Executive summary

Today's business environment is characterised by the presence of powerful disruptive forces operating on a global scale. As the current crisis in the financial markets demonstrated, these “storms of change” are often difficult to foresee, yet can have a devastating effect.

An earlier Economist Intelligence Unit report sponsored by PRM (“Fortune favours the brave”, December 2007) identified a new breed of high-performing corporation, the “operational innovator”. Such companies, the report said, “seek out new ways of operating, without waiting for pressure from external forces”.

This second report, “Global disruptors: Steering through the storms”, looks in more detail at the most powerful of these external forces, all of them global disruptors in one form or another. It identifies nine in particular, and divides them into three groups: global resource disruptors, global policy disruptors and global market disruptors. The report goes on to examine whether companies perceive these disruptors as a threat or an opportunity, and what they are doing (or planning to do) to minimise their negative impact or amplify their positive potential.

Confirming the conclusion of our earlier report, this study finds that changes in operational strategy are a key ingredient for success. A significantly higher percentage of firms that make operational changes quickly in order to take account of the disruptors outperform their rivals. Furthermore, these firms plan to make still more changes in the future. Top performers move early, and they expect to keep on moving.

The survey also examined which areas of their operations companies think will have to be changed most radically to adapt to these disruptive forces. The answer is rather unsettling. The three areas

Who took the survey?

This report is based on an online questionnaire taken by 242 senior executives from around the world. Thirty-three percent of respondents work for companies headquartered in North America, 31% in Europe and 26% in the Middle East, Africa and the emerging markets of the Asia-Pacific region.

An analysis of the geographic spread of the companies' operations classifies 31% of respondents' firms as being "fully global" (for definition, see page 36), another 36% as being moderately global and 33% as being regional or local.

The firms are almost equally divided between products-based and services-based businesses. One-quarter of the respondents' organisations had annual turnover of more than US$10bn, while 35% had a turnover between US$500m and US$10bn.

The survey was supplemented by in-depth interviews with chief executive officers and chief operating officers. These executives came from Argentina, India, Turkey, the UK and the US, reflecting the global spread of the survey sample itself.

For further information, see the appendix at the end of this report.
targeted for greatest change—organisational structure and talent management, customer operations and product operations—are the same three areas that, in both this survey and the previously published report, executives say contribute most to the performance of their business.

This is a bit like being told that in order to remain strong and healthy a surgeon is going to have to operate on your heart, lungs and liver. In such circumstances, patients want to be sure not only that they have chosen the best possible surgeon for the job, but that the surgeon has the best possible team in support and the most up-to-date equipment to enhance the chances of survival.
The forces of change

This report focuses on nine "global disruptors"—external forces that are having a powerful impact on business around the world. These fall into three distinct groups: resource disruptors, policy disruptors and market disruptors. All three are simultaneously undermining companies' traditional ways of doing things. Together, they present an exceptional challenge to management over the next few years.

Limited resources
The first group of disruptors relates to resources—natural, human and financial. Essentially, they have to do with the question of what resources will be available to companies to enable them to carry out their business. Forces affecting corporate inputs include:

- constraints on the availability of natural resources;
- global shifts in access to labour and talent; and
- uncertain and shifting global financial markets and sources of capital.

Although energy is the most obviously constrained natural resource these days, global firms are also affected by tightening in the markets for metals, such as copper, gold and platinum. The scarcity of water is a looming issue as well.

A wave of renationalisation of natural resources around the world is stoking corporate fears. According to one estimate, 85% of the world's oil is now controlled by state-owned organisations. Countries such as Nigeria may yet follow the examples of Russia and Venezuela in bringing their energy resources under government control. Firms need to consider alternative sources of these inputs and the operational implications of tapping into such alternatives.

Access to talent is also a challenge. Despite the growing cohorts of well-educated young people in countries such as China and India, there is scarcely a chief executive officer (CEO) today for whom the discovery and retention of talented human resources is not a major concern. Education in general may be increasingly accessible, but the right skills are not. As one senior executive interviewed for this survey put it: "Well-educated is not the same thing as talented. What we need is the entrepreneurial spirit. We need people who are hungry for achievement."

Likewise, capital markets are shifting—essentially, from west to east. This is diffusing the sources of corporate funds and making it more complex to raise capital. The current credit crisis is distracting from this trend, but in the longer-term it is likely to continue.
Policy matters

The second group of disruptors speaks to changes in regulatory policies. Here the question is how firms should set up their processes and their controls in the future to deal with:

- increasing requirements for transparency and accountability;
- growing requirements to manage resource consumption, emissions and disposal; and
- the heightened complexity of operating in many different social, political and regulatory environments.

The Sarbanes-Oxley legislation of 2002 imposed a huge extra reporting requirement on public companies operating in the US, and there is little prospect of that extra burden being lifted. Quite the contrary: the current credit-market crisis has hasted calls for greater transparency and accountability.

Alongside this, economics and environmental concerns are conspiring to impose on corporations more responsible management of their carbon footprints and a more eco-friendly attitude to sourcing. At the same time, the continuing momentum of globalisation is creating new layers of complexity for the management of all multinational corporations. Although these shifts may not generate greater costs, they do require significant operational changes.

Market shifts

The third and final group of forces involves global market disruption. Here the question is where companies should operate—that is, where they can best deploy their assets in light of:

- the growth and decline of markets, economies and competitors across geographies;
- geopolitical instability and change; and
- the emergence of low-income and rural mass markets.

Although the growth and decline of markets is an ongoing process, it has accelerated in recent years with the rise of the so-called BRIC economies (comprising Brazil, Russia, India and China). In addition, at
the same time as the distribution of income and wealth among countries has been changing, so has the
distribution of income and wealth within countries. Almost universally, the disparity between rich and
poor is increasing, creating the potential for conflict.

Political instability and change are also evident. The Middle East remains a powder-keg, while the
economic successes of Russia and China have not yet been fully mirrored in their political and institutional
development. Among the developed economies, the US and, to some extent, France and the UK are in the
midst of leadership transitions, which often result in policy changes.

The emergence of low-income and rural mass markets has in many countries created the potential for
firms to reach consumers who have hitherto been largely ignored. Emerging economies that a decade ago
were considered little more than sources of cheap labour are now significant markets in their own right.
China, the most obvious example, is already the world’s largest consumer of television sets and mobile
phones. Russia is also fast becoming a consumer society, with hundreds of new shopping malls scheduled
to open there within the next few years.

To reach these new markets, companies have to radically restructure their operations. They cannot
hope to serve these markets merely by exporting more goods or services from existing facilities. Although
companies that move into new markets face challenges in finding talent and integrating new operations,
they may benefit by developing new sources of supply that can give them a competitive edge.

Threats and opportunities
The survey conducted for this report delved into the relative importance of various global disruptors
and the expected impact of each. When asked which disruptors they thought were likely to have the
greatest impact on their business, two stood out: a market disruptor—the growth and decline of markets,
economies and competitors across geographies; and a resource disruptor—global shifts in availability of
and access to labour and talent.

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Which of the following global forces do you see as being opportunities and/or threats for your business over the next three years?

(1% respondents)

<table>
<thead>
<tr>
<th>Factor</th>
<th>% Threat than opportunity</th>
<th>% Both opportunity and threat</th>
<th>% More opportunity than threat</th>
<th>% Neither threat nor opportunity</th>
<th>% Not applicable/Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constraints in natural resource availability</td>
<td>16</td>
<td>28</td>
<td>50</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Global shifts in availability and access to labour and talent</td>
<td>13</td>
<td>35</td>
<td>46</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Increasing requirements for making operations transparent and accountable</td>
<td>11</td>
<td>31</td>
<td>54</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Growing requirements to manage resource consumption, emissions, and disposal</td>
<td>10</td>
<td>30</td>
<td>58</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Growth and decline of markets, economies and competitors across geographies</td>
<td>10</td>
<td>33</td>
<td>58</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Geopolitical instability and change</td>
<td>13</td>
<td>28</td>
<td>59</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Increased complexity of operating in multiple social, political, and regulatory environments</td>
<td>14</td>
<td>30</td>
<td>56</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Emergence of low-income and rural mass markets</td>
<td>10</td>
<td>30</td>
<td>59</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Uncertain and shifting global financial markets and sources of capital</td>
<td>12</td>
<td>29</td>
<td>59</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>
What degree of change will be required in your operational strategy (or model) in order for your business to adapt to each of these forces?
(% respondents)

- Radical operational change
- Significant operational change
- Little or no operational change
- Not applicable/Don't know

Constraints in natural-resource availability

Global shifts in availability and access to labour and talent

Increasing requirements for making operations transparent and accountable

Growing responsibility to manage consumption, emissions, and disposal

Growth and decline of markets, economies and competitors across geographies

Geopolitical instability and change

Increased complexity of operating in multiple social, political, and regulatory environments

Emergence of low-income and rural mass markets

Uncertain and shifting global financial markets and sources of capital

The increased complexity of operating in multiple social, political and regulatory environments—a policy disruptor—ranked third. Uncertain and shifting global financial markets and the emergence of low-income and rural mass markets came next (see chart on previous page).

A slightly different picture emerged when respondents were asked which of the disruptors presented the biggest threat to their business, and which presented the biggest opportunity. The Chinese use two brush strokes for the word “crisis”: one to denote danger, the other to denote opportunity. In our survey, each of the crisis-creating disruptors was similarly seen as containing elements of both danger and opportunity.

The degree of each of these two elements varied. But even the most overtly threatening disruptor (geopolitical instability) was seen by more than 30% of respondents as presenting some level of opportunity. By contrast, the disruptor seen as providing the greatest opportunity (the emergence of low-income and rural mass markets) was viewed by 22% of respondents as both an opportunity and a threat.

Respondents were also asked which elements of their business strategy would most need to be changed to enable their organisations to adapt to the disruptive forces affecting them. Three aspects of strategy stood out, and were ranked nearly equally: product, service and technology strategy (which products and services to offer); target market strategy (which customer segments to aim for); and operational strategy (how to make those products and serve those customers). For the most fully globalised firms among our survey sample, operational strategy stood right at the top of the list.

When asked what degree of change in their operational strategy each disruptor would require, respondents gave the highest marks to the same two forces that they had said would have the greatest impact on their business— the growth and decline of markets, economies and competitors across geographies; and global shifts in availability of and access to labour and talent.
Which areas of your company's operational strategy (or model) will have to be changed significantly to adapt to these forces? Select all that require significant change.

( % respondents)

<table>
<thead>
<tr>
<th>Area</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational structure and talent management</td>
<td>56</td>
</tr>
<tr>
<td>Customer operations (how you target, acquire or serve customers)</td>
<td>33</td>
</tr>
<tr>
<td>Product operations (research, development, launch, renewal)</td>
<td>14</td>
</tr>
<tr>
<td>Supply chain operations (sourcing, manufacture, delivery, returns)</td>
<td>11</td>
</tr>
<tr>
<td>Networks of partners in your value chain</td>
<td>9</td>
</tr>
<tr>
<td>Information architecture and IT/automation systems</td>
<td>6</td>
</tr>
<tr>
<td>Physical footprint (where your operations are located worldwide)</td>
<td>5</td>
</tr>
<tr>
<td>Regulatory and policy management</td>
<td>3</td>
</tr>
</tbody>
</table>

Other, please specify

1% None of the above—we do not plan to make any changes to our operational model
1% Don't know

Respondents were asked about the areas of operational strategy that would require the most significant change to enable their firm to adapt to these forces. Organisational structure and talent management ranked first, followed by customer operations. Tellingly, a high percentage of those respondents who identified these two areas as contributing most to their firm's performance also said that they were the areas most in need of change: 59% in the case of customer operations, and 65% in the case of organisational structure and talent.
Past experience

A high percentage of organisations say they have made operational changes in the past two years in response to the nine global disruptors. The vast majority of them feel that these changes have been "somewhat successful" (69%) or "highly successful" (8%) in helping them adapt to disruptive forces.

The areas in which most companies have made changes are customer operations and product operations. Just under one-half (47%) of respondents say that they target several operational areas at the same time, and as many as 15% of organisations say that the changes they are introducing involve practices that are new either to their industry or to the world. Clearly, many organisations are already undertaking enormously ambitious programmes of change in response to the global disruptors.

Just over one-half (52%) of the companies surveyed say that their CEO or chief operations officer is the person primarily responsible for driving their operational changes. These firms differ in important respects from the others surveyed. For example, a higher proportion of the "led-from-the-top" companies make significant changes in their organisational structure and talent management in response to disruptive forces.

There is an almost even split between respondents who are satisfied with their organisation's ability to develop and execute operational strategies in response to global disruptors, and those who are not. The most common reasons for dissatisfaction are the firm's short-term focus and its underestimation of the degree of organisational change required.

What is the degree of operational change that your company has made in the following operational areas in response to these global forces? (% respondents)

- Customer operations (how you target, acquire or serve customers)
- Product operations (research, development, launch, renewal)
- Supply chain operations (sourcing, manufacturing, delivery, returns)
- Physical footprint (where your operations are located worldwide)
- Networks of partners in your value chain
- Organisational structure and talent management
- Information architecture and IT/IT automation systems
- Regulatory and policy management

<table>
<thead>
<tr>
<th>Area</th>
<th>Radical</th>
<th>Significant</th>
<th>Incremental</th>
<th>Little/No</th>
<th>Not applicable/Don't know</th>
</tr>
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<tbody>
<tr>
<td>Customer operations</td>
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<td>Networks of partners in your value chain</td>
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<td>Information architecture and IT/IT automation systems</td>
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<td>Regulatory and policy management</td>
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The most powerful disruptors

Each disruptor is expected to have a different impact on business. The individual interviews conducted as part of the research for this paper help to detail those differences. Yet regardless of the particular disruptor, it is clear that tremendous effort, investment and talent are required to increase a company’s ability to weather the current storm.

Market changes
The growth and decline of markets will have the strongest impact on business over the next three years, the survey found. Changes in the markets of China and India are expected to be the most significant.

China in particular is now well and truly on everybody’s map. Even for Indian firms, China is a top priority as a market. Hiren Doshi, until recently the business development manager in that country for an Indian outsourcing firm, Infosys, says: “We have to make it happen in China. China is central to our global expansion.” Ersin Akarlliar, CEO of a Turkish manufacturer and retailer of jeans and leisure wear, Mavi Jeans, is planning to sell more of his branded goods in China. Moreover, he intends to make them where he sells them.

At the same time, China is losing some of its appeal as a low-cost manufacturing hub. A lack of English-language skills, and what one American CEO describes as “Asia’s generally slack attitude to intellectual property”, still weigh on the country.

More importantly, costs are rising in China, leading Western companies that had laid out extensive supply chains to the Chinese heartland to trim them. A UK importer of tiles and marble interviewed for this report recently switched much of his sourcing from China to Spain. ClearEdge Power, a small Californian start-up in clean-energy technology, is looking to the south-eastern and south-western states of the US—where it claims labour costs are becoming competitive with China—for any extra manufacturing capacity that is needed.

Talent scouts
Shifts in the availability of talent came second in terms of the impact on business and also in terms of the degree of change in operational strategy that it will require. Bill Mitchell, CEO of Arrow Electronics, a global supply-chain services provider, sees it as “the biggest challenge” facing his firm. Part of that challenge lies in the growing difficulty in persuading employees to move to new locations.

Mr Doshi of Infosys says that talent management “is very, very important to us”. Like many other companies, Infosys is aiming to attract and retain talent by working hard to establish a reputation as a desirable place in which to work. For several years it has featured prominently on lists of the best employers in India.
Global disruptors: Steering through the storms

To optimise their use of talent, companies are thinking harder about how they organise it. One big issue lies in where to locate this talent. Some firms believe in “clustering”, to ensure that their most talented people work in physical proximity. To help develop clean and efficient power systems, for example, ClearEdge Power hires some of its engineers and scientists from China, India, Bangladesh, Europe and Canada. But the firm brings them together in its headquarters, a wooded area outside Portland, Oregon, known as “Silicon Forest”.

Such proximity can be helpful even in relatively low-tech industries, such as textiles. “Working together is what influences transfers of information and knowledge,” says Mr Akarlar of Mavi Jeans. “Human proximity is important.”

Other firms use sophisticated information technology (IT) to reduce the distance between different clusters of talent, no matter where they are based. Daniel W. Rasmus, the director of business insights at Microsoft, says that globalisation has made the world not flat (as commentator Thomas Friedman would contend) but rather exposed the “lumps” in talent, capital markets and capabilities. IT doesn’t flatten the lumps, says Mr Rasmus—it connects them.

Illumina, a California-based company that develops technology for use in genetic research, has plants in the US, the UK and Singapore. Its CEO, Jay Flatley, says that the company relies on closely integrated teams working together on projects. The firm brings them together with the help of IT, but Mr Flatley insists that it would be “infinitely better to keep such teams in one place”.

Money, money, money

The growth in recent years of private equity and sovereign wealth funds has marked a shift of capital away from the public markets of Europe and America. The sovereign wealth funds of countries such as Qatar and Singapore now own big chunks of large multinational corporations.

This has forced firms to look in new directions for finance. Turkey’s Mr Akarlar, for example, has noticed a dramatic change in the sources of funds available to his firm over the past few years. There have been changes “even within the private-equity market”, he says, “where the Gulf states have started to feature prominently”.

Mr Mitchell of Arrow Electronics, by contrast, says that “there won’t be any tumbleweed on the floors of the New York or London stock exchanges any time soon”. A former oil company executive, he remembers when that industry was dominated by a small number of private corporations called the Seven Sisters. Now, he says, most of the world’s oil “is owned by nationalised companies. But ExxonMobil [one of the old Sisters] hasn’t exactly gone away.”

Complexity pays

Not surprisingly, many respondents to our survey think that the increasing complexity of operations around the world will require the most amount of change in their operational strategy (see chart on page 9). But complexity presents as many opportunities as it does threats. For Mr Mitchell, complexity is “what we do”. “We solve complexity,” he says.

Technology businesses in particular see opportunity, for technology is instrumental in managing complex business operations. However, while technology helps to reduce complexity in some areas, it often creates more in others. Google’s search engine gives immeasurable assistance to researchers, but it also gives them immeasurably more areas to research.
AMR, a US-based research firm, believes that a power shift is occurring in the technology world. Suppliers of technology are becoming less important than the service providers that manage companies’ IT infrastructure and processes. These service providers, says AMR, are going to be a key strategic partner in an increasingly complex world.

In a recent interview, Filippo Passerini, the head of Procter & Gamble’s Global Business Services (GBS) division, describes how his unit has evolved into being “a strategic partner” with the company’s operating units. P&G saved some US$600m by reorganising its business services on a global scale, outsourcing many functions but retaining in-house certain services that it considers to be “business critical”—services that include procurement, logistics and IT-driven innovation.

But complexity is not a one-way street. There are still ways in which the world is becoming less complex. The creation of the euro, for instance, has greatly simplified international transactions and trade documentation. In many parts of the world there are now only two tradable currencies: the euro and the US dollar.

The promise of low-income markets
The emergence of low-income mass markets presents the greatest opportunities, our survey found.
Bangladesh’s Grameen Bank has opened many countries’ eyes to the potential of mass markets among the poorer sectors of society. In India, for example, people who do not yet have access to fresh water and electricity do have access to a mobile phone. This has enabled banks there to reach customers who would not have been commercially feasible just a few years ago.

This example is the inverse of Pareto’s Principle—the idea that 20% of a business’s customers produce 80% of its revenue, and that firms should therefore focus on that 20%. The ability to manage the vastly greater numbers of potential customers in mass markets now makes it worthwhile to spend more effort marketing to the 80%. However, having spotted this untouched fruit across the river, corporations need to build a bridge to reach it. They need an operational strategy that will enable them to enter such markets profitably.

Amanco, a South American manufacturer of plastic water pipes, has built a new business in such a market by redefining itself. Initially a vendor of pipes, much of whose business was dependent on the whims of government contracts in the region, Amanco changed its mission and became a supplier of eco-friendly access to water and sanitation. This move opened up a number of non-traditional markets. With support from the Interamerican Development Bank (IDB), Amanco started selling agricultural irrigation kits to poor farmers in Guatemala. Not only are such farmers a good credit risk, but they have managed to double their yields in one year. Big agricultural producers, by contrast, are lucky if they show an annual growth rate of 30%.

Firms that penetrate low-income markets and introduce operational innovations there sometimes find that these innovations can be used to disrupt more traditional markets. For example, banking via mobile phones and text messages, while widely used in low-income markets in India, can also be an attractive way to reach youth markets in more developed countries. Delivery systems developed for microfinance can be applied to other markets in other places.
Global versus regional firms

Do the most global companies respond to disruptors differently from firms whose business is more geographically restricted? The survey conducted for this report found, not surprisingly, that more of the fully global firms (31% of the total) have already made significant operational changes in response to the global disruptors, compared with the regional firms.

The global firms are also more likely to see environmental issues as an opportunity: 40% of them say that “the growing responsibility to manage consumption, emissions and disposal” is more of an opportunity for them than a threat. Only 18% of the least global firms see it that way. Global firms are also more likely to see the emergence of low-income and rural mass markets as requiring significant operational change.

There are major differences, too, in how firms identify strategic elements that would need to be changed in response to the disruptors. A higher percentage of the most global firms (56%) than of the least global firms (49%) think that their operational strategy will have to be altered. In addition, a significantly higher percentage of global firms (47%) than of regional firms (28%) think that their business structure needs adjustment. And 48% of global firms think their geographic strategy will have to be changed, versus 36% of regional firms.

Three sharp differences also exist with respect to the operational areas that must be modified to adapt to these forces. Of the most global firms, 43% believe that their physical footprint will need to be changed significantly, compared with only 17% of the least global companies. At the same time, 41% of the global companies think their supply chain operations will have to be altered, while 24% of regional firms hold this view. And 62% of global firms believe their organisational structure and talent management will need to be changed, in contrast with 40% of regional firms.

* Companies were classified as fully global (or “most global”), moderately global or regional/local (or “least global”) based on their responses to the question: “How would you describe your operations in each of the following regions?”, found in the Appendix of this report. The responses were weighted 2 if “well established”, 1 if “recently established” and 0 if “no presence”. The most global companies scored more than 11 points, and the least global between 1 and 4 points.

Global firms are more likely to think that business structure should be changed
(Percentage of firms within each subgroup identifying strategic elements to be changed significantly to adapt to global disruptors)

<table>
<thead>
<tr>
<th>Strategic Element</th>
<th>Least Global</th>
<th>Most Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational strategy</td>
<td></td>
<td></td>
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<tr>
<td>Product, service, and technology strategy</td>
<td></td>
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<tr>
<td>Target market strategy</td>
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<tr>
<td>Business strategy</td>
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<tr>
<td>Geographic strategy</td>
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<td>Competitive strategy</td>
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<tr>
<td>Economic model</td>
<td></td>
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<tr>
<td>Financial structure</td>
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</tbody>
</table>
Global firms focus more on physical footprint, organisational structure and talent management
(Percentage of firms within each subgroup selecting operational areas to be changed significantly to adapt to global disruptors)

Although constraints on the availability of natural resources are expected to have least impact of all the nine disruptors, there are few companies that have not made operational changes in response to the rise in the price of oil.
Products versus services

As in our previous report (Fortune favours the brave), we found significant differences between the responses of firms that provide services and those that make products.

Product-based companies are more likely to believe that they need to change their product and supply-chain operations, whereas service companies are more likely to focus on regulatory and policy issues. Furthermore, product-based firms tend to believe more strongly than service-based businesses that their organisational structure and talent, and their customer operations, will need significant adaptation in response to the disruptors.

In general, product-based businesses tend to respond to the disruptive forces earlier than service-based companies. Moreover, those operational changes that are introduced tend to be more pervasive—that is, more widely spread throughout the enterprise—in product-based businesses than they are in service-based firms.

Service-based firms focus on the regulatory and policy elements, product-based firms focus on core processes.

<table>
<thead>
<tr>
<th>Percentage of firms within each subgroup selecting operational areas to be changed significantly</th>
<th>Service-based company</th>
<th>Product-based company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer operations (how you target, acquire or serve customers)</td>
<td>61</td>
<td>85</td>
</tr>
<tr>
<td>Organisational structure and talent management</td>
<td>61</td>
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<td>Product operations (research, development, launch, renewal)</td>
<td>59</td>
<td>82</td>
</tr>
<tr>
<td>Supply chain operations (sourcing, manufacture, delivery, returns)</td>
<td>53</td>
<td>81</td>
</tr>
<tr>
<td>Networks of partners in your value chain</td>
<td>51</td>
<td>71</td>
</tr>
<tr>
<td>Physical footprint (where your operations are located worldwide)</td>
<td>51</td>
<td>63</td>
</tr>
<tr>
<td>Information architecture and IT/automation systems</td>
<td>51</td>
<td>58</td>
</tr>
<tr>
<td>Regulatory and policy management</td>
<td>10</td>
<td>12</td>
</tr>
</tbody>
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Microsoft's Mr Rasmus says that being proactively transparent can be good for business. "If a business aims to get ahead of regulation and starts proactively sharing data because it wants to represent itself truthfully and transparently, it could drive customer loyalty and build brand differentiation." He believes that if London's Heathrow Airport had been more transparent about its problems before the disastrous opening of its fifth terminal in March 2008, for example, it might have avoided much of the ill-will caused by the subsequent lost luggage and cancelled flights.

The growing requirement to manage resource consumption, emissions and disposal was the disruptor that respondents felt would require the least amount of change in their operational strategy. Nevertheless, it is having a significant impact on a wide range of businesses. The electronics industry, for instance, is only just beginning to recycle the large amounts of "techno-trash" that it creates. Some firms are finding that by recovering parts and reusing them, it is possible to create value beyond the "brownie points" given by customers for eco-friendliness.
In Argentina, the local subsidiary of a Danish pharmaceutical company, Nycomed, says that it is gaining competitive advantage by adopting Denmark's higher standards on emissions and disposal. In India, Infosys is rolling out a new service designed to help its customers to monitor their resource consumption, emissions and disposals for regulatory purposes.

In the US, ClearEdge Power has changed its operations in order to manage its resources better. Its manufacturing process depends on platinum, whose price rose by more than 50% in less than a year. This rising cost prompted ClearEdge to lease its platinum over a five-year period rather than buying it direct. Under the arrangement, ClearEdge developed a recovery process in cooperation with its suppliers in order to recycle and reuse the platinum for future products. According to Mr Slangerup, this process significantly lowers ClearEdge's product costs.

Although survey respondents view geopolitical instability as the most threatening disruptor, they do not think that it is likely to have a great impact on business over the next three years, or that it will require great change in operational strategy. Recent events in Kenya, however, have provided a reminder of how great the impact from political disturbance can sometimes be. Inter-tribal hostility following the presidential election in December 2007 resulted in a 50% decline in the number of foreign tourists visiting the country. Many local agricultural businesses dependent on foreign tourists went bust as tour operators switched their clients to neighbouring countries, such as Tanzania.
Conclusion

The disruptors identified in this report cluster around three distinct types of change—those in resources, in policies and in markets. The changes in all three areas are occurring simultaneously, and they require firms to rethink radically key strategic elements of their business—issues such as what they sell, where they sell it and how they produce it.

Our survey found that senior executives believe that operational strategy is one of the top three elements requiring change. For the most global of the firms participating in the survey, operational strategy came at the very top of their list.

Many firms have already made significant operational changes in response to these forces, and say that they may yet make more. The areas that are most frequently changed are “organisational structure and talent management” and “customer operations”. These are the self-same areas that respondents say contribute most to the performance of their business. The global disruptors are conspiring to challenge the core of what creates value for companies. Few firms are finding that their impact is merely marginal.

A markedly higher proportion of the firms that have made significant changes are “outperformers”—ie, companies that say that their revenue and profitability have been better than those of their competitors over the past few years. Top performers, it seems, make changes earlier than their rivals and continue making changes thereafter. They are able to do this because they are continually looking ahead, trying to anticipate the impact of global disruptors on their businesses.

Yet anticipating change is not always easy, as the recent implosion of the global financial sector has demonstrated. If the survey were held today, many more executives would no doubt say that "uncertain

Level of response
In the past two years, has your organization made any significant changes in response to the global disruptors? (% respondents)

<table>
<thead>
<tr>
<th>Response</th>
<th>Percent</th>
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</thead>
<tbody>
<tr>
<td>Yes, we have already made significant operational changes and may be making more</td>
<td>37</td>
</tr>
<tr>
<td>Yes, we are in the process of making significant operational changes</td>
<td>37</td>
</tr>
<tr>
<td>No, but we are planning to make operational changes within the next year</td>
<td>15</td>
</tr>
<tr>
<td>No, we are aware of these forces but need to make plans for operational change</td>
<td>11</td>
</tr>
<tr>
<td>Others</td>
<td>6</td>
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</tbody>
</table>
Global disruptors: Steering through the storms

Response driver
Which statement best describes the way your company responds to global forces?
(15 respondents)

- We proactively track them and try to act before competitors do: 25%
- We act in response to the forces that create a need for change: 50%
- We act in response to the forces causing a slowdown in business performance: 25%
- Others: 0%

and shifting global financial markets and sources of capital are their top concern than did so when the survey was conducted in the spring of 2008.

As a disruptor intensifies, it has the potential to push previously dominant disruptors into the background, and to cause new others to increase in intensity. The present financial storm, for example, has already unleashed calls for regulatory changes to prevent a recurrence of the crisis in the future.

To prevail under these conditions, companies must be operationally agile—that is, their operational strategies must be adaptable, so that they can quickly change course when necessary. Winning companies demonstrate this adaptability, and are thus able not only to weather storms that arise but to make any storm, however threatening, work to their advantage.