

# **A blueprint for succeeding despite uncertain global markets**

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## **Purpose**

This paper aims to highlight the importance of developing capabilities to thrive amid global uncertainty. The study builds a framework to help managers assess uncertainty in the global business environment and develop capabilities to prosper amid uncertainty. In doing so, the paper explains three capabilities – sensing the context, driving the market and redesigning the business – providing examples to capture each capability and managerial implications.

## **Design/methodology/approach**

The framework of this study is based on academic research in dynamic capabilities and the author's scholarly work on global strategy. The paper develops managerial guidelines and illustrates those with practical examples of multinational enterprises to make the case for why managers need to develop the three core capabilities for thriving amid uncertainty to achieve competitive advantage.

## **Findings**

This study identifies three core capabilities that organizations should build if they are to thrive amid global uncertainty: sensing the context, driving the market and redesigning the business. Key practical guidelines to manage this process are provided, including a managerial tool with ten steps to develop capabilities to thrive amid global uncertainty.

## **Practical implications**

The framework allows for developing dynamic capabilities in a world of new uncertainties such as digital disruption and de-globalization. It offers key guidelines for the journey, thus enabling managers to steer their firms towards thriving in an uncertain global environment.

## **Originality/value**

The augmented uncertainty of the global business environment presents new challenges. The value of this paper lies in the simplicity and practicality of the framework, and its focus on the role of uncertain global environment in developing dynamic capabilities.

## **Introduction**

Uncertainty in the global business environment is increasing, with political upheavals such as Brexit and the US-China trade war and digital and other disruptions shaking up corporate strategies. Companies need to build organizational capabilities to deal with the heightened uncertainty of the business environment. The rise of digital disruptors from the West (e.g. Netflix and Coursera) and the East (e.g. Didi Chuxing and Grab) has created a need to initiate a radical rethink of corporate strategy and build new capabilities in most industries. However, in spite of the increased efforts to manage international risk and uncertainty, managers often have limited time to devote their attention to the nature of uncertainty they are facing, and to assess their firms' capabilities to drive the market rather than be driven by it. Moreover, long-term considerations and the need for redesigning the business are often neglected under the stress of neutralizing short-term threats and implementing incremental innovation.

To address this oversight, this paper develops a practical framework summarising three types of core capabilities that organizations should build to thrive amid global uncertainty. The paper builds on the dynamic capabilities framework (Teece, Pisano, and Shuen, 1997)—especially its sensing, seizing and transforming elements—but adjusts and extends the framework by incorporating into it the role of new uncertainties in the international environment and the structural reshaping of globalization (Petricevic and Teece, 2019).

The first capability to thrive amid global uncertainty is sensing the context. This involves scanning the global business environment and understanding different types of risk and uncertainty present in it, as well as understanding how unpredictable and shapable it is. We illustrate this capability with the example of Swedish retailer IKEA and how it improved its capabilities in understanding changes impacting its business (ranging from the rise of online

shopping to the rise of an urban buyer). We also demonstrate how IKEA's new CEO Jesper Brodin implemented changes to its strategy such as a move from 5- to 3-year strategic plan.

The second capability to thrive in a world of uncertainty is driving the market. This involves making diverse strategic bets and hedges and recombining the company's resources across borders. Microsoft is a good example of a multinational enterprise implementing this capability successfully, recombining its resources through innovating and diversifying. It placed diverse strategic bets in areas including cloud services and online gaming through organic investment and acquisitions of innovative companies such as GitHub and PlayFab.

The third capability to thrive amid global uncertainty is redesigning the business. This involves designing strategies, reinventing innovation, and building resilience. Sony is a good illustration of this capability. The company has been losing its lustre in innovation, but under its new CEO Kenichiro Yoshida it made bold moves to reinvent the business. For example, it acquired 60% of EMI Music Publishing in 2018, becoming the world's biggest music publisher, while retaining strengths in areas such as gaming and consumer electronics.

This paper's framework suggests that organizations should build the three core capabilities for thriving amid global uncertainty to secure sustainable competitive advantage. Before operationalizing the framework, the paper will start with an example of the troubles faced by Huawei to help contextualize and illustrate the consequences of the new world of uncertainty.

### **Huawei: a victim of global uncertainty?**

Huawei, a Chinese telecommunications company, has successfully risen to become a prominent global supplier of smartphones and telecommunication equipment by mid- 2010s, only to fall victim to global political uncertainty and anti-China sentiments in the US after

2016. For example, it was put on the US technology trade blacklist in 2019 due to allegations of spying and breaching sanctions on Iran, effectively banning Huawei from building smartphones and tablets for sale outside China. As a result, Google severed Huawei access to Android software, and many US suppliers said they would stop their business with Huawei.

In spite of these political blows and continued uncertainty about the US-China trade relations, Huawei's share of global smartphone shipments rose from about 3-4% in 2012 to 18-19% in 2019, and the company's revenues continued to grow over \$100bn in 2018 with a 19.5% year-on-year rise. The growth remained steady in 2019 with robust revenues and profits. What was Huawei's approach to managing political and other uncertainty it was facing worldwide?

There were three elements of it, each linked to the core capability of our framework. First, sensing the context. Huawei realized that its biggest problem was uncertainty regarding the US policy towards it. There were also technological uncertainties related to future developments in both its core product segments, smartphones and the 5G telecom networks, but these were not of a "live or die" nature, as put by the company CEO Ren Zhengfei. In a mid-2019 memo, he wrote to his employees to "form a 'commando squad' to explore new projects or their salaries will be cut every three months". Second, Huawei also started driving its market, and reacted to Google's severing of access to Android by launching its own operating system. Third, partly as a response to the rising uncertainty, Huawei is starting to redesign its business along geographic lines (reassessing its global ambition of a strong presence in the US) and business segment lines (investing in the enterprise business beyond consumers and carriers).

### **Dynamic capabilities and global uncertainty**

It has been over two decades since strategy scholars articulated the concept of dynamic capabilities as a key type of capabilities for attaining sustainable competitive advantage in

dynamically competitive environments (Teece et al., 1997). While uncertainty was implicitly present in the conceptualization of the dynamic capabilities, in particular technological uncertainty (Teece, 2019), a more explicit consideration of the role of uncertainty in the dynamic capabilities framework was developed later, for example in Teece, Peteraf, and Leih (2016), who linked uncertainty to dynamic capabilities and organizational agility.

In an international context, there were attempts to make the dynamic capabilities framework more relevant to the multinational enterprise strategy (Teece, 2014), with an application of its core sensing-seizing-transforming elements to MNEs (Matysiak, Rugman, and Bausch, 2018). In an article on the structural reshaping of globalization and implications for profiting from innovation, Petricevic and Teece (2019) incorporate uncertainty into the dynamic capabilities framework as part of the VUCA concept (volatility, uncertainty, complexity, and ambiguity of the business environment), and suggest that the reshaping of the global governance system (particularly the rise of China and challenges to the global rule of law) amplifies global uncertainty and affects supra-national institutions (e.g., the WTO) and global markets. These in turn affect national institutions, domestic markets and dynamic capabilities.

The dynamic capabilities framework emphasizes three types of capabilities: (1) sensing opportunities (and threats); (2) seizing (and neutralizing) them; and (3) transforming the internal culture, systems, and business models to address the external changes (Petricevic and Teece, 2019: 1499). According to Petricevic and Teece (2019), the dynamic capabilities approach is a relevant framework to study of how MNEs address extreme VUCA conditions in the global environment, through understanding how firms manage internal and external resources to build sustainable competitive advantages under deep uncertainty.

### **Capabilities to thrive amid global uncertainty**

This paper extends the dynamic capabilities framework in a number of ways, to create a more practical guide for managers to understand and manage the impact of uncertainty in their business environment effectively. There are three building blocks to the framework. First, it provides additional granularity to the sensing capability, by conceptualizing it as *sensing the context* (including industry, country/specific market) and incorporating (types of) uncertainty into the characteristics of the context. It also considers the degree to which the business environment is predictable and the degree to which markets are shapable by the firm.

Second, the framework conceptualizes the seizing capability as *driving the market*, linking it to the degree to which markets are shapable (related to the sensing context capability). Driving the market involves offensive *strategic bets* and defensive *strategic hedges*, and recombining of the company's resources and capabilities across borders, in accordance with Matysiak et al. (2018: 244), who highlighted that "the purpose of MNE's sensing, seizing, and transforming is to achieve (ever new) resource-cabability recombinations that confer competitive advantages".

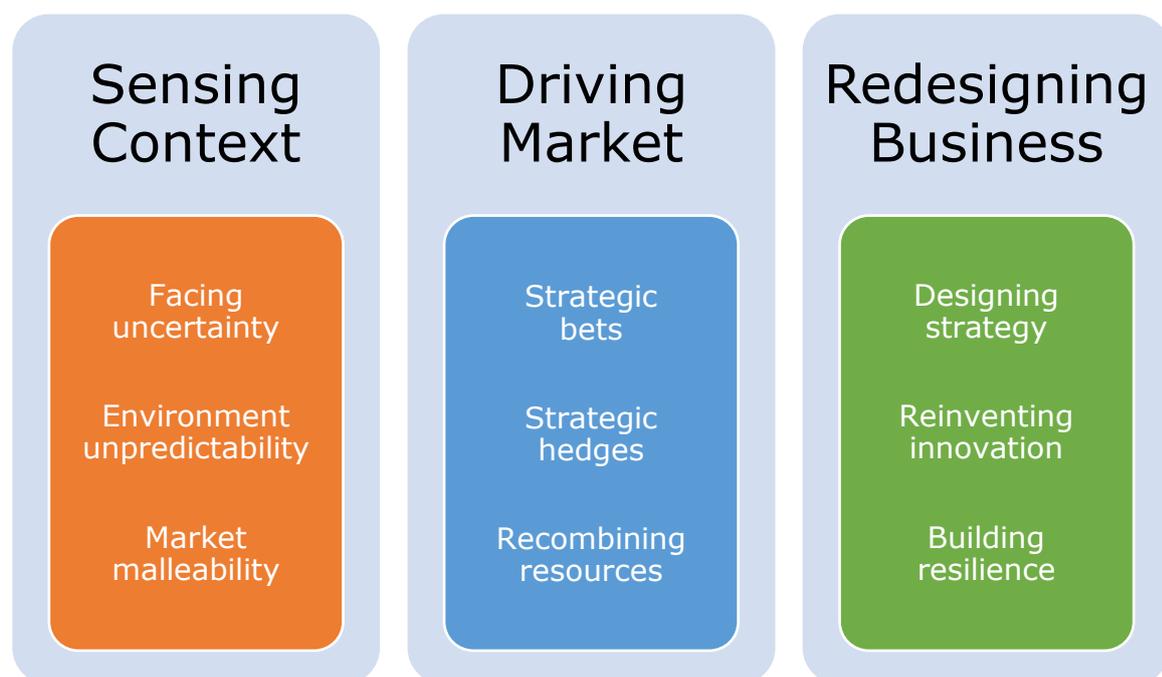
Third, we reconceptualize the transforming cabability as *redesigning the business*. We build on the design thinking tradition in strategy (Martin, 2009) to suggest that the strategy formation must be approached as design-lead, innovation-focused exercise, and needs to involve reinventing what it means to innovate, and building long-term resilience to the unexpected uncertainties and shocks in order to create long-term evolutionary fitness. In the next sections, we explain the framework with a practical focus.

### **A guiding framework**

In making the framework easily accessible to managers as well as researchers, we develop a schematic diagram (see Figure 1) and management tool for implementing the framework in ten steps for developing capabilities to thrive amid global uncertainty (see Figure 2). One of

the drawbacks of the dynamic capabilities framework is that it is a bit vague; managers will benefit from a more practical guide on how to assess and develop dynamic capabilities. In the next three sections, we illustrate the three core capabilities of our framework with examples of well-known multinationals (IKEA, Microsoft, and Sony). While each example focuses on one capability, the three capabilities are inter-related and have to work in conjunction. For example, the capability of *sensing the context* helps with the identification of the degree of market malleability, and based on this the firm can choose specific approaches to *driving the market* and *redesign the business* with specific strategies for dealing with global uncertainty.

**Figure 1: Capabilities to thrive amid global uncertainty**



### **Sensing the context**

*Sensing the context* is more than assessing external opportunities and threats. First, it is important to understand the different levels of uncertainty in the business environment, from “clear-enough future” to “alternative futures”, “range of futures” (the preceding two are

“known unknowns” for which scenarios can be developed) and “true” or “deep” uncertainty, the “unknown unknowns” that we can’t imagine ex ante (Courtney, Kirkland, and Viguerie, 2000). Next, sensing the context involves determining the degree of the predictability of the business environment (and this needs to be segmented by business segment and country etc.) and the extent to which the firm can shape a specific market it competes in. This can be drawn into a matrix placing your industry (and ideally also product or customer segments/countries/markets) across the two dimensions of predictability and malleability, and serve as a starting point for strategy formation (Reeves, Love, and Tillmanns, 2012).

IKEA, the world’s largest furniture retailer, is a good example of all three elements of the sensing context capability. First, similarly to Huawei’s CEO’s declaration of a “live-or-die moment”, IKEA’s new CEO Jesper Brodin made sure the company faced and understood uncertainty, stating that they were at a point where it was less business than usual than they had experienced in the past, and the speed of change going forward would be incredible. IKEA was facing a myriad of uncertainty as it moved from a traditional five-year strategic plan to a more agile, 3-year transformational strategy. According to Brodin, before they could test a concept in private and then just roll it out, now they are going to test and try; they want to spend less time planning, and more time doing.

Under its new three-year strategy, the company aimed to have full digital solutions in all countries, including home delivery at an affordable price. According to its CEO, it’s about the mindset; they won’t have ten years to gradually change and plan. It is clear that IKEA has to be adaptive. On the other hand, how malleable is its industry? For example, is furniture retail ripe for radically new business models such as furniture rental, large-scale online shopping or having assembly not done by buyers? IKEA’s acquisition of TaskRabbit, a “gig

economy” firm, points to its exploration of shaping strategies that are best suited to unpredictable environments that they can change.

### **Driving the market**

The capability of driving the market is more than seizing opportunities and neutralizing threats. At the core of the capability is the recognition that any strategic action is subject to uncertainty and in some ways has to be viewed as a “bet”, mostly with the probability unknown. Under this view, a company’s strategic actions can be viewed as a portfolio of risky “bets” and risk-mitigating “hedgies”, with constant updating of these bets through recombination of resources and capabilities, recognizing the uncertainty underlying them.

The best strategies for uncertainty blend three key elements: “no-regret” moves that will benefit the company under any scenario; “options and hedges” aimed at specific scenarios; and “big bets” that are valuable in the prevailing scenario, but have some flexibility in regard to the actual scenario that plays out (Toner, Ojha, de Paepe, and de Melo, 2015).

Microsoft, the world’s most valuable company at the end of 2018, illustrates this capability. Microsoft’s success is best understood in the context of how it recombines its resources by innovating, diversifying, and accessing new resources. Microsoft’s strategic bets have been diverse due to the uncertainty surrounding many of its areas of operation. They have included no-regret moves (that will benefit the company under any scenario). Improvements to its Windows product and coupling it with Microsoft 365 would fall in this category. Microsoft also made bets that could be seen as “options”. For example, its acquisition of LinkedIn was a bet on the continued rise and importance of professional social networking, giving them an option to grow in the segment. With the rise of cloud computing, Microsoft’s bet on its Azure product gave it an option to continue to grow in this field.

Microsoft also invested in ‘big bets’, large-scale commitments that are valuable in the prevailing scenario, but may have different payoffs depending on how uncertainties play out. Its \$7.5 billion acquisition of GitHub may fall into this category, giving it access to a company which thrives on the creativity of developers and can help to re-invigorate Microsoft in various future scenarios. Some of Microsoft’s bets were related to hedging against uncertainty. For example, while their main R&D facilities are located in Washington, they also operate R&D development facilities in other parts of the U.S. and around the world, including Canada, China, India, Ireland, Israel and the UK. This reduces the risk of not being competitive and responsive in local markets (or being hit by restrictive policies targeted at one country), and gives access to a more diverse pool of talent.

### **Redesigning the business**

Redesigning the business is more than transforming the internal culture, systems, and business models to address the external changes. The capability starts with designing strategies that fit the extent of unpredictability and malleability of the firm’s business environment. In unpredictable contexts, adaptive strategies based on experimentation (‘engineering flexibility’ rather than ‘optimizing efficiency’) are more likely to be successful. When firms can drive their market, strategies described as 'shaping' or 'visionary' are more appropriate. Visionary strategy (‘the build-it-and-they-will come approach’) is appropriate for contexts that are predictable and malleable. Shaping strategy (‘portfolio of experiments and a focus on business partnerships and ecosystems’) is best for unpredictable environments that you can change.

In assessing your context’s predictability and malleability (see Figure 2), it is important to remember that many firms overestimate the predictability of their environment and their shaping capabilities (Reeves et al., 2012). In addition to designing strategies in line with the characteristics of their context, firms also have to radically rethink and ‘reinvent’ themselves

through innovation of their business models, exploratory acquisitions and ambidexterity (the ability to apply different and potentially conflicting approaches to strategy in different parts of the business). A long-term sustainable competitive advantage and evolutionary fitness also require building resilience to “black swans”, unlikely but impactful extreme events.

Sony, a household brand in consumer electronics, demonstrates the capability of redesigning the business. Sony has long had a tradition of breakthrough innovation based on its core R&D strength in electronics, but it was losing its edge recently. It was clearly falling behind competition in some areas such as smartphones (where it was making a loss), and it sold its Vaio PC business in 2014. While some of its business segments were relatively stable, others were undergoing dramatic transformations and experiencing unpredictable environments. Sony had to show ambidexterity to grapple with this uncertain environment. It restructured and implemented transformation initiatives to enhance profitability, business autonomy and shareholder value. For example, Sony transferred its battery business to Murata Manufacturing and signed a deal to acquire 60% of EMI Music Publishing in 2018.

Kenichiro Yoshida, Sony’s new CEO, sees it as a technology firm, but noted that the technology today meant not only electronics, but also entertainment and content creation. He said Sony would continue to strengthen its content services and also invest heavily in cutting-edge technologies, including image sensors. Sony acknowledged several serious risks that might damage them. One of these key risks was reputational, due to product quality and liability issues. Furthermore, Sony’s headquarters and many of Sony’s most advanced device manufacturing facilities, are located in Japan, where the risk of earthquakes is relatively high. The global spread of Sony’s supply chain has also created potential vulnerabilities. Majority of Sony’s in-house electronics production is outside of Japan, mostly in China, which is now facing new tariffs from the US on most of its products, with future uncertainty about them.

## **Conclusion**

Uncertainty in the global business environment is on the rise, and strategy has to catch up. To thrive amid the new global uncertainty including policy and technological shocks, companies must build three capabilities: sensing the context, driving the market, and redesigning the business. While the dynamic capabilities research provides a useful starting point, our framework and the management tool associated with it provide a granular, practical advice for managers to cope with the consequences of the reshaped globalization. In reviewing the three capabilities to thrive amid global uncertainty and demonstrating them with the examples of IKEA, Microsoft, and Sony, we offer managers a check-list for not falling victim to uncertainty, but standing strong facing it and successfully navigating through it.

Many firms, not just high-profile cases such as Huawei, will find themselves in a “live-or-die” moment, and will have to have a strategy in place to surmount the challenges of uncertainty. In our interviews with managers of various multinationals, it was evident that uncertainty takes different shapes and forms (e.g., a regulatory surprise in the tobacco industry, oil price shock in the airline industry, or a cyberattack in the financial sector). Corporate strategies hence have to be creative and tailored to each situation. It is also important for all employees (not just managers) to take part in sensing and seizing opportunities (Evans and Salaiz, 2019), neutralizing threats and implementing capabilities. By adopting a disciplined approach in developing the core capabilities of sensing the context, driving the market, and redesigning the business, firms can thrive amid global uncertainty.

## **Figure 2: Management Tool**

### **Ten Steps for Developing Capabilities to Thrive Amid Global Uncertainty**

#### **Sensing the context**

- 1) What is the exact nature of uncertainty my firm is facing?  
Examples: clear-enough future, alternative futures, range of futures, deep uncertainty
- 2) What is the level of predictability in my firm's business environment?  
Rate on a scale of 1-10 (based on industry concentration, new entrants, innovation etc.)  
1=very predictable, 10=very unpredictable
- 3) What is the extent to which my firm can drive the market it is in?  
Rate on a scale of 1-10 (depends on the market share, R&D and marketing quality etc.)  
1=almost not at all, 10=to a significant extent
- 4) Steps 1-3 should be done for each key business segment/country/market the firm is in.

Strategic outcome: nature of and time horizon of the strategic plan. Example: IKEA moved from a 5- to more agile 3-year strategic plan as it faced rising uncertainty and unpredictability.

#### **Driving the market**

- 5) What is the nature of the major strategic investments your firm makes?  
Examples: no-regret moves, options, hedges, big bets
- 6) How is your firm strategically hedging its bets against uncertainty?  
Examples: temporary organization, exploratory acquisitions, disposable factories etc.
- 7) How is your firm recombining its resources and capabilities (across borders)?  
Examples: hiring/employing (overseas) talent, (cross-border) collaboration, sourcing

Strategic outcome: a strategic portfolio increasing up-side growth potential and reducing down-side risks of decline. Example: Microsoft decentralised their R&D beyond the US.

#### **Redesigning Business**

- 8) Have you designed a strategy that fits your context's predictability and malleability?  
Examples: classical, adaptive, visionary, and shaping strategy
- 9) Have you initiated a major rethink of your strategy, business model and innovation?  
Examples: radical change in business model, radically new product, process, market
- 10) Have you considered the 'worst-case' scenarios and most disruptive extreme events?  
Examples: technological disruption, natural disasters, cyberattacks, reputational crises

Strategic outcome: sustainable competitive advantage. Example: Sony reinvented itself from a consumer electronics firm to a content provider via acquisition of EMI Music Publishing.

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