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Australian Business Trends 2014

How Australian business can capitalise on the latest global trends

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Introduction

Strengthening our already strong relationships with the new global giants such as China and India will become more important than ever as we seek to establish a stronger presence in their markets and their companies continue to enter ours.

The report Australian Business Trends 2014: examining how Australian business can capitalise on the latest global trends has been recently prepared by professional services firm Deloitte.

The global economy has undergone immense changes over the past two decades and an increased flow of information due to new technologies has brought with it an accompanying explosion in the movement of goods, services, capital, people, ideas, cultures and values. However, as history tells us, the process of increased worldwide engagement and interaction has never been smooth.

Rapid advances in technology, an explosion in the growth of developing economies and greater urbanisation has redefined the global economic landscape. A billion people are expected to enter the 'middle class' globally over the next two decades, and this spread of prosperity will offer a raft of opportunities for businesses who move first, and challenges for those that lag behind.

As a developed economy with a highly educated, technology savvy workforce, Australia is well placed to capitalise on this changing economic landscape, especially due to its proximity to the growth markets of Asia.

The competitiveness of Australian companies will depend on a range of factors, but will ultimately come down to how quickly and efficiently we can innovate and adapt to the needs of customers in new markets and provide the products and services they will require. This will demand a greater awareness of social responsibility as we join the global race to lift vast numbers of people out of poverty.

Strengthening our already strong relationships with the new global giants such as China and India will become more important than ever as we seek to establish a stronger presence in their markets and their companies continue to enter ours.

Locally, businesses will need to adapt to foreign companies entering the Australian market for the first time and the challenges that will bring. They will also need to ask themselves whether their current company structures and business models really suit their needs going forward.

This report is a localised version of Deloitte's larger 2014 Business Trends report, which is available at **http://www.deloitte.com/au/business-trends-2014.** It has been prepared by Deloitte consulting leaders from a range of specialist areas and is broken into nine sections which we believe are the areas that company executives and decision-makers will need to focus on in the future.

As with all of our work at Deloitte, we hope this paper will enhance your capacity to act in a way that offers the maximum benefit to your organisation.

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Section 1: New consumers

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Another billion

The growth in consumption in the Asia-Pacific region will offer huge opportunities to Australian companies, especially across the financial services, retail and telecommunications industries.

Emerging global trends

Two decades of rising prosperity have reshaped the global economy, but the effects have been remarkably uneven. A new class of extremely wealthy individuals has been created, while vast numbers have been brought out of extreme poverty. However, the relative incomes of many in affluent advanced economies have recently stagnated, and elsewhere far too many still languish in the direst circumstances imaginable. Perhaps the most surprising story has been the steadily growing wealth of huge numbers of previously very low-income consumers in Asia, Latin America and Africa.

This is a trend that will continue and grow in importance. It is projected that by 2020, 3.2 billion people will be considered middle class, up from 1.8 billion in 2009[1]. Almost none of this growth will come from advanced economies; instead, a major part of this increase will happen in Asia, Africa and Latin America.

As a rough estimate, a billion new people will be critical in shaping global demand over the next five years or so. The 'next billion' will present a huge opportunity to serve a vast new set of consumers. Will these consumers have the discretionary spending power of traditional middle-class customers in advanced economies? No, they are poorer, live in different conditions, and will require different products and services. But they will provide the single biggest growth opportunity in many global companies' portfolios.

High urbanisation rates are also contributing to the emergence of the next billion, and urban populations are more prosperous than rural ones. As emerging-market urbanisation continues over the decades ahead, wealth and consumption will continue to grow.

As businesses turn their attention to the next billion, they're finding the past strategies of reducing costs and exporting affordable, scaled-down versions of successful products or services may not suffice. But they also know that customising for every local market is both impractical and expensive. New approaches and new ways of thinking – about categories, cultures and commonalities – are needed. Serving the next billion is a tantalising prospect, but reaching them profitably will be anything but straightforward.

Australian perspective

The growth in consumption in the Asia-Pacific region will offer huge opportunities to Australian companies, especially across the financial services, retail and telecommunications industries. In a highly competitive Australian market, the next wave of growth is likely to come from emerging Asian markets and their burgeoning middle classes.

While our geographic proximity does provide a natural vantage point, it does not change what will be critical in achieving success – acquiring a real understanding of the social, cultural, environmental and behavioural needs of these growth markets, whether via acquisition, alliance or through organic market entry.

Merely adapting to the existing marketing mix will not suffice and assuming economies of scale as a case for investment will fall well short of the extent of new thinking required to capitalise on these growth opportunities.

1 The new global middle class: A cross-over from West to East', Brookings Institution Press, 2010.

Deloitte research in Australia shows a 30 per cent improvement in customer relationships when a workplace actively includes and leverages the diversity of its talent.[2] Our ability to learn from Australia's multicultural society provides a sound starting point – understanding the extent to which organisations have been successful in connecting with Australia's own sub-cultures and the changes required from a category perspective through to the subtleties of how to engage, educate and communicate to acquire and retain customers.

These are all good insights into how prepared a company should be in expanding into developing markets. But well beyond the Australian experience is the degree of environmental, socio-economic and demographic differences that exist, not merely by country but at a community level within Asia.

Growth in these markets will inevitably require a more sophisticated and granular level of market intelligence and insight than achieved by Australian corporations to date. Companies will need to invest in inventive approaches to customer research. Strategies should start with listening to customers then interpreting the unmet needs of local communities and investing time in ethnographic research of both social and cultural dynamics.

Further, this growth must be approached with the mindset of the entrepreneur, and selecting the right candidates to lead these growth initiatives will be critical to success.

For telecommunications giant Telstra, the next billion represents not only a new market opportunity, but also a chance to influence the company culture domestically, borrow from innovations in the Asian marketplace and facilitate access for Australian and regional companies to Asian markets through its cloud computing services and network application services. To this end, Telstra Chief Executive David Thodey has signalled the company's intention to prioritise Asia as a major engine of growth for the company.[3]

A recent joint venture with Telkom Indonesia is an example of how Telstra has identified an opportunity in a high-growth market. This deal will also pave the way for other Australian companies wanting to break into Indonesia's fast-growing network application services market.

Another example of an Australian company proactively trying to tap into the Asian growth story was a B2B logistics operator. Having entered the Chinese market in the early 2000s, success was not forthcoming due to the state of the supply chains and infrastructure in the Chinese market at the time. Yet with the rise of the middle class, the industrialisation of larger cities and the presence of large retailers, the demand for more sophisticated pallet-based supply chains has increased rapidly.

A key to this company's success in China, however, has been installing local management and understanding the needs of local customers. While their knowledge about utilizing mature supply chains has come from their core markets in Australia, the United States and Western Europe, understanding in detail the needs of local retailers and manufacturers became essential. The company set up an Asian advisory board to spearhead its growth into the region, based in Hong Kong and including leaders from local companies.

2 'Waiter, is that inclusion in my soup? A new recipe to improve business performance', Deloitte, November 2012.

3 'Telstra's top team on Asian tour', The Australian Financial Review, 15 April 2014.

The bottom line

The expanding consuming classes of emerging economies offer an exciting growth area for marketers. Thanks to economic growth and demographic change, the global consumer demand has shifted dramatically toward emerging markets – and that shift will continue.

But capitalising on the next billion consumers may require companies to move beyond their past strategies of reducing costs and then exporting affordable, scaled-down versions of successful products or services – and customising for every local market is both impractical and expensive. To succeed, companies should look for and find commonalities and patterns across markets and consumers.

Finding such commonalities will allow businesses to gain the economies of learning and scope necessary to capture opportunities at an acceptable cost and level of investment.

Competitive advantage will accrue to companies that first group and categorise submarkets with similar economic, demographic and cultural characteristics, and then develop ways to reliably execute in those kinds of submarkets, regardless of national borders and whether they are crossed or not.

Australian companies are recognising the opportunities that the next billion will bring, especially to our immediate north in Asia. Market leaders such as Telstra have entered into joint ventures with local telecommunications providers, thus leveraging the expertise of Telstra and its partners in bringing their products to market. Companies wanting to establish an Asian foothold will need to increasingly partner with local companies and to gain a far greater understanding of the unique dynamics of local cultures.

Successfully reaching the next billion is also likely to require investments in new capabilities. But the opportunity is too great, and the longevity of the rewards for success too enduring, for many companies to ignore this massive demographic shift.

Another billion

Growth in these markets will inevitably require a more sophisticated and granular level of market intelligence and insight than achieved by Australian corporations to date.

Business and social impact

Business is and will continue to be a critical part of the solution and a growing number of Australian businesses are taking big steps to re-connect their business models with societal progress.

Emerging global trends

Throughout the developing world, water, sanitation and hygiene are matters of life and death. Every 20 seconds, a child under the age of five dies from a waterborne illness, and more than 780 million people do not have access to clean drinking water.

Unilever has ambitious goals to address these problems: by 2020, it wants to bring safe drinking water to half a billion people around the world and help improve the hygiene habits of twice as many. It established hand-washing education programs in 16 countries, reaching 11 million in Africa alone, and now works with the Millennium Villages Project to develop more scalable water, sanitation and hygiene interventions.

Unilever's actions are not philanthropic; they are key elements of the company's global business strategy. Fifty-five percent of Unilever's global revenue now comes from emerging markets. Its CEO Paul Polman declares, "We cannot thrive as a business in a world where nearly 1 billion people go to bed hungry every night, 2.8 billion are short of water and increasing numbers of people are excluded from the opportunity to work."[4] Unilever's Lifebuoy soap has experienced double-digit growth, in part as a result of the company's education campaign, and it is one of Unilever's fastest-growing brands.

This is the new face of corporate social performance in the next wave of globalisation. Companies operating in emerging markets must address the challenges of serving low-income consumers and rural communities, and must adapt to the limitations that impede commerce. The prospects are exciting – look out for a period of experimentation and innovation as organisations advance their core business objectives by addressing existing social and environmental issues.

Business is and will continue to be a critical part of the solution and a growing number of Australian businesses are taking big steps to re-connect their business models with societal progress.

Australian perspective

Australian society, like the rest of the world, faces a number of complex social challenges which cannot be addressed in isolation by either the government or the not-for-profit (NFP) sector. The NFP sector generated revenue of over $100 billion in Australia in 2013, and the increasing reliance on the sector to meet the challenges of the changing social landscape will require the development of new capabilities.

Cross-sectoral collaboration between business, government and non-profit organisations will become increasingly important for Australian businesses looking to increase their social impact. For more business/non-profit partnerships to be effective, however, Australian businesses will need to take a longer-term view and manage expectations of return on investment and profit growth for sustained success.

4 'Our approach to sustainability', Unilever, February 2014.

Businesses such as BHP, Brookfield Multiplex and Stockland have been experimenting with shared value initiatives by looking at ways to connect their companies' success with societal improvement – thereby benefiting the companies, their profitability and community outcomes.

Australian businesses are also considering ways to expand their reach into the Asia-Pacific region and effectively sell to low-income consumers. Intermediary organisations such as Business for Millennium Development (B4MD) are increasingly playing a role in connecting Australian businesses with shared value commercial opportunities in the region.

Forward-looking Australian businesses that proactively take opportunities to innovate and serve the needs of low-income consumers in the Asia-Pacific region will enjoy the benefits of increased market share, profit growth and brand differentiation.

Another critical investment for Australian businesses committed to increasing their social impact will be in innovation, and 'social innovation' in particular. The Department of Education, Employment and Workplace Relations Australian Innovation System Report 2011 noted that "expenditure on R&D by Australian organisations for 'society' has grown more than sixfold since 1992–93, highlighting an increase in investment in innovation activities directed towards social outcomes in Australia."

As globalisation moves into its next wave, solving social problems will become an increasingly critical part of business strategy. Those Australian businesses that recognise this and focus their efforts on better connecting their success with societal improvement will create more opportunities to serve new needs, gain efficiency, create differentiation and expand markets.

Business and social impact

To find effective strategies for growth in the next wave of globalisation, companies will need to continue to engage with the social needs and complexities of emerging and frontier markets. Social and environmental issues are no longer simply the government's responsibility or part of a company's philanthropic efforts.

The bottom line

Forward-looking companies are driving experimentation and innovation as they try to figure out how to successfully tackle a range of social challenges. This has taken the form of cross-sector partnerships, business and product innovation, providing assistance to local suppliers and distributors, and industry-wide collaboration. In the process, such programs are transforming the relationship between companies and the communities they serve.

Australian companies such as the big miners, are more aware than ever that their growth aspirations in developing markets are inextricably tied to the betterment of the living conditions of local people through social programs.

To find effective strategies for growth in the next wave of globalisation, companies will need to continue to engage with the social needs and complexities of emerging and frontier markets. Social and environmental issues are no longer simply the government's responsibility or part of a company's philanthropic efforts. Any global business looking for an effective path for growth should bring social impact into the core of its strategy and operations.

City planet

Emerging global trends

Cities feature as a key dimension of many companies' strategies to serve the world's new consumers as the march towards urbanisation continues relentlessly on a global scale.

Most strategies have considered cities as places richly packed with consumers, closely considering the particular needs and desires of urban dwellers and the logistical challenges of serving them. Coming up with the right strategy has become more pressing as companies continue to look to emerging economies for growth, especially since the current migration from rural areas to cities in China and India and across the developing world is unprecedented in its scale and speed.

But an emerging trend is for companies to go beyond thinking of cities only as consumer capitals and beyond engaging with them only through their marketing strategies. Some are also developing more holistic city strategies, within which consumer marketing is just one component.

The change reflects the massive shifts underway in China, India and other emerging economies, where urbanisation has occurred at a breathtaking pace in recent decades. In 1950, less than 18 per cent of the populations of developing economies lived in cities; today, almost half do. Between 1980 and 2010, Asia added more than a billion people to its urban population, with another billion expected by 2040.

Cities are being recognised as hotbeds of talent, crucibles of innovation, and centres of society and culture – as cauldrons of society's most pressing problems and seekers of solutions in and of themselves. It requires a sophisticated and multi-dimensional strategy to engage with all of this, and to realise the full value that urbanisation offers to a business.

Adopting a more integrative, strategic approach to cities is especially important because the urbanisation of the developing world is an intensely disruptive and dynamic process.

Not only are newly important cities springing up at a speed never seen in the West, they are doing so with much greater self-awareness. Today's civic leaders, wherever they are, have the benefit of decades of study of urbanisation and its impacts. Many of them have well-informed views of the roles corporations have played, and can play, in their growth. As their powers – and problems – grow, they are looking for similar thoughtfulness from business leaders.

The growth in urbanisation is also driving new demands for solutions in areas such as education and health care and providing the conditions for innovation in how they are designed and delivered.

Australian perspective

Australia is one of the most urbanised nations in the world (two-thirds of Australia's population live in one of seven capital cities).[5] Urbanisation in Australia occurs in the context of its significant geographical size relative to its small population, its multicultural community, its strong infrastructure and economy, and its proximity to Asia.

5 'State of Australian Cities 2013', Department of Infrastructure and Transport, Australian Government.

The rapid growth of second and third-tier cities in Asia also offers big opportunities for Australian companies to do business there.

Australian cities also have some of the highest population growth rates in the developed world[6] with around half this growth fuelled by net overseas migration – an influx of skilled workers, international students and reuniting family members. This has created a melting pot of multicultural talent, which when combined with the density of labour in major cities has proven conducive to the cross-pollination of ideas and testing of innovative concepts.

For Australian businesses, the implications can be seen in the trial of 'city strategies' similar to those in other countries, the creation of new viable markets in smaller capital cities and regions, and growth opportunities in neighbouring Asian markets. With such a highly urbanised market and a limited number of major cities, businesses are increasingly looking at different ways to engage clients.

One such company is banking giant Westpac, which recently re-launched a historic brand to target the still untapped Melbourne market. Since its launch, the Bank of Melbourne brand has successfully grown faster than competitors without significantly cannibalising Westpac's core banking customers. As this business develops, Westpac may well adopt more city strategies that it can then apply in a national context, as may its competitors.

Despite the high overall population growth rates in the greater Australian capital cities, the three largest cities – Sydney, Melbourne and Brisbane – were all net losers of domestic migrants in 2010–11.[7] By comparison, Darwin and Perth, and regional cities such Newcastle, Tweed Heads and the Sunshine Coast saw a significant inflow of new residents in the same period.[8]

This trend has seen people leaving the larger cities to seek opportunities in robust regional industries such as energy and mining, or to seek lifestyle changes – also known as sea or tree changes.

The Australian Government has recognised the importance of these regional markets through investment in major infrastructure such as the National Broadband Network (NBN)[9], which provides residents with services for which they might previously have driven hours to access.

Businesses can benefit from leveraging infrastructure developments such as the NBN, and the remote pools of talent, to stimulate invention in regional industries and locations.

6 'State of Australian Cities 2013', Department of Infrastructure and Transport, Australian Government.

7 ibid.

8 ibid.

9 'NBN: Broadband's rural 7 per cent', abc.net.au, 14 May 2012.

The rapid growth of second and third-tier cities in Asia also offers big opportunities for Australian companies to do business there. More than 300 million people live in China's smaller cities, and while Australia will never replicate the scale of the cities in emerging economies, collaboration with some of these cities to share learning would be invaluable.

The rising middle class, lower labour costs and demand for services will create a high demand for Australian businesses, particularly in:

- Agribusiness: demand for Australia's fresh produce, including proteins
- Gas: as consumers seek to improve air quality and reduce greenhouse emissions
- Tourism: as people seek space, nature, holidays and luxury experiences
- International education: as students seek to study in an English-speaking country
- Wealth management: as organisations and individuals tap into Australia's expertise.[10]

The bottom line

Cities, with their dense and diverse populations, have given rise to civilisations, enabled specialisation, created markets, spread opportunities, generated economic growth, produced entrepreneurs, sparked innovation – and have thereby driven human progress and improved lifestyles and standards of living.

Companies are learning to approach cities as more than simply reliable sources of market expansion, instead thinking of them as vital centres of talent, innovation hubs, learning laboratories and proving grounds for solutions to some of the world's toughest problems. Their leaders have noted the phenomenon of urbanisation, realised it is a massive trend reshaping the business environment, and recognised that cities are far too complex to be addressed by any simplistic, one-dimensional approach.

Australia's unique urban environment has seen business focus move outside the largest cities to smaller cities and regional areas centred on industries such as mining. Companies are also developing strategies to cater to the specific needs of particular urban markets.

As part of their city strategies, companies must figure out when, where and how to insert themselves into dynamic and rapidly evolving city networks of relevance to their business. Many will need to extend their reach well beyond the megacities of the world into second and third-tier cities.

Those businesses that engage with urban centres with a mindset of constant learning, exploration and engagement will discover the strategies that work and that can be replicated elsewhere. The very best of them will commit to participate as full partners in an era of remarkable city-based innovation, challenge and change.

10 'Building the Lucky Country #3: Positioning for prosperity? Catching the next wave', Deloitte, 2014.

Section 2: New collaborations

Innovation from everywhere

Social business, global business

Anticipatory supply chains

Innovation from everywhere

A highly skilled workforce and significant R&D expenditure has resulted in some world-class research capabilities, which have provided the foundation for successful innovation systems.

Emerging global trends

Innovation has always been important to humanity – it's the driver of increased prosperity and wellbeing. It has also been steadily increasing in importance to business in a fast-changing, opportunity-rich and highly competitive world.

The evidence is plain, for example, in MBA programs, where innovation courses for the next generation of managers are rapidly proliferating. Microsoft founder Bill Gates expressed the point in stark terms: companies must "innovate or die". So where does innovation come from?

For the last few centuries it came mainly from the West. Certain key ingredients necessary for innovation to flourish were in place in the societies and economies of the Western hemisphere far earlier than elsewhere.

This advantage became such a powerful, self-reinforcing phenomenon that many in the West came to view their innovation advantage as something of a birthright, an intrinsic relative strength that could never be taken from them.

But in an enormously important trend for business, that is changing. Now, thanks to spreading economic growth, shifting national priorities and new 'open' technologies, innovation comes from everywhere. Players based in emerging economies – and, in the West, many other players who lack the assets of large-scale firms – are becoming forces to reckon with in global innovation systems.

Capabilities that were once exclusive to large businesses are now available in efficient open markets. Innovators no longer need to assemble large organisations, let alone make enormous capital outlays for plant and equipment, because infrastructure is available to them on an as-needed basis. Open platforms that enable collaboration are the new infrastructure of innovation.

Various technology executives claim that by the end of this decade everyone on earth will be connected. We can therefore expect further acceleration of the pace of change, with a continued rebalancing of the contributions to global innovation from emerging economies. The vectors, velocity and variety of innovation will be altered fundamentally and permanently.

Australian perspective

In Australia, the increasing adoption of digital technologies has created unprecedented demand for communication products and services, and opportunities for business collaboration, while simultaneously eroding geographical barriers.

Overall, Australia's environment for fostering business and entrepreneurship is well regarded globally. A highly skilled workforce and significant R&D expenditure has resulted in some world-class research capabilities, which have provided the foundation for successful innovation systems.

However, Australia's innovation performance has been curbed by a number of noticeable system weaknesses, some environmental and others cultivated. In addition, having a comparatively small population, Australia has a limited capacity to innovate relative to its larger peers.

Given a well-developed and comparatively stable economy, a risk-averse business culture has emerged, resulting in a rapidly expanding gap between Australia and the developing world where innovation is much more prevalent out of necessity.

Despite these challenges, Australia has made some ground breaking global innovations across various industries. These include major advances in the medical field such as spray-on skin and bionic ears; the black box flight recorder and the inflatable escape slide and raft, now mandatory safety installations on the aeroplanes of all major airlines; plastic bank notes that have aided significantly in the reduction of counterfeiting; and Wi-Fi technology.

ClickView, named Australia's Most Innovative Company in 2012 by BRW magazine, is a leader in delivering educational digital content and a good example of an Australian company making a name for itself globally by innovating in the technology space. The company's products enable educators in the education, government and corporate sectors to view and share digital media.

Another leading local innovator is plastic bottle crusher Recycling Solutions, which has attracted international interest with its offering which cuts waste in the food services industry. The company was named Best Green Start Up at the 2012 StartupSmart Awards.

However, recent global comparisons suggest that Australia's innovation productivity ratio – meaning our innovation inputs to innovation outputs – is lagging other nations' innovation systems. While Australia tends to create value-add inputs for innovation, it is not always as proficient at commercialising these inputs into disruptive innovation outputs.

Australia has, however, been quick to respond to the rapid pace of technological advancement, allowing us to connect globally. Australia's population has one of the highest smartphone penetration rates in the world, ranking sixth in the world at 64.6 per cent. Given the affordability of technology in today's world, small-to-medium enterprises (SMEs) that are quick to adapt will also be in a position to lead the innovation game. These recent trends have allowed SMEs to tap into global innovation systems in a meaningful and valuable way.

Talent has also been an influential factor to the shifting innovation paradigm. By leveraging its close proximity to Asia, Australia has focused on strengthening its networks with these countries. The flow of international students between Asia and Australia is exceptionally high. Twenty per cent of our tertiary students are from Asia, a higher percentage than in any other OECD country. This provides a medium for talent and therefore knowledge to flow across geographical limitations, and develops relationships that form the platform required for global collaboration.

These changes have been instrumental in shaping the Australian innovation system and defining its place in the global ecosystem. Australia has been well placed to manipulate these trends in the global economy and use them to its advantage. However, there is still work to do and Australia will have to create targeted innovation platforms to capitalise on sectors where it has a global advantage.

The bottom line

For centuries, Western developed economies have enjoyed an extraordinary set of advantages in innovation. But this is now, truly, a global game. After centuries of near uni-directional innovation – from the West to the rest – we are today in the early days of a massive rebalancing. As the nature and means of innovation changes dramatically, there will be new models, participants and approaches, and amazing opportunities for established incumbents and emerging players alike.

For those responsible for corporate innovation, this shift is challenging how they do their work. To keep evolving their offerings and ways of operating, companies are looking beyond their internal research and development functions and connecting with innovators at the fringes of their businesses.

This will require different aptitudes and, perhaps harder to put in place, different attitudes. But if innovators can learn to embrace what is 'not invented here', organisations of all kinds can participate in an exciting new world of innovation possibilities.

As one of the most technologically savvy countries on the planet, Australia's early uptake of digital services has put it in good stead to innovate in the digital space. Its environment for fostering entrepreneurship is also well regarded globally. However, Australian businesses need to stop being fast followers and start becoming first movers. Australia will then be better placed to join the big leagues in the global innovation game.

To keep evolving their offerings and ways of operating, companies are looking beyond their internal research and development functions and connecting with innovators at the fringes of their businesses.

Social business, global business

In just one year, between 2012 and 2013, the total global social media audience increased by an estimated 18 per cent, from 1.47 billion to 1.73 billion.

Emerging global trends

Global companies' use of social engagement tools is maturing. They are going beyond seeing 'social' as media they can use to broadcast marketing messages by weaving social tools and interactions into their everyday operations.

In line with this shift, business executives' assessment of the value of social tools is changing rapidly. In a 2011 survey by Deloitte and MIT Sloan Management Review (of over 2,500 managers across 99 countries and 25 industries), only 18 per cent of respondents said they considered social tools "important today".[11] When the study was repeated in 2012, that figure had doubled to 36 per cent. And most of the rest saw social capabilities quickly becoming more vital: more than half of the 2012 respondents said social engagement would be "important within the next year".

The finding was supported by Deloitte's 2013 Globalisation Survey, a separate polling of 423 global executives. It found that 61 per cent of these executives expect social media to become much more or somewhat more important to their company over the next three years.[12]

Organisations such as global networking giant Cisco Systems now incorporate social data into their data strategies. Cisco knows it is important to monitor and respond to conversations as they happen across the organisation globally, and has created a 'radar screen' it calls the Social Media Listening Center, which captures and configures social activity to allow participants to focus on the specific part of Cisco's business which they are curious about.

To succeed in the years ahead, businesses will need the right balance of global reach and local footprint. They will require a sharp awareness of problems when they arise and the flexibility to quickly reconfigure operations in response. Leading companies will innovate by collaborating with others. An increasing number of executives now recognise that 'social business' offers a promise of progress across all of these dimensions. As corporate ambitions grow, so will the use of social tools. They can allow organisations to 'be global' while removing many of the hurdles associated with 'going global'.

The biggest driver of social engagement is the explosive proliferation of social media over the past decade, supported by the global growth in and penetration of mobile devices. In just one year, between 2012 and 2013, the total global social media audience increased by an estimated 18 per cent, from 1.47 billion to 1.73 billion.

Today's global businesses are increasingly likely to engage with employees and consumers alike through many different forms of social media comprising blogs, social platforms and networking or community sites. This ever growing digital footprint is likely to present companies with a raft of new challenges in getting the right information to the right audience at the right time, using the social channels most likely to resonate with them.

11 "Social business: Shifting out of first gear," MIT Sloan Management Review in collaboration with Deloitte, 2013.

12 Deloitte Consulting LLP, Deloitte Globalization Survey 2013, 2013.

Australian perspective

The emerging power and application of social media is reflected in the level of consumer adoption in Australia. Deloitte Australia's 2013 survey into consumer usage and consumption of devices and media found that almost half (48 per cent) of Australian consumers update their social network either every day or almost every day (5–7 days a week) and more importantly for business, 34 per cent of all survey respondents view social media as an important tool with which to learn about products and services.[13]

Furthermore, advertising delivered through social media, which was not even a survey category in 2012, is now the fourth most influential form of advertising – behind search engine advertising, banner advertising and word of mouth. Accordingly, investment in social channels and capability is no longer a peripheral consideration for Australian businesses.

In line with global findings, Australian businesses are at different stages of maturity in their uptake of social media. From a marketing perspective, Australian marketers use an average of five social media platforms to distribute content.[14] Beyond marketing, some local pioneers are adapting their operating models to incorporate social-derived data, tools, software and channels. Conversely, it seems that some Australian organisations are failing to effectively embrace social business as a part of core business operations due to a lack of awareness and understanding of social tools, concern about perceived security risks, unresolved concerns over employee productivity and uncertainty over how to apply appropriate social tools to different business practices.[15]

As observed in international markets, there are examples of leading Australian companies actively listening, gathering social data and insights, and acting upon these. The National Australia Bank has invested in a Social Media Command Centre to learn, in real-time, what their customers are saying about their products and services – with the overarching intention of improving existing offerings and co-creating new ones as a lever for customer engagement, retention and acquisition.

Social tools and software are used widely by Australian media providers and publishers as a means of understanding what audiences are consuming and the top trending stories. They are also being used to provide social TV platforms which connect audiences to each other and increase engagement before, during and after broadcast. The key driver is the need to engage with and retain audiences in a fragmented media environment, although the ability to accurately measure (and monetise) engagement has yet to be resolved.

Telstra has pioneered the concept of crowdsourcing customer service via its CrowdSupport online community – underpinned by a Social CRM system. This solution streamlined a multi-channel customer service offering (predominantly phone and email) and ensures customers are able to receive near real-time answers and solutions to queries.

Customers are using social channels in many areas of their lives and Telstra has a communication channel that seems to resonate with them. Customers are further enticed to contribute frequently through gamification, so that the flow of information and responses to issues is sustained and the community stays current and relevant.

13 State of Media Democracy Survey, Australia's Media usage and preferences, Deloitte, 2013.

14 'Content Marketing in Australia', Association for Data-driven Marketing & Advertising, 2014.

15 'Rethinking social media – Building the social organisation through HR', Deloitte, 2013.

The consensus among Australian organisations is that while specific tools may come and go, social business is here to stay and develop even further.

Entirely new businesses are growing from social roots. 10EQS is a crowdsourced consulting and professional services organisation supported by online collaboration tools and a community of global experts, which provides in-depth answers to complex, specialised questions for which traditional consulting is too costly and where traditional research falls short. 10EQS reduces the transaction cost of information by connecting clients with professionals online. Its entire model, as well as its clients' increasing comfort in using crowd-based insights, is due to the growing prevalence of social business in Australia.

As Australian organisations continue to adopt and benefit from social business, they too will need to consider and invest in the organisational capabilities to support the required governance, to continue to innovate and to build deeper capabilities – so that social is no longer the domain of marketing, but an integral part of business, data and digital strategy execution. This will require a shift in thinking from social media as a marketing tool or sales support channel to a source of potential competitive advantage.

In line with this thinking, more companies will proactively respond to what they hear and learn from customers via social sources. Right now the emphasis is still on brand management and the use of social tools by business to sell products, but businesses are learning that to successfully use social business, they need to tap into the burgeoning number of social communities. Brands that recognise this will continue to have the advantage.

The consensus among Australian organisations is that while specific tools may come and go, social business is here to stay and develop even further.

The bottom line

While social media caught on instantly and globally, social business has taken longer to warm up. There are still relatively few truly sophisticated corporate users of social business, both globally and in Australia.

But that situation is changing on a number of fronts. Australian corporations are using or have developed social media tools specific to their businesses with the intent of moulding their products and services to better meet their customers' needs.

Executives are realising that establishing a social media presence and acquiring the associated technology is simply the first step in a journey. They are building the processes and the organisational structures required to succeed as social businesses.

For many, the development of social business will mean very real and radical changes – not only to businesses' relationships with customers, but to their operations and to the very nature of their organisations.

They should embrace this change – both to facilitate coordinated activities across the global enterprise, and to forge connections with the communities and ecosystems that will determine their future success.

Anticipatory supply chains

While constraints differ between industries, many Australian companies will continue to leverage advancements in technology and data analytics to increase the agility of their supply chains.

Emerging global trends

Toyota had a wake-up call in March 2011, and by extension so did everyone else who believed in disciplined operations management. That was when an earthquake hit northern Japan, unleashing a massive tsunami. Later, for Toyota, it became evident how awful this natural disaster was for its global business.

The company had recently become the biggest-selling automaker in the world, in part because of its tightly managed supply chain. But having pruned its supplier base, it now found itself vulnerable. The disabling of a few parts makers in Japan meant that assembly lines globally ground to a halt, and March production fell by 29.9 per cent. It took six months for suppliers to get back to delivering products in required volumes.

Stung by the experience, Toyota set out to revamp its supply chain so that the time required to recover from large-scale disruption would be reduced to a maximum of two weeks. It wasn't possible to achieve that goal simply by learning to mobilise better in the aftermath of disaster. Its supply system had to learn to anticipate problems and any knock-on effects.

Management set out to expose vulnerabilities and rank them in terms of likelihood and potential impact. The changes that resulted mean that Toyota now has a more forward-looking, prepared and effective supply chain.

Increasingly, supply chains are being designed to anticipate disruptions and reconfigure themselves accordingly, and advances in technology are making this more possible.

Supply chain considerations are becoming central to strategy making, and given their focus on risk management, the supply chains of the future will need to be thoroughly integrated into the formulation of business strategies.

Australian perspective

Due to Australia's location and geographic spread, local companies have always had to deal with unforeseen events and complex supply chains, caused by a combination of natural disasters and congestion in our cities and ports. Over the years, Australia has witnessed a significant growth in mining and agriculture exports while at the same time the rise of the Australian dollar has seen imports increase. In addition, there's a need to manage a longer and more complex supply chain in Australia because of increased labour costs. While constraints differ between industries, many Australian companies will continue to leverage advancements in technology and data analytics to increase the agility of their supply chains.

A good example of this is in the mining industry, which is undergoing a fundamental transformation from a reliance on physical labour and highly mechanised equipment to technology-led operations improving safety, maximising throughput, and reducing escalating production costs. One of the mining giants has established a centralised operations centre for its remote mining operations across the world's largest privately owned mining, rail and port logistics network. The objective is to utilise technology to centralise operational control across the supply chain and enable better and faster system-wide decision-making.

Another large mining player has implemented a whole-of-supply-chain visualisation solution from pit to port to ship, showing key operational metrics in near-real-time, permanently displayed on large screens. It has also built on a leading business intelligence and data warehouse toolset, which will significantly increase its ability to react to unforeseen events.

Companies supplying major supermarket chains, such as perishable goods and major milk manufacturers are increasingly looking at partnering options to consolidate their supply chains and save on logistics costs in a quest to make their supply chain costs variable and extract value. Entering into long-term partnerships and joint ventures with specialist logistics companies such as Toll Holdings may help to consolidate their supply chains and will be critical in managing the emerging complexities of digitalised supply chain networks.

Due to increasing labour costs, some Australian companies are moving their manufacturing offshore. They have been forced to proactively adopt anticipatory supply chains, given the new-found complexity of moving their product to market. A good example of this is when a major tyre manufacturer moved manufacturing from Australia to Asia to save on labour costs – it suddenly found its product distribution was far more complex than its warehouse model in Australia. Clothes manufacturer Pacific Brands also had to do considerable supply chain planning when it moved its manufacturing to third-party suppliers in China.

As adaptive supply chains become more common, there will most likely be a value shift to design and final assembly which will require Australia, due to its distance from regional markets, to become a design leader if it is to continue to capture its market share. Companies will have to take a proactive, holistic view of their supply chains, where the entire ecosystem is visualised rather than just the individual components.

The bottom line

To manage a longer and more complex supply chain in Australia successfully and not crash as a business, Australian companies have to put a couple of key things in place:

- Understand the risks
- Incorporate resilience in design
- Build the capacity to manage the supply chain in real time and with effective triggers for response activity
- Consider out-of-the-box partnering and other third-party options.

For companies competing on a global scale, things can change quickly, and not only due to unexpected breaks in the supply chain. Sometimes it's a disruptive technology that forces a reconsideration of how a company operates.

Market leaders in the mining sector have installed whole-of-supply-chain visualisation technologies that allow them to track their goods from mine to port and beyond to stay ahead of the competition.

Companies can no longer rely on supply chains they built piecemeal as they grew. Nor can they expect that simply adapting or reacting, however quickly, to disruptions or market changes will keep them ahead of the competition. As linear supply chains evolve into rich supply networks, the companies that are best positioned for growth may be those that see these networks as core to their business strategies.

Their supply chains will not only perform efficiently under normal conditions, or recover quickly from disruptions, but may also be able to spot risks and avert them, and help leaders throughout organisations to anticipate the future.

The move to offshore manufacturing by several leading Australian brands has made the need for robust, anticipatory supply chains even greater. Global clothing brand Zara, for example, has a reputation for having one of the best supply chains in the world, which is automated, visual and data intensive, and allows the company to move vast amounts of product quickly from point of manufacture to point of sale.

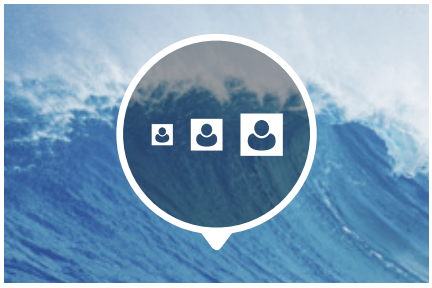
Anticipatory supply chains

Companies can no longer rely on supply chains they built piecemeal as they grew. Nor can they expect that simply adapting or reacting, however quickly, to disruptions or market changes will keep them ahead of the competition.

Section 3: New leadership

Giants, old and new

CFO as Chief Frontier Officer



The C-suite: Time for version 3.0?

Giants, old and new

Australia is no stranger to the entry of emerging-market multinationals into its local market, with the latest source nation often being China.

Emerging global trends

In the 1970s, American and European auto executives were shocked by the rapid appearance of powerful Japanese competitors in their home markets. In the following decade, new players from fast-growing Asian economies arrived on the global stage in several industries.

And over the past 20 years, many new global giants have grown up in the fertile soils of emerging markets – firms such as Embraer, Tata, CEMEX, Grupo Bimbo, JBS, Bharti Airtel, Mahindra & Mahindra, Lenovo and Haier. They have become serious, regular competitors to the Western multinationals that had long dominated their industries.

This time around, the emergence of powerful new players should be no shock. In many industries, from beer brewing to automobiles, to IT consulting, companies whose names were largely unfamiliar in the West just a decade ago are now firmly established in the top pack of global leaders.

But it is not yet clear who will hold the advantage in the years ahead, as the newer players progressively increase their focus on winning in mature, developed-economy markets. As many Western businesses have experienced, expanding from one's accustomed home markets to less familiar new ones is far from straightforward. Will the distinctive strengths of the new giants prove to be well suited to the demands of the future? Or will the advantages of the longer-standing incumbents help them prevail?

The answer is likely to be 'neither'. For we are seeing a trend: market leaders from both the developed and emerging worlds want to learn from each other to master a multi-dimensional game. They use certain moves as they venture into new territories, others as they compete with familiar rivals in their home markets, and still others as they defend those traditional markets against invasions by new entrants.

Emerging-market multinationals often have a better understanding of customers in the fastest-growing parts of the world, but the new story of global competition is very unlikely to be a one-sided onslaught from the emerging-market leaders. Multinationals from advanced economies benefit from a long history that has allowed them to build strong organisational management, and leadership capabilities.

Australian perspective

Australia is no stranger to the entry of emerging-market multinationals into its local market, with the latest source nation often being China. State-owned enterprises (SOEs) have been increasingly investing in Australia's mineral, energy and agricultural sectors over the past decade.

The entry strategy of Chinese SOEs has been predominantly to pursue growth through the acquisition of local companies and assets, while maintaining local management and Australian governance practices. Increasingly, they are acting like typical global multinational corporations, recognising the importance of maintaining strong local Australian partners, employees and stakeholder relations.[16]

16 'Demystifying Chinese Investment: China's outbound direct investment in Australia', University of Sydney and KPMG, August 2012.

One of their key investment sectors is mining, where 79 per cent of Chinese investment from 2006 to 2013 in Australia was focused. A good example of this was China Minmetal Resources (MMR), which acquired a number of Australian mining companies and consolidated them into a single company called Minerals and Metals Group (MMG) in 2012.[17] Of the seven executive committee members, six are Australians (including the CEO, CFO and COO), who collectively have extensive experience of Australian mining operations.

Another example is the acquisition of Manassen Foods by China's Bright Food in 2011, which employed a similar M&A approach to the food sector. Again, the Bright Food chairman reaffirmed the company's commitment to continue its partnership with growers, suppliers and customers through its existing management team.[18]

Not all Chinese entries into Australia have gone as smoothly, however, and the Federal Government has intervened on more than one occasion to stop Chinese interests from tendering for Australian Government deals when it deemed them contrary to national interest. A good example of that was when it blocked Chinese state-owned Huawei Technologies from tendering for part of the National Broadband Network contract in 2012.

At the same time, China is not the only country making large investments in Australian businesses. GVK and Adani, two of India's largest conglomerates, have invested $21 billion in the Galilee Basin, one of Australia's richest areas of coal deposits. This is especially significant given the downsizing of the Australian coal industry in recent years due to cost pressures.

As we look towards the future, Australian companies can expect to see this trend continue as our Asian neighbours develop their investment and entry strategies into more mature economies like Australia. The concept of sensing, learning and adapting to business practices in a mature market like Australia's will undoubtedly continue to be a key market entry strategy for Asian MNCs.

The bottom line

Many firms from the emerging world have arrived on the global stage at an impressive speed and scale.

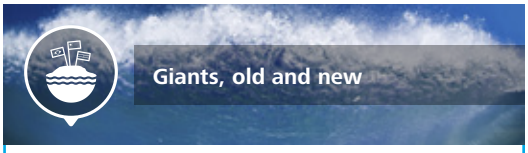
Most bring with them significant strengths that have served them well in their home markets, and that in many cases also position them for expansion into growing markets elsewhere. Some are already experiencing success in developed markets, too – but, to date, the new giants have a more limited track record in this arena.

Meanwhile, more established global corporations have important, hard-won and longstanding advantages of their own – and they have not been slow to acquire new capabilities as well. The field is set for a new, highly competitive game between giants with different legacies and advantages.

In Australia, Chinese and Indian companies are making large investments in several industries including mining, energy and agricultural production, a trend not without its controversies that is likely to continue at an accelerated rate over the next decade.

17 'Minmetals says Chinese Investment okay', The Sydney Morning Herald, 28 August 2012.

18 'Bright Food reaches deal with Manassen Foods for 75% stake', Australian Food News, August 2011.



One of their key investment sectors is mining, where 79 per cent of Chinese investment from 2006 to 2013 in Australia was focused.

The outcome ahead is unclear. It's impossible to say which firms will prevail. But one result of this new competitive reality is quite predictable: the winners will be increasingly impressive and effective companies.

They will learn fast and create new capabilities, often by spotting and themselves creating the advantages held by those from different geographies. They will be networkers, collaborators and partners, aligned with societies' needs and governments' goals. They will be diverse in their management ranks and quick to question their managerial habits of mind. They will, in short, be those who truly step up to the new reality of being global giants.

CFO as Chief Frontier Officer

Many financial executives will need to hone their approaches to financing, investment, operations and valuation. More broadly, many will need to adopt a new mindset on their work.

Emerging global trends

As organisations move into a new era of globalisation, they face ever-more complex dynamics and decision-making processes. One result is that the role of the Chief Financial Officer is shifting in many companies to a focus on global initiatives. Soon, in fact, CFO could equally stand for Chief Frontier Officer, given how central global growth is to an organisation's strategies.

Look, for example, at Starbucks CFO Troy Alstead. When he joined the café chain in 1992, it consisted of fewer than 170 shops; it would still be four years before the first Starbucks appeared outside North America. When it came time to expand overseas, however, what was needed most was deep knowledge of global financial management, decision support, planning, and business development – all strengths that Alstead and his colleagues in finance and accounting could offer.

By 2013, Starbucks was operating 5,000 stores in over 60 countries, and the company formalised the duality of Alstead's leadership. Already CFO, he was also named group president of global business services.

In a statement announcing the change, the company said: "Alstead's promotion is a recognition of the increasing responsibility and complexity of his role overseeing Starbucks' global financial, technology, and supply chain operations, and ensuring that the company's overall business infrastructure is optimised to support the company's global growth."

We're seeing many CFOs stepping up to understand and manage a broader set of business issues than they've faced at home or in core markets. But as leading the charge on globalisation initiatives becomes an expected part of the CFO's scope, not all are equipped to take on the new responsibilities.

This new era demands new capabilities in a senior management team and the CFO's training and toolkit are highly relevant to the new era of globalisation. In particular, the CFO's strong background in deal-structuring and a deep understanding of regulatory, environmental, and operational impacts on financial performance can put finance in an ideal spot to drive market-entry strategies.

Many financial executives will need to hone their approaches to financing, investment, operations and valuation. More broadly, many will need to adopt a new mindset on their work.

Australian perspective

Australia's geographic proximity to high-growth Asian economies has created major opportunities for Australian companies, but these are complex and challenging markets – legally, economically and culturally.

As noted above, CFOs have many attributes that fit the Chief Frontier Officer tag. CFOs are often the architects and custodians of policies and procedures within companies designed both to protect against risk and to allow risks to be taken.

This role, which at times seems contradictory, will have to be balanced with a 'frontier' mindset as competition intensifies.

In a 2007 Deloitte study[19], the two highest-valued experiences for aspiring CFOs were overseas experience and exposure in a line management role, where executives step out of their usual roles and gain broader commercial experiences. For those Australian CFOs who wish to succeed in a globalised economy, these experiences would seem to be more important than ever in dealing with the complexity and cultural challenges of developing markets.

An additional challenge for Australian CFOs is the high cost of doing business in Australia as their organisations expand. Global expansion, particularly into the Asia-Pacific region, offers opportunities to build cost agility by basing financial operations in lower-cost countries. We see this driving the expansion of offshore shared services but also finance centres of excellence in areas such as management reporting, analytics and actuarial services.

Past and present CFOs of the ANZ Bank have developed a deliberate strategy of expansion into Asia, and theirs has been a role instrumental in the development of the organisation's strategy. They were able to leverage their considerable expertise to deal with the complexity of managing businesses in places like China and other countries in the region, with high levels of regulation and different tax regimes. ANZ now derives over 20 per cent of its revenue from outside Australia and New Zealand, thanks in large part to the efforts of its CFOs.

A critical part of the CFO's role in a globalised world is ensuring the right investment funding and decisions. For companies with a mix of mature growth and emerging-market businesses, with different risk and return profiles, globalisation creates a real challenge in optimising capital allocation over long-term investment timeframes. In particular, it brings up questions on whether to 'double up' and accelerate growth opportunities and how to redirect capital.

CFO as Chief Frontier Officer

Past and present CFOs of the ANZ Bank have developed a deliberate strategy of expansion into Asia, and theirs has been a role instrumental in the development of the organisation's strategy.

Deloitte recently worked with a top ASX listed logistics company to help assess financial models for dozens of separate global businesses and their projected value contributions and cash-generation profiles. These models were in turn linked to annual budgeting, five-year forecasts and scenario analyses and were used to project a range of risk-adjusted forecasts and valuations.

The CFO developed a fresh, deeper set of insights for management and the board, which led to a reassessment of strategies to improve shareholder value. Capital has been switched to some of the higher-risk adjusted markets on the basis of opportunities to increase free cash flow by several hundred million dollars in the next five years. The thinking and analysis of the CFO helped change the mindset of the company and its decision-making processes.

19 'The Finance talent challenge: How leading CFOs are taking charge', Deloitte, 2007.

The bottom line

At a large hospitality company, the CFO and finance team recently managed a transformative initiative. By engineering a new legal entity structure for the company, they allowed it to move a key business unit's headquarters from the United States to Europe, simultaneously connecting it more closely with its growth markets, re-establishing the company's brand, and substantially reducing its overall effective tax rate by domiciling profits in a low-tax jurisdiction.

It was an effective example of the kind of multifaceted, high-profile assignment that is vaulting the CFO into a new position of influence.

It should come as no surprise that CFOs are well positioned to lead such efforts, given their well-honed abilities to manage risk, provide objective counsel and bring analytical rigour to strategic decision making.

CFOs can accelerate this shift by more deliberately seeking opportunities to apply their competencies, by increasing their exposure to the organisation's global operations, and by developing the leadership skills to exert influence and inspire confidence.

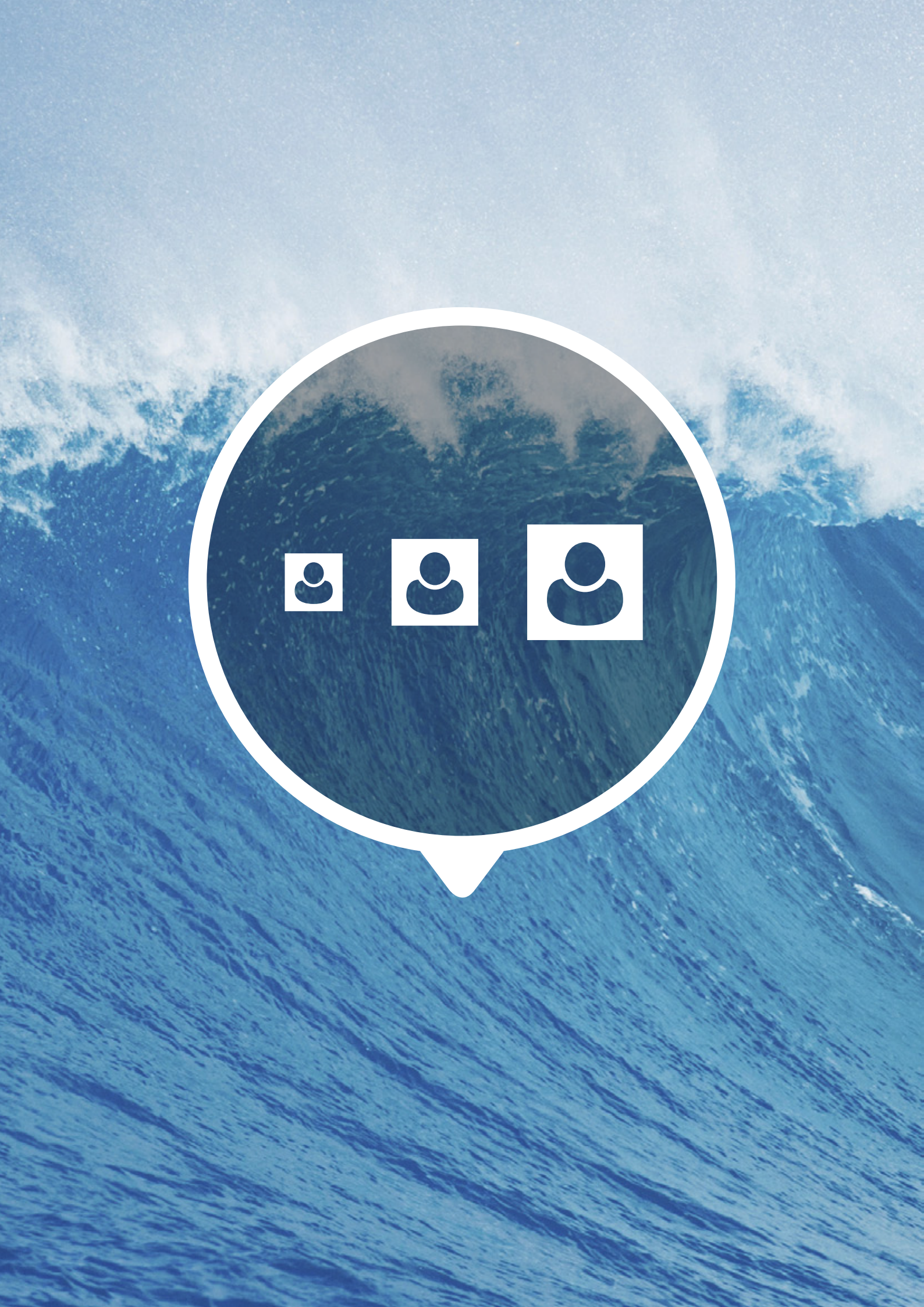
In doing so, they might keep in mind the five Cs of influential leadership – curiosity, capacity for surprise, courage, character, and collaboration. They should constantly ask questions and be eager to understand how things really work. They must be willing to set aside preconceived notions, and challenge things that they know but which may not still be valid. They must learn to deliver hard news and be willing to take unpopular stands.

Moreover, CFOs must see risk as something not to be avoided, but to be managed for reward. High ethical standards have always been essential in a leader; in an era of heightened scrutiny and transparency, they are only more so. They must be accessible and eager to listen to colleagues, and convinced that better solutions emerge when different perspectives are brought to bear on a problem.

In Australia, companies serious about gaining a foothold in the developing markets of Asia will rely increasingly on their CFOs to mark out a strategy based on their skills and expertise in all the above areas.

These skills may or may not already be evident in a CFO's direct line leadership of the finance function. But they will be needed as CFOs play a leadership role beyond that controls-focused domain, and in aspects of the business that have been traditionally managed by others.

CEOs with global aspirations understand how important it is to have a partner at the helm who is attuned to risk in its many forms and can navigate the new terrain with integrity. In fact, companies that don't have a CFO overseeing their push into new markets may be taking unknown risks.



The C-suite: Time for version 3.0?

There are plenty of examples of organisations expanding their C-suites by creating new executive positions to cater for the rapidly changing business environment.

Emerging global trends

Chief Executive Officers today have more direct reports than at any time in the past. The positions that collectively make up the 'C-suite' in large businesses (so named because of the tendency for all of their titles to feature the word 'chief') have, according to one authoritative study, doubled since the 1980s.

But the trend at the top of organisations is not just a matter of numbers – it's also about composition. In C-suites today, functional specialists – including Chief Financial Officers, Chief Marketing Officers, Chief Human Resources Officers, and more – far outnumber the generalist heads of business units.

If the original top leadership group of a handful of general managers constituted Version 1.0 of the C-suite, the prevalence of functional specialists puts us solidly in the Version 2.0 era. The problem is that this model is ill-matched to a business environment in which companies must transform themselves, and continue transforming themselves, to remain competitive.

In the new era of globalisation, teams of functionally oriented executives sometimes struggle to formulate and act on integrated, coherent strategies for future success. For many businesses, it's time for another reconfiguration of the top leadership team – here comes C-suite 3.0.

The C-suite is and will continue to be an evolving construct.

Australian perspective

In Australia, the development of the C-suite has largely mirrored the global experience. There has been an acute appreciation of the requirement for deep levels of expertise in an increasing array of functions, manifesting in the creation of new positions such as Chief Customer Officer, Chief Risk Officer and Chief Data Officer among other specialist roles.

There are plenty of examples of organisations expanding their C-suites by creating new executive positions to cater for the demands imposed by a rapidly changing business environment.

The City of Brisbane and Westfield Group created new Chief Digital Officer roles in 2012, showcasing the need to have executive focus on online and digital strategy. TAL, one of Australia's leading specialist life insurers, has created the new executive position of Chief Innovation and Disruption Officer and EFTPOS has a Chief Innovation Officer.

Westpac now has a Chief Risk Officer, while Telstra, AMP and Virgin Australia have appointed Chief Customer Officers. At Deloitte we have a Chief Strategy Officer for Asia Pacific.

The creation of these new C-suite roles demonstrates the increasing demand for functional expertise in digital, customer insight, innovation and transformation at the leadership table.

According to a recent report from Gartner, more than 20 per cent of government departments around the world will appoint a Chief Digital Officer as part of their digital strategies.[20] The report also forecast that 10 per cent of government organisations will appoint a Chief Data Officer in 2014.

20 'Beyond the Government CIO: Chief Data or Digital Officers?', Gartner, 2013.

A key requirement for the next-generation C-suite will also be the ability to secure alignment and coherence across multiple dimensions of essential change, without defaulting to the command-and-control arrangements of a bygone era.

While this trend in C-suite diversification mirrors the global experience; Australian companies, like their global counterparts, are also grappling with the challenges of cross-functional collaboration and overcoming siloed-behaviour that specialisation tends to breed.

There is a growing recognition of the importance of coherence and alignment at the C-suite to enable seamless collaboration. Lessons from the field of design, particularly in the area of conversation and co-creation, are rapidly gaining traction as 'design thinking' principles, tools and capabilities are being applied to assist companies to meet the challenges of increasing complexity and change.

Also emerging are trends towards the creation of cross-functional teams staffed with the requisite expertise to deliver complex projects, launch new products or businesses rapidly. These teams are increasingly gaining favour as effective mechanisms to overcome corporate bureaucracy, enable rapid response to the changing market demands and to cross-pollinate areas of the business, encouraging collaboration across areas of typically-siloed expertise

We are also seeing examples of where management reshuffles result in executives running divisions outside of their traditional functional domain. The rationale being that greater organisational coherence will be achieved if the C-suite leaders fully appreciate the cross functional disciplines. In many cases we see 'double hatting' where executives are required to lead business units while simultaneously leading and building the functional capability of the business. Whether these approaches will be permanent features of a future version of C-suite 3.0 remains to be seen, but many organisations in Australia are experiencing favourable results.

The bottom line

If companies choose to persevere down the route of increasing specialisation without heeding the need to collaborate and integrate, they are likely to face challenges when trying to cohere on one strategy and one culture. Likewise, without deep functional expertise in an environment that increasingly demands it, organisations will come unstuck quickly

The next wave of globalisation is bringing unfamiliar opportunities and challenges, along with increased diversity and complexity. These dynamics are intertwined with rapid technological change and fast-evolving business models, industry structures and organisational forms.

Plotting the course forward will test the limitations of the typical team of functionally oriented executives. A key requirement for the next-generation C-suite will also be the ability to secure alignment and coherence across multiple dimensions of essential change, without defaulting to the command-and-control arrangements of a bygone era.

Achieving deeper integration and coherence is unlikely to be achieved by C-suite 2.0 fragmentation but nor will it be accomplished by a return to the smaller, tightly centralised C-suite 1.0 model. Boards and CEOs might make this a subject of discussion and debate, and come up with their own definition of their future C-suite 3.0.

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