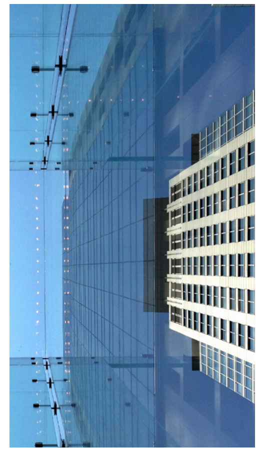

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Strategic Agility in MNEs:

Managing Tensions to Capture Opportunities across Emerging and Established Markets

by Sebastian P.L. Fourné, Justin J.P. Jansen, and Tom J.M. Mom

Introduction

Traditional sources of sustainable competitive advantage are very rare in today's global business environment. The increasing saturation of established markets paired with the impact of the recent financial crisis in many developed economies has made it important for organizations to achieve a strong position in emerging markets. "Going global" is now less of a choice, and more of a necessity. If firms fail to establish a presence in large emerging markets, they will miss out on tremendous growth opportunities while allowing rival firms to quickly gain dominance. However, simply entering an emerging market is not enough. Firms must develop agile organizational systems to deal with heterogeneity and volatility, institutional challenges, and global competitors. As such, large global firms require strategic agility to succeed in both established and emerging markets.

Managers of multinational enterprises (MNEs) would benefit from a framework to guide decision-making, and to create and embed strategic agility within their organization. There are three key dynamic capabilities which contribute to the successful development of strategic agility in MNEs – sensing local opportunities, enacting global complementarities, and appropriating local value. In addition to these key capabilities, it is necessary to reevaluate and broaden the current interpretation of strategic agility. While current research associates strategic agility with the continuous and simultaneous deployment of a set of dynamic capabilities, relying on such a static balance may actually compromise the organization's effectiveness. Instead, most successful MNEs utilize a more dynamic approach. Due to resource constraints and the necessity of greater responsiveness to changing conditions, MNEs should adjust relative emphasis on each of their dynamic capabilities over time. By developing these dynamic capabilities and emphasizing each at the appropriate time, organizations can avoid internal tensions and ensure competitive advantage.

Children in New Delhi using mobile phones. Stephan Rebernik, Flickr (2012).

Challenges of Operating in Emerging Markets

General Electric's CEO Jeffrey Immelt recently commented on GE's growth and investments, noting that 50% of GE's business and 70% of its backlog comes from Brazil, China, and other emerging markets. A senior manager at BMW also revealed that while only 8% of all passenger vehicles were sold in emerging markets in the year 2000, as of 2010 that number has risen to 37%. By 2012, China had surpassed the United States as BMW's largest market. Clearly, emerging markets represent a large source of revenue for MNEs. Despite the benefits, operating in emerging economies is very challenging, even for the most experienced global firms.

Multinational enterprises face substantial heterogeneity and volatility when operating in both emerging and established markets. The world they face may be seen as running at two speeds, with relatively slow or even declining growth in developed economies, and rapid but unstable growth in emerging markets. Differences in terms of mobility, energy supply, and even the availability of food and healthcare can make systematization of operations in emerging markets difficult. Tough competition from local and global competitors represents a further barrier to success. Finally, institutional and administrative problems (like theft of intellectual property) can be damaging if left unaddressed. In order to succeed, MNEs need to respond to challenges within and across emerging markets through commitment to a consistent but flexible framework defined by the three core dynamic capabilities.

Dynamic Capabilities

Successful MNEs respond to intensifying challenges in both established and emerging markets by sensing local opportunities, enacting global complementarities, and appropriating local value.

Sensing Local Opportunities

First, MNEs should seek to discover opportunities in emerging markets by creating a local presence and maintaining strong ties with local partners. Firms like Philips, Siemens, and Unilever have chosen to set up local R&D facilities in collaboration with local partners in order to quickly tap into new opportunities. These opportunities can be sensed more readily when the firm has a presence in the area, and a strong relationship with local partners who can better assess specific needs. Philips, for example, was able to develop switches that could compensate for fluctuations in the local electricity supply. Forming relationships with local partners also provides an important mechanism for learning about potential regulatory changes or economic developments, affording companies extra time to plan a strategic response.

Second, successful MNEs must assess new opportunities by applying tailor-made metrics for evaluating and rewarding initiatives from emerging markets. Global firms should differentiate by using adaptive systems that allow them to evaluate and reward new initiatives in different markets. Rather than focusing on profit and standard efficiency measures in emerging markets, firms must understand that appropriate metrics for new initiatives in those markets should focus instead on growth and speed. As such, MNEs should seek to decouple goals and performance metrics from their operations in developed markets from their operations in emerging markets.

Third, MNEs should champion local initiatives by flexibly managing the interface between local subsidiary managers and senior executives. Local teams must be given the responsibility of conceiving, testing, and evaluating the success of new initiatives. After local validation, regional managers will funnel information to senior management to gain support and access to vital resources.

Enacting Global Complementarities

Because MNEs operate in different markets at different stages of development, they must create cross-market strategies in which specific local resources are shared and integrated into a more globalized system. Such strategies enable companies to serve multiple emerging markets and established markets at a lower cost.

First, successful MNEs tend to mobilize and share complementary resources across the globe. Utilizing local talent and a multi-region R&D network enables companies to respond adequately to the differing needs of both mature and emerging markets.

Second, coordinating cross-market operations and tasks is also important for maintaining flexibility while adhering to cost and quality requirements. Successful companies build and coordinate a network of production platforms in selected markets (both established and emerging) to serve their specific needs and to source local materials at lower costs. Coordinating the usage of common components across multiple markets increases the agility of manufacturing operations.

Third, MNEs should pay careful attention to leveraging resources and best practices across emerging and established markets in order to enact global

China's high rate of growth has attracted many MNEs. Oskar Karlin, Flickr (2007).

complementarities. Solving problems that may present themselves in emerging markets – improving the durability of products under extreme conditions, for example – can provide competitive advantage in established markets because of lower costs and reduced maintenance. Simply put, emerging markets can be utilized as a test bed for the development of new solutions which can be applied in established markets.

Appropriating Local Value

To capture value in emerging markets, MNEs must be able to adapt their go-to-market concepts to regional conditions and preferences in order to overcome barriers and build local legitimacy.

First, MNEs must adapt go-to-market concepts to the specific characteristics of the local market. For instance, emerging economies often demand the distribution of small quantities of goods to a large number of different locations. This distribution model differs from most in developed economies.

Second, MNEs must develop legitimacy in local power networks. By complying with local regulations and supporting local government initiatives, MNEs can minimize the chances of expropriation or infringements of rights while ensuring that local decision-makers will side with the company in the event of a conflict or controversy.

Third, MNEs should appropriate local value in emerging markets by creating dynamic barriers to imitation. Global firms must take steps to protect their intellectual property, especially in emerging markets. Simply maintaining a sourcing strategy that is difficult to replicate can present a barrier to potential imitators.

Implications

Strategic agility is one of the primary means by which a firm can guarantee lasting success. In an increasingly globalized business environment, firms should seek not only to establish a presence in emerging economies, but also seek to develop strategic agility by emphasizing three dynamic capabilities. By fine-tuning operations to be receptive to local opportunities, companies can ensure that competitive advantage is sustained and new initiatives align with the particular requirements of the target market. By fostering complementarity between global markets, improvements in one region can affect the firm's success in other regions, and as a whole. Finally, by appropriating local value and altering operations to best suit the target environment, a firm can ensure lasting legitimacy. ▪

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How Do Different Types of Mergers and Acquisitions Facilitate Strategic Agility?

by Nir N. Brueller, Abraham Carmeli, and Israel Drori

Introduction

Strategic agility is an important capability that allows a firm to rapidly adapt to volatile and uncertain business environments. While it is popular to study strategic agility as a prime means of organizational growth, the ways in which mergers and acquisitions (M&As) contribute to this capability remain relatively unexplored. M&As are sometimes believed to be inhibitors of strategic agility because of the complex difficulties involved in the process of integrating new acquisitions. However, when properly managed, acquisitions can enable the development of both strategic agility and competitive advantage.

To achieve success, effective managers must understand the key competencies of agile organizational systems: (1) knowledgeable sense-making, or the ability to gather and interpret relevant information, (2) nimble decision making, or the ability to act quickly on information, and (3) rapid resource redeployment, or the ability to implement reorganizations seamlessly, particularly post-merger integrations. These three dimensions correspond closely with the three stages of the acquisition process, starting with the screening and evaluation of potential targets, continuing through the decision and deal-making phase, and ultimately arriving at the completion and post-merger integration phase. In addition, it is crucial to consider the differences between platform acquisitions, which represent a corporate-level diversification, and bolt-on acquisitions, which extend the reach of an existing unit.

Business Context

Strategic agility is defined as the capability of making knowledgeable, nimble, and rapid strategic moves with a high level of precision. Agility is required by firms operating in high-velocity and turbulent environments. An increasing number of industries operate under such conditions, which are the consequence of shorter product life cycles, heightened market pressures, and the need to develop rich product pipelines. These trends have been accompanied by a general surge in M&A activity, particularly in industries revolving around information and communication technologies (ICT). As a result, these industries provide an ideal context for the study of strategic agility, as they feature the conditions of instability, uncertainty, and continual flux that require strategic decision making.

Classes of Acquisitions

Platform acquisitions are large-scale purchases of already viable firms with the intent to gain an established market position. Typically, platform acquisitions occur when a company seeks to expand into a new market which may be adjacent to its own, but in which the firm has no existing influence. These types of acquisitions entail a high degree of difficulty, as they require significant investment and will alter the scope of the firm. Many ICT companies pursue corporate level platform acquisitions in the interest of gaining their target's fully developed value chains, with both upstream (products) as well as downstream (sales and marketing) capabilities.

In contrast, bolt-on acquisitions represent either a product extension or a market extension. Most bolt-on acquisitions by ICT organizations focus on new products, technologies, or talent, and are sometimes called technology-grafting acquisitions because they extend existing capabilities. These acquisitions often serve as a means of filling gaps in the early stages of a firm's value chain by adding additional products or technologies to the firm's offerings. Two primary features of bolt-on acquisitions are noteworthy. First, though the company may be entering a new domain in terms of product or market, it still leverages its existing products and markets. Second, that new product or market domain is either familiar to the firm, or immediately adjacent to the firm's base.

Platform acquisitions and bolt-on acquisitions differ in their frequency, complexity, risk, and potential yield. Compared to bolt-on acquisitions, platform acquisitions are less frequent, more complex, and more risky. But they also have the potential to generate higher returns.

Misidentification of the type of acquisition can lead to significant failure later on. Therefore, an important outcome of experience is not only the refinement

of rules to deal with each acquisition category, but also a framework with a clear delineation of the boundaries between each type. Identifying these boundaries will help a firm in the development of its overall strategy. Product acquisitions, when carefully selected and well-executed, enable the firm to benefit from extreme strategic agility in the very short term by broadening the product offerings the firm provides to its customers. Platform acquisitions, in contrast, do not enhance the acquirer's agility at the time of the acquisition. Only with time is strategic agility enhanced, when the platform can be leveraged to take advantage of broader, more long-range opportunities adjacent to its existing offerings. Finally, technology and talent acquisitions may bring a necessary component to the firm which can only contribute once the firm has successfully carried out the internal development to complement the newly acquired technology or talent. As such, the effects of this subset of bolt-on acquisition will only be felt in the long term.

Key Dimensions of Strategic Agility

Successfully utilizing M&A to develop greater strategic agility requires firms to develop competencies in three key dimensions.

Firms spot and select potential platform acquisitions by relying heavily on foresight. This often requires the firm to develop a set of search rules and practices with which to regularly review a list of potential targets. Certain criteria such as the size of the market, its growth rate, fragmentation, competition, and relevance to the corporations existing competencies are used to screen and evaluate potential acquisitions. The process of collecting and evaluating information related to these criteria is known as "sense-making." In the case of bolt-on acquisitions, the process is often less active: potential acquisitions emerge naturally on the firm's radar through business connections, customers, and employees. As a result, bolt-on acquisitions are more frequent, but still require evaluation.

Once information is obtained, acquirers must be able to act quickly. Because bolt-on acquisitions are far more common than platform acquisitions, firms will often gain the majority of their M&A experience from these smaller acquisitions, gradually systematizing their capability to manage acquisitions in a more organic way. The fact that certain acquisitions are described as "grafting" suggests that in the post-merger period, the acquired firm can virtually become an organic part of the acquirer. It is important to remember that strategic agility following a bolt-on acquisition is developed quickly, but also has limitations: the acquirer can "turn on a dime," but only on the axis of its existing downstream capabilities. Since the main purpose of bolt-on acquisitions is to complement internal R&D efforts and to allow acquirers to quickly respond to briefer product life cycles, time-to-market is crucial.

Finally, the new acquisition must be effectively integrated into the acquirer's existing business model and operations. It is important to balance the forces of preservation and absorption. In platform acquisitions, preservation of original employees and systems allows for the platform to exist without interference. In bolt-on acquisitions, a greater proportion of operations must be absorbed by the acquirer because it is necessary to scale up and increase sales quickly.

Implications

It isn't easy to predict changes within an industry, but that is exactly what managers must do in order to preserve their firm's competitive advantage. The most successful organizations are those that have developed agile organizational systems and can adapt quickly. By systematically utilizing M&As to extend the firm's influence or abilities, managers can ensure growth in the most viable directions. An organization can become significantly more agile if its M&A strategy closely corresponds to the three main stages of the acquisition process.

Managers should seek to obtain detailed knowledge of their industry, and focus on the most promising potential targets for acquisition. Acquisitions should be made quickly and efficiently, as time-to-market is crucial, particularly for bolt-on acquisitions. Finally, it is important to consider the most effective methods of post-merger integration. Firms should seek to redeploy resources rapidly and strike the appropriate balance between preserving original systems and absorbing or improving upon older processes. Because M&As are relatively infrequent and often carry large implications for the firm, successful acquirers start out by gradually specializing in a relatively narrow scope of acquisitions which can serve as a guide for future acquisitions. ▪

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Paradoxical Leadership to Enable Strategic Agility

by Marianne W. Lewis, Constantine Andriopoulos, and Wendy K. Smith

Introduction

In hypercompetitive environments, organizational survival depends on flexible, mindful responses to changing conditions. This responsiveness is known as strategic agility, and it is inherently contradictory. Being strategic depends on a stable, unwavering commitment to a future vision, and involves formal planning processes and established routines. Yet agile organizations are adaptable and nimble, moving quickly to capitalize on new opportunities.

Strong leadership is required to manage the inherent tensions underlying strategic agility. Leadership can be seen as both a dynamic competence and a relational process. It requires the ability to identify and leverage opportunities while relying on internal and external competencies. But addressing the competing demands of strategic agility can be a challenge. Excessive strategic planning increases the danger of inertia, as competitive advantages become entrenched and inhibit organizational responsiveness. Likewise, single-minded attention to change can undermine the development of core capabilities that provide the foundation for adaptation and learning.

Developing lasting strategic agility depends on striking an appropriate balance: honoring stability while seeking change, demanding strong commitments while driving flexibility, and encouraging individual leadership contributions while expecting teamwork. Paul Polman, CEO of Unilever, views the paradoxical nature of the manager's responsibilities as an opportunity. Understanding the concept of paradox in leadership may help organizations cope (and even excel) in the face of strategic tensions.

Paradoxical Tensions and Strategic Agility

There are three traditional capabilities that comprise strategic agility – strategic sensitivity, leadership unity, and resource fluidity. Strategic sensitivity involves being alert to new opportunities. Sensitivity is difficult as it requires an open dialogue between all organizational levels. Leadership unity involves a strong commitment to a course of action once it has been agreed upon. Tensions arise as leadership unity requires both collective agreement and the ability to be receptive to all incoming ideas. Resource fluidity requires the ability to shift resources and re-prioritize in the interest of emphasizing the most viable initiatives. Strategically, organizations must be consistent in their allocation of resources, while remaining flexible and capable of quick reorganization.

Strong leadership is required to reconcile the tensions underlying strategic agility. Antonio Villaraigosa, Flickr (2011).

Because of these underlying tensions, it is tempting for managers to adopt the "tradeoff" perspective, where either/or decisions are made, privileging one of two options. In contrast, the "paradoxical" approach seeks to engage competing demands simultaneously, rather than focusing on one side or developing a blended solution. Paradoxical management requires a creative, both/and approach that leverages the benefits of each side separately, while also tapping into their combined potential.

Leadership Lessons

The ability to reconcile tensions is the most consistent feature that enabled outstanding leaders to be agile, flexible, and achieve long-term success. Strong leadership can promote strategic agility regardless of the size of the company, industry, or market segment. There are five common leadership practices centered on the management of paradoxical tensions that are proven to enable strategic agility.

First, leaders should value paradoxes as a vital

ingredient of high performance. A key step in achieving strategic agility is to foster a deep appreciation for paradoxical tensions. Instead of diverting attention from challenges, they should be addressed directly. Unilever CEO Paul Polman praises paradoxes as fodder for creativity. Instead of avoiding the problem or reverting into an either/or mentality, leaders can leverage natural tensions to inspire discussions at individual, group, and strategic levels which can examine old boundaries and practices. Simply calling attention to the "friction points" within a business can provide a basis for productive discussion. Should the firm value short-term productivity or long-term sustainability? Are socially responsible practices more important than lower costs? Effective leaders value these friction points as a means of promoting positive dialogue.

In addition to valuing existing tensions, leaders should learn to proactively identify and raise new tensions. In meetings, for example, leaders can encourage devil's advocates to raise other sides of an issue, call attention to competing stakeholder demands, and describe the various short and long-term implications of different decisions. Examining existing assumptions about key concerns and constraints can inspire discussions and raise alternative views. Because strategic agility depends upon sensitivity, flexibility, and unity, it is important for managers to promote open and wide-ranging discussions across all levels of their organizations.

It is also important to avoid the traps of anxiety and defensiveness. Tensions raise anxiety and can potentially spur defensive decision making that can drive leaders to remain inert – trapped within the comfort of the past. Fear of failure can paralyze decision making, inhibiting experimentation and creativity. To move beyond the initial discomfort of acknowledging tensions, leaders can promote new internal support systems within their organizations. Managers should provide project boundaries that keep tensions manageable, opportunities to express angst, and tools and resources to succeed. Employees should be encouraged to seek support from managers when they feel faced with a complex or paradoxical situation.

Leaders should consistently communicate a both/and vision. An overarching, both/and vision provides vital direction, helping leaders navigate competing demands. Such a vision will promote strategic agility, establishing a precedent of pragmatic idealism that calls for innovative new solutions that can be both profitable and ideal-driven. Finding effective both/and solutions can be difficult. But the results are worthwhile: the process of imagining novel solutions that reconcile tensions and work around constrained resources will push the firm forward and drive overall strategic agility. By consistently communicating that vision, it can become an influential force throughout the organization. The vision can also fundamentally shift perspectives within the firm. A both/and vision helped leaders view resources as abundant rather than scarce, shifting their emphasis from managing conflicts to brainstorming synergistic solutions.

The final key to enabling strategic agility through paradox involves separating tensions to enable focus on individual elements. While the overarching both/and vision represents the overall objective, separation fosters simplification and focused action on each side of a tension point. Targeting efforts promotes the development of specialized expertise and the efficient use of resources on a daily basis. From a management perspective, this separation could come in the form of dual structures, each working on competing goals (one focused on existing product innovation, the other on radical experimentation, for instance). The dual structure promotes specialization, but can be managed in line with the firm's overarching vision.

Implications

Strategic agility is inherently paradoxical, as it forces organizations to weigh the value of competing pressures. Often, leaders face situations where short-term demands are pitted against long-term goals and conventional wisdom is challenged by new information. Because of these underlying tensions, many organizations adopt an either/or mentality, where one side of the tension is privileged while the other is ignored. It is preferable to adopt a both/and mentality, enabling "paradoxical" leadership that can reconcile tensions by finding novel, innovative solutions that drive organizational engagement and foster lasting strategic agility. ▪

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How to Tell which Decisions are Strategic

by Ram Shivakumar

Introduction

While most companies are eager to classify every business decision as "strategic," mistakenly identifying certain decisions as strategic can have negative consequences. Military scholars point out that some of history's greatest generals, including Napoleon Bonaparte and Robert E. Lee, committed the fatal error of conflating tactical victories with strategic success. A clear example of this type of mistake is the United States' involvement in the Vietnam War. By objective measures, the US was winning most of its battles in Vietnam. Even the 1968 Tet Offensive on US forces in Saigon was a tactical victory for United States, as the Vietcong lost upwards of 40,000 soldiers in the conflict. Despite these tactical victories, the balance of power never shifted in favor of the US, and by 1975 it was acknowledged that the war was lost.

In the business world, many iconic firms including Kodak, Blockbuster, RIM, and Sears have faltered because they did not anticipate or adapt to important technological, social, and economic forces. Each of these businesses enjoyed tactical victories – as recently as 1976, Kodak sold 90% of camera film in the United States, for example. But failing to make positive strategic choices at crucial moments in the development of each industry forced each firm into decline. In the case of Kodak, the firm failed to anticipate the prevalence of digital photography, and the emergence of smartphones fitted with digital cameras completely overwhelmed the company – Kodak posted nine quarters of losses between 2009 and 2011 and sought bankruptcy protection in January 2012.

In the interest of determining which decisions are the most strategically viable, it is useful to develop a conceptual framework for evaluating business decisions based on two key dimensions: (1) the degree of commitment and (2) the scope of the firm.

Degree and Scope

The degree of commitment is reflected by the extent to which a particular decision is reversible. Some decisions are very costly to undo (like building a factory), while others are far less costly (like ordering office supplies). The lasting impact of a decision is based heavily on the degree of commitment. Making large, expensive commitments is an integral component of a firm's overall strategy. This is because developing a sustainable competitive advantage often requires the firm to make investments that are costly to reverse.

The scope of a firm is defined by its choice of products, services, activities, and markets. A firm's decision to develop a new product category or expand to a new geographical region is a decision that affects the overall scope of the firm. Apple's decision to add more color choices to their existing iPhone models does not alter the scope of the business. But Apple's decision to develop a smartphone in the first place did significantly alter the scope of its business, and accordingly represents a highly strategic decision.

A Framework for Evaluating Decisions

Ranking business decisions along these two dimensions leads to four distinct types of decisions: strategic, neo-strategic, tactical, and operational.

Strategic decisions exert influence on both the degree of commitment and the scope of the firm. Strategic decisions are also significant because they influence many subsequent decisions. These decisions are often very hard to make because the problems that motivate them are difficult to comprehend, often have no precedent and few obviously right or wrong answers, and can carry potentially grave consequences if executed poorly. As a result, many firms are tempted to delay making crucial strategic decisions. Waiting too long can be costly, however, as rival firms may make strategic decisions that pay off, leaving the competition behind.

Neo-strategic decisions significantly alter the scope of the firm without altering the degree of commitment. This classification is necessary because it describes a type of decision that has become more common recently. A dramatic reduction in transactions costs over the past 15 years has made it possible for start-ups, small firms, and other companies to bring new products to market, share resources, bid for projects, and service new customers without expending large amounts of capital. Start-ups are now able to enter large existing markets without making a high degree of commitment because many of the tools of production, distribution, computing, and sales are now accessible

Scope of the Firm / Commitment	Significant Changes	Insignificant Changes
Significant Changes	*Strategic*	*Neo-Strategic*
Insignificant Changes	*Tactical*	*Operational*

by small firms. In addition, intermediaries have made it possible to easily contract with suppliers, distributors, and manufacturers willing to do custom work. These factors have had dramatic implications: today's start-ups and small firms are often virtual, loosely organized, have few employees, rely on informal networks of relationships, and change their goals and strategies quickly.

Tactical decisions alter the degree of commitment but do not significantly alter the scope of the firm. It is important to understand the distinction between tactical and strategic decisions. A high degree of commitment is, by itself, not enough for a decision to be deemed strategic. For example, an organization's choice to enter a long-term contract with a vendor to maintain manage the firm's IT systems is a tactical choice. It requires capital and a high degree of commitment, but does not alter the scope of the firm itself. A strategic choice would instead be to outsource the firm's ecommerce operations entirely, eliminating the need for specific assistance with the firm's IT systems. This does not diminish the importance of tactical decisions; in fact, tactical decisions can be equally confounding and have a large influence on the trajectory of the firm.

Operational decisions do not significantly alter the degree of commitment or the firm's scope. They are directed routine problems that all firms frequently encounter such as setting targets, monitoring progress, and assessing performance. It is unlikely that operational decisions will be confused for strategic decisions because the problems that motivate operational decisions are well-specified and the methods/systems for making operational decisions have been studied extensively.

Implications

There is widespread confusion in the business community regarding the term "strategic." Tactical decisions are often confused for strategic decisions because both types significantly alter the degree of commitment. However, tactical decisions cannot be considered strategic because they do not alter the scope of the firm. As a result, tactical decisions do not exert an influence on all of the other decisions that the firm must make. In addition, there is a further distinction between the conventional definition of a strategic decision – one that alters both the degree of commitment and the scope of the firm – and the neo-strategic decision, a relatively recent type of strategic decision that does not require significant investment. This type of decision has become more common as costs which were once prohibitively expensive have fallen over the past two decades. Both tactical and strategic decisions are distinct from operational decisions, which are day-to-day business choices that have limited effect on the long-term viability of a firm.

By understanding the differences between strategic, tactical, and operational decisions, managers will become more capable of anticipating the long-term implications of each choice while diverting resources and attention to those choices most likely to have the greatest impact on the firm. ▪

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Developing and Diffusing New Technologies: Strategies for Legitimization

by Jeremy Hall, Vernon Bachor, and Stelvia Matos

Introduction

New technologies are being developed all the time, but not every invention is successful in the marketplace. Technological viability alone is not enough to guarantee success. A new invention must have a strategy for capturing profits, along with an ability to overcome key barriers to entry in its target market. The process of overcoming these barriers is called "legitimization."

Legitimization has two dimensions: cognitive and sociopolitical. Cognitive legitimacy is developed through technical knowledge and industry analysis. Sociopolitical legitimacy is developed by understanding the value that society places on a technology based on cultural or political influences. An electric car, for example, acquires cognitive legitimacy by proving that it is a viable alternative to gasoline-powered cars – it can perform the same functions and can operate reliably. But the sociopolitical legitimacy of an electric car is derived from the value that society places on it. An electric car may have higher sociopolitical legitimacy in an eco-friendly population than in a typical population.

An organization can establish legitimacy for its new invention by developing a technology strategy that addresses uncertainties in four critical areas: Technological, Commercial, Organizational, and Societal. Each area of uncertainty represents a barrier that must be overcome in order for a technology to achieve success in the marketplace. As such, utilizing "TCOS analysis" early on in the development process can save organizations years of struggle in overcoming both technical and social barriers. Three organizations will be examined, each of which developed and marketed new genomic technologies. Two of these organizations, Monsanto and Golden Rice, failed to anticipate social obstacles in the diffusion of their products. The final company, Genome Canada, successfully utilized TCOS analysis to streamline the process of legitimization.

Genomic technology is changing the landscape of modern agriculture. UGA College of Agriculture, Flickr (2007).

Monsanto

Monsanto is a company that develops transgenic seeds for more efficient large-scale farming. The transgenic seeds are genetically modified to be resistant to Monsanto's herbicide. When paired with one another, these technologies effectively prohibit the growth of other plants and weeds while allowing Monsanto's transgenic crops to flourish.

In order to fully extract potential revenue from their transgenic seed technology, Monsanto rigorously developed a tight appropriability strategy by securing intellectual property rights, patents, trademarks, and other protections. These strict legal mechanisms assured Monsanto's stakeholders that their investments would be worthwhile in the long run. In this way, Monsanto successfully established cognitive legitimacy for their transgenic seed technology by ensuring technological and commercial viability, the first two components of TCOS analysis.

However, Monsanto had failed to predict how society would accept their technology. While agribusiness and large-scale farmers utilized Monsanto's technology, small subsidiary farmers and foreign governments held many concerns about its introduction. Believing that Monsanto's technology would unfairly benefit large firms, small farmers in Brazil successfully protested the diffusion of transgenics within the country. In addition, local farmers expressed hostility towards a US firm that would compete to overtake Brazil in soybean production. These unexpected objections and conflicts reflect Monsanto's failure to establish sociopolitical legitimacy for their technology. As a result, Monsanto has faced years of costly delays and moral opposition.

Golden Rice

Golden Rice is an organization that also faced opposition during the introduction of its eponymous technology. "Golden rice" is a type of rice that is genetically modified to have high levels of Vitamin A. Like Monsanto's seeds, it is also a transgenic technology. However, unlike Monsanto, Golden Rice freely provides licenses for research in developing countries and provides royalty-free seeds to low-income farmers.

This loose appropriability strategy was motivated by two professors' desire to address Vitamin A deficiency, a prevalent disease afflicting the populations of many developing countries. Since Golden Rice was developed through publicly funded research, when it came time to negotiate patents and intellectual property rights, the researchers donated the technology to a private company that had sufficient resources to cover the costs of cognitive legitimization.

Unfortunately, like Monsanto, Golden Rice also faced difficulties in developing sociopolitical legitimacy after encountering various environmental and health issues stemming from concerns about GMOs, antibiotic resistance, and reduced crop diversity. Many also became skeptical when they saw private corporations becoming involved, which tarnished Golden Rice's humanitarian image. Despite having a different market, looser appropriability, and a charitable vision, Golden Rice failed to anticipate how people would react to their new transgenic technology. As a result, Golden Rice did not establish sociopolitical legitimacy and their product has also suffered from years of delays.

Both Monsanto and Golden Rice completed the research, development, and diffusion of each technology before they realized that their products lacked the crucial sociopolitical dimension of legitimization.

Genome Canada

Genome Canada stands as an example of an organization that utilized TCOS analysis early on in their research phase to address uncertainties and prevent costly delays. As a non-profit organization, Genome Canada has been conducting publicly funded research to support large-scale genomics in Canada for more than a decade.

One of their most promising projects has been the development of lignin-based products. Lignin is a renewable resource produced from forest biomass that can be transformed in various ways. In a time when renewable and sustainable resources are in high demand, Genome Canada has successfully developed products that have captured governments' attention. One of these lignin-based products is synthetic vanillin, a flavoring agent used for foods. Despite vanillin being a popular food product, the researchers were initially unsure about the social legitimacy of their vanillin because they knew that consumers would be cautious of genetically modified products.

However, TCOS analysis showed that lignin-based vanillin was still very promising because it is modified by a "gene knockout" method instead of the

Golden rice is genetically modified to contain to have higher levels of Vitamin A.
IRRI Photos, Flickr (2013).

highly controversial transgenic method. Therefore, the researchers agreed to focus their energy and resources on communicating the differences between the two modification techniques to the public. In this way, Genome Canada would be able to decrease the social uncertainty surrounding their lignin-based vanillin and establish sociopolitical legitimacy.

TCOS analysis was also applied to another of Genome Canada's products: Lignin-based resin. Lignin-based resin is a promising technology because it acts as a more "green" alternative current formaldehyde resins which were recently classified as carcinogenic. However, early analysis with the TCOS method that the target market for this type of resin (the construction industry) is very price sensitive. Manufacturers are unlikely to switch to alternative resins simply for environmental reasons. Lignin-based resin would need to be a more cost-efficient alternative to actually encourage manufacturers to abandon formaldehyde. Thanks to the TCOS analysis, the researchers knew to focus on the commercial uncertainties of this particular product, making their lignin-based resin more cost competitive. In this case, increasing lignin-based resin's cognitive legitimacy is the most crucial method to ensure successful diffusion into the marketplace.

Implications

As these examples demonstrate, simply creating a new technology is not enough. Any invention must also develop legitimacy in two dimensions before becoming a viable product. TCOS analysis is a framework that can be used early in the product development process to indicate which obstacles a new technology might face in its target market. By increasing awareness of these areas of concern, organizations can avoid unexpected and costly delays, and ensure the lasting success and viability of their products. ▪

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What Impact? A Framework for Measuring the Scale and Scope of Social Performance

by Alnoor Ebrahim and V. Kasturi Rangan

Introduction

In recent years, there has been a growing effort to tailor the nonprofit model to a more traditional, results-oriented model. Driven by an increasing professionalization of the sector and a call for greater accountability by funders, taxpayers, and concerned citizens, more nonprofit organizations are realizing the need to streamline their goals and produce clearer results. Central to the success of social sector organizations are developments in impact and performance management systems that align to support stated objectives. While it is impractical to develop metrics for every point of the result chain, it has proven beneficial to evaluate the path between an organization's immediate operations and the overall impact of its efforts. Funders, who sit at the top of the social organization's hierarchical pyramid, often operate at an integral position between organizations. Funders can link separate organizations together to advance systemic goals and widen the overall impact of the mission.

Social Performance Measurement

Since much of the literature on performance in the social sector is under-theorized and in need of conceptual framing, practices taken directly from influential think tanks, government agencies, and prominent consulting firms are shaping social performance measurement. One of the most common approaches to measuring social performance is assessing impacts or results – broadly labeled as "impact evaluation" and "outcome measurement." Assessments are usually conducted after the program is implemented, are driven by the funders of foundations or governments. These assessments typically involve a range of methodologies ranging from cost-benefit analyses to summative evaluations and experimental methods such as randomized control trials.

The word "impact" has been embedded into the everyday lexicon of social sector funders, but the term itself has not been consistently defined. In international development and evaluation, impact typically refers to a "significant or lasting change in people's lives, brought about by a given action of series of actions." Accordingly, an impact is different from an outcome; impact refers to the lasting changes in the lives of individuals, and outcomes are the results achieved for the community. The Logic Model, widely used in many evaluations of programs and projects, emphasizes the measurement of performance as far down the chain as possible: starting at inputs and moving to activities, outputs, outcomes, and ending with impacts. However, many foundations struggle to integrate outcome measurement into their initial decision making and, as a result, continue to struggle to implement designs that would improve the foundation's goals. The foundation has to be able to create a culture that can value the process of self-evaluation and foster the changes that are needed to bring about better outcomes.

The Role of Funders

Most social organizations are typically highly dependent on their funders. A solid relationship between funders and the organizations they partner with is necessary for rewarding performance. Funders are increasingly looking to their organizations to help make strategic decisions that will result in better performance. The funders, in their strategic roles, also set the standards for performance measurement. If funders communicate effectively with their organizations and create a shared goal or mission, then their results can be more readily measured, as their desires were specified from the beginning. However, organizations and their funders agree not only on their goals, but also on a standard of measurement. For most organizations, simply measuring outputs is one of the most effective means of measuring performance. But often times, it is difficult to move beyond the simple assessment of outputs to determine an organization's overall impact because broader social impacts are subject to varied external influences and require a long-term research commitment. Accordingly, estimates are typically used to measure the social return of investments since estimates give funders a possible idea of what the impact could be without allowing for organizations to take credit for impacts that

Effective nonprofit organizations must be proactive in establishing goals and performance measurement systems. Daniel Kulinski, Flickr (2011).

are beyond their scale and scope.

Assessing the performance of the funders, though rare in practice, is just as crucial in order for the organization to grow and produce better outcomes. Funders sit at the center of the web between many other organizations and can help connect different organizations to expand the possible outcomes that may arise from collaboration among distinct groups.

Implications

Ultimately, there needs to be a standard framework for measuring social performance; organizations need to start with an operational mission, specify the set of activities the organization hopes to address, identify the size of the problem, and communicate with its funders to see what sort of outcome they hope to achieve. Evaluating the organization's impact during program design (as opposed to after implementation) is essential to improving outputs. Organizations can encourage greater levels of participation, like feedback from stakeholder communities, which can be helpful in implementing changes to the program and can produce better outcomes. In addition, it is often better for organizations to measure short-term outcomes, as opposed to long-term outcomes. Short-term outcomes are easier to assess and allow for clear results, without having to rely extensively on predictions or estimates. To tie every strand together, funders focus on their positions in the organization and help streamline projects towards goals. While the fundamental purpose of nonprofit organizations has not changed dramatically, the competitive environment which nonprofits must navigate certainly have. Nonprofit managers must be intentional and proactive when establishing goals and developing relationships with funders, and adopt a results-oriented approach that relies on systems to evaluate the short-term and long-term effectiveness of their initiatives. ▪

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Maersk Line: B2B Social Media — "It's Communication, Not Marketing"

by Zsolt Katona and Miklos Sarvary

Introduction

Maersk Line is the world's largest container shipping company, based in Copenhagen, Denmark. With revenue of $27 billion in 2012, Maersk Line regularly captures 15 to 17 percent of the market share worldwide. Maersk's 660 container vessels make approximately 70,000 port calls annually to its 100,000 customers, and transport a wide range of goods across the globe. As competition in the shipping industry escalates, Maersk's success is derived from its emphasis on key competitive advantages in reliability, simplicity, and environmental awareness.

Despite the scale of the business, Maersk Line had never been a household brand like Nike, Wal-Mart, or Tesco (all major Maersk clients). This is because Maersk is a B2B (business-to-business) enterprise, operating almost exclusively with other businesses and rarely entering mainstream consumer awareness. For that reason, when one employee named Jonathan Wichmann first proposed to focus on growing Maersk Line's social media presence, many were skeptical. "When I first started, as far as social media goes, we were at zero – absolute zero," Wichmann described. "People would tell me, 'we're not right for social media, we're boring, no one's going to like us.'"

Ignoring the skeptics, Wichmann set to work in the fourth quarter of 2011 with a team of one (himself) and no external agency support. By the end of 2013, Maersk Line had become a leader in social media, garnering over 1 million fans on Facebook, 40,000 followers on Twitter, and 22,000 on Instagram. In fact, Maersk Line's social media efforts were so successful that, in 2012, they received an official distinction at the European Digital Communications Awards. According to the awards jury, "The company's social media program has changed the face of Maersk Line and is an example for other B2B companies to follow."

B2B Social Media

Social media is defined as the way in which people interact to create, share and exchange information and ideas in virtual communities and networks. It differs from traditional media and advertising in its immediacy, permanence, cost, style, frequency, and reach. Many popular social media platforms exist, including Facebook, Twitter, YouTube, LinkedIn, and Instagram, each emphasizing different aspects of communication and engagement.

Traditionally, social media is more often used by B2C (business-to-consumer) companies focused on developing brand recognition. However, as social media has become increasingly important, B2B online communities have begun to grow. Such communities can be professional networks, sharing content and collaboration opportunities around a common business experience. But B2B communities can also consist of

A Maersk Line container ship passes through the Suez Canal. Tim, Flickr (2008).

customers, industry experts, and interested enthusiasts. Because traditional B2B marketing efforts focus predominantly on other businesses, B2B companies face a unique set of challenges when deploying social media. Often, companies will view social media as an ancillary promotional tool when it can instead become a strategic marketing activity.

The B2B companies that have used social media most successfully have treated their end-users as people who can be influenced and engaged. These companies realized that, despite their professional clientele, social media can be used to increase brand awareness, humanize the company, connect with customers, prospects, and industry influencers, and potentially increase sales.

A photo posted to Instagram with the #maerskline hashtag. (2014)

Maersk Line's Social Strategy

Jonathan Wichmann conceived and implemented Maersk Line's original social media strategy in 2011. At the beginning, Wichmann was working in the communications department and had some social media experience from another company. He chose to develop a comprehensive strategy with four areas of emphasis: communications, customer service, sales, and internal usage. The underlying goal was to get closer to the customers while attracting better press coverage, inspiring higher employee engagement, and developing greater brand awareness.

One decision Wichmann made early on was to break from the notion that social media was simply about pushing promotions and news updates to consumers. Instead, he decided that in order to recruit the largest following and produce the biggest impact, he had to emphasize communication and engagement across Maersk's social platforms. Wichmann wanted to avoid the "top-down" tendency common among many other companies, which often relied on outside agencies and a careful process of content planning and approval. He realized that a spontaneous and flexible approach would allow Maersk Line to engage more authentically with its audience. With this in mind, Wichmann asked for approval from Maersk's management and from the legal department, who granted him the flexibility to pursue his goals as he saw fit.

Wichmann turned his attention to Facebook first. After discovering Maersk Line's digital archive of 14,000 photos of ships, seascapes, and ports, he began uploading the best photos online. In a September 2011 post entitled "Vessels," people began liking the photos with comments like "Amazing" and "Big Blue Beuts." He posted more photos under the titles "Containers," "Terminals," and "History" (black and white photos). In addition, Wichmann leveraged the power of individual users who loved to take photos of Maersk ships around the world. As one example, he posted a photo of a Maersk ship in San Francisco along with the commentary: "A Maersk Line vessel passing under the Golden Gate Bridge just recently. Thank you to John Sessions who was so kind to email the photo to us!" The phenomenon of enthusiasts taking and sharing pictures of Maersk's ships fueled a surge in engagement. In the first 11 months, Maersk Line attracted more than 400,000 people to their Facebook page. Many of the "likes" were from employees – part of Wichmann's strategy to onboard the company's 25,000 employees so they could be leveraged to make each post more visible.

One of the most viable strategies that Wichmann discovered was storytelling. While some perceived Maersk – and the shipping industry – to be boring, Wichmann knew that there were compelling stories to tell. In September 2012, Maersk Line published a story about Clara Maersk and the rescue at sea of 3,638 Vietnamese fugitives in 1975. The post featured newly discovered and edited video footage from the vessel's arrival in Hong Kong, and an interview with Captain Anton Olsen. Posts like this generated great interest from the community. But Wichmann was careful to commu-

nicate all stories, even negative ones. In June 2012 he posted on Facebook about the "Maersk Norwich Whale Strike" and described how one of Maersk's ships had inadvertently struck a whale. The post explained the circumstances of the incident and the policies that Maersk has established to avoid creating negative impacts on the environment. Through transparency and authenticity, Wichmann anticipated and addressed potential criticism, and the response to the Norwhich Whale post was positive.

Wichmann also explored other social media platforms, launching Maersk Line on LinkedIn, Twitter, Google+, Instagram, Vimeo, Flickr, and Pinterest. The type of content shared on each platform varied, but all followed the same underlying approach of engaging users through interesting news, images, and compelling stories. Google+ and LinkedIn served as Maersk's professional presence, and most connections on those platforms were Maersk customers or stakeholders. Twitter and Facebook, along with the photo-sharing services, were used to humanize the brand. Wichmann found particular success on Instagram by encouraging fans to share their own pictures using the #maersk hashtag.

Implications

The results of Maersk Line's social media strategy were staggering. An internal study showed that Maersk engagement was four times higher than the average B2B brand, and the company had built an impressive following of more than 1 million individuals within two years on a budget of less than $100,000. Given that the average value of a Facebook 'like' for a B2B brand was calculated to be $3.60 per year, Wichmann's resulting ROI of 1,500 percent was an impressive accomplishment.

Far from being an ancillary side project, Maersk Line's social media efforts had been so successful that by the time Wichmann left Maersk in late 2013, the company decided to redirect portions of the advertising and customer service budgets to a new social media team comprising 3 individuals. Clearly, social media can become an immensely valuable asset to companies in a short time, if used authentically, consistently, and in the interest of fostering positive engagement. ▪

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