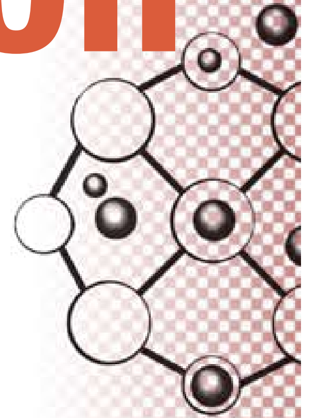
DANIELA GUGLIELMETTI

Published in Harvard Business Review América Latina, November 2006

Strategy Orchestration

The Key to Agility on the Global Stage



The new global champions coming from emerging markets are not finding better answers to old strategic questions. They are changing the question itself –no longer thinking in how to optimize traditional value chains, but in how to create and coordinate networks to seize opportunities that others don't see.

by Alejandro Ruelas-Gossi and Donald N. Sull

For more than a century, the game was dominated by the usual suspects: Europe, North America, and Japan. But in recent decades the competitive landscape has changed. Champions coming from emerging markets have risen to leadership positions in a wide range of global industries, and they have done it not by defeating the established giants in their own game, but by changing the rules to create a new game altogether. In cement, it is not longer Europe that heads the list, but an aggressive multinational –Cemex– with headquarters in Monterrey, Mexico. The fastest growing appliance maker in the world –Haier– hails from neither Japan nor Europe, but Qingdao in China. Another Chinese

upstart –Galanz– leads the world market in microwave ovens. The world's biggest brewer by volume –InBev– is a joint-venture between a Belgian and a Brazilian brewer. The world's leading steel company –Mittal Steel– began less than 30 years ago as a small mini-mill in Indonesia.

At first, the explosive advance of these and other emerging champions fall somewhere between unlikely and miraculous. Most emerging market companies face a high cost of capital and limited availability of funding; their domestic customers often have low disposable income but are still discerning consumers; firms must fight a two-front war against domestic competitors at the low-end and multinationals at the high-end; and they lack resources such as technology and brand at the scale afforded by established leaders in developed economies.

What explains, then, that these upstarts from emerging markets have managed to carve out global leadership positions in such a short period of time? Why have the incumbent players relinquished market share to competitors coming from developing regions such as China, India and Latin America? We believe that the problem for many incumbent firms has been that their managers have been asking the wrong questions. In North America, Japan and Europe, managers are still obsessing over the question of how they can optimize their established business models. This question assumes that there is only one best way to compete –often embodied in the notion of a value chain. It leads executives to ask what other competitors are doing and then benchmark one another to mindlessly ape the most successful. It leads them to ask existing customers if they are satisfied with their existing product offerings. It leads them to ask how quality management programs –such as Six Sigma or TQM– can wring incremental improvements out of the established model. All of these questions lead companies to imitate one another, to converge on a homogenous business model, to offer customers more of the same. Like long-married couples, competitors look more and more like one another with each passing year. (See the sidebar "The Mindset that Leads to Sameness".)

Certainly there are benefits to this approach, in terms of increased efficiency. But the emerging market champions did not come up with new answers to old questions. Instead they changed the question. They did not ask, "How can we make the established business model more efficient?", but rather they asked, "How can we become more agile?" By agility we do not mean doing more of the same, only a little bit faster or better. *Strategic agility* refers to a firm's ability to consistently seize emerging opportunities faster and more effectively than its rivals. Much has been written about identifying new opportunities. But in reality, spotting an opportunity is often the easy part. The biggest hurdle to strategic agility is not *seeing* the opportunity; it's *seizing* the opportunity. It requires firms to fill a new need in the market, by assembling a new set of resources and coordinating them into a novel combination. Think of the iPod, for instance: Apple wove together a sophisticated network of different firms, including music companies providing the content, subcontractors that manufacture the device, and firms making accessories and complementary products. Taken together, these companies constitute an ecosystem that fills the market need. And it is the network, rather than the product itself, that creates a barrier to entry preventing imitators from copying Apple's offering.

In this article we will introduce the concept of *orchestration* to describe how a firm assembles and coordinates a variety of nodes in a novel way to seize an opportunity. Orchestration is not about building a network and then allowing it to ossify with time. On the contrary, orchestration requires keeping the network dynamic, open to seize new opportunities as they emerge and to avoid being trapped in tired business models. In the following pages we will describe how orchestration is helping companies in Latin America and other emerging regions improve their strategic agility, and we will present some basic principles that can allow business leaders to successfully develop their firms' ability to orchestrate strategically.

Alejandro Ruelas-Gossi *(alejandro.ruelas-gossi@uai.cl) is a professor of strategy and the director of the Adolfo Ibáñez School of Management in Miami, Florida. He is the author of "Innovating in Emerging Markets: The Big T Paradigm" (HBR América Latina, February 2004).* ***Donald N. Sull*** *(dsull@london.edu) is an associate professor of Management Practice at London Business School. This is his third article for HBR América Latina, after "Prepare Your Company for Global Competition" (September 2004) and "Lessons from Brazil: How to Salvage a Business Threatened with Sudden Death" (February 2004), both with Martín Escobari.*

From Value Chain to Orchestration

Efficiency-based models begin with the notion of a value chain, which portrays a set of activities that add value to a product. These activities follow a linear flow, from purchasing raw materials to production, marketing and sales. (Supporting services such as administration and human resources run in parallel). This influential notion embeds some very strong assumptions: There are a set number of activities that

add value, they are the same for all firms, and they remain stable over time. Companies improve their efficiency by continuously refining and improving their value chain. The value chain concept limits the vision to the transactional relationship of customer-supplier, rather than identifying the creative relationships that could lead to innovative products or services. The value chain also blinds managers to spotting opportunities outside the commodity sale to established customers.

The orchestration approach begins with a different set of assumptions. Firms create value by assembling novel combinations of resources that fulfill an unmet customer need. Resources include both tangible assets, such as real estate, distribution networks or machinery, as well as intangible ones, such as expertise, technology or brand. Nodes are the individuals, business units or companies that control relevant resources and make them available for use to fill a gap in the market. Orchestration consists of coordinating those nodes to provide the novel combination that meets a customer demand.

Orchestration requires a new language. We no longer speak of customers, or suppliers, or competitors, but rather of nodes. Nodes are like Legos: They are the resources which constitute the basic building blocks that can be combined to meet new needs. An *orchestrating node* is the first among equals, the node that identifies the opportunity and assembles and coordinates the other nodes. In the case of Apple, the iPod

The Mindset that Leads to Sameness

In most industries, companies become more and more similar to one another with each passing year: they mimic each other to offer more of the same. Look at American carmakers. Instead of writing their own story, they limit themselves to copy one another. When Toyota and Honda started winning in the market, American companies started imitating their Asian rivals. Disregarding their own history, they turned imitation into a goal.

Many established companies keep answering the same questions and going back to the same set of notions, which leads them to converge toward homogeneous business models and perpetuate the wrong assumptions. Let's review some of them:

Cost Reduction. It is a trap that destroys value. It focuses management on the *denominator* of return on invested capital, that is, in how to reduce investment and expense. By contrast, the *numerator* focuses executives on creating –on how to add value to the equation of the firm. Corona, the number one imported beer in the world, is willing to bear a higher cost structure so it can deliver its product with the same quality in every corner of the world: every unit is bottled in Mexico. Producing entirely in the country of origin has been a key to its success. Of course, it is important to keep a tight control on costs, but companies that do that exclusively, without growing the numerator, are destined to shrink into oblivion. Instead, the best companies consider a competitive cost structure table stakes that let them play the game, while they rely on innovation to win.

Listening to the Customer. A very common assumption that might explain why so many firms are so alike. The customer asks the same of everyone. Accordingly, suppliers deliver the same, converting the scenario in one of commodities and of the tyranny of price. This breeds a culture of sameness. Innovation requires that companies anticipate emerging needs and provide solutions before customers can articulate what it is they want.

Customer Satisfaction. Another concept that preserves the sameness. It means that the customer *expects* the same. But a customer doesn't want to be satisfied –he wants to be *surprised*. Indeed, the associated notion of customer loyalty does not exist; there is not such a thing as a faithful customer. Customers switch naturally as soon as they perceive more value somewhere else.

Benchmarking. It makes the problem of sameness even more acute by creating an obsession with mimicry and a fixation with competitors, not with delivering a unique and complex value proposition. Let us use a metaphor to exemplify this: Two dogs are chasing a rabbit. If the first one cannot catch it, the second does not have a chance. That's benchmarking: Dogs so preoccupied with chasing each other that they never catch the rabbit.

Competitive Advantage. For these companies, the concept of competitive advantage also revolves around competitors, around being *gradually* better, *marginally* better. If painters followed the same mindset of traditional managers, we would have millions of Mona Lisas –one cheaper than the other, with just a few "gradual improvements".

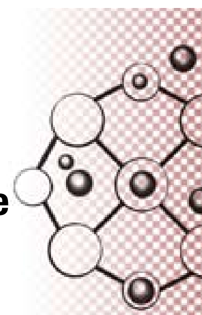
is the orchestrating node of a multitude of relevant nodes, all moving at the pace of iPod: speakers, bags, computers, phones, cameras, singers, broadcasters, and everything in between. All in white, just like iPod –and all continuously evolving. Intel might have put the microprocessor inside the product, but Apple is the orchestrating node within a network.

The value chain logic focuses on new product innovations that pass through the chain –from 286 to 386 to Pentium, all bundled with the latest generation of Microsoft software and placed inside a PC. The orchestration logic, by contrast, focuses on business model innovation.

Consider Cemex. The traditional value-chain logic would leave Cemex few options: integrate backwards into raw materials, integrate forward (and compete with its customers), or expand horizontally to do more of the same at greater scale. But Cemex defied the value-chain logic and instead orchestrated Construrama, a network of almost 2,500 distributors in Mexico. It switched from the language of *customer* and *competitor* to the language of *nodes*, bringing together various types of nodes –logistics, distribution and financial nodes– required to provide an integrated solution, and taking the lead in transferring knowledge and best practices across them. In logistics nodes, for instance, Cemex pioneered the use of sophisticated technology to dispatch cement to work sites as quickly as pizza delivery. To improve its distribution nodes, the company worked closely with its base of about 5,000 independent distributors in Mexico, converting more than half of them to its Construrama retail concept. Under this program, dealers pay to join the network and turn their construction-supplies stores into Construrama outlets. In exchange, they receive help with store layout, administration, financing and other matters.

Cemex thus created a sort of franchise, a universal brand in the construction industry that is shared by all the nodes in the network. Today, the highly-decentralized Construrama is the largest network of construction materials in the world, and it is exporting the concept to other continents. This program also combines with other complex financing nodes, orchestrated to facilitate the sale of a bulky commodity as if it were a consumer product. Through its Patrimonio Hoy program, for instance, Cemex offers Mexican families who live in poverty credit to finance home expansions, following a traditional practice of lending circles known as *tandas*: the company lends small groups of families 80% of the cost of building materials, which is later repaid with contributions from the group driven by the pressure of other families awaiting their turn to receive the benefit. A related concept is Construmex, which Cemex launched in the U.S. to channel into home construction some of the $20 billion that Mexican migrants send back to their families each year. Workers in the U.S. can walk into a Construmex office, design their home expansion and have the materials delivered directly to their relatives in Mexico.

> Emerging market champions did not ask, **"How can we make the established business model more efficient?",** but rather they changed the question to, **"How can we become more agile?"**



With these programs, Cemex has managed to escape from the tyranny of price and achieve a much more complex value proposition. One in which the innovation has not been in the product –cement is still cement–, but in being the orchestrating node of a compelling and constantly evolving business model. In this regard, the Cemex example illustrates the two central aspects of the orchestration logic:

First, its approach is *allocentric*, which means that it incorporates the various nodes in the network. Most existing strategy theory is egocentric: Its starting point is the individual firm that exists to create, capture and sustain economic value. The firm focuses solely on opportunities it can seize alone. The allocentric orientation, by contrast, allows managers to seize a whole range of opportunities that can only be pursued by a network. This requires a shift in how managers establish relationships. In the traditional view, the egocentric firm maximizes its own value, often at the expense of other players in the value chain.

The orchestration approach, by contrast, assumes that there are unlimited opportunities to create new value, as long as there is cooperation between the network nodes and the pie is carved up in a manner that will make it worthwhile for everyone to participate. As Francisco Garza Zambrano, president of Cemex North American Operations, says: "When the distributors sell more, Cemex sells more… We want them to increase their business".

Second, successful orchestration requires managers to overcome what we call the *paradox of complexity*. To succeed in the marketplace, the network's value proposition (that is, the result of orchestration as seen by customers) must be very simple. On the other hand, the company needs its orchestration to be internally complex, because is that very complexity what prevents rivals from imitating the network. The paradox of complexity, then, can be summarized as follows: Executives must orchestrate the network so it seems simple to customers but has enough complexity that rivals cannot imitate it easily. Cemex has been able to overcome this paradox through its Construcard card, which customers receive when they join Construrama. With it they can make transactions (buying materials, scheduling construction, receiving money for home improvements sent by their relatives living in the U.S., and so on). It is essentially a multipurpose card, very simple to the end consumer, but behind of which there are lots of orchestrated nodes: financial credit, money transfers, materials delivery, labor and building methods. As a result, Cemex can add value to the whole network almost on a daily basis, and at the same time make it more difficult to imitate.

Cemex's innovations illustrate how orchestration enhances strategic agility. By orchestrating a flexible network that includes distribution, logistics and financing nodes, the company was able to seize opportunities that other competitors might see, but could not grasp. The network provides Cemex the agility to adapt to new circumstances and incorporate new opportunities, such as expanding to nearby markets or tapping the large network of Mexicans working in the United States. Instead of taking an established value chain as an immutable law of nature, Cemex executives wove their own tapestry of relationships and orchestrated an allocentric network that customers experience as simple, but competitors find impossible to replicate.

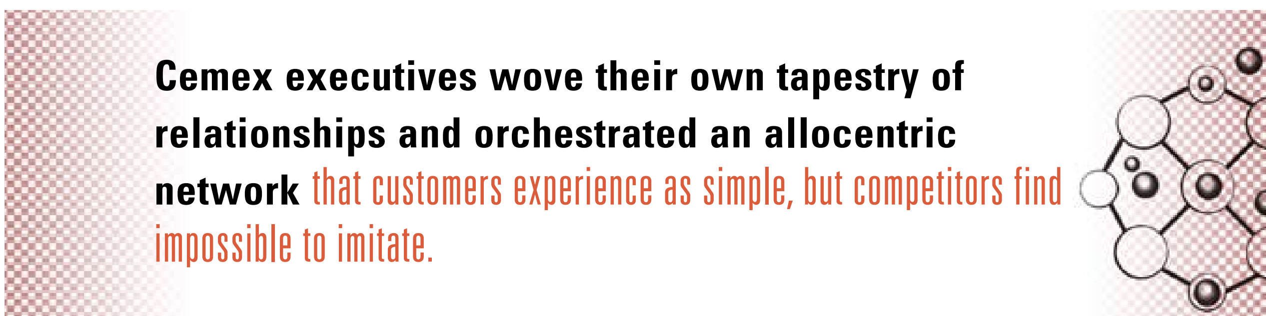
Four Conditions for Orchestration

Is it possible to apply the orchestration approach with equal success across all markets and all companies? The irruption of the emerging market champions shows that the environment plays an important part generating the opportunities for orchestration. How to know when the benefits in strategic agility from orchestration outweigh the traditional benefits in efficiency from a value-chain approach? You need to look at the level of turbulence in the external environment. Uncertain markets tend to generate large changes in external factors, which in turn create opportunities for agile firms to seize. Thus, the value of orchestration relative to efficiency tends to increase as a function of market volatility. We have identified four particular sources of external volatility that create new opportunities for orchestration: Technological change; Regulatory changes; Demographic trends; and Macroeconomic shifts. The story of Chinese appliance maker Guangdong Galanz, which has excelled in its ability to orchestrate nodes dynamically, provides a good example of how these four sources of change operate.

Technological Change. Technology is the most common source of environmental change. But while it is traditionally perceived as either radical or incremental innovation on any variable of a product, in the context of strategy orchestration, technological change doesn't necessarily involve a –sometimes futile– "complexification" of any of those variables.

Instead, product innovation takes on a "minimalist" approach, aimed to facilitate the integration of new nodes to the network. In fact, in industries with a slower pace of technological change, innovation can occur not in the product but *around* the product, as in the case of Cemex's Construrama network.

Guangdong Galanz illustrates very well this approach to product innovation. Although not as well known as the also Chinese manufacturer Haier, Galanz has carved out a commanding position in the microwave oven niche. Today it is the global leader in microwave oven production, with annual output exceeding 18 million units in 2004 –the vast majority of them manufactured for sale under other companies' brands. The company has been introducing specific innovations aimed at seizing the increasing opportunities in its home market, but it has done so by *simplifying* the product in accordance with the geoeconomic context: Contrary to what could be expected, homes in China –specially their kitchens– are very small; traditional microwave ovens were of a size incompatible with the space available to most Chinese consumers. Galanz then introduced a smaller, minimalist oven with a single button. The company incorporated just enough technology to keep its value proposition very simple to the customer.



Regulatory Changes. Although its name is now directly associated with its leadership in microwaves, Galanz today looks nothing like its original incarnation as a collective enterprise founded in 1978 in Guizhou, in the Guangdong province, to produce and supply goose down for branded clothing companies such as Yves St. Laurent. In the mid-1970s, Guangdong was an industrial backwater, distant from the manufacturing and technology clusters farther north. But due to a new government policy, all this changed in 1978: the Communist Party announced its intention to create Special Economic Zones (SEZs) and suddenly Guangdong, with its three SEZs of Shenzhen, Zhuhai, and Shantou, was on the front line of China's integration into the global economy. One of those anxious to seize the moment was Qingde Leung. Then a 42-year old administrator in Guizhou township's industrial bureau, Leung proposed that the town's party council set up a collective enterprise to wash and process goose feathers. The shift in regulation opened up the opportunity to enter the down market.

Demographic Trends. Under Leung's leadership, the collective enterprise prospered for over a decade in the down and feather business. However, in the early 1990s, Leung anticipated that intense competition would depress profits in the textile business. And on a business trip to Tokyo in 1991, he saw his first microwave oven and "sensed" that domestic demand for microwaves was poised to take off. Although microwaves had been produced in China for more than a decade, most were exported, as they were considered luxury goods in the country and sold for high prices. Leung discovered that the household penetration rate was much lower than the 40% to 80% typical in Japan, Europe, and the United States. Moreover, no established competitor dominated the fledgling Chinese market. Leung was convinced that Chinese consumers, whose habits were changing rapidly, would respond favorably to a more affordable offering. So in 1992, the collective company officially changed its name to Guangdong Galanz to mark its transformation into a microwave oven manufacturer.

Thus began the endeavor of Galanz towards strategy orchestration. To develop the expertise required for microwave production, Leung visited Shanghai and persuaded a group of engineers from the Shanghai Eighteenth Radio Factory to join his new venture, initially as part-time consultants. The newly formed team licensed technology from Toshiba to produce a trial run of 10,000 microwave ovens in 1993 under the Galanz brand. Lacking funds for a national launch, Leung stroke an agreement with one of the largest department stores in Shanghai to stock the new Galanz microwaves, under the condition to remove them if none sold in the first three days. Although rivals disparaged Galanz's transformation into an appliance

manufacturer, the company defied its critics and sold 80% of its trial run. By involving a variety of nodes (engineers, retailers, technology) Galanz orchestrated a robust value proposition.

Macroeconomic Shifts. Galanz has also been capable of seizing the opportunities created by macroeconomic shifts, such as the Asian financial crisis. In the summer of 1997, South Korean microwave oven manufacturers, including Samsung and LG, were accused of dumping products in Europe, and local competitors petitioned the European Union for an antidumping investigation. While the inquiry dragged on, most European microwave producers were unable to compete with their Korean competitors on price and were forced to explore options to salvage their business. Galanz acted fast. "We visited European manufacturers and asked how much it cost them to make a microwave oven. When they said $100, we explained that we could make them for half the cost at the same quality. And we had a deal," Yaochang Yu, Galanz's deputy general manager, later recalled. Galanz pioneered a novel partnership scheme in which European white goods companies moved their entire production lines to China, where Galanz would make the microwaves and then export them back to their home markets for sale under the European companies' brands.

Orchestration in Practice

Strategy orchestration requires managers to establish and maintain connections between the nodes. This is a crucial component when the goal is agility rather than mere efficiency. Each network is unique –therein lies much of their value relative to generic value chains. Consequently, there is no simple cookie-cutter set of prescriptions for orchestrating a network that managers can apply blindly to every situation. That said, we have identified a few broad principles that appear with remarkable regularity across the successful networks we have studied, including several Latin American companies that we will use as examples.

Identify sophisticated nodes and get them to play ball. As we have seen, Galanz followed the logic of identifying the sophisticated nodes early on and securing their involvement in the network. The company certainly owes part of its success to Leung's sophistication in structuring deals with technology providers, distributors, and OEM customers to get them on board. More important, however, was Galanz managers' ability to manage the relationships with the different nodes on an ongoing basis.

By bringing world-class partners into the network, Galanz exposed its executives to best practices and forced the company itself to adopt a high level of performance. Sophisticated partners –such as Toshiba for technology or European appliance makers for outsourced production– place "unreasonable" demands on an organization, and are generally a pain in the neck to deal with. They demand data and transparency, impose high standards, and push for constant improvement. It is much easier to settle for working with less demanding –often local– collaborators. What many executives fail to recognize, however, is that these unreasonable demands are actually the sophisticated partners' most valuable contribution to the firm's development. By actively seeking out and locking their organizations into stretch relationships, managers can pull their companies out of second-rate practices and drag them –often kicking and screaming– to world-class practices and performance levels.

The most successful firms will be those, like Galanz, that enter into and successfully manage partnerships with sophisticated investors, customers, and technology suppliers. When Leung decided to pursue the microwave oven opportunity, he did not select the most approachable competitor for technology. Instead he selected Toshiba, because it offered cutting-edge product and process technology. Subsequently, Galanz has moved to the frontier of the microwave oven technology globally through its stretch relationships with high-end original equipment manufacturers in the world's most demanding markets. In fact, those partnerships have not only allowed Galanz to achieve economies of scale in manufacturing and purchasing, but also to secure permission to use its European partners' manufacturing equipment to produce its own branded microwaves for the Chinese market, thus avoiding expensive investments in production capability.

Adopt an asset-light approach. Companies that try to do everything in-house must make tremendous investments in people and hard assets. Relying on partners can allow a company to minimize its resource commitment. This lower commitment of resources has three advantages. First, it minimizes the company's losses if the situation changes and the business is no longer viable. Second, it enables the company to pursue more initiatives and diversify its portfolio of projects. Finally, by decreasing the equity investment, it can increase the percentage return on invested capital.

Consider how this approach worked at the Brazilian company Promon. Founded in 1960 as a joint-venture between a U.S. company and a Brazilian firm to provide engineering consulting, Promon followed the established business model of billing hours to clients on a cost-plus basis. In 1988, when a fiscal crisis in the Federal government led to a sharp drop-off in gov-

ernment-sponsored projects, Promon decided to outsource its labor-intensive projects to move away from being a service contractor and become an asset-light systems integrator company –an orchestrating node.

Thus, in a typical project, the company would supervise over 1,500 employees from some 500 separate subcontractor companies, but maintain only 50-100 people on its own payroll. Since Promon acted as a systems integrator, it could still claim a high margin for its services because it took final responsibility for delivering the project on time and on budget, and managed all interactions with the final customer. Promon's successful shift to an asset-light model allowed the partnership to increase net revenues from $10 million in 1987 to $197 million in 2003, while decreasing total staff from 4,000 to approximately 600 professionals over the same period.

Don't Stand Still –Keep Orchestrating. In stable markets, relationships are often taken for granted, and managers passively sustain them without giving them much thought. In unpredictable markets, entrepreneurs and executives cannot afford to take a relationship for granted, no matter how entrenched and long-standing. They must consciously reevaluate its benefits and costs and actively manage them in light of shifting circumstances. Moreover, in an unpredictable market the interests of the parties can change substantially, often in a relatively short period of time.

Consider the case of OXXO, the largest chain of convenience stores in Latin America with almost 5,000 stores, and one of the fastest-growing companies in the world, at a rate of two new stores daily. OXXO developed a very sophisticated systems dynamics model that allows it to understand the interrelations of an ever-increasing number of variables that impact the success of a store. To orchestrate its exceptional growth strategy, OXXO condensed its "success-factor" from 18 months to six weeks. Traditionally, for a convenience store to prove successful it was necessary to wait 18 months. But OXXO was able to narrow it down to six weeks and thus accelerated the process of attracting the *most successful* nodes around its convenience stores, such as gas stations, restaurants and the like. By doing so, OXXO is becoming a sort of iPod, around which every node wants to be to benefit from its rapid growth.

Even in less dynamic industries is also possible to use strategic agility to actively manage relationships with external nodes. The Colombian electric power distributor Codensa, a subsidiary of the multinational Endesa, drastically increased its sales by orchestrating a series of new nodes to strengthen the *weak link* between customer and supplier. Through a network that combined electric appliances, retail stores, and financial credit, Codensa shortened the access gap of its low-income customers to electric appliances. Today, a customer can go to a retail store, buy an electric appliance, take it home, and pay for it through the electric invoice, in predefined installments according to household income. Instead of the traditional effort of reducing the cost of energy, the network actively increased the quality of life of final consumers.

Commit to Transparency. Forging and maintaining stretch relationships with customers, technology partners, investors and suppliers often requires an increased level of transparency. To be orchestrated effectively, partners need clarity before joining the network as a node. The importance of transparency may surprise those who believe that success in emerging markets depends on access to privileged information and connections with powerful people, but managers can take a series of innovative steps to commit to a higher level transparency that benefits and strengthens their value networks.

For example, Promon was from its inception an employee-owned company. This choice of organizational form meant that Promon was required to disclose all transactions to its shareholders, more than 400 in total. Many executives might see this requirement as a

The Battle between Sameness and Uniqueness

The old paradigms of strategy have had a tangible impact in the managerial mindset, particularly in the simplification of the decision making process (Schwenk, 1984) to the extent that executives apply the same framework of Porter's Five Forces to *every strategic situation*. The same dominant logic (Prahalad and Bettis, 1986) is embedded in the mindset of most managers, and reaches a fatalistic convergence through institutional isomorphism (DiMaggio and Powell, 1983).

As a result, most organizations simply aim all their managing toward subsistence, and base their strategy on mimicry. This is not real strategy. Strategy is about painting new stories, not just repainting. Strategy is not even to play the game smartly –it's to create a new game.

Paradoxically, what differentiates successful firms (Carroll, 1993) sends the message of ignoring competitors, of not pursuing sameness. Demsetz (1991) argues that the firm represents a response to a fundamental asymmetry in the knowledge economy, which is opposed to the concept of competitive advantage –an advantage that, in practice, produces sameness.

In the new paradigm, the best of the *world of equilibrium* (the developed countries) and the new business models from the *world of disequilibrium* (the emerging countries) will combine. Their conceptual platform stems from economic philosophies born in the 1940s, such as *creative destruction* (1942) and *game theory* (1944).

The first, developed by Joseph Schumpeter, explains the growth of the firm in the destructive nature of innovation. Intrinsically, innovation creates and destroys simultaneously. The second, developed by John Nash, provides the allocentric atmosphere: the Nash Equilibrium. It consists in *minimizing the losses* of every player, that is, in finding the suboptimal solutions. And these suboptimal solutions are the appropriate platform for strategy orchestration, where every node plays.

Orchestrating is not about maximizing every link in a value chain, but about intelligently coordinating each node in a network to create a more complex value proposition. Strategy no longer means being efficient in equilibrium, but creating disequilibrium. In other words, inventing a new game.

burden, but Promon's senior partners saw it as a clear way of differentiating themselves: The firm's reputation for professionalism and honesty consistently attracted customers and partners, a crucial factor for the success of its asset-light model.

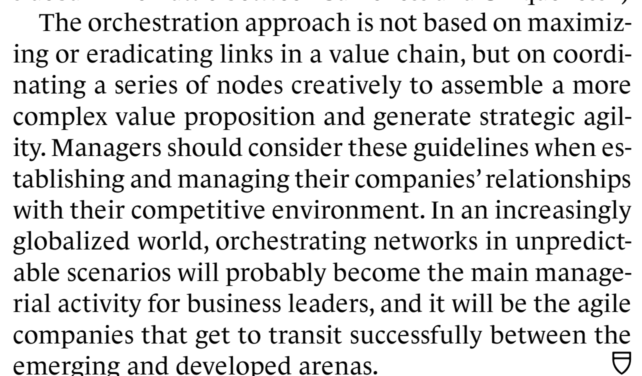
Another Brazilian company, cosmetics leader Natura, made transparency a core aspect of its strategy and the central value of the entire organization in the 1990s. Among other initiatives, the founders of Natura bought out the shareholders who did not support the shift to new values; the compensation systems were homogenized and made transparent; and the company anchored its entire marketing campaign around the theme of transparency and "truth" in cosmetics. This allowed Natura to orchestrate its network around a commitment to honesty that extended to relationships with all relevant nodes –shareholders, employees (particularly its large direct-sales force comprised of saleswomen or "consultants"), and consumers– through a communication that conveyed the benefits of the product without relying, for example, on the use of models to drive sales.

The argument that "it pays to be transparent" is not only a declaration of intent –it is a reality, as the need to attract and orchestrate partner nodes imposes the requirement of transparency on companies that seek to achieve strategic agility.

• • •

We are reaching a turning point in the conception of strategy. The successes of emerging firms that are conquering the global markets prefigure the emergence of a new paradigm: One that is no longer about being efficient in *equilibrium* (accepting the conditions of the game), but about creating *disequilibrium* (inventing a new game). Management theory has been the stage for this battle. (See the sidebar "The Battle between Sameness and Uniqueness".)

The orchestration approach is not based on maximizing or eradicating links in a value chain, but on coordinating a series of nodes creatively to assemble a more complex value proposition and generate strategic agility. Managers should consider these guidelines when establishing and managing their companies' relationships with their competitive environment. In an increasingly globalized world, orchestrating networks in unpredictable scenarios will probably become the main managerial activity for business leaders, and it will be the agile companies that get to transit successfully between the emerging and developed arenas.



Reprint R0611B-E