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Re-Thinking a MNC: The role of cognitive interventions in organisational design

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ABSTRACT

Using a managerial cognition lens, we investigate the organisational design issues facing multinational corporation (MNC) managers. We apply concepts hitherto untested in the international management (IM) literature to a longitudinal study of reconfiguration efforts within a large, Asian MNC. We focus on how organisational design outcomes can be affected through mental interventions that provoke changes in senior executives' mental representations of *what* the MNC *is* and *can be* to achieve a strategic re-direction and redesign. We draw on extensive interview and other qualitative data. Our study contributes to the literatures on MNC design and to our understanding of the important, but largely neglected, micro-foundational role of cognition in IM. This field research on executive judgment and decision-making in real time offers unique insights into the dynamics of MNC design.

INTRODUCTION

The multinational corporation (MNC) is a nexus of decisions. Its architecture and strategy reflect repeated judgments and actions by senior managers, acting on what they believe are the opportunities, risks, and best designs for its activities and assets. Yet, optimal MNC designs and superior strategic opportunities apparent with hindsight may be far from evident, if not totally obscured, to boundedly rational individuals assailed by complex and noisy information sets. Little is known about how managers engage in the critical cognitive tasks of strategic opportunity identification and MNC design, despite increasing calls for managerial cognition to be integrated into theoretical models and studies of the MNC (Devinney, 2011; Hutzschenreuter, Pedersen and Volberda, 2007).

This neglect of explicit theorising on cognition in international management (IM) contrasts the growing interest in managerial cognition and decision-making in the broader fields of organisation science and strategy (Kaplan, 2011; Powell, Lovaglio and Fox, 2011).¹ The emerging school of behavioural strategy emphasises the importance of understanding the exercise of executive judgment and the psychological architecture of the firm to understanding heterogeneity in strategic decision choices and firm performance (Gavetti, 2011, 2012; Powell *et.al*, 2011). A central tenet of this approach is that individuals engaged in *making sense* of an environment and determining a decision or set of decisions first develop a mental sketch of what they believe are the situation's salient characteristics (Gavetti, Levinthal & Rivkin, 2005). These mental representations enable individuals to filter noisy and often ambiguous information to then determine strategic choices. Identifying a strategic opportunity and re-designing the MNC to pursue it is one such set of processes.

Recently, Gavetti (2011, 2012) proposed the role of strategic leaders in complex organisations is to not only build their own representations of superior strategic opportunities, but also to manage others to adopt these representations. To achieve this, he argues leaders need to engage in so-called *mental or cognitive interventions* that disrupt existing representations and provoke others to see – and commit to – these superior opportunities. However, Gavetti's (2011, 2012) theoretical work does not discuss the actual design, nature or possible deviations of these interventions, leading him to conclude: “[if] strategic leaders were to focus their limited attention on managing their own and others’ mental processes, what are the nature and boundaries of the “mental interventions” that would most benefit their firms’ performance?” (Gavetti, 2012: 268).

Building on Gavetti's (2012) theoretical propositions, we consider the potential design of mental interventions in a MNC looking to reconfigure its geographic and activity footprint. We argue designing effective interventions to prompt individuals to embrace a cognitively distant opportunity is a challenging task. It lies at the heart of MNC design and the multiple tensions involved in reaping the benefits of globalisation, different locations, and existing commitments to home markets, cultures and mindsets. Our overarching research question asks how can a MNC leader provoke changes in executives’ mental representations of *what* the MNC *is* and *can be* to achieve its strategic re-direction and redesign.

We report the findings of a longitudinal field study conducted within a large, Asian multinational bank, as it sought to become a regional financial leader by 2015. We draw on data from: two rounds of interviews, separated by a year (i.e. mid-2012 and mid-

¹ For brevity, we use IM to refer to work by IM and international business (IB) scholars.

2013), with 20 of the bank's most senior decision-makers, including the entire executive management team; extensive discussions with the corporate strategy unit; internal planning documents; and external communications and media reporting. As the strategic change was motivated by the Chief Executive Officer (CEO) pursuing a new strategy, rather than a response to an external threat, our analysis of the type and impact of mental interventions on the executives' representations was free of confounding external drivers of change. The new strategic agenda was also cognitively distant from the bank's existing geographic and product configuration, and rested on significant organisational re-design. Although the bank had a significant international network of operations, the scale of the home country businesses and the bank's strong home-country identity dominated the thinking and attention of the senior executive ranks.

Our interviews allow us to track the impact of two distinct sets of mental interventions by the CEO, and the emerging re-design of the bank and its strategic agenda. We find a central role for cognition and for the nature of mental interventions used to initiate change in understanding the dynamics of MNC redesign. The case also enables us to explore MNC design and leadership in an industry – finance – undergoing very significant external shocks and changes to the competitive landscape. These changes encompass: ongoing, cross-border regulatory tightening and prudential supervision in the wake of the Global Financial Crisis (GFC) and the collapse or near collapse of established, large-scale multinational banks; shifts in the identification of strategic opportunities under the impact of ongoing technological change; and revisions to the notion and role of *leaders*, given widespread perceptions' of the industry's excessive risk-taking, bonus-driven culture.

We conclude with directions for future research. The MNC and IM decision-making are rich environments in which to explore the cognition of senior decision-makers, and IM has much to offer in this domain. Equally, work in behavioural strategy and managerial cognition provides valuable insights into the potential micro-foundations of IM and its impact on MNC design decisions and implementation.

MNC DESIGN

For many years, the foundation and scaffolding of MNC design have been to *think global, act local*; a mantra in which scale, learning, and local sensitivity are cast as the bedrocks of the MNC. Managers have been exhorted to reap scale advantages by consolidating activities in low cost, high skill locations, and to integrate their networks of operations to promote knowledge accumulation and unique product development (Ghemawat, 2007; Ghoshal & Bartlett, 1990; Prahalad & Doz, 1987). Yet, while the MNC's overall design was once central to the IM oeuvre, over recent years there has been a tendency to theorise and investigate individual design elements, such as entry mode choice, outsourcing, subsidiary mandates, and HRM, in isolation.² All too often, the broader strategic interplay between and around these elements has been obscured, diverting attention from the challenge of juggling the MNC into a suite of cohesive design elements pursuing a coherent corporate strategy.

Recently, we proposed a three-dimensional framework for examining the trade-offs a MNC faces when reconfiguring its geographic footprint of assets and activities (Maitland and Sammartino, 2012). Building on Ghemawat and del Sol's (1998) concepts of firm-

² For an overview of IM's treatment of a number of these design elements see Westney & Zaheer, 2001; Whitley 2009.

and use-specificity, we added *location*, as a critical element of the strategic flexibility confronting the MNC. We argued reconfiguration choices are contingent on, and often constrained by, the specificity of assets to their current use, physical location and/or the extent to which they have been tailored to the needs of MNC itself. This is the classic *strategic commitment dilemma*, whereby firms must trade-off the benefits of constructing unique suites of resources and capabilities against the constraints of strategic rigidities, in the face of environmental and competitive dynamism (Leonard-Barton, 1992).

Applying the framework to illustrative MNC footprint reconfigurations, we highlighted these decisions as complex and involving levels of uncertainty that rely on the exercise of executive judgment (Maitland and Sammartino, 2012). To design a configuration for the MNC's activities and assets that best positions it to, for example, reap scale advantages, without neglecting localization concerns, managers must be able to first identify these constraints and opportunities, and then determine a design that *fits*. Such findings fit with the broader bodies of research in behavioural strategy and managerial cognition, which emphasise that interpretive tasks and strategic problem framing depend on the cognitive actions of senior decision makers (Gavetti & Levinthal, 2000; Gavetti & Rivkin, 2007; Kaplan, 2011; Kiesler & Sproull, 1982; Porac & Thomas, 1990; Porac, Thomas & Baden-Fuller 1989).

Cognitive elements have implicitly informed IM theories, from the core assumption of bounded rationality through to assessments of psychic distance as a key differentiator of entry and mode choice dynamics (Hennart, 1991; Johanson & Vahlne, 1977; Kogut & Singh, 1988). However, the relationships between cognition and design decisions are poorly understood (Devinney, 2011; Hutzschenreuter, et al. 2007). Similarly, early interest in how the MNC's *dominant logic*, or collective managerial mindset towards global-local pressures, informed the subsidiary network's design has faded (Murtha, Lenway & Bagozzi, 1998; Prahalad & Bettis, 1986; Rhinesmith, 1992).

We argue modelling the cognitive processes preceding the observable decisions typically studied in IM is vital to understanding why MNCs adopt different designs and identifying the resulting performance effects. In particular, how managers interpret the myriad environmental forces at play, and integrate these interpretations into design decisions, are central to descriptive and prescriptive research on MNCs. Drawing on the early understandings of the dominant logic literature, we argue MNC design also involves: (1) the insights of more than one senior strategist, given the diversity of the business *landscapes* confronting a MNC (e.g., business models, customer requirements, scale and scope possibilities, government requirements, technological shifts); and (2) considerable internal convergence on the nature of the fit between the *internal* (what the MNC can do) and *external* (the possibilities landscape). In the following section, we set out the conceptual framework for investigating MNC design from a cognitive perspective.

COGNITION AND MNC DESIGN

MNCs are rich laboratories for studying strategic decision-making in context. Operating across multiple markets, cultures and institutional frameworks, MNC senior managers must make sense of a wide variety of forces, particularly compared to solely domestic firms. Each manager engages in separate and distinct cognitive processes, exercising judgment as to possible issues, options and solutions, yet also interacts with other decision-makers, their specific strategic responsibilities, and the organisational routines of

the MNC. The negotiated outcomes of their decisions then inform the MNC's collective design and behaviour.

Understanding how individual cognition scales to collective behaviour and how judgement is exercised in such complex organisations are key problems studied by the emerging behavioural strategy school (Powell, et al. 2011: 1380). Since Simon, March and Cyert's seminal work on bounded rationality as a foundational concept for understanding firm behavior (Cyert & March, 1963; March & Simon, 1958; Simon, 1947), individual cognition has shifted ever closer to the center of strategic management theorising and analysis (Daft & Weick, 1984; Felin, Foss, Heimeriks & Madsen, 2012; Powell, et al. 2011; Gavetti, 2012; Gavetti, Greve, Levinthal & Ocasio, 2012; Kaplan, 2011; Winter, 2012). Behavioural strategy models of decision-making argue that as an individual attempts to make sense of an environment or problem space, they develop a sketch in their mind's eye of what they believe are a situation's salient characteristics (Gavetti, et al. 2005). These mental representations then enable them to filter noise and navigate towards a strategic choice or problem solution by exercising judgment, based on their mental models of stored knowledge acquired through learning and experience (Eisenhardt & Sull, 2001; Gigerenzer, 2008).

Since superior strategic opportunities tend to be difficult to see – otherwise, others would readily imitate and adopt the same positions – Gavetti (2011, 2012) argues successful strategic leaders are those who can perceive such *cognitively distant* opportunities (based on their mental models) and, critically, *persuade* those within the organisation and its stakeholders to commit to this mental leap. Gavetti contends that this commitment comes from leaders using mental interventions that disrupt existing representations of the organisation and its opportunity landscape, and provoke others to build new representations that enable them to *see* these distant opportunities. He, thus, argues such interventions have the capacity to positively alter firm performance, through guiding more successful strategic decisions.

Gavetti (2012: 269) identifies three focal *behavioural failures* that must be overcome for strategists to seize upon cognitively distant opportunities. It is a term deliberately evocative of the recognised role of *market failures*, in that both types of failure allow firms to sustain competitive advantages over rivals. The three behavioural failures emanate from shortcomings or tendencies with regards to (1) *rationality* – “the ability to identify opportunities”; (2) *plasticity* – “the ability to act on opportunities”, and; (3) *shaping ability* – “the ability to legitimize opportunities and therefore “shape” or “construct” the opportunity space” (Gavetti, 2012: 269). The role of the leader (and/or leadership group) is to intervene and address these failures. Theoretically, interventions must thus attend to (1) short-sightedness – favouring the near, known and familiar; (2) “cognitive or identity-based inertia” (Gavetti, 2012: 273) – current mental representations of what is possible and acceptable; and (3) preconceptions within the firm and external stakeholders about how the industry *works*. However, much of the work thus far on such interventions has been theoretical propositions or anecdotal illustrations, rather than in-depth investigation.

Building on Gavetti's (2011, 2012) theoretical, we investigate the mental interventions within a MNC looking to reconfigure its geographic and activity footprint. Our central premise is that a MNC leader faces a number of tasks in redesigning the organisation to seize cognitively distant opportunities. First, they must disrupt existing frames to prompt discovery of distant opportunities (given the scope of possible changes and opportunities

implicated in the redesign, a MNC cannot rely just on the strategic leader to see all possible opportunities). Second, they must coalesce the executive group around a coherent re-design that can be implemented, a process requiring ongoing management of politics, over-commitments to the existing footprint, and vested interests. Third, they must also commence investments or simultaneously manage changes in key support platforms on which the ultimate design will be built. For a MNC, this includes investments in human capital (particularly with respect to mobility within the internal labour market across national and product boundaries), relations with existing and potential host governments (in the financial services sector this particularly includes central banks and monetary authorities), and technology.

In the following section, we set out our research design and method for capturing the dynamic process within a MNC of introducing mental interventions to disrupt existing executive representations and responses to these interventions.

RESEARCH METHOD AND DESIGN

Studies on managerial cognition employ a diverse range of research methods (see Devinney, 2013; Powell et.al, 2011; Walsh, 1995). To investigate the role of cognition and strategic leadership in MNC reconfiguration design processes, we chose a case study method. It enabled us to study a dynamic process in context: a series of cognitive interventions by a strategic leader and their impact over time on key executives' mindsets and the MNC's design. While a simulation exercise with a senior leadership group would have enabled direct observations of responses to hypothesised interventions, such an approach relies on stylised abstractions, and cannot capture the rich interplay within high level executive groups, the context and their impact on mindsets and reconfiguration decisions over time (Detert, Treviño & Sweitzer, 2008). The loss of vividness and rich detail is compounded by the difficulties of designing hypothetical events that are unambiguous and persuasive (March, Sproull & Tamuz, 1991).

Case Selection

Our case selection was based on intentional sampling to address three key considerations (Eisenhardt and Graebner, 2007). First, the MNC was actively engaged in a strategic re-design, enabling us to study real-time processes in context. Second, the re-design was in response to the CEO seeking to pursue a new strategic objective, rather than an externally generated crisis forcing a re-direction on the MNC. This implied the senior executives' mental representations of the MNC were not being heavily influenced by external considerations or drivers of change. Finally, the MNC had a sizeable international network of operations, for which there were numerous re-configuration options and opportunities.

Our selected MNC is a large, Asian headquartered multinational bank, which we label with the pseudonym AsiBank.³ The bank was seeking to pursue a regional financial leadership strategy that was a significant shift from its previous focus on home country objectives, supported by a strong, national identity. This very exposure to the home country had prompted AsiBank's Board of Directors to push the CEO to consider a new strategic orientation, as it was felt the home economy's long term economic growth would eventually slow, at the same time as the bank potentially reaching saturation in its key markets. This strategic shift built on an existing 14 country footprint, encompassing

³ The country has been disguised to maintain participant anonymity, in line with the authors' universities' research ethics requirements.

sizable, but largely independent, subsidiaries throughout Southeast Asia and the Subcontinent, and offices in the world's leading financial centres in Europe, North America, Asia and the Middle East. The activity footprint covered the full range of financial services from classic retail banking, through commercial banking, asset and high net wealth management, investment banking, stock broking, insurance (general, life and commercial) and Islamic finance (retail, commercial and wholesale banking, and insurance), delivered outside the home country through over 300 wholly owned branches, as well as representative offices.

Data Collection

In late November 2011, we secured the organisational agreement of AsiBank's CEO and Board Chair to participate in the project. This agreement encompassed: interviews with all members of the Executive Committee (a formal grouping in the bank's corporate structure known as ExCo, comprising the divisional and Group function heads (HR, risk, legal, finance, IT and strategy)), the strategy heads of each division, and the Chief Marketing Officer (an *ex officio* ExCo member); and access to internal company documents. While the CEO's *sponsorship* was critical to securing the respondents' participation, the project was clearly delineated as independent research, with results made available to each participant outside the formal reports we prepared for the CEO and ExCo.

Over an 18-month period, we collected data from multiple primary and secondary sources. During a February 2012 headquarters site visit, we: met with the bank's corporate strategy and transformation group; were given access to confidential internal corporate planning and operational documents; and engaged in extensive background interviews and data collection. Individual interviews with the twenty senior executives were then conducted at two points in time: March-April 2012 and March-April 2013. The average interview was just over 110 minutes (the longest was over three hours). Each was digitally recorded and professionally transcribed.⁴ The interviews explored the executives' views on AsiBank's regional redesign, including their: (1) conceptualisation of the *region* in geographic and product market terms; (2) projection of the bank's 2015 and 2020 footprints; (3) explanations of the motivations for the regional ambitions; (4) assessment of existing and possible future sources of competitive advantage; and (5) identification and evaluation of the scope to reconfigure key assets and activities. A representative sample of questions from both interview rounds is included in the Appendix.

Data Analysis

As self-reported information can be subject to problems, such as recollection biases (Bettman & Weitz, 1983; Huber & Power, 1985), we sought to confirm the internal and construct validity of the data through triangulation with additional data sources (Eisenhardt, 1989; Yin, 1994). For example, we compared timelines of key events identified by respondents with internal corporate documents to confirm the accuracy of both the timing of decisions and recollections of discussions. We developed cognitive maps for each individual, particularly checking for internal consistency within and between the two interview rounds (Axelrod, 1976; Eisenhardt & Graebner, 2007). The semi-structured interviews also used a mix of direct and indirect questions, as suggested by qualitative research methodologies to enhance theoretical insights and mitigate bias

⁴ The first round interviews were conducted in each respondent's office/meeting room (including for offshore subsidiaries); the second, by individual teleconferences. Recordings were made with each participant's explicit written permission and we guaranteed de-identification of quotes.

(Eisenhardt, 1989; Yin, 1994). To enhance the data collection's reliability, both authors were present at most interviews, each making concurrent notes, as well as extensive, independent notes at the end of each day (Kaplan, 2008).

From the first round interview data and internal corporate documents, we identified and classified the initial set of cognitive interventions, based on Gavetti (2012). Our interview data analysis then focused on the categorisation of text, comparison of these categories, and their organisation within broader concepts. In the first analysis stage, we undertook a process of construct coding by reading through the data and coding text for issues and themes. To increase coding validity, we engaged in an on-going discussion of concepts, definitions, and compared coding of common passages and documents (van den Ven and Poole 2002). This initial coding identified a series of coding concepts grouped into: the *perceived* corporate culture and mindset before the transformation project and before the external reorientation (e.g., 'complacent', 'resistance', 'politics', 'internally-focused'); the cognitive interventions ('regional projects', 'financial target', 'centres of excellence', 'the Group'); the respondent's own mindset and emotions ('excited', 'concerned', 'frustrated'); definitions of the 'region' and 'leadership' ('Greater Asia', 'Southeast Asia', 'Greater China'); sources of competitive advantage *outside* the home country ('relationships with home country firms', 'client relationship management', 'knowledge of host country'); their assessment of reconfiguration options ('centralisation', 'customer-touching', 'delivery platform', 'sequencing'); potential competitive responses ('nimble', 'premium segment'); ExCo dynamics ('operational', 'overwhelmed', 'tactical'); and responses to the interventions ('execution', 'where/what can we be', 'what can we do', 'loss of focus'). We repeated this process for the second set of interviews.

THE CASE

Having emerged as a closely government-linked national champion, AsiBank had pursued an aggressive strategy of domestic and foreign acquisitions throughout the 1990s and into the mid-2000s. A number of years of poor performance and perceived strategic mis-steps, however, led to a new (the incumbent) CEO being appointed to transform the bank and regain its dominant home market position. The early years of his tenure involved a large-scale, internally focused transformation project to address productivity problems and a deteriorating performance in the bank's core home country retail and commercial banking markets. Productivity shifts were pursued through: (1) an overhaul of the bank's IT platform; and (2) the introduction of performance-based individual to divisional-level incentives and metrics to disrupt an internal culture of life-time employment expectations. The metrics were explicitly referred to as the *dashboard*, an analogy to a car's on-road functioning thought to perfectly encapsulate their continuous performance management role.

By 2010, the transformation program was generating visible successes, including a 375% increase in profit before tax (partially due to extraordinary write-downs in preceding years). Having restored stakeholder confidence in AsiBank, these achievements provided the platform for an external reorientation of the bank's strategic focus. Initially prompted by the Board of Directors, the strategic shift sought to re-design the bank's activities and assets in terms of their geographic, competitive and structural configuration to achieve a position of regional financial leadership by 2015.

However, it was contingent on several factors. The existing geographic and product footprint, while significant, was dominated by the scale of the home country operations and a strong, home country, national identity. The value chains for most products were

highly independent, from a country and division perspective. The footprint's international scope was widely believed to have emerged from a haphazard, often poorly executed, series of international strategies.

Unsurprisingly, home country activities dominated not only AsiBank's balance sheet, but also the senior executive group's attention (see Findings, below). The transformation program, while successful, also meant that for over four years the senior executive team's attention was not only home-country focused, but was inward-looking, pursuing cost-cutting programs and productivity gains, rather than on developing new opportunities in the external business landscape.

We argue these four factors – (1) the existing design of AsiBank's value chain activities and assets, (2) its strong home country identity and scale, (3) its poor international growth history, and (4) the overwhelming focus on the bank's inner functionalities—collectively meant achieving the re-design and strategic re-direction of AsiBank's activities required significant shifts in the mental representations of internal and external stakeholders. At the most senior executive ranks, we further argue that individuals' representations of what AsiBank *was* and *could be* were crucial to identifying the possible future configurations of activities and assets, and for binding the executives' political and reputational capital to achieving the regional financial leadership goal.

In addition to the four key legacy considerations and the standard MNC challenges of local responsiveness, integration and arbitrage (Ghemawat, 2007), AsiBank also needed to navigate longer-term structural issues. First, rapid product and process innovations based on information technology (IT) are rapidly changing distribution platforms (e.g., mobile banking) and threatening to dis-intermediate banking value chains, particularly through the threatened entry of powerful new players, such as Apple and Google, into the payments system. At the same time, established financial service providers are being subject to heightened levels of cross-border regulatory and prudential oversight that are raising the costs of providing capital to all but the most secure of borrowers (i.e., sovereign debt). This heightened scrutiny is a direct response to the GFC and the systemic risk problems from the collapse and near collapse of several very large and high-profile financial service providers. It has also been accompanied by broader calls for changes to the finance industry's perceived culture of excessive risk-taking and bonuses. For bank CEOs, this entails an added layer of complexity: profitability has to be achieved, while simultaneously juggling stakeholder demands for more ethical behaviour, longer-term rewards for employees, and tighter lending standards and trading practices that can be costly and distracting to implement.

Within its region, AsiBank also needed to determine how it would respond to: (1) the formalisation of regional institutions to support trade and investment flows, particularly in South East Asia; and (2) China's growing dominance in East Asia and the world economy. With respect to the latter, China's rapid economic growth and sheer population size is counter-balanced by tight networks of government-bureaucracy-state-private business relations that represent significant barriers to entry and constraints on competition (Sheng, Zhou and Li, 2011). By contrast, rapidly growing intra-regional trade and investment flows in Southeast Asia are increasingly supported by formal treaties and agreements, particularly centred around the formal grouping of ASEAN (Association of South East Asian Nations), and a large and increasingly highly educated population of over 600 million. ASEAN's attractiveness is tempered, however, by fears of systemic

risk, given the commonality in economic structures across the region and the potential for a repeat of the 1997 Asian Financial crisis (World Bank, 2010).

These longer-term structural and legacy factors presented considerable challenges for the design of AsiaBank. Key considerations included: the scope of financial services offered to each market; the ability to centralise and/or standardise activities, the delivery mode (particularly physical versus digital platforms); and market positioning relative to the global players (such as HSBC, Standard & Chartered and Citibank, who were potentially distracted by economic and regulatory issues in their core North American and European markets), local incumbents and potential new entrants. The following section sets out our findings with regard to the mental interventions implemented by the CEO and the responses of and within the executive group.

FINDINGS & DISCUSSION

The CEO's Redesign Challenge

To address the pressures for strategic change from AsiBank's Board of Directors, the CEO required the input and support of the senior executives to map out the opportunity landscape – identifying avenues for growth within and across the bank's many lines of business and locations. He needed to draw the ExCo, and their strategy reports, together on a common vision that could be translated into a fully conceived and coherent strategy for AsiBank's regional footprint and competitive position. To do so, the CEO had to disrupt these decision makers' existing representations of the bank, its markets and its competitive advantages. Two distinct objectives required balancing: (1) building the richest possible representations to identify cognitively distant opportunities; and (2) reaching sufficient convergence in individuals' representations to enable collective decision-making. Put differently, the CEO needed to manage the degree of dissension, such that there was healthy diversity and disagreement, without divisive politics, resource ring-fencing and business silo-isation.

The CEO outlined his challenge, and the inherent redesign aspects, as:

"... you look at ASEAN and the promise of 650 million people. How we stitch together that, how we figure out what will be the regional platform for which set of customers, and then really executing on that – it's going to be a large challenge and probably one of our most profitable ones...if we get it right."

He saw key strategic opportunities, which could be considered distant from the everyday, incremental expansion of the bank, in:

- (1) online and mobile banking platforms
- (2) digital payments
- (3) Islamic finance, particularly in providing investment opportunities for the very large pools of capital in Southeast Asia and the Middle East seeking Islamic structured products; and
- (4) harnessing the spillover from Asian regional economic growth to ensure the domestic retail franchise was secure.

To the CEO, it was evident that bank's home country activities could not be neglected in the pursuit of the regional strategy. These were the core, revenue generating markets that would support the regional re-design:

"I think in the first instance I realised that nobody can claim to be a real champion if you don't have a solid domestic base. So there was a time when our domestic leadership was challenged. And as a matter of priority we put in place a number of initiatives to strengthen our domestic leadership. So that's actually important, because, without domestic leadership, there's no way you will have the cash flow to invest

overseas. And there's no way that you will have the human capability, the skills to be able to export this to the other countries as well. Now, we have set a clear target in the sense that as much as we want to be a regional bank we do believe that our domestic contributions must not be below 50%. So meaning that we still, you know, have our roots within [home country]. And that's why we have targeted in terms of our overseas contribution to around 40% come 2015. Now, we are also realistic enough to know that given the fact that banking is a very capital intensive business, so there's no way that we can have beyond regional exploration. But I guess it's a matter of knowing your limitations and your capabilities rather than setting very lofty targets that you're not going to be able to achieve."

We track the interplay between the CEO's mental interventions and the shifting representations of his ExCo and their direct strategy reports across two data collection points, twelve months apart. We identify two waves of interventions, one initiated in the months preceding our first data collection round, and a second in the months following our delivery of an initial study report, approximately mid-way between the two data collection points.⁵ We label these as *disruption phases*: bundles of formal and informal design actions that we argue constitute attempts to disrupt the mental representations AsiBank's senior executives held of the bank and its opportunity landscape.

Bringing ExCo on Board

With the launch of the new regional strategy, each ExCo member was expected to identify regional project opportunities, with an emphasis on identifying cross-unit projects. Each had their own mental representation of the opportunities that could and should be pursued, and of the challenges the bank faced. These representations reflected, in part, the legacy effects of where the bank had come from, its poor internationalisation history, the existing geographic and product footprint, and the executives' existing ideas for strategic opportunities. Among the individual executives their initial representations differed with regard to: geography (particularly the extent of the region); and with respect to product mix and design, the platforms through which such products should be delivered, and the likely *reach* of these products into different markets. These initial representations informed each executive's attitude to which strategic opportunities should be prioritised.

Key to the evolving process were the two disruption phases. Each phase included redesign actions (summarised in Table 1), which should be viewed as mechanisms to shift thinking, rather than just ends in themselves. Among the reconfigurations and redesigns were a major acquisition of a financial services provider, and the grouping of all risk management, credit management and compliance into a central parent unit (which then initiated Group policies and processes for all these functions). The first disruption phase employed predominantly structural or formal mechanisms – efforts to shift reporting lines and responsibilities, and establish projects and objectives. These might be viewed as more *headline* actions (worthy of public announcement). The second phase saw greater emphasis on more normative disruptions – attempts to engender different behaviours among the decision-making group in terms of interactions and attitudes. These were less likely to be visible to external parties.

[Insert Table 1 about here]

Disruption Phase One

⁵ Based on the first round interviews, we prepared a report for the ExCo that included a variety of de-identified quotes and extensive analysis. As discussed below, the more normative aspects of the second disruption phases were partially a response by the CEO to our findings of discontent among the ExCo about the decision-making culture and lack of clear articulated vision.

As Table 1 indicates, the first set of interventions commenced with the high-profile, mid-2010 launch of a new corporate structure, creating a series of core operating divisions, supported by enterprise systems, human capital and risk management. In visual representations, *International* was depicted running across the divisions, as a central responsibility and avenue for growth. This new structure was presented as the platform for a strategy of externally focused growth and constituted a highly visible disruption to the existing model of AsiBank as a nationally-focused, market leader. Two new and clearly articulated strategic objectives were central: becoming a regional financial leader by 2015; and a clear expression of the 2015 revenue percentage to be derived from international operations. A significant redesign initiative was the formation of special project teams to build four banner *regional* products. Over the following 18 months, the operational focus continued to be on business-unit driven productivity and performance improvements.

Responses to Disruption Phase One

(a) Identification of Cognitively Distant Opportunities

As noted, the CEO had expressed concerns about the home country's slowing growth, and the countervailing appeal of the much larger regional market with the scope to build and leverage substantial economies of scales. Yet, only five of the other twenty respondents cited this as a key motivation for pursuing a regional agenda. These five respondents were aware that the pace of innovation in the payments space meant AsiBank's pool of cheap funds from its large, low cost domestic retail savings franchise was vulnerable to alternative savings vehicles (including growth of superannuation products, a shift to higher consumption lifestyles in line with the country's economic development, and share-trading) and to new, non-financial services players, such as Google and Apple (see previous section) taking advantage of innovations in *electronic* wallets. For AsiBank to remain competitive in the pricing and design of its retail products, these challenges needed to be met with an ability to innovate product offerings quickly, while operating at a low cost of capital through achieving scale and scope advantages in the core IT architecture, costs of digital processing and warehousing, templates for product design, and so forth.

These scale advantages were apparent to many of the executives, but only six (including the CEO) of the 21 respondents explicitly touched on their importance in maintaining a cost of capital position. These six respondents also showed the clearest appreciation of the nuances in distinguishing centralisation from standardisation of processes, policies and products, and the ability to flexibly design product *pipelines* and supporting activities thereby achieving significant scale and scope economies along up to 80-90% of the value chain. The final 10-20% could then be customised to local requirements and sensitivities, as shown in the second column of Table 2.

[Insert Table 2 about here]

In this sense, the true use, firm and location flexibility of existing assets and the need for innovation in the physical footprint to ensure on-going performance (see Maitland and Sammartino, 2012) were not widely appreciated. Each of the five respondents (other than the CEO), who did demonstrate such an awareness, was in a role working (and thinking) across divisional boundaries. This suggests that exposure to cross-functional and cross-divisional views on banking was potentially contributing to their ability to construct rich mental representations that overlaid product value chains with geographic footprint considerations. As one of these six respondents illustrated:

“Why we want to have [subsidiary country A] for deposits is because of Brunei money. Brunei, they have a lot of Islamic funds... they can’t put the money in [our subsidiary in] Brunei, because we don’t have a licence for Islamic, it’s conventional... so the first thing we were thinking about is – let’s have a quick win, let’s have our Treasury out of [subsidiary country A], we put it [there], and I think we’ve got some traction and we’ve got close to achieve about 400 million dollars out, so that’s a start for example. There’s no risk, because for the two countries, it’s backed against [country A’s currency]. So, this allows our global markets team to talk that sort of conversation, to open up that door. So, this is where the regional dividend is - we need to look at this connectivity, we need to unleash this” (CEO, Islamic Banking)

(b) Differences in Representations of what AsiBank should be

While most believed in adopting a regional strategy, there was considerable divergence in this early period on (1) what constituted the region, (2) the regionalisation value proposition; and (3) the extent of regional standardisation that should be pursued.

One of the most compelling footprint issues was determining what constituted the *region* of AsiBank’s leadership objectives. As Table 3 indicates, while the centrality of ASEAN was universally agreed, there were disparate views on whether additional countries, such as China and India, should be targeted. Most interviewees explicitly raised China as a hard to ignore market that they had very mixed feelings about. Engagement was seen as necessary, but the investment required, the regulatory hurdles, and the nature of competition were intimidating. The Middle East was also identified, specifically regarding Islamic banking.

[Insert Table 3 about here]

This heterogeneity of geographic representations appears to stem from each executive focussing primarily on country-level issues and opportunities, rather than building representations of region-wide strategic niches or gaps. This may reflect the legacy of the bank’s poor internationalisation history. The existing footprint was seen as the outcome of a disjointed series of decisions to expand into particular markets, without a coherent plan for how to grow within and across these markets:

“The success [at home] has become, I guess, a stumbling block, although maybe that is a mindset right, when it comes to looking at the region. With [the home country], the Group, the growth was great, leadership is positioned and all that kind of stuff, we want to go to [large ASEAN country], or maybe we tiptoe around it, we want to go to another market, tiptoe around. For example, we have had branches in Cambodia for such a long time, we’ve had a branch in China for such a long time, but almost at the same time when [major competitor] had a branch in China, you know, today [major competitor] has about 18 branches in China. We still have one.” (Deputy CEO & Head of Global Wholesale).

“We have been such a dominant bank [at home] for such a long time, that we became very complacent outside of [the home country]. We had footprints that we did not leverage on.” (Head of Strategy, Retail)

This historical indecision fuelled many of the respondents’ concerns that there was no clear strategy or even parameters for the regional agenda, more than 18 months after the initial introduction of the broad leadership and revenue objectives. The regional aspiration was frustratingly viewed as a geographic footprint issue, detached from key questions of the strategy to create and capture value well into the future:

“We have strategic targets, but what is the strategy to get there?” (Head of Strategy, Islamic)

“we talk about it, but do not have a clear roadmap and we’re not executing that roadmap. So, you know, we don’t have a plan of a plan” (Deputy Head, Group Strategy)

“I have seen a lot of regional projects, I’ve seen lengthy presentations on the regional cards, on the regional wealth management... I mean, all these projects I have seen. Regional strategy discussion? I cannot remember that I have seen that.” (CEO, Insurance)

With differences amongst the decision-making group in terms of this basic geographic representation, and also different levels of awareness that such heterogeneity of representations even existed, it would remain difficult to conduct commonly understood conversations around more substantial strategic issues.

While the value proposition from regionalisation painted a series of aspirational goals, there were not clear statements outlining why these goals and not others. For some, the *regional dividend* was obvious (and carried connotations of greater prestige). Others raised concerns about a lack of clarity causing difficulties in articulating the goals to those outside ExCo and their immediate direct reports, and in initiating and guiding the necessary resource allocation choices.

For nearly all the respondents, the clearest divergence was between the domestic retail and the wholesale banking divisions in terms of their business models and willingness to embrace change. Relatively few recognised that this, in part, reflected the physical delivery modes of the different divisions. Retail was genuinely multi-locational, operating a large domestic network of branches, as well as providing input to the subsidiary network's retail operations. Wholesale had the luxury of already thinking about many of its products competing in regional and global markets, whereas retail was necessarily focused on less mobile customers (individuals, households, small-medium size businesses) requiring higher degrees of localisation of product, communication, delivery mode and risk assessment. In a number of subsidiary countries, a reluctance to embrace mobile and virtual banking and on-going tight supervision by local monetary authorities (including extended vetting processes for key staff, and in-country requirements on the physical location of data warehousing) also presented significant location constraints.

While the Head of Retail was fully supportive of the regional agenda and had a highly developed mental representation of the footprint possibilities, the other executives frequently ascribed his division's home country focus to an inward looking bias on his behalf.⁶ This ascription overlooked that the Head of Retail's performance metrics mandated by the CEO explicitly required him to *prioritise* the home country and ensure all operational efficiencies were being pursued, including a major overhaul of the branch banking network's physical and IT design. As noted earlier, the domestic retail division's low cost of capital (from its large, low-interest bearing deposit base) position was essential to funding AsiBank's regional aspirations. In effect, the retail Head's personal enthusiasm for the regional strategy and desire to include his division in its realisation was being held back by significant legacy factors from both the existing MNC design and the his colleagues' mental representations.

(c) Commonly Recognised Constraints

The executives often expressed awareness of the constraints on AsiBank's capacity to reach for regional opportunities emanating from its current design and its legacy of underwhelming internationalisation. Intriguingly, one major concern reflected a delay in

⁶ During our interview with the Head of Retail, he presented a document setting-out his views on the two possible regional models for AsiBank (multi-local and integrated), moving through four phases of implementation from independent franchises in different countries (no regional reporting, high autonomy, limited *ad hoc* collaboration), through collaboration (regional taskforces for select initiatives, *ad hoc* staff movement), standardization (introduction of common business models and practices, beginnings of regional reporting structure, extensive guidelines for standardization, shared infrastructure where possible, formal secondment program) and full integration. Against this transition map, four key businesses within retail were plotted, with only one achieving full integration by 2015.

pushing disruptions further down in the organisation. There was universal concern expressed about the ability of employees below the bank's top two to three layers to adjust their mental representations to accept an identity defined by the region, rather than the home country. At a practical level, this presented challenges in convincing staff to pursue offshore appointments or to prioritise non-local initiatives and demands. Reticence about expatriate assignments was linked to fears about losing close relationships within the bank's hierarchy, and concerns that a secondment or international appointment was a demotion, since all the overseas subsidiaries were smaller in scale than the home country operations and perceived as less advanced and technologically sophisticated. Maintaining a home country focus also meant that overseas subsidiaries struggled to gain attention from parent employees or have a voice in the design of regional projects, processes and policies:

"So, to me, the business is there, the footprint is there, but how do we link them together and how do we get our people to drive the business regardless of geography, regardless of products?" (CEO, country subsidiary)

It was also clear that the notion of a corporate group (a key element of the new regional structure) was only slowly gaining traction outside AsiBank's most senior ranks, with performance metrics again raising a complicating element:

"When we saw this opportunity we felt, hang on, let's book here, because the withholding tax is the same, the client is a [home country] corporate, he'll feel more comfortable if it is here. But, we had this challenge, surprise surprise – our guys in [subsidiary country] are saying 'no, no, no, hang on - book here'. Because they want the income. I said 'hang on guys, you have got to look at it as a totality: your cost of funding per dollar is 50 to 80 basis points much more expensive. I can get cheaper and for the Group this income is tax free, and I'm not even passing this to the customer.' So that is where the challenge is. We've got to look at it as a Group." (CEO, Islamic Banking)

The perceived lack of a Group-level regional strategy was the source of greatest frustration and concern during the interviews. For many, this was a direct outcome of a disjuncture between espoused objectives and the operational mechanics of ExCo meetings. These were seen as overwhelmed by reporting and operational detail, thus lacking in rigorous debate, with the more powerful members using off-line discussions and political plays to grab regional mandates and resolve strategic differences:

"We have ExCo meetings, we have [the home country and key subsidiaries] and then we talk about regional things. Honestly, we have not been to any ExCo meetings in the last two years, when really there was discussion of regional issues. It's really [the home country]. The only regional matters we talk about is the financial performance... this is what [wholesale and the investment bank] is doing, this is what [subsidiary country A] is doing, this is what [subsidiary country B] is doing, the performance. That takes one hour when we can actually read it ourselves. So yes, it's a committee that finishes at 10pm, which can be done in three hours." (CEO, Investment Bank)

These commonly recognised constraints, and our reporting of them to the CEO and ExCo, formed part of the motivation for Disruption Phase Two.

In Summary

At the time of our first data collection, in the midst of the first disruption phase, the mental interventions used to initiate strategic change (particularly the articulation of very broad regional leadership statements, a projected regional revenue target, and the implementation of a limited number of high profile, but tightly proscribed regional projects) had created frustration and divergence in mindsets and actual initiatives (see Table 1). The challenge for AsiBank's psychological architecture was that the rich diversity of opportunities identified by executives risked being hijacked by the development of entrenched positions on the outcome of the redesign. Divisional-level regional projects were increasingly non-complementary and supported by investments in

human capital, and product and technology changes that needed to be defended from or justified to fellow executives in an increasingly political battle.

Disruption Two – A New Redesign Challenge

The disquiet expressed in the first interviews about the lack of a clearly articulated strategy and disharmony in the operation of ExCo surprised the CEO. It explicitly prompted him to use more *normative* mechanisms within ExCo and with other parts of the bank to communicate the strategy, its logic and its objectives (see Table 2):

“I must say that some of the comments did come as a surprise to me... I guess that means that we haven’t done enough. So over the past six months, for example, we’ve been increasing our various levels of communication. So, for example, I’ve been engaging with many smaller groups and including spending two mornings in a month at our [AsiBank] academy... basically I will pop into two classrooms for those mornings. Each classroom on average would have about 20 people. So they are going through the normal training programmes. So we just ask them to just allocate that one hour for a session with me or with any of the ExCo members to articulate three things: one is our progress, secondly our regional aspirations and third, reinforce the core values that we must have within the organisation.”

The CEO switched to using much more informal processes to manage the cognitive dissonance his direct reports were experiencing from the perceived disconnect between *espousing* regional ambitions and the lack of an immediate, concrete regional strategy. By providing forums away from the bank’s formal processes for ExCo members to interact (see Table 1), the CEO argued that he was seeking to build a team identity that tied each ExCo member explicitly to a Group corporate identity, rather than their division/functional roles. This redesign of the senior management environment was, in many ways, two steps removed from the formal regional strategy formation process. It was most directly a response to the ExCo’s response to the initial redesign.

For the CEO, the shift to normative mechanisms from more formal targets was also undertaken in the context of increasing external validation and visible success for the regional initiatives:

“I think what made the big difference is the fact that when you started to see the real hard evidence of your hard work being reflected in both the profit and loss account and the balance sheet, and those were carefully reported by the analysts. So now it’s incredible that if you get the analysts’ reports of four years ago and then the evolution in terms of how positive the analysts have been on our results, it has been quite incredible.”

This is testament to the success of the first disruption phase in shifting external stakeholder representations of AsiBank’s strategic agenda. It is consistent with Gavetti’s (2012) argument that reaching for distant opportunities requires building legitimacy with external stakeholders. The strategic leader’s shaping ability – in this instance, the CEO’s communication of intent through the publicly visible elements of disruption phase one – was crucial to this process.

Normative mechanisms were required to insure against complacency and constantly communicate a representation of opportunities (and threats) that emphasised the need to be ahead of technological changes:

“the view for us now is that we must not let our people be complacent: we need to actually keep on running. This means we are not perfect still, there are too many areas where we are under a lot of threat, especially when it comes to electronic payments and internet banking... we do need to realise that things will change and be at the forefront of those changes... it’s worth it to leverage on that belief, that trust in financial institutions to handle all their financial transactions, but making sure that we are able to operate in that electronic space. Again there are so many views on that. There are some banks that have gone ahead and tried to create a completely separate internet bank. But that hasn’t worked so far. But that doesn’t mean

that things will not work in the future. So I always argue, provide the example of the iPad. The iPad is basically a tablet computer. So a tablet computer was first invented by Microsoft.” (CEO)

Alongside the new normative interventions, the pace of reconfiguration accelerated. This included changes to the physical footprint, the introduction of a number of key platforms and systems for a regional architecture, and a continuing harmonisation of a coherent, but less home country focused, corporate identity (see Table 2). Surprisingly, these very significant actual reconfigurations attracted very little attention in the thinking of the executives. In particular, that core IT platforms and risk systems had been flexibly implemented to support any number of footprint configurations attracted very little consideration. They were much more focussed on the shift in the decision-making culture, the convergence of thinking within the group, and the remaining (and new) shortcomings and constraints of the bank’s design.

Responses to Disruption Phase Two

(a) Identification of Cognitively Distant Opportunities

There had been a clear convergence in the individuals’ representations of opportunities over the 12 months between our first and second data collection rounds, with the more cognitively distant prospects coming to the fore. In this second round, a larger proportion of interviewees identified the virtual banking and mobile payments systems as key strategic opportunities, and, in particular, the need to monitor the efforts of global technology giants rather than banking rivals in this space. So too, more executives expressed concern that Islamic finance was not being properly incorporated into the regional agenda, and that opportunities to promote and distribute such products within Asia and the Middle East were being neglected. The CEO appeared to have been successful in bringing the majority of the ExCo towards his more cognitively distant representations of opportunity.

Definition of the region was also no longer a source of particular dissension, with the importance of focusing on ASEAN plus Greater China (China, Hong Kong and Taiwan), the predominant and accepted geographic frame. However, the scale and nature of AsiBank’s engagement with Greater China remained contentious. The decision to open a number of new offices in very different parts of China (see Table 2) was directly ascribed to a poorly developed and discussed initiative from Group Strategy and the Head of Wholesale Banking, that five other respondents explicitly identified as an unnecessary distraction and allocation of time and capital away from developing a coherent regional strategy that would genuinely deliver a sustainable regional dividend.

The twin aims of (1) shifting to and converging upon richer representations, while also (2) allowing for disagreement, had been achieved. This was typically attributed to the normative interventions. With very few exceptions, the respondents believed that ExCo meetings had improved in terms of their openness and cohesiveness. All espoused the importance of devoting time to discussions and decisions relating to strategic, rather than operational, issues. All respondents (ExCo and non-ExCo members) also recognised that the scale of redesign needed to achieve AsiBank’s ambitions meant pushing responsibility for operational issues down the organisation and breaking a culture of deferring to hierarchy to ensure ideas were being pushed forward and constructively challenged. These process and innovation challenges were acknowledged to be partially issues of mindset, with leadership needing to be taken from ExCo to achieve these shifts:

“we are actually in some ways taking away opportunities for our direct reports...I believe that in terms of empowering people one layer down from the ExCo members. We probably need to be much, much more strategic, in terms of the mobilising process, for example, in terms of validation.” (CFO)

“So, that conversation [about the regional dividend] is much more frequent now than it was a year ago and there’s some members who are quite good at catalysing and provoking, because, whether you like it or not, you get caught in your tactical deliveries” (Head of Group IT)

The changes in ExCo and the CEO’s very deliberate attempts to provide supporting mechanisms appeared to prompt greater ownership of the regional agenda and identification with the Group, rather than individual role responsibilities. Numerous respondents spoke to the need for Group processes to be formally restructured and normatively practiced to ensure ExCo was not the “final stop” for reporting on projects, outcomes and operational tasks. Across all the respondents, there were numerous mentions of how ExCo seemed to be less driven by internal politics, operating at much higher levels of trust, and resolving issues within formal decision bodies, rather than off-line, one-on-one accommodations. This had two clear outcomes.

First, there was a common desire to *increase* the pace of regionalisation by developing a clear strategy articulating exactly what the bank would look like by 2015 and 2018 (a new, unofficial time horizon). The redesign efforts designed to disrupt representations had had their desired effect, rendering a more ambitious ExCo group.

Second, there was recognition that the sequencing of design changes was paramount, but had received very little attention thus far. The redesign efforts had thus fuelled an appetite for more design, but with a clearer link between these design elements and the strategic outcomes. For example, there were universal calls for ExCo to change its meeting structures and objectives to devote its time to explicit deliberation of strategic trade-offs and alternative configurations for achieving the bank’s goals. Developing metrics and decision tools that emphasised Group regional outcomes, shared value chains and subsumed individual geographic/product thinking were also seen as critical. This partially reflected how strongly embedded the quantitative measurement method was in ExCo, as a result of the previous transformation program. Among the suggestions for changes were: comparative rates of return on assets and equity across the Group; calculating and privileging long-term returns on high, up-front investments; identifying Group-level returns for business-level expenditures; recognizing how different divisions/business units contribute to shared value streams and creating a genuine regional compensation formula (effectively internal transfer pricing); and the opportunity costs of allocating resources to alternative uses:

“I would like operational matters to be left to the sector heads to manage and we [ExCo] focus a lot more on strategies and articulating, rather than direct operation reporting – articulating the strategic road map. Measuring the strategy, using more strategic method.” (Head of country subsidiary)

While the representations of opportunities had approached consensus, there were differences in opinion about how the bank should progress towards these various strategic prospects. In essence, these reflected differences in terms of how individuals saw redesign playing out.

(b) Differences in Design Preferences

The use of projects to foster cross-divisional collaboration and pursue regionalisation was a continuing source of difference. A clear preference for projects and initiatives generated by a select number of centres of excellence was apparent for executives with career backgrounds in consulting and investment banking. This may reflect the nature of their skill set and mental models: both consultants and investment bankers tend to engage in project-based work, typically with clear objectives and timelines. In contrast, executives with career backgrounds primarily in corporate and retail banking, with a

greater focus on task and functional expertise, were frustrated by what they felt was a *chunky* approach to evolution, that failed to achieve regional platforms pooling best practices from across the bank. The project approach was viewed as strangling agility and innovation, forcing business units into templates that were neither sensitive to local requirements nor flexible enough to be adapted to purpose:

“are we going to have 40, or 50, or 60 individual projects that deliver on their own vertical?...if they don’t tie in and get an aggregate versus an additive response, we’re wasting a lot of time and energy” (Head of Group IT)

So too, the centres of excellence model that had evolved from the initial regional projects was seen by some executives as a brake on the speed of regionalisation: the need to establish clear mandates, assign staff, reporting protocols, budgets and cost responsibilities was time consuming and seen to reinforce divisional silos, rather than encouraging Group collaboration.

As noted above, the two disruption phases had fuelled an appetite for strategic decision-making. There was a considerable majority of the interviewees who felt constrained by two key design elements that were seen to emanate from the Group Strategy unit. They ascribed the continued use of projects and centres of excellence directly to a desire within Group Strategy to control the regional agenda, rather than act as a source of knowledge and integration. Three-quarters of the respondents were critical of Group Strategy, describing it as operating opaquely and failing to provide leadership on strategy issues. The Corporate Counsel, who was the only respondent other than the CEO who sat on both ExCo and the Board of Directors, believed that the unit was not fulfilling its potential to provide consideration of the external environmental dynamics, nor of developing the very financial and decision-metrics that AsiBank’s senior executives had identified they needed to design and manage AsiBank to be a regional financial services leader. The Deputy Head of Group Strategy recognised the problem, yet appeared to have very little voice to temper the Chief Strategy Officer’s (CSO) apparent preference for projects:

“if we are eventually grow to be a big regional player, we do need to grow beyond what we have today, which is to leave the countries to themselves and try to add value through centres of excellence and regional projects...as long as we have this country-by-country priorities and reporting line, and overall targets, it’s hard to have a conversation – a serious conversation – about regional priorities and regional numbers, when at the end of the day, we’re all individuals in our own geographies. I think something’s got to change. And it can’t be changed on a line-by-line business or this is the model for cards, but mortgages and private banking, and wealth management will do something else - it will just confuse everyone.”

By contrast, the CSO made numerous references to the need for greater strategic thinking amongst the executive and a freeing up of ExCo meeting time from *business as usual* issues to achieve this. Yet, he made no reference to the clearly emerging tensions between the project and centres of excellence approach he directly oversaw, and a second design element - the cost management program he designed and championed. Implemented during 2012, the Group-wide program was explicitly designed to “nurture a cost-conscious culture” and instil “a return-on-investment mindset” (to lower the immediate, short-term cost-to-income ratio in line with Board determined annual metrics). Others saw the program as hampering AsiBank’s ability to build an organisation with potential to seize the real value of regional leadership – through the scale and scope economies from integrated product designs, management and delivery. Such innovations relied on heavy, up-front investments – the very things that a cost management program sought to discourage. As such, the CSO’s mental representation seemed less attuned to the cognitively distant opportunities identified by the CEO and a handful of senior

executives more than 12 months earlier – and to the challenges of design that these opportunities presented.

(c) Commonly Recognised Constraints

There was also growing recognition of the constraints imposed by the cost and productivity agendas on innovation and initiative. The *dashboard* system of performance management had become (see ‘The Case’) so deeply embedded in the very fabric of how processes were structured right through to the Board level, that it was exerting a countervailing pressure to the regional redesign. From being a strength of the transformation program, it was becoming apparent that its lack of use-flexibility was constraining the shift from productivity-based to geographic and product-based growth. The Group-wide cost management program only exacerbated the problem. Faced with additional pressures to perform on cost-to-income metrics, individuals, subsidiaries and business units turned inwards and fought to avoid expenses linked to regional projects and platforms, while grabbing any potential revenue such initiatives might produce.

Finally, a continuing lack of skilled human capital that could operate across geographies and product lines was identified by all respondents as a constraint on the pace of redesign, although only the Head of Group Human Capital, the CEO of Islamic Banking and the CEO of a large country subsidiary recognised that the bank’s cost management program was exacerbating the problem.

Some also queried whether a senior team that had been built to tackle internally-generated problems could build an externally-focused, leading edge organisation. There was also a voice of caution regarding how far the executives’ representations had converged on the importance of committing to a single coherent strategy, over-riding individual political games. The corporate counsel, with his unique insights into strategy at the Board and ExCo levels was again insightful, stated that the key sensitive strategy issues that he knew were being presented to the Board, were still not being fully and openly shared in ExCo.

In Summary

Both disruption phases saw tensions and dissension. Variance in executives’ mental representations was a significant contributor to this discord. Some executives were quicker to identify cognitively distant opportunities, including in the virtual banking and mobile payments space, in Islamic finance, and with regard to more finely-sliced value chain configurations. Tensions arose from these individuals’ perceptions that others did not see these prospects or lacked the will to pursue them. These tensions correspond with Gavetti’s (2012) *rationality* and *plasticity* behavioural failures. The variation in representations often aligned with differences in individuals’ roles and backgrounds, and whether their position cut across the bank’s business lines. Some of the narrower representations reflected long entrenched views and interests in maintaining the *status quo* within a business unit. Such differences speak to both the justification for interventions and the outcomes thereof, as the cross-divisional roles were in several instances the direct outcome of the structural redesign of disruption phase one.

Over the twelve months of our observations, the executives’ representations of the strategic opportunities converged to a considerable extent, with previously marginalised distant opportunities shifting centre stage. For example, calls to innovate in the mobile payments arena had spread, and building centres of excellence located away from the home country to support regionally standard products had moved from being a

contentious opportunity to an accepted initiative. Likewise, more executives spoke of the need to distinguish a different set of geographic opportunities for Islamic products. Again, it can be argued that these outcomes in terms of wider recognition of cognitively distant opportunities reflect some success in addressing behavioural failures, including *shaping ability*.

IMPLICATIONS

Our field research on executive judgment in real time is a unique insight into the dynamics of a MNC's (re)design. It demonstrates the extent to which shifting an organisation is as much about modifying mindsets, as it is an architectural challenge. In particular, reaching for cognitively distant opportunities – those strategic options beyond most rivals' line of sight, and thus with huge potential upside – is a mental stretch requiring explicit management interventions. Our case offers invaluable insight into what Gavetti (2011: 125) has dubbed *strategic leadership*: “the mental capacity to spot opportunities that are invisible to rivals and to manage other relevant parties' perceptions to get them on board”. As Gavetti (2011, 2012) warns, behavioural failures mean *near* opportunities are much more likely to appear on the radar. For AsiBank to stretch beyond the near option of domestic dominance and a peripheral international presence, these senior decision-makers' mental representations needed to be altered considerably. Indeed, for MNC redesign to occur, the mental representations of the executives charged with such design also needed to be *redesigned*.

In the behavioural strategy school, cognition is seen as central to heterogeneity in firm performance (Daft & Weick, 1984; Felin, *et.al*, 2012; Powell, *et.al*, 2011; Gavetti, 2012; Gavetti, *et.al*, 2012; Kaplan, 2011; Winter, 2012). A firm with well-developed routines for framing strategic opportunities – the requisite cognitive architecture – may outperform less adept rivals. The two cognitive intervention phases we identified in AsiBank had many of the desired effects on such architecture: senior decision-makers were identifying new regional strategic opportunities and, as a group, had coalesced around a logic of distance compression advantages for competing across the region, but not beyond. They agreed technology, and technological innovations, would serve as a key driver of advantage across these markets, and as a tool for further organisational redesign. They were now delineating the differences in the opportunities between product lines, while also looking for commonalities across products.

This micro-foundational perspective on advantage is equally relevant to MNC performance. IM scholars have made numerous efforts to determine a multinationality-performance relationship (Contractor, Kundu, & Hsu, 2002; Lu & Beamish, 2004; Hennart, 2007) and to investigate links between adoption of various architectural elements (e.g., entry mode choice) and performance. Simply looking for such choice-outcome relationships is likely to miss the more fundamental explanatory impact of cognition and executive judgment.

Our findings also demonstrate the interconnectedness of MNC redesign. A mix of design mechanisms were utilised across the spectrum, from the more formal and structural to the normative and behaviourally-oriented. Incentive and monitoring systems, reporting lines and accounting practices added to the complexity of the more visible organisational structures, while also forming part of the mental intervention arsenal. The CEO used them to disrupt and shape the cognition of decision-makers and implementers throughout the MNC. An immediate implication for IM scholars is that examinations of any one type of design element in isolation may be misguided, as much

of the explanations for and impacts of such redesigns may rest on a multitude of different motivations and understandings among the executive group. Furthermore, these executives may be viewing the design element as part of a suite of elements. Design elements may themselves be introduced as mental interventions, rather than purely as a desired outcome. Put differently, MNC architecture should be treated as neither just a means nor just an ends. Instead, IM would benefit from conceptualising the MNC's organisational architecture as part of the firm's *mindset*, recognising it is initially the individual executives' mindsets warranting closest examination.

Our study also provides specific insights into how senior MNC bankers are grappling with the broader structural factors impacting the finance industry. Since 2007, the industry has undergone radical changes in the availability of funds, regulatory oversight, technological innovation, and the threat of powerful new entrants. While it is an industry built on notions of stability and continuity, IT advances and globalisation continue to bring demands for greater flexibility and nimbleness in MNC design and strategy. Yet, the typical divisional structures of full-service, multinational banks, demarcated into wholesale, retail and geographic groupings, are arguably inimical to such flexibility. At AsiBank, breaking down the strong internal silos between wholesale and retail, domestic and international activities and enabling greater flexibility in how the bank responded to the risks and opportunities in the external landscape was as much about cognition as it was formal structures of responsibilities and reporting. Initially, only AsiBank's CEO and a handful of the senior executives were attuned to the possibilities of inter-weaving product value chains to achieve significant economies of scale and scope, without necessarily sacrificing local sensitivity. They were also aware of the pace of change in IT, its impact on traditional banking products (particularly retail), and the attendant threat to secure, long-term low cost funding. Compared with the initial round of targeted cognitive interventions, the second phase of normative mechanisms appears to have been much more effective in achieving significant cognitive shifts among those executives, who had initially continued to think within their immediate silo contexts and opportunity landscapes. This highlights the clear imperative for bank CEOs to show Gavetti-style leadership in pushing their executives outside their cognitive comfort zones and reach for previously unseen distant opportunities.

Our findings on the effectiveness of normative mechanisms also speak to the challenges faced by bank CEOs of achieving significant changes in internal cultures and approaches to risk-taking in financial service providers. Such changes arguably rest on disrupting existing representations of *what is* and *can (or should) be*; disruptions Gavetti (2011, 2012) and our preliminary findings suggest require carefully designed cognitive interventions, rather than short-term changes to performance bonuses and vision statements. As the Deputy CEO and Head of Wholesale Banking observed:

I guess everybody is in the stage of trying to find meaning in what they do and are tired with what is going on especially in the US. When investment bankers get paid \$1,200 Million, and you know, screw the Government tax payers at the same time. They want to find something that is more, I don't know, what is the word, I guess have a meaning to what they do in the Bank. At the same time, we also realised that in the marketplace, more and more banks are behaving on a transaction basis, dealing with clients, and what they do with the clients, all they see is the dollar sign, most of the time, and we know for a fact that most clients don't like it.

FUTURE RESEARCH DIRECTIONS

MNCs are frequently the innovators within and across industries, redefining what is viable in terms of product designs, business models, value chain structures, and organisational forms. Such decisions typically rest on CEOs and their senior executive

teams identifying, reaching out for and attaining cognitively distant opportunities unseen by rival firms. IM has a real opportunity to contribute to research on managerial and organisational cognition, by investigating the cognitive efforts and interactions among MNC senior decision-makers.

The AsiBank setting provides insight into the reconfiguration of a MNC with pre-existing subsidiaries across a region. Future research should explore cognition within: (1) more globally distributed MNCs; and (2) firms just starting out on internationalisation. The opportunity framing and mental representations of executives in these two settings are likely to differ substantially.

Alternative causes of such differences in cognition are also promising avenues for research. IM has long argued for the value of experience in shaping MNC performance. Executives themselves may well be the foundation for such experience. The AsiBank executives' mental representations did not shift at a uniform pace. Some were faster to see new, more distant opportunities; others were laggards. There were ongoing differences in what they viewed as constraints on strategic progress. As noted, some perspective differences appear to reflect variations in experience and expertise among the group. Exploring the link between individuals' prior work experiences (e.g., in multiple countries, engaged in international strategy decisions), and their cognition may shed new light on this performance relationship.

Our study also demonstrated the use of assorted disruptive mechanisms to shape and shift the executives' cognition. We distinguished between formal structural and norms-based behavioural interventions, drawing on existing notions of formal and behavioural forms of control and coordination in subsidiary networks. We found the two types served different, but complementary, roles in *nudging* mindsets. Future work could more carefully delineate different types of interventions and explore the impact of different cultures and industry effects on the use and effectiveness of the different types of interventions. For example, Barkema and Shvyrkov (2007) argued high levels of diversity can create *faultlines* within top management teams (TMTs). These faultlines can hamper foreign expansion decisions, undermining the required consensus for crucial strategic innovations. Only after sustained interaction over three to four years were the faultline effects overcome. Studies on the impact of executives' home country background have also suggested TMTs from different countries and cultures may have different overall levels of uncertainty and ambiguity tolerance (Carpenter and Fredrickson, 2001; Barkema and Vermeulen, 1997). It may also be that individual executives' prior experiences of certain interventions shape their cognition and also their responsiveness and implementation of such interventions.

Within AsiBank, the CEO played an especially dominant and interventionist role in driving the executive team towards more cognitively distant opportunities. Future studies should deliberately sample for scenarios where the interventions are driven by other stakeholders, such as other executive team members, active investor blocks, management buyout consortia, or strategy consultants. Likewise, the push for new *ways of thinking* was not triggered by a major external shock. Investigations of cognition and redesign during crises may reveal a different dynamic and need for alternative types of cognitive interventions. Given the complexity and interconnectedness of such events in the global business arena (e.g., the GFC), this is a rich opportunity for IM Scholars.

CONCLUSION

For senior leaders attempting to change a MNC's strategic direction and design, attending to the cognitive architecture of the organisation is critical. Designing successful mental interventions that prompt individuals to abandon out-dated understandings of what the MNC is and can be to embrace cognitively distant strategic opportunities is a challenging task, but one that may lie at the heart of achieving superior outcomes for the organisation.

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APPENDIX: SAMPLE INTERVIEW QUESTIONS

How would you describe AsiBank's regional position right now?

What are the key drivers for greater pursuit of a regional presence?

- a. How do the drivers vary across the different lines of business of the Bank?
- b. Is this regional leadership strategy a response to your competitors' regional strategies?
- c. How will AsiBank's regional strategy change the competitive dynamics?

Does the AsiBank group brand have value in other countries?

- a. How do you believe the brand is perceived outside the domestic market?
- b. Would you develop different brands for different countries and product classes/groups?
- c. In instances of inorganic growth (i.e. acquisition), would rebranding be your default approach?

How do you identify which assets or activities can be leveraged into new markets/locations?

- a. Do you have a specific programme to do so? (*or approach for doing this?*)
- b. Does any one person or team have direct responsibility for assessing and identifying roles, activities and staff capable of performing at a regional level?
- c. What channels/means are there for such assessments to 'flow up' from below in your division?

Is there broad support for the regional strategy at the Exec level?

- a. (And at the next level down?)
- b. Are some people more or less enthusiastic about the strategy?
- c. Why do you think that is?
- d. How does this shape the priorities and decision-making around the roll-out of the strategy?
- e. Do you feel there has been sufficient debate and scrutiny of the arguments for the regional approach?
- f. Is there scope for dissent?

What is your absolute priority in terms of achieving the regional strategy?

- a. Why?
- b. What does this mean in terms of activities?
- c. How does this differ from your colleagues' priorities?
- d. Is this likely to cause any tension?

Table 1: Cognitive Interventions and Design Changes

	Formal	Norms-based	Actual Reconfigurations
Pre-Round 1 (mid-2010-2011)	New corporate structure – <i>International</i> as a horizontal arm running across all divisions (but not a formal unit)	ExCo required to identify potential regional projects	Major acquisition of financial services provider in key ASEAN country
	Key strategic objectives defined: – Regional financial leadership by 2015 – Regional Group pre-tax profit target by 2015	Corporate <i>talent show</i> competitions held across bank network, with winners presenting at a showcase evening (continuing annual event) with Board and ExCo present & clear regional aspiration taglines	Group Risk Unit – All risk management, credit management and compliance centralised into one parent unit
	Targeted Regional projects initiated: – cards – high net wealth management – auto finance – virtual banking		Heads of all major foreign subsidiaries elevated to ExCo
	Brand refresh to incorporate regional vision tagline		Ongoing investments in IT platform
Post-Round 1 (May 2012-March 2013)	Centres of Excellence – Cards – High net wealth management	<i>Non-work</i> dinners at CEO's home, one-on-one	Regional cash management system
	Regional Talent initiative	<i>Non-work</i> dinners with several ExCo members and CEO	Regional trade finance platform
	All subsidiaries (country and product) co-branded with corporate identity	ExCo workshops on team culture	Group Treasury Risk management rolled out to largest subsidiary
	Redefined home country as “home markets” – the home country plus two ASEAN countries with the largest subsidiary networks	ExCo members required to speak about the regional agenda to employees attending training session, at least once per month	All risk-management policies and processes made Group-level for regional roll-out
	Multi-country, large scale advertising campaign across all forms of media focused on regional ambitions	ExCo required to identify staff for an international/non-domestic rotation	Ongoing investments in IT platform to support regional products and regional delivery
		Board meetings held in offshore locations to emphasise regional importance	Established Greenfield entries in two ASEAN countries, locally incorporated and expanded in a third, expanded China network
		More junior-level managers encourage to present to ExCo on regional initiatives	
Post Round 2 (May 2013 -)			Re-launched India office to facilitate India-ASEAN trade and transactions business
			Spun-off over-lapping brokerage functions in a major subsidiary
			Head of International position created, at ExCo level
			Change in CEO

Table 2 – Examples of Flexible-Specificity Frames

	Flexible Thinking	Specificity Thinking
1st Round	<i>“We cannot apply the same standard of credit that we do, say in Singapore, given for example if you lend to corporates, you get good financials, you know the auditors, you know the information access would be a lot more than say a corporate in Cambodia or something like that. So, we really have to customise or modularise how we do it in different markets”</i> <i>“Now this is where I talk about ‘regionally’ on the retail front: the alchemy is there for us to standardise the regional technology platform so that we can have a standardised approach. It doesn’t need to mean that customers have to be able to do a deposit in Indonesia, but we build a platform that we can roll out a standard functionality and a higher level functionality across the countries.”</i> <i>“I think the challenge for us will be to figure out how do you give perceived flexibility. So, the basic building blocks for product are not that different, I mean, a mortgage is a mortgage. Our challenge is to identify what these building blocks of any product are, even in the business, within the business, so we can standardise those components and then have other components which give the flexibility for them to market or make it look and feel and touch a bit different.”</i>	<i>“There is no way that [Asibank] can compete effectively domestically in China”</i> <i>“We can’t possibly be crazy enough to want to compete in the retail banking sector in China”</i> <i>“Profitability is tough: the rules of the game favour locals”</i> <i>“China is the one. China is the elephant in the corner... China is hard, hard, hard”</i> <i>“If you take a look at China, even Hong Kong, you question whether you can ever build a retail franchise that is meaningful, because of the very high cost and extremely competitive nature of the business there”</i> <i>“We’re far from being at a critical mass, the right size to be a serious retail banker [in China]... and I don’t think this Bank has the appetite to put in billions and billions of dollars”</i>
2nd Round	<i>“we are still a country based/centric transformation programme, so why don’t we have a transformation that looks across the Group and make sure that the levers that we want to put in place across a region are being monitored across the Group”</i> <i>“the market is moving very fast, so it’s about the relative speed of change, of internal resources versus external speed of the change and how nimble and how agile. So if you ask me it’s a case of versatility, adaptability”</i> <i>“I think one area we probably have done well on is IT. We have an IT transformation that cuts across the group. So to me, we should also have business area transformation that cuts across the Group...sometimes it can be quite painful...But if there is that periodic monitoring and review of key things that we need to do throughout the Group that is being anchored by ExCo, I think that can go far.”</i> <i>“[what] AsiBank group need to do is to start building the pool of people who can be – who already have the regional experience and who already are geared up to take regional roles so that at the end of the day whenever we say we need somebody to come in here and help us, they have people to deploy.”</i> <i>“But, of course, it is not going to be 100% the same for one country. You’ll be like 80-20, like a car: 80% the same, but in Europe you drive left hand drive, but here right hand drive; and in a car there, you need a heater, here you need aircon. So the same thing applies”</i> <i>“when it comes to implementation, I think there is probably a danger of trying to standardise implementation throughout the Group and, hence, we may fall into the trap of moving too slowly, when we need to move faster. So, for that matter, how can we then expedite the development of that infrastructure in [host country] first? So, I think, on the one hand, yes, we want to standardise and we can have the best practices, etc., but I suppose there is a need to recognize that certain units have to move faster to capture the market, to improve infrastructure. And I think that is one area where a big improvement is required.”</i>	<i>“I think as far as the unified approach from a corporate level, it’s there, but from a business level, as far as the products are concerned, and the services are concerned, it’s still not there yet”</i> <i>““On the flipside is instinctively when we think of new ideas regional is not our first thought. So when we... a new customer service idea or anything, it’s still not ingrained in the psyche, so we’ve still got ... we opportunistically do it, but we’re not doing it across the board yet.”</i>

Table 3: Imagining AsiBank's footprint in 2015 & 2020

Footprint	by 2015	by 2020
ASEAN	100%	100%
...with Key Home Markets	28%	7%
+ Greater China	39%	20%
+ Greater China & India	6%	53%
+ Middle East	33%	47%
+ Wider World	17%	27%

Note: The table reports the frequency with which particular footprints were identified in our Round 1 interviews (i.e. the percentage of interviewees). As all mentioned ASEAN, the subsequent responses indicate further specific detail. Those with “+” indicate mention of these locations. “+Greater China & India” is a distinct response from just “+Greater China”.