensity. It is no longer sufficient for business leaders to be disciplined in applying the tools of strategy; they need to develop new approaches and hone their skills and stamina for a fast, intense game with unconventional opponents. Not all firms seek to orientate themselves to compete for the future, they may only adopt a more forward leaning approach if they are confronted by a significant disruption in their market or after a long period of under-performance.

For corporations that do decide that they wish to orientate to compete for the future, I have identified the steps that they should take implement a strategy and to align the organization in the pursuit of Dynamic Advantage.

For firms to compete in dynamic contexts the leadership should have an orientation to competing for the future, they should invest in building the capacity of the firm to act dynamically. They should hone their Coincidence Anticipation Timing, optimizing their ability to sense and make-sense of market evolution, to seize and to replicate great shots. They must ensure they are in the correctly configured, in the right position, at the right time and lined up to play the decisive shot. They must also anticipate the next shot and the next match. The firms that achieve this, out-perform their competitors – they achieve ***Dynamic Advantage.***

Section 7: Further research

My research indicates an approach to enhancing the competitive advantage of firms that compete globally and are confronted by evolving market and industry contexts. It would be helpful to explore this model further, adding greater precision to the understanding of the management levers and their interplay. It would also be helpful to explore the boundary conditions that may apply and the influence of stakeholder groups. I recommend the following several areas for subsequent research.

7.1. Should a large global firm always seek to compete dynamically?

Several of the firms in my study had resisted adopting a dynamic approach to strategy until confronted by a shock in the markets in which they were competing, as such my research indicated that not all firms seek to compete dynamically.

- This could indicate market contexts or a sustainable approach to strategy in which a firm may thrive without pursuing Dynamic Advantage.
- Exploration of firms successfully pursuing strategies that do not embrace dynamic evolution could lead to the definition of a hierarchy of choices for the leadership of a firm to take before committing to the pursuit of Dynamic Advantage.

7.2. Should firms with more limited global networks pursue Dynamic Advantage?

I have focused my research on the mechanisms of the model for Dynamic Advantage relevant for large firms with global networks of operations. Further research should deepen the understanding of the model of Dynamic Advantage in firms that are less international; for example exploring how such firms build their capability for Sensing when their direct participation in multiple and diverse market contexts is more limited.

- My research focused on large global firms, it would be interesting to understand if the size of the firm (e.g. number of managerial employees) impacts the ability of the firm to act dynamically. A hypothesis being that smaller firms, even if operating globally may be pursuing a more narrowly focused strategy that inhibits the ability to for managers to act ambidextrously as well as possibly reducing the opportunity or need to compete dynamically.

7.3. Does the ownership of a firm influence the motivation to pursue Dynamic Advantage?

It would be interesting to analyse the influence of investor culture and expectations on the Motivation and Ability of the firm to successfully pursue Dynamic Advantage; studying if there are differences between family-controlled or fully publically traded corporations and between American, European and Asia based corporations.

7.4. Deepen the insight on the management levers

This would require conducting a large-scale survey to collect statistically significant quantitate data. Interrogation of the data set could deepen the understanding of the nature of interplay between the individual components of the Dynamic Advantage model, potentially indicating a prioritization of the leverage points for managerial attention.

7.5. Is the Transnational model conducive to Dynamic Advantage?

Prahalad and Doz (C. K. Prahalad, & Doz, Y 1987; C. K. Prahalad & Doz, 1999) introduced the concept of the 'Transnational' firm that seeks to both be responsive to local market conditions as well as to be integrated globally to leverage the strengths of the corporation. This model appears to be relevant for the development and leveraging of Dynamic Capacity. It would be interesting to explore through sampling a large number of global corporations pursing different operating models if there is an advantage of this type of model in firms that compete dynamically.

Section 8: Literature Review:

This study connects to previous research on aspects of firm level competitive strategy and top management team leadership in dynamic business contexts. It extends previous work by providing an integrated model and identifying the areas of activity that executives should focus upon in order to enhance the performance of their firm in such business contexts. Furthermore I have highlighted several hurdles that the management teams need to overcome in order to successfully adopt a dynamic approach to business strategy.

8.1. Dynamic Capabilities

In 1994 (D. Teece & Pisano, 1994) introduced the concept of Dynamic Capabilities opening up a new direction of study for answering the fundamental question of strategy; how can a firm sustain competitive advantage. This work was in response to the growing dissatisfaction with the ability of the then dominant established frameworks (Industrial Organization (Porter, 1979) and Resource Based View ((Barney, 2001), (Rumelt, 1982)) to guide strategy formulation in business contexts that were rapidly evolving. Teece, Pisano & Shuen (D. J. Teece, Pisano, & Shuen, 1997) stated, "*The development of this framework [Dynamic Capabilities] flows from a recognition that strategic theory is replete with analyses of firm-level strategies for sustaining and safeguarding extant competitive advantage, but has performed less well with respect to assisting in the understanding of how and why certain firms build competitive advantage in regimes of rapid change*"

Teece (D. J. Teece et al., 1997) defined Dynamic Capabilities as "*a <u>meta-</u>*

competence” that allows a firm to ‘‘*integrate, build, and reconfigure competencies and processes*”. Thus the firm is able to adapt the configuration of resources and competencies to pursue competitive advantage aligned with a rapidly changing environment. The ability to repeatedly pursue competitive advantage, no matter how transient, through new configurations, is regarded as a source of sustainable competitive advantage. Thus Dynamic Capabilities are presented as themselves being a potential source of sustainable competitive advantage. In 2000 Teece (D. J. Teece, 2000) concluded, “*Dynamic Capabilities have no doubt been relevant to achieving competitive advantage for some time. However, their importance is now amplified because the global economy has become more open and the sources of invention, innovation, and manufacturing are more diverse geographically and organizationally”*

Teece (D. J. Teece, 2007) defined the key processes of Dynamic Capabilities as Sensing, Seizing, and Reconfiguring. **Sensing** (and shaping) new opportunities includes the activities of scanning, creation, learning, and interpretation. **Seizing**: Once a new (technological or market) opportunity is sensed, it must be addressed through new products, processes, or services. **Reconfiguring**: The ability to recombine and to reconfigure assets and organizational structures. Success, he argues, leads to routines (as this is necessary for operational efficiency) but routines help sustain continuity until there is a shift in the environment when they must be changed.

- My research indicates a similar typology for the capabilities that enable the firm to act dynamically (Sensing, Seizing, Re-Shaping). I show that all three types of capability are required and interact with one another. I.e. the overall Dynamic Capacity of the firm is determined by the combination of its abilities to Sense x

Seize x Re-Shape.

- I find that global firms are able to differentially enhance these capabilities and thereby heighten their capacity to compete in dynamic contexts, by drawing on nine mechanisms that each leverages the global network of the organization.
    - Sense & Make-Sense:
        1. Global sourcing of idea-fragments.
        2. Accelerating development of insight through multiple, coordinated market-place quasi-experiments and market engagement.
        3. Global network of connected experts.
    - Seize:
        1. Deployment of short-term enabling resources.
        2. Administratively clustering markets with similar dynamics to enhance acquisition and dissemination of relevant insight.
        3. Global insight applied to influence market evolution.
    - Re-Shape:
        1. Morphing the scope of business and the activities of the firm.
        2. Developing and maintaining alternative solutions.
        3. Continuous transformation and adaptation.

Eisenhardt & Martin (Martin, 2000) noted that markets evolve at different speeds ‘moderately dynamic’ and ‘high velocity’. They indicated that the nature of the strategic management processes that the firm deploys differ between these types of market evolutionary conditions; in high-velocity markets the processes are *“simple, highly experiential and fragile processes with unpredictable outcomes, [and] the* *evolutionary emphasis is on selection*"; in moderately dynamic markets the processes are "*detailed, analytic, stable processes with predictable outcomes, [and]* the evolutionary emphasis is on variation".

- My research on the ability of global corporations to behave dynamically indicates that the firm is capable of successfully operating in both high velocity and moderately dynamic markets, that it is able to deploy both types of process and to manage the exchange of insight and information between markets; for example rapid experiential learning (experimentation) and sharing and reapplying the insight across the network to other relevant markets.

8.2. Strategic Agility

In 2008, Doz and Kosonen presented the concept of Strategic Agility in their book Fast Strategy (Y. L. Doz & M. Kosonen, 2008). They highlighted the tension between making a strong strategic commitment, of the sort that might be needed to gain industry leadership, with the need for agility in the face of uncertainties and discontinuities. The timing of the publication reflecting the increased awareness of the uncertainties in and the increased speed of evolution of business contexts that were forcing more frequent, almost continuous evaluation of the strategic choices of the firm. Doz and Kosonen identified three 'meta-capabilities' that are crucial for enabling a firm to act with Strategic Agility:

1. Strategic Sensitivity: both the sharpness of perception and the intensity of awareness and attention,
2. Resource Fluidity: the internal capability to reconfigure business systems and redeploy resources rapidly,

3. Collective Commitment: the ability of the top team to make bold decisions –fast, without being bogged in “win-lose” politics at the top.

In their publication “The Dynamics of Strategic Agility” of the same year (Y. Doz & M. Kosonen, 2008) showed that a firm necessarily changes the balance between these three meta-capabilities as it evolves, requiring a sense of evolution from one phase to the next in the overall evolution of the firm. In 2010 their publication “Embedding Strategic Agility” (Doz & Kosonen, 2010) identified 15 “leadership actions”, 5 each promoting the three meta-capabilities.

- My research of Dynamic Advantage also highlights the importance of the leadership team. As mentioned above, I have identified several mechanisms that the leadership should foster and leverage in order to build the capacity of the firm to act dynamically.

- I have identified the importance of the level of Motivation of the leadership to steer the corporation to act dynamically, to ‘lean forward’ and compete for the future, rather than exclusively optimize current performance results. I have also considered the importance of the Ability of the leadership team to support the firm in acting dynamically.

Earlier work by Brown and Eisenhardt (Brown & Eisenhardt, 1997) identified that firms in the computer industry were continuously evolving. Brown & Eisenhardt challenged the perception that firms moved from one state of ‘equilibrium’ to another. They reported that the more successful firms moved through a series of product generations with loose organizational structures which they termed "semi-structures," able to morph through "sequenced steps" and that these firms agility was dependent on high levels of communication. They also noted that experimentation was very important for these firms, which they deemed as “low-cost probes into the future”, other techniques they noted included “futurists and strategic alliances”.

- Dynamic Advantage echoes and builds upon these early steps in understanding firm responses to strategy formulation in dynamic market contexts. I provide an integrated model that considers the capabilities of the firm, not only new product development and innovation, and I show the relevance for firms in many industries.

In Spring 2014, the California Management Review produced a review of the then current thinking on Strategic Agility (Weber et al., 2014). Noting the relevance of agility in firm strategies due to the increasing dynamism of business contexts. “*The competitive landscape has been shifting in recent years more than ever. Globalization, rapid technological change, codification of knowledge, the internet, talent and employee mobility, increased rates of knowledge transfer, imitation, changes in customer tastes, and the obsolescence of products and business models have all caused a turbulent environment and accelerated changes and disruptions. These trends are expected to continue, producing ever more rapid and unpredictable changes”.*

The first of the articles presented in the Spring 2014 California Management Review by Fourné, Jansen, and Mom (Fourné, Jansen, & Mom, 2014) is particularly relevant for the discussion of Dynamic Advantage as it identifies three dynamic capabilities of global multi-national companies that compete across both emerging and established markets: Sensing local opportunities, Enacting global complementarities, and Appropriating local value. They argue that strategic agility is a meta-capability that allows the continuous readjustment and rebalancing of sufficient resources to the development and deployment of the three dynamic capabilities such that the firm can maintain and renew its competitive advantage. *"Our study shows how environmental settings may explain why strategic agility is heterogeneous in its foundations, and how managerial action can be used to develop and deploy it"*. They also identify three management practices that support the firm's agility. Modular Organizational Systems enable a degree of flexibility and adaptability in the organization. Integrative Thinkers in the top management team, responding to scarcity in the resources available for initiatives by striving to find common ground between initiatives with seemingly different objectives. Also, what they describe as 'high performance HR systems' that emphasize cross-functional teaming and that are subject to incentive schemes aligned with the objectives of the initiatives.

- My research into the Dynamic Advantage of global firms also considers firms operating across a diverse portfolio of market contexts, identifying the diversity of contexts itself as a source of competitive advantage. The Dynamic Advantage model identifies the mechanisms that the firm can leverage to build its capacity to act dynamically (i.e. to exploit the source of competitive advantage) and provides an integrated model of the drivers and the hurdles that the leadership should overcome in order to out-perform competitors.

8.3. Motivation, Ability and Opportunity

In their study of consumer behavior being impacted by brand advertising Maclnnis, Moorman & Jaworski (Deborah J. Maclnnis, 1991) identified three drivers of performance outcome to be Motivation, Opportunity and Ability. This construct has great relevance for understanding the performance outcome of the firms whose leadership teams commit to the pursuit of Dynamic Advantage.

- I found that the construct of Motivation, Ability and Opportunity is also evident when understanding a firm's ability to compete dynamically.
    - *Motivation* is significantly determined by the level of the sense of purpose that is shared by the leadership team; the pursuit of the sense of purpose should be reinforced with an alignment of the performance metrics.
    - *Ability* is significantly determined by the ability of the leadership team to foster and maintain an integrative approach, seeking to optimize current period performance results whilst also investing for tomorrow, simultaneously optimizing in-market approaches in both 'high-velocity' and more stable markets, nurturing a strong sense of belonging and pervasive firm culture whilst also being inclusive of the perspectives and approaches of a nationality diverse leadership team.
    - *Opportunity* is determined by the dynamic nature of the contexts in which the firm is operating. The level of Opportunity to act dynamically is indicated by the rate of evolution of the markets (e.g. driven by changing demand patterns or consumer behaviors or changing regulation) multiplied by the rate of evolution of the industry (e.g. impact of technology, changes to the line-up of competitors, changing business models).

8.4. Entrepreneurial orientation of the leadership of the firm

Although my research found little correlation between the level of entrepreneurial orientation of the members of the leadership of the firm and the development of the firms Dynamic Capacity, previous researchers have indicated the importance of entrepreneurial management in driving a firm to act dynamically. Teece (D. J. Teece, 2007) emphasized that, "*enterprises with good Dynamic Capabilities have* <u>*entrepreneurial management*</u> *that is strategic in nature. Entrepreneurship requires [...] understanding opportunities, and how to address them. Thus building and leveraging dynamic capabilities requires entrepreneurial management*". Firms with strong dynamic capabilities exhibit strong entrepreneurial behavior, demonstrating the ability to adapt to and shape the contexts that they are operating in and complementing the focus on optimizing and defending the current position.

The importance of the Entrepreneurial Orientation of the firm for sustaining superior performance was extensively studied after the concept was first introduced by Miller in 1983 (Miller, 1983) and then later expanded by Lumpkin & Dess in 1996 (Lumpkin & Dess, 1996). These authors developed models by which firm performance is positively influenced by Entrepreneurial Orientation. However they noted that the relationship is not simple and that a number of moderating and mediating factors may exist. Lumpkin & Dess concluded that *"All five of the [independent variables] may be present [however] success may be achieved when only some of these factors are operating. That is, the extent to which each of these [factors] is useful for predicting the nature and success of an undertaking may be contingent on external factors, such as the industry or business environment, or internal factors, such as the organization structure or the characteristics of founders or top managers"*

- My research indicates a low correlation between the level of entrepreneurial orientation and the Dynamic Capacity of the firm. However this could be due to selection bias as the leaders of major global corporations (that were the focus of this research) may not expected to be highly entrepreneurial.

8.5. Ambidexterity of the leadership of the firm

In 1999, Derek Abell identified that a dual approach was required in management and firm leadership due to the increasing rate of industry evolution. His publication "Competing for today whilst preparing for tomorrow" (Abell, 1999) identified that unlike athletes or armies, who have periods of training and periods of performing, that managers must train (prepare for tomorrow and extend capabilities) and perform simultaneously. He noted that: *"A today-for-tomorrow strategy puts the spotlight on possibilities or necessities for redefining the vertical and horizontal scope of business participation; reconceiving perceived value or delivered cost choices; reorienting goal structures and portfolio roles; and reprioritizing key competitive drivers. Redefinition, preconception, reorientation, and reprioritization lead to the definition of new competencies and resources that will be needed".* Concluding that addressing these questions requires a distinctly different set of skills to those required for leaders who focus on optimizing the business 'today', where the context is more concretely defined. Thus a firm that is able to both compete for today whilst preparing for tomorrow must manage a 'duality' in its leadership team behaviours & management systems. *"Managing with dual strategies is a state of mind, not just another management tool. It goes to the very heart of what managers throughout organizations have to spend their time doing. It is, above all, a leadership task."*

Similarly Teece (D. J. Teece, 2007) identified one of the core processes of Dynamic Capabilities to be Reconfiguration, which he defined as the, *"deliberate changing of the very routines that a company has established in pursuit of current performance efficacy"*. A tension therefore exists between the pursuit of dynamic behavior (to adapt) versus the optimization of present results using established routines. However, the debate between optimizing for the present whilst building for the future is often attributed to March (March, 1991) and characterized as Exploration vs. Exploitation.

However, according to Tushman (O'Reilly & Tushman, 2008), "*One should not be surprised, if an enterprise senses a business opportunity but fails to invest. In particular, incumbent enterprises tend to eschew radical competency-destroying innovation in favor of more incremental competency-enhancing improvements. The existence of layer upon layer of standard procedures, established capabilities, complementary assets, and/or administrative routines can exacerbate decision-making biases against innovation"*. This insight reflects Kahneman & Tversky (Kahneman & Tversky, 1979) research that resulted in the Prospect Theory, which demonstrates the propensity of decision makers to discount outcomes that are probable (e.g. a change in business model) in comparison with outcomes that are perceived to be more certain (e.g. refinement of the existing offer), even when aware of the challenges to the existing offer or position in the market.

Tushman (Tushman & O'Reilly III, 2006) refers to the need for a firm to be ambidextrous, to be able to manage both being entrepreneurial (adaptable) and pursuing efficiency and effectiveness in the current businesses. It is not easy to achieve ambidextrous leadership, as the leadership must act with unity whilst there are differences in the outlook and priorities of individual members. As F. Scott Fitzgerald remarked "*the mark of first-rate intelligence is the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function*"; this is arguably harder to maintain at the level of a team, where diversity in objective must be maintained whilst the team unites on a common way forward.

Christensen also added to the exploration of the need for duality or ambidextrous management in his publication of the Innovators Dilemma (C. Christensen, 1997), describing the difficulty for incumbent firms to adjust their existing practices in order to defend against new disruptive business models, even when those models are well understood. The tension being how to both defend the incumbent position (established processes and business model) whilst also adapting to defend or emulate the disruptive offer. Christensen concluded that separate entities may be required (C. Christensen & Raynor, 2013).

A detailed exploration of the conflict and the difficultly to adapt to a new business model was presented by Tripsas and Gavetti (Tripsas & Gavetti, 2000). They showed that senior management beliefs about how Polaroid should compete hindered the firm's ability to migrate its business model to compete by selling software rather than cameras (even though the corporation had already developed the required competencies). It was management's inability to implement a new business model whilst exploiting the existing model that resulted in their demise.

- My research of Dynamic Advantage highlights the hurdles that management teams must overcome to transform their organization to be able to compete dynamically.

1. **Deciding & committing to compete for the future, today**: As the speed of business and market evolution accelerates many firms are discovering that their traditional approaches to strategy are insufficient and they need to be leaning forward, orientating themselves to compete for the future whilst still managing the performance of the firm today.
2. **Clarify the Objectives:** For the pursuit of Dynamic Advantage, it is particularly important to define a clear and motivating purpose. The purpose should define the need and rationale for adopting a forward-leaning orientation. It must be clearly understood by all stakeholders such that expectations, operations and the organization can be aligned and management teams can self-adjust to improve alignment as the future continues to unfold.
3. **Align the Where-to-Play Choices:** A critical review of the portfolio of businesses in which the firm competes with the perspective of understanding the dynamic nature of each of the industries and markets and the anticipated impact of the mega-trends and forces driving industry evolution.
4. **Define How-to-Win choices, with the perspective of competing for the future:** Assess the choice of positioning within that market, particularly reviewing the customer segments from the perspective of the drivers of their purchase and usage behaviours and the relevance of such for a firm that is leading or following the evolution of the sector. This insight, market-by-market will indicate how-to-win in the market and where there would be advantages adjusting the orientation to be more forward-leaning.

5. **Design in the mechanisms that will enable the firm to act dynamically:** My research identified nine mechanisms that can differentially build the Dynamic Capability of a global firm, the relevance of each should be considered for the particular firm.
6. **Align and enable Performance Management:** The leadership of the firm must be able to ambidextrously manage the conflicting goals of preparing the firm for future success whilst also optimizing performance results today. The leadership also must develop the culture of the firm. There should be high propensity to collaborate and to share ideas and insights. The metrics and performance indicators must also be aligned with the strategy of Dynamic Advantage.

8.6. Value creation strategies of global firms

In the 80's several scholars (M.E. Porter (Porter, 1979), George Yip (Yip, 1989), Ghoshal (Ghoshal, 1987)) extensively explored the topic of Global Strategy, illustrating strategic goals such as pursing economies of scale or scope, managing risk, accessing growth markets, obtaining insights for learning and innovation. In 2007, Pankaj Ghemawat, in his book (Ghemawat, 2013) *Redefining Global Strategy* revisited much of the earlier works and presented an integrated framework for global value creation. He articulated three strategies that global multinational corporations pursue. These are *Adaptation* (to market differences and learning through exploring the differences), *Arbitrage* (accessing locational advantages and configuring the value-chain to capture benefits for the global organization), and *Aggregation* (achieving efficiencies of scale through concentration of certain activities). Ghemawat argues that these three strategies provide increasing returns the more they are pursued and that globalization strategies could be pursued much further than most companies have taken them today. Most of these approaches reflect an assumption of the rather stable environment, within or across which firms can seek to optimize their activities and build their strengths.

- The evolution of the business contexts in which a global firm operates creates the need for the corporation to adapt and adjust its strategy and activities if it seeks to optimize its performance over time; i.e. conditions will always be changing somewhere in the network requiring a response. However for the firm that chooses to win by leaning forward (to pursue Dynamic Advantage), the extensive network and diverse portfolio of contexts in which the firm is engaged can itself be a source of competitive advantage.
    - Developing and leveraging the Dynamic Capacity of the firm is a value creating strategy for a firm that needs to evolve i.e. it is a relevant aspect of the competitive strategy for all firms that are engaged in markets or industries that are evolving.
    - The strategy of building and leveraging Dynamic Capacity complements the Arbitrage, Aggregation, Adaptation strategies identified by Ghemawat, by introducing and resolving the challenges posed by the evolution of the conditions favouring these strategies over time.

In 2003, F.J. Contractor *et al*., (Contractor, Kundu, & Hsu, 2003) and (Hsu, 2006) present the "horizontal 'S' curve" theory in which they argue that as a firm increases its international presence (level of globalization) the rate of achieving incremental benefits (e.g. from pursuit of the Aggregation, Arbitrage, Adaptation strategies) diminishes, whereas the rate at which costs escalate (e.g. costs of coordination and inefficiencies due to operating in very foreign contexts) increases. As such firms operating with very high levels of internationalization (global firms) may achieve lower profitability than firms in the same industry, pursing similar strategies but with less extensive or less complex networks. Further investigation by Lu & Beamish (Lu & Beamish, 2004) indicated that firms whose business model is <u>less</u> dominated by fixed assets tend to enjoy greater benefits from internationalization and to be able to operate profitably at higher levels of globalization. Specifically, this study considered the global mobility of knowledge as represented in R&D.

- My study of Dynamic Advantage indicates that the greater the Dynamic Capacity of the firm the greater its ability to out-perform competitors (particularly in faster evolving markets). The greater the diversity of the market contexts and the rates and nature of evolution of those contexts the greater the opportunity for the firm to learn and distil insight for the adaptation of its business model.
    - Developing and leveraging the Dynamic Capacity of the corporation as it becomes increasingly internationalized will increase its ability to achieve competitively superior performance. As such enabling it to escape from the negative slope introduced in the "horizontal 'S' curve" theory.

As Teece notes (D. J. Teece, 2007) "*In many sectors, the foundations of enterprise success today depend very little on the enterprise's ability to engage in optimization against known constraints (e.g. Arbitrage), or capturing scale economies in production (e.g. Aggregation). Rather, enterprise success depends upon the discovery* *and development of opportunities; the effective combination of internally generated and externally generated inventions; efficient and effective technology transfer inside the enterprise and between and amongst enterprises; the protection of intellectual property; the upgrading of 'best practice' business processes; the invention of new business models; making unbiased decisions; and achieving protection against imitation and other forms of replication by rivals. It also involves shaping new 'rules of the game' in the global marketplace. The traditional elements of business success—maintaining incentive alignment, owning tangible assets, controlling costs, maintaining quality, 'optimizing' inventories—are necessary but they are unlikely to be sufficient for sustained superior enterprise performance*".

8.7. Top Management Team configuration

Dynamic capabilities reside in large measure with the enterprise's top management team (Helfat et al., 2009; O'Reilly & Tushman, 2008) Tushman noted, *"The managerial skills needed to Sense are quite different from those needed to Seize and those needed to Reconfigure [although] all have a significant 'entrepreneurial' and 'right brain' component. Successful enterprises must build and utilize all [types] of capabilities and employ them, often simultaneously. Since all are unlikely to be found in individual managers, they must be somewhere represented in top management, and the principal executive officer must succeed in getting top management to operate as a team"*. Hambrick (Hambrick & Mason, 1984) also noted, "*The characteristics of the top management team matter more than the CEO's alone*".

Manfred Kets de Vries (de Vries, 2005), Belbin (Belbin, 2012) and others argue that psychological diversity significantly strengthens team performance by enhancing debate, introducing additional perspectives and insights that might otherwise have been overlooked, and by improving the functioning of team interactions and productivity. However, in the context of global corporation, it has been found that *"[culturally] diverse teams do not always perform better than less diverse or homogenous teams"* (Marx, 2013).

Gratton & Erikson (Gratton & Erickson, 2007) added insight to the debate on the configuration of the leadership teams of diversified global corporations, noting "*Although teams that are de-centralized, diverse and composed of highly educated specialists are increasingly critical, these same characteristics make it hard for teams to get anything done. To put it another way, the qualities required for success are the same qualities that undermine success"*.

As Marx noted (Marx, 2013), team performance depends on the skills of the individual members given the complexity of the challenges they are managing, rather than diversity, per-se. The challenge is to have the "*right talent, in the right roles, in the right places, in the right organization.*" For example, skills such as International Literacy (or Global Mindset) are regarded as highly relevant for all members of the top management team, enabling the team members to exchange insight and opinion efficiently, even if remotely located from one another.

In a global corporation one of the relevant drivers of diversity of the top management team that is readily observable is the national diversity. It is noted (Hambrick & Mason, 1984; Nielsen & Nielsen, 2013) as one aspect of diversity that can strengthen performance through contributing additional perspectives and insights; as well as being a potential cause of dysfunction of the team due to inefficiencies in effective transfer of insights and ideas and participation in decision making processes.

- My research indicated that there is a modest correlation between the levels of national diversity of the leadership of the firm with the level of Dynamic Capacity the firm achieves. The multiplicity of perspectives introduced into the decision making process by embracing national diversity may enhance the ability of the firm to develop Dynamic Capacity.

As noted by *(D. J. Teece et al., 1997)*, *"more decentralized organizations, have a lower tendency to be blindsided by market and technological developments; because of the problem of information decay as information moves up [and down] a hierarchy".*

- My study did not indicate a significant relationship between decentralization of the leadership and the level of Dynamic Capacity of the firm. Whereas decentralization may support Sensing, the development of Dynamic Capacity also requires efficient and effective decision making to enable Seizing and Reshaping across the global network hence there may be advantages to a centralized 'nerve-center', that is well connected and sensitized to developments across the network.

8.8. The Transnational model of a global firm

Prahalad and Doz (C. K. Prahalad, & Doz, Y 1987; C. K. Prahalad & Doz, 1999) introduced the Integration-Responsiveness (I-R) grid to express the different choices for a global corporation as to how they pursue competitive advantage through coordinating their network of global resources. The I-R framework reflects a process and organizational capabilities understanding. It tells us to what extent the competitive advantages of the global firm are derived from close integration globally (e.g. pursing advantages of aggregation (scale) or consistency in support to global clients, etc.) and to what extent responsiveness is required to adapt to the conditions in any local market.

Different firms in the same industry may pursue different positioning choices with respect to the I-R grid. For example in the beer industry Heineken pursues a policy of relatively strong global alignment (e.g. production, financial planning etc.). Whereas their long term subsidiary in Asia, Asia Pacific Breweries, had pursued a strategy of relatively high local adaptation and delegation of authority. Prahalad & Doz (C. K. Prahalad & Doz, 1999) explained that a firm's strategy, "*can be conceived of as the dominant world view among [key executives], an implicit or explicit statement of the nature of competition, the critical success factors for gaining and sustaining competitive advantage, the nature of risk and the resource base; strategy represents the dominant coalition"*.

Bartlett and Ghoshal (Bartlett, 1989) introduced a 3rd dimension to the I-R grid; the orientation for "*world-wide learning"*. If a firm positions itself with high orientation for world-wide learning then it will foster multiple innovation paths (e.g. from and between international subsidiaries, as well as from the home market). With the introduction of this third dimension of choice they describe four organizational models, reflecting different orientation choices along these three dimensions (i.e. positioning choices on the 'grid'). The organizational models they labelled as, a) Global, b) International, c) Multi-domestic, and d) Transnational. The strategy (the dominant coalition of understanding that leads to the firms chosen positioning) then determines the choices for the configuration of the organization, assets, processes and decision rights as well as the selection and relative prioritization of the activities of the firm.

- From the above discussion it seems that a global firm pursing the transnational model might be well placed to evolve a high level of Dynamic Capacity, able to sense globally, integrate and process centrally and to coordinate effectively across markets to seize opportunities and reconfigure. However the survey and interview methodology utilized in this research did not require the respondents to specifically identify whether their firm was, or was not pursuing a transnational model. As such the relevance of this model to Dynamic Advantage was not explicitly explored.

Section 9: Contributions: Construct Definitions

The two primary contributions of this research are the constructs Dynamic Capacity and Dynamic Advantage.

9.1. Dynamic Advantage

Dynamic Advantage is the competitively superior performance of a firm that it achieves through building and leveraging Dynamic Capacity (defined below). The Dynamic Advantage achieved by a firm is dependent upon three drivers: The *Motivation* and the *Ability* of the leadership team of the corporation to pursue a forward leaning dynamic approach to competitive strategy and the relevance of such an approach in the industry and markets in which the firm is engaged i.e. the *Opportunity* for the firm to achieve competitively superior performance through acting dynamically.

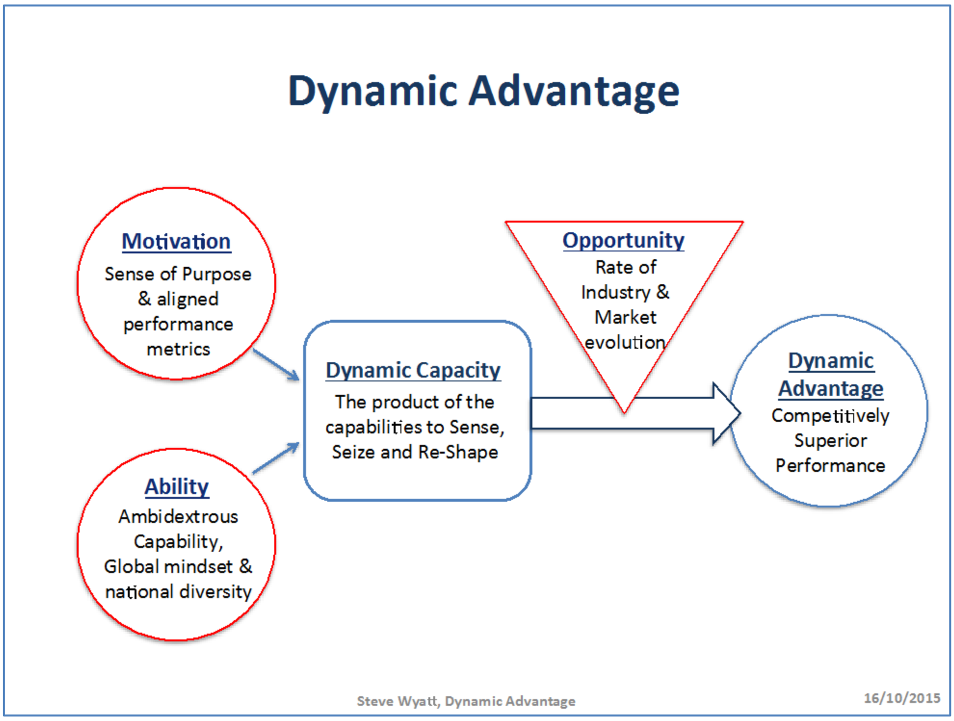


Figure 1

- *Motivation* is significantly determined by the level of the sense of purpose that is shared by the leadership team; the pursuit of the sense of purpose should be reinforced with an alignment of the performance metrics.
- *Ability* is significantly determined by the ability of the leadership team to foster and maintain an integrative approach, seeking to optimize current period performance results whilst also investing for tomorrow, simultaneously optimizing in-market approaches in both 'high-velocity' and more stable markets, nurturing a strong sense of belonging and pervasive firm culture whilst also being inclusive of the perspectives and approaches of a nationality diverse leadership team.
- *Opportunity* is determined by the dynamic nature of the contexts in which the firm is operating. The level of Opportunity to act dynamically is indicated by the rate of evolution of the markets (e.g. driven by changing demand patterns or consumer behaviors or changing regulation) multiplied by the rate of evolution of the industry (e.g. impact of technology, changes to the line-up of competitors, changing business models).

9.2. Dynamic Capacity

Dynamic Capacity is a meta-capability that can be invested in and developed to be a source of potential competitive advantage. As such it aligns with the resource-based view of firm strategy. The Dynamic Capacity of the firm indicates the capacity of the firm for competing dynamically, i.e. to reposition itself as the industry and markets evolve and to realigning resources, competencies and processes to achieve competitively superior performance.

The product of three capabilities determines the level of the Dynamic Capacity of a global firm:

- The capability to Sense and Make-sense of the changes occurring in the business contexts through-out the network of the corporation
- The capability to Seize opportunities, throughout the global network, advancing the ability to out-perform competitors particularly on-the-ground in individual markets.
- The capability to Re-Shape the scope of activities and the configuration of the resources and processes of the corporation, identifying opportunities to extend and strengthen corporate advantages.

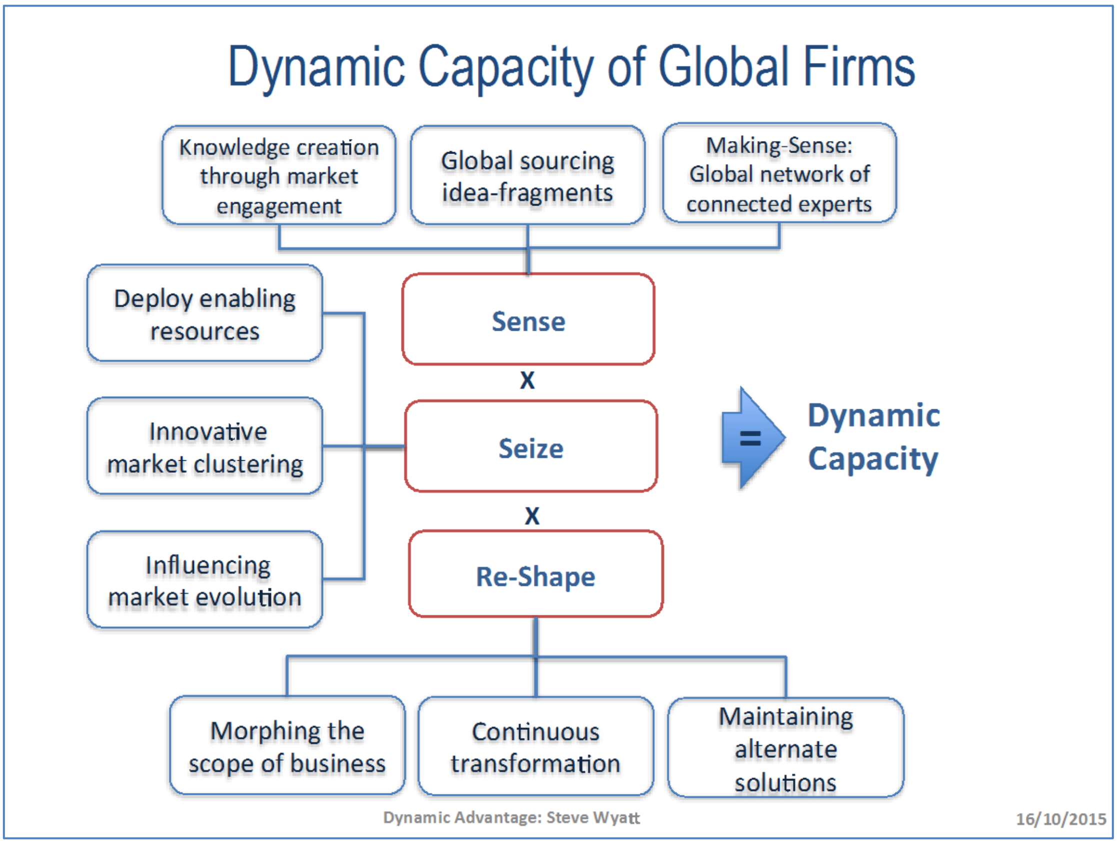


Figure 6

Global firms are able to differentially enhance these capabilities and thereby heighten their capacity to compete in dynamic contexts by drawing on nine mechanisms that each leverages the global network of the organization.

- Sense & Make-Sense:
  1. Global sourcing of idea-fragments.
  2. Accelerating development of insight through multiple, coordinated market-place quasi-experiments and market engagement.
  3. Global network of connected experts.
- Seize:
  1. Deployment of short-term enabling resources.
  2. Administratively clustering markets with similar dynamics to enhance acquisition and dissemination of relevant insight.
  3. Global insight applied to influence market evolution.
- Re-Shape:
  1. Morphing the scope of business and the activities of the firm.
  2. Developing and maintaining alternative solutions.
  3. Continuous transformation and adaptation.

Section 11: Research Methodology

The research process had six primary steps. In-line with the case-based research methodologies presented by Christensen (C. M. Christensen & Carlile, 2009) and echoing steps identified by Eisenhardt (Eisenhardt, 1989; Eisenhardt & Graebner, 2007).

1. I initially conducted a review of existing research and theory on the topic of global firms achieving competitive advantage when facing market uncertainties and evolutionary or even disruptive forces. My interest in this area having been triggered by 20 years working with and providing strategic consulting services to global companies facing such challenges.

2. I then conducted exploratory discussions with experienced executives at 5 companies with global operations (Syngenta, Heineken, Coca Cola, BNP-Paribas, and Tata Consulting Services). From these discussions I formulated initial hypotheses.

3. The third step involved semi-structured interviews with executives from 10 additional companies (ABB, Ahold, Airbus, Barclays, Bayer, Caterpillar, Corning, DHL, IBM, and Unilever). The interviews were conducted in person or by telephone. The executives self-declared themselves as informed representatives, each having a senior global or regional executive position. These interviews provided insight enabling a review of the initial hypotheses that would subsequently be investigated.

4. The fourth step involved the completion of an on-line survey, most questions requiring an assessment on a 5-point scale of the strength of an attribute or behaviour at the firm. The respondents were informed representatives at 25 companies (Airbus, Barclays, Bayer, BNP-Paribas, Cargill, Caterpillar, Coca Cola, Google, Heineken, Heraeus, DHL, Disney, IBM, Infineon, Mondelez, PCCW, Pernod Ricard, Rolls-Royce, State Street, Swire, Syngenta, Tata Communications, Unilever, UTC, Xerox).

5. The fifth step was the structured interviews with informed representatives from 9 companies (Caterpillar, Coca Cola, Disney, Heineken, Heraeus, Infineon, State Street, Syngenta, and Xerox). These interviews were to deepen the understanding of the responses to the questions in the on-line survey.
    - The unit of analysis was the firm, as such I engaged a single informant in each organization in a manner described by (Kumar & Dillon, 1992), to inform on the properties and characteristics of the firm.
    - Individual responses were not compared with independent data on the company of the respondent, as the research was focused on identifying relationship patterns in the responses to the questions, between the sets of responses from the different organizations.

6. The last step was to follow-up with specific questions of clarifications with some of the respondents and to confirm the primary constructs emerging from the research.

Appendix 1: Firms participating in the research

Company		Industry Descriptor
ABB		Equipment
Ahold		Retail
Airbus Defence		Aerospace, Defense & Space
Barclays		Financial Services
Bayer Medical Devices		Life-Sciences
BNP-Paribas		Financial Services
Cargill		Agricultural Products
Caterpillar		Engineering
Coca-Cola		Beverages
Corning		Industrial Products
DHL		Logistics
Disney		Media & Entertainment
Google		Media & Entertainment
Heineken		Alcoholic Beverages
Heraeus		Industrial Products
IBM		Data Services
Infineon		Semiconductors
Mondelez International		FMCG
PCCW		Telecoms
Pernod Ricard		Alcoholic Beverages
Philips		Consumer Products
Rolls-Royce		Aerospace & Marine
State Street		Financial Services
Swire Group		Logistics & Marine
Syngenta		Life-Sciences
TCS		Data Services
Tata Communications		Telecoms
Unilever		FMCG
UTC-BIS		Equipment
Xerox-Enterprise		Data Services

Appendix 2: On-line Survey

A2.1. Responses

Question #	Respondent Identifier	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
	Screening Questions																									
1	What Industry	Media	FMCG	Semi-conduct	Agriculture	Equipment	Alcohols	Financial Srvce	Telcom	Aerospace	Data Services	Industrial Pdt	Media	Telcom	Agriculture	Financial Srvce	Equipment	Data Servces	Aerospace	Logistics	LifeScience	FMCG	FMCG	Logistics	Financial Srvce	Alcohol
2	How Many Countries	>40	>40	10 to 20	>40	>40	>40	30-40	10 to 20	>40	>40	>40	>40	>40	>40	>40	>40	>40	>40	>40	>40	>40	>40	>40	>40	>40
3	How many Employees	100-200,000	>200,000	<25,000	25-50,000	100-200,000	50-100,000	25-50,000	5-25,000	100-200,000	100-200,000	5-25,000	50-100,000	5-25,000	100-200,000	100-200,000	100-200,000	>200,000	50-100,000	25-50,000	100-200,000	100-200,000	100-200,000	>200,000	100-200,000	5-25,000
25	Slow Industry Evolution	1	3	4	4	5	5	1	1	4	1	3	1	1	3	4	3	2	4	4	1	4	4	2	4	4
26	Slow Market Evolution	1	3	3	3	3	4	2	2	4	1	3	2	2	3	5	4	2	3	1	3	3	4	2	4	3
	Sense & Make-Sense Average	*4.00*	*4.20*	*2.40*	*4.80*	*2.80*	*3.80*	*2.80*	*2.00*	*2.80*	*4.60*	*3.20*	*4.20*	*3.20*	*4.00*	*2.40*	*2.80*	*3.80*	*3.40*	*4.00*	*3.80*	*4.80*	*4.20*	*3.20*	*4.00*	*3.40*
4	In-market Experiments	5	3	2	5	3	3	1	4	2	5	1	5	3	5	2	2	4	3	5	3	5	5	4	4	4
5	Coordinate Experiments	5	3	3	5	3	4	4	1	2	5	5	3	2	2	2	3	4	5	5	5	5	3	3	4	2
6	Exp are for learning	3	5	2	5	3	4	1	2	4	4	5	5	5	3	1	1	3	4	5	3	5	5	3	4	3
7	Knowledge Mgt Platform	3	5	1	4	2	4	3	1	2	4	1	4	3	5	3	4	5	3	2	3	4	5	4	4	4
8	Intelligence Officers	4	5	4	5	3	4	5	2	4	5	4	4	3	5	4	4	3	2	3	5	5	3	2	4	4
	Seize & Replicate Average	*3.17*	*4.17*	*3.50*	*3.67*	*3.83*	*3.67*	*4.50*	*2.83*	*3.00*	*3.50*	*3.67*	*3.50*	*3.83*	*4.33*	*3.17*	*2.83*	*3.83*	*3.67*	*3.00*	*2.33*	*4.00*	*4.00*	*3.83*	*3.33*	*2.67*
9	Fluid Staffing	2	3	3	1	4	3	5	5	2	4	2	2	5	3	5	3	5	2	3	1	4	5	4	4	3
10	Fluid Staffing Internationally	5	5	3	3	4	3	3	4	3	4	2	2	3	3	2	2	3	3	3	1	3	3	3	4	2
11	Innovation Propogates Quickly	3	4	4	4	3	4	4	3	3	3	5	4	4	5	3	3	4	3	3	2	4	5	4	3	3
12	Global Exec drive propogation	3	5	3	4	4	4	5	2	2	3	5	4	3	5	4	3	4	5	4	4	5	3	4	3	3
13	Use a market evolution model	1	4	3	5	4	4	5	1	4	3	5	4	4	5	2	2	2	4	2	3	4	3	4	3	2
14	Seek to influence mkt evolution	5	4	5	5	4	4	5	2	4	4	3	5	4	5	3	4	5	5	3	3	4	5	4	3	3
	ReShape and Reconfigure Average	*3.20*	*2.70*	*2.90*	*3.50*	*2.20*	*3.60*	*3.50*	*2.20*	*3.60*	*2.30*	*1.40*	*2.60*	*3.20*	*3.00*	*2.80*	*2.60*	*3.60*	*3.00*	*3.60*	*3.20*	*3.20*	*4.00*	*3.00*	*2.20*	*3.00*
15	Major Transformation	4	2	1	2	2	2	3	1	5	4	2	4	4	3	3	5	4	4	5	5	3	5	3	4	4
16	Global SCM Optimization (N/A=1)	5	3	5	5	4	4	5	1	5	1	1	1	4	5	4	3	5	4	5	4	4	5	5	1	4
17	High Outsourcing (N/A = 1)	3	3	3	5	3	2	5	2	4	1	2	4	4	3	3	3	5	3	5	3	5	3	3	3	4
18	Changing country portfolio	1	1	1	1	N/A	3	n/a	2	5	5	N/A	1	1	1	5	N/A	1	5	N/A	5	5	1	1	N/A	1
(N/A=1, 1or5=2, 2or4=3.5, 3=5)	Numeric From Q17	2	2	2	2	1	5	1	3.5	2	2	1	2	2	2	2	1	2	2	1	2	2	2	2	1	2
19	Changing business portfolio	1	2	2	2	N/A	3	2	2	5	4	N/A	1	5	1	5	N/A	1	5	1	5	5	3	1	5	N/A
(N/A=1, 1or5=2, 2or4=3.5, 3=5)	Numeric From Q18	2	3.5	3.5	3.5	1	5	3.5	3.5	2	3.5	1	2	2	2	2	1	2	2	2	2	2	5	2	2	1
33a	We beat global competitors	5	3	3	3	4	3	5	3	3	4	3	4	4	4	3	2	4	1	4	3	4	2	3	2	3
	Numeric From 33a	2.0	1.0	1.0	1.0	1.4	1.0	2.0	1.0	1.0	1.4	1.0	1.4	1.4	1.4	1.0	0.7	1.4	0.5	1.4	1.0	1.4	0.7	1.0	0.7	1.0
33b	We beat major local competitors	3	4	4	3	3	4	5	3	4	5	3	4	5	4	3	2	3	3	4	3	3	2	3	2	2
	Numeric From 33b	1.0	1.4	1.4	1.0	1.0	1.4	2.0	1.0	1.4	2.0	1.0	1.4	2.0	1.4	1.0	0.7	1.0	1.0	1.4	1.0	1.0	0.7	1.0	0.7	0.7
	Dynamic Capacity (Sense x Seize x ReShape)	***1.62***	***1.89***	***0.97***	***2.46***	***0.94***	***2.01***	***1.76***	***0.50***	***1.21***	***1.48***	***0.66***	***1.53***	***1.57***	***2.08***	***0.85***	***0.83***	***2.10***	***1.50***	***1.73***	***1.13***	***2.46***	***2.69***	***1.47***	***1.17***	***1.09***
20	Strong sense of PURPOSE	5	3	4	5	3	4	5	1	2	3	1	5	4	5	3	3	5	4	5	3	5	3	4	5	4
21	Entrepreneurial leaders	3	2	3	2	2	4	3	5	1	4	4	3	4	4	2	2	4	2	3	1	3	4	4	4	5
22	Develop new businness separately	3	3	1	5	2	3	3	3	2	3	5	5	3	1	1	5	5	3	3	1	5	4	2	4	2
24	Ambidextrous leaders	5	2	2	3	3	4	3	2	3	3	3	3	2	5	2	3	5	2	2	3	3	4	4	4	4
27	Direct Reporting Line	L to R	L to Cluster	L to Region	L to Cluster	:o Region/Cluste	L to Region	L to Region	L to Global	L to Region	L to Global	L to Global	L to R	L to G	L to R	Local to Reg	L to R	L to R	L to R	L to R	L to R	L to R	L to R	L in G	L to R	L to R
	Reporting Numeric	1	3	1	3	3	1	1	5	1	5	5	1	5	1	1	1	1	1	1	1	1	1	5	1	1
28	Transnational Strategy	L in F	L in Frmwrk	L in Frmwrk	L in Frmwrk	L in Frmwrk	L in Frmwrk	L in Frmwrk	Local Only	L in Frmwrk	L in Frmwrk	L input to G	L in Frmwrk	L in Frmwrk	Local Only	Global Only	L in G Frmwk	L in G Frmwk	L in Frmwk	L cont G	L	L in Frmwrk	L cont to G	L cont to G	L	L in F
	Local Strategy Numeric	3	3	3	3	3	3	3	1	3	3	5	3	3	1	1	3	3	3	5	1	3	5	5	1	3
29	Sense of belonging	Yes	Everywhere	Everywhere	Everywhere	Everywhere	in HQ	in HQ	in HQ	in HQ	in HQ	Everywhere	Everywhere	Everywhere	Yes	HQ	HQ	Yes	yes	Yes	Hmebase	Yes	Homebase	Yes	Yes	Yes
	Belonging Numeric	5	5	5	5	5	3	3	3	3	3	5	5	5	5	3	3	5	5	5	3	5	3	5	5	5
30	Global Mindset	Mix	Mix (HQ&GM)	Mix (HQ&GM)	GM	Mix (HQ&GM)	Mix	No	Mix (HQ&GM)	GM	Mix (HQ&GM)	HQ	HQ	Yes GM	Mix	No	Mix	Mix	No	Yes	No	Yes	Mix	Yes	Mix	Yes
	GM Numeric	3	3	3	5	3	3	1	3	5	3	1	1	5	3	1	3	3	1	5	1	5	3	5	3	5
31	Global Leaders spread globally	1	1	1	1	3	3	1	1	3	1	1	1	5	3	3	3	2	1	1	1	3	5	3	3	4
32	Multi-national global leaders	1	3	2	3	3	4	1	4	3	1	1	2	4	3	3	2	3	1	3	1	5	4	5	3	2
23	KPI Rankings																									
1	Returns to Shareholders	4	1	5	1	4	2	1	1	2	2	2	3	1	2	1	1	1	3	3	2	6	2	4	2	4
2	Period Finanacial Results	1	2	2	5	1	3	7	2	1	1	3	4	6	7	2	3	4	4	1	1	1	1	1	3	1
3	Forward Indicators	6	3	6	6	6	4	2	5	6	4	5	5	2	6	4	2	5	5	2	3	2	3	3	6	5
4	Customer Metrics	3	5	1	2	2	1	4	3	5	3	4	2	4	5	6	4	2	1	5	5	3	4	2	4	6
5	Business Operations Metrics	5	4	3	4	5	5	3	4	4	6	1	1	3	1	5	5	5	2	4	4	4	5	5	5	2
6	Organization & Societal	2	6	4	3	3	6	6	6	3	5	6	6	5	3	3	6	3	6	6	6	5	6	6	1	3
7	Other	7	7	7	7	7	7	5	7	7	7	7	7	7	4	7	7	7	7	7	7	7	7	7	7	7

A2.2. Analysis

A2.2.1 Linear Regression of Output Variable Competitive Advantage

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.465[a]	.216	.104	.783594585
2	.777[b]	.604	.525	.570482070

a. Predictors: (Constant), Ability, Motivation, Dynamic_Capacity

b. Predictors: (Constant), Ability, Motivation, Dynamic_Capacity, DC_X_Opportunity

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.550	3	1.183	1.927	.156[b]
	Residual	12.894	21	.614		
	Total	16.445	24			
2	Regression	9.936	4	2.484	7.632	.001[c]
	Residual	6.509	20	.325		
	Total	16.445	24			

a. Dependent Variable: Competitive_Adv

b. Predictors: (Constant), Ability, Motivation, Dynamic_Capacity

c. Predictors: (Constant), Ability, Motivation, Dynamic_Capacity, DC_X_Opportunity

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.840	.465		1.808	.085
	Dynamic_Capacity	.681	.360	.480	1.892	.072
	Motivation	.002	.006	.101	.402	.692
	Ability	-.005	.002	-.567	-2.140	.044
2	(Constant)	.773	.339		2.284	.033
	Dynamic_Capacity	.050	.298	.035	.168	.869
	Motivation	.006	.005	.258	1.389	.180
	Ability	-.004	.002	-.397	-2.018	.057
	DC_X_Opportunity	.048	.011	.710	4.429	.000

a. Dependent Variable: Competitive_Adv

Excluded Variables[a]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	DC_X_Opportunity	.710[b]	4.429	.000	.704	.771

a. Dependent Variable: Competitive_Adv

b. Predictors in the Model: (Constant), Ability, Motivation, Dynamic_Capacity

Correlations

		Dynamic_Capacity	Opportunity
Dynamic_Capacity	Pearson Correlation	1	-.030
	Sig. (2-tailed)		.885
	N	25	25
Opportunity	Pearson Correlation	-.030	1
	Sig. (2-tailed)	.885	
	N	25	25

A2.2.2 Relationship of Moderator (Opportunity) with Dynamic Capacity and Competitive Advantage

```
***************** PROCESS Procedure for SPSS Release 2.10 ****************

          Written by Andrew F. Hayes, Ph.D.       www.afhayes.com
    Documentation available in Hayes (2013). www.guilford.com/p/hayes3

**************************************************************************
Model = 1
    Y = Competit
    X = Dynamic_
    M = Opportun

Statistical Controls:
CONTROL= Motivati Ability

Sample size
         25

**************************************************************************
Outcome: Competit

Model Summary
          R       R-sq          F        df1        df2          p
      .7816      .6109     5.9649     5.0000    19.0000      .0018

Model
              coeff         se          t          p       LLCI       ULCI
constant     1.0467      .5902     1.7734      .0922     -.1888     2.2821
Opportun     -.0320      .0562     -.5704      .5751     -.1496      .0855
Dynamic_     -.1284      .4356     -.2948      .7713    -1.0401      .7833
int_1         .0686      .0372     1.8422      .0811     -.0093      .1465
Motivati      .0062      .0046     1.3483      .1934     -.0034      .0159
Ability      -.0034      .0018    -1.8669      .0774     -.0073      .0004

Interactions:

 int_1    Dynamic_     X      Opportun

R-square increase due to interaction(s):
         R2-chng          F        df1        df2          p
int_1      .0695     3.3935     1.0000    19.0000      .0811

*************************************************************************

Conditional effect of X on Y at values of the moderator(s):
   Opportun     Effect         se          t          p       LLCI       ULCI
     3.3535      .1016      .3464      .2933      .7725     -.6235      .8267
    10.7600      .6096      .2766     2.2043      .0400      .0307     1.1885
    18.1665     1.1176      .4302     2.5979      .0177      .2172     2.0181

Values for quantitative moderators are the mean and plus/minus one SD from mean.
Values for dichotomous moderators are the two values of the moderator.

******************** ANALYSIS NOTES AND WARNINGS *************************

Level of confidence for all confidence intervals in output:
    95.00
```

Appendix 3: Research Interviews

Step 5 of research process

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Overview

Step 5 of the research process (reference Section 11: Research Methodology)

- Confirmatory interviews were conducted with 9 of the companies that participated in the on-line survey.

Considerations:

- Each interview was conducted with a single informant on the company.
- The informant was a senior executive officer with regional or global responsibilities.
- Firms were selected to represent a diverse selection of industries and countries of origin.
- Interviews required approximately 1 hour

The interview process:

1. Set-up and introduction to the topic theme
2. Screening questions, confirmation of area of business and size of firm
3. Discussion of capabilities of Sensing & Making Sense
4. Discussion of capabilities of Seizing & Replicating
5. Discussion of capabilities of Re-shaping & reconfiguring, including transformation and market entry and exit
6. Discussion of drivers of motivation and ability of top management team to lead the organization to compete dynamically.
7. Discussion of mechanisms by which competing dynamically achieves competitive advantage
8. Discussion of Enablers and Inhibitors to competing dynamically

Please note: Participants requirement for confidentiality necessitates that company and respondent names have been removed from the transcripts.

FMCG Beverage Co.

Company Profile:

- B2B (some B2C), Consumer Products Manufacturer, >200,000 employees
- Self Assessment: On-par with global, better than local competitors

Mechanisms of Advantage:

We do have some advantages because of our global reach &scale but we also are aware of disadvantages compared to local players; we must work harder to create and capture value from the advantages.

- **Enhancing speed of learning**: Innovation is more targeted and thoughtful.
  - Adopted approach to learn in a test market in order to be able to replicate take the learning and apply it elsewhere.
  - New strategy *focuses* on 10 product categories. This gives depth of insight and a global platform for seeking and sharing knowledge.
- **Efficient dissemination of insight**:
  - Very strong effort to change culture to look at ideas that come from different parts of the world, and how to replicate or scale them.
  - Markets are defined into 3 clusters reflecting development stage of demand evolution, (previously geographic regions).
    - Intended to ensure sharing of learning, looking at what worked and didn't work in other parts of the business
  - Using technology to facilitate knowledge flow; virtual teams and collaboration tools

- **Global coordination** to ensure that the resources are deployed against the selected 'big ideas'
    - Knowledge flows and sometime people, coordinated globally.
- **Influence market evolution**: Influencing how markets evolve is an important part of the strategy.
- **Reorganization of Supply Chain, Procurement and R&D**: To manage at global level and obtain maximum value by leveraging full reach and scale of global business;
    - Efficiencies by participating in upstream supply chain activities and expanding supply partners support across regions.

Transformations

- **New Organization Structure**: Disbanded the regional 'groups', creating direct linkage between global and the (local) business units where the rubber hits the road.
    - Now, local markets are in 'clusters' of similar markets in different parts of the world, and leveraging each other.

- **New culture:** Collaboration. Sharing knowledge requires that there is both the willingness to give the knowledge as well as the willingness to receive it and use it. We have worked on this extensively.
    - Every person had to do his or her own little thing to shift the culture into one where it's good to reapply from place to place, to be proud of that, and to make it maybe into something even bigger than what the previous part of the business had done.

- **New skills:**
    - Rethinking / re-managing Procurement, Supply Chain and R&D for greater efficiency & to stay focused on the global priorities.

Enablers & Inhibitors

Management Tensions

- Results today are crucial, but the ability to decide, commit to and consistently pursue longer term priorities is also essential
    - Now, there are a lot more deliberate choices on what is the important for the long- term. Balancing the short and long-term objectives sits largely with senior management.

Global/Local interface

- The new organization and strategy makes the Global-Local interface more direct.
    - 20 or so business units now provide direct input to the global level,
    - The (regional) Groups are much reduced in significance and the global clustering of markets is much more important.
    - The local business units provide input in terms of what they believe is important, and what they believe should be worked on and what direct support is needed from the global level to those business units.

Background

An established global firm, a 'household name' with 100 years of history has been through a significant transformation of its business model over the past 8+ years, stimulated by faltering performance caused by the evolution of industry structure and changing consumer behaviors. The corporation has sought to access new sources of competitive advantage through re-managing its global presence and restructuring its organization.

Search for new sources of competitive advantage.

As I look back over the last 5 to 10 years a lot of efforts have been made to make us more flexible and secure additional advantages from our global network; maybe to better address the dynamic situation and to focus on enablers and remove roadblocks.

In the period when the business was still going very well, then obviously everybody was counting the dollars, and life was good, watching the stock price go up. You may know that end of the '90s, early 2000 we started to struggle a bit.

That pushed us a lot more in terms of how can we become more efficient? How can we not only focus on volume but also on the money? How can we ensure that we take away this culture of the not- invented- by you syndrome, which was definitely there?

Strategic renewal over periods of 6-8 years.

At the end of the '90s and early 2000 we went through a difficult period. There was a recognition at that time that we had to change strategy and adopt a different model.

But we then expanded our portfolio a lot; a crazy time of launching whatever we could and being active in every single category as much as you can......which was absolutely not successful. It took a bit of what I would call norming and storming over a number of years to come to a situation where we made deliberate choices and adopted the new strategy and structure.

There is much more linkage between what happens at the global level, the thinking that happens at the global level, the way that different functions within that operate, and then the business units where the rubber hits the road.

So I see two phases post 2001. Maybe five, six years ago things would have been better, because some of the issues that we have lived through had gone away resulting in some good times a couple of years ago. The sentiment was "We are doing better. We are stronger in our portfolio" and what have you, but I think after what happened 2008 with markets and global economies are going through difficult times. That obviously from our perspective there was a lot of pressure on our business from what happened to global economies.

This focused us on the transformation efforts that have really taken hold since 2008 or 2010ish which drove what we are going through now as a refocusing of our business. In effect, considering periods of 6-8 years.

Changing set of relevant competitors – with different capabilities

We still compare ourselves to (our historical main global competitor) from a global perspective, but as you look within Asia, if you take China as an example or places like Vietnam, Indonesia, we have a lot of other competitors that are a lot stronger.

In China we have a number of local companies. In Vietnam and in Indonesia now there are very strong competitors, so it's very different by market.

It depends definitely in the larger markets from one market to another, and to be honest some of them, because of the size and the scale of China, some of the key competitors that we have in that market I would say once you scale it all up to a global level it would even be things that we look at from a global perspective.

We do have some advantages because of our global scale but we also are aware of disadvantages.

For example some of our Chinese competitors have a very decent scale within China and are sometimes bigger than ourselves but in addition they have a very different model of running the business. In some cases, it's even still family- owned. You have a few people that rule the business on a day- to- day basis. Decisions are quickly made. They may also take risks that we as a global company would not think about in terms of taking the type of risks, because we have global brands that we need to take into account. It's a balance of advantages that we have, as well as certain disadvantages that we need to battle with.

Shareholder value remains the most relevant performance indicator

Definitely the stock price is linked to how we behave or drives to a certain extent changes in behavior, because the stock price is also linked obviously to our performance. As such you can argue is it the stock price or is it the performance, both of them are linked.

At a certain point we were very much looking at economic profit, economic value added as strong indicators, because they are linked to our stock price. We have seen it over time. It went away for some time. Now it's definitely coming back again. I think that there is definitely a linkage with the stock price, no denying that, yes.

Key Enablers:

New balance between short-term results and strategic choices for the long-term

One thing that is very overarching to many of the things is, as a company, for a long time we were very focused on volume. That drives certain behavior. It drives certain priorities. An example is water; water is sometimes an easy way to get volume, but it doesn't give us too much money. Over the last five or so years, we have changed from driving volume at whatever cost to focus on growing the bottom line. How can we drive our profit much more than volume?

That is definitely changing behavior because it drives some of the efficiencies that I mentioned earlier, some of the choices that are made, some of the things that used to be common practice which have completely gone away because now we are more after the money than the volume.

I think that's a very overarching element of driving a very different behavior for us as a company. Obviously, the results for today are crucial. Definitely in the world we live in today there is a lot of focus on that. Now, having said that, what I think has happened over the last few years is there is a lot more deliberate choices made on what is the important for the long- term.

We as a company are clearer on some of the categories as I have mentioned but also some of the larger opportunities. There are a lot more, in a deliberate way, resources put behind certain platforms that we believe are important for our future. Sweeteners is definitely one. Packaging is very important, both the environmental impact and the cost of packaging. Also within that packaging, we see that there is more and more a trend towards smaller individual packages versus the large bottles.

Although there is a lot of work on the day- to- day development of small things that help us from year- to- year, there is a clear distinction being made between that type of development and resources being applied against that versus the longer term things that are five to ten years out.

Balancing the short and long-term objectives sits largely with senior management. That's obviously at the level of global and regional leaders both functional as well as general management. That's where those choices are driven and where the input towards the longer term is given as well as ensuring that the day- to- day is working.

What I like about this new approach is it's much more deliberate than it was a number of years ago. We can not do everything because we can never be successful, cost efficient and so on. I would say driven by the outside world, we have to become more choiceful. It helps if the longer term is more focused. It helps to look at the longer term while you ensure that short-term things are still progressing. I think what was more difficult in a world where we did not make those long term choices, then everything was important so you had to do everything, which is not possible, so it was all about the short-term. Thus I think making the choices has helped a lot in creating a balance between the short and the long term.

Adopting ambidextrous mindset by the senior leadership

Looking back, I think there has been a fair amount of turnover in the senior management team during transition. Different models have been implemented, you have a reorganization, which means that in our case definitely you have less units, and because of that, you need fewer senior managers. Sometimes it's more driven by capabilities that need to change. Things that were important 20 years ago are no longer so important today, and vice versa, and because of that, capabilities need to change.

That has driven, in certain parts of our business, reorganizations where it was basically more around, "Well, we now have this organizational structure with these needs and these capabilities, and all of you can apply for roles within that, but certain people will not make it," and then other people have to be hired from outside.

That's a different type of dynamic that at a certain point was there, and because of which a number of people left, so yeah, I would say at different levels in the organization from middle management all the way to senior management, it has led to some people leaving, some new coming in, or some people that internally took different positions.

Adopting new KPI (relative prioritization of KPI) and remuneration for senior leaders

All the KPIs have been changing. We are explicitly more focused on profit versus volume for instance, which has definitely been reflected in remuneration. There is also less emphasis on stock options as an incentive remuneration, and greater emphasis on cash rewards, and things like that. This is definitely a different element at play in terms of how the business is changing.

I would say from start to finish we are looking at the financial models to see what are the enablers of better performance. How can we take advantage of them as much as we can? What are the roadblocks and how can we take those away or decrease them in size?

Rebalancing the Global – Local tension. (adopting a 'transnational' model)

We basically had three layers in our business. We had the global level. Then we had what we called the Groups, (we had five groups, North America, Latin America, Europe, Eurasia, Africa and Asia). But those five groups have now been disbanded, in the sense that we used to have all the support functions represented there.

We used to have this Group (regional) level as a bit of a spend breaker, top down. Rather than groups trying to identify what is interesting in a couple of markets, it's now markets sitting in clusters at different parts of the world, and leveraging each other. It's no longer done through the Group level.

We only kept the group president with one or two people, that's it, all the rest have gone out. There is now a much more direct support from corporate to the (20 plus) business units. It's in those business units that we manage the franchise model working with our bottlers, making sure that we understand the local consumers, that we go to market basically with the products that we believe are best at the price that hits the consumer at the right spot and all of that.

You have a much more direct interaction between the BU level, where the rubber hits the road in terms of connecting with consumers, customers and so on. Then the global level where we build support functions, subject matter expertise, the strategic thinking for the company. It would be interesting to see in a way how that different dynamic is going to work.

The new organization and strategy makes the (global-local) tension more direct, in the sense that we now have the 20 or so business units that provide more direct input to the global level, the (regional) Groups are much reduced in significance and the global clustering of markets is much more important. The business units provide input in terms of what they believe is important, and what they believe should be worked on from a global functional level, or whatever, and more direct support that is needed from the global level to those business units.

Depending on what the topic is there is stuff that has more gravitated towards global. Definitely the longer-term strategic direction is much more global, because whatever was at that group level has now shifted upwards towards global. But the day to day management of the business is much more in those business units, and there is much more freedom in a way to business units as long as they apply what is there in terms of KPIs for the three different clusters.

Adopting Global Clusters to facilitate sharing of market insight

In the latest reorganization, we have clearly three types of markets.

You have the market which is more developing. We have what we call per capitas, where people are not drinking that much of our product yet or not so frequently. Most of those countries would be very price sensitive. We are focused on how can we recruit consumers and how can we grow volume, basically. The money is less important.

When you have markets that can sit in the middle and they're emerging, they are getting to a reasonable volume, reasonable portfolio, but still price is important. You get the combination of growing volume but also ensuring that your bottom line is looking very good.

Then you have the markets that are developed where it's more about the money, less about the volume. Now, the types of products that you launch, the way that you go to market, the channels that you focus on are going to be very different for those three types of markets.

From R&D, where things get developed, all the way to that point of interaction with the consumer, there is a lot of relevance in clustering of markets; this is intended to ensure sharing of learning, looking at what worked and didn't work in other parts of the business.

We have made a lot of very deliberate attempts to go more to this. At the same time there is also a very strong effort to look at ideas that come from different parts of the world, and how can we replicate or scale them.

Adopting a global strategy framework – which is locally applied

There is more direction on what are the categories that we are interested in, what are the consumer opportunities that we are interested in. We have prioritized those and we have basically said, "This is the top 10. This is what we go after." That direction has then gone to the markets.

For the different clusters you have different types of KPIs, different numbers that the BUs need to reach. Focus on different categories, which obviously go together with how developed certain markets are. The least developed market there is more focus on sparkling versus in the more developed market there's more focus on some of our still products.

The BU presidents in a way have a bit more say now within the framework how they apply their freedom within that framework.

Adopting greater global coordination in supply-chain:

From an R&D perspective, as well as from a Procurement perspective, the reorganization is very important, because what we have seen as a global company is that we not necessarily took advantage of our scale in interaction with suppliers. With the new structure we have also looked at how can we scale things from a procurement perspective all the way to supply chain. What part of the supply chain can we do at a higher organization level? For example transportation for instance is more and more managed at the regional and global level versus local carriers that we work with.

Adopting a culture of collaboration & knowledge sharing

Traditionally we were a company that rewarded somebody who had a great idea and implemented it. Then somebody else would say, "I want the same success. I too need to come up with my brilliant idea." Nobody really was interested in taking somebody else's idea and then make it successful, because that was not really rewarded on a personal level, but now it is.

Sharing knowledge requires that there is both the willingness to give the knowledge as well as the willingness to receive it and use it. We have worked on this extensively.

Every marketing person had to do his or her own little thing to shift the culture into one where it's good to reapply from place to place, to be proud of that, and to make it maybe into something even bigger than what the previous part of the business had done.

A lot of effort I think has been going into establishing that type of culture to become more efficient, to look at what is working or not working in other parts of the business, to reapply. I would say that has gone through different parts of the company.

It obviously starts with the senior management, that looks at the numbers across units and says, "We are throwing money out of the window" or "If we compare this or this ratio that initiative is already working there." The culture shift has also gone into different parts of the business e.g. in R&D; how we develop new products, as well as how we cluster markets to test new products, and how we bring them to market.

We have also learned to focus on specific categories versus other categories, and have deliberately pushed aside some categories that once upon a time everybody was basically free to go into as they saw fit. You see that starting from R&D and how products get developed, all the way to how we go to market with those products, that there is a lot more sharing of information that now with the recent restructuring.

Mechanisms & Capabilities enabling competitive advantage

Sensing: Focus, Coordination & Collaboration

Focus

The local markets are much more now at a crossroad of being in a cluster with some other markets and what is important for that cluster and for that market as well as localizing some elements which they still can do, but it creates a lot more efficiency, a lot more focus and direction. We are able through that to have more subject matter expertise applied to those priorities. It also allows us to collaborate more with external resources, again focused on those priorities.

That's a good example of how things have changed quite a bit in that area in terms of ideas, coming up with those in a focused way, and then applying and scaling those as quickly as we can.

Coordination

R&D is a good example where we used to have a model where the markets would drive R&D activities, and so every marketing person in every country would have an idea of what they believed was interesting for that market.

The situation now is completely different where, first, R&D is run globally. Definitely in the last reorganization that we had, we are now in a situation where different R&D centers will focus on different categories, even for the globe.

All the R&D folks globally now will try to deliver what that BU has asked for, for every single small market – whereas in the past each area would have its own separate R&D. R&D was very much a local organization. We had a few R&D centers around the globe, but they would get their orders from the local marketing people. Then as good as they could, they would to try to deliver upon those.

R&D is a lot more centrally run then in the past Through that, we obviously make sure that the right expertise is applied for the different categories because people are now much more able to go into depth on those categories being in the pure development of this but also in understanding the consumer elements of those products and categories.

Collaboration: Market-place experimentation.

We have adopted an attitude of learning in a chosen test market in order to be able to replicate the best parts of that learning and apply it elsewhere. China is actually a good example because what we have experienced in a market like China is that we once upon a time we thought that China is one country, you deal with things in one way in terms of the products that you launch, in terms of your route- to- market.

What we have seen is that that's absolutely not true and China is a mixture of very different markets. We have started to segment these markets in terms of what type of products we believe can be successful, route- to- market, what can be successful and what can be the most cost- effective as well as the best in serving the different customers that we have.

One of the things that we have done is trying to test in different parts of China what are products that could be successful, what are different routes- to- market can be successful, what works in certain parts of China and what doesn't, and then try to optimize for those different parts of China.

We have started to launch a lot more products just in one part of China to see if this is successful, yes or no, rather than what we used to do, immediately go China- wide. Even within China, we have started to implement some coordinated experiments.

Within the global clusters, you have a lot of learnings. Even if those markets are in completely different parts of the world, you have a lot of learnings that can be shared to ensure that the successful practices are applied in other parts of those clusters as quickly as possible.

The clustering really helps the transmission of relevant knowledge from one part to another.

Seizing: Redeploying resources, Influencing market evolution

Redeploying resources & transferring insight

I think that as you look at the different functions, we have more and more global connection of those functions. Because of that, a global way of moving people around where necessary now of course becomes more and more important but it is also sometimes a roadblock.

On the other hand, you then have the modern technology that helps us a lot and it's not always necessary to move a person physically to support certain initiatives at a different part of the world.

I think through that, we have a lot more flexibility. At the same, as I mentioned a bit before, it's more how can we focus resources on certain big ideas, rather than have everybody doing everything.

Influencing market evolution

Influencing how markets evolve is an important part of our strategy too. You can see that markets go through a certain evolution as they develop in terms of consumer behavior versus packaged ready-to-drink beverages. That goes to moving away from water, self-brewed tea and so on as consumers become more affluent to the types of packages that they are interested in, and influencing the types of products.

What we definitely try to do is more and more is a little bit ahead of the game. Like in Asia, for instance, you see that different markets have a different way to consume tea. We can see that Japan, for instance, is definitely at the forefront in terms of what types of tea that they consume, the innovation that they want and all that.

Learnings from Japan can then help us in other countries like China, like some of the countries in ASEAN and so on to ensure that with that understanding of how consumers evolved in Japan, we can kind of help consumers in other parts as they evolve and bring innovation when it's very relevant for the consumers rather than running behind.

Reconfiguring: Supply Chain and Scope of Portfolio

Management of Supply chain and Procurement are areas that have evolved tremendously over the last few years and it's still evolving quite a bit. We have been looking across the entire system; working together with our large plants in different countries to see how we can use global scale for the different things that we all buy.

Packaging is a great example of that; cans, glass, and PET are bought in huge volumes. As a system, we now interact with our large suppliers to ensure that we have the best price, but also that we have the relevant capacity everywhere that is being built. We do this in different inputs, even in the area of coolers.

We have deployed a new model, which we call the Seven Step Procurement process, where we really go in a very diligent way through different elements of procurement from selecting the suppliers that we want to work with to working with certain suppliers on development for the longer term. This procurement model sometimes results in us being able to unbundle certain activities. Kind of looking at, well, you do this for us, but let's double click on that. Let's see whether we can do this part somewhere else because that's done more efficiently there.

We work with our suppliers to really understand the different activities that they have, and then try to optimize. That Seven Step Procurement model has helped us a lot in terms of bringing to the surface opportunities for efficiency that, in the past, we would not necessarily see.

I think bringing together the system, focusing on the large opportunities and then applying a rigorous process as we dive deeper into those different categories has helped us quite a bit in terms of savings and productivity.

For example transportation. We have started to work differently with different carriers, looking at what each carrier is strong at and what routes across the globe, rather than simply allowing carriers to compete directly against each other for our business. Kind of saying, "Well, you guys are very good in South America to Asia or South America to Europe. We want to use you more in that area. We'll use less of other carriers. We'll bring more and more business on that route to you where you are already efficient. That should drive up your efficiency, and it will benefit you. It will benefit us."

Kind of double clicking on what different carriers do. What their strength and weaknesses are. How we can leverage those carriers in a different way than we would have done in the past. That helps us a lot in terms of creating productivity for ourselves.

It's really looking with a number of carriers at global strengths and weaknesses in global business, and how to leverage that. That's kind of what I would call a double click. In the past, we would have different parts of our business dealing maybe with even the same carriers but just on the regional or on a local base where you would never see that type of opportunities.

An example of unbundling is our coffee business. Our coffee business used to buy the roasted coffee beans. Everything was basically done by our suppliers. What we have now done is going back into the supply chain and basically looked from the green coffee beans. What are the different activities that happen from harvesting those all the way to what you supplied to us? How can we better understand those steps in terms of cost, in terms of the infrastructure you need, in terms of different players that maybe our suppliers work with?

Then by unbundling all those activities, we are now in a position where we can start to manage the different steps ourselves, even sometimes back to buying the green coffee beans ourselves rather than have a supplier did this all of that in their black box, and just supplies the finished thing to us. That's what we call unbundling.

This requires greater global coordination and visibility and we can reconfigure the supply chain, for example in the case of coffee, our largest market is Japan. We have now other markets where we launched coffee products but they can leverage off the supply chain and procurement reconfiguration designed for Japan. In other cases there are maybe one or two players that are a little bit bigger than the other ones. You need to collaborate together to ensure that you have the relevant scale and then one or two markets can impact the reconfiguration of supply chain & procurement, with the benefits extending out to the smaller different players in the system.

In the case of coffee, Japan is by far the biggest player, so they have a few people that have all the knowledge. Other countries are now added to that volume. It doesn't change too much for Japan, but it makes the other countries a lot more efficient than if they would have to do everything by themselves.

Changing Scope of Portfolio

As a company, we have not really been that successful in energy drinks. Yet it is a great opportunity in a number of our markets. We struggled. We tried this. We tried that. We tried different models. In the end, we realized that we needed a new approach globally and we did a deal with Monster, we have a much different way to build the business, but I think one that will prove to be successful.

It's a deliberate choice that we have made as a company and how we approached that category. Traditionally we would launch our own product, start small, pump a lot of money into marketing and try to establish what is the right road to market. But energy drinks are consumed in different ways versus many of our other beverages. We did not have the successful route to market model.

Through our collaboration with Monster who live and breathe a type of category, it creates a whole different dynamic. Now also on a smaller scale in different markets, we have made more deliberate choices in adjusting the scope in our still beverages portfolio. Our strength is still at sparkling but now we understand how to growing very fast the still portfolio. It's fast in terms of juices, tea, coffee, dairy, isotonic type of drinks.

We are now much more deliberate in terms of what are our priorities. As such, we don’t expend resources on some other things. You say yes to some things and you automatically need to say no to some others so much more deliberate.

In some countries, dairy is something that we want to get into a bit more, countries like China, Vietnam, for instance. In other countries, it comes at the second place. Coffee definitely comes a bit lower down the ranks.

Energy drinks, as I mentioned, was something that we struggled with. We tried and we tried. Now, it definitely follows a different model. That will be an example of how things are prioritized differently versus a few years ago.

Engineering Co

Company Profile:

- B2B, Equipment Manufacturer, 100-200,000 employees
- Self-Assessment: Strong performance relative to competitors

Mechanisms of Advantage:

- **Enhancing Speed of Learning**:
    - Coordinated marketplace experiments,
    - Expert intelligence officers (futurists looking 20 years ahead),
    - Central innovation & research group
- **Efficient Dissemination of insight**:
    - Adopted market archetypes (similarities, not regions),
    - Consistency of brand positioning,
    - Global product group organization structure (facilitates local-global knowledge flow, not local-local)
- **Influence market evolution**:
    - Influence regulators (emissions regime), leveraging experience elsewhere.
- **Ability to redistribute resources**:
    - Assignments to projects to provide expert input & oversight,
    - Redistribution between geographies to match priorities (e.g. pull back from Asia now and redeploy into US)

- **Reconceptualization of shared service**:
    - Frequent revisiting best format: keep skills in house (limit out-sourcing), but seek efficiency (right locations) and coordinate at global level
- **Reconfiguration of supply chain**:
    - Major global initiative to redesign global network (IT enabled optimization management) to optimize efficiency AND flexibility, leveraging global integrated management perspective, whilst recognizing the dynamic situation of costs and demand in different locations.

Transformations (Agility)

- **New business model:** An *additional* new range of products ('mid-market GC'); embracing new approach to design and manufacture products for international 'mid' markets, leveraging new management approaches.
    - It was not effective when they tried to adapt existing (high end) products to suit mid-market.
    - Now in-country commercial teams have objectives that also reflect appropriate mix of Premium & Mid-tier, depending on global goals for market (defined by archetype)
- **New Organization Structure**: Increasing the power of global leaders at expense of reduced role of regional structures and leaders
    - Market archetypes more relevant than geography

    - Global strategy and global synergies

- **New skills:**
    - Expertise in structuring & managing partnerships.
    - Global coordination of Direct and In-direct resources; application of communications and decision support systems
    - Rethinking / re-managing Supply Chain for global efficiency & flexibility

<u>Enablers & Inhibitors</u>

Management Tensions

- Ability to maintain a balance between short term results (quarterly results) vs. investments for success longer term (6+ year product cycle)
    - Adopted system of short, mid & long term incentives for senior executives. Develop culture to mainly focus on 3-year (mid-term) market-share and profitability trends.
- Ability to provide stability (to organization and in results) when operating in highly dynamic (volatile & uncertain) demand conditions.
    - Develop broader portfolio, of geographic coverage and also product range
    - Reinforce corporate commitment (as a value) to 'long term partnerships' in markets and employees.

- Clarity and commitment to a set of values and purpose (*'Doing Good, Doing Well'*)
    - Doing Good values: Improving lives, Long term partners
    - 3 stakeholder groups: Shareholders, Employees, Customers

Global/Local interface

- Increasing power in Global. Remove / Reduce Regional to ensure Global has better visibility of Local and so can take more informed and timely decisions.
- Global leaders assign different objectives in local market situations such that they adjust for VUCA uncertainty in markets and in total the results from each territory sum up to a stronger whole.
- Global has stronger control of Supply Chain, R&D and Investment, whilst taking account of local inputs and market conditions.

Global Leadership Team Characteristics

- Dominated by home country nationality and leaders based in HQ country.
- Limited global mindset, although some have experience in international roles
- Strong sense of belonging (throughout global workforce); heritage and purpose

Mechanisms of Advantage

Marketplace Experiments: We definitely have marketplace experiments that increase learning in each type of market; we classify the markets we participant in from an emissions' perspective, a regulatory perspective.

- Generally, the US, Europe, and Japan have very strict emissions' regulations, and countries like China, places in Southeast Asia, South America have less so.
- Our service offerings don't differ between market types but our product offerings differ and it's usually based on that emissions' tier.

We consistently think about our brand as a premium brand, high quality depending on the sites and machine, the end- user market, whether it's mining or a general construction. Especially in mining, there's only a handful of miners globally, this consistency helps us take learnings from one place to be applied in another. But also means we have to be careful about reputation, so we experiment to test before a roll-out.

If we didn't experiment, but broadly put a new product out and found some issues, then the market would talk and that would create an issue because of the global connectivity....if a customer has an issue, they can make a lot of noise about it in the internet. Therefore we do local experiments trying to prove the product out before we do it more broadly.

We're not like the car companies though. Our product life cycle is long and our development cycle is long. A typical product development program for us is at least three years maybe double that...so we tweak and improve products that are in the marketplace. For example with electronic technologies, they allow us to change the way engines operate, change the way our control systems operate, so we plan and coordinate experiments, to maximize learning and when confident, we then roll-out to the markets that are relevant, defined by type.

Knowledge Sharing: I would say we're not cutting edge on that by any means. We do have knowledge platforms that work, but mainly knowledge moves by the way we're structured within our global product groups...we have a global product manager that owns the product platform, then regionally we have managers that handle the business, we're very dependent in our development project or processes on feedback coming from the local market through this structure.

The folks that do the engineering or really manage the funding and have the decision rights for, "Here's what we're gonna do and not do." I guess it's a mix. I'm not an expert here but I doubt we're very world class from a platform perspective, but we have the structure in place to manage it.

We have machinery search groups, PhDs really smart guys and gals. Their job includes finding out what else of relevance others are doing and what the future may look like, they think and look globally. They just continually experiment and they're actually looking for what machines are going to look like in 20 years, what they're going to be powered by.

Also we've recently announced an organizational structure where we're creating an analytics and innovation group centrally. We're still working through what that means. There will be some central focus on this, but I'm not sure how all that is going to connect.

Seizing / Fluid Staffing

Our new product programs are an example of people being staffed onto projects whilst they still have their main jobs. We also have dedicated resource, too, that only work on those initiatives to drive them but our commercial teams who are responsible for going to market sit on those teams. They're really the voice of the customer.

As an example, we've had senior financial people that set on those teams. These are major investments from a company perspective. When we don't do them right and disappoint our customer, it impacts market share, you name it. That's one example, where we actively seek to share knowledge and experience rapidly and directly, and do it through flexible staffing, clearly it is an advantage to do that.

Moving sales and commercial staff between territories for such projects is less common, we do compartmentalize those by territory now. However, overlying that, we'd have marketing, advertising, some of those very important, I guess I'd call them more back office, types of functions involved across regions.

I'll use an example now. For us, North America is very strong, and we're under tremendous competitive pressure because it's the only strong marketplace globally. Everybody and their brother are going to be there to compete.

We have a very strong market position, a very good distribution system, but we'll put a lot of advertising, marketing focus...We'll do less, and we don't walk away from markets, in China right now or less in Southeast Asia because generally the market is down. So we are redistributing our staffing – several senior leaders are now being redeployed back to the US.

Global Innovation & Propagation.

One of our challenges that we have been addressing recently goes back to our basic business model; premium products and high quality. Our frame of reference has always been to design to that, and then maybe take some pieces off to sell that in an emerging market or simplify the product a little bit. If that's worked OK...innovation and development work used to be US centered, design for he most demanding and then adapt to less demanding market-types.

But now, a lot of local competitors, like in China for example, have come on stream, that's put that strategy under pressure. We had to come up with specific marketplace responses.

We have a; we call it GC; it's just a nomenclature for our various machines, that weren't designed for the traditional markets in the usual way. We try to take a different approach with those. I think we're on time, as these emerging markets become much bigger and therefore a much bigger piece of the global market, rather than design for these high- end customers. Increasingly we'll design for these other markets, rather than design for the high- end need and then strip down. It's hard to get the cost of a product and the value of the product aligned with what the customers need in the local markets if we don't start with that end in mind. We have clearly done that a bit and have more to do.

Global & Local

Being global has some advantages when we bring global and local together. We've got a global product manager, regional product managers, the regional product managers working on what their local market requirements are and how to satisfy those.

The global executives try to frame everything, and think about different objectives in different local situations, that overall sum up to a stronger total global position; adapting the emphasis on market share in a specific market, profitability in the market, and how we maximize our slice of that market profitability. We could maximize market share with our current product offering but not make any money. What does it take for the product so that our customers are happy with it, our dealers can make money, and we can make money?

The regional product manager has to look across the business and say, "OK. Based on those local customer requirements, the GC model will work or the kind of a high‑ end model will work." That's how we drive that.

Influencing market evolution. We seek to leverage our global insight and experience to influence the emissions' regulations in countries. It's a massive complexity that we have to deal with. We'd be happy with one standard globally. What we'd like to see is everybody be on a level playing field. We also try to influence the enforcement of emissions' regulations as the complexity creates lots of opportunities for exceptions, and this is where equipment with inferior standards is often sold against us.

We're not positive in places like China that local competitors comply with the same emissions or health standards. We're precluded legally, but certainly just by the basic ethics, call it what you want, of business we would never knowingly violate emissions' regulations. We certainly do try to shape those regulations or influence them and push them to be relatively consistent globally, and they're not today. So being a global firm with a global reputation can also in such a case be considered a disadvantage.

Reconfiguring of Supply Chain The balance typically is scale or cost leveraging global plants and scale versus flexibility with adaptation locally. One of the things we're doing now is we're working to and we're just in the process of doing it...we're rolling backup. We are looking at reconfiguring the global supply chain; what can be done where, in order that we have both global efficiency and flexibility. We are now moving much more to a global integrated management perspective, but this is not the same as saying everything is in global plants. Now, we're going to stand back and really focus on re-engineering the value chain.

For any specific product, you start with what the customer requirements are for delivery, and then go back through and make very explicit choices about where I'm going to hold them and for how much of a pastime to have, where my supply base is going to be, et cetera. That takes clear central leadership. Somebody has to make a decision on that.

I'd say we're much further now towards a kind of global management of that than we have been in the past. That is a big challenge. We work with some agencies that advise us and we have a central group that pulls folks in from different divisions in the company, but we have central manufacturing and supply chain expertise that we pull together the former groups to help us coordinate this. We've gone out in the industry and hired some expertise, but yes, we do have to get some external perspective on this.

Reconfiguring Activity Scope In deciding what we buy from our supplier base versus what we manufacture, we typically look at that very strategically. If it's really important to the life- cycle value of the machine and we have the capability to design and then manufacture it, we'll typically try to do that ourselves. But that's evolving. It used to be much more internal. That has margin implications and certainly flexibility, implications of growth into your earnings. I think we're probably becoming more and more open to collaborating with a wider supplier base.

From the design side, similar, we do use contract designers, typically for lower value things. We want to keep those core design capabilities in- house. Finance, IT, general administration we have a mix internal and external. We are not agnostic we've actually tended to think a lot about it, rather than outsourcing, sourcing things to shared service centers in lower cost markets. We do that on the design side, on the finance side, on the IT side. Shared service centers, in the right locations is an advantage of a global firm; neither outsourcing nor maintaining the skills and functions in the locations that they would have been traditionally.

Reconfiguring Geographic Scope: We are global firm, we are not changing our footprint, we pretty much well sell our product everywhere unless it's precluded legally by the US Government. We sell everywhere. That's not really changing our footprint.

We're talking about hundreds of millions of dollars per plant. Those typically...we don't get in and out of those. For us, we watch population growth and infrastructure needs. We see emerging opportunities in the next 10- 20 years in places like Africa in addition to Southeast Asia and China. The global outlook for our business is pretty stable; cyclical, with shocks and ups and downs in different regions, but overall we can have a meaningful outlook for the next 15-20 years.

Ambidextrous Capacity:

Supporting different stakeholders: Our strategic pyramid, the way we describe our business externally and to employees, is probably comparable with others. We talk about three legs, the shareholder, employees, and customers.

There's no doubt that the shareholder piece causes a lot of pressure and it should. In my business, what we tend to think about, I talked about this before, we do try to focus on long term growth of the profitability in the business and the way we connect that with employees. We don't do this because we're greedy and will only care about the shareholder but we have a market leadership position.

Doing Well & Doing Good: We want to keep that market leadership position, and the only way we can do that is to have better products and services for our customers. That comes at a cost. We need to invest effectively...to do that consistently we want the biggest slice of industry profitability so that we can reinvest in our factories and our product and our distribution organization etc.

If we're in good lines of business, so if we operate in profitable industries, we have the largest share versus our competitors, then we can afford to reinvest in the business that allows us to take care of our shareholders. Certainly, if you're in that environment, it allows us to take care of employees.

I do believe there is a strong sense of purpose, a mission for the organization or for the senior leadership, we move dirt, which makes people’s lives better and we are here for the long term. We partner with our distributors for the long term.

Corporate not Entrepreneurial: We've got this innovation group that's been formed and we push our product managers and their vice presidents to develop products, and have new interesting ideas on some solving customer issues. But it's quite frankly with a very strong business model of framework. So that's I would say we're lower on the entrepreneurial scale. It’s not that we can’t make strategic decisions to make changes, we certainly can; it’s just that people have thought it out carefully and collectively.

Balancing the short-term results whilst preparing for the future: We are obviously very focused on the results quarter by quarter but we have consistent and clear prioritization and awareness that we are thinking about and have many programmes and investments that are focused on the development track we are on, looking forward.

Our end user markets vacillate all over the place. I mean if we were really, truly only focused on quarterly results, our employment would go up plus or minus 25 thousand every quarter. We need to have the global network and portfolio to have any kind of stability, at least in the eyes of the external observer. So we think about the longer term which we think about as quite stable or predictable in terms of evolution but volatile I terms of the demand in any one place at any specific time. Given the size of our investments and product we are focused on that long term piece but we do of course respect our shareholders and the returns they expect on the business in the short term as well.

Leaders incentivized for short, mid and long term: There are certainly some of our global leaders that are very focused on driving current results, and not worried at all about the long term or less so worried. And there are others that manage it better.

I would tend to say, though, we don't have a lot people that are only focused on long term because our incentive structures, we have for our senior leaders we have kind of three year versus the market incentive structures. So that's very long term or not very long term. That's midterm. We have equity compensation that's over 10 years.

But we also have a very sharp focus and incentive structure around delivering current year results. And I would say probably even though I don't rate these guys and gals, I'd say probably a significant portion of their kind of current year performance reviews or how they did in the current year on their financial performance.

Global & Local Organization:

Reporting lines and control: We have made changes over the past four or five years to cement the leadership of the global leaders, reducing the influence of the regional. But we have as part of that, very defined roles and responsibilities for them, for the regional leaders and the people that are more in local execution. I'd say on balance that has been a really good change. We've seen our quality improve, we've seen our market share improve. So I don't anticipate any major changes, maybe some tweaks.

Setting strategy: local managers set strategy for their markets and contribute in the dialogs for the global strategy depending on the size of the local market. We have an officer, a vice president that is responsible for China. They have all of China. It's kind of a face of our company in China. He's got a couple of our major facilities. But that's a massive opportunity for us. So he helps shape, I mean certainly, the local strategy and China strategy is important to the global firm. Whereas a manager in India or smaller market would have much less, if any, voice in the global strategy.

HQ centered leadership team: We have two product vice- presidents that are based in the U.S. They're in different locations but they're based in the U.S. we also have two in Europe and 2 in Asia. So the construction business is pretty balanced. Not all of our businesses are balanced that way, but inevitably our teleconferences are always in the day-time US, which can be very inconvenient for the other members of the leadership team elsewhere.

Actually for managing a global business, the best place to be is the U.K. or mainland Europe time zone.

Sense of Belonging: There a strong sense of belonging that permeates the firm so people wherever they are in the world, know they're part of the organization. We have 125,000 employees, production workers may feel less connection but the management group definitely is united by a sense of belonging. Support functions like finance identify with what we do, who we are and the context we operate in they can see how their results roll up with the line of business. I think that helps tremendously.

Global Mindset: I think we're getting there. I think our senior executives, also our CEO is evolving a global mindset. That is being gradually pushed into the organization...but its still an issue – Asia based executives have to do calls on late Friday night (early Saturday AM) because it is day-time elsewhere, it has been suggested that the meeting is moved to day-time AM on Saturday (for he Asian based managers) but the response is ‘oh no, as that will mean the meeting is Friday evening in the US’. I would say we still have a lot of work to do. We're talking about it more. This year is our 40th anniversary in China. We've had investments across the globe for a long time. When they were regional, everything was run regionally. It was a lot more simplistic. Now we are more globally organized – but the inconvenience being created by not having a global mindset is creating friction.

It's harder thinking globally and being sensitive. I just hired a secretary (in the US). It's just blowing her mind. I told her this was going to be hard. I said, "It doesn't sound like it's going to be hard," but scheduling meetings and being sensitive to time zones and when you're trying to get three people in time zones and everybody has busy schedules, it's hard work. It's like come on, guys. This is ridiculous. We're getting better, but we got a long way to go.

Longer term (forward looking) comparative KPI: We look at market share at a pretty detailed level. We'll look at it not just globally, but we'll look at it by region and product line. We also look at our profitability performance versus competitors, our growth in profitability, our growth in sales compared to competitors. We look at how we're investing versus them: What is it? Basic R&D, product related? Is it machinery and equipment or buildings. That's certainly not a short‑term measure, although market share we have a pretty keen focus on that is short term but with longer term implications.

Really we are concerned three to five years. We've got to look at trends. Again, my market share in North America is a lot higher than it is in China, but there have been periods where the marketplace in China is a hell of a lot bigger than the marketplace in North America.

Maybe those changes offset each other, but the reality is our end user markets bounce around so much. You got to look at longer‑term trends. Then you have to have little alarm bells like, "Hey, somebody's making a major move in North America on market share or China or whatever." I'd say three to five years gives you a good trend.

Summary: I think competing dynamically …….this is a big challenge because firms are becoming more mobile, more multinational, there are big implications for how you develop leadership teams, how to build global understanding, and yes that concept of simultaneously managing short and long term needs. And then making explicit decisions on how you effectively go to market is it a regional or country strategy?

Our CEO used to take us to have an integrated global strategy, with significant country, regional input but clear local execution. We found great benefits there. But it's hard so the organization kind of regresses to cordon off regional organizations and let them go to work. But it's really not optimal. But I think that dynamic advantage is globally flexible. That's the way to look at that, I think.

I mean also the Sensing, the Feelers that you have on the marketplace and then how they permeate back through to the decision makers are extremely important. That's actually important, not just strategically, but even we talked about managing shorter term in the business where it's earnings or whatever. Those are also really important to signal to your supply chain (for example, every once in a while we get in trouble from an inventory perspective because we have a breakdown in those).

Media & Entertainment Co.

Company Profile:

- B2B and B2C, Media & Entertainment, 100-200,000 employees
- Self-Assessment: Very strong performance relative to competitors

Mechanisms of Advantage:

- **Enhancing Speed of Learning**: We do quite a lot of experimentation now, particularly with new customers and new customer offers.
    - Our experiments are designed to generate learning insights to support actions in the where the experiments are conducted
    - We have a Futures Team. They spot trends and activities that are very future‐ looking. Not just the next few years, but much further out.
    - "Specific people in the organization are tasked with acquiring insight about relevant market news, technologies and competitors. Everyone is expected to contribute, but we also rely on specific individuals."
- **Platforms support collaboration and knowledge dissemination**
    - We have a platform for sharing and dialogue; encouraging person‐ to‐ person interactions, a lot of our insights come from here.
    - The barriers have been coming down rapidly, a lot more sharing, a lot more collaborative, one‐ on‐ one relationships and even group‐ to‐ group kind of relationships
- **Pull-based adoption of insight**: Adaptive to local context but could be faster.
    - Managers looking across the network might say "I really like that idea," and then they'll take it into their own context.
    - Innovation that was planted in one market is sometimes replicated in

other markets. They're increasingly adopted, but the speed is not as fast as it could perhaps be.

- We have NOT created a model that describes the expected development stage in markets and how we should engage at each stage, we've found our emerging markets are all different.
    - Marketplace experiments are coordinated across countries only where there are regional global managers involved

- **Influence market evolution**: Seeking to influence the path of evolution in an emerging market is a key part of competitive strategy. Influence regulatory regime leveraging experience and insight drawn from elsewhere.

- **Limited physical redistribution of resources**:
    - We expect people to be plugged into the knowledge flows, we move people through jobs when they are ready to move on and can make a contribution; this is getting faster for those most capable Assignments to projects to provide expert input & oversight, redistribution between geographies to match priorities.

- **Morphing scope of business**:
    - We are expanding into new business areas. We bought the global businesses of 'M' and now 'L'. You could argue they are similar businesses to what we are in, that it is a sheer expansion, but they have also confirmed our thinking of ourselves as a consumer products and experience business – i.e. not confined to media and entertainment. Another good example would be MS, the multi‐ channel network that we bought, the world's largest multi‐ channel network

Transformations (Agility)

- **New business model:** We target fans and consumers, we activate it across all the lines of our business, we've moved away from an industry definition to what we call an arena. I believe that this flexibility in how we see ourselves is itself an advantage

- **New Organization Structure**: We are now more organizationally integrated and not in product lines therefore we see across multiple business lines,
    - We are now able to look at it and go, "Actually, if we do it across the map, the whole company makes more money." This is a competitive advantage of being a global firm and able to act dynamically
- **New Culture:** Collaboration
    - I've seen more of a shift away from the vertical, and silo, and very linear thinking to a lot more of the collaboration thinking. A lot more of the senior executives, even if it's not clearly stated in their KPIs, realize the culture is to support the whole company
- **New Skills**: Integrator, Sense-Making
    - Before the expert was the person who knew the data numbers or a specific number, "Wow, you're really smart." Now it's the people who are able to take all those data points and observe trends that become really valuable insight and the insights of the team members. Sense-makers, they are the new experts

Enablers & Inhibitors

Management Tensions

- To have a single purpose and consistently execute that I think has probably been the biggest contribution to why our share price has gone up because it has been a consistent focus regardless of some of the distractions.
    - The CEO wants us to be the most admired company in the world.
        - We put our customers, number one,
        - He really thinks about shareholder value: how to create a sustainable value for the shareholders.
        - Then certainly, the employees, are a key part.
    - Each business leader is making their own balance of optimizing results for today whilst building for tomorrow, within this priority set and focus.

Global/Local interface

- We find that knowledge sharing is very much between in-country to in-country, a lot more of those very fluid transactions rather than up and down to the HQ.
    - If a business leader in Asia read or heard about, what they were doing in Latin America, and thought it interesting, he would call them directly and say, "Hey. That's fantastic. Can I talk to the guy in Mexico?"

- Global is setting the direction and providing the support the resources and the systems; but business is being driven faster and faster by the business units.

Global Leadership Team Characteristics

- High global mindset and embracing global talent.
    - The senior global executives have mainly been based internationally previously. That has been very important for changing the mindset.
        - Even the leaders who haven't been based internationally, have been traveling more and having greater responsibility, engaging with international markets.

Back ground

Most people see us as a media and entertainment company but we actually see ourselves as a consumer brand providing experiences. We target fans and consumers, we activate it across all the lines of our business, we've moved away from an industry definition to what we call an arena. I believe that this flexibility in how we see ourselves is itself an advantage and we are even better at doing this outside the US than we are in the US. The US is a great, creative core with fantastic creative teams in the US. But outside the US, we are organizationally integrated and not in product lines therefore we see across multiple business lines, and therefore we are able to look at it and go, "Actually, if we do it across the map, the whole company makes more money." So starting here, this is a competitive advantage of being a global firm and able to act dynamically.

Market-place experiments are changing the way we understand customers and

how to satisfy them.

We do quite a lot of experimentation now, particularly to new customers and with customer offers. But that wouldn't have been true a few years ago. The Japan team has done a lot and showed the powerful impact of discovery about consumer through experimentation as research I am starting to do a little bit more experimentation globally. This approach was very much supported by our international leadership, it didn’t come from global leadership; it's been an evolution over the last sort of five to eight years. Are we the best at it yet? Maybe not, but we are certainly trying to do a lot more.

Marketplace experiments are coordinated across countries only where there are regional global managers involved. Some of them are really good at coordinating and some are not. Partly, based upon the objectives and KPI's they have been given. Partly, based upon individual person, the individual person's style and personality, it’s a relatively new area for us; not everyone can manage with this type of approach.

Collaboration for discovery and knowledge sharing is changing our approach to the business.

Some people, if someone has been given a role where their job is really to empower supporting lots of people. Their boss recognizing by supporting multiple people in that role, the coordination across the regions, is something that gets measured as part of their KPIs. Then, they're incredibly cooperative. Some people are still used to the linear world where you have your P&L, your organization and you think vertically.

I've seen more of a shift away from the vertical, and silo, and very linear thinking to a lot more of the collaboration thinking. A lot more of the senior executives, even if it's not clearly stated in their KPIs, realize the culture is to support the whole company, the brand, the bottom line of the whole corporation.

Culture shift to experimentation for learning and discovery.

I think that culture has come right from the top. It's the CEO who has recognized and rewarded good behaviors and when those behaviors are not so good, has taken the appropriate actions, and has delivered a great share price. There is some statistical proof of this.

Our experiments are designed to generate learning insights to support actions in the where the experiments are conducted, but then, because a lot of people around the company watch them and go, "I really like that idea," and then they'll take it into their own context. We encourage experimentation, so its increasingly active, this is an advantage of being global – but we are not yet designing experiments to enhance learning elsewhere. Local relevance first.

Knowledge Sharing & Dissemination

We have some knowledge management platforms that enable us to share insights globally. Some areas we share more effectively, others we don't. For example, we've established a futures team that is a team of typically not the most senior executives, but emerging leaders and executives. They form a group called The Futures Team. They spot trends and activities that are very future- looking. Not just the next few years, but much further out.

Collaboration platform, social-media: We have a platform where these things can be shared and start a dialogue. There's a process to be able to track that. They have a system, for example, that encourages person- to- person interactions, and we've been getting a lot better at those, a lot of our insights come from here. The barriers have been coming down rapidly, a lot more sharing, a lot more collaborative, one-on-one relationships and even group-to-group kind of relationships.

Culture Shift: Less formal, especially in our international team, because we all work for the same guy, it's a little bit more nimble. Remaking the core is a bit harder so a lot of this reinvention is being led by the international organization. When I was setting up an integrated business in Southeast Asia, there were some similar trends to what happened in Latin America earlier. I just called the Latin America team. I also called the lady who ran Russia and said, "What was your motivation when you did this?" A strong desire to actually help everyone out and be a part of that. The shift in culture to collaboration is in part generational, but its really being inspired by the CEO.

"Specific people in the organization are tasked with acquiring insight about relevant market news, technologies and competitors. Everyone is expected to contribute, but we also rely on specific individuals."

I think it's a little bit stronger now. We have little pockets of people who are really seen as the gathers of particular insights. Mass information is increasingly becoming a commodity. Pure data, or pure information, is not seen as valuable, whereas it used to be a trading currency a long time ago, but it's not now, now its an open flow that everyone contributes to and is expected to draw from. Before the expert was the person who knew the data numbers or a specific number, "Wow, you're really smart." Now it's the people who are able to take all those data points and observe trends that become really valuable insight and the insights of the team members. Sense-makers, they are the new experts.

Knowledge Fluidity not Project Mobility. Mainly we expect people to be plugged into the knowledge flows, we move people through jobs when they are ready to move on and can make a contribution; this is getting faster for those most capable. We've started doing short- term assignments amongst our international team, but they really are three- month type of assignments, maximum six. I don't want to say that we consciously rotate people. I, myself, have been moved around the company three different times. There is less of a short- term project team basis. It's a lot more structurally driven.

Within an office or location where I am starting to try and get people to do more project initiatives because a lot of our digital transformation is a little bit more project driven, but not internationally. For example, when we approach e- commerce or mobile entertainment strategies, it crosses several lines of business and it's a lot harder to say that this particular line of business so shorter term assignments to the initiative can help.

You have to assemble a team and say, "Here's the team. Who is going to project lead this team?" They do that alongside their day job, part of their day job as well. It's not normally structured that way. We are at least trending in being a bit more nimble with some way to go.

Global Mindset:

We are very internationally diverse as an organization we are very internationally driven these days. My direct team is, I've got Japanese, Indian, American, British, teams from all over, they sort of rotate around a little bit. Many of the international leadership that are based in the HQ now have had assignments overseas.

The chairman was based in London before. The head of HR was based in Hong Kong for a while. The CFO was based in Hong Kong for a while. Increasingly, the international leadership have had actual assignments based in other locations. That's very important for changing the mindset. Even the leaders who haven't been based, have been traveling more and spending more time having that responsibility, engaging with international markets.

Fluidity of Innovation: Innovation that was planted in one market is sometimes replicated in other markets. We adopt them, but not always very quickly. Actually, they're increasingly adopted, but the speed is not as fast as it could perhaps be. That's two of the facets on that one. Central managers drive the transfer of business innovations between countries but often its by the leader in the recipient country hearing of something relevant elsewhere and taking the initiative to learn from there and import and adapt the idea.

Centralized moving to Locally Empowered (but still Global): We were very centrally managed but we are decentralizing. We haven't entirely lost some of the central management functions, like corporate strategies, but we really do have much greater responsibility to drive the business globally; the fastest growth is in our international business where we seek to be integrated across business lines; this is very different from the U.S. which is not structured to be all multi- line business. As such, the speed is picking up internationally and so we find that knowledge sharing is very much between in- country to in- country, a lot more of those very fluid transactions rather than up and down to the HQ. If I read or heard about, or sat in a meeting and heard about what they were doing in Latin America, I would call them directly and say, "Hey. That's fantastic. Can I talk to the guy in Mexico?"

We have that kind of fluid conversation. I'm starting to see more between various pockets internationally and the U.S. teams. It used to be the U.S. was the heart of our business, the bulk of our business, where it all started. It used to be, "Well, that obviously is the best."

For example we are now starting to see our gaming business in Tokyo and Asia are some of the best global games are now developing from Asia. The U.S. team, we are looking at that, and saying, "This is a great experience." Also our Japan team moved to focus on young adult targeting for our consumer products business; this has proved to be very successful and is now being looked at elsewhere. Internationally, we are looking at how we roll that out into some of the other markets and beyond just kids. They had to in Japan because of the declining birth rate. By targeting and designing product fashion and apparel accessory for young adults with our characters, they created a whole new market. There was a lot of growth.

That's opened up the concept to some of the international markets and potentially the U.S. It's a little bit fluid between both.

Learning from everywhere, all the time.

We have NOT created a model that describes the expected development stage in emerging markets and how we should engage at each stage, we've found our emerging markets are all slightly different. I think very much increasingly divergent. Even though, we've recently integrated Asia, we found that there isn't an Asia. Being close to the market in each place is essential, learning by doing is critical – then there maybe something interesting that is discovered that another market may want to import, adapt and build upon.

We knew it anyway, but the point is...Japan, Korea, China, and Southeast Asia also is a region and even within Southeast Asia -- Indonesia, Thailand, Philippines are totally different. Very much, I have a belief that it's different.

We look for economies of scale. You can't deploy the resources in the same way, the same scale in each market, obviously, because of the size of the market at any one point of time. Particularly we look for economies of scale and creation of centers of excellence that can support other markets. If that's too control center oriented, you end up with models that maybe don't work best for your market.

That's where the Japan team went for that model where a global model was targeting kids for consumer products. We didn't have a large kid audience. The business wasn't growing. Yet when the local team was empowered to be able to look at it differently and say, "Where is my audience?" I have a very strong young adult, especially young adult female audience, who were loving the theme park having characters and really loving our characters. Let's design products for them. That was the break-through.

When they were empowered to, they created a whole new market. It's important to not assume that each market is the same. Equally, Japan has been really successful, but if we said that was going to work the same way in Indonesia, it would be starting from the wrong base.

Influencing market evolution: reflecting the Purpose & Values of the corporation

However seeking to influence the path of evolution in an emerging market is a key part of competitive strategy. I spend time with governments myself. I mean I am on the board with them, an authority here and supporting advisory panels. It's useful. I've been spending time with Indonesia, which is another good example. The new government there really wants to take a position on creative economy.

Rather than saying I want to shape them to our advantage, our advantage tends to be a relatively positive set of values. We have a positive set of values: optimism, community, decency, storytelling, et cetera. I can actually take a very positive outlook, which is not just a particular American perspective, but a how do you support a creative economy for a country.

Doing so, will create an environment that is great for our corporation and it will be great for the domestic industry and the domestic talent base. In helping with the community, we are actually helping ourselves. I can spend time focusing and know that it will ultimately pay off to a better environment for the corporation and society.

In the more emerging markets, the more that we can do, but you can't always. China is a tough market to do that in, but where we can have a positive influence we will do that.

Reconfiguration:

We have a strategic sourcing team, particularly in our consumer products business where we have more globally sourced product. We're very much focused on a global chain. It hasn't translated as much as some companies, who have shifted their whole headquarters to emerging markets because so much of their sourcing is from there.

This is certainly something we are focused on. We do outsource activities. I'm going to put that in the middle, because we certainly keep certain core competencies absolutely in house. Brand control, brand management, anything that is going to be responsible for the creative brand design for us, we kind of keep those in house.

We have worked with a variety of partnerships and agencies along the way, but many of them have not had the same passion, deliberation, or size or scale to improve or raise the bar as we have.

That said, there are models where we license a lot. We license to a lot of partners. We license our programing to TV partners. We license our characters to fashion companies, rather than being the fashion company. We very much look for strong partners who also share our passion for design and quality excellence.

It is a combination of some things we keep in house and some we work with other people if we are able to find the right partners.

I don't think we are exiting anywhere and there aren’t many countries that we do not currently operate in, directly or indirectly. I don't think we have any immediate plans to reshape our geographic portfolio. We may rationalize, but I haven't found a market yet where we deliberately want to exit. We're still expanding our direct presence in a few, for example we are mildly in Vietnam and we are looking to go deeper.

We are however still in an expansive mode for new business areas. We bought the global business of M and now L. You could argue they are similar businesses to what we are in, that it is a sheer expansion, but they have also confirmed our thinking ourselves as a consumer products and experience business not confined to media and entertainment.

Another good example would be MS, the multi‐ channel network that we bought, the world's largest multi‐ channel network. They have 55,000 YouTube artists generating 10 billion views monthly. Its quite different to the traditional business lines that we are in. It is a business that we weren't really in, that we weren't consciously in. That is part of how do we stay relevant in the future. We have got L-TV. We have got ABC Network, we have got our channels here. We have got all of these digital products we are making available, but this is a whole new area, social TV, that people are engaging with, very large audiences, asynchronous, synchronous and interactive.

We are also looking in augmented reality, virtual reality and how does that change the nature of storytelling. Our publishing group and our studio groups are coming together and saying, "Is this a game? Is this a story publishing? Is it a movie?" What is that experience when you are doing a virtual reality experience? Several kinds of new businesses in there. It is a lot of fun.

Purpose

The CEO wants us to be the most admired company in the world. It is not just pretense or show. I guess we can put our customers, number one, because he wants to create the best fan experience, the best guest experience in the theme parks. That is number one.

He really thinks about shareholder value. It is not just dollar value, but how to create a sustainable value for the shareholders. Then certainly, the employees, the cast members are a key part of doing that. It is not to say that they are less important. We do a lot of CSR, and may even be debatable, but I am sure shareholders would want to know that that is number two.

He has really clearly articulated the strategy, since the beginning and consistently made decisions and acted in an aligned manner. He said he would build the business off of three pillars; Investing in Creativity and Innovation, Embracing Technology and to Grow the International business. This has been a very clear mandate that the whole organization has aligned behind.

Ever since then, buying P, buying M, buying L, investing in the creative processes, putting shows on iTunes, buying MS, all about embracing technologies and then we have integrated our organizations globally over the last 10 years in each of the markets. It is wonderful to have the time to really push through the strategy and to see such tremendous momentum being created.

To have a single purpose and consistently execute that I think has probably been the biggest contribution to why our share price has gone up because it has been a consistent focus regardless of some of the distractions.

Optimizing results today and building for tomorrow

It is a mix. Not everybody is cut from the entrepreneurial cloth. It is somewhere in the middle because we haven't entirely separated the process of building businesses for the future and those that optimize the present. However it is not down to each individual business either, it is a mixture. Each business is working on their own balance. Of course there are a few centers like the licensing team which are focused on the present and the incubator that is focused on the future, as well as various research teams; but in general each business leader is making their own balance of optimizing results for today whilst building for tomorrow.

KPI

We are tasked with being very good fiscal managers, we don’t believe in large ‘bets’ and uncertain returns. We take care of the bottom line, but that is only part of the share value. Periodic financial results are something we manage. We don't drive towards them, in terms of their net. We do manage how that is perceived, but it is more important to have a longer‑ term view. For example, we don't give forward earnings, projections.

Alcoholic Beverages Co.

Company Profile

- B2C, FMCG, 50-100,000 employees
- Self-Assessment: On-par with global, better than local

Mechanisms of Advantage:

- **Enhancing Speed of Learning**: Global innovation, but global innovation is very difficult to implement because it's very specific in local context, therefore it is coordinated carefully.
  - Innovation teams now very active. Local GM have Innovation KPI

- **Efficient dissemination of insight**:
  - Why are we better in Vietnam than the local guy? It's sharing...Knowledge and Resources. Particularly knowledge, 'because we know what happened in Nigeria, it's what happened in South Africa 10 years ago [its relevant to Vietnam]'.
  - The main advantage of being global is knowledge sharing but you have to put in place the systems for knowledge sharing and work at it.
    - Situation recognition (market archetypes) facilitates knowledge flow
- **Speed of adoption of innovations from elsewhere**:
  - In many markets we would not have the skill or scale to be innovative, but with these global innovation platforms we can see there are opportunities and *we can launch them without too much risk or*

investment and we don't have to confront the political road-blocks

- **Ability to redistribute resources** (efficiency & expertise in shared resources):
    - Globally managed shared resources deployed to support in country teams ('flying doctors'). Maybe based in region (e.g. Supply Chain experts based in Vietnam)
    - Assignments to projects to provide expert input & oversight, redistribution between geographies to match priorities.
- **Understanding key drivers of market success**
    - There are advantages of a global company, particularly if there is truly a global brand, but it must be made relevant for the local market. It can be reconfigured for the local market, approaches to understanding the market needs can be shared, best practices in operations can be shared, supply-chain advantages can be leveraged. Perhaps most importantly experiences and humble learning from one market can make us more attentive in other markets.

Enablers & Inhibitors

- **Global/Local Interface**: Reducing role of regional president, reduction of structure and teams ('spend breaker' is one of few remaining responsibilities).
    - Power (resources and control rights) swinging between Local and Global (pendulum, 'neither model is better')
    - Regional President's role is to stand between the Country GM and the Global and to make the system work, seek collaboration and flexibility

and understanding; to enable their to be sharing (resources), knowledge (innovation, best practice) flows and also control; such that the GM can deliver their best results.

  - Global has stronger control of Supply Chain, R&D and Innovation, whilst taking account of local inputs and market conditions.

- **Balancing entrepreneurship in the global corporation**
  - Want to grow the business and the business all happens in the very local context of the market. But the limits for what is allowed need to be established and enforced by Global.
  - Innovation is very important, but within the scope of the business can be limiting.

Global Leadership Team Characteristics

- Understanding that the global firm's success is based on knowing and engaging with the local consumer in each market.
  - "By definition, a total global strategy will fail, by consequence because tools in Nigeria don't work in New York, by definition"
- High global mindset, limited cultural diversity
  - If you look at the senior leadership, you have to ask what is the value of diversity. There is an apparent disconnect between where our real businesses are today and the nationality mix of the executive, but 5 out of 8 have all been based in Kinshasa during their careers.

- Strong sense of belonging (throughout global workforce); heritage and purpose; the family and their values are still very much present.
    - There is a strong sense of common understanding, shared experiences and trust; not as much diversity

Entrepreneurship in a global corporation

This is entrepreneurship 'how to have entrepreneurship in a global corporation'.

The advantage of being global is knowledge sharing. This value, you have to put in place the systems for knowledge sharing. Innovation can be huge advantage. Innovation is today one of the key advantages we have of being a global firm. You have global innovation, but global innovation is very difficult to implement because it's very specific in local context.

You have one innovation in France. To say, "Wow. Why not test it?" You have to put in place a network of communication sharing about experience of innovation. We are doing quite well nowadays because we have innovation committees, we have sharing. Innovation is one of the key competitive advantages because it's one of the key KPIs of the company you need to do innovation.

It means I believe the main challenge of the company is to say how do you develop that, how do you implement some value, behavior or whatever. After that, where is the limit.

- You can be an entrepreneur but don't open a massage palace, it's not maybe the core business. But let's be sure that we talk about the opportunity to open the massage palace. It's my dream, to open my massage palace. The challenge

> of the company is to say yes, or no. It's not, maybe because you have global firms to say you are executing a global strategy or global tools. You shut up and you implement and you deliver the results.

You must fundamentally decide if it’s a global or local company. My business is based on the core product, which the local consumer in the community. These can be totally different from one market to another. After that, of course you have to look at the benefits of being global, but wherever you are, you are a local business. The local business goal is to serve the consumer needs these are the local needs. By definition, then a total global strategy will fail, by consequence because tools in Nigeria don't work in New York, by definition. The root of the market is different.

Talking our case, we have more local than global, by definition. Because nobody in the HQ knows the T brand in Australia or S brand in Nigeria and now I don't know the branding like I knew before when I was running that market, as the local consumers and consumer context is changing. Nobody in HQ is even looking at the marketing there.

There are advantages of a global company, particularly if there are truly a global brand, but it still must be relevant for the local market. It can be reconfigured for the local market, approaches to understanding the market needs can be shared, best practices in operations can be shared, supply chain advantages can be leveraged. Perhaps most importantly experiences and humble learning from one market can make us more attentive in other markets.

Reconfiguring

The organization structure matters less than in the understanding; we have moved from a regional to product structure and then from product to regional structure; I believe it is a cycle. Either way is not good, we need a blend, so we keep moving from one side to the other.

Our core business is beer. After that there is a question mark do we move from the core vision to something else? The answer is no, because of shareholders but it's a choice. As a senior executive you might disagree and then you can go to the family and you say bye- bye. Our core business is beer, so you stay.

Entrepreneurship:

Then the key question is entrepreneurship, "What kind of a musician do we put in place to do that?" We will be always a little bit more local than global because of the nature of the business. I feel H brand is a good example. I believe it's a cycle. Success of H brand is local, but it's a global brand. There's one team in France, one team in Thailand, one team in Vietnam, one team in Brazil, doing the right things at the right moment, within a global frame.

The frame is, you don't touch the labels. You don't touch the taste. You don't touch the price. You cannot touch it. It's a choice. After that, you have success, failure or whatever. After that's starting a little bit the circus. The French say, "I need a bottle of 62 because the 64, the French don't like.., blah blah blah blah blah".

You say, "Yes, of course, because the French are different." After China, you say, can pay, I need the 1.50ltr, whatever, fine. You just go little by little. Pretty soon you don't have global brands anymore. The trend is not so nice. After that, you have to decide. I take back my brand to global or allow the local?

After five years, going global you have increased the equity of your brands but you start missing the local consumer need, the emotional things of the local. You might end up with a global TVC. It maybe works in New York and Paris, but not in Shanghai. The key decision of global I strongly believe is a cycle. The key is when do we move in one direction or the other. I'm talking about the beer business. The beer business is local. The beer doesn't travel.

We are a global firm, what is our main brand? What is the main brand of Budweiser company? In Brazil. Budweiser is a global brand. The need of the global brand, like Budweiser and Carlsberg or whatever, fundamentally they're in the beer business to make money. You need the premium brands.

We are a global firm. I don't know how to define. We are a global firm with local things. After that, what I would issue. Why be global? Why to buy? Because you are creating a value for the shareholders. Do you create value compared to a local guy? You are a local guy. Why are you a better local guy? Because you are global.

Why are we better in Vietnam than the local guy? You feel. You say, "There's no reason. The local guy can do many things that we cannot do. "Why ask a company in Vietnam why I believe that that's competitive, having distributed globally in Vietnam. After that, you go back to, there are two things. It's sharing things...Knowledge. It's knowledge, nothing else. Why? Because we know what happened in Nigeria, it's what happened in South Africa 10 years ago.

As an organization the main decision is to balance between support; and support is sharing, knowledge & control. We have to control, or it's a circus. We have to support, but support is not a good term. It's really sharing and knowledge. We have to do the balance.

In the Vietnam example, there is a huge competitive advantage today because business information system, we are competing with a local guy who has a lot of local advantages; relationships, ability to save costs, access to outlets, payment terms and operational risks; but we are the only sales rep in Vietnam with iPad. We can increase our efficiency by bringing in ideas that we have seen elsewhere, in this case from Taiwan.

After that, because we are global, we are at a competitive disadvantage. We are being taxed. This one is a disadvantage to be global. We are more competitive in sharing services and some activities and there are certain things that are very important; procedures and brands. In the mainstream (lower price) segment, we don't have advantage except the information system and the efficiency and effectiveness of the way to work.

Global Sourcing: The global way to run a factory is a disadvantage in the short- term because you are over- investing for the future. In an emerging market competitors are more focused on productivity than depreciation, so we have a disadvantage from depreciation as we have built a plant that is justified on the basis of future volume. Operationally we have a disadvantage because we are overpaying to operate, because we like to add automation and technology to get the quality. It financially doesn't make sense, short- term.

Because of the innovation committee and innovation spending KPI. People ask, what can I do? We have a platform and knowledge, and we have innovation, manager everywhere. The region of course is quite huge and these people are sharing knowledge and insight. I have to innovate. The innovation manager has to move insights and knowledge around through the innovation systems, to replicate the learning in other markets, For example R, the idea was coming from Eastern Europe, and the innovation manager asks "What is the business model there, what is kind of consumer?" what is the relevance here in this other market?" R is mainly for soft drink drinkers who'd like to have an alcohol experience, so you don't target beer drinkers for the launch. We are there, and the price positioning is very important. After that, we say Wow, why not." and start.

In many markets we would not have the skill or scale to be innovative, but with these global innovation platforms we can see there are opportunities and we can launch then without too much risk or investment and we don't have to confront the political road-blocks.

Another example is the slim can in Vietnam, it's only 25cl, and initially rejected as not being relevant to 'real drinkers'. But now we find it is very coveted in Vietnam, it is visible across the bar as something different, a status symbol for the consumer who always wants to have the imported product. The concept was developed in France, but has a completely different meaning, for women.

Regional Role: Regional President is really a 'spend breaker'. It's one of the few important decisions at the regional level. When you are a very globally run company, you have the tendency to consider your country GM as 'stupid'. (I'm exaggerating a little!). You will explain to them what to do. You put instructions into words. You align instructions with the incentives and the measures and you send global people, with global roles to tell the GM how to act. But the GM won't respond to you because you are stupid, they have the local market knowledge, they have the relationships, they can find the local solutions that are more efficient or effective, they drive the results. So the question is where is the center of gravity. It's global. You have soldier‐ stupid, by definition. If the name is GM, it doesn't matter. You have the top‐ gun indict office to explain to these people. So my role in Region is to stand between the GM and the Global and to make the system work, seek collaboration and flexibility and understanding; to enable their to be sharing (resources), knowledge (innovation, best practice) flows and yes also control, such that the GM can deliver their best results despite the disadvantages of being a global firm in a local market and competitive context.

Diversity of Senior Leadership

You can have diversity, nice, but what about performance? H is a good example, more than 65% of our profit is coming from emerging markets. The most profitable market is Mexico, number two is Nigeria, number three worldwide is Vietnam. It's not France. It's not UK. It's not Germany. It's not USA. So where is the leadership of the company from? OK you say it is family controlled, yes, but what about the leadership, the professional managers and the country managers and key global managers and staff? We are a bunch of Dutch who will never know where is Lagos. After that, you are questioning why we don't have a vision guy, why isn't the top guy Nigerian?

When you go to a board meeting in HQ which are the markets we are talking about? Africa, Philippines? No, let's talk about Paris, New York, London. These ones, we know. It means there is a total disconnect between our real business today and the knowledge, the diversity and the interests of the shareholders. This is moving a little bit now in the right direction. You look at the board members. The majority are Dutch or American, you have to ask the value of diversity?

The new executive committee is 10 people, 6 speaking French, 5 have been working in Kinshasa, what this provides is a strong sense of common understanding, shared experiences and trust. Communications are fast, even abbreviated, social connections are strong. Difficult decisions and disagreements are addressed in ways that outsiders may not understand. It's not a decision- making process. Thus the shareholders, the executive committee and the board are able to access and absorb more knowledge.

For our global executive committee, one is based in Singapore but Africa head is based in Amsterdam for logistical reasons. It's easier to go back to Europe than travel to Africa then to move between countries in Africa. The head of the Americas was based in New York, but it doesn't make sense there so we moved the role to Miami but the main market is Mexico.

Regional is there as a connector to support local by leveraging global and to split budget; to keep and maintain a balance of power. My speech is very simple. ‘Be careful. I control their air conditioning’. The global functional teams optimize for themselves where they base themselves, that is not regional responsibility; then they are ‘flying doctors’ providing support as required and prioritized. Coordination, not so easy.

Supply chain is a good example. We have the flying doctors based in Vietnam because they are cheap to be located there. They are quite efficient, these people. We have five people based in Vietnam not reporting to the region. Reporting to the global. One supply chain manager needs a flying doctor. He goes directly to global, says, "I need two flying doctors." The Vietnamese resources are going to do whatever they want in response; the region is not involved. Supply chain is very difficult. After that, we can think of the brand managers, even more complicated, who can do what?

Semi-Conductor Co.

Company Profile:

- B2B, Component Manufacturer, <25,000 employees
- Self-Assessment: On-par with leading global, outperform local competitors

Mechanisms of Advantage:

- **Limited advantage from knowledge creation**
    - We don't have a very systematic and deliberate approach [to knowledge creation and sharing], as we are reasonably decentralized, we do it in an ad hoc manner.
    - We tend to do a little bit local experimentation rather coordinated globally, though not completely
    - We do have corporate officers who search out intelligence about new applications and competitors actions. Our corporate team simply provides a framework and then promotes it within the organization, persuading the rest of the organization to contribute data into that process.

- **Structurally efficient dissemination of innovation**: Innovation does propagate fairly quickly across the company, even though we don't have a software tool for sharing and communicating.
    - We define more and less advanced customers within the main user segments;
        - Much of the innovation may be led with certain lead customers

and then over time other customers may also start to adopt.

- There are also differences between geographic markets, moving from 'demand- fulfillment' type market to a 'demand- creation' market.
    - There, you can actually link it to the type of skills and the way you would run the organization to now what I call the "business- creation market."
- We have a matrix organization and therefore knowledge can flow through various different structures.

- **Limited expectation to redistribute resources**: We do some movement and redeployment of people for projects but it is equally likely to be for talent development.

- **Work allocation optimization across the plant network**: We definitely think about it on a global basis, simply because our factories are all over the place and our customers similarly, but we are not actively changing the mix and footprint of our network

- **Influence market evolution**: We have the opportunity in some markets to move from demand- fulfillment to demand- creation market; this has already happened over the past 20+ years in many developed markets but in younger markets this is a change that we could help to influence; which is to our advantage over more local focused players who may not have the resources and eco-system partnerships to compete so effectively in a 'demand creation' market.

- **Morphing of Scope:** We have spun off all our mobile-related businesses because they were moving too quickly, and we've kept automotive, industrial, and security; it is a deliberate choice to be in relatively slower cycle businesses.

Enablers & Inhibitors

Management Tensions

- Ability to maintain a balance between short term results vs. supporting the success of the corporation in longer term.
    - Managing the balance between selling the newest generation of products or the previous generation is a point of tension. Often the margins on the previous generation are higher and more than satisfy the needs of the customer, but we choose to promote the latest generation as they usually offer greater efficiency, which is one of our core values, and by ramping up the business and experience with the newest generation we are of course also learning and developing the next generation of products that is still to come.

- The global leadership tends to separate between optimizing results for today vs. preparing the organization for tomorrow as such the balance for the corporation changes depending on which individual gets which job.

- Tension between home (European) market perspective on rate and nature of evolution of client needs (pedestrian) vs. rate of evolution in major developing economies (e.g. China)

- This is one of the key reasons why the corporation is changing, but there is quite a bit of tension; at least, they don't longer say, "But I can sell this in Germany....". If we make this transition then we share truly have benefited from being a global firm able to act dynamically.

Global/Local interface

- Local reports to Regional – which then reports to Global, although we have a matrix structure and therefore there are also global reporting lines for functions and the major sectors.
- Regional is very important to the planning process. Local strategy is then established within the global framework.

Global Leadership Team Characteristics

- Dominated by home country nationality and leaders based in HQ country.
- Limited global mindset, although some have experience in international roles
- Sense of collective purpose; efficiency of power management, employees needs as stakeholders, etc.
- Strong sense of belonging (throughout global workforce); heritage and purpose

Sensing

The difficulty is that we don’t have a very systematic and deliberate approach [to knowledge creation and sharing], as we are reasonably decentralized, we do it, but in an ad hoc manner. A particular business group in the region, or sometimes globally, decides that it needs to look into a very specific area, and we may do it.

We coordinate differently at different times. This is a reflection of the complexity, the diversity that we have; we have thousands of customers; we have tens of thousands of products. You would imagine we would, just by probability, use almost every method available.

However, I think we tend to do a little bit more towards the local experimentation rather than the global, though not completely.

We have corporate officers who search out intelligence about new applications and competitors actions, We don't have huge corporate central departments. What they do is they provide a method, and maybe publicity and driving force, but most of our market intelligence comes from the line organization. Our corporate team simply provides a framework and then goes around and promotes it within the organization, persuading the rest of the organization to contribute data into that process.

The reason is that we believe this will give a more relevant gathering of data. That means its people facing the market feeding back real- world problems. Secondly, and probably more importantly, if we then decide these problems are priority issues, we have sponsors automatically. We have sponsors who would like to see a solution to these problems, rather than the other way, where there is a danger of the tail wagging the dog, where if a central department, obviously specialist good, but if they become too big and too powerful, they start looking for problems.

Seizing

This is the seizing part. We have some systematic programs, and we have some ad- hoc programs.

We do move and redeploy people for projects but equally for talent development as for knowledge transfer. We systematically assign projects that are not in the areas of that manager's responsibility, not everybody goes through that. I’m supportive but it can be disruptive, so the primary goal is talent development. It does happen – but perhaps not with the immediate goal of enhancing our ability to see and seize opportunities- although in the long term through the experiences and relationships I would hope that this will help future collaboration and knowledge sharing.

Innovation propagates fairly quickly across the company, even though we don't have a software tool for replicating innovations, we're a company that operates very extensively through our internal networks, so we have very regular meetings at various levels through our different matrix organizations, and we do tend to share a lot of these things.

We have a matrix organization and therefore knowledge can flow through various different structures; but usually along the lines of the most relevant dimension of the matrix. We have vertical divisions that are responsible for Profit & Loss, geographical organizations which are responsible for the people and the execution outside of headquarters, and then we have other functional specialists, like quality, IT, et cetera, as a third dimension.

We don’t classify markets by development stage, rather we think about user segments (independent of where the customer plant is located). Then within the user segment there will be more and less advanced customers; much of the pioneering may be led with certain customers and then over time other customers may also start to adopt.

There are differences between geographic markets as well, but these concepts are not yet mainstream. I've been showing a slide on how we've moved from demand‑ fulfillment market 20 years, 30 years ago, to a demand‑ creation market. There, you can actually link it to the type of skills and the way you would run the organization to now what I call the "business‑ creation market."

I would definitely be able to pull elements into what you're talking about here. A business creation market which is growing in Asia right now is one where you don't see the available business. You've actually got to go in and discover it. It's a little bit underground.

You discover this normally by identifying needs within the market which even the customers, may not realize it's a problem. Once they realize it they'll demand a solution. Then it becomes a demanding creation, because the demands are really there.

Demand business creation is one where the actual revenue ordering is not there yet. It may fit into here, but it's where we have identified there is a need to be served in the market, but it's not in the most obvious way.

For example, you may have to create an Eco‑ system before such a market would come into being. If the customers has that need that's not capable of creating, putting everything together to create demand. Thus if we can influence the evolution of the market in this sense then it requires more sophisticated skills to serve – and this can be a competitive advantage for us, certainty compared to the local market players.

One example would be the automotive market in China I would say five years ago. If you travelled around there were many companies who said Automotive is good, we want to get into the sector. It was very much still dominated by the multinationals, because the local companies where not capable of developing the technology for it.

What we did, was we created an eco- system of design houses who were attracted to work with us because we are industry leader in semiconductors for automotive. Then we linked this together with some of the customers. This has enabled the multinationals to still be dominant, because the market just grows so fast that that local ecosystem has not been able to out run the global companies.

Reconfiguring: Supply Chain

We definitely think about it on a global basis, simply because our factories are all over the place and our customers similarly, so this is a major potential source of competitive advantage, certainly against less globalized firms.

Outsourcing Activity Scope:

I'll try and give you an industry calibrated answer to this, because we don't do quite as much outsourcing for example in manufacturing. Certainly we keep our R&D. We are not one of those companies that's just marketing. I think that probably best describes it.

Geographic Scope:

We are expanding into new countries. We do enter and exit businesses regularly. We do both but rather more entering than exiting at the moment. We just acquired a competitor that has a complementary product range....it has a similar focus in the general market, but it's at one end of the market and we are at the other end.

Sense of Purpose

Globally effective leaders do share a strong sense of purpose with the organization that they live by consistently. Actually I think this is due to our German foundations. It is a balance of addressing the employees' needs, whilst enhancing power efficiency to support the sustainability agenda. It's not just blah- blah. We really do believe in it. We put a lot of money into developing the next- generation products, even though we could continue make a lot of money from selling the last generation. Why? The next generation is more efficient.

That's why this business creation path comes to mind. We actually often preempt the legislative or customer requirements, which is not a very financially clever thing to do. Here we have to do this functionality.

Our leaders tend to separate between optimizing results for today vs. preparing the organization for tomorrow. I can definitely label some of the people to be more in one direction and others in the other direction quite consistently. The balance for the corporation would change depending on which individual gets which job over the years.

I don’t think that many managers are capable at doing both. I have a particular philosophy that you can't change character. You can change behavior, but not character. But as long as you know what you're bad at, you just sit next to a guy who compensates with it and then together you're perfect.

We have spun off all our mobile‑ related businesses because they were moving too quickly, and we've kept automotive, industrial, and security; it is a deliberate choice to be in relatively slower cycle businesses. These are all businesses that emphasize stability, reliability, long term in general. Except that our fourth division, the multi‑ market, remains a collection of ‘other’. Relatively speaking, in the semiconductor industry, we have chosen to be quite slow.

The lifecycle in Automotive, for example, runs around 10 years. Industrial, similar, maybe a few more, because, just think about it, it's a generation of new trains that come up. They don't want you to change anything.

The main geographic markets evolve at differing rates. Here is where we get some of our conflicts, because our German markets may evolve slowly, but the Chinese market, relatively speaking, for like applications, moves quickly. This is perhaps one of the key reasons why the corporation is changing, but there is quite a bit of tension; at least, they don't longer say, “But I can sell this in Germany....”. If we make this transition then we share truly have benefited from being a global firm able to act dynamically.

Local managers do report to regional executives with some exceptions. Regional is very important to the planning process. Local strategy is then established within the global framework.

Financial Services Co.

Company Profile:

- Financial Services, 25-50,000 employees
- Self Assessment: Very strong against global & local competitors (local N/A)

When I stop and think about us performing against competitors I think in terms of things like market share, customer satisfaction surveys etc. It's such a professional thing. There are all kinds of consultants and people that spent all their time gathering information and telling us what they found out. That's wonderfully easy to do that. When I think about financial results, I would say I consider multi-year trend. We're doing very well compared to competitors.

Mechanisms of Advantage:

- **Learning by listening to and understanding local market needs**

I have to spend a lot of time in those local markets talking to clients and talking to the local staff about what's going on and what their issues are. The business is won or lost in the local market. Competition is fierce. Regulation critical.

- **Common Model of Understanding enables sharing of learning:**

We have a very unified customer model, which is the most sophisticated global investors, at least that is an easy optimization function.

We know what they need. Whereas if you're a complex, global bank, management can't pay enough attention to what a private bank needs as opposed to a commercial bank.

We also have a sort of model of how we think about the development path of markets. Don't know if it works or not. There's an emerging market, how we should be integrated. No, we have multiple models. I think, but it's not one emerging market model. We have a strong understanding about that. The rate of development is key.

- **High Collaboration through interaction between senior managers**

At a business unit level, communication, sharing insights is much more structured but it's really person-to-person. It's conference calls. It's product development work strings tracked generally through Excel spreadsheet. We also have a platform called Collaborate, which is pretty good if you figure out how to use it well. It's good for sharing information amongst small teams. You have a project, you have certain deliverables, you have a finite time frame, you have finite resources

The bit that we struggle on and we don't have a good solution for is the other 28,000 employees, how they figure out what they can do with their company. We've had various attempts at that, and nothing's worked that well, to be honest.

We're spending a lot of time on a platform called Salesforce, which is an aggregator. Information goes like that. The higher up you are, the more powerful a tool it is. It gives you insight into what's going on. That's what we would use to figure out where things are getting stuck, what's working, and where it's working better than just an aggregate level.

- **Physically redistributing resources**

We end up moving resources, people around and assigning them to projects. We are doing a lot of this, actually. This is what we end up doing. We say, "Jeremy, you know more about this than anybody. Put three people together and figure out what we're going to go and do in Vietnam,"

- **Replicating solutions across markets**

I'd say that innovations pioneered in one market are adopted elsewhere when its outside of the U.S. We're very much domestic and international, and if you're on the international side, you have then visibility across borders and good innovations travel.

But we have massive domestic US business, 40 percent of the mutual funds in the U.S. are our clients, so that just creates, that's a lot of people. That a lot of structure, just servicing stuff, they don't look across the world for other innovations. So in the US they don't look internationally but they do look around inside the US to find innovations that can be copied or built upon.

Overall we are pretty good at product innovation, we're pretty good, but the gating factor is back to this [regulatory] product approval process.

We'll have a new product, which typically would come out of one of our larger markets, the U.S. or Europe, and then I'll look at that, and I'll say, "Well, I think that looks like it's probably a good product for Japan and Australia, because those markets share certain characteristics. This product would be suitable," so we'll put those on the fast-track product approval.

Then, if we get customer interest from let's say Singapore, then we might add that as a second-phase product approval, because to do, we must operate 20 markets in Asia, to do product approval for 20 markets it would be two years before you talked to anybody. That's how I balance the local versus global.

The joys of being regulated. Very hard to introduce new products. I would think it's six months of approval to get a new product into the marketplace.

- **However, very guarded information exchange**

We are very, very regulated, so information dissemination, everybody's always paranoid about. Competitively we are no worse than others. For example, your email address, I have your email address. I have to report on where that email address is stored, and how I ensure that your email address doesn't inadvertently go out to some third party.

I have to report, on a weekly basis, that there's been no inadvertent data breaches, such as I lost my Blackberry, that could accidentally allow your email address to go out of the company, which is great, all good stuff, but it makes people very nervous about volunteering ideas, "Oh, I saw Steve, the other day, and he was saying this really cool stuff. We should take a look at that." It creates a culture of, "Oh, does that person really need to know that, and if I do that, what policies do I need to make sure that I'm complying with in order to surface that information?" I think that's a lot of what creates a lot of barriers and hence we don’t share ideas well.

For that Cisco thing to work, people have to volunteer information. They can't be told, "You've got to do this." Banking doesn't work that way.

- **Deliberate investment in influencing market evolution; leveraging global insight**

We are very active in trying to influence the evolution of the industry in different markets, working with the regulators, definitely. Very often, we would be one of a very small number of industry experts on particular issues. Right now, everybody's talking about repo, for instance. Regulator wants to know whether they should change repo regulations. We'd be involved in that conversation, which inevitably gives you influence, because you don't tell things that are not going to be in your favor.

We're spending a lot of time in China, at the moment, for instance, pro bono.

I was at a meeting with the governor of San Francisco, an event that the American ambassador hosted. They're really wrestling, from a government's point of view, with how they should govern these global American banks with all of their tentacles.

He was worried about Asia, because that's his focus. It's global, but it's an American problem. Bank of America, Citi, JP, they're instrumental to the functioning of Asia.

If the fed constrains these global American banks so that this curve starts to move that way, the extraterritorial impact of that on America's friends…..They'll pull out of Vietnam.

So 'yes' we are actively involved in such dialogues

- **Innovation**

We talk a lot about innovation, but I don't think we have a solution. We've tried these things. We called them Innovation councils, which are meant to be very much down in the trenches. These people are already working 72 hours a day. They have deadlines to meet. They're typically not people that are used to going to meetings and structuring things, so then you end up having management involved, and then management run it, because that's what managements do, and then you lose the dynamic that you're trying to create.

IBM organized an innovation jam. I'm sure we paid them a lot of money because it was very intense. It was like a 72-hour event that they organized, some social media kind of things.

The idea was that you could see stuff going on and try to create momentum behind ideas. That was the idea behind it. IBM says they do it themselves, and that's how they crack this problem.

We did it once, and that tells you something. It didn't work.

- **Reconfiguring Supply-Chain**

In financial services, nobody does everything. Everybody's a client, a competitor, a supplier to one another. So our supply chain is very confusing, we are all over the place in what we can do somewhere, but we work with competitors as suppliers or customers in different locations. I don't know if it's unique, but it's unusual. We have very sophisticated relationship management functions between us and the other globals, someone like Citigroup. This is a significant advantage I think of being global, we’re in a different club.

It's very senior conversations about we do this, this, and this and you do this, this, and this, so how about you do this for us and we'll do that for you, horse trading goes on. Supply chain implies one direction. This is much more up and down, but it’s a significant advantage.

It's very global. Yes, it is. It's a result of being present in many different markets, if we were the same size, but only in US, then we wouldn't be able to have these relationships. If we broaden the definition of supply chain, I think it is very global.

- **Adjusting scope of activities**

Do we outsource activities? Immensely. That's the irony. We'll outsource some stuff to Citi, and they'll outsource some stuff to us somewhere-else.

We're not changing the portfolio of business areas we are in though. We are where we are. But there's another aspect of regulation, that it's making some products that were very profitable unprofitable. We shut down our fixed income trading. We were one of the first to do that. Now, bank after bank after bank is exiting fixed income market because the capital cost. It's going to be interesting to see how that ends up. It started in the US housing, right? It only happened because 10 years ago they changed the regulations to make it easier to get a mortgage. It seemed a good idea at the time.

We are entering and exiting a few countries. We are entering more than we're exiting.

Enablers and Inhibitors

- **Strong sense of purpose**

We are driven by a mission or goal or whatever you call it, the purpose is to support institutional investment in all its forms globally. That's our mission. There's a strong sense of purpose. Yeah, I think that's true.

To do that though increasingly, we have to engage with regulators to be able to do that in an economically viable way. When Lehman Brothers blew up it very nearly created a systemic issue in the UK, because they had very sizable operations there. They funded it out of the US. Basically, every Monday, the money went in. Every Friday, the money came out.

When it failed on the weekend, there wasn't any money in the London operation. All the creditors of Lehman Brothers International were knocking on the door. As a result of that, regulators globally have woken up to the fact that the money needs to stay in the local operating entity. From a capital allocation point of view, you have to spread your capital out across your operating universe, which is why we're happy where we are and we're not looking to expand.

If we go to a new country, you have to put a chunk of money there, and it gets locked there. Different products have different capital requirements. Things that are more service oriented like producing management reports, for instance, don't need a lot of capital to do that. To run a fixed income inventory, you have to have a lot of income to do that.

They're wonderful theoretical constructs to try to figure out. You've got so many different objective functions that you're trying to maximize across. One of the benefits of our company, and the reason we're doing well at the moment, is that we do have one utility function is the customer.

That's the downside to complexity. The more objective functions you're trying to optimize over, the harder it is for management to do the right thing. So given the immense complexity and multiple and dynamic regulatory context there needs to be a strong sense of purpose, yes. Otherwise you'll lose the plot, HSBC is the latest one to fall into this mineshaft.

The mission statement is a real mission statement from that point of view. The chairman's discussion, at the moment, as I say, is how do we continue to do that but also make sure that we're not tripping over regulations such as anti money laundering regulations or privacy regulations.

In order to service clients globally, we want to give them the information, and we want to make things easy for them. From a regulatory point of view, we can't go too fast over the speed bumps. Break the undercarriage.

At the end of the day, if you don't run an ethical business, whatever that means, it's going to whack the share price.

I think its really, really hard for leaders to simultaneously pursue two goals. It's not even about the individual. It's not even you can look at Jack Welsh or somebody like that. It's whether they can get their organization to do that.

- **Global / Local Integration**

The way we talk about this is that *"Strategy is Global, the execution is Local"*. Strategy is pretty broad. It's not very specific. It's easy to interpret in a lot of different ways. It's not bottom-up, so they don't go around saying, "What do you think we should do in Korea?" But the Korea strategy is made within the framework of the global strategy. We are still a very American company.

Regional leaders play an important role, really helping to connect the global to the local context and support the local in working through all the complexity, giving leadership support where we can.

- **Global Leadership Team Characteristics**

No we tend to stay focused. Very few senior executives can pursue both future goals and current performance. But I guess to be a true global leader, you're not going to get there unless you can.

Almost all of our global leadership is based in America, the only two that aren't are the Regional Head of AMR and the Regional Head of APAC. Everyone else is HQ. And the leadership team is almost exclusively American.

We have a clear identity, but I would think that the sense of properly belonging is much weaker in the global workforce beyond the expatriate managers, than in the US HQ.

Life Sciences Co

Company Profile:

- B2B, Pharma/Biotech, 25-50,000 employees
- Self-Assessment: On-par with best global, better than local

Mechanisms of Advantage:

- **Enhancing Speed of Learning**:
    - Coordinated experimentation is critical to our success, we have the scale and the reach, so we design and realize market-place experiments that make a significant difference to the performance of our organization.
        - We are investing significantly at getting better at this.
        - We think carefully "Where would that make more sense and which market? Where should we pilot it? What could we learn from this? How can we apply this to other markets?"
    - Gathering insights on customer / grower context
        - Sourcing idea fragments across global network
    - Increased rate of coordinated experimentation
        - Combination treatments, regimes, application technologies, business model

- Efficient knowledge transfer & insight dissemination
    - Through organization structure; new global 'crop' teams; based in most appropriate locations (not just HQ)

- Adopted grower archetypes (new grower archetypes defined, reflecting business context (value change context); i.e. not only crop-type, farm scale, sophistication & location),
- Data access, analytics to see new insights and patterns

- Rapid replication and adaption across relevant markets
  - Replication & Scaling of successful experiments across other markets & opportunities
    - Deliberate and centrally managed diffusion
    - Experiments designed with intent of diffusion
  - Win with increased precision of tailored solutions,

- **Influence market evolution**: Influence regulation regime through leveraging experience elsewhere.

- **Ability to redistribute resources**: Increased fluidity in resource deployment:
  - Global leadership manages all 'above-territory' resources, deploying to support coordinated initiatives, accelerate results and ensure synergies and alignment between territory and global.
  - There is a big need to move people and knowledge around the network.
    - Assignments to projects to provide expert input & oversight, redistribution between geographies to match priorities.

Transformations (Agility)

- **New business model:** Adopted "customer solutions" approach rather than product based chemistry or/and technology
  - Transition required developing deep understanding of customer perspective, needs and 'pain-points'

- **New Organization Structure**: Transformation has connected Local to Global and removed Regional
  - Now look to 19 'territories', whereas we used to have 4 regions.
  - Resources defined and managed as either 'in-territory' or 'above-territory'. Global manages above-territory to support priorities.

- **New skills:**
  - Partnering with wider eco-system (information technology, irrigation, equipment manufacturers)
  - Embracing and integrating new forms and areas of R&D, biotech, genetics, digital technology
  - More complex relationships with regulators in multiple regimes.
  - Global coordination of Direct and In-direct resources; application of communications and decision support systems
  - Decision making and managing in an increasingly VUCA context

- **New incentives and KPI management**: collective delivery of high-performance teams, rather than individual KPI and incentives

Enablers & Inhibitors

Management Tensions

- Ability to manage the tradeoff between optimizing results today vs. investment and preparation for tomorrow especially given the very long cycle time to future benefits (e.g. 15 years).
    - This tension can only be managed at very senior level c-suite (c-suite minus 1)

- Ability to both adopt the new business model (customer-centric solutions) and maintain the existing business model (product and technology led) when different markets respond differently to the alternative models.
    - Tension of how to manage the transition for the market, the channels and the corporation.
    - Need to have the KPI and incentives aligned with the mix of the models; not to just switch from the old to the new.
    - Efforts to increase the awareness of competing goals and pressures pushed into organization through training and KPI setting for the top 300-500 executives.

Global/Local interface

- Increasing the ability to aggregate the commercial business model across the world that had been poor.
- Increasing the power of Global leaders at expense of reduced role of Regional

structures and leaders

  - Moving people out of HQ to be based in regions, but to be deployed by Global

- Providing Local leaders with a 'Liberating Discipline', i.e. Global sets the 'rules of the game' but then Local entities are encouraged to optimize their game within that framework.
  - Global makes the 'rules of the game' very clear and that Local leaders are trained and empowered to define their game as best they can with the resources that they can obtain
- Winning locally increasingly requires very localized solutions; 'not just farm level but location within a field'.

Global Leadership Team Characteristics

- Global executive leaders all have extensive international experience and there is a high sense of global-mindset.
- National diversity is high, although with little representation from more emerging economies.
- There is a strong sense of purpose (Doing Good, *'bring plant potential to life' to help the world feed itself*) and a strong sense of belonging.
- We are big supporters of diversity and inclusion – particularly gender diversity; but we recognize that we have a lot more to do.

Overview of industry & company

Our industry has mid-level speed of evolution, we are not like the mobile phone sector and we are not like Automobiles, somewhere in-between. Increasingly dynamic due to new bio-technology. I think we're just at the front end of something that could become even more dynamic, technically, this is set against the regulatory environment that gets more stringent, and that's been a decelerator.

The intensity of the regulation is highest in Europe and lower in some of the emerging markets. Having said that, you have countries like China when it comes to plant science, who are even more regulated than some of the mature markets like North America or like Europe. In principle, it's heavily regulated everywhere. In practice, there are places like Europe where safety and the whole risk nature of assessment of our sector is much more stringent than anywhere else.

A couple of the emerging markets have started more and more to look at Europe, for instance, to adapt some of the European systems. I think regulation becoming more stringent is a global phenomenon.

This slows down the innovations that we can bring to market. So a lot of innovation is now in combinations, cocktails, we're putting them together in new ways. We're adding certain service components to it, which we haven't done before.

Market-place experimentation:

We think carefully "Where would that make more sense and which market? Where should we pilot it? What could we learn from this? How can we apply this to other markets?"

If I think about our customers then, arguably, their base business model is pretty similar everywhere in the world - farming is farming. But this not the case when you get into the details; the difference between a large Russian sunflower farmer with

100,000 hectares and a Chinese tomato grower with 0.1 is huge – so we need to understand all this before we select where to trial a product or application regime.

Sensing globally: As we look, for instance, for new leads in, be it crop protection or competitive threats; that has increasingly become globally sourced. We're talking to research companies in China, we've been looking for enzymes that come from the bottom of the sea through companies that have that expertise, et cetera. Outside of R&D far less so because I think these technology ideas, there are difference centers of expertise around the world.

New business model: What we got in terms of ideas, historically, has mostly come out of the science side applied to farming, as opposed to being a "customer- driven innovation," as some other industries do. But now we are changing that, it's a huge move, but something that could be a huge source of competitive advantage, if we can learn and leverage from the global diversity of customers. The solution space has a potential to change that.

In other words, understanding better what are the specific problems of a group of growers and what may we be able to do in order to help him and resolve that.

That's relatively new, still, and I would argue we're still learning. What we have been struggling with that is now, once you go to that level, the questions are quite different between different grower groups and different crops. It's a customer solution approach rather than a chemistry or technology approach.

We have some clustering of markets but it's only partly based on customer groups in one part of the world that are behind the curve compared to the other so you can transfer stiff you learned in the mature markets to the developing markets, that's less the case how it works in agriculture, there is a big difference in diseases by climate and crop and also treatment regimes vary from large industrial type farms to small holdings in developing countries, as well as the regulatory regimes.

You still have developed and developing markets. If you take a developing market like Brazil, they are the largest soybean and most professional soybean farms in the world. We label them developing but they're actually ahead of pretty much anyone else in the world growing soybeans. The same could be said for Russia and sunflowers. This whole notion that you can take something and then put it over here, the iPhone that you develop for the US, and then you sell to China, we don't have that opportunity much.

There are certain things that are transferable. Modern chemistry can be used by these guys once they understand the value. But there are other things that are less transferable, which is running 10 harvesters in parallel through your 10,000 hectares just doesn't work when you only have a little field the size of this office.

The first observation I would make is that the cycles of innovation, traditionally, have been quite longer in this industry, both by the fact that it takes you 7 to 10 years from starting to find something new until you can bring it to the market, and a lot to do with the regulatory environment, so everything happens at a much slower pace

Also, your customers are farmers and they see everything once a year. When they try something new, when they try a new fungicide, from the time they decide to try it to the time they have their first feedback, one year is gone. Which is very different in your experience of having a drink or having a new mobile phone, because things happen only once a year. I think the underlying dynamics is, sensing and seizing are really important but you have to consider the time span in what we're doing.

To give an example, hybridization of crops is a trend in the industry. We’re moving from crops where you have a line program, you're selling line varieties to crosses of two parents, and you cross them to a hybrid. Crops like corn have been hybridized for hundred years, crops like wheat are still not hybridized. We've now hybridized barley and we're moving to hybridizing wheat.

With the hybrid crops, they need to plant it differently, they need to treat it differently. Different dynamics, different robustness to diseases, et cetera. It's a bit like moving from a motorcycle to a car. It's not just got two more wheels, the whole dynamics of the driving are different. So we're learning from experience of having done this in one market or product line – and seeing how we can apply this to others.

Enabling resources: I think what's common to these themes -- if I pick the hybridization as an example -- certain markets will be more open to it than others, so we need to work with them, but with the clear intent of then replicating solutions globally. So yes there is a big need to move people and knowledge around the network.

Acquisition: Seeds is a little more fragmented. The availability of assets is a bigger issue. What do you find to acquire? We've been an active acquirer, but the opportunities have been very limited. But the scope of the business of the main players has changed dramatically over the past 15 or so years, remember this all started as a life science industry when the big pharmaceutical companies discovered, or at least told themselves, that, actually, Ag has a lot to do with pharmacy, because you're treating diseases. Probably the big reconfiguration is when they all found yes, but, in reality, the two have very little in common other than they're expensive to research. That's when it all split up.

When you look back 15 years ago, most of the conglomerates have divested their Ag part. Those who had multiple activities like Monsanto have shed all the stuff and have focused. Now, you have either business units or divisions in large corporations, like BASF or Bayer, that are Ag focused or your standalone companies like Syngenta or Monsanto, so there has been a lot of scope morphing – but as insiders in this Ag business we see it mainly as different owners, same business.

We would have gone heavily into biotech but that has been slowed down by the regulatory hurdles. We have chosen to stay away from adjacent technologies such as fertilizer, because the profit potential is very different. It's much more big mass, small profit; so yes, upon reflection, the other major players have made very different choices of scope.

A big issue for us to consider is the length of the performance cycle and creation of shareholder value; it's a big topic because of the lengths of the innovation cycle. Optimizing for today or preparing for tomorrow. We have an effort right now, through my team and the crops, of looking our long- term, 15- year plans. There's plenty of work, and money, and investments that we are doing now that we will not see any payback before 15 years from now.

How do you balance that against each other is the big question. How do you make that comparable? The flip side of this is we're happily looking back to people who made decisions 15 years ago for us, or some of us are still around, because now we're harvesting the benefits from those decisions, but do we have the ability to make such decisions now? Where those decisions were good ones, we'll benefit from it. Where those decisions were not so good ones, we're looking back and saying, "We can't change it so quickly, because the mistake was made 15 years ago."

For the global leadership this tension is very hard to manage; with different pressures in in different parts of the business; commercial, at times are more short term focused, They don't worry about anything that's beyond the next season. They don't have to, because they can't do much about it. R&D always needs to embrace both, because their activities encompasses stuff where we've got a compound in the last stretch of registration. It could be sold next year. It still needs to go through these hurdles and those data are needed, through to your first cross which will land 7-10 years later.

Entrepreneurism: I would think that commercial people in country and territory have a lot of entrepreneurism in their mindset. They've been given a set of products to play with, and they know their market, and how they do it, at least historically, they've been relatively independent. Whereas our ability to aggregate our commercial business model across the world has been poor, poor by design. We've actually given a lot of freedom to the local leaders. At the more global level, that's a more difficult part. Once you're an integral part of a complex chain of events, if I take product development. That's a highly structured and regulated process. There isn't much entrepreneurism about that.

Local & Global transformation: I would argue this is at the heart of our transformation, at the moment. In a nutshell, in order of local to global, our commercial is, traditionally and still is very local. It's limited global leverage of product management is the real go to market, and everything's very local. Whereas on the other extreme, our supply chain has been very global in crop protection particularly, and thirdly our R&D has probably been somewhere in the middle.

We used to manage the local commercial diversity through regional structures. Our transformation has been about connecting Local to Global and removing Regional.

The localization of commercial hasn't allowed us to gain any scale in our commercial force. We've done a good benchmark about our cost of marketing, and there's no relation to the size of the countries. They're all over the place depending on which model they chose. Some of them have to do to with the structure of the markets, how fragmented, how consolidated, the role of channel, etc, but we don't see any fundamental scale effect.

That's a concern, while it's been a strength of those local teams to act locally and to do what's locally needed. At the same time, I think the globality of some of the functional parts, like supply, have also caused angst and, to some extent let's say, have been a bit out of touch with what the local customer wants and needs. Supply has tended to focus on the big global problems rather than the many small local problems. The ability to deal with very fragmented segments and fragmented problems, once you have a global organization has diminished.

I think we're on the way, now, through that to see the benefits of globally consistent processes...We still lack the next step which is once I have that, how do I make that agile again so it can quickly deal with what's locally needed. Where we are, is we've got a lot of these global processes in place – what we need is the dynamic agility you are talking about.

Industrial Products Co

Company Profile:

- B2B, 5-25,000 employees
- Active in 126 countries. We're basically active everywhere.
- Self-Assessment: On-par with best global and local

Mechanisms of Advantage:

- Customer Insight and relationships; local relationships
- Global collaboration, facilitated by new clustering of business units
- Supply chain options in having many small factories

Transformations (Agility)

- **New business model:** integrated globally rather than 42 semi-independent entities previously. Changes caused by customer market & behavior shifting in response to gold prices hitting almost $2000 per ounce
- **New skills:** collaboration globally

Enablers & Inhibitors

Strong Purpose and Sense of Belonging

Global/Local interface

Very German culture and staffing

Ability to reconfigure asset base efficiently and effectively: buying and integrating new companies and leveraging combined strength for winning plays in the market.

Details of industry and company

Sector for us is very difficult because what we actually do is, we do mostly everything that deals with precious metals. I used to like to say that I'm the "Gold Lady," so that people have a recognition factor, and that's actually also one thing that we do in this location. We produce bonding wire, gold bonding wire. The bonding wire, I don't have gold here, but I have other materials, because we also produce it out of copper.

You see how thin it is. This is actually palladium coated copper, so there's copper core and there's a white thing on top, which is palladium. You see how thin it is, it's roughly a third...of a hair. We also produce out of platinum, components for heart rate monitors, what I just mentioned before. We do silver paste that also goes in the semiconductor industry.

Or silver paste, the different kind of paste, which goes on the backs of photovoltaic modules, backs of the front. You have the big modules, the blue ones and they have stripes.

These stripes are not stripes, but that's actually silver paste to collect the electrons from the photons. Then back to the cable that you have later on.

We do lots of other things, as well we produce the layers on a magnetic storage device on a hard disk drive and that has lots and lots of layers. Some layers of that are either made of platinum or ruthenium, so also precious metals. Ruthenium's actually not that expensive, but it's part also of a precious metal. What those layers do is they actually enable to have zeroes and ones on your hard disk.

Zeroes and ones in separate spacing.

These are the things we do. It's a global business but we're only at the very, very beginning of a value chain. There are not many people beforehand, before this, but there are lots and lots of other activities behind it before it ends up in our computers. The steps before are less than the steps after in the value chain for this to make to the end-customer.

We have grown very decently.

Two years ago, we still used to be managed in a strategy process and 42 business segments. Our top management was sitting through, 42 presentations every year for the budget and process. Imagine that. On the one hand, that's great because every single of those ones were operating on their own but already, mostly, globally.

42 times 6 (these are six standard types of factories), you can take 50 percent off, that as there are some synergies, you still have a lot and lot of factories -- small, small, small. They're very small. In the past, that served us very, very well. It served us very well because we are precious metal company and we make money with precious metal, how we handle precious metal.

The most important thing for us in the past was not how we managed people, not how we compete globally, nothing. It was, "Locally, how much can you make out of this precious metal?" Normally, if you buy some precious metal on the market right now, you need to pay immediately. Here, we sometimes had 180 days payment terms. We also had to finance it.

But because it's our own precious metal, a lot of times, we didn't have a problem with that. Because we managed this so effective, we also didn't have a problem with that, because we were making so much money out of this.

That's only one example, also, where we are changing now, and I'm just telling you this to understand where our burning platform is right now. In the past, the only thing that was important in the whole globalization is to make sure that we produced this without wastage and make sure that our customers are happy to continue to buy with us.

We were everywhere because we needed to be close to our customers, because it didn't matter whether we had 10 more people sitting in our customers or not, because, in comparison to the cost of the product it was peanuts. We were very successful. I wouldn't say that we are still not successful. However, we see that the market is changing. It has changed.

If we just think about the gold bonding wire, the market is moving away from gold. 2011, for example, the gold price nearly climbed to $2,000 per troy ounce. That was a huge turning point for our customers.

In the past, gold was gold. There was just no questioning about anybody because the performance and the price, they met. It was fine. For the performance you were getting, you were willing to pay that price, specifically when the gold price was at 300. But that, all of a sudden changed when the price almost reached 2,000.

Suddenly the purchasing guys got involved. As you probably know, once the purchasing guys get involved, the R&D guys follow, all of a sudden, there is this incentive to look whether you can use anything else - something else except gold"

That's why copper, copper-palladium, any kind of other combinations of wire became more and more important, and the market changed to those ones. On the innovation side, we weren't the best. Then the production side, all of a sudden, you compete in a market that doesn't have those gold gains anymore. You're just normal.

Your whole customers still treat you or still expect from you the same kind of service, of course, that you had with the gold business. But you don't have those margins anymore. Actually, you don't even have normal margins.

Your complete businesses model is completely different all of a sudden. You need to completely think differently. That happened not only in this business. That happened in a couple of other businesses as well.

This is an extreme example. Some businesses had it more. Other businesses had it less. Nevertheless, we changed also, on the top, our management. The new guys who came in, all of a sudden, they realized that in terms of our way of how we handle our processes, for example, they would do it differently. Now we had new competitors, new products, new buyer behaviours. It all changed very very quickly.

So what we did first of all was follow what others had done in the past that worked for them – we said "OK. We need to change. We need to really get more process synergies across."

All of a sudden, we had to say, "Well, the way we have worked in the past, that doesn't work anymore. That may have worked for you in the past, but it doesn't work anymore in the future." We totally tore down these 42 business units. Now we have 11 global business units. These 11 are then, in theory, managed on a global functional basis. We jumped from many semi-autonomous client focused sites to integrated units with global control. It drove synergies, but has a huge impact on personnel and leadership on-the-ground.

From having the sites who had strong site management, all of a sudden, we were saying, "We don't have site management anymore because the site, the small site, is now managed, by the global operations manager, sales by the global sales manager, and R&D by the global R&D manager of the head R&Ds."

You can imagine how small those sites are, how strong the site manager was in the past, and imagine what kind of people were the second level. Now we don’t have the site managers – and we expect the 2nd level to report to global, neither global nor local 2nd level have dealt with each other before.

In theory, it's a good idea. But our organization is not ready for that because the next level, they only have also the potential to work with the local boss. We cannot attract people. If you don't even have 15 million sales in a site, you can be lucky, but you cannot attract a person...

The thing is, for us, because we're operating in so many niches, I would say that what our customers demand is everywhere the same. For example, if you go to the semiconductor industry, there is the...Or let's stick with the bonding wire just as an example.

I always reflect back whether that also applies from other things. In Asia, that's the semiconductor industry. The semiconductor industry, they produce iPhones or computers. There is no difference on their requirements whether it's produced in China, in Taiwan, in Southeast Asia. There isn't.

The bonding wire product that is going, that we do in Germany, also to the electronic industry, that goes into automotives then. That is slightly different and has different dynamics because the market is. It's an automotive market, in the end. It's not a consumer market. There are differences between customer segments, but few differences between geographies.

But, in the end, if it's for the semiconductor market, it's a global market. It doesn't matter where the customer sits, because that's one market. Same for heart rate monitors.

The components for heart rate monitor, that is a global market. There is not a lower standard in China than there is in the US. It just doesn't exist, because it still needs to go into the body of someone.

In theory, for example, we produce stuff here that our customers who produce the device in itself, the heart rate monitor in itself, they don't even want to sell it into the US market. They will sell it into the China market. That's why they're here. That's why they're closer.

They still need to have the FDA approval. They will still do that because the final product could, without them knowing, get back to the US, so it's a global market again. Photovoltaic paste. It doesn't matter where the module is produced.

Everybody wants to have the latest paste that gives you the most return on investment basically of this paste, so the lowest precious metal content with the highest way of extracting the electrons out of it. That's also a global market. In a lot of our industries, if we're there, we are in a global market what requirements need.

However, how to talk to a customer in China is, of course, different than how to talk to a customer in the US or to a customer in Europe. That one is different. But the product and the specification of the product is the same. How would you describe this here?

I told you we are now structured in 11 global business units, well we do this to maximize the sharing of knowledge on sectors and customers. We also have one that is for developing new businesses. We should have that one based in Asia – but we don't, yet!

Our HQ is very local, its in a small town, we are family owned and pretty much everyone has the same nationality, I wish we were more international as we tend to forget the rest of the world.

I wish we could shape the evolution of the industry but we can't. The market moves us...because we're so niche. Even though we're sometimes very strong in our niches, sometimes we have competitors. But it's our competitors and customers who shape us, not the other way around. And they are getting faster – the customers demands and expectations are changing, competitors are new and behave differently – and the markets are globally interconnected. We have moved from relative stability and high margins pre 2011 to high disruption, volatility and low margins – and it took only about 2-3 years!

With this restructuring starting only this year, we decided that we even want to have global supply chain. We have to be more nimble – and we can do that by coordinating across the global network and having options through leveraging all those previously semi-independent plants.

We just took the operational buyers and put them also under the centralized function here to even just see how they execute purchase orders, do they even have proper SAP management behind. We had already a bit more strategically than here sourcing organization, supply chain organization in Germany. But they then also only looked at Germany. I would say that we are at the very, very beginning. But that because of oue network of factories – what we have been thinking of as a disadvantage could actually become a great source of strength.

We still want to do as much as possible in-house. We don't want to outsource. We just redeploy the resources, so not about outsourcing, which some items I agree with, and some items I think we are not really utilizing the competitive advantages that other companies would be utilizing. We don't have a lot of outsourcing appetite, I would say. I would put it here.

The thing is we are active in 126 countries. We're basically active already everywhere where there is something.

What you can say, and that is definitely also true about the past, is that we have a very, very successful track record of M&A activities, which you cannot say about a lot of companies. We buy smaller companies. Normally, it really works out. We are able to really configure for strength in a market – we buy, we integrate, we perform.

We've bought a lot of companies over the last years for us being so relatively small. For us being so decentralized, it's actually quite interesting that that was actually a success strategy -- how to even build these decentralized companies through acquisition. This makes us nimble and yet powerful

We also divest – we just divested one of our businesses as well. We are now very, very cash rich. We can and we will do more deals.

We have our board of management of four people. Then we have the global business units where you always have 11. So approx. 65 people at the highest level who really lead and shape all of the global company. There is a strong sense of belonging amongst us.

We have also just re-launched our vision. We have the lighthouse as our symbol, where we want to go with the mission. We have a purpose yes. We have something which is quite strong.

In the past, it was everybody for themselves. Then it was very difficult to do that because you need different KPIs for that. Now we are coming together. In new ways. But we are finding that our strengths are still there we just need to use them differently.

Data Services Co

Company Profile:

- B2B, Data Services
- Active in >40 countries. 100-200,000 employees
- Self-Assessment: beating best global and local players

Mechanisms of Advantage:

- Globally coordinated with local differences
- Heavy emphasis on customer centric development – cross leveraging best practice, experience, capabilities and relationship access globally.
- Single culture, global mindset

Transformations (Agility)

- **New business model:** Moving to services (customer solutions) rather than selling technology.
- **New skills:** Integrated solutions and approaches to customers, organized by customer industry strategic business units.

Enablers & Inhibitors

- Culture of collaboration
- Sense of purpose, proud heritage

Details of industry and company

Given the company heritage, we've been a pretty innovative company willing to embrace new ideas and try them. If you look at our history in US with a lot of emphasis on research we have come out with so many new developments.

Now we are seeing the same sort of development in our research center in Europe where they are willing to try new things. A lot of new innovations are actually coming from those research centers. And now also in India.

The question I have is whether they can operationalize or commercialize those innovations. That's the big question, right? Do I consider that as an entrepreneur? Entrepreneur in the sense of willing to try new things and might take risks but there could be cases then, of an inability to be able to commercialize that.

I was thinking that they can be specific and also within the organizational concept related with your business platform, future performance. As part of the Global Growth Initiative where we want to increase our footprint besides the international group, they actually set up a committee just making sure that they are steering us towards the right direction. There's a C- level executive heading up one level, so direct reports to the CEO.

She's heading up the organization to see to the development of the individual growing markets like Asia, for example. They actually have a platform where they will review the progress of what we say we do, and then hold us accountable for the outcome. I consider this a separate special unit within the organization, a concept really, in building the business platform

Surprisingly perhaps the main markets are countries in which we compete they evolve slowly... but most of the businesses where we compete are moving really fast.

Everything is organized by industry and horizontal capabilities. If you have, for example, a high- tech technology industry vertical, everyone within the organizations lines up behind that up to the global industry leader. The same thing applies to the capability. If we have a customer care capability across all industries, the customer care capabilities delivering people who only work with global. Overall for the firm the local managers are unknown to central to global management. There's no in- between there.

Do locals establish the strategy? Yes, but only the business execution strategy. You don't dictate the corporate strategy. Corporate will decide what everyone will do; corporate will decide how we will go to market. It's a strategy about choice. But in region we decide which industry that are we targeting, and which capabilities that we offer. We cannot do all things for all people. We establish the local strategy within a framework of global strategy. The global strategy would dictate direction- ally what you do, but you can sort of adjust it.

There is a sense of belonging back at the home base, yes, but it does not permeate global force. But we do have a global mind- set yes, we are very successful. So we have a bit of a mix. However the global leadership, well they are all mostly Americans, we seem to think that African Americans is diversity, so no we don't have much nationality diversity!

Globally, I would say yes, we are the number- one player but in Asia there are particularly strong players e.g. Infosys and the Wipro.

We get lots of inspiration and insight from our 'dream sessions' with clients. How they want to grow their company, where they want to be and so on. That's why we call it a "dreaming session." We want them to think big. Then we start to think about potentially, what can they do, in terms of...supporting them.

We say, "Where do you see yourself in three- to- five years? What do you want to be? Who do you want to be?" and so on. Then, we decide where exactly, how we can be relevant to them. Solutional capabilities, that we can empower them, to make them successful. That's one way that we are looking at working with the times.

But these sessions are typically done in the research centers, mainly in US or Europe! We are starting in India, trying to apply the same thing, the same sort of innovation, taking the time through the dream and innovation journey. But this is an example of quickly replicating 'best practice' insight from one place to another. We have the capabilities in the three regions to be able to do that.

For example, say, we have an Asia- Pacific client. For example. They have a big base here. They want to talk to us. You could invite them to India. They say, "I would like to see Europe or US facility," we can actually also do it over there. Depending on the client. This network of options and support actually increases our flexibility and agility.

Generally, it makes more sense to put them closer to where their home- base is or where the central decision- making authority is. If this particular client, although it's a US company, they have the locust of power...They have the decision- making authority in Asia, then you want to do things differently. By all means, I think they should go to India or something like that.

But having said that, that doesn't mean that in Europe they have all the same capabilities relative to the US. They tend to have some commonalities, but they also have initiatives that are born out of Europe and the problems that they're solving for the Europeans clients. By looking at all the three research centers each of them actually have their own certain niche capability, but then there are also areas that they have common capabilities, that would be better to cater for the clients. This is definitely an advantage of being global with multiple in-country presence, but you have to design in for both the differences and the similarities such that they integrate not duplicate. The three of them actually collaborate very closely together so there are initiatives that they are working on. They try not to duplicate efforts.

For example, if the US is focusing on certain areas of mobility, for example, you do not want the same research capabilities to be working on the same projects in Europe. You want to spend time on something else.

Over and above the big research centers they also set up demo centers they would set up. So in the case, for example, in Singapore we actually have a...within my office we actually have a demo center, a small‑scale center that allows us to be able to demonstrate the capability, the innovation and to conduct small‑scale dreaming sessions potentially in conjunction with our counterparts in Europe.

We could actually have the same sort of demo capabilities that we could invite the folks in Europe, although it's a different time zone, to be able to do the demonstration on the same session so developing satellites to cater for more demands of the client.

Especially Singapore you think about in the case of smart city, right? Over here we are talking about a smart city and we want to invite our public sector customers globally to Singapore.

I think it's also the people. It's also the diversity of the capabilities of...the diverse capability of people. You see, you could have one big...I could have one big research center only in the US, but you may not be able to attract all the talent.

A lot of the talent will want to stay in Europe, for example, and how do you ensure that we are able to bring the capabilities to the US? Not everybody likes to live in the US.

I think the benefits of having these three, number one, having the base closer to the customer. Yes, I think it's still close enough...bringing people from Germany to France is still closer than bringing Germany to the US.

So, number one is getting closer to the customer so that you could develop more customer‐ centric solutions that are more aligned to the client needs locally. Not everybody thinks like the US. Also if you have one research center all in the US you may come up with a very US‐ centric type of solution.

I see the benefit of having a diverse group of people working on different research projects. I think that would yield, hopefully, more breakthrough products than having one US‐ centric thinking...better insights, faster time to market, for example. You work closely with a client in Europe, for example, you definitely need to be able to work much closer with them and bring the solution faster in that type of market.

Yes, you use nimbleness, I would say be able to adapt to the local market, be able to go to market much faster. For example, something that we developed, say, in France could well be used in Australia, but whatever they develop in France may or not be applicable in China, for example. So we need to think about cross-learning between relevant markets, not all markets.

I would argue that this understanding of different market differences and similarities does give the company the competitive advantage to the extent that it is not easily replicable. If you are a smaller setup then you can really afford just one centers of cost. You require the scale to be able to build the same capabilities that we have. It is not impossible, but it is not easily replicable in a sense.

Bear in mind, a lot of this research and intellectual property, I think it takes a while to build. It is not something that you could just build overnight. All these capabilities take a long time to establish...

Another advantage in my opinion is to have diversity of views and capabilities because you can be a very large company and you can hire all the people and put them into one efficient location, like some companies are doing in China, but then you may end up having similar ideas and the innovation that you have, I subscribe to the belief that if you have a diversity of views where your people are, you have this network, you tend to come up with more novel ideas. That is what I subscribe to believe and we use that for competitive advantage.

Also what I am seeing, the fact that we are able to move some capabilities that are developed in Europe to US and people are embracing them because it does show that it has proven to the client the sort of view, the outcomes they are looking for. I certainly would say that innovation will travel, so 'yes' another advantage of the global firm is to be able to move resources around.

But is this consistent across the entire organization? Probably not there, but definitely there are people that are embracing new inventions and new ideas, new visions coming from other parts of the world.

But also in sales to major accounts, the global network and being in diverse market contexts is an advantage, if you can use it – for example, you would have someone in

France flying you to Singapore to talk to the Singapore government and then incubate maybe some solution and then maybe sell them the ERP solution, for example. In fact we not actually have the sales capability in every nation. We are definitely acquiring companies to give us the operational platform to try to get into the market to offer a solution for local clients.

There are a few key things that I would like to add through acquisition. Number one is acquiring the capabilities that are an extension of what we already have today. Within that is this thing, geography for example. In the US, people are buying into that company. It's probably because it seems to be a profitable company. You bring it on but are you able to put higher profitability, boost the profitability. The other option is that I buy a complimentary solution. It could be services together with a software application. That will give me the capabilities to drive at a margin.

Another area is brand new into a market. For example, in the case of Asia, I could buy things that I already have the capability in the US, but I do not have it over here. I could buy something that allows me to penetrate or expand to a new industry, which I do not have a presence. This is definitely an advantage of being a global and connected company – not only do I have the ability to buy companies, but I also have clear ideas of what works and what doesn't to unlock value from experience elsewhere in the world and I have platforms and teams that can help to ensure synergies and value creation and capture opportunities are identifies and successfully implemented.

We are also trading out pieces of the corporation as we read what the trends are and adjust where and how we will play. Being global we have advantages in this – firstly we are on-base with our own people. They have the industry knowledge they could access because they have local knowledge. I think what's the key thing about being global and building footprints in the geography that we do not have a presence within. Plus we have contractors and partners, like lawyers and brokers, who gain the local knowledge, and work across clients and are therefore able to see more opportunities for us. I can go and talk to investment banks and say, "Hey, Morgan Stanley or JP Morgan, can you help us scout that?" But that's not sustainable. All we want to do is to be able to build the capabilities in house.

Over time, we're going to have our own people to be able to do that rather than just rely on external...Initially, yes, I think you want to be able to jump‑ start and work with experts and brokers and whatever. In the long run, you want to have your own people to be able to spot those opportunities. That's more sustainable in the long run. That's the reason why I set up the capabilities in Asia.

I could give you another example of how being global and working across a diversity of markets helps. We do litigation services, meaning we will do e‑ Discovery. We will prepare court papers and stuff. We'll see to volumes of data, and may scan the document. You could do indexing and so on and so forth. Now in the US, they have moved away from more the paper based type of capabilities. They are more e‑ Discovery. Everything is more electronics. In this part of the world I still see there's still a demand for paper based type solution, even countries like Australia. We could still see a demand for more paper than electronic. There's still a demand. Now with that insight I can drive market evolution in Asia, in Australia, to move away from paper to electronic, I can bring in experts from the US legal world to explain how things work to the Australians etc. and I can show that I have a solution ready to go.

I think that being global you have the option of number one to move from one geographic location to another geographic...,I want to move the capabilities somewhere, or I can choose to let go of these people and hire some. This optionality is another advantage for a global company, we have more options for engaging and managing talent then less global firms. Being global, definitely you have the advantage, but beyond that I think being global you also have the opportunity to benefit from the multicultural dimension. For example, we could actually bring Asia people to the US, and make sure that they understand the Asia dimension. Make sure they understand the Asia dynamics. Or / And we could have international assigning from the US or the Europe to Asia, where we could expose them to the Asia culture, and to the Asia way of doing business. Eventually when they go back they could an advocate for the region.

Advantage Number Two is there's so much growth over in Asia Pacific that's untamed. You look at the company being in the US, no more providers in a few market segments... If you're a player, you have to be across a few industries. There are a lot of untamed opportunities in Asia. We are late into the game, but there's still a lot of opportunities for to go after...just want to be pushed why the company will want to...

Also today a lot of the US clients are not just operating in the US. Let's take Citibank for example. You could be servicing Citibank really well in the US but its not enough, in order for you to be relevant to Citibank, you need to be global. Citibank will tell you that, "I need you to be in China, India, South East Asia. Why would I want to sign a contract with you when I typically need a global contract?" If you do not have a presence in Asia- Pacific, then it's much harder for you to be able to compete.

We used to follow a geographic model. You had the US, you had Europe, especially for service. I'm now speaking for services. Technology is very different. We don't even touch. It was more of a geographic model. Until about five years ago we acquired this company which is both technology and services. In the past, the acquisition model was that you acquire some company, you leave them alone, you make them a strategy business unit. Then they just run by itself. But now we are seeing that we can make acquisitions and then use that as a pivot of both our strategy and our capabilities.

As a corporation this was a major transformation and I think we are still going through it. I would say everybody has sort of woken up we just made 143,000 people just turn in one direction. Everybody will recognize that this is a big change. This is by far the biggest change of the company, the moving to this model, the moving to a more services- led company, rather than technology company. As result there's a lot of reshuffling, moving people around, trying to embrace the whole culture. They're moving people from technology to services, making sure that they are able to do the portfolio right. Being relevant to customers sometimes is not just about selling products or selling solutions. You want to be able to do both.

You want to be able to sell a portfolio solution to the customer. I think, right now, we are still going through the change. We are not there yet, honestly. I think it will take a while. For such a massive change, I think it will take, honestly, my opinion would be a few years before we see the end. There's never a best organizational model, as you know. I think it's the right model and focus for now and definitely the right direction relative to what in the past...If you have an SBU- strategy business, everybody can't do their own things in silence.

Appendix 4: Taking your game to the next level.

Take Your Game to the Next Level

Dynamic Advantage - competing for the future today.

1. Prologue

The skill of predicting the trajectory of an oncoming ball and coordinating your movement to intercept it is called Coincidence Anticipation Timing. It is pivotal in dynamic sports like tennis or soccer. Top players have excellent coincidence timing; they seem to have more time to get into the right position. The same is true for businesses in fast moving dynamic markets. The out-performing firms are those that are able to sense where the market is going and reconfigure their capabilities and assets to be in the right place at the right time, to make the right strategic plays.

Professor Clayton Christensen of Harvard Business School famously stated, *"the way the world is made is that we only have data on the present and the past. Yet we have to make decisions for the future of the firm. The only way to peer into the future is through the lens of a good theory"*. Firms need to improve their Coincidence Anticipation Timing to peer into and make plays for the future. A top tennis player does not wait until the ball arrives beside them before preparing for their shot. Similarly businesses cannot wait until data from the current market is collected before determining their strategic play for current market conditions.

Top athletes improve their coincidence timing and are repeatedly able to get into position, make great shots and win matches. Similarly firms must get into the right position and make the right plays to out-perform their competitors. In business I call this achieving Dynamic Advantage.

Approximately eighty per cent of the value of most listed firms is driven by expectations of their future earning stream. Yet past and current period results are **decreasingly** relevant as indicators of future performance as the speed of change in business, technology, trends and markets **increase**. For many companies instability is the new norm and agility and adaptation are essential capabilities.

The majority of the value of a firm is therefore determined by expectations of how well that firm will perform in an uncertain future context. The key questions for predicting the future performance of the firm should therefore focus on the capacity of the firm to, peer into and prepare for the future. Specifically, its ability to:

- **Sense and Make-Sense** of the forces and trends that are reshaping the competitive context (i.e. to see where the 'ball' and the 'players' are going as early as possible)

- **Seize upon opportunities and insights** in such a way as to be able to determine what 'plays' to make. Spotting gaps in the market, opportunities to leverage existing advantages or steer away from threats.

- **Reposition and Re-shape** its assets and capabilities and the scope of its businesses (i.e. to move into the right position and to align the 'body' of the corporation to empower it in making the right play at the right time).

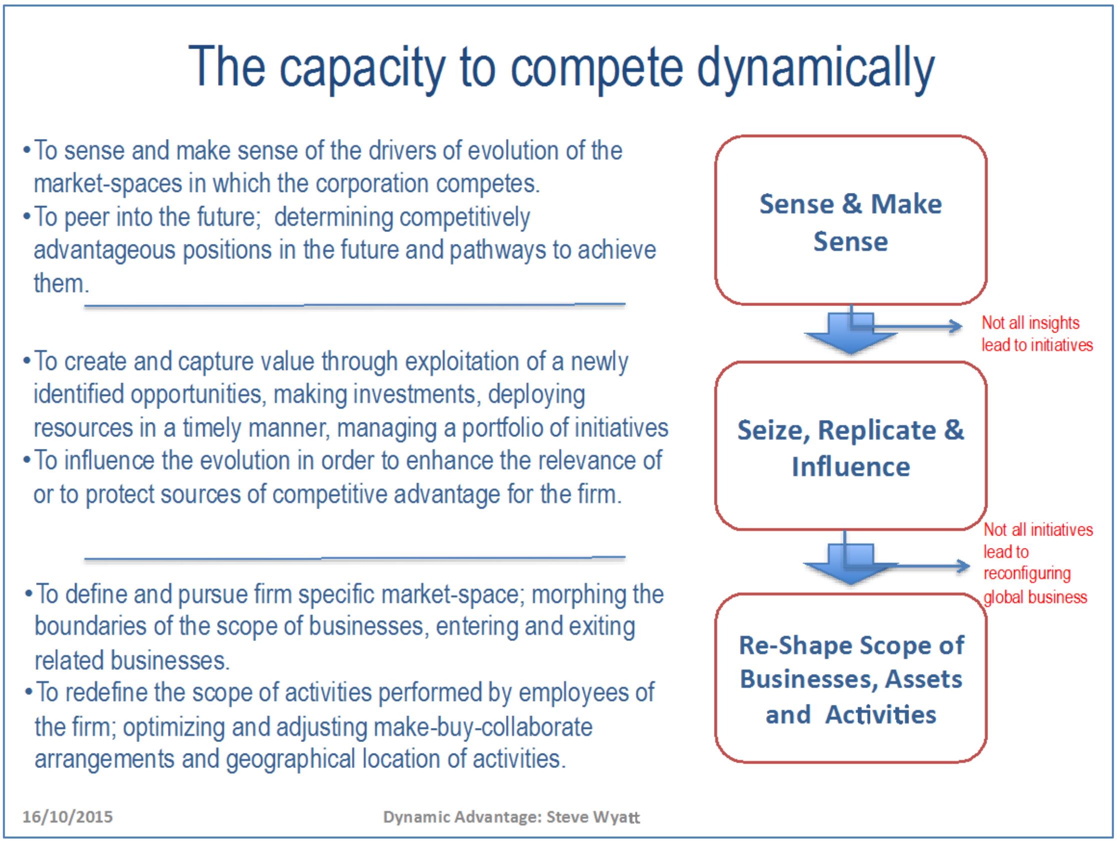

Figure A

2. The capacity to compete dynamically

1. Sense & Make-sense

Global firms can achieve advantages in their ability to Sense and Make-sense of the changes in the market-spaces. The diversity of markets in which the firm operates is an advantage to sensing how their industry is evolving. Visibility of emerging threats and opportunities and enhancing their frame-of-reference helps them to make better decisions by being aware of different perspectives. There are three common mechanisms:

1. Firms look for weak-signals across the network and globally source Idea-fragments. A weak-signal is an emergent technology or behaviour that can be an early indicator of a future direction of market behaviour. An idea fragment is not a solution, but a dot, an insight or a data-point that in isolation may mean little. When dots are connected they can be a breakthrough business innovation.

    - [Engineering Co]'s global reach and listening network has highlighted a weak-signal; competitors from emerging markets, in particular China, who are challenging assumptions about customer needs and behaviours that underpin [Engineering Co]'s approach to market that has built an enviable reputation for the design and manufacture of excellent, robust machinery that holds its value well and meets or exceeds regulatory requirements.
        - As one industry executive noted "*we have been worrying about features such as operator safety, equipment security and effective life; whereas many customers expect the operator to sleep with the equipment, to be able to fix it themselves, cannibalizing other nearby machines if required and at the end of the job, they are as likely to bury the equipment as to take it back to the yard. We might not like it, but we have to deal with it.*"

- Google's global network of relationships helps it find the right talent and when appropriate acquire companies, teams or technologies before competitors. Google emphasises global reach and future market sensing to acquire teams and technologies often before they become widely known. Google's ability to interrogate billions of search enquires daily also provides it with the opportunity to spot not only emerging trends but also to identify specific individuals who are active in particular fields.

2. Knowledge creation through market engagement is the ability of a global business to respond fluidly to local market opportunities or threats. With a mind-set of driving the business results locally whilst retaining coordination across the network, the firm undertakes market-place initiatives that can be regarded as experiments. The new knowledge so created can lead to new business model and market discoveries.

- [Life-Sciences Co], a Swiss based agrichemical company formed in 2000 through the merger of the agribusinesses of Novartis and Zeneca, is able to improve its speed of learning by being able to simultaneously conduct multiple market-place experiments across a wide range of market conditions. A structured series of trials for different models in several markets brings advantages to the development of new crop go-to-market solutions. [Life-Sciences Co] is then ready to synthesize the learnings into a new integrated approach.

- [Financial Services Co] operates in contexts of great ambiguity and uncertainty due to shifting regulation and technology. They place a high priority on leveraging their global networks to identify insights that might help them decide how best to manoeuvre. This enables them to both lead markets as well as protect their reputation as a trusted, reliable partner. By actively engaging in discussions with regulators and lobbyists in markets globally, [Financial Services Co] is able to assemble a highly informed and integrated perspective that regulators in other territories may struggle to obtain. [Financial Services Co] empowers senior leaders to open discussion to "*feel the way across the river, one step at a time*"

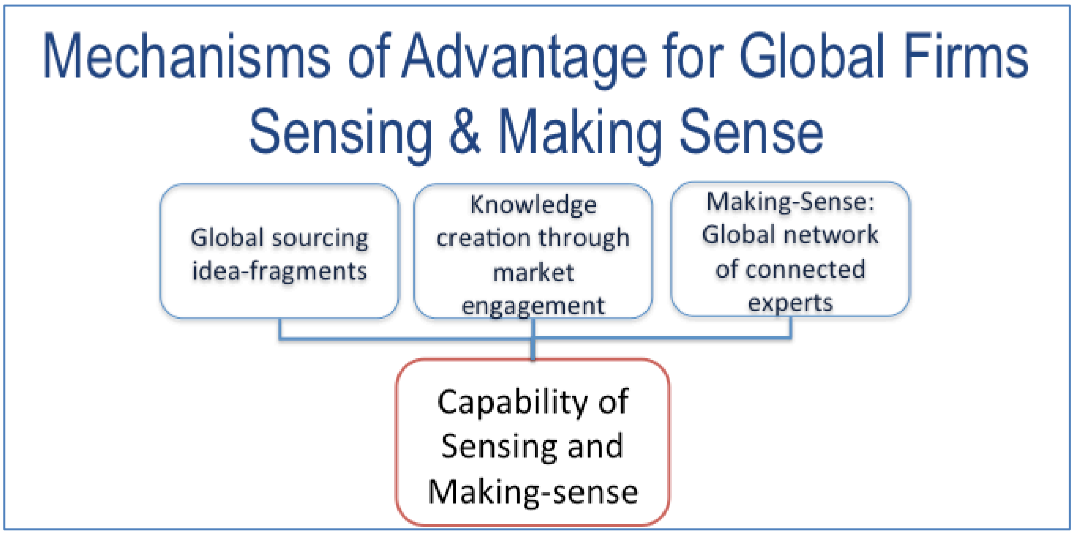

Figure B

3. 'Sense-making': Operating across a wide and diverse network of countries helps subject experts within a firm to stay on the leading edge of knowledge development within their industry. However these individuals need to be connected to the market-places in order to be able to support the operating entities with timely, relevant insight.

- IBM has designated thought leaders whose role is to contribute leading insight in their topic area, publishing internal and external papers as well as benefiting from the flow of insight and information in the knowledge system. As one executive noted, this knowledge gathering needs to be structured in a global way. *"It is an advantage for the thought leaders to be based in the markets which are evolving most quickly as we need to be connected to the customers that are pioneering"*

2. Seize and replicate quickly

Global firms are able to identify and seize on the winning 'plays' either from their own experiments or from observing competitors. They are then able to adopt or adapt that solution in other relevant markets as well as to divert supporting resources to press home an advantage.

1. Innovative market clustering. A growing number of leading firms are migrating away from regional groupings of country markets and instead creating administrative clusters of markets that display similar competitive or demand characteristics. This approach can greatly facilitate rapid replication of insights and solutions between relevant markets. The dissemination of new insight is driven between country managers, who may be facing similar challenges, as well as by the cluster hub.

- [Beverage Company] now operates with eleven clusters. The product mix thought to be most relevant for the countries within any one cluster is determined by global and cluster leadership. The cluster also provides guidance for brand activation, investment and channel management. The country management team is responsible for actual selection of the product mix, activation and operations. This structure provides a deepening of insight into the most relevant market-place activities and quickens the exchange of ideas and solutions between countries.

2. Deploying enabling resources. Enabling resources are technical, functional or project experts that can be flexibly used to add extra momentum to initiatives such as quickly scaling a successful pilot or rolling out a new go-to-market approach. If these resources are controlled at the global level, then the opportunity for deployment against global priorities is increased and more markets may be covered.

- Global management at [Alcohol Co] directs "*Flying Doctors*" (internal consultants) who travel into countries to provide required support in several areas such as supply chain management, route-to-market strategy or production. Previously regionally controlled supporting resources were collocated at a regional HQ. Now the teams are deployed by global leadership and are based in cheaper locations, such as Vietnam.

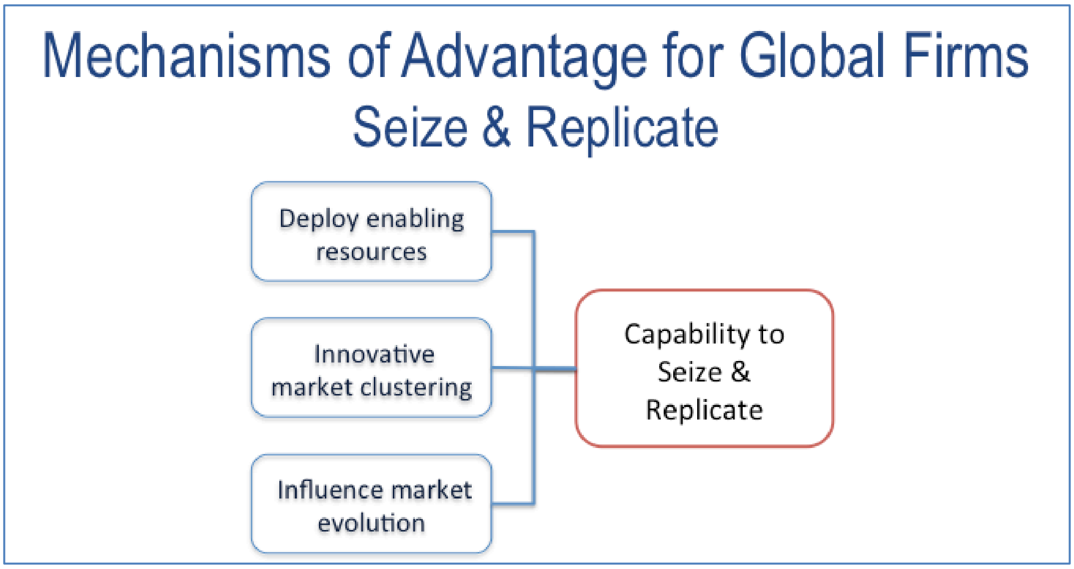

Figure C

3. Influencing market evolution. The out-performing companies invest significant attention to influencing the evolution of a selection of the markets in which they compete. Markets of significant potential value with high ambiguity (e.g. evolving regulation or technology) merit a greater investment in effort to shape the evolution of the competitive context. Major global firms with a reputation for strong corporate and responsible governance are rightly included in discussions with regulators who are considering adjustments to policy. Global firms can contribute intimate and up-to-date knowledge from multiple jurisdictions and markets. They can also provide examples of what has worked and what has not. In addition they can disseminate insight into the debates and points of tension between policy-makers elsewhere.

- [Financial Services Co] is concerned about the evolution of financial market regulation in major markets globally and also in emerging markets of major importance.

- [Media & Entertainment Co] is focussed on intellectual property protection, market access and fair competition.

- [Engineering Co] sees the need to influence emission regulations and enforcement and health and safety standards as key to future market performance.

3. Ability to Re-Shape & Reposition the firm

Having Sensed and Made-sense of the evolution of the market and identified suitable initiatives to Seize and Replicate the firm must have the right configuration and stance to execute the play successfully.

1. For many firms, historic definitions of industries and competitors has little relevance for characterising the market-space in which they operate. As such, firms operate across industry boundaries the scope of activities of any two firms are unlikely to be an exact match. Each firm defines it's own competition arena.

- A [Media & Entertainment Co] executive reflected, "*We are expanding into new business areas. We bought the global businesses of MXX and now LXX Film. You could argue they are similar businesses to what we were in, that it is a sheer expansion, but they have also confirmed our thinking of ourselves as a consumer products and experience business – that is a better definition of* *how we think about ourselves now, not confined to media and entertainment. Another good example would be MxSx, the multi‐channel network that we bought, the world's largest multi‐channel network with over 50,000 artists"*

- An executive at Philips reflected on the advantages of their global reach in morphing the portfolio of activities, *"This is an advantage of being a global firm, we can be in a new line of business somewhere, with scale and learning a lot yet without having to fully commit the organization. We are heading towards a big transformation, by divesting lot of businesses, and investing in new ones."*

2. Continuous transformation and adaptation of the organization. Like tennis players perpetually positioning for the next shot, so too are companies increasingly transitioning their organizations. Managing transformation well has become a continuous activity at several firms and has become a critical capability to reflect the 'new normal'.

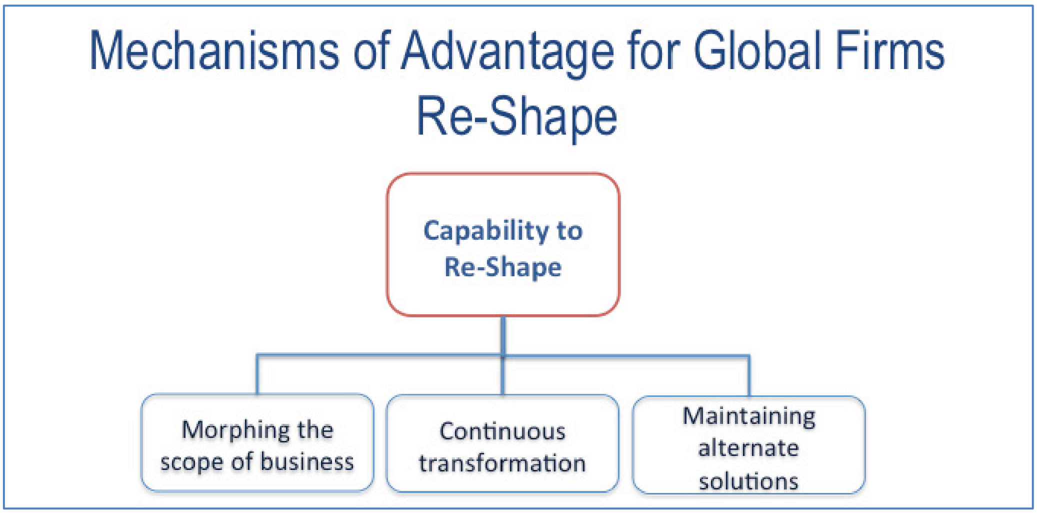

Figure D

- IBM has spent the past 4 years undertaking a continuous series of reorganizations as it pursues the transition to a new set of business lines; *"Our choice is clear"*, says CEO Ginni Rometty, *"We pursue a model of high-value innovation, rather than commodity technology, products and services. Our commitment to this model compels us to reinvent businesses continually; grow new ones organically and through acquisitions; and occasionally divest businesses that do not fit our profile." The latest restructuring moves away from the divisions of Hardware, Software & Services to* create new business units for Research, Sales & Delivery, Systems, Global Technology Services, Cloud, Watson, Security, Commerce and Analytics.

- For [Industrial Products Co], their transformation journey was less caused by the financial crisis triggered in 2008 or technology disruption, but instead by the heights reached by gold prices in 2011. This triggered their client base into an irreversible review of their choice of materials for bonding wires. Transformation comes hard for a 160 year old company that excels in a niche industry, but when their clients were forced to seek out alternative solutions, [Industrial Products Co] was forced to seek efficiencies which resulted in the decision to transform their go-to-market strategy and organization, migrating from forty-two semi-autonomous business segments to now eleven globally coordinated divisions.

3. Maintaining alternative solutions in parallel. Many firms that have long been pursing efficiency at the expense of agility are abandoning the concept of "one size fits all". The pursuit of efficiency demands standardised processes, products and governance. Yet ambiguous evolution across diverse and uncertain markets needs agility and adaptability that enables firms to develop alternative parallel options. The dilemma for senior leadership is how to further pursue overall efficiency whilst also being flexible in the face of uncertain, evolving market contexts.

- For [Life-Sciences Co], the traditional approach to markets reflected the pharmaceutical sector of the parent organizations with products arranged by chemistry and targeted to address disease types. Starting in 2012 [Life-Sciences Co] reorganized into crop-based teams and formulated a range of products that corresponded to the specific life-stages of crops. Across a wide range of countries, cultures and climates there is an equally wide variety of farmers. [Life-Sciences Co] has discovered the benefits of maintaining two approaches. The traditional chemistry/disease model and the new crop/life-stage model both provide comprehensive solutions to best serve the diversity of its customers.

- A [Financial Services Co] executive describes the need to be flexible across territories over time with other global financial institutions *"sometimes we are competitors, but most frequently we are suppliers and customers of each other. In some places we might be the supplier of services to our global peers and at other times we might be the customer of* *the same services from these same global peers. We always need to adapt and leverage each other's strengths, and of course this changes depending on where and when we are".*

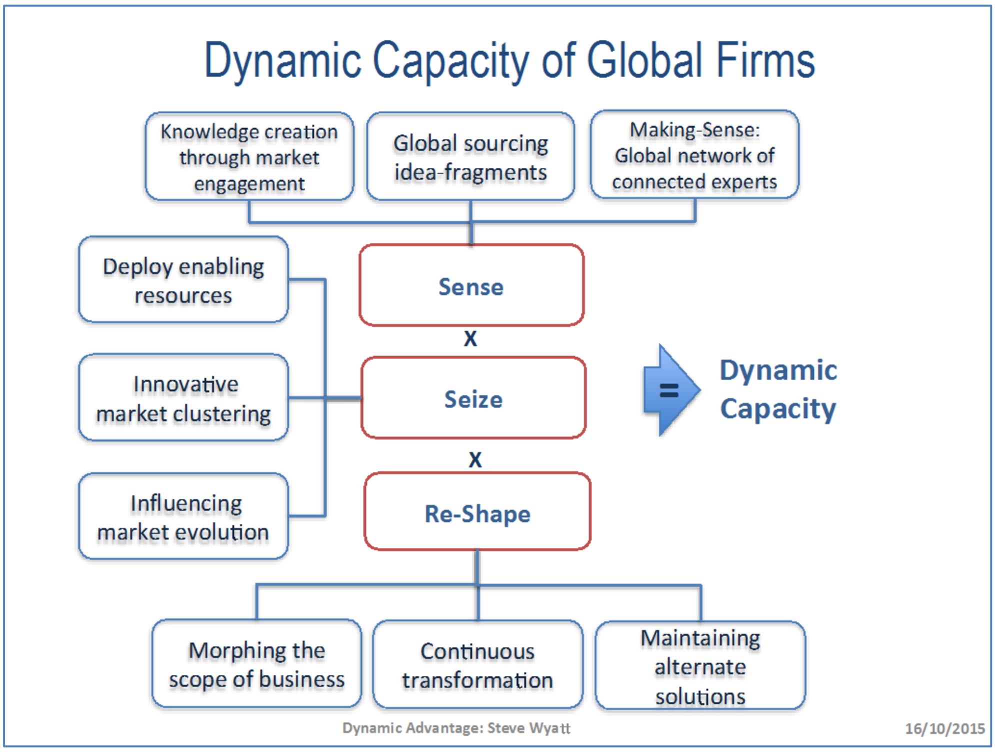

Figure E

The above diagram (Figure E) shows how the three capabilities (Sensing, Seizing, Re-Shaping) are supported by nine mechanisms that a firm with global network of operations can leverage to enhance its overall capacity to compete dynamically i.e. to lean-forward to compete for the un-folding future. The development of all three capabilities is required if the overall capacity to compete dynamically is to be maximized. The capability of the firm to Re-Shape in a timely and appropriate manner is dependent on the strength of the capability to Seize opportunities which in turn is dependent upon the capability to Sense the changes that are unfolding. The overall Dynamic Capacity is thus the product of the strengths of the capabilities of Sensing, Seizing and Re-Shaping.

3. Pursuit of Dynamic Advantage

Far from being lumbering giants with slow reactions, several global corporations have learned how to leverage their extensive networks and their participation in a wide diversity of market contexts to increase their capacity to act dynamically. Today they are out-performing local and global competitors and they are confidently investing in preparation of enhancing their performance in the future.

The leadership teams of major global corporations are faced with the dilemma of optimizing results today whilst simultaneously building the capacity of the firm to act dynamically and prepare the corporation for greater success tomorrow. Performance results today provide the fuel of funding and stakeholder support that are essential for the top management team to be able to invest appropriately in building the capacity of the firm to act dynamically.

1. Drivers to build Dynamic Capacity

There are two significant drivers that indicate whether a firm will successfully develop its dynamic capacity:

1. The **Motivation** of the top management team to 'lean forward' into the future rather than focus exclusively on the current period.

- Motivation is significantly influenced by whether or not the top management team has embraced a clear sense of purpose that motivates, unites and guides actions and decisions, irrespective of market volatility and ambiguity.

- The pursuit of the purpose needs to be supported by the alignment of performance indicators and appropriate characteristics of the leaders themselves.

2. The **Ability** of the leadership and management cadre to simultaneously pursue both the optimization of today's performance and to prepare the organization for tomorrow's future.

    - The ambidextrous capability of managers and leaders to simultaneously pursue two goals is a crucial indicator of the ability of the organization to develop dynamic capacity. Leading firms invest in training that supports managing in ambiguity and to adopt an Also – And approach rather than tolerating trade-offs, compromises, dividing the organization or sequentially swinging between opposing objectives.

    - Developing a mind-set that enables individuals to perceive, receive, integrate and apply insights derived globally and to work effectively with nationality diverse teams.

2. Opportunity to leverage Dynamic Capacity

Not all markets and industries evolve at the same rate. Firms that compete in faster evolving industries and markets have the opportunity to achieve greater competitive advantage. The capacity to act dynamically is more crucial in these contexts.

When the opportunity for the corporation to act dynamically (which is indicated by the speed of evolution of the market and the industry) is considered in combination with the capacity of the firm to act dynamically, there is a strong prediction of the performance of the corporation relative to its peers.

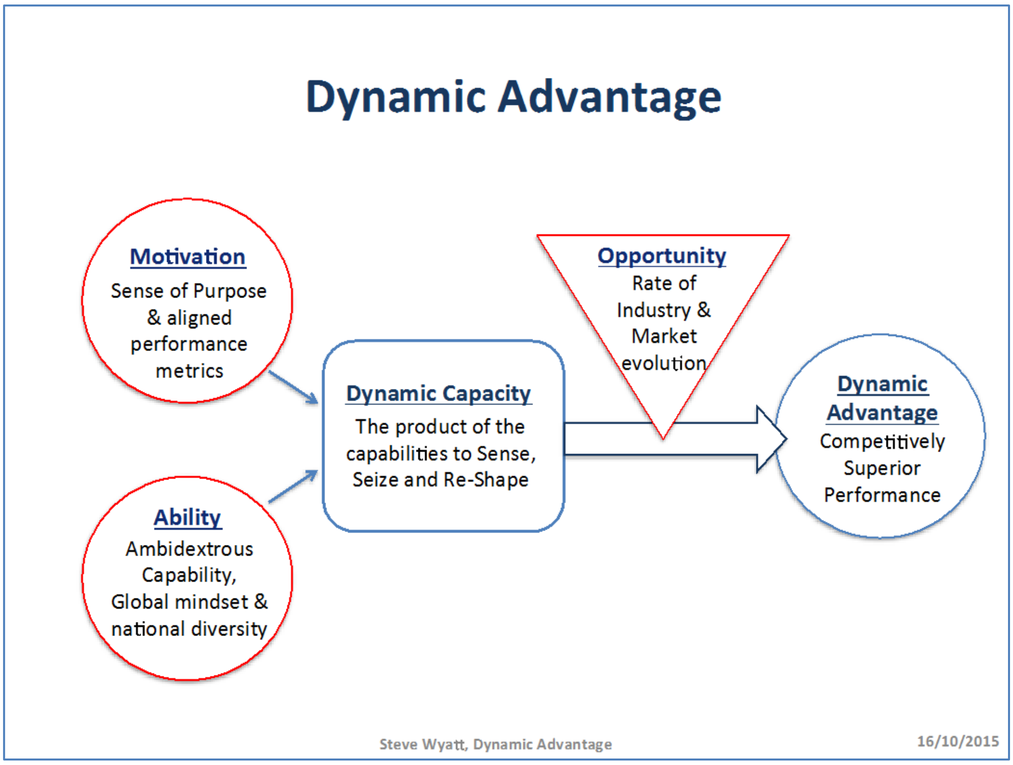

Figure F

3.3. Competitive Advantage achieved: Dynamic Advantage

The companies participating in the research self reported the rate of evolution of the markets and the industries in which they compete, using a 1-5 scale. They also reported their perception of their operating performance compared to their major competitors; providing an assessment of their Competitive Advantage compared to global peers as well as to major local players. For the comparison of performance they also used a 1-5 scale, where 3 indicates that they have similar performance compared to competitors; 4 and 5 indicate that they are out-performing and very significantly out-performing competitors (performing twice as well). 2 and 1 indicate that they are under-performing and very significantly under-performing competitors (competitors are performing twice as well). Using survey responses to questions about the strength of the mechanisms underpinning the three capabilities of Sensing, Seizing and Re-Shaping, I also computed the level of Dynamic Capacity of each firm. With these inputs I was able to analyse the relationship between Dynamic Capacity, Opportunity (rate of industry and market evolution) and Competitive Advantage being achieved by each firm. Analysis by linear regression demonstrates a very significant relationship between the level of Dynamic Capacity and Competitive Advantage of a firm under the moderating influence of the level of Opportunity.

The chart below (Figure G) indicates the positioning of the firms by their level of Dynamic Capacity and the level of Opportunity. Firms in the lower half of the chart compete in more stable market contexts, i.e. have a lower than median level of Opportunity to leverage their Dynamic Capacity. The average competitive advantage reported by the firms with higher than median Dynamic Capacity is 37% better than the average competitive advantage reported by the firms with a lower than median level of Dynamic Capacity (1.29 compared to 0.94). Similar assessment of the firms competing in the faster evolving markets and industries (i.e. with greater Opportunity for leveraging their Dynamic Capacity) shows that the firms with higher than median level of Dynamic Capacity achieve 63% better level of competitive advantage than those firms with lower than median level of Dynamic Capacity (2.36 compared to 1.45).

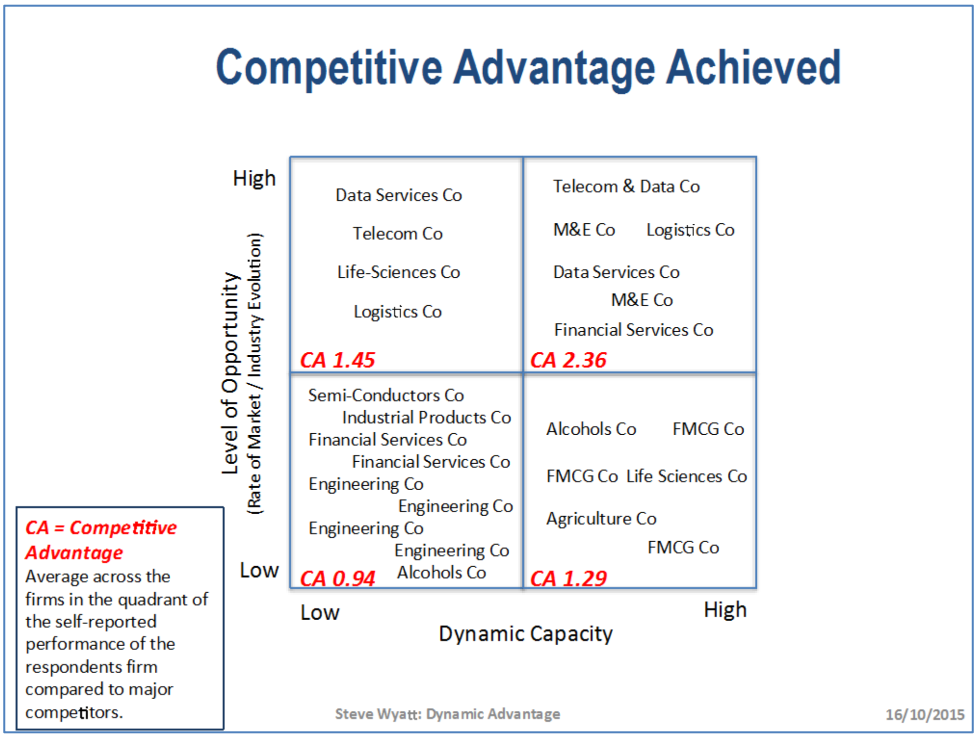

Figure G

4. Implementing Dynamic Advantage

Firms that successfully build and then leverage their dynamic capacity achieve performance results that are superior to their competitors. The **greater the rate** of market and industry evolution in which a firm participates, **the greater the opportunity** for the dynamic capacity of the firm to achieve competitive advantage. However, transitioning a major global corporation successfully to a forward-leaning orientation requires deliberate choice for the corporate strategy of the firm and careful review of the activities and choices of the organization to ensure alignment.

4.1. Deciding & committing to compete for the future, today.

As the speed of business and market evolution accelerates many firms are discovering that their traditional approaches to strategy are insufficient and they need to be leaning forward, orientating themselves to compete for the future whilst still managing the performance of the firm today. Some firms (e.g. Coca-Cola, Airbus) have adjusted their approach to strategy only after long periods of weak or deteriorating performance whilst others have been forced to adopt a new approach after being hit with a major disruption in their market (e.g. Heraeus). These pressures culminated in a conscious decision to depart from previous models of strategy planning

- For [Beverage Company] the combination of changing consumer behaviour (away from beverages with high levels of sugar) and the additional market downswing from the 2008 financial crisis, forced senior management to reassess its strategic model.

Crisis does not need to be the driver of a decision to orientate to compete for the future, firms such as Google were borne with a dynamic evolutionary expectation, whilst others such as [Life-Sciences Co] have adopted a strong purpose that sets a strong forward-leaning orientation for the company.

4.2. Clarify the Objectives

Laying out the objectives is an essential first step in any strategy process, however for a firm that is migrating its strategy to pursue Dynamic Advantage, it is particularly important to define a clear and motivating purpose. The purpose should define the need and rationale for adopting a forward-leaning orientation. It must be clearly understood by all stakeholders such that expectations, operations and the organization can be aligned and management teams can self-adjust to improve alignment as the future continues to unfold. To help the organization to be forward leaning, the adopted purpose must be an effective call to action.

- [Life-Sciences Co] describes how the executive team went on a quest of discovery to understand what their higher purpose could be to unite and motivate them. Finally they adopted "*Bringing Plant Potential to Life"* with the goal of ensuring farming productivity increases so that the world can feed itself beyond the predicted crisis point of 2025.

4.3. Align the Where-to-Play Choices

If the decision has been taken to pursue Dynamic Advantage, then a critical review of the portfolio of businesses in which the firm competes is required. In particular with the perspective of understanding the dynamic nature of each of the industries and markets and the anticipated impact of the mega-trends and forces driving industry evolution. From the review of the portfolio should emerge opportunities for entry, exit and harvesting as well as developing a nomenclature to describe and help categorize markets by their dynamic nature.

4.4. Define How-to-Win choices, with the perspective of competing for the future

For the markets in which the firm chooses to compete, it then must also assess the choice of positioning within that market, particularly reviewing the customer segments from the perspective of the drivers of their purchase and usage behaviours and the relevance of such for a firm that is leading or following the evolution of the sector. This insight, market-by-market will indicate how-to-win in the market and where there would be advantages adjusting the orientation to be more forward-leaning. Across the network of the markets the corporate strategy to pursue Dynamic Advantage will support the winning in individual markets through the ability to accelerate the development and sharing of relevant insights.

4.5. Design in the mechanisms that will enable the firm to act dynamically.

My research identified nine mechanisms that can differentially build the Dynamic Capability of a global firm, the relevance of each should be considered for the particular firm. For example:

- The markets may be clustered with reference to the nomenclature established to describe their dynamic nature. The organization structure could be reviewed to reflect a new clustering of markets. Processes and decision rights maybe defined to facilitate the rapid development, sharing and replication of knowledge and solutions across similar markets.

- Platforms and expert resources may be refined such that the capability to Sense and Make-sense fully benefits from the extent of the global network.

- The skills of the strategy planning team may need to be expanded to support decision-making in uncertainty and the orientation to compete for the future.

4.6. Align and enable Performance Management

The leadership of the firm must possess the ability to ambidextrously manage the conflicting goals of preparing the firm for future success whilst also optimizing performance results today. Managing ambidextrously requires training and an integrative mind-set as well as support and reinforcement from stakeholders.

The leadership may also need to develop the culture of the firm. There should be high propensity to collaborate, to share ideas and insights, to invite others to contribute and a willingness to contribute to the initiatives of others.

The metrics and performance indicators must be aligned with the strategy of Dynamic Advantage. Performance metrics and operating ratios may differ by market and at the corporate level there will need to be a balance between longer-term and short-term indicators of performance. In particular the corporation should adopt metrics that reflect the progress of the firm in the pursuit of the adopted purpose and that indicate that it is acting in accordance with the values laid out in the objective.

5. Summary

The speed at which professionals play tennis is much faster than the typical game that families and friends may enjoy together. However, in both the ability to predict where the ball is going, to decide meaningful plays and to position for execution is essential. The higher the rate of evolution of the arenas in which a firm operates, the better it must be at competing dynamically, the better at sensing and understanding how the future is unfolding and the better at quickly deciding on the correct plays. The firm is then able to position itself with the right configuration of resources at the right time.

Far from being lumbering giants, global multinationals can leverage their extensive networks as a source of advantage by enhancing their ability to act dynamically. Firms that succeed in developing their capacity to compete dynamically achieve superior performance; ***they win***.

Groundstrokes are essential building blocks of a tennis player's repertoire, so too for a business leader are prevailing frameworks of strategy formulation (e.g. industry analysis, the resource-based view, and game-theory). Business, like the game of professional tennis, is increasing in speed and intensity. It is no longer sufficient for business leaders to be disciplined in applying the tools of strategy; they need to hone their skills and stamina for a fast, intense game with unconventional opponents.

For firms to compete in dynamic contexts the leadership should have an orientation to competing for the future, they should invest in building the capacity of the firm to act dynamically. They should hone their Coincidence Anticipation Timing, optimizing their ability to sense and make-sense of market evolution, to seize and to replicate great shots. They must ensure they are in the correctly configured, in the right position, at the right time and lined up to play the decisive shot. They must also anticipate the next shot and the next match. The firms that achieve this, out-perform their competitors – they achieve **Dynamic Advantage.**

Appendix 5: Reference Texts

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