Changing Ideas in Strategy

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Section 1

CHANGING IDEAS IN STRATEGY: A PROLOGUE

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This book is about tracking changes in ideas that are responsible for organizational transformation, that is, changes in ideas of strategy. Change works in both positive and negative ways. The implementation of a strategy is commonly meant to be for benefit of an organization; but it might just as well have a deleterious effect. Either way, this effect of the concept brings new understanding to the actors, who may then proceed to modify the concept itself. Because, strategy, a social concept, is experiential and dynamic; it transforms a social entity, and depending on the nature and quantum of this change, it might lead to a change in itself. When results are beneficial, the idea gets reinforced, else it is modified.

Another point to note is that a strategy can change a system substantially from what it was when the concept was put in action, and one may never re-create the same *initial conditions* in the same or other system. Yet, there are two reasons why it is still useful to track the thinking behind the intervention, as well as the change that resulted from it. Such tracking is useful firstly because it helps us better *understand and archive* what has been a beneficial strategy and what has not been. While this in itself is significant, the tracking is also useful in a futuristic sense; it helps us make at least an *educated guess* about what could be a beneficial strategy for some organizations.

To illustrate how strategy-thought and social reality interact, and how this interaction is at the center of above change, let us look at the history of business and the history of management concepts during the second half of 20th century, particularly in US. The US economy, through a number of high-profile commercial firms, went into the growth mode. They were further encouraged by thought-leaders such as the marketing academic Theodore Levitt (1960), who wished firms would grow *wherever they might satisfy needs of customers*, that is, diversify. Some firms grew well, some did not, therefore the corporate consultants and academics began to explore *what direction of expansion* was more appropriate to suggest to a growth seeking firm (as in Ansoff, 1965). There was also the fact that even well-calibrated diversification led to some casualties, while many industrial firms that stuck to their R&D-oriented field continued to perform well. This led to another sage advice to firms: they might stick to their *core competence* (Prahalad & Hamel, 1992).

On the implementation side, whether strategic moves were of diversification or of core-competence types, the firms have frequently used approaches that turned out to be impractical. The old organizational structures were often the key reason for failure; and this led to thinking about *Strategy-structure linkage* as another important advice of management consulting (Chandler, 1962). Of course, this strategic *fit* introduced an inevitable inflexibility. Some corporations found that they had exhausted the growth potential in their existing buyer segments, and yet, many prospective consumers remained un-served because they could not afford the price. Innovative players reinvented their strategies to escape this bind. They decided to tap the under-consuming low-income segments (as in micro-credit and mobile telephony). *Bottom of the pyramid* thus emerged as another key strategic concept (Prahalad, 2006).

These few concepts have been picked only as an illustration. There are indeed many more conceptual milestones of great significance in the various fields of organizational study. These few concepts are examples to exhibit a sense of the two-way interaction of strategy concepts with the social system. As one retraces the above milestones, of Ansoff-Chandler-Prahalad, it might also appear that the concepts are *determined* directly by respective *environments*. This evolutionary view would be an attractive interpretation, but it also entails a possible leap of logic. Strategic milestones happened not just because of a particular kind of situation but also because of choices that corporate leaders made. The bottom of pyramid concept, for example, could have been as much of a sage advice in 1970's as it is now in the 21st century.

It is important nonetheless to explore how these conceptual milestones happened to come about when they did, and the process of their emergence. No mutual relationship of concept with action in an entire social system can emerge instantaneously. Within each milestone must be incremental happenings. Many organizations may have taken parallel strategic actions that *made a difference*. Instead of vanishing like (unsustainable) blips over time, they were imitated and learnt by other actors and, over time, led to a bulk of such happenings in many organizations, such as to become milestones. *Which of these* strategic actions would have so taken-off that we would consider them to be milestones? This is a question we cannot explore here without more research. Yet, as students of strategy, we might at least take the opportunity to <u>*track*</u> the major changes that we currently observe in the strategy space, notice them while they occur in at least some of the organizations.

The 11th Annual Convention of Strategic Management Forum, SMF08 at IITKanpur, during 8-11 May 2008, occupied itself with just such a theme. Papers and cases selected from this convention are now introduced to readers of this volume, titled rather expectantly as "Changing Ideas in Strategy".

The first changing ideas in this volume are about new kinds of *missions* that have emerged in commercial organizations as well as those in some socially relevant ones. Substantial new missions have begun through the development of information and communication technologies, and through the wider emergence of a service-dominant society. Examples of these ideas constitute the first section of this volume. The second section deals with emergent *organizational forms*, such as the progressively more relevant *small enterprise*, in commercial and non-commercial domains, the emergent structuring of organizational sub-units that ensures a better fit for the adaptive orientation of the organization, and the strategic necessities of the inter-organizational context.

Furthermore, strategy concepts must now take account of new *resources* that were not earlier in formal reckoning. Innovation is one such resource, which forms the basis for section four. This section also discusses a second emergent resource that occupies the mind of the strategist - its *social capital*. Finally, before the editorial *epilogue* is section five of the volume that begins with a piece on the new *geographic locus* of organizations. With progressive globalization, and with the splintering of value-chains, organizations have begun to cater more-and-more to global markets, and have therefore moved towards networking across borders as a more viable strategy. This section also includes write-ups that deal with the increasingly more significant role of advertising, the role of flexible decision-methods in ever-changing environment and, finally, the aspects of firm growth. The editorial *epilogue* summarizes the key themes that emerge and how they constitute "Changing Ideas."

Thus, the sections of this focused set of writings include both, pieces where authors explore purely on a conceptual basis, as well as writings that bring out concepts from data on actual behavior of organizations. Conceptual pieces keep away from actual data. Empirical studies analyze real organizational processes, and how and which strategic choices appear to make a difference. Many of these are in a *case-format*. Whether analytical paper, or teaching case, these write-ups generate ideas that are *emergent* for strategy; they all have the prospect of becoming *milestones*.

It is also relevant to point out that the ideas here are not specific to a country. Even in the papers or cases where the frames of reference, and the data or case-locations, are Indian, the concepts that emerge are location-free. Not merely that the ideas are applicable to the so-called third world or even emerging nations. They are possible milestones everywhere!

ACKNOWELEDGEMENT

Finally, there is a customary packet of thanks. It would be an utterly selfish thought that by listing of gratitude, one can somehow relieve oneself of the profound debt and often superior contributions of others. One can however be reassured by the expectation that sometime somewhere, it will all *level-off*.

The named authors of papers and cases here, all participants in the convention, and the un-named persons, who helped to organize the convention, deserve grateful thanks. There are three people who must however be individually mentioned. They were most crucial to the making of this volume through their contributions to SMF08. First, Dr. Krishna Kumar, Professor of Strategy at IIM Lucknow, is the social entrepreneur behind Strategic Management Forum. He made SMF08 happen, through push and pull and untiring personal motivating. Bringing this volume to the publisher is again a saga of this same quiet pushing and support, from this same person, affectionately known to many as KK. The other big debt of this volume is to Dr. Runa Sarkar, now Faculty at IIM Kolkata. As convener, she brought vigor and efficiency to the organizing of SMF08. Her seamless combination of practical vision, team-building, and academic management was vital force in the event, and hence for this volume. Finally, one more person made major contribution: improving the structure and readability of many of the selected papers and cases.

Mansi Joshi, a recent graduate of Computer Science from MNNIT Allahabad took this up purely out of personal interest, and transformed many of the originally rough pieces in this volume. Thanks to you all.

It is to you, the reader, that makers of a book owe the most. While it is hoped that readers would excuse the errors and limitations, which inevitably belong to the editor, it is also hoped that readers would send in their critique which is actively solicited.

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Section 2

EMERGENT MISSIONS

EMERGENT MISSIONS

Mission is a concept of major emphasis for the strategist. In Ansoff's (1965) view, mission of an enterprise is the various product *needs* it satisfies, described often as *scope* of the firm. Existence of a *common thread* among all these missions would be desirable for the enterprise. A more overall view of mission of a firm is *the business it is in* (Drucker, 1974). This relates the firm to its overall social purpose, the reason for its existence.

Customers and users are essential to a strategy discourse about mission. Needs of individuals and of organizational customers may however change over time. New missions tend to get formulated, whether through splitting or integration of value-chains or otherwise. It is also useful to see in our present context whether missions that were earlier not so prominent may have now become prominent in the economy.

The paper, by Subhash Sharma, presents a modified view of organizational objectives, a view that is more 'holistic'. He tries to make us move from an *economic concept of business* to a concept of *human actions in business*, which covers aspects like:

- choice to do business with someone on the basis of likes & dislikes
- business as a social institution, and
- business as an institution in interaction with spiritual aspects of people (inside and outside the organization)

The case Northern India Call Center Limited describes a medium sized family-owned firm in the call-center business with emergent implications for industry and society. The third piece is also about the services sector. It describes the unique features of planning for businesses like retail, malls, etcetera, and how flexibility is critical to planning here.

Finally, this section has a case where the missions as well as the form are different from what has been generally seen. There have been changes in the organizational arrangement for socially relevant work sponsored from industrialized nations for the benefit of groups in poorer countries. Many mediating organizations are now in this value-chain. This case is about one such organization, an NGO run by a multilateral agency for social development.

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TOWARDS HOLISTIC PERFORMANCE SCORECARD: A NEW STRATEGIC INITIATIVE

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INTRODUCTION

Performance scorecard is an important tool to measure performance of an organization. Earlier scorecards were largely focused on financial performance of the corporation. For example, *Padta* system followed by some Indian organizations was rooted in daily reporting of financial performance, particularly in terms of cash generation. Many monthly and quarterly reporting systems were also focused on financial performance as key determinant of organizational performance.

For any performance measurement system we need a foundational framework. The metaphor of 'Business House' conceptualized in terms of following five key functions represented by SMFPHR, can serve as a conceptual model:

1. **S**: Strategy
2. **M**: Marketing
3. **F**: Finance
4. **P**: Production
5. **HR**: Human Resources

Metaphorically, the roof of such a business house is constituted by the Strategy, Marketing and Finance triangle. Its room represents the production function and its foundation is represented by Human Resources. Such a view of a business house gives us a conceptual basis for designing Business Success Performance Scorecard (BSPSc). Figure-1 represents this perspective to develop such a performance scorecard.

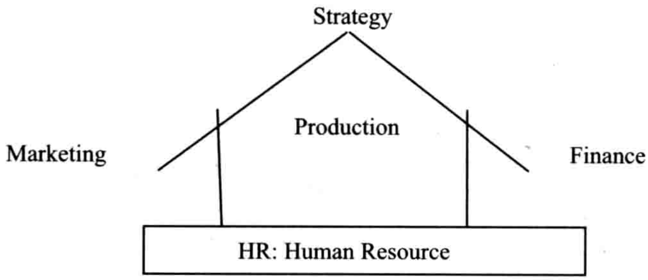

Figure 1: House of Business for Developing Performance Scorecard

When performance scorecard takes into consideration the performance of the entire business house, we obtain a better assessment. The performance scorecard should also consider SWAN analysis with respect to each function as well as the whole organization. The concept of SWAN analysis developed by this author (2007) and expanded in his book Market's Maya (2009) has the following elements:

S: Strengths
W: Weaknesses
A: Achievements
N: Next step/Next initiative

When SWAN analysis is done for each function and for the organization as a whole, it creates a linkage with organization's ViSA (Vision, Strategy and Action plan). This is the essence of the scorecard based on the business house metaphor suggested above.

BALANCED SCORECARD & BEYOND

Kaplan and Norton (1996) took another view and developed the concept of Balanced Scorecard. They suggested that vision and strategy of an organization should be linked with the following four perspectives: Customer Perspective, Financial Perspective, Internal Business Perspective, and Learning & Growth Perspective

They elaborate on these perspectives in terms of following key ideas:

Customer perspective: To achieve our vision, how should we appear to customers?
Financial perspective: To succeed financially, how should we appear to our shareholders?
Internal business process: To satisfy shareholders and customers, what business processes must we excel at?
Learning and growth perspective: To achieve our vision, how will we sustain our ability to change and improve?

They argue that scorecard should focus on a balanced view of the organization in terms of the above indicated four perspectives and these four perspectives should be linked to vision and strategy. They also suggest that each perspective should be analyzed in terms of objectives, measures, targets and initiatives. This would ensure that the strategy is translated into operational terms. Figure 2 presents their model of Balanced Scorecard.

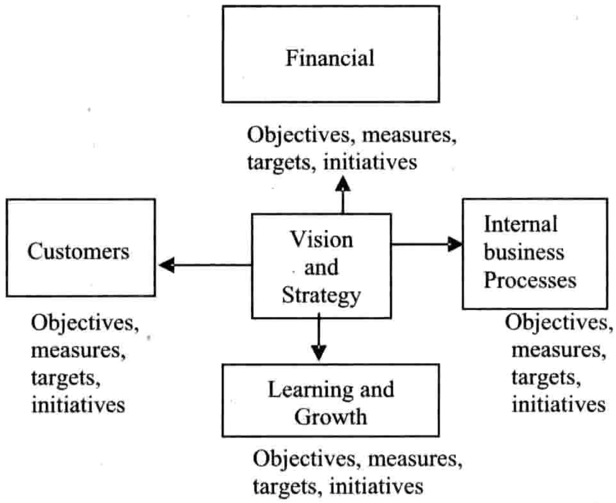

Figure 2: Kaplan & Norton (1996) Conceptual Framework for Balanced Scorecard
(Source: The Balanced Scorecard, Robert S Kaplan, David P Norton, Harvard Business School Press, Boston, Mass., 1996, p.9)

Balanced Scorecard represented a breakthrough, because earlier scorecards were largely restricted to financial performance; they were not directly linked to the strategy of the organization.

It may be observed that the four perspectives suggested by Kaplan and Norton broadly correspond to SMFPHR framework of organizations presented in the form of 'Business House'. Customer perspective is captured in performance scorecard of the marketing function. Financial perspective is captured through the finance function. Internal business process to a large extent is captured by performance scorecard of the production and operations function of the organization. Learning and growth perspective is captured through performance scorecard of the Human Resource Development function. Thus, there is broad correspondence between the two frameworks. Managers of the 'Business House' are also interested in knowing how the house appears to customers, shareholders as well as other stakeholders. In their framework, Kaplan & Norton focus largely on customers and shareholders. When we use the metaphor of 'Business House', we get a better conceptual foundation as now the focus is on how the house appears not only to customers and shareholders but also to other stakeholders as well as society at large. Is this house creating pollution? Is it environmentally sound? Such questions are not answered by Kaplan and Norton's Balanced Scorecard. Hence, in true sense it is not properly balanced. In addition, their framework does not include concerns such as corporate social responsibility, ethical performance of the corporation. Thus, there is need to develop a new approach to scorecards wherein these dimensions are also taken into consideration while assessing the performance of the corporate. It implies a holistic view of performance and thereby we need to develop Holistic Performance Scorecard (HPSc). Thus, Business Success Performance Scorecard (BSPSc) as well as Balanced Scorecard should be expanded to measure performance on holistic basis.

It may be indicated that Michael Porter and Mark Kramer (2006) have expanded the traditional view of strategy by suggesting interdependency between business and society and thereby between society and strategy. However, Gustavsson

(2007) suggests that there is a need to go beyond the 'extended strategy' concept of Porter and Kramer and move towards 'transcendent strategy' wherein strategy formulation and implementation takes a 'consciousness' view of the organization, so he points to the need for establishing a link between spirituality and strategy. These expanded views about strategy take us in the direction of Holistic Performance Scorecard.

For development of holistic performance scorecard, we also need to look at the evolution of a new corporate model as well as its new conceptual foundations. The discussion below provides an overview of the evolutionary journey of the new corporate model.

FOUR STAGES MODEL OF CORPORATE EVOLUTION

Ackoff (1981) provides us an evolutionary view of changing concept of corporation. According to him, "The concept of corporation has evolved from one that was mechanistic to one that was organismic and from organismic to organization. Viewed as machine it was taken to have no purpose of its own, but an instrument for use by its owners in pursuit of their profit objective. Viewed as organism the corporation was taken to have survival and growth as it principal purpose...Viewed as an organization the corporation was seen to have responsibility to all its stakeholders and to society, the larger system of which it is a part" (pp. 48-49. Ackoff further suggests that corporations should contribute to improve the quality of life of others. He suggests the need for developing measurement systems for the same. This is a pointer towards the idea of Holistic Performance Measurement Systems (HPMS).

Drawing on Ackoff and others, Sharma (2005, 2007) identifies four stages of evolutionary journey of corporations. These are as follows:

Stage I: Corporations and Shareholders: The primary objective of the corporate was to maximize the wealth of shareholders. Competition, efficiency and profit provided the basic foundation for this model.

Stage II: Corporations and Stakeholders: There are many stakeholders and there should be a proper balance between the interests of various stakeholders. For example, corporations can maximize the wealth of shareholders by polluting the rivers. Social movements have now put pressure on corporations to prevent this.

Stage III: Corporations and Society- Citizenship model: In this stage of their evolution, corporations have been conceptualized as corporate citizens. Hence, expectations on ethics and environmental concerns have gained importance. Corporations are expected to follow 'principles of ethical business' and not merely, 'principles of business'.

Stage IV: Corporations and Sustainable development- Corporations as social institutions: In this conceptualization, corporations are viewed as social institutions with dominant influence on society. Hence, there is need for a symbiotic relationship between society and the corporations. They are expected to contribute towards sustainable development of society. Their linkage with sustainable and holistic development needs strengthening. As social institutions corporations should achieve synergy between efficiency, social equity, ethics and environmental concerns.

While Stage I model was largely an efficiency model, in stage II model, social equity concerns were incorporated to some extent, and in stage III model, ethics were also considered important for conduct of business. Now in their stage IV evolution as social institutions, corporations are expected to achieve appropriate balance between efficiency, social equity and ethics and also be concerned with transcendental values of environment, women's equity, psycho-spiritual advancement etc. This is a new age model wherein corporations are viewed as social institutions and not merely business entities, that is, in addition to the bottom line concerns, they have a social purpose, and they should be guided by sustainable and holistic development. Fig. 3 presents the above discussed evolutionary perspective of the corporate model.

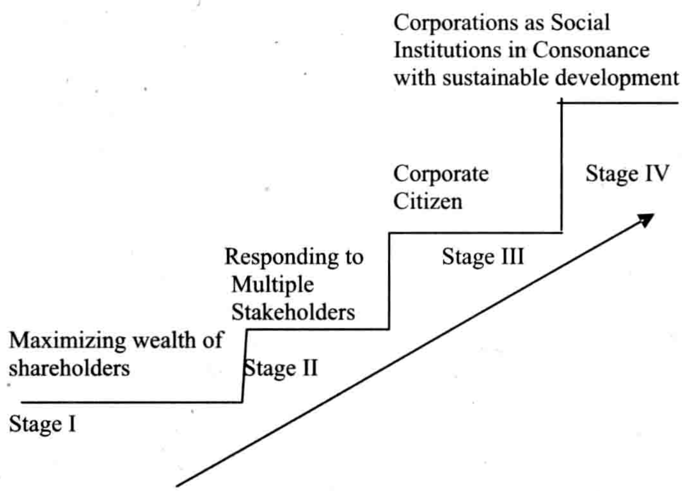

Figure 3: Four Stages Model of Corporate Evolution

CONCEPTUAL FOUNDATIONS OF NEW CORPORATE MODEL: 4 Es FRAMEWORK

Evolution of the new corporate model is also linked to new paradigms of development thinking. Evolution of development thinking from economic development to new paradigms of sustainable development and integrative holistic development has influenced the corporate world. Sharma (1996) suggested the 4 Es model of holistic development and management emphasizing the need for achieving a proper balance between following four Es:

1. Efficiency
2. Equity
3. Ethics
4. Ecology

Figure 4 presents this framework as a synergy model of development. In this model the 4 Es are in dynamic interaction and they are in proper harmony thereby synergy is created in society.