

Business Management in Digital Economy (Module- 2/Session:5)

Introduction to Firm Level Dynamics-1

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| | |
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CAPITALISM MAGAZINE

POLITICS ▾ MARKETS ▾ EDUCATION CULTURE ▾ LAW ▾ SCIENCE ▾ WORLD ▾ ARTS

Business as a Moral Endeavor

JAANA WOICESHYN (2014.09.29)

1. Business isn't a zero-sum game, it create wealth;
2. Business is win-win, it trades values;
3. Business pursues self-interest and is moral.

Does Management Really Work?



“We’re looking for someone with an MBA, five years of sales and marketing experience, and a low-carbon footprint.”

Are Organizations more likely to succeed if they adopt good management practice?

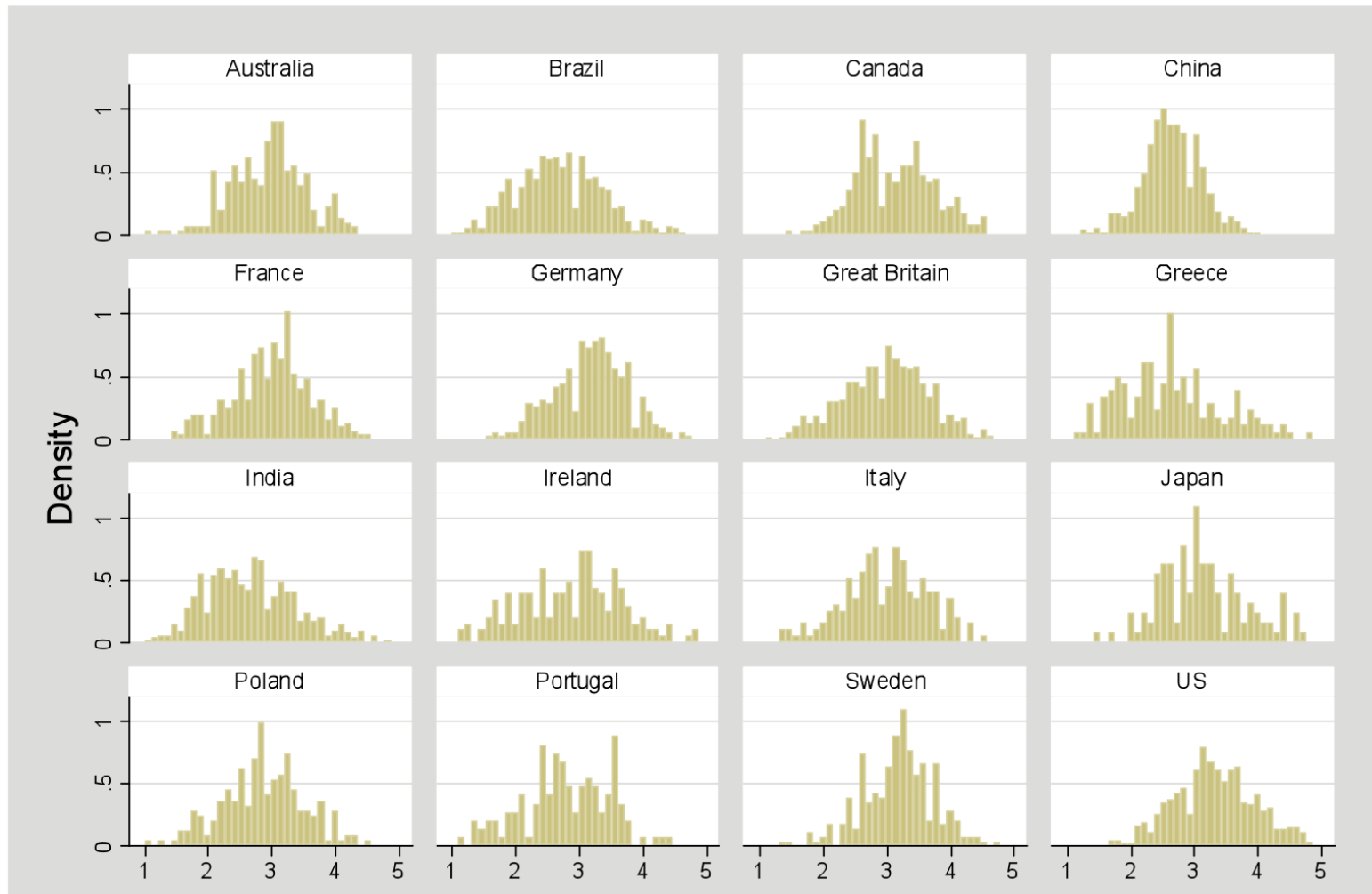
Class Question:

Do you think there are any general truths on what defines good and bad management, and how would you test these?

1. **Targets:** Does the organization support long-term goals with tough but achievable short-term performance benchmarks?
2. **Incentives:** Does the organization rewards high-performers with promotions and bonuses while re-training or moving under-performers?
3. **Monitoring:** Does the organization rigorously collect and analyze performance data to identify opportunities for improvement?

Source: Does management really work? by Nicholas Bloom, Raffaella Sudan, and John Van Reenen, HBR, 2012

Management Practice Across Counties



Better Management has radical impact.

What to Ask Your Managers

Interviews with plant managers at more than 8,000 manufacturers in 20 countries revealed what management practices are actually being used on the front lines. Here is a small sampling of interview topics and related questions. For more detail, go to worldmanagementsurvey.org.

INTERCONNECTION OF TARGETS

How are goals cascaded down to the individual workers?

CLARITY AND COMPARABILITY OF GOALS

Does anyone complain that the targets are too complex?

CONSEQUENCE MANAGEMENT

How do you deal with repeated failures in a specific business segment?

INSTILLING A TALENT MIND-SET

How do senior managers show that attracting and developing talent is a top priority?

REMOVING POOR PERFORMERS

How long is underperformance tolerated?

UNIQUE EMPLOYEE-VALUE PROPOSITION

What makes it distinctive to work at your company?

RETAINING TALENT

What does the company do about a star performer who wants to leave?

CONTINUOUS IMPROVEMENT

How do problems typically get exposed and fixed?

PERFORMANCE TRACKING

What key indicators do you use for performance tracking?

PERFORMANCE DIALOGUE

For a given problem, how do you identify the root cause?

The Return on Good Management

A one-point increment on a five-point management score correlated with better performance at manufacturers around the globe. The score was based on how well the firms adhered to three basic management practices: targets, incentives, and monitoring.

1

POINT INCREMENT ON A
MANAGEMENT SCORE
WAS ASSOCIATED WITH

+23%
PRODUCTIVITY

+14%
MARKET CAPITALIZATION

+1.4 PERCENTAGE
POINTS
ANNUAL SALES GROWTH

Strategic blunders main reason for failure

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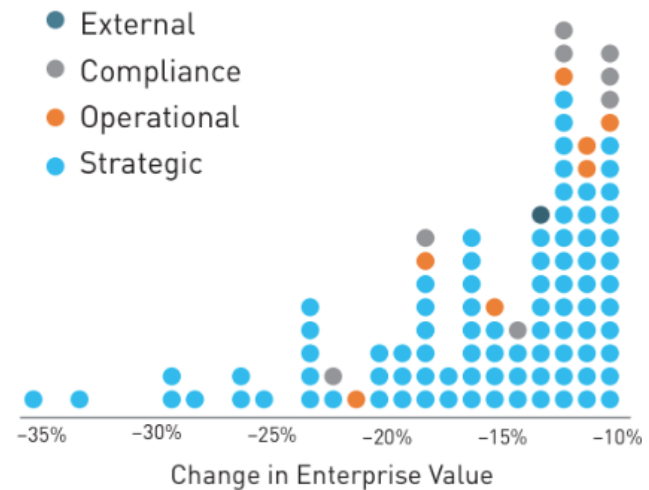


“Heads, we pour massive amounts of cash into research and development, revolutionize our industry and become bigger than Microsoft, G.E. and Ford combined. Tails, we grab a six pack, leave early and go fishing.”

Exhibit: **Why They Fail**

Strategic blunders result in the greatest loss of shareholder value.

Distribution of Bottom Performers by Reason for Failure



Source: Booz & Company

strategy+business

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“That’s our new mission statement.”

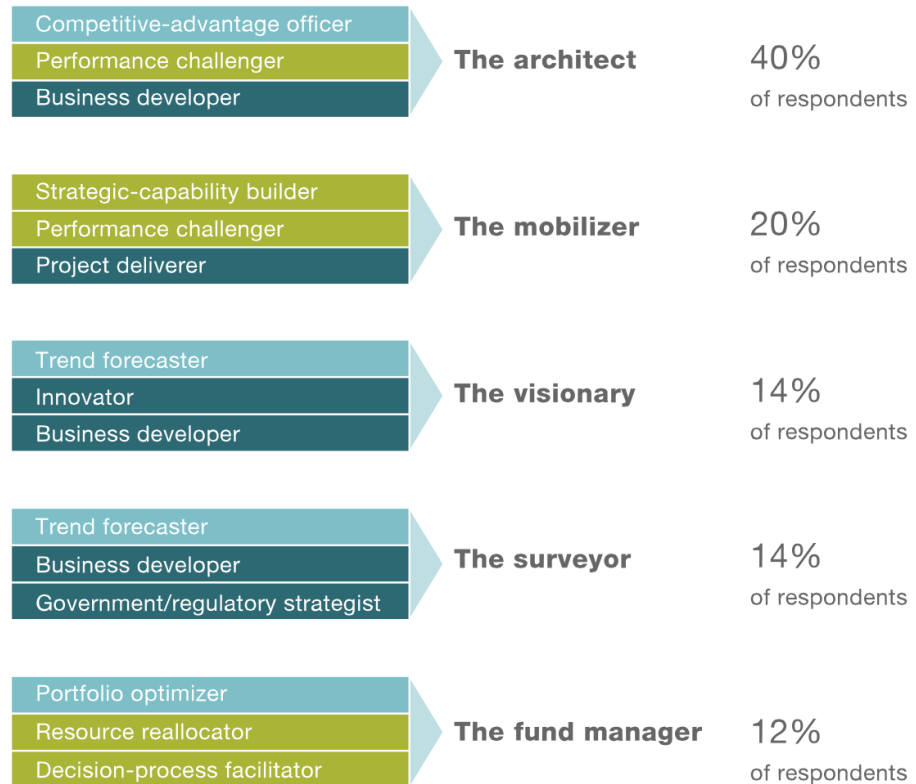
“A strategy to achieve WHAT?”

Role of the Strategist

Facets of the chief strategist (CSO) role, by category

- Generating insights
- Enacting and enabling strategic decisions¹
- Owning specific value levers²

Five CSO archetypes



Article | McKinsey Quarterly

Rethinking the role of the strategist

Strategic planning has been under assault for years. But good strategy is more important than ever. What does that mean for the strategist?

November 2014 | by Michael Birshan, Emma Gibbs, and Kurt Stovink

How strategy is different from other subjects?

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"I just can't get a decent idea since the budget cutters switched my bulb from 100 watts to 40!"

What determines the total corporate performance of an entire business enterprise?

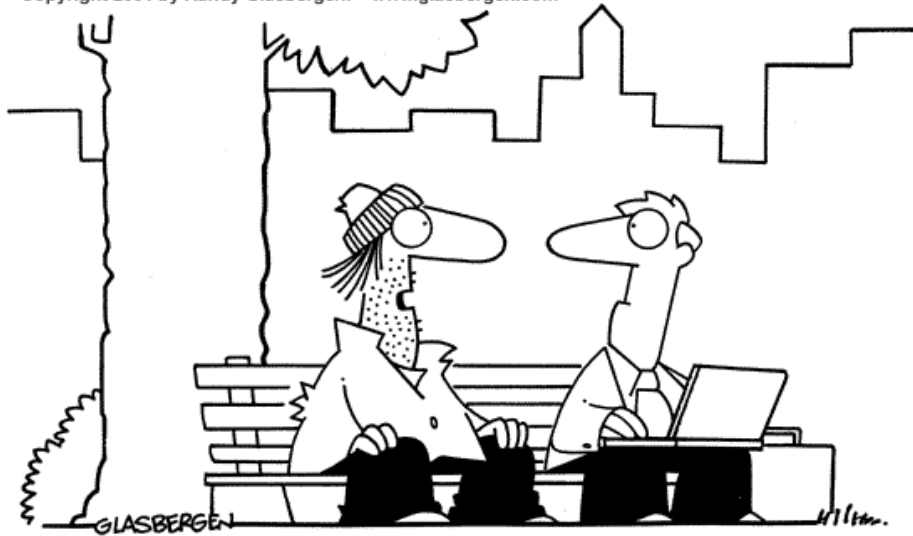
What if anything can manager do about it?

The Origins of Strategy

- ▶ Adam Smith “Invisible Hand” — Alfred D Chandler “Visible Hand”
- ▶ WW II: “problem of allocating scarce resources across the entire economy”
- ▶ John von Neumann & Oskar Morgenstern, 1944 - “*The Theory of Games and Economic Behaviour*”
- ▶ Peter Drucker - “*management is not just passive, adaptive behaviour; it means taking action to make the desired results come to pass*”
- ▶ Philip Selznick - “*distinctive competence*”

Strategy Fundamentals

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**“I spent years on the Road To Success,
but I was driving in the wrong direction.”**

Strategy Formulation

Market Opportunity –

Where do we compete?

Resource & Capabilities –

How do we Complete?

Strategy Implementation

Implementation –

How do we execute?

Strategy Execution

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**“We’ve been doing things wrong for 35 years.
If we start doing things right, it might
put us out of business!”**

- Bad Strategy + Good Execution =
**Doing wrong thing
Perfectly**
- Good Strategy + Bad Execution =
Doing right thing Poorly
- Good Strategy + Good Execution =
Doing right thing Well

Greek word *strategia* = 'generalship'

Strategy is the overall plan for deploying resources to establish a favourable position; a *tactic* is a scheme for a specific action. Whereas tactics are concerned with the manoeuvres necessary to win battles, strategy is concerned with winning the war.

5P: Plan, Ploy, Perspective, Position, Pattern

A significant reality is that a common aim of competitive strategies is to avoid or mitigate competition as far as possible (The Art of the War).

- Eliminating competitors
- Minimising their adverse impact by maintaining considerable distance from them
- Mutual acceptance of a state of competitive, co-existence.

Many of the principles of military strategy have been applied to business situations:

- the relative strengths of offensive and defensive strategies;
- the merits of outflanking over frontal assault;
- the roles of graduated responses to aggressive initiatives;
- the benefits of surprise and the potential for deception, envelopment, escalation and attrition

Key Characteristics

- ✓ Goals that are simple, consistent, and long term
- ✓ Profound understanding of the competitive environment.
- ✓ Objective appraisal of resources.
- ✓ Effective implementation.

success of individuals and organizations is seldom the outcome of a purely random process.

Key Characteristics

The task of business strategy is to determine how the firm will deploy its resources within its environment and so satisfy its long-term goals, and how to organise itself to to implement that strategy.

The evolution of business strategy has been driven more by the practical needs of business than by the development of theory.

Definitional Fallacy

- Focus on Operational Pragmatism in Business
- Interchangeable use with ‘objectives’ and ‘tactics’
- Lack of coherent discourse
- “Management” // “Planning” // “Strategy”

“Management” // “Planning” // “Strategy”

Management: PLOY Theory by Henri Fayol

- Planning, Organizing, Commanding, Coordinating, & Controlling

PLAN, LEAD, ORGANISE, CONTROL

Management implies a separation between the actual doing of whatever is being managed and higher level of function of control (Parker, 2002)

“Management” // “Planning” // “Strategy”

- Constitutes a series of identifiable processes:
 - V&M, Objective Setting, Ext Env. Scanning, Int Env. Scanning, Strategic Alternatives, Strategy Selection, Implementation, & Control (Ginter et al., 1985)

Is strategy a sub-set of planning?

Planning is a process of setting objectives, of analysing the situation, developing concepts to deal with the situation, and achieving the objectives (strategies) and implementing them’.

Defining Strategy

“Management” // “Planning” // “Strategy”

5 Ps: plan, pattern, position, perspective, & ploy

- We differentiate between strategy and planning by defining strategy as a ‘pattern’, or a **repetition of actions previously undertaken and adapted to new situations.**
- **Strategy as a pattern is therefore retrospective; strategy as a plan is forward-looking.**
- A combination of these two, with the critical analysis of internal and external processes, can broadly be defined as STRATEGY.

Strategy explains how an organization, faced with **competition**, will **achieve superior performance**.

The definition is deceptively simple.
Solution: “**competitive advantage**”

The Strategy Lenses*

Organizations' strategic issues are best seen from a variety of perspectives, as suggested by the four strategic lenses

- The strategy lenses are the four different ways of looking at the issues of strategy development for an organization.
 - Strategy as Design
 - Strategy as Experience
 - Strategy as Ideas
 - Strategy as Discourse

The design lens views

Strategy development as a logical process in which the forces and constraints on the organization are analyzed and evaluated to establish clear strategic direction and a basis for the planned implementation of strategy.

The experience lens

It views strategy development as the outcome of individual and collective experience of individuals and their taken-for-granted assumptions.

The ideas lens

The ideas lens sees strategy as emergent from the ideas that bubble up from the variety and diversity in and around organizations.

Strategy as discourse

Strategy as discourse sees strategy development in terms of language as a resource for managers by which strategy is communicated, explained and sustained and through which managers gain influence, power and establish their legitimacy and identity as strategists.

"A strategist's job is to see the company not as it is...but as it can become."

John W. Teets, Chairman of Greyhound, Inc.

Non-financial Benefits of Strategic Management:

1. It allows for identification, prioritisation, and exploitation of opportunities.
2. It provides an objective view of management problems.
3. It represents a framework for improved coordination and control of activities.
4. It minimises the effects of adverse conditions and changes.
5. It allows major decisions to better support established objectives.
6. It allows more effective allocation of time and resources to identified opportunities.
7. It allows fewer resources and less time to be devoted to correcting erroneous or ad hoc decisions.

Non-financial Benefits of Strategic Management:

8. It creates a framework for internal communication among personnel.
9. It helps integrate the behaviour of individuals into a total effort.
10. It provides a basis for clarifying individual responsibilities.
11. It encourages forward thinking.
12. It provides a cooperative, integrated, and enthusiastic approach to tackling problems and opportunities.
13. It encourages a favourable attitude toward change.
14. It gives a degree of discipline and formality to the management of a business

Strategy topics, paradoxes and perspectives

Source: Strategy Synthesis by Bob De Wit & Ron Meyer

| Strategy Dimension | Strategy Topics | Strategy Tension | Firm Level Dynamics |
|--------------------|--------------------------|----------------------------------|---|
| Strategy | Strategizing | Logic vs. Intuition | Analytical Reasoning vs. Holistic Reasoning |
| | Missioning and Visioning | Profitability vs. Responsibility | Shareholder Value vs. Stakeholders Values |
| Strategy Content | Business Level Strategy | Markets vs. Resources | Outside in vs. Inside out |
| | Corporate Level Strategy | Responsiveness vs. Synergy | Portfolio Organization vs. Integrated Organization |
| | Network Level Strategy | Competition vs. Cooperation | Discrete Organization vs. Embedded Organization |
| Strategy Process | Strategy Formulation | Deliberateness vs. Emergence | Strategic Planning vs. Strategic Incrementalism |
| | Strategic Change | Revolution vs. Evolution | Discontinuous Renewal vs. Continuous Renewal |
| | Strategic Innovation | Exploitation vs. Exploration | Strategic Improvement vs. Radical Rejuvenation |
| Strategy Context | Industry Context | Compliance vs. Choice | Industry Dynamics vs. Industry Leadership |
| | Organizational Context | Control vs. Chaos | Organizational Leadership vs. Organizational Dynamics |
| | International Context | Globalization vs. Localization | Global Convergence vs. International Diversity |

Balancing Organizational Tension

1. Balancing Profit, Growth and Control
2. Balancing Short-term Result against Long-term Capabilities and Growth Opportunities
3. Balancing Performance Expectation of Different Constituents
4. Balancing Opportunities and Attention
5. Balancing Motive of Human Behavior

People...want to contribute, choose to do right, strive to achieve, want to innovate, and want to do competent work.