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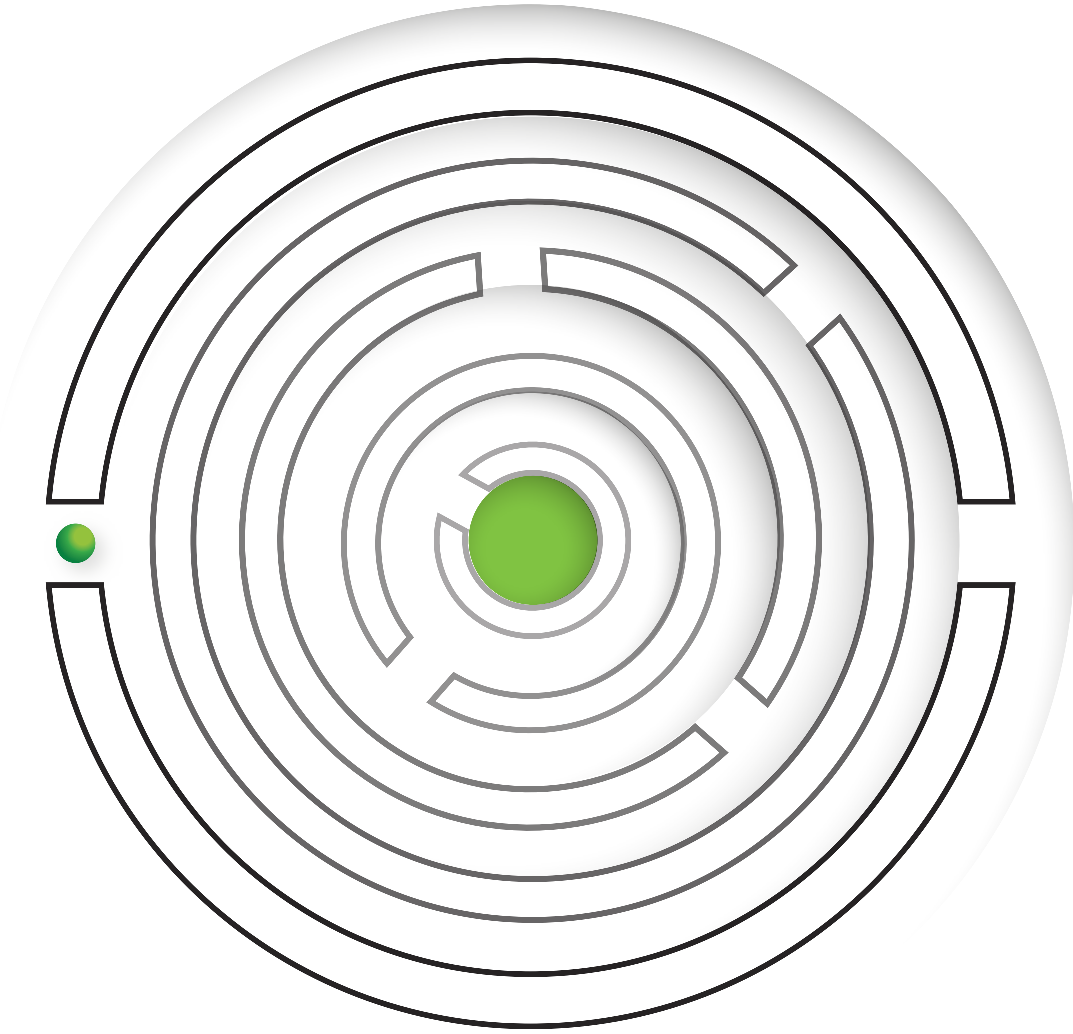


The Leading Edge

The new roles of the subsidiary to help global enterprises drive transformation amidst the polycrisis

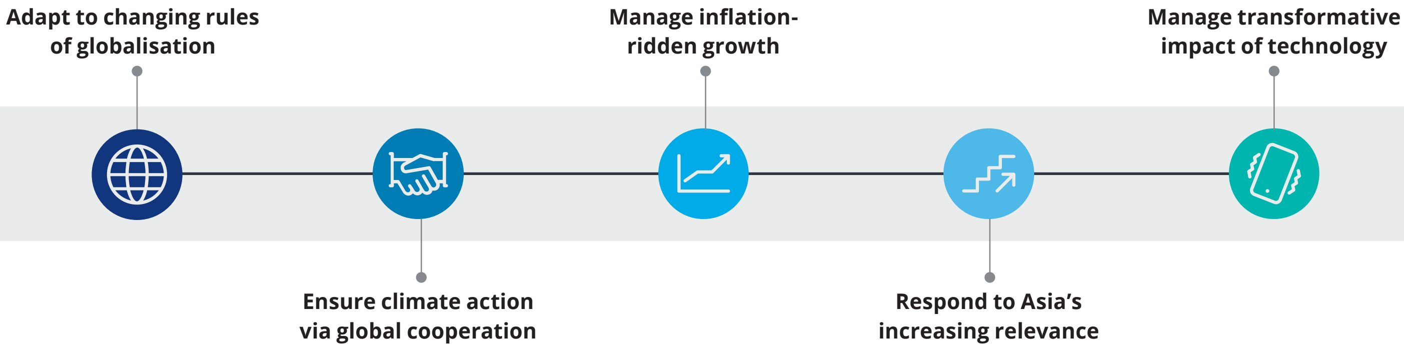
MAKING AN IMPACT THAT MATTERS since 1845

Contents

It's time to rethink

Global enterprises have no respite from new and unprecedented risks. They must acknowledge several imperatives all at once (Exhibit 1), managing the so-called *polycrisis*[1] leading economists are framing as perhaps the greatest strategic challenge for global enterprises since the Second World War[2].

Exhibit 1: The 5 global imperatives an enterprise's transformation needs to adapt to...



Source: Monitor Deloitte research

Deloitte's recent study *The Exponential Enterprise* establishes that winning enterprises are successfully navigating the polycrisis by leveraging their Capacity for Change to reinforce their Ability to Win through an 'always-on' transformation capability (Exhibit 2). On average, these Exponential Enterprises earn valuations that are 176% higher and 30% less volatile than industry competitors not adhering to this fundamental enterprise design principle[3].

Exhibit 2: The two dimensions of Exponential Enterprise: Ability to Win and Capacity for Change

The future enterprise will grow by orienting the business around two dimensions:
ability to win and *capacity for change*

The *ability to win* comprises all-weather value drivers that grow the enterprise through a wide range of potential future scenarios.
The *capacity* for change provides the foundation for the enterprise to continuously and advantageously adapt

Ability to win
Strategic positioning

Distinctive advantages enabling the enterprise to **maintain focus and compete for market leadership** in the **long term**.

Long-term ambition
A clear and compelling vision and goals that remain stable over time.

Resonant purpose
A mission and core values that customers, capital providers, and talent believe in and support.

Diverse stakeholders
A diverse and wide range of financial and nonfinancial stakeholders to fund initiatives, fuel responsive R&D, and accrue value across multiple time horizons.

Unique intellectual property
Truly unique and differentiated assets, capabilities, and resources that are not easily replicated or commoditised by competitors.

"Always-on" strategy and transformation

Dedicated resources and well-defined processes for sensing, interpreting, and executing strategic responses to near- and long-term shifts in the market and operating environment.

Capacity for change
Strategic activation

An **operating model** enabling the enterprise to **adapt advantages quickly and effectively to shifts** in the market and operating environment.

Strategic nimbleness
The ability to sense, interpret, and respond advantageously to change and disruption through organic and inorganic means.

Operational scalability
The ability to handle unanticipated increases (or decreases) in demand without a commensurate increase in cost.

Organisational optionality
The ability to integrate new capabilities and redirect the value chain through ecosystem partnerships.

Performance stability
The ability to maintain operational excellence and results orientation, particularly during periods of disruption.

Source: Monitor Deloitte Analysis

Yet, for many enterprises, design and control of transformation efforts have long remained within the four walls of headquarters. Proximity to the CEO's office and having the vantage to examine strategic issues simultaneously are the typical rationale provided. Relatively less attention has been paid to the role of subsidiaries to drive transformation for the enterprise. Historically, subsidiaries have been conduits of resource deployment to fulfil a set of functions dictated by headquarters. Enterprises have rarely considered ***a subsidiary's local presence as a lever to not just create competitive advantages on a local level, but also on a global, enterprise-wide scale.*** In today's digital, hyper-connected, and rapidly changing operating environment, ***leaders must revisit the relationship between the global enterprise and local subsidiaries, and interrogate how the latter can be leveraged as drivers of advantageous strategic transformation.***

And that's not just appealing for global headquarters interests. Today, national governments are demanding global enterprise to demonstrate the value it contributes to the local economy. To that effect, the global enterprise needs to leverage its local subsidiary to showcase its intention and action to be 'good local corporate citizens' and contribute to national economic and capability development. (Exhibit 3). There is a clear win-win value proposition for both the global parent company and the local national economy. As subsidiaries help lift the parent, they can deliver greater socio-economic and technological value to the nation simultaneously.

Exhibit 3: The 5 faces of national stakeholder's expectations from global enterprises

01	**Brand**	To what extent is the brand either locally specific or affiliated?
02	**Jobs**	Are jobs created locally? Are we upskilling local workforce? Are we creating leadership bench strength?
03	**IP**	Is the IP generated locally also maintained locally and being used to generate local economic value?
04	**Management**	Is the local management able to exercise control over the local resources?
05	**Ownership**	Is the ownership local or global? Where are taxes on profits paid? What is the long-term commitment of the firm to the local market?

The Subsidiary—Viewing its role with a new lens

Exponential Enterprises will leverage their subsidiaries as an important lever for increasing their Capacity for Change, enhancing their Ability to Win, and supporting their 'always-on' transformation capability. To activate this lever, a new relationship paradigm must be established that is more integrated, seamless, real-time, and bi-directional.

We offer the subsidiary to transition from its current state as a resource deployer, to three subsidiary archetypes as future states aligned to the aspirations of the Exponential Enterprise:

1 The Observer

2 Playbook Developer

3 Mandate Owner

Exhibit 4: The evolving archetypes of the future of subsidiary

Resource Deployer
A typical subsidiary tasked to deploy headquarters' resources to drive sales and to run capability centers.

The Observer
Sense and communicate local market insights connected to global trends to the global team at real-time/near real time.

Playbook Developer
Develop market specific playbooks to respond to the trends, showcase it to the global team and make it available for adoption in other markets.

Mandate Owner
Oversee a global mandate (e.g. sustainability) by taking on the end-to-end responsibility to deliver the mandate across the choice cascade on behalf of the enterprise.

✓ *Contributions of the subsidiary's role to Exponential Enterprise levers (refer Exhibit 2)*

Resource Deployer	The Observer	Playbook Developer	Mandate Owner
The legacy view of the role of a subsidiary that doesn't embrace the full potential of the unit to become exponential enterprise	*Serves as an acute observer of local and/or regional trends, geopolitical moves, and innovations that may have global potential and implications*	*Becomes the source of new playbooks that the global enterprise can 'tweak' and 'scale' in other parts of the world as and when the need arises*	*Navigates the tensions of transformation closer to the markets; feedbacks to the global team for advice, funding and performance reporting*
	✓ Strategic nimbleness ✓ Operational scalability	✓ Strategic nimbleness ✓ Operational scalability ✓ Unique IP	✓ Strategic nimbleness ✓ Operational scalability ✓ Unique IP ✓ Diverse stakeholders ✓ Resonant purpose

These archetypes are not mutually exclusive. Rather, the level of sophistication increases down the list, with each subsequent archetype being more sophisticated in terms of task complexity, capabilities required, and trust needed between the subsidiary and the enterprise. The suitability of each will vary according to the enterprise's current capabilities, its self-assessment of exposure to the polycrisis, and the strength of its aspiration to transform.

Let's explore each role in more detail.

1 The Observer

Navigating the polycrisis requires effective, real-time feedback on local market conditions and trends. Enterprise headquarters typically have neither the proximity nor the bandwidth to adequately capture and interpret signals emerging in local markets. How then, can they make quick and advantageous decisions in the face of rapid and complex change? In this context, the subsidiary's Observer role can provide a crucial input.

In this role, the subsidiary will sense, interpret, and communicate local market insights and knowledge to inform the enterprise to make the most advantageous strategic and tactical choices. This will give the global enterprise the necessary 'nimbleness' to stay ahead of competitors and maximise value creation and capture.

The subsidiary can serve as a real-time observer of local and/or regional trends, geopolitical moves, and innovations that may have global potential and implications. Knowledge of these market developments will in turn spur the enterprise to generate an advantageous response that will be executed through the subsidiary. Where new insights have implications on the other parts of the global business, the enterprise can quickly transfer not only knowledge, but market-tested responses.

A prime example of a subsidiary playing the Observer role is in the cosmetics industry, which has been rapidly evolving in the face of accelerating technological change. An Asian subsidiary of a European conglomerate cosmetics company had observed a shift in channel preference for mass-market make-up brands as brick-and-mortar sales declined and e-commerce platforms took off locally. This local observation eventually led to the enterprise's decision to shift from an online-and-offline mix to an e-commerce-driven play in the subsidiary's market, where 80% of their customer segment was shopping online.[4]

A more sophisticated role emerges when the enterprise not only 'observes' but also 'builds' mechanisms to convert local trends into global IP. For example, a global pharmaceutical company has set up global R&D hubs in a large Asian country to link the local innovation ecosystem with the company's global ecosystem in order to feed novel ideas on drug innovation to the global enterprise.

2 Playbook Developer

The polycrisis will impact different markets with different momentum. A global enterprise will need to rely more on its subsidiary to build the fit-for-purpose response. The global enterprise will need to translate these responses into playbooks that can inform other local markets. This will reduce efforts to re-invent the wheel and improve speed to response. In this context, the subsidiary's Playbook Developer role comes into play.

In this Playbook Developer role, the subsidiary will not only take on the role of an observer, but also demonstrate to the global enterprise new pathways to respond to the trends. The subsidiary effectively becomes the source of new playbooks that the global enterprise can tweak and scale in other parts of the world as and when the need arises.

The Playbook Developer role can manifest in three ways:

First, the subsidiary can be empowered to develop 'new to the world' strategies to overcome immediate uncertainties. Once the new strategy proves successful in the local market, the enterprise can then tailor the approach for other regions to replicate the success. For example, after observing an 80% surge in demand for heritage-related travel in their home country, the European subsidiary of a global travel marketplace launched a new feature on their app that would provide consumers with direct access to heritage homes. Seeing the popularity of the new feature in the subsidiary's market, the global enterprise decided to launch this feature in other parts of Europe. Another example is in the fuel retailer industry. A regional subsidiary developed a playbook for its customer strategy in Southeast Asia encompassing the creation of a digital platform providing value-added services beyond physical fuel stations. The success of this local initiative led the enterprise to deploy this playbook in other regions.

Second, the subsidiary can serve as a 'sandbox' for testing new business models. As the term 'sandbox' suggests, the subsidiary is used to test an unproven initiative without impacting the rest of the enterprise. Only when the initiative has proven successful does the enterprise roll it out in other applicable parts of the business. For example, the regional subsidiary of an oil and gas company is piloting a sustainability-led reward points program in Southeast Asia to test if nudging consumers to 'invest in green' via reward points can change consumer behaviours.

Third, the subsidiary can serve as an incubator for new internal and market-facing technologies and innovations. For many global enterprises, it is crucial to incubate technologies and innovations not only within its subsidiaries (which have higher odds of operational success), but also in regions that are rich with research and scientific resources. For example, a global technology giant had chosen a Southeast Asia to set up a US$50 million R&D subsidiary that will develop an edge computing technology in conjunction with the country's 5G mobile network rollout. By being focused and deliberate about the subsidiary choice for incubation, the enterprise not only reduces incubation risks, but also greatly enhances the value of its technology assets through subsequent application in other parts of the business.

3 Mandate Owner

In the Mandate Owner role, the subsidiary is given ownership of specific areas of transformation on behalf of the global enterprise. This model implies the subsidiary is 'in charge' of a global mandate, working side-by-side with global teams to think through the vision, strategy, and operationalisation of the mandate.

This role would require the global enterprise to make the most shifts in the relationship it has with the subsidiary. Consider climate change. In our report, *CEOs and the Climate Action* [5], we argue that the impediment to climate action is not intention but rather the ability to navigate five tensions[(1)]. Navigating these tensions at a global level is suboptimal when the source of tension is rooted in local markets. On a case-by-case basis, a decentralized model is advantageous where subsidiaries are given a greater mandate to navigate these tensions given the local economic, political, regulatory, and technological environment. For example, an electronics conglomerate has established its APAC sustainability office in Southeast Asia. The company realised that Southeast Asia would be the next frontier for climate change action as 75% of the 300 million people facing vulnerabilities from the rise of sea-level are in six nations, with all of them in Asia and three in Southeast Asia subsidiaries[6]. The move signalled to its stakeholders that to ensure action, climate change strategies are stronger when developed not in headquarters, but in local geographies where context and conditions can be more fully appreciated.

(1). The five tensions are: Profit today versus build for tomorrow, Follow versus pave the way, Compete versus collaborate, Pursue incremental versus transformational change, Focus on a narrow set of stakeholders interests versus a broader stakeholder set

A new agenda for the Global Management team

We have entered a 'perfect long storm'[7] where winners will be those that choose to 'play long' and 'act fast' through continuous transformation. To that end, new mechanisms for networked cooperation between subsidiaries and headquarters need to be formed and new ways to combine diverse resources need to be built. To determine the future of subsidiary for their organisations, leaders should consider the following questions:

1

What are the key opportunities and risks that if capitalised or mitigated will help your organisation become an exponential enterprise? To what degree should the response be localised to accelerate the change?

2

Is your enterprise's ways of working with your subsidiary enabling or mitigating the change to deliver the desired response? Would any of the three roles discussed above give your company the needed push to deliver the response?

3

What is stopping your enterprise from enabling these roles? What should be the key quick wins and long-term initiatives to overcome them?

Winning enterprises will be those ahead of the curve in responding to the polycrisis, not just to gain that sliver of competitive advantage, but also to ensure business longevity. Reimagining the role of the subsidiary is an important step towards that goal.

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