Heidrick & Struggles

ASIA PACIFIC AND MIDDLE EAST REGION

Asia Pacific disrupted:

Winning capabilities for uncertain times

The competitive balance in Asia Pacific is shifting, yet fewer than half of the senior executives there say their companies are prepared. This survey explores how the region's businesses can better mobilize, execute, and transform with agility.

The emergence of new markets, rapid technological innovation (the Fourth Industrial Revolution), and rising geopolitical uncertainty are ratcheting up the competitive pressure on companies everywhere. Executives in the Asia Pacific (APAC) region are at the epicenter of these shifts—and of the global uncertainties they generate. A Heidrick & Struggles survey of 558 senior executives from the region highlights the factors that executives believe are most responsible for the uncertain business landscape and provides a snapshot of how companies are responding (see sidebar, "About the research").

Among the findings:

- Fully 80% of respondents in APAC believe their company faces more disruptive pressure today than it did 18 months ago—and 83% expect this pressure to increase in the coming year and a half.[1]

- Yet only 44% of respondents said that their company is well prepared to face marketplace disruptions, suggesting heightened concern in the region about the nature and availability of the talent and organizational capabilities necessary to respond.

Our survey explored respondents' assessments on key areas of competitive differentiation—specifically, the ability of companies to mobilize, execute, and transform with agility. Our previous research has shown these factors to be important, as they encourage (or inhibit) a company's ability to accelerate performance—that is, to reduce time to value by building and changing momentum faster than rivals.[2] In this survey, we found that:

- Mobilizing (the ability to inspire aligned action based on a compelling ambition and purpose and a simple set of strategic priorities) appears to be a strength throughout the region.

- Execution, by contrast, appears to be a relative weakness, as companies struggle with overcomplicated organizational structures and the ability to attract talent, among other factors.

- Transformational thinking is viewed broadly as a strength, but organizational barriers and silo behavior may be holding companies back.

[1] For the purposes of this survey, we define "disruption" as sudden, game-changing shifts in the competitive balance of an industry resulting from unexpected external events or from new technologies, products/services, or competitors.

[2] For more on this research, see *Accelerating Performance: How Organizations Mobilize, Execute, and Transform with Agility* by Colin Price and Sharon Toye (John Wiley & Sons, January 2017), or visit accelerating-performance.com.

About the research

Heidrick & Struggles conducted a survey of 558 executives from the APAC region to understand how organizations are preparing for and responding to market disruption. Some 32% of respondents were CEOs or board members, while the remaining 68% were other C-level executives. Fifty-seven percent represented companies with fewer than 5,000 employees, while 27% work at organizations with more than 5,000 employees. (The remaining 16% of survey participants chose not to specify their company's size.) The executives hail from countries across the region and a range of industries. This survey builds on previous Heidrick research, including *Accelerating Performance*, an in-depth examination of many of the world's largest companies that highlighted the attributes of top performers.

- Agility (the ability to spot opportunities and threats and recover quickly from setbacks) presents a mixed picture. Companies view themselves as largely flexible and responsive, yet less likely to spend enough time preparing for the future and escaping "firefighting" mode.

A closer look at the findings sheds light on the changing nature of competition and talent in the APAC region, as well as on the capabilities that companies there have—and need—in order to thrive in the years ahead.

Challenges ahead

When we asked executives which factors represent the most significant sources of disruption and change for their company over the next 18 months, the most frequently cited source was "increasing customer expectations for service, convenience, or cost." Technology—in the form of both "new, tech-enabled business models" and "the speed of technological change in [the] industry or business"—also figured as a prominent concern (Figure 1).

Figure 1: **Sources of market disruption**

Which of the following factors represent the most significant sources of disruption and change for your company over the next 18 months?

#1 **Increasing customer expectations for service, convenience, or cost**

#2 **New, tech-enabled business models**

#3 **The speed of technological change in our industry or business**

#4 **Competitors offering inferior but acceptable quality products or services at significantly lower cost**

#5 **New, nontraditional market entrants**

#6 Growing importance of data and analytics capabilities as a source of competitive advantage

#7 Competitors introducing products and services that are more innovative than ours

#8 Growth of digital sales channels

#9 Shortage of skilled talent

#10 Increasing cost or complexity of regulatory compliance

#11 Growing sophistication of competitors from lower-cost countries

#12 Rising geopolitical uncertainties

#13 Market entrants focused on the most profitable segments of the industry value chain

#14 Customer demands for omnichannel service

#15 Asymmetrical burden of regulatory compliance on our company relative to competitors

#16 Attracting and retaining millennials

#17 Managing an aging workforce

#18 Managing a multigenerational workforce

Source: 2017 Heidrick & Struggles APAC acceleration survey

Unprepared for disruption?

Eighty-three percent of executives across the APAC region expect the pace of disruption to increase in the coming 18 months. Yet despite these concerns, just 44% of respondents said that their company is well prepared. Executives in Singapore expressed the most confidence, while respondents in Japan expressed the least (Figure 2).

Among the 44% of executives in the region who believe their company *is* well prepared, the top factors contributing to that belief were "the caliber of [their] people," followed by their "superior understanding of customer needs" and an "ability to change [their] strategic direction quickly" (Figure 3). (For more, see sidebar, "Who's poised to thrive?")

Asia plays offense

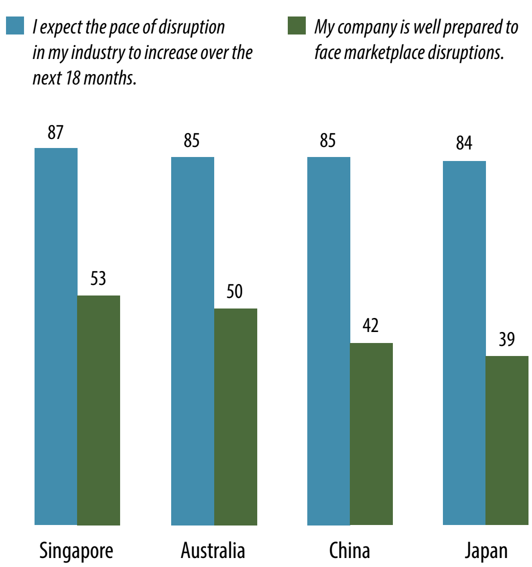
Amid concerns about market disruption, some 37% of executives in the APAC region indicated that their company is a *source* of disruption in the market. Forty-two percent of respondents from banks said this is the case, while responses from executives in other industries trailed (Figure 4). For example, just 26% of respondents from professional services firms agreed that their company is a source of disruption; executives at companies in industrial/manufacturing (30%), energy and materials (31%), and consumer goods (37%) were slightly more likely to agree.

Nearly two-thirds of the executives who said their company was a disruptor hailed from larger organizations (with 5,000 employees or more), while about one-quarter work at smaller companies (fewer than 5,000 employees).[3] What gives these companies a disruptive edge? Respondents cited several factors, foremost among them their "innovative use of technology." Executives also cited having a "superior understanding of customer needs" as well as the necessary caliber of talent (Figure 5).

[3] The remaining 16% of respondents chose not to specify their company's size.

Figure 2: **Feeling the heat**

% of respondents who agree or strongly agree



Source: 2017 Heidrick & Struggles APAC acceleration survey

Who's poised to thrive?

Which executives believe their organizations are best placed to succeed? In the banking industry, 60% of respondents indicated that their organizations are well prepared for market disruptions; professional services and industrial/manufacturing trail by more than 20 percentage points, at 37% and 38%, respectively. Forty-seven percent of executives in private and public companies believe they are well prepared for disruption, compared with 31% of respondents at family-owned businesses.

Figure 3: **Readiness for disruption**

You indicated that your company is well prepared to face marketplace disruptions. Which of the following factors are responsible for your belief?

#1 The caliber of our people

#2 Our superior understanding of customer needs

#3 Our ability to change our strategic direction quickly

#4 Our innovative use of technology

#5 Our ability to manage complexity

#6 Our focus on continuous improvement

#7 Our ability to anticipate disruption

#8 Our ability to work across organizational boundaries

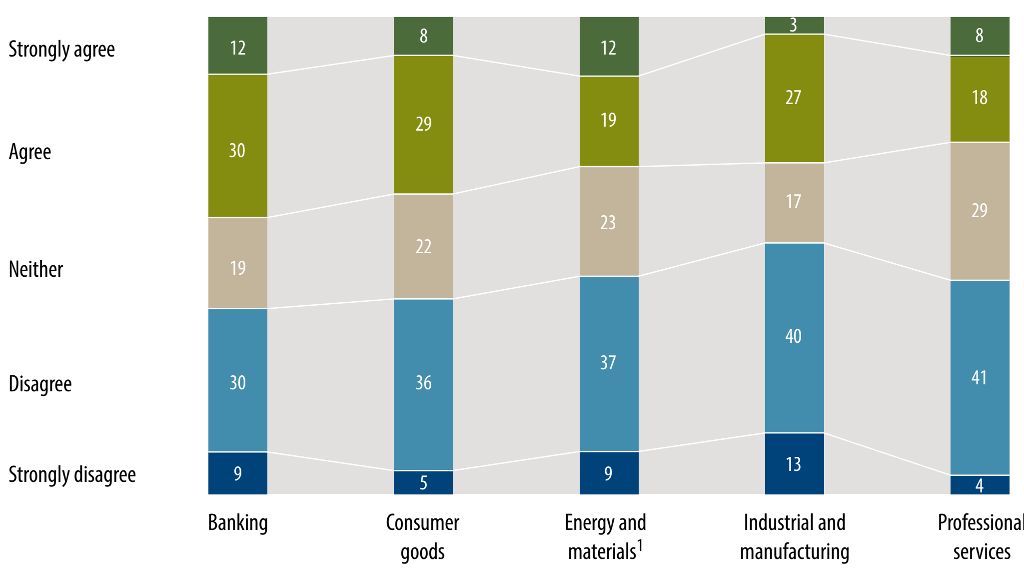
#9 Our ability to navigate the political/regulatory environment

Source: 2017 Heidrick & Struggles APAC acceleration survey

Figure 4: **Market disruptors by industry**

Our company is a source of disruption in the marketplace.

% of respondents



[1] Includes basic materials, chemicals and agriculture, electric power and natural gas, oil and gas, and mining.

Source: 2017 Heidrick & Struggles APAC acceleration survey

Figure 5: **Attributes of market disruptors**

You indicated that your company is a source or cause of disruption in the marketplace. Which of the following factors are responsible for your belief?

#1 Our innovative use of technology

#2 Our superior understanding of customer needs

#3 The caliber of our people

#4 Our ability to change our strategic direction quickly

#5 Our focus on continuous improvement

#6 Our ability to manage complexity
#7 Our ability to anticipate disruption
#8 Our ability to work across organizational boundaries
#9 Our ability to navigate the political/regulatory environment

Source: 2017 Heidrick & Struggles APAC acceleration survey

Accelerating performance

To thrive in uncertainty, companies need to *accelerate performance*—that is, reduce the time to value by building and changing momentum faster than competitors do. A multiyear research project conducted by Heidrick & Struggles identified the most significant factors in a company's ability to accelerate performance: mobilizing, executing, and transforming with agility.

An examination of how the respondents in our survey rated their performance against these criteria highlights the challenges facing companies in the APAC region and points to the capabilities most in need of management focus and attention.

Mobilize

Mobilizing an organization requires that leaders inspire aligned action based on a compelling ambition and purpose and a simple set of strategic priorities. For the most part, executives in the APAC region believe their company does this well. For example, 74% of executives said that their customers regard their products and services as consistently excellent, and another 66% said that their top team makes bold decisions when needed. However, around 20% of executives in banking, energy and materials, and industrial/manufacturing, respectively, disagreed that their top team makes bold decisions when needed.

In addition, 73% of executives overall said that people in their organization are clear about what the company's strategy aims to achieve. Banking executives were the most bullish in this regard (86% agreed or strongly agreed, compared with 76% of executives at industrial and consumer goods companies, respectively). And while 78% of respondents at public companies and 72% of those at private companies affirmed this statement, just 58% of executives at family-owned businesses feel the same. (For more, see sidebar, “Disrupting the family-owned business?”)

Execute

When it comes to execution, 65% of respondents agreed that their company harnesses and streamlines resources to consistently deliver excellence in execution and continuous operational improvement. Yet fewer than half of all respondents said their people always deliver what they have committed to (49%), and fewer still said that their organization attracts the best talent in their market (42%). Notably, executives in China were more likely than executives in other countries to say that they attract the best talent, while executives in Singapore are the most downbeat (Figure 6). These findings are striking given that “the caliber of our people” was frequently cited as a success factor among executives who feel their company is poised to weather disruption.

Disrupting the family-owned business?

The economic and cultural importance of family-owned businesses in the APAC region is hard to overstate. Some 80% to 90% of the largest companies in Southeast Asia are family owned, and they play an outsize role in the region’s economic development.[1] Moreover, family-owned businesses employ 57% of all employees at listed South Asian companies.[2] This category includes global giants, centuries-old companies, and up-and-comers.

Against this backdrop, our survey found that just 31% of executives at family-owned businesses in the APAC region agree that their company is prepared to weather market disruptions, and these executives are more likely than other respondents to take a dim view of their company’s near-term prospects. In fact, 27% of respondents from family-owned businesses expect their company performance to be below expectations in a year’s time, compared with just 16% of all other respondents. Similarly, executives of family-owned companies are less likely than other executives to believe that company performance will exceed expectations next year (29% versus 42%, respectively).

What might be responsible for these views? While we can’t say with certainty, some of the other responses from executives at family-owned companies are worth noting. For example, fewer respondents at family-owned businesses reported that their company experiments and innovates in the marketplace (48%, compared with about 60% each for public and private-owned companies), and fewer said they are able to attract the best talent (33%, compared with 48% for public companies and 40% for private companies).

At the same time, family-owned companies may enjoy structural advantages that help them compete. For example, 63% of respondents from family-owned businesses reported having a simple organizational structure compared with executives at public (44%) and private (56%) companies. This is welcome news, as companies that embrace simplicity are, in our experience, better positioned to compete than their more organizationally complex rivals.

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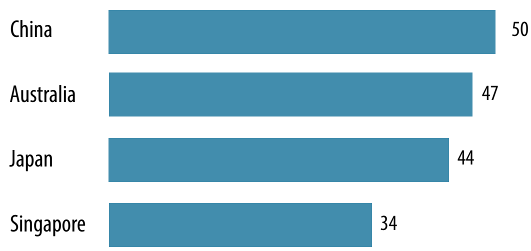
[1] See Åsa Björnberg, Heinz-Peter Elstrodt, and Vivek Pandit, “The family-business factor in emerging markets,” *McKinsey Quarterly*, December 2014, mckinsey.com; Nyshka Chandran, “Family businesses play a big role in development of Asian emerging markets,” CNBC, May 4, 2016, cnbc.com.

[2] EY, *Family Business Yearbook 2014*, familybusiness.ey.com.

Figure 6: **Availability of top talent**

We attract the best talent in our market.

% of respondents who agree or strongly agree



Source: 2017 Heidrick & Struggles APAC acceleration survey

Roughly half of executives (51%) said that their organizational structure is easy to understand and navigate, and the picture across geographic regions was mixed. For example, 61% of executives in Australia said that their company's structure is easy to navigate, compared with 54% in Singapore, 43% in China, and 41% in Japan. Executives from family-owned companies agreed that their organization is easy to understand and navigate at a higher rate than executives at public companies (63% and 44%, respectively).

Transform

"Business transformation" implies a change in thinking and in the way that resources are organized and allocated. In that context, it is notable that 58% of executives agreed that their company experiments and innovates to create new growth engines and to reinvent existing businesses ahead of the market. Similarly, 68% of respondents agreed that their company encourages innovation and disruptive thinking. Greater still was the share of respondents who said their organization tackles issues head-on (69%).

Nonetheless, insular thinking appears to be a challenge for some companies. For example, while 54% of executives across the region said that their company breaks down silos to work as one organization, another 23% said it does not. Executives from professional services firms were most positive about their company's ability to tear down silos (66% agreed or strongly agreed), while respondents from banking and industrial companies were considerably less so (44% and 42%, respectively). Differences among geographic regions were also pronounced: 62% of executives in Australia said their company breaks down silos, compared with just 41% of executives in Japan.

Agility

Agility—or the ability to spot opportunities and threats and recover quickly from setbacks—was the organizational capability that generated the lowest levels of agreement. Indeed, just 46% of respondents agreed with the statement, "We adapt and pivot at a faster pace than competitors to create competitive advantage." Meanwhile, only 43% of executives said that their company spends enough time preparing for the future rather than "firefighting." Executives in Japan were the most likely to say their company doesn't spend enough time looking to the future: indeed, fully 47% disagreed or strongly disagreed that their organization does so.

On a more encouraging note, a higher proportion of respondents said that their company quickly makes changes based on learning from past successes and failures (57%), that their ability to be flexible and responsive is one of their strengths (60%), and that they view difficult situations as positive opportunities to emerge stronger (68%).

The survey results highlighted a significant difference in how smaller and larger companies view agility. For

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instance, respondents from companies with fewer than 5,000 employees were more likely to say that their organization spends enough time on the future rather than "firefighting" (48%), compared with 37% of respondents from larger companies. Moreover, executives at smaller companies are more likely to view their organization's ability to be flexible and responsive as a strength (67% versus 48%).

The path ahead: Three implications for leaders

1. "The caliber of our people" was cited as the number-one success factor among executives who said their company is well prepared to face marketplace disruptions. Yet only 42% of executives in the region believe their organization "attracts the best talent in [their] market," and fully 24% disagreed or strongly disagreed that this is the case. Such findings evoke the strain felt by executives throughout the APAC region as the limited supply and suitability of local talent runs up against outsized corporate (and national) ambitions for growth. In response, forward-looking companies in the region will continue to look more broadly for top talent and develop initiatives to help rising stars gain valuable management experience faster. An employer's reputation and brand will likely become more important to prospective leaders.[4]

2. Nearly one-third of the executives we surveyed (31%) indicated that their organizational structures are difficult to understand and navigate. This is worrying, as our research and experience suggest that organizational complexity is among the most insidious factors hampering a company's ability to build and change momentum faster than rivals—a vital ability in a fast-changing and uncertain market. Companies can start by looking at their own structures for opportunities to simplify. Famously nimble (and fast-growing) companies such as Apple and TSMC have just one P&L despite their considerable size.

3. In an uncertain, fast-paced world, organizational agility is paramount, yet fewer than half of the executives we surveyed said their company excels in this area. This contradiction should serve as a

[4] For more, see Karen Fifer, George Huang, and Linda Ye Zhang, "Getting employer branding right in China," Heidrick & Struggles, March 9, 2017, heidrick.com.

wake-up call for organizations throughout the region. Moreover, when asked if their company spends enough time preparing for the future, more than one-third of respondents disagreed. Companies that narrow their horizons in this way are creating a golden opportunity for competitors. By developing processes to systematically scan for trends outside—and inside—the organization and to react quickly to contingencies, companies can not only better anticipate the future but also improve their odds of shaping it. ■

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