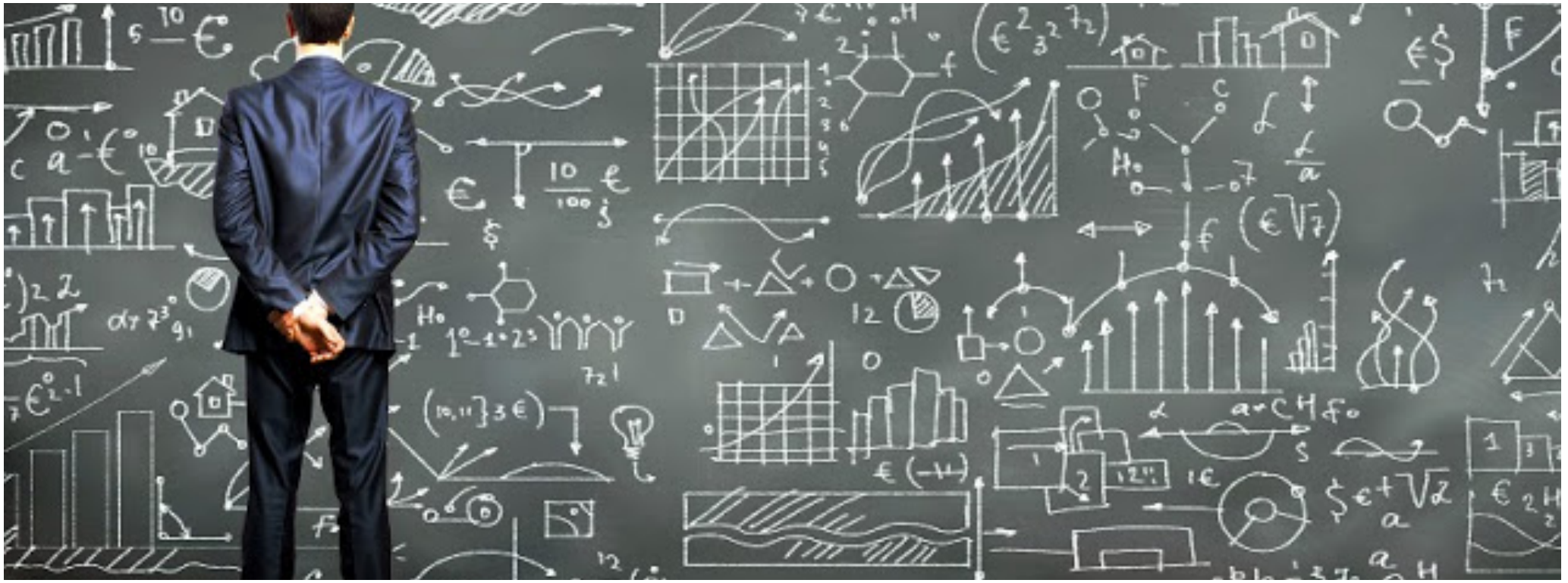
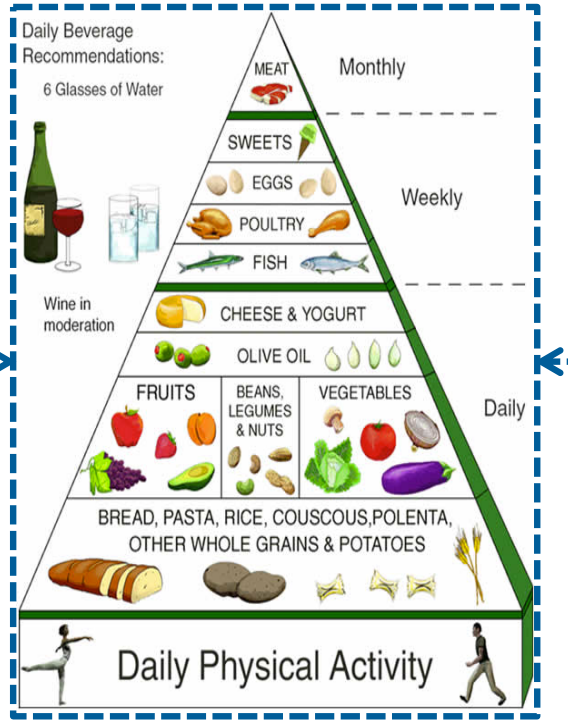
LEVERS OF CONTROL

Controlling as a balancing act



ABILITY TO INDUCE ORGANIZATIONAL BEHAVIOR



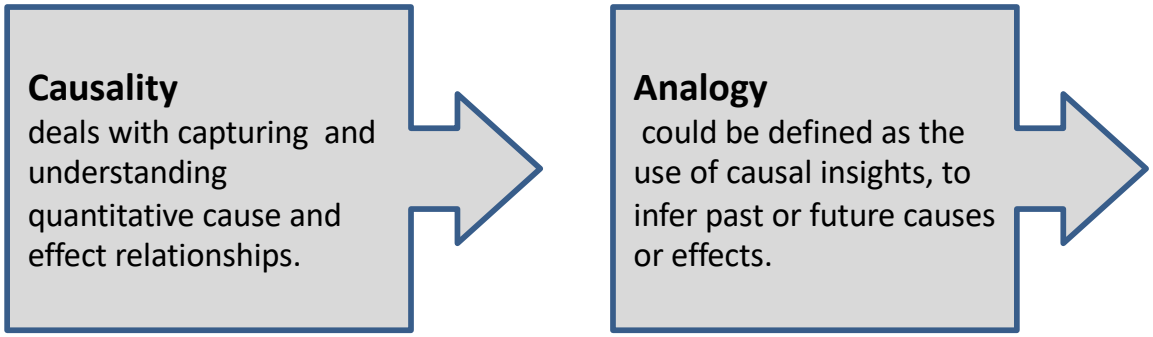
DECISION MODELS

MANAGEMENT CONTROL

PURPOSES OF MEASUREMENT

What are the purposes of measurement applied to management?

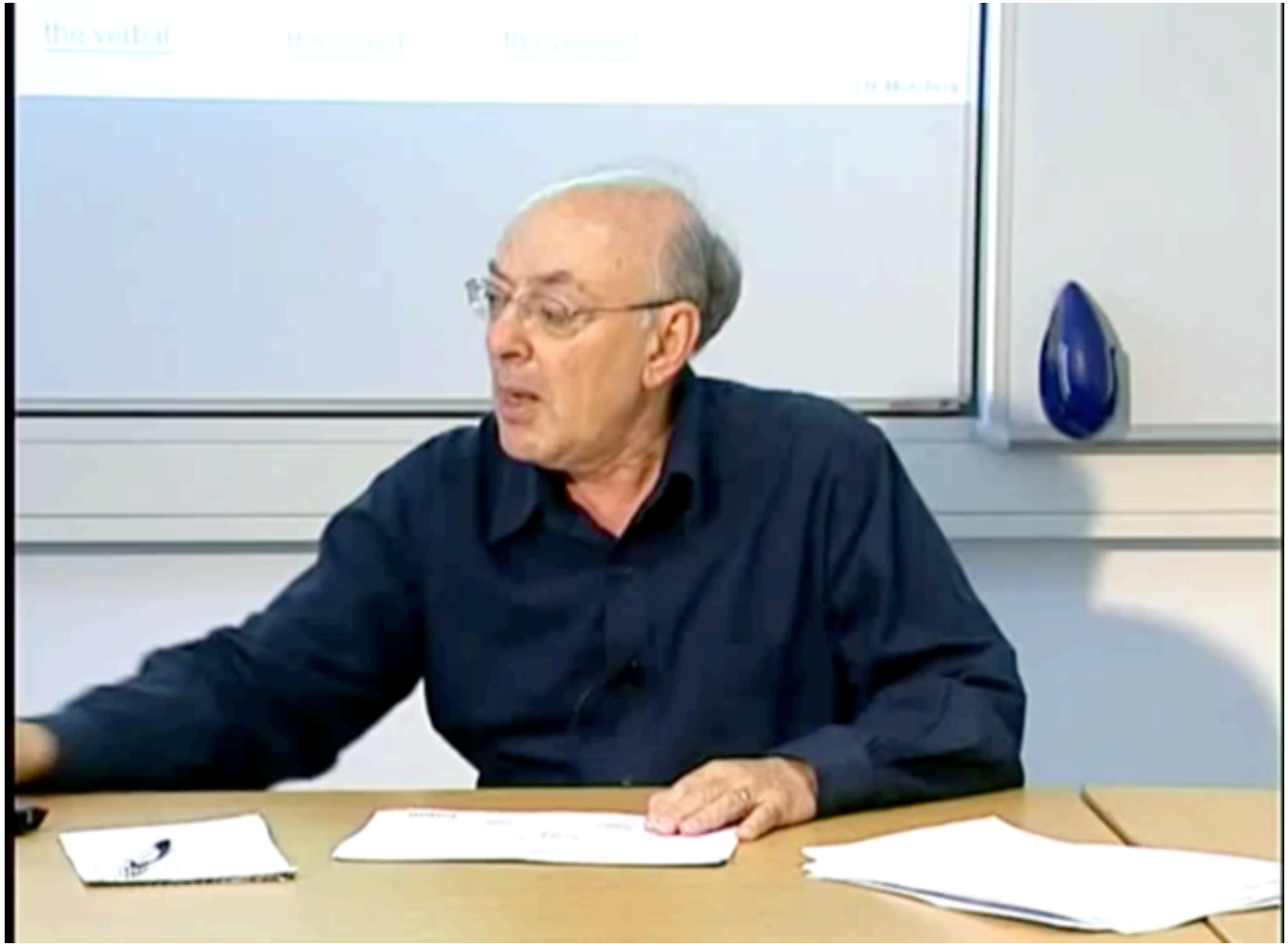
- To understand the **real causes** of the value creation process.



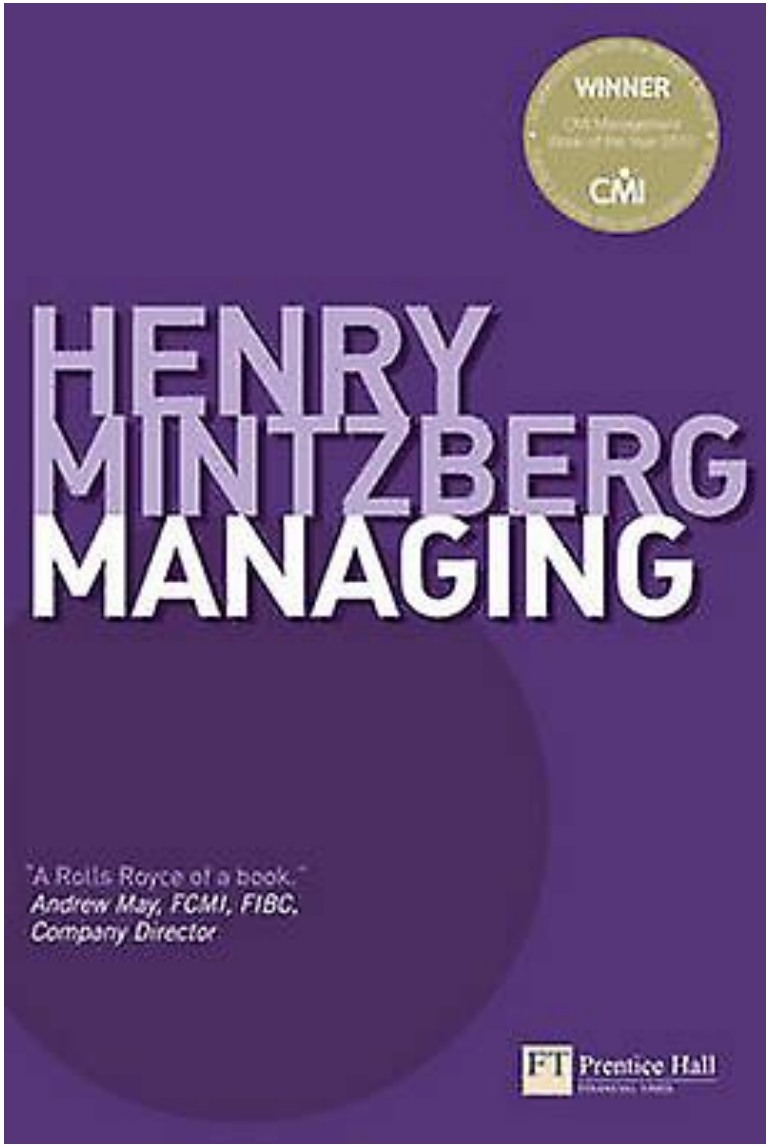
- To influence **behavior.**

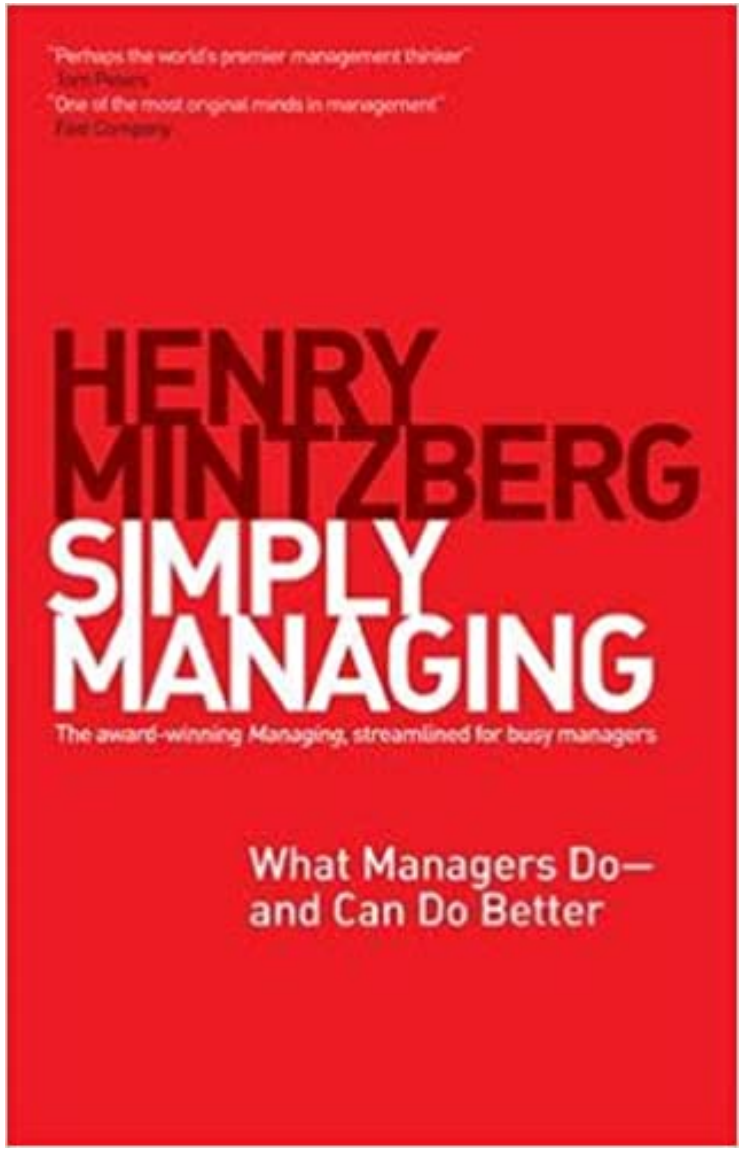
> Human beings adjust behavior based on the metrics they're held against. Anything you measure will impel a person to optimize his score on that metric. What you measure is what you'll get. Period.
>
> Dan Ariel

MANAGEMENT AS A PRACTICE



AT THE HEART OF MANAGING





MANAGEMENT IS NOT A SCIENCE

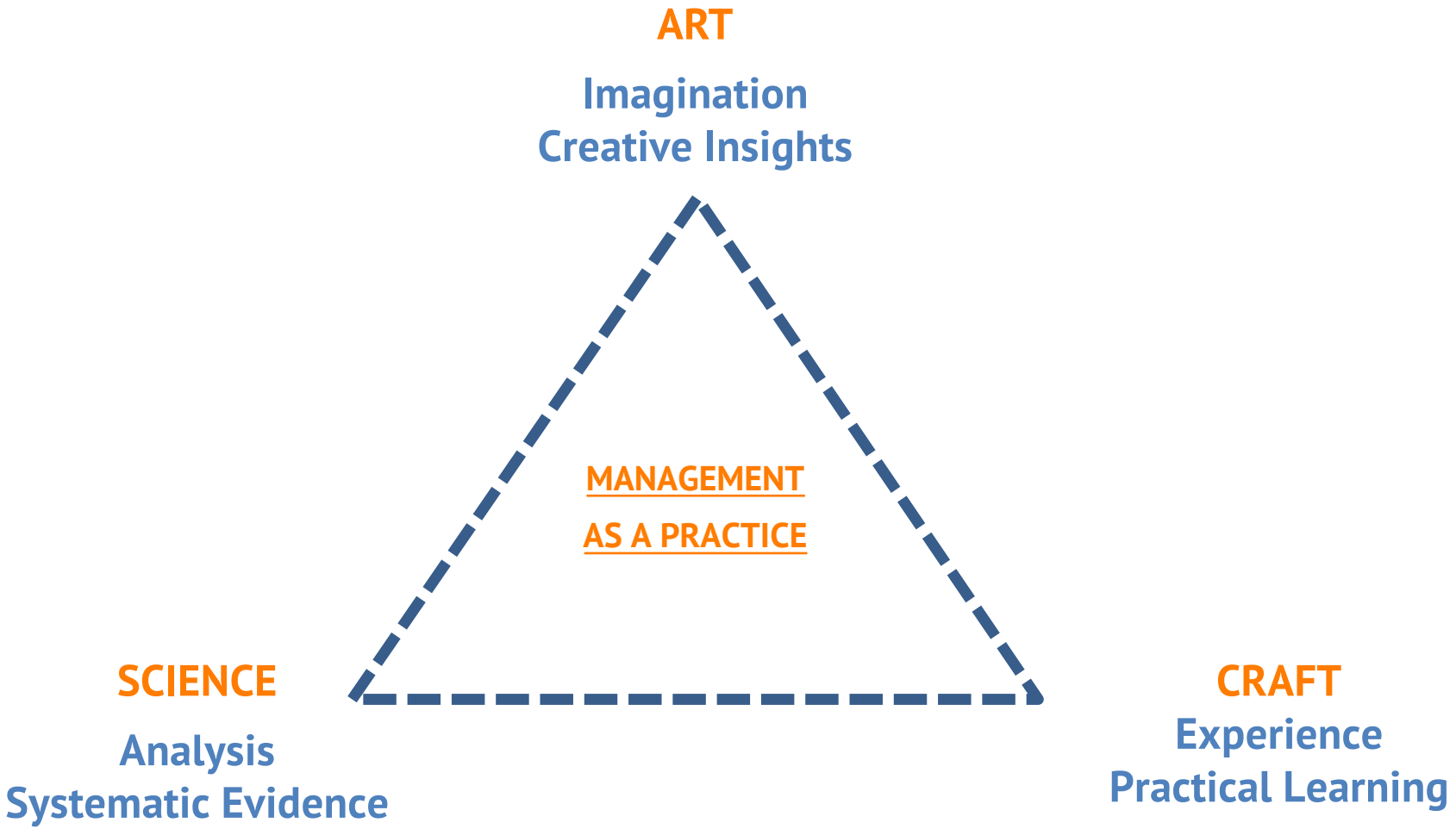
«Science is about the development of systematic knowledge through research. That is hardly the purpose of management, which is about helping to get things done in organizations. Management is not even an applied science, because that is still a science. Management certainly applies science: managers have to use all the knowledge they can get. And they certainly use analysis, rooted in the scientific method (meaning here scientific proof more than scientific discovery).

But effective managing is more dependent on art, and is especially rooted in craft. Art produces the "insights," and "vision," based on intuition *. (Peter Drucker wrote in 1954 that "the days of the 'intuitive' manager are numbered" [p. 93]. Half a century later, we are still counting.) And craft is about learning from experience—working things out as the manager goes along.

Thus, […], managing can be seen to take place within a triangle when art, craft, and the use of science meet. Art brings in the ideas and the integration; craft makes the connections, building on tangible experiences; and science provides the order, through systematic analysis of knowledge».

* Art is the imposition of a pattern, a vision of a whole, in many disparate parts so as to create a representation of that vision; art is an imposition of order on chaos" (Boettinger 1975:54; see also Vail 1989).

MINTZBERG TRIANGLE



MINTZBERG TRIANGLE

Seeing First

insight → action

(inductively)

Thinking First

diagnose → design → decide → do

(deductively)

Doing First

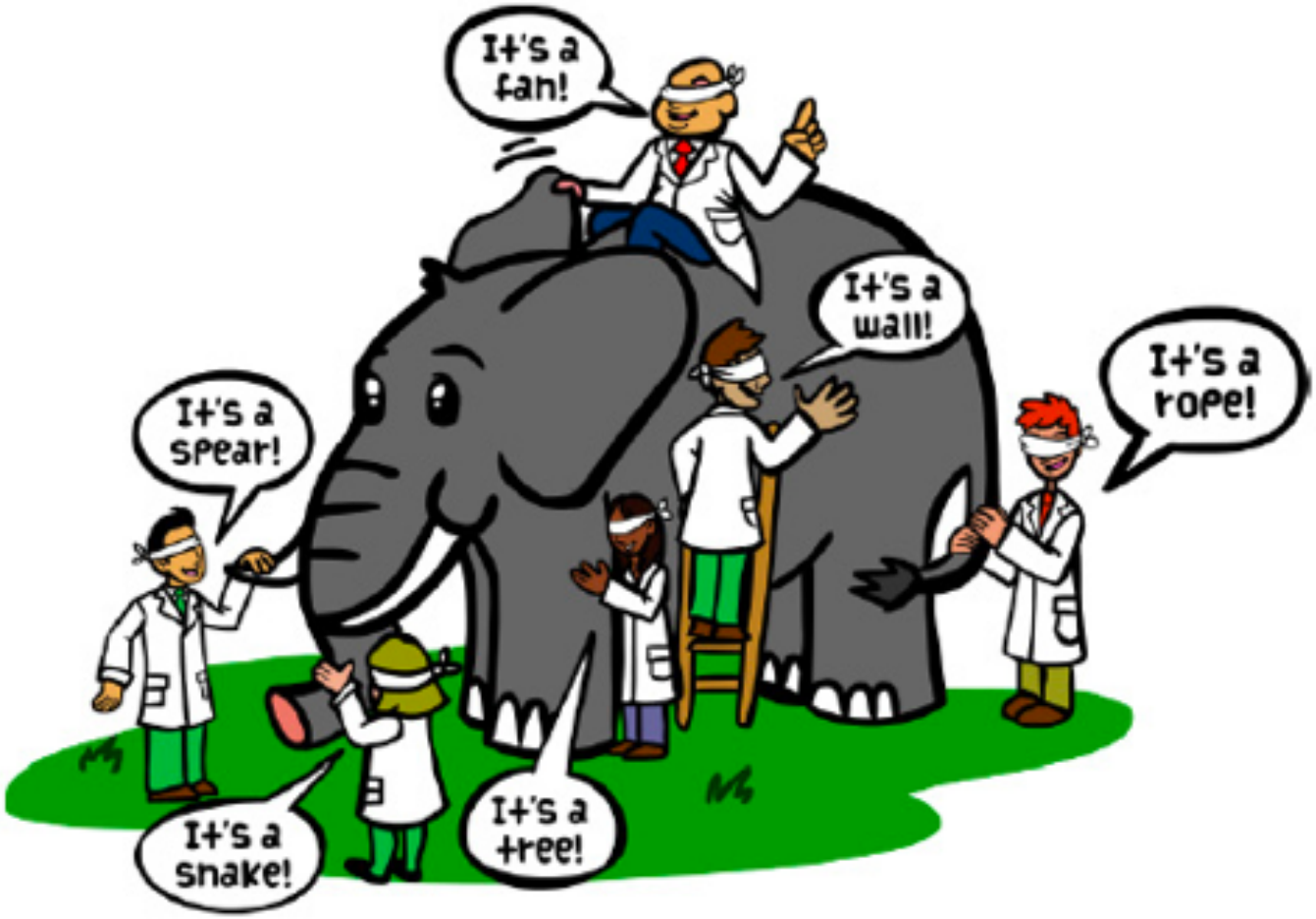
act→ think

(iteratively)

THERE IS NO CONTROL WITHOUT STRATEGY

BUSINESS
STRATEGY

STRATEGY IS A VERY STRANGE “BEAST”



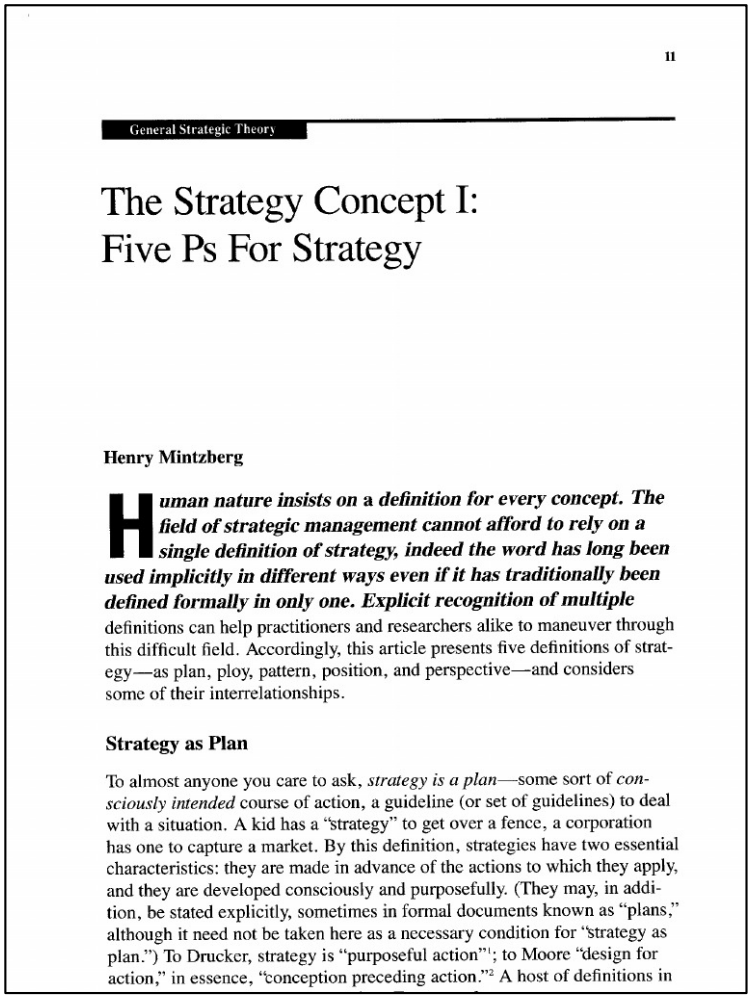
STRATEGY IS A VERY STRANGE “BEAST”

A group of blind men heard that a strange animal, called an elephant, had been brought to the town, but none of them were aware of its shape and form. Out of curiosity, they said: "We must inspect and know it by touch, of which we are capable". So, they sought it out, and when they found it they groped about it. In the case of the first person, whose hand landed on the trunk, said "This being is like a thick snake". For another one whose hand reached its ear, it seemed like a kind of fan. As for another person, whose hand was upon its leg, said, the elephant is a pillar like a tree-trunk. The blind man who placed his hand upon its side said the elephant, "is a wall". Another who felt its tail, described it as a rope. The last felt its tusk, stating the elephant is that which is hard, smooth and like a spear

We are the blind people and strategy formation is our elephant: Since non one has had the vision to see the entire beast, everyone had grabbed hold of some part or other and “railed on in utter ignorance” of the rest. We certainly do not get an elephant by adding up parts. An elephant is more than that. Yet to comprehend the whole we also need to understand the parts.

Human nature insists on a definition for every concept. The field of strategy management cannot afford to rely on a single definition of strategy, indeed the word has long been used implicitly in different ways even if it has traditionally been defined formally in only one. Explicit recognition of multiple definitions can help practitioners and researchers alike to maneuver through this difficult field. Accordingly, this article presents –five definitions of strategy as plan, ploy, pattern, position, and perspective - and considers some of their interrelationships.

THE STRATEGIC MANAGEMENT BEAST



11

General Strategic Theory

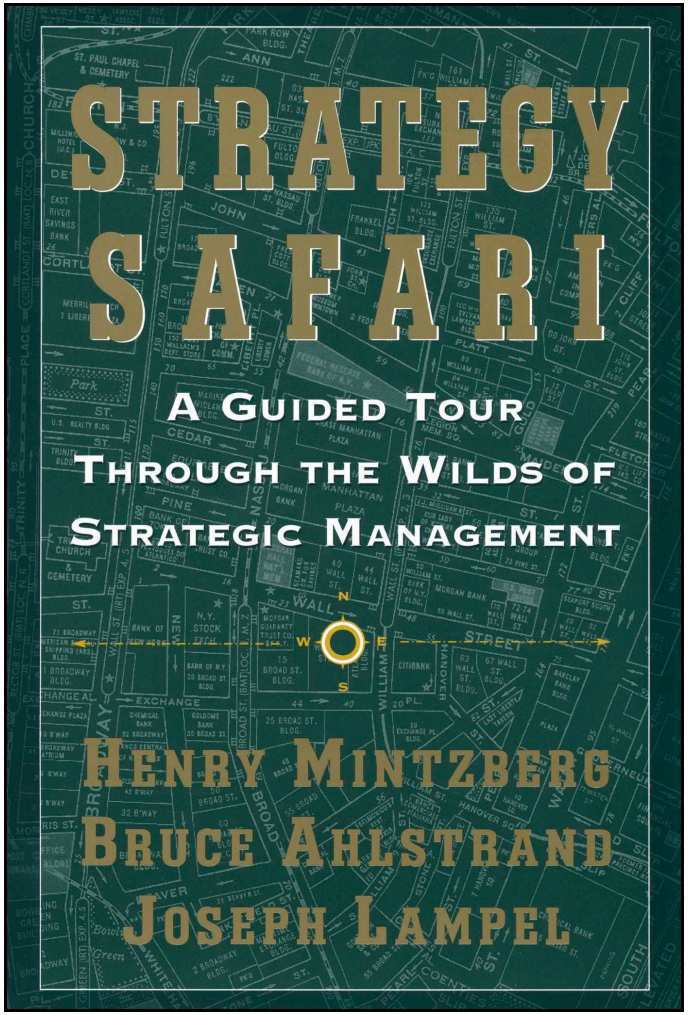
The Strategy Concept I: Five Ps For Strategy

Henry Mintzberg

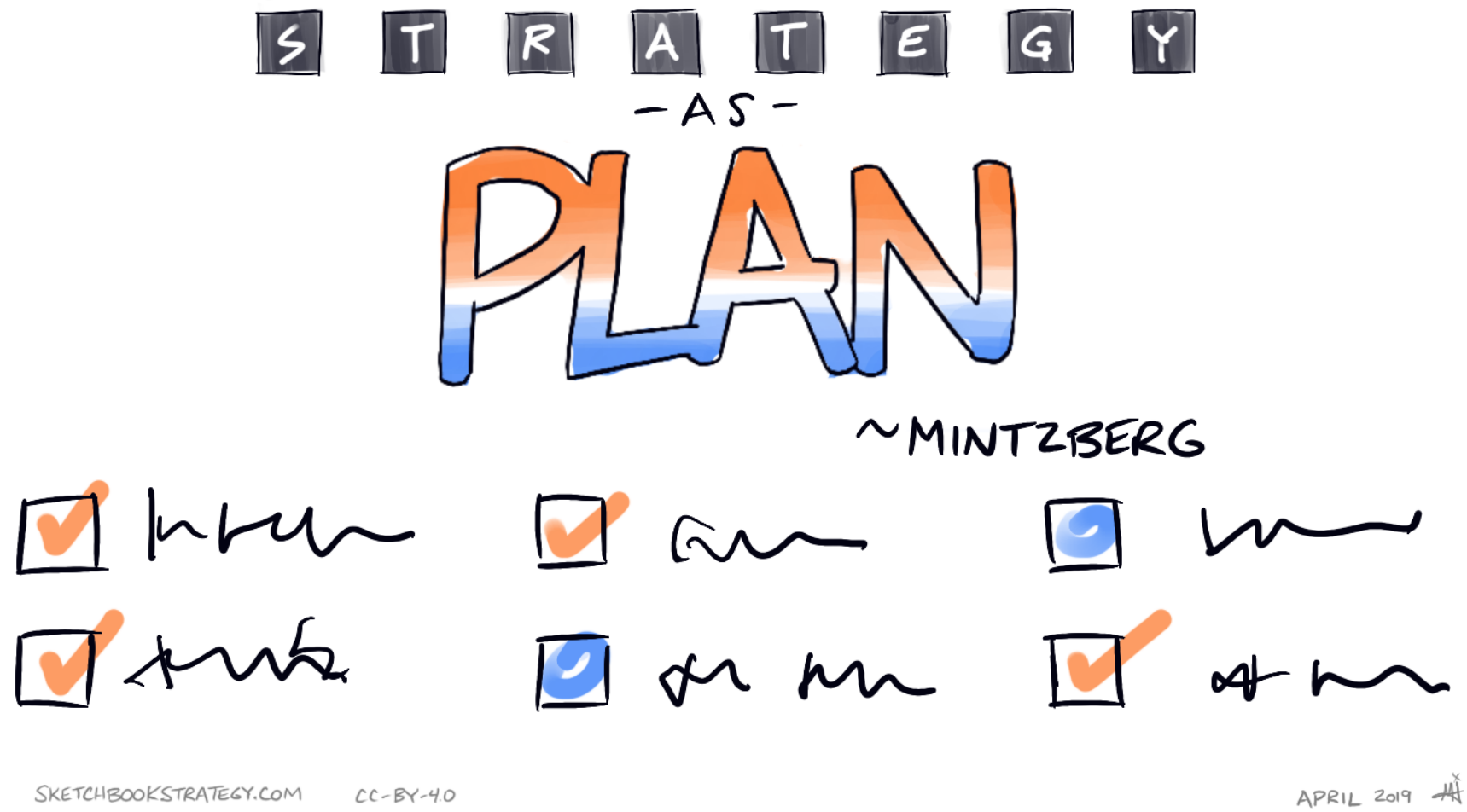
Human nature insists on a definition for every concept. The field of strategic management cannot afford to rely on a single definition of strategy, indeed the word has long been used implicitly in different ways even if it has traditionally been defined formally in only one. Explicit recognition of multiple definitions can help practitioners and researchers alike to maneuver through this difficult field. Accordingly, this article presents five definitions of strategy—as plan, ploy, pattern, position, and perspective—and considers some of their interrelationships.

Strategy as Plan

To almost anyone you care to ask, *strategy is a plan*—some sort of *consciously intended* course of action, a guideline (or set of guidelines) to deal with a situation. A kid has a "strategy" to get over a fence, a corporation has one to capture a market. By this definition, strategies have two essential characteristics: they are made in advance of the actions to which they apply, and they are developed consciously and purposefully. (They may, in addition, be stated explicitly, sometimes in formal documents known as "plans," although it need not be taken here as a necessary condition for "strategy as plan.") To Drucker, strategy is "purposeful action"[1]; to Moore "design for action," in essence, "conception preceding action."[2] A host of definitions in



FIVE Ps FOR STRATEGY



WHAT A PLAN REALLY IS

A plan can be defined as a **set of guidelines**, established **in advance** by **the leader** (top-down strategy), regarding the **actions that team members should take, as a group**, in order to increase the likelihood of achieving a set of **collective goals** within a specified **time period.**

In order to properly outline the plan, the leader should first develop an **appropriate analysis.**

ANALYSIS

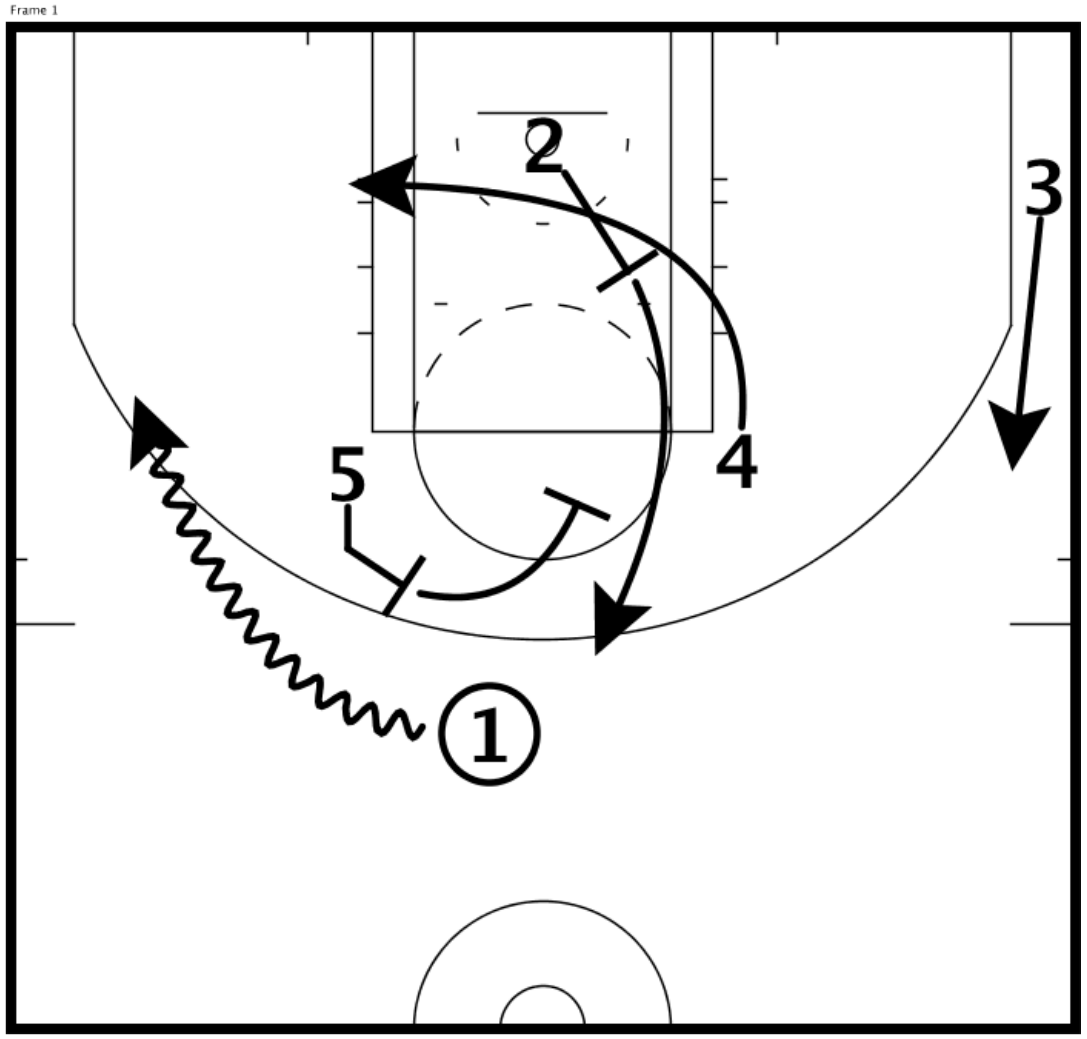
- **S**trengths
- **W**eaknesses

INTERNAL

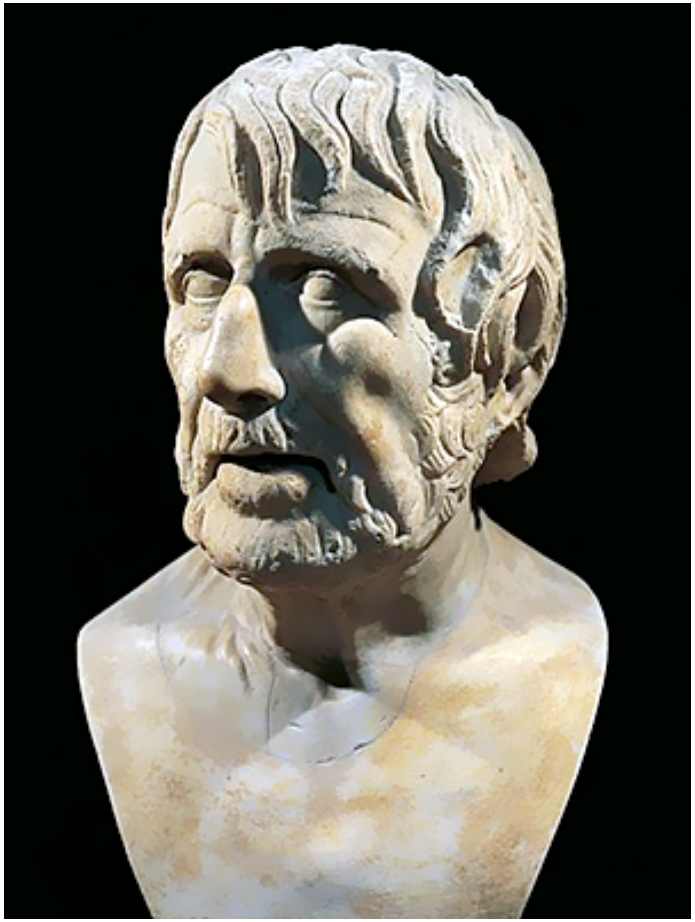
- **O**pportunities
- **T**hreats

EXTERNAL

BASKETBALL PLAY DIAGRAM



THE IMPORTANCE OF SETTING A GOAL



"If one does not know to which port one is sailing, no wind is favourable."

Lucius Annaeus Seneca the Younger, Roman Stoic philosopher, statesman, dramatist.

PROCESS IS MORE IMPORTANT THAN THE PRODUCT

"... systematic analysis is a vital input into the strategy process. Without analysis, strategic decisions are susceptible to power battles, individual whims, fads and wishful thinking. Concepts, theories, and analytic tools are complements not substitutes for experience, commitment and creativity. Their role is to provide frameworks for organizing discussion, processing information and opinions and assisting consensus."

SOURCE: ROBERT M. GRANT, "CONTEMPORARY STRATEGY ANALYSIS"

"In preparing for battle, I have always found that plans are useless but planning is indispensable."

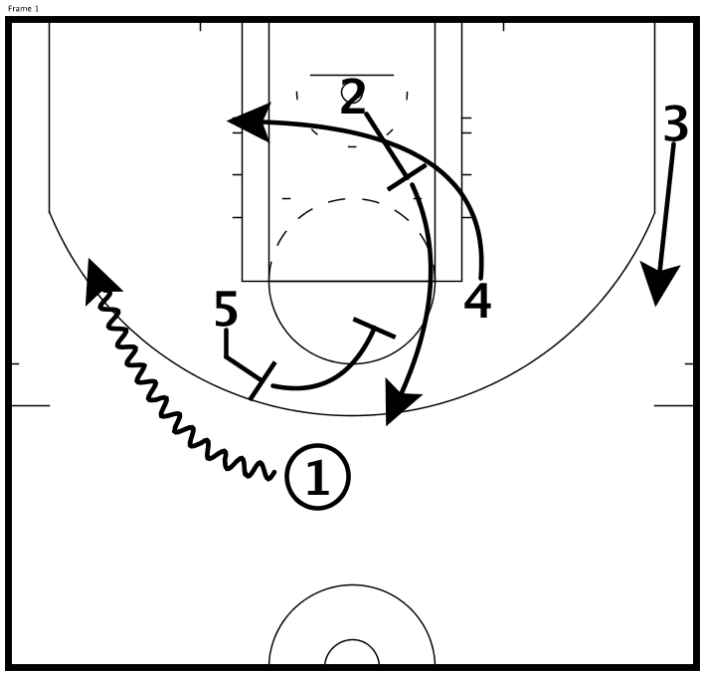
DWIGHT D. EISENHOWER

WHAT ARE THE DIFFERENCES?

OUTLINE: channels action in certain directions without defining exactly what shall be done

Variability is necessary and required

Deviations are implicit, are full of value (they provide information) and **MUST BE ANALYZED** and must provide input to actions

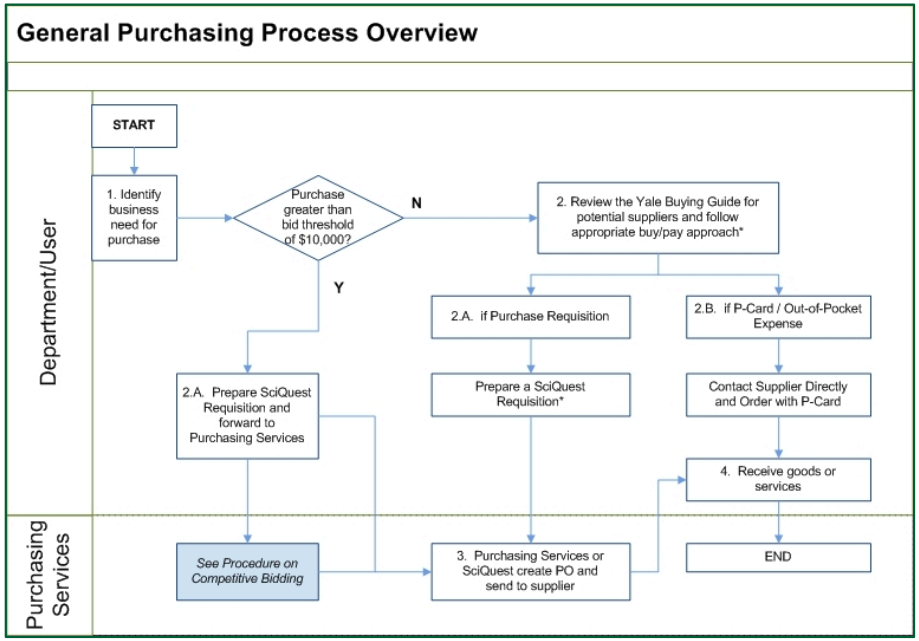


PLAN

NORM: it states as the activity must be preformed

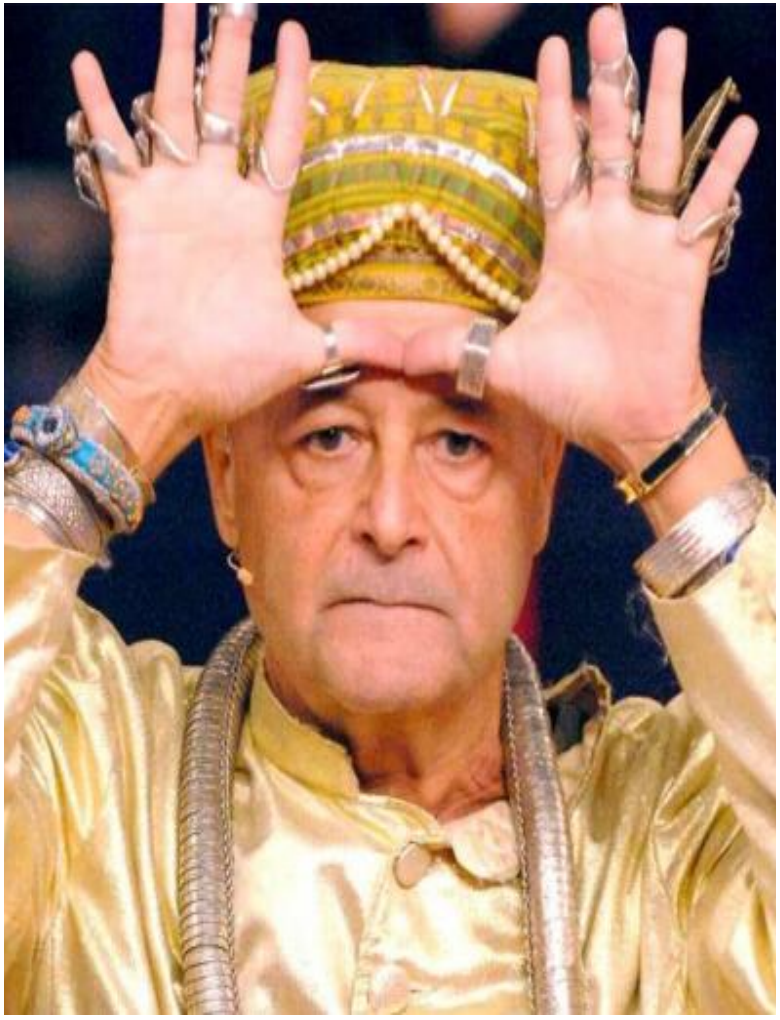
Variability is a problem, it has only unwanted consequences

No deviations are allowed, deviations **MUST BE REPRESSED**



PROCEDURE

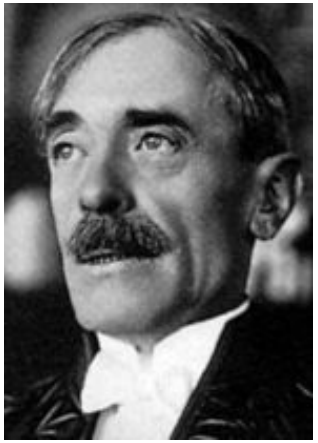
A PLAN IS NOT A PREDICTIONS



We can only say that a **PREDICTION** is **correct only if the future looks exactly the same as what we expected**. If there are **deviations** these represent **a problem.**

A **PLAN** works when it allows us to understand **what is happening that is different from what we initially imagined would happen**. In this context, **deviations** from what was planned represent **vital information.**

ON PREDICTIONS



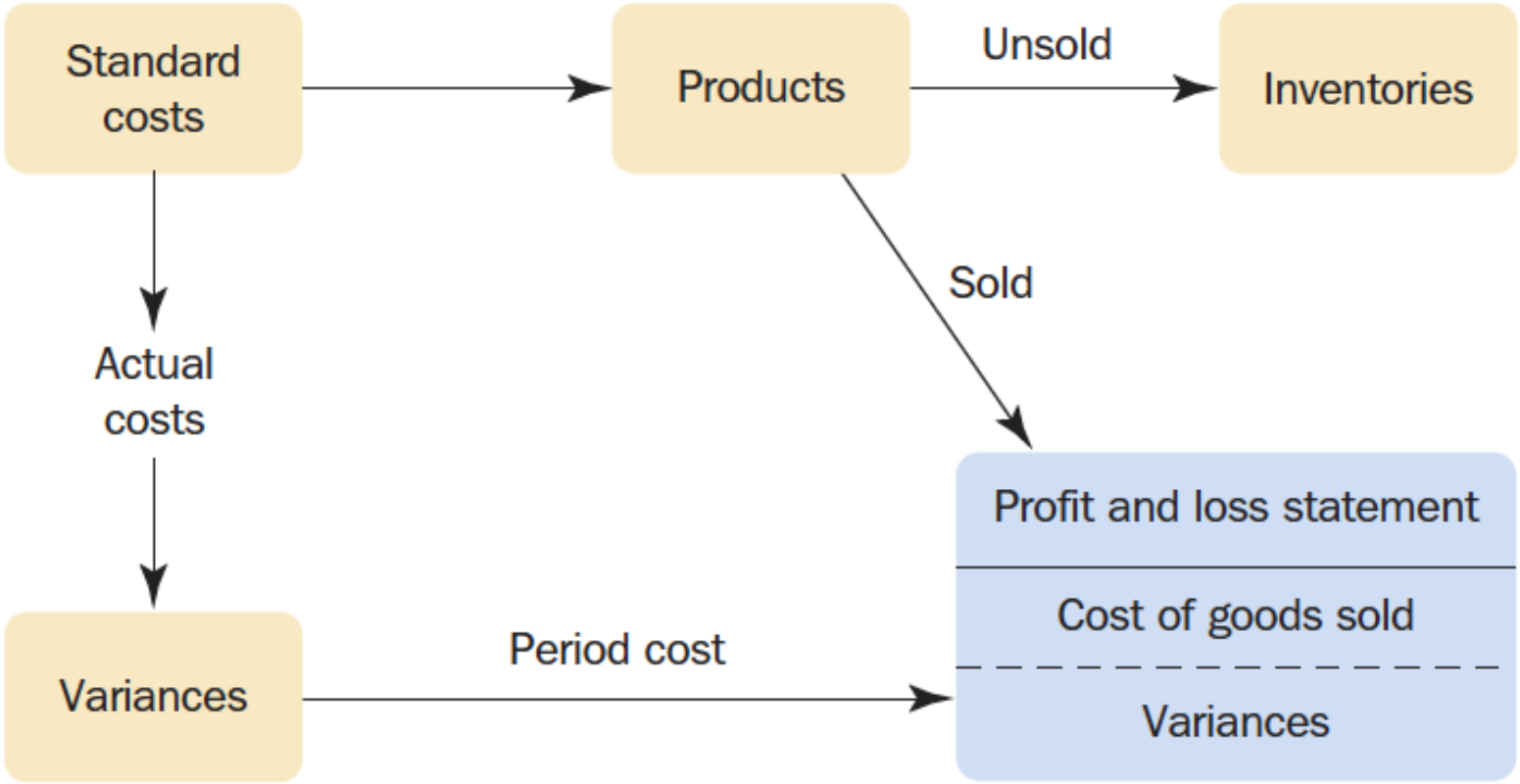
"The trouble with our times is that the future is not what it used to be."

Paul Valéry, poet, essayist, and philosopher.

"Prediction is very difficult, especially if it's about the future."

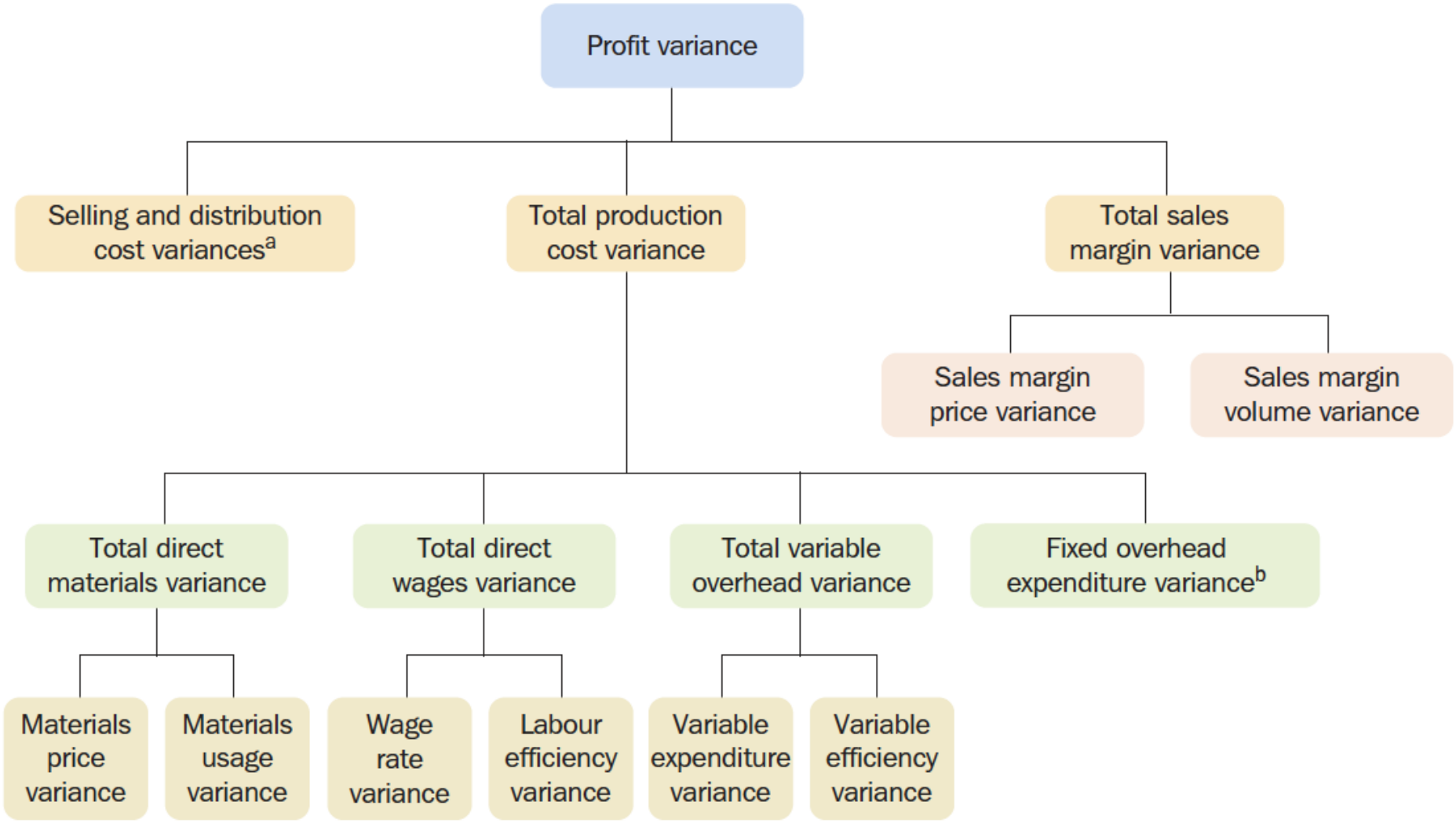
Niels Bohr, physicist, Nobel laureate 1922.

STANDARD COSTING



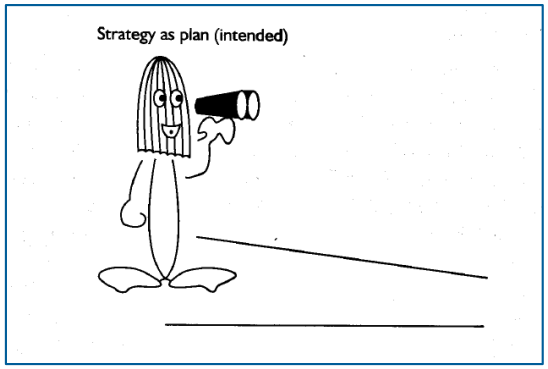
Standard costs for inventory valuation and profit measurement

VARIANCE ANALYSIS



DIAGNOSTIC CONTROL SYSTEMS

STRATEGY AS PLAN



To almost anyone you care to ask, strategy is a plan–some sort of consciously intended **course of action,** a guideline (or set of guidelines) to deal with a situation.
By this definition, strategies have two essential characteristics: they are **made in advance** of the actions to which they apply, and they are **developed consciously and purposefully.**

Henry Mintzberg, "The Strategy Concept I: Five Ps For Strategy"

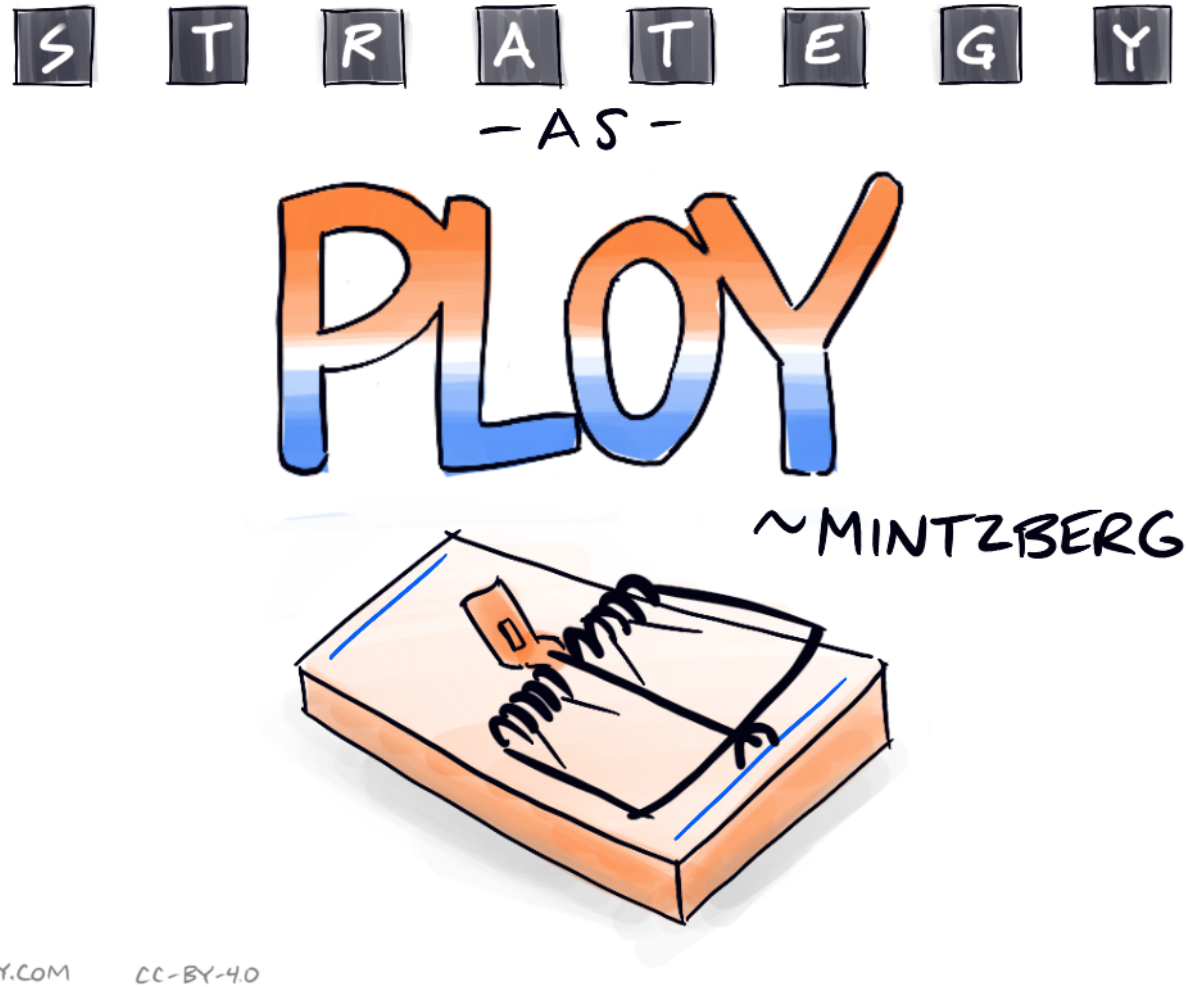
KEY STRATEGIC VARIABLE ⇨ **CRITICAL PERFORMANCE VARIABLES**

CONTROL SYSTEMS ⇨ **DIAGNOSTIC**

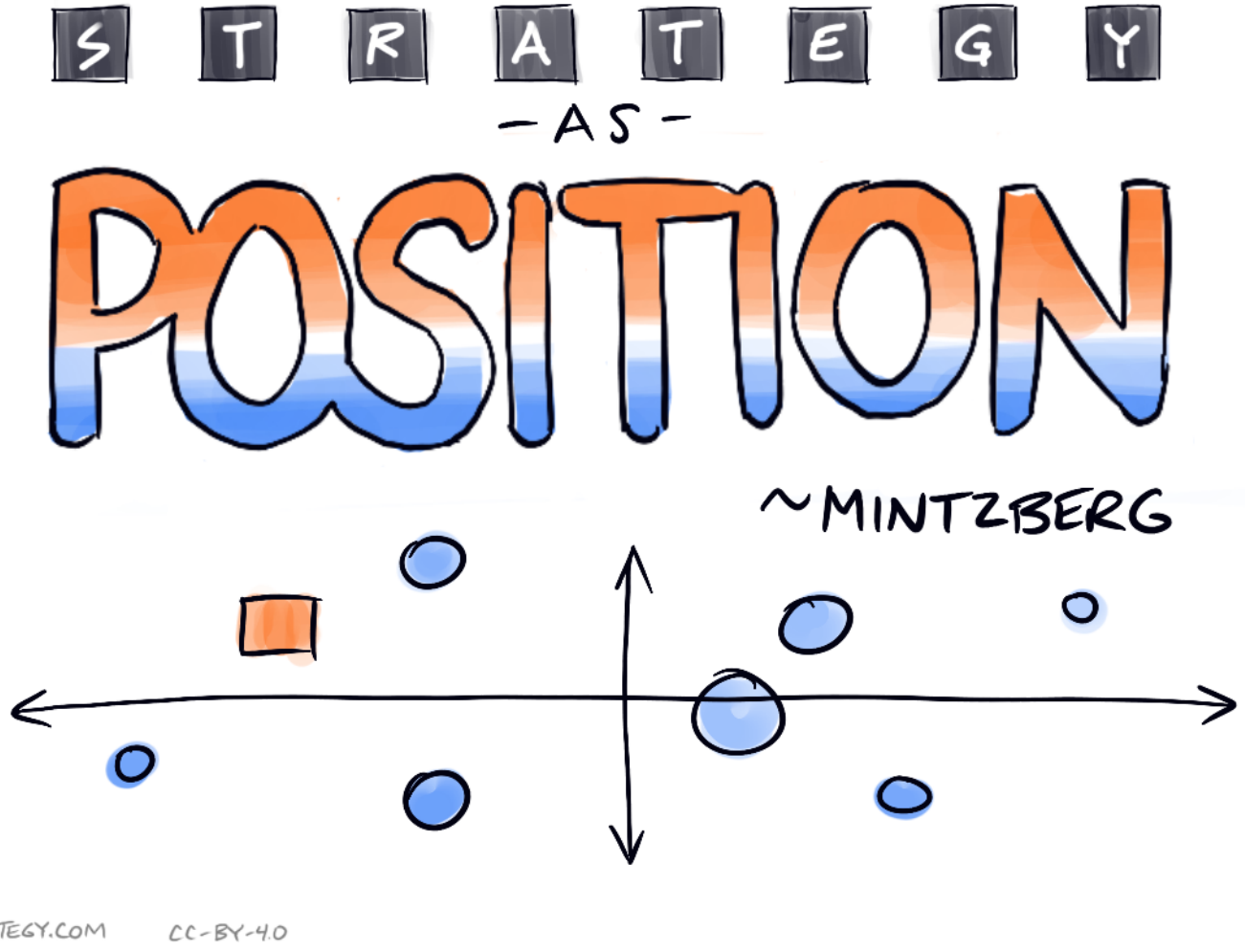
Are used to motivate, monitor and reward achievement of specified goals.
These feedback systems are the backbone of traditional management control and are designed to ensure predictable goal achievement.

Robert Simons, "Levers of control"

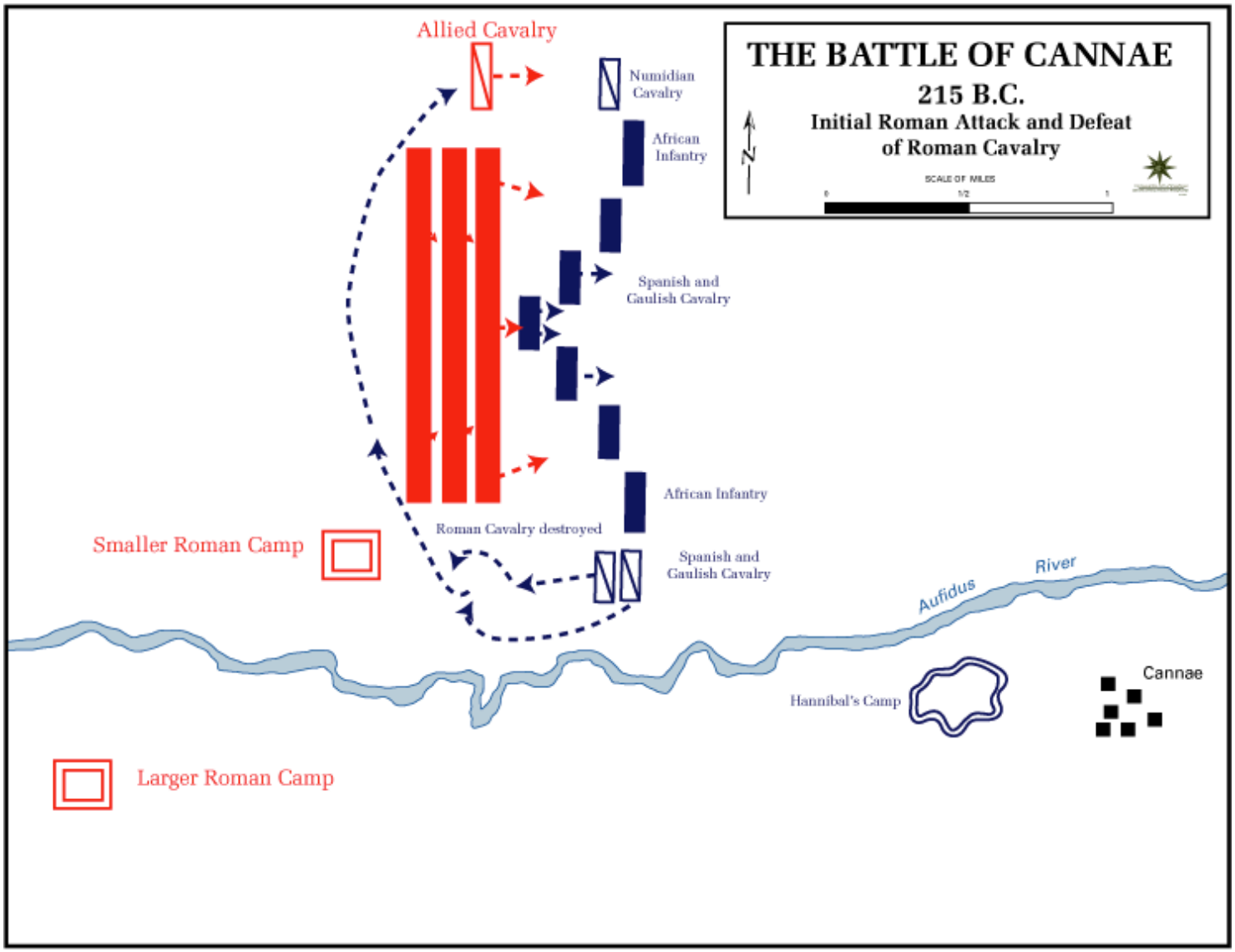
FIVE Ps FOR STRATEGY



FIVE Ps FOR STRATEGY



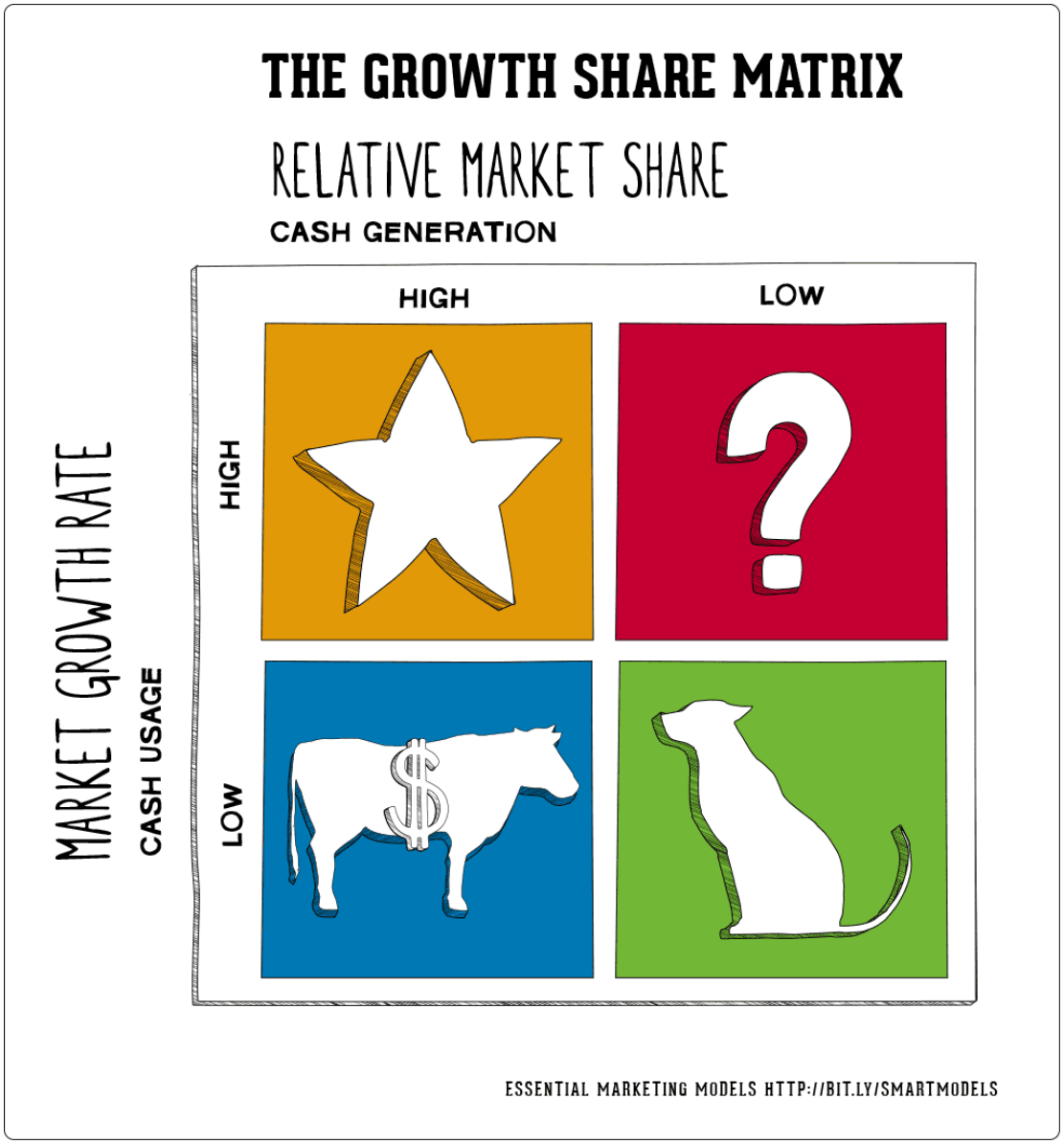
DEPLOYMENT OF THE ARMIES



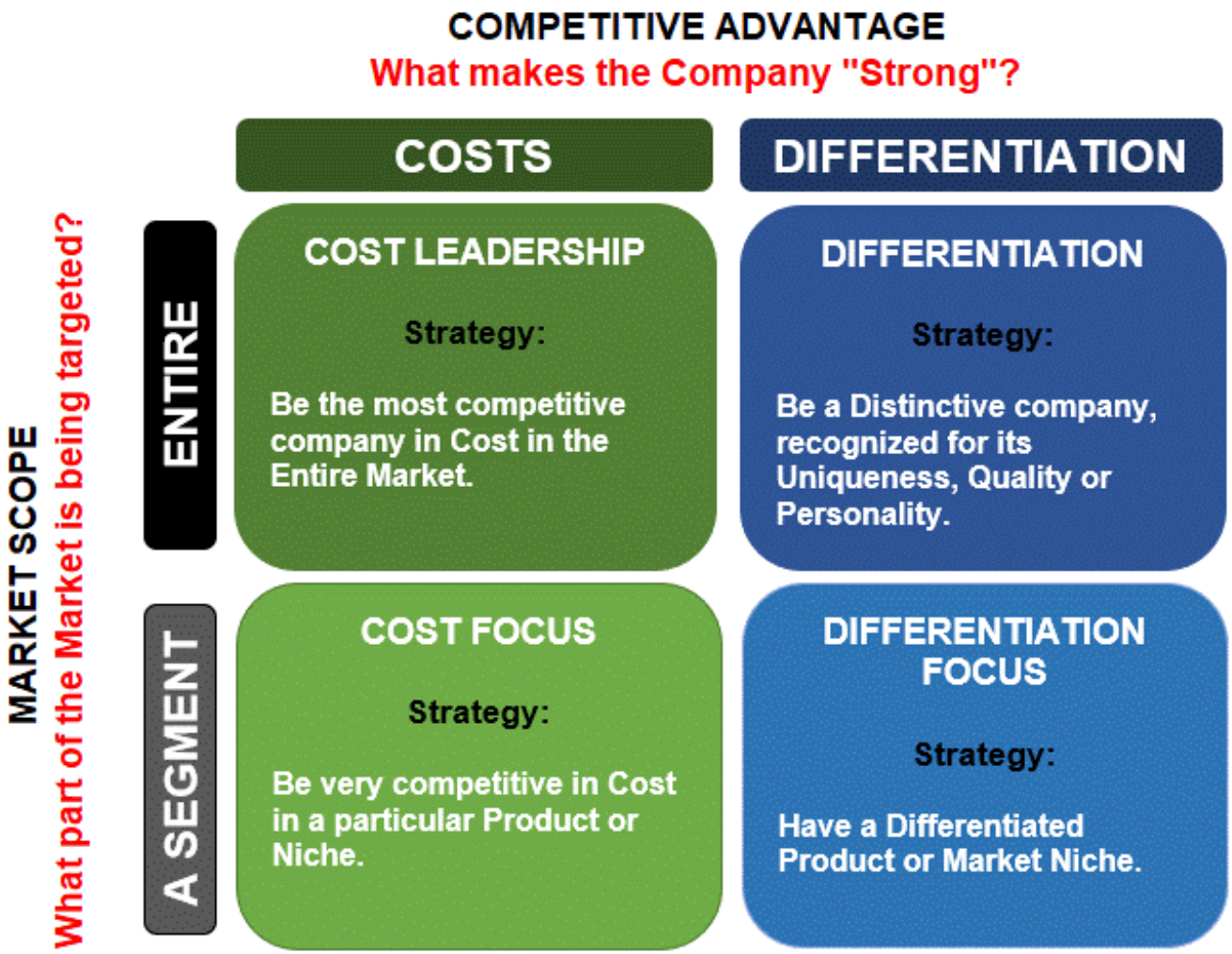
CHESS PIECES POSITIONS

Chess strategy is the aspect of chess playing concerned with evaluation of chess positions and setting of goals and long-term plans for future play. While evaluating a position strategically, a player must take into account such factors as the relative value of the pieces on the board...

THE BCG MATRIX



PORTER'S GENERIC STRATEGIES



CHOOSING WHAT "NOT" TO DO

HBR

NOVEMBER-DECEMBER 1996

What Is Strategy?

by Michael E. Porter

I. Operational Effectiveness Is Not Strategy

For almost two decades, managers have been learning to play by a new set of rules. Companies must be flexible to respond rapidly to competitive and market changes. They must benchmark continuously to achieve best practice. They must outsource aggressively to gain efficiencies. And they must nurture a few core competencies in the race to stay ahead of rivals.

Positioning—once the heart of strategy—is rejected as too static for today's dynamic markets and changing technologies. According to the new dogma, rivals can quickly copy any market position, and competitive advantage is, at best, temporary.

But those beliefs are dangerous half-truths, and they are leading more and more companies down the path of mutually destructive competition. True, some barriers to competition are falling as regulation eases and markets become global. True, companies have properly invested energy in becoming leaner and more nimble. In many industries, however, what some call *hypercompetition* is a self-inflicted wound, not the inevitable outcome of a changing paradigm of competition.

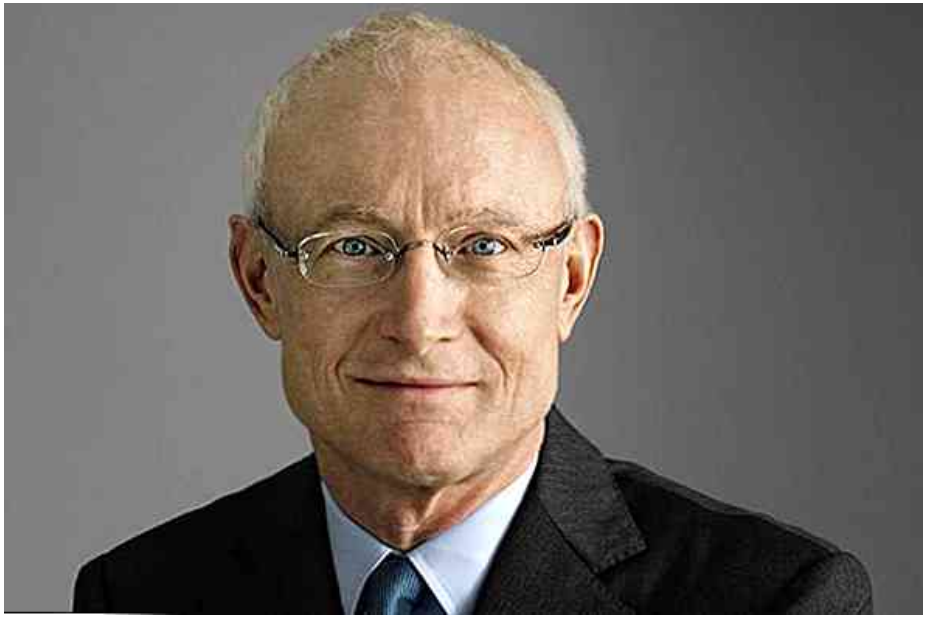
The root of the problem is the failure to distinguish between operational effectiveness and strategy. The quest for productivity, quality, and speed has spawned a remarkable number of management tools and techniques: total quality management, benchmarking, time-based competition, outsourcing, partnering, reengineering, change management. Although the resulting operational improvements have often been dramatic, many companies have been frustrated by their inability to translate those gains into sustainable profitability. And bit by bit, almost imperceptibly, management tools have taken the place of strategy. As managers push to improve on all fronts, they move farther away from viable competitive positions.

Operational Effectiveness: Necessary but Not Sufficient

Operational effectiveness and strategy are both essential to superior performance, which, after all, is the primary goal of any enterprise. But they work in very different ways.

Michael E. Porter is the C. Roland Christensen Professor of Business Administration at the Harvard Business School in Boston, Massachusetts.

As we return to the question, What is strategy? we see that trade-offs add a new dimension to the answer. Strategy is making trade-offs in competing. The essence of strategy is choosing what *not* to do. Without trade-offs, there would be no need for choice and thus no need for strategy. Any good idea could and would be quickly imitated. Again, performance would once again depend wholly on operational effectiveness.



IN STEVE JOBS'S WORDS

One of Jobs's great strengths was knowing how to focus. "**Deciding what not to do is as important as deciding what to do,"** he said. "That's true for companies, and it's true for products."

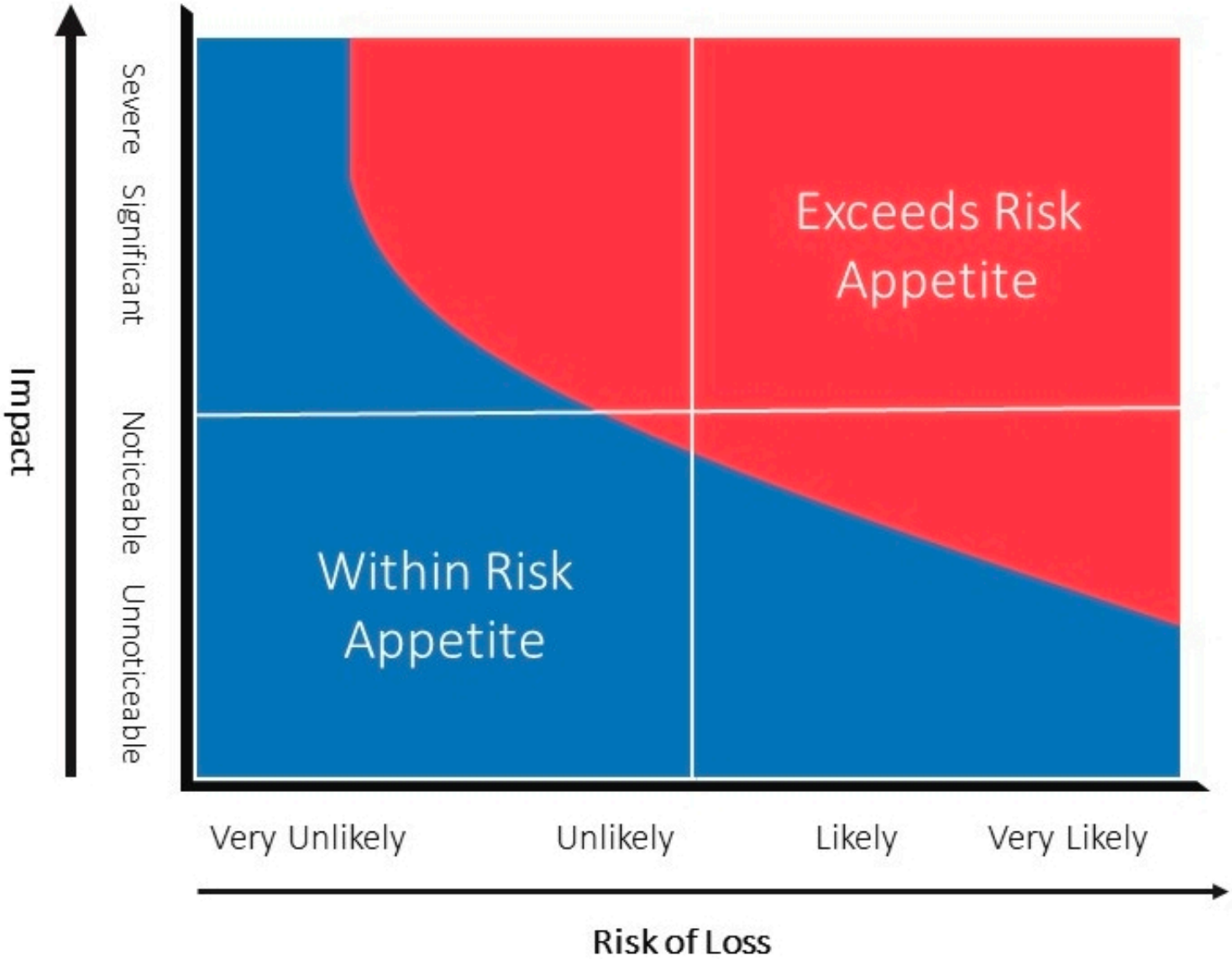
The product review revealed how unfocused Apple had become. The company was churning out multiple versions of each product because of bureaucratic momentum and to satisfy the whims of retailers. "It was insanity," Schiller recalled. "Tons of products, most of them crap, done by deluded teams." Apple had a dozen versions of the Macintosh, each with a different confusing number, ranging from 1400 to 9600. "I had people explaining this to me for three weeks," Jobs said. "I couldn't figure it out." He finally began asking simple questions, like, "Which ones do I tell my friends to buy?"

When he couldn't get simple answers, he began slashing away at models and products. Soon he had cut 70% of them. "You are bright people," he told one group. "You shouldn't be wasting your time on such crappy products." Many of the engineers were infuriated at his slash-and-burn tactics, which resulted in massive layoffs. But Jobs later claimed that the good engineers, including some whose projects were killed, were appreciative. He told one staff meeting in September 1997, "I came out of the meeting with people who had just gotten their products canceled and they were three feet off the ground with excitement because they finally understood where in the heck we were going."

After a few weeks Jobs finally had enough. "Stop!" he shouted at one big product strategy session. "This is crazy." He grabbed a magic marker, padded to a whiteboard, and drew a horizontal and vertical line to make a four-squared chart. "Here's what we need," he continued. Atop the two columns he wrote "Consumer" and "Pro"; he labeled the two rows "Desktop" and "Portable." Their job, he said, was to make four great products, one for each quadrant. "The room was in dumb silence," Schiller recalled.

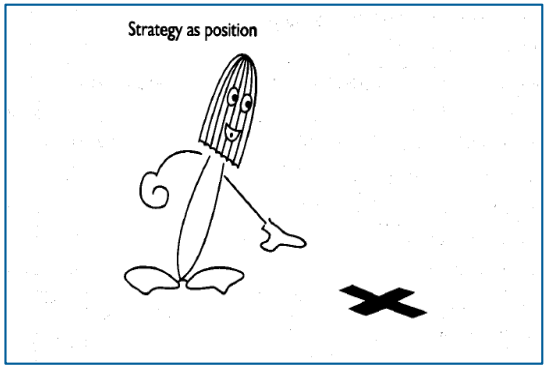
RISK PROFILE, RISK APPETITE AND RISK CAPACITY

RISK APPETITE = IMPACT * LIKELIHOOD



BOUNDARY SYSTEMS

STRATEGY AS POSITION



[Another possible] definition is that strategy is a position– specifically, a **means of locating an organization in** what organization theorists like to call an **"environment."**
By this definition, strategy becomes the mediating force – or **"match,"** [...] – between organization and environment, that is, between the internal and the external context.

Henry Mintzberg, "The Strategy Concept I: Five Ps For Strategy"

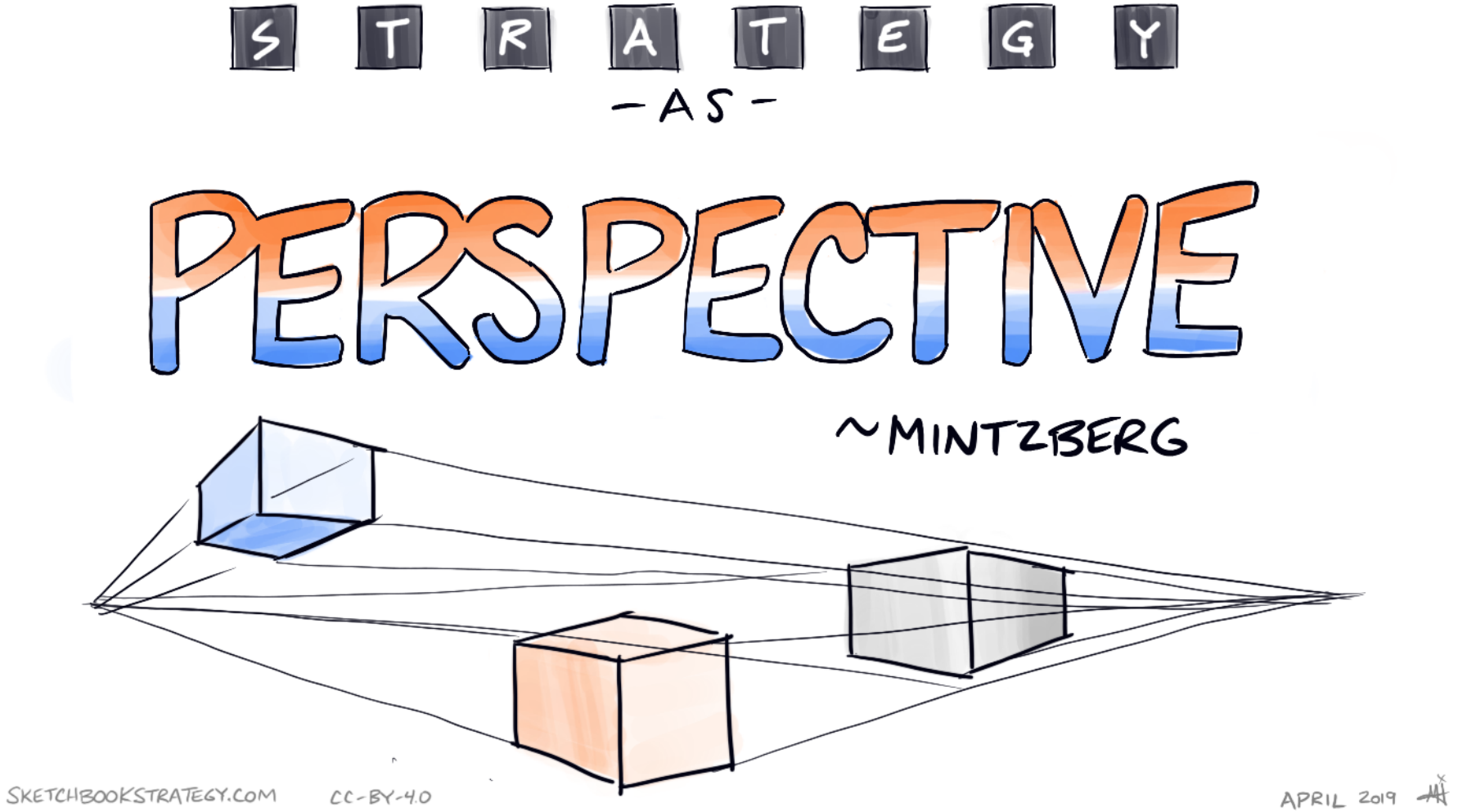
KEY STRATEGIC VARIABLE ⇨ **RISKS TO BE AVOIDED**

CONTROL SYSTEMS ⇨ **BOUNDARY**

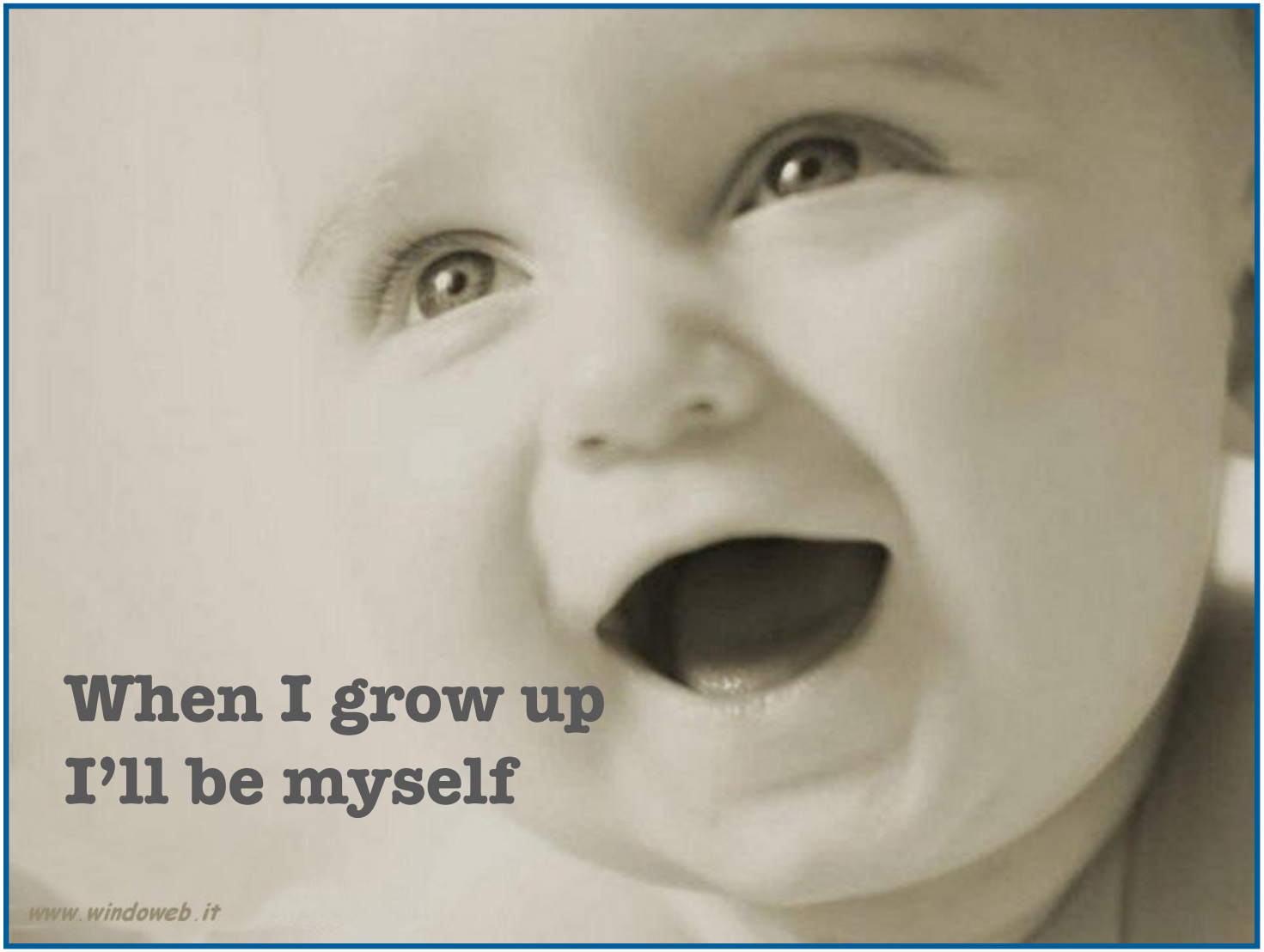
Are used to delineate the acceptable domain of activity for organizational participants.
They establish limits, based on defined business risks, to opportunity-seeking.

Robert Simons, "Levers of control"

FIVE Ps FOR STRATEGY



STRATEGY AS PERSPECTIVE



AN INGRAINED WAY OF PERCEIVING THE WORLD

<< While the definition of strategy as position looks out, seeking to locate the organization in the external environment, this one looks inside the organization, indeed inside the heads of the collective strategist.

Here, strategy is a perspective, its content consisting not just of a chosen position, but of an ingrained way of perceiving the world.

Some organizations, for example, are aggressive pacesetters, creating new technologies and exploiting new markets; others perceive the world as set and stable, and so sit back in long established markets and build protective shells around themselves, relying more on political influence than economic efficiency.

There are organizations that favor marketing and build a whole ideology around that (an IBM); others treat engineering in this way (a Hewlett-Packard); and then there are those that concentrate on sheer productive efficiency (a McDonald's).>>

SOURCE: MINTZBERG, THE STRATEGY CONCEPT I: FIVE PS FOR STRATEGY

THE "CHARACTER" OF AN ORGANIZATION

<< Strategy in this respect is to the organization what personality is to the individual. Indeed, one of the earliest and most influential writers on strategy … was Philip Selznick, who wrote about the "character" of an organization distinct and integrated "commitments to ways of acting and responding" that are built right into it.

What is of key importance about this definition, however, is that the perspective is *shared*. … strategy is a perspective shared by the members of an organization through their intentions and/or by their actions.

In effect, when we are talking of strategy in this context, we are entering the realm of the collective mind – individuals united by common thinking and/or behavior.>>

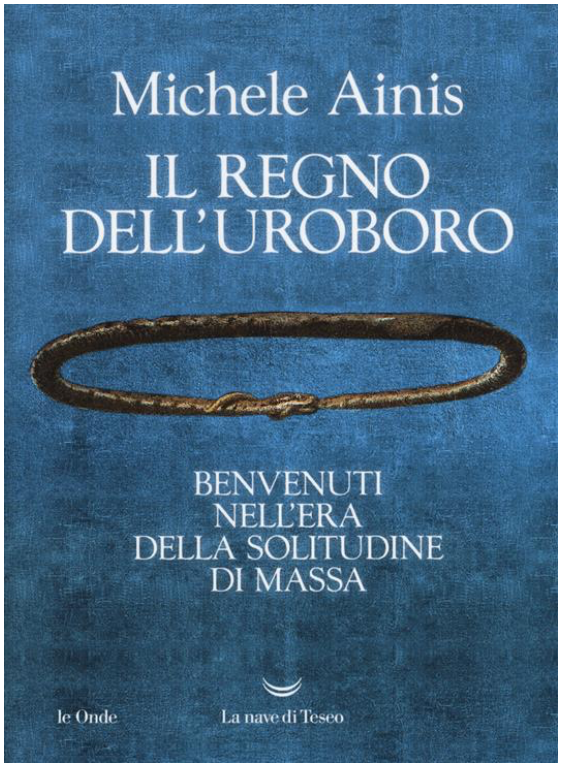
SOURCE: MINTZBERG, THE STRATEGY CONCEPT I: FIVE PS FOR STRATEGY

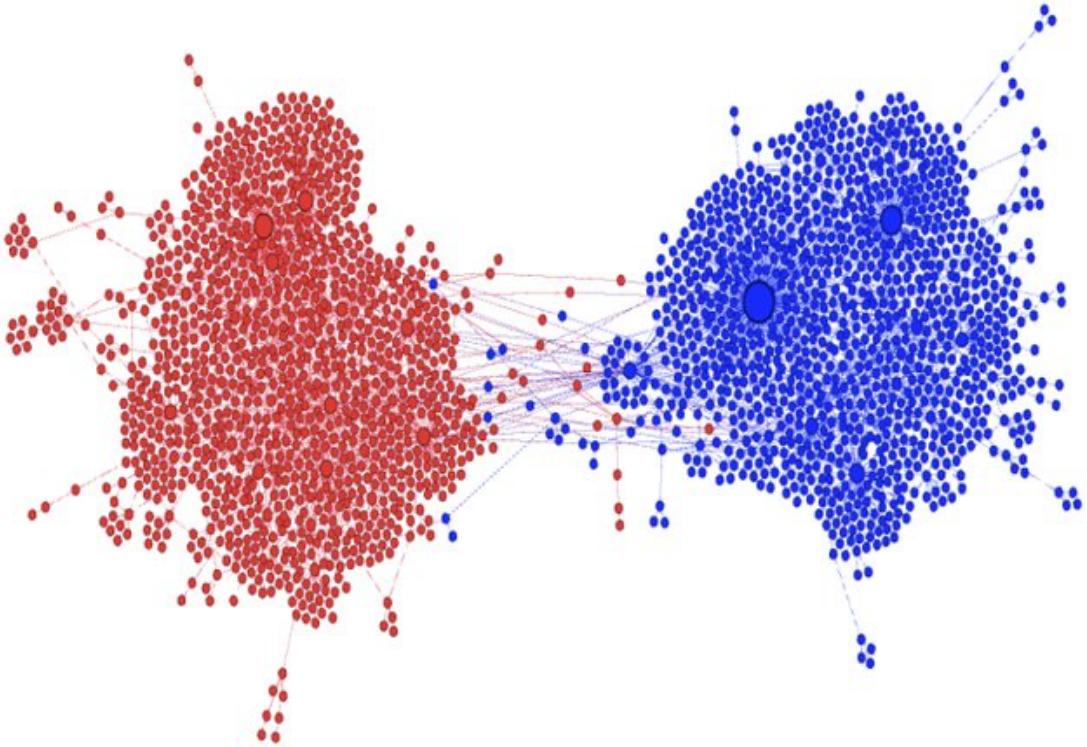
SHARED VALUES AND ALIGNMENT

THE CONTRA EFFECT

“COGNITIVE BIAS” AND BLINKERS

ECHO CHAMBERS





Social media platforms can produce echo-chambers, which lead to polarization and can encourage the spread of false information.

SOURCE: Semenov, Rysz, Pandey Xu, (2022). "Diversity in news recommendations using contextual bandits".

THE PILLARS


MISSION
Why we exist
VALUES
What's important to us
VISION
What we want to be
STRATEGY
Our game plan

NOT TOO MUCH ANALYSIS INDEED

"I came across a piece of junk mail advertising a fully equipped yogurt factory for sale"

HAMDI ULUKAYA SUCCESS STORY

I've always loved yogurt—the thick kind I grew up eating in Turkey, where my mother made it from scratch on our family's dairy farm. When I moved to the United States, in 1994, I found American yogurt to be disgusting—too sugary and watery. If I wanted yogurt, I usually made it myself at home. So when I came across a piece of junk mail advertising a fully equipped yogurt factory for sale, in March 2005, I was curious. The factory was about 65 miles west of the feta cheese company, Euphrates, that I'd started in upstate New York a few years earlier. In 2005 Euphrates had fewer than 40 employees and about $2 million in sales; it was barely breaking even.

Kraft owned the yogurt factory, and it had decided to get out of the yogurt business. The advertisement showed some photographs of the building, which had been constructed in 1920 and appeared to be in rough shape. On a whim, I called the broker and arranged to drive over the next morning to take a look.

The factory was a sad place, sort of like a cemetery, in a very small town. Fifty-five employees were preparing to shut it down. A lot of equipment was included, but it was old. The best thing about the place was the price: less than $1 million. Some of the individual machines would cost more than that if purchased new.

On the drive home I called my attorney, who is my main business adviser. I told him I wanted to buy the factory. He thought it was a terrible idea. He had three good arguments: First, because I'd be buying it "as is," I really had no idea how well it would function. Second, Kraft is a pretty successful company, and if it was giving up on this facility, this town, and the yogurt industry, maybe it knew something I didn't. Third, and maybe the strongest objection, where was I going to get that kind of money? He was right: At that point, I had nowhere near enough money for such a big purchase.

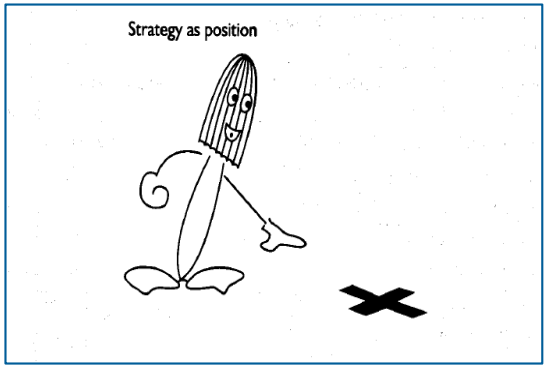
But as it turned out, I was able to borrow the money to buy the factory—and after Chobani hit the market, I financed our growth through further bank loans and reinvested profits. This is a crucial piece of the Chobani story. Our ability to grow without reliance on external investors—the venture capitalists, private equity types, strategic partners, and potential acquirers who've offered us money since we launched—was vital to our success. Today Chobani is a $1 billion business, and I remain the sole owner. That means I can run the company the way I choose—and plan for its future without pressure from outsiders.

Hamdi Ulukaya , "Chobani's Founder on Growing a Start-Up Without Outside Investors", HBR

THE ANTI-CEO PLAYBOOK BY HAMDI ULUKAYA

BELIEFS SYSTEMS

STRATEGY AS PERSPECTIVE



While the [previous] definition of strategy looks out, seeking to locate the organization in the external environment, [this one] **looks inside** the organization, indeed inside **the heads of the collective strategist**. Here, strategy is a perspective, its content consisting not just of a chosen position, but of **an ingrained way of perceiving the world.**
Strategy in this respect **is to the organization what personality is to the individual.**

Henry Mintzberg, "The Strategy Concept I: Five Ps For Strategy"

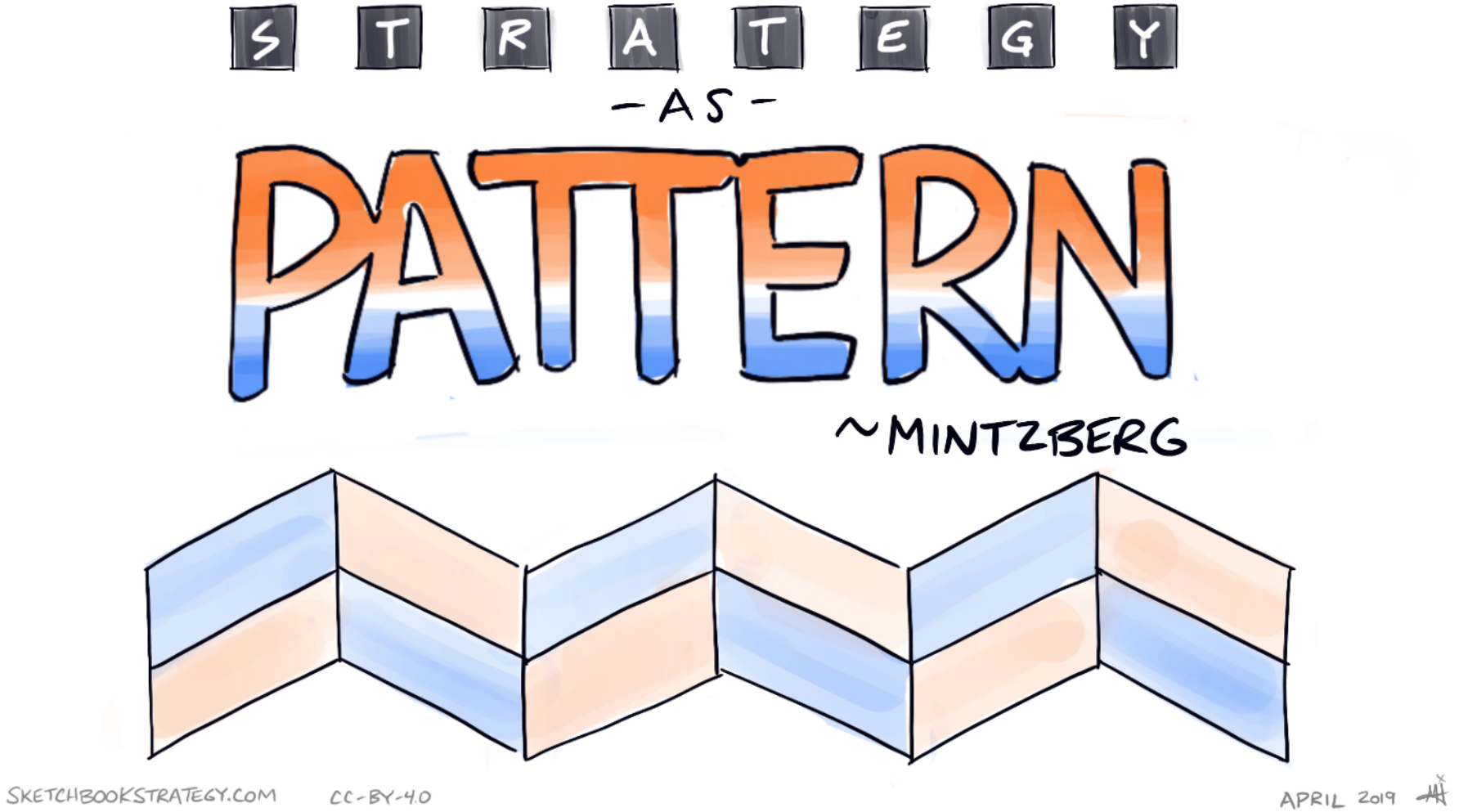
KEY STRATEGIC VARIABLE ⇨ **CORE VALUES**

CONTROL SYSTEMS ⇨ **BELIEFS**

Are used to inspire and direct the search for new opportunities.
They are composed by the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organization.

Robert Simons, "Levers of control"

FIVE Ps FOR STRATEGY



TO BE AWARE OF CHANGING PATTERNS OF ACTION

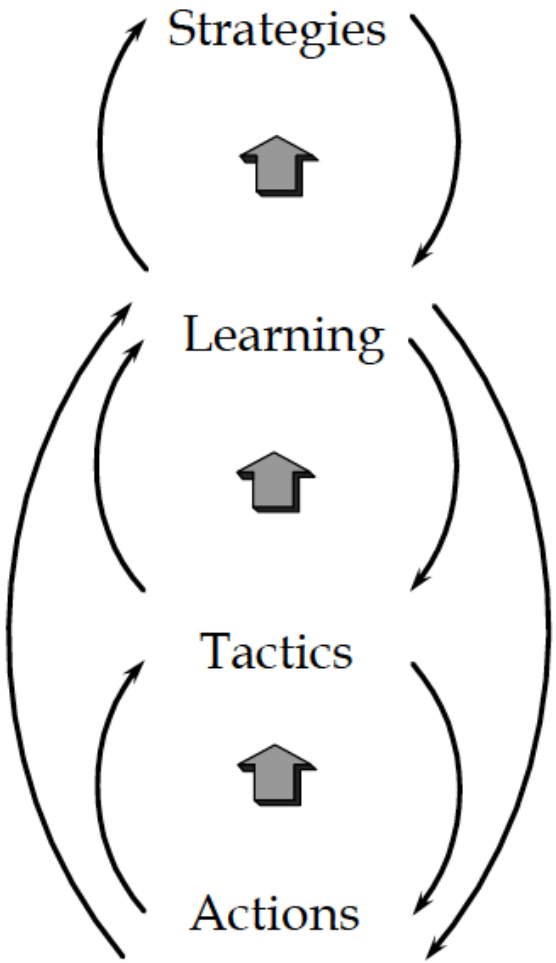
Many successful strategies arise from local experimentation and replication.

New approaches are tried—and many fail. But some work in unexpected ways, and suggest new ideas to managers about how to reposition the business.

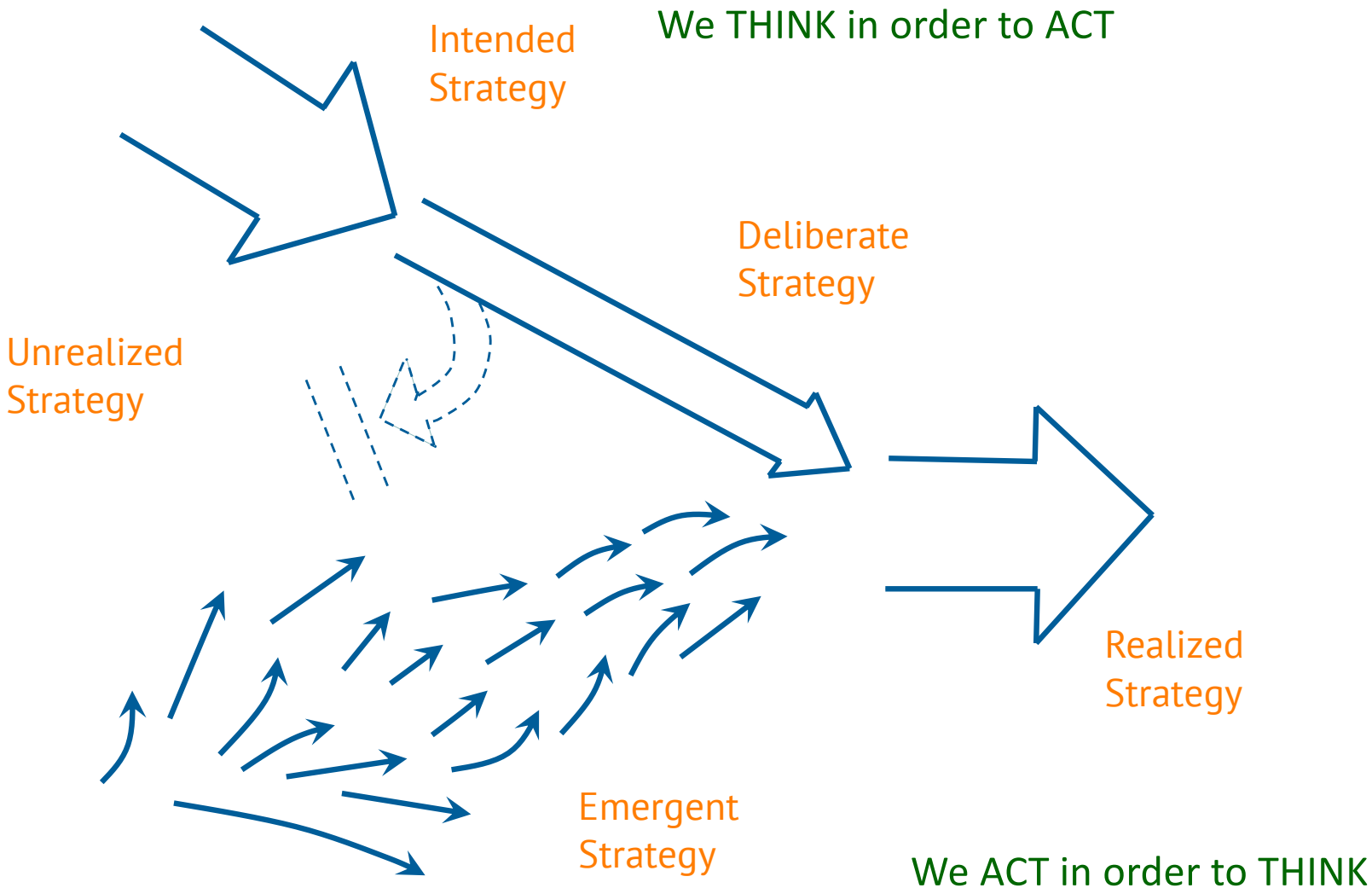
Experiments, trial and error, and sometimes just plain luck lead to new tactics and ways of competing. If these innovations are replicated, managers can learn over time how to change and/or improve their strategy.

The potential for new strategies to emerge in unexpected ways requires managers to be aware of changing patterns of action in their businesses.

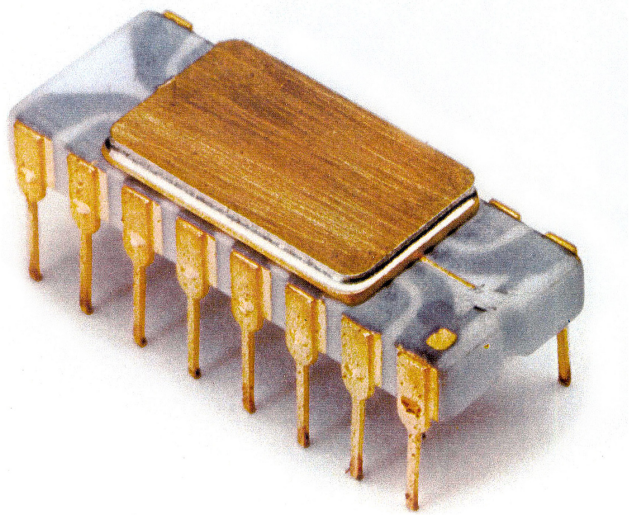
BOTTOM-UP OR EMERGENT STRATEGY



INTENDED, DELIBERATE, EMERGENT, REALIZED



FROM DRAM TO MICROCHIPS



SOME MIDDLE MANAGERS MADE THE DECISION

An article by Robert A. Burgelman in the Administrative Science Quarterly highlights the processes and decision calculus of Intel executives which led the company to exit the dynamic random access memory (DRAM) market. Burgelman provides key insights regarding the transformation of Intel from a memory company into a microcomputer company.

DRAM at one point in time accounted for over 90% of Intel's sales revenue. The article states that DRAM was essentially the "technology driver" on which Intel's learning curve depended. Over time the DRAM business matured as Japanese companies were able to involve equipment suppliers in the continuous improvement of the manufacturing process in each successive DRAM generation. Consequentially, top Japanese producers were able to reach production yields that were up to 40% higher than top U.S. companies. DRAMs essentially became a commodity product.

Intel tried to maintain a competitive advantage and introduced several innovative technology design efforts with its next generation DRAM offerings. These products did not provide enough competitive advantage, thus the company lost its strategic position in the DRAM market over time. Intel declined from an 82.9% market share in 1974 to a paltry 1.3% share in 1984.

Intel's serendipitous and fortuitous entry into microprocessors happened when Busicom, a Japanese calculator company, contacted Intel for the development of a new chipset. Intel developed the microprocessor but the design was owned by Busicom. Legendary Intel employee Ted Hoff had the foresight to lobby top management to buy back the design for uses in non calculator devices. The microprocessor became an important source of sales revenue for Intel, eventually displacing DRAMs as the number one business.

There continued to be a disconnect between stated corporate strategy and the activities of middle managers during the transition period. Top executives gave weak justifications for the company's reluctance to face reality and exit the DRAM space; they were emotionally attached to the DRAM business. A middle manager stated that Intel's decision to abandon the DRAM market was tantamount to Ford deciding to exit the car business!

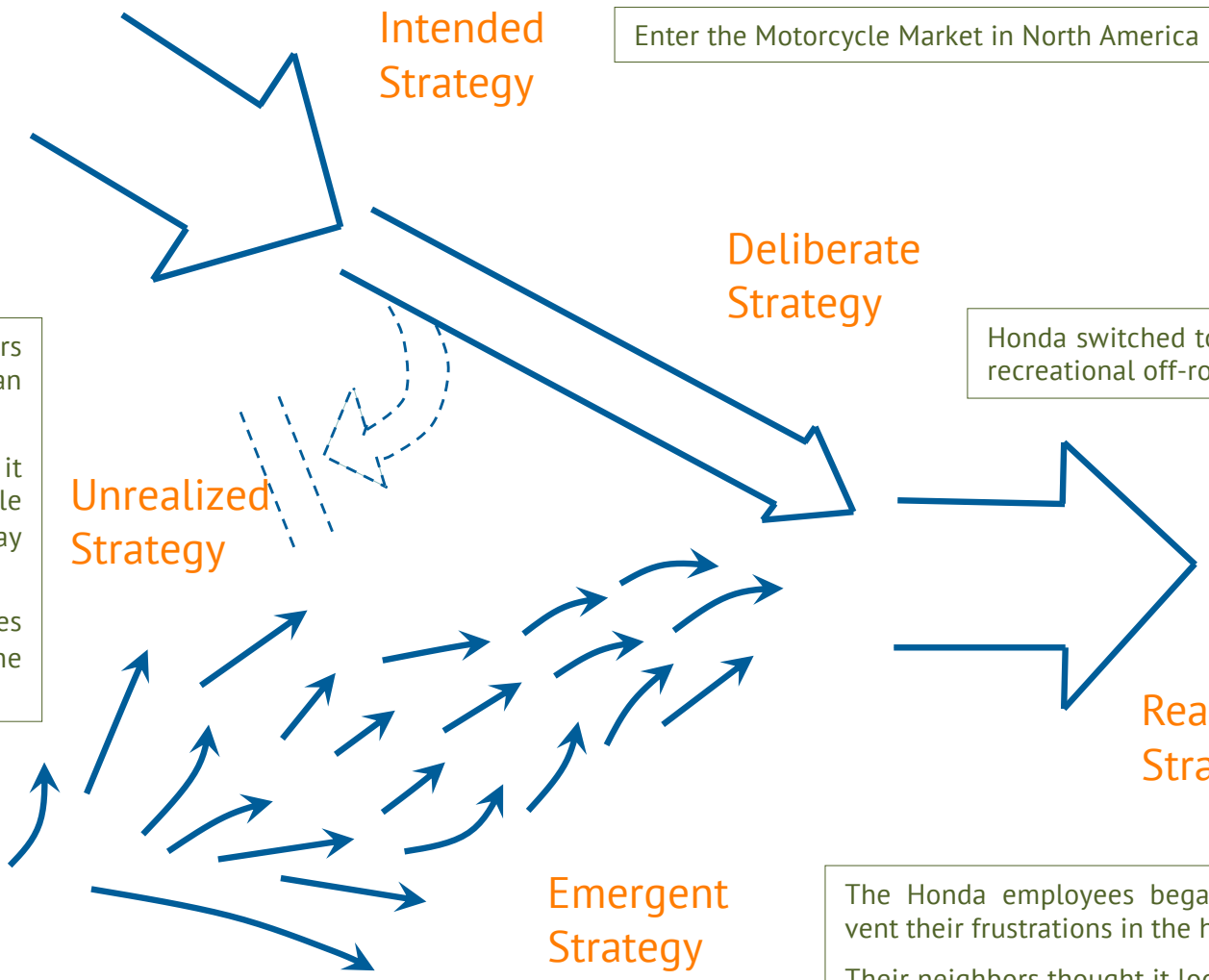
The demand for Intel microprocessors led middle managers to begin allocating factory resources to heavily produce microprocessors over DRAM. Intel's cultural rule that information power should always trump hierarchical position power gave middle managers the decision space to make production allocation decisions that overrode corporate stated goals. These actions further dissolved the strategic context of DRAMs.

"By the middle of 1984 some middle managers made the decision to adopt a new process technology which inherently favored logic [microprocessor] rather than memory advances". By the end of 1984, Intel's top management was finally forced to face business reality with respect to DRAMs. In order to regain leadership in DRAM, management was faced with a 100 million dollar capital investment decision for a 1 MEG product. Top management decided against the investment and thus eliminated the possibility of Intel remaining in the DRAM space.

Andy Grove and Intel's Move From Memory to Microprocessors

THE HONDA EFFECT

INTENDED, DELIBERATE, EMERGENT, REALIZED



PERSPECTIVES ON STRATEGY BY R. PASCALE

CALIFORNIA MANAGEMENT REVIEW
Vol. XXVI, No. 3, Spring 1984

Perspectives on Strategy: The Real Story Behind Honda's Success

Richard T. Pascale

Perspective One: The Honda Effect

At face value, "strategy" is an innocent noun. Webster defines it as the large-scale planning and direction of operations. In the business context, it pertains to a process by which a firm searches and analyzes its environment and resources in order to 1) select opportunities defined in terms of markets to be served and products to serve them, and 2) makes discrete decisions to invest resources in order to achieve identified objectives.[1]

But for a vast and influential population of executives, planners, academics, and consultants, strategy is more than a conventional English noun. It embodies an implicit model of how organizations should be guided and consequently, preconfigures our way of thinking. Strategy formulation 1) is generally assumed to be driven by senior management whom we expect to set strategic direction; 2) has been extensively influenced by empirical models and concepts; and 3) is often associated with a laborious strategic planning process that, in some companies, has produced more paper than insight.

A $500-million-a-year "strategy" industry has emerged in the United States and Europe comprised of management consultants, strategic planning staffs, and business school academics. It caters to the unique emphasis that American and European companies place upon this particular aspect of managing and directing corporations.

Words often derive meaning from their cultural context. *Strategy* is one such word and nowhere is the contrast of meanings more pronounced than between Japan and the United States. The Japanese view the emphasis we place on "strategy" as we might regard their enthusiasm for Kabuki or sumo wrestling. They note our interest not with an intent of acquiring similar ones but for insight into our peculiarities. The Japanese are somewhat distrustful of a single "strategy," for in their view any idea that

CRAFTING STRATEGY

ORGANIZATIONAL LEARNING

To capture the benefits of emerging strategy, managers must foster organizational learning – the ability of an organization to monitor changes in its environment and adjust its processes, products, and services to capitalize on those changes.

They must use their performance measurement and control systems to encourage employees to constantly innovate and search for signs of change in the business. Managers must encourage employees to experiment, to find new opportunities, and test new ideas. And, perhaps most importantly, they must ensure that performance measurement and control systems create effective communication channels to move this information up the line from employees to senior managers at headquarters.

Feedback becomes critical for learning: it allows managers to fine-tune and, sometimes, radically change their business strategies.

STRATEGIC UNCERTAINTIES

Strategic uncertainties are the emerging threats and opportunities that could invalidate the assumptions upon which the current business strategy is based.

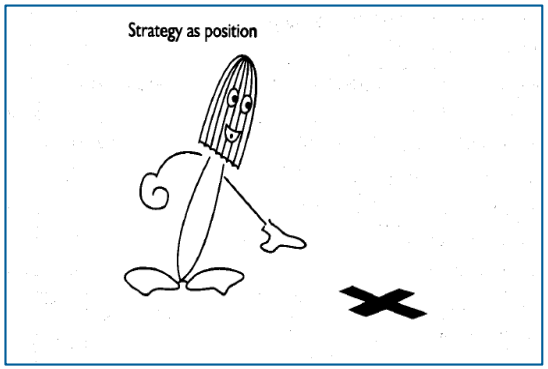
Uncertainty, in general, results from a difference between the amount of information required to perform a task and the amount of information possessed by the organization.

Strategic uncertainties relate to changes in competitive dynamics and internal competencies that must be understood if the business is to successfully adapt over time.

By definition, strategic uncertainties are unknowable in advance and emerge unexpectedly over time.

INTERACTIVE CONTROL SYSTEMS

STRATEGY AS PATTERN



[Another definition of strategy can be] proposed: strategy is a pattern– specifically, a pattern in a stream of actions. In other words, by this definition, strategy is consistency in behavior, whether or not intended.
To paraphrase Hume, strategies may result from human actions but not human designs.

Henry Mintzberg, "The Strategy Concept I: Five Ps For Strategy"

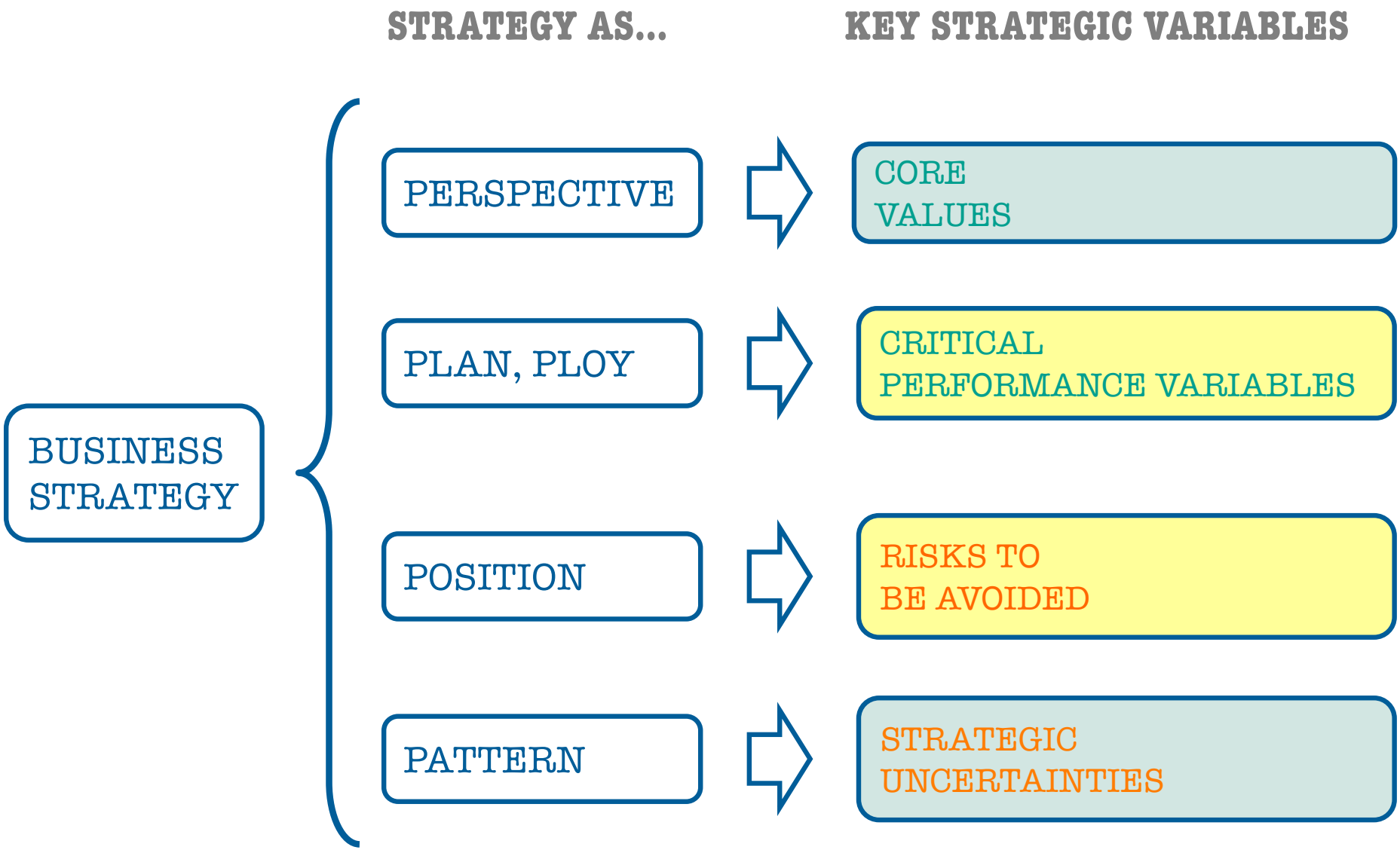
KEY STRATEGIC VARIABLE ⇨ **STRATEGIC UNCERTAINTIES**

CONTROL SYSTEMS ⇨ **INTERACTIVE**

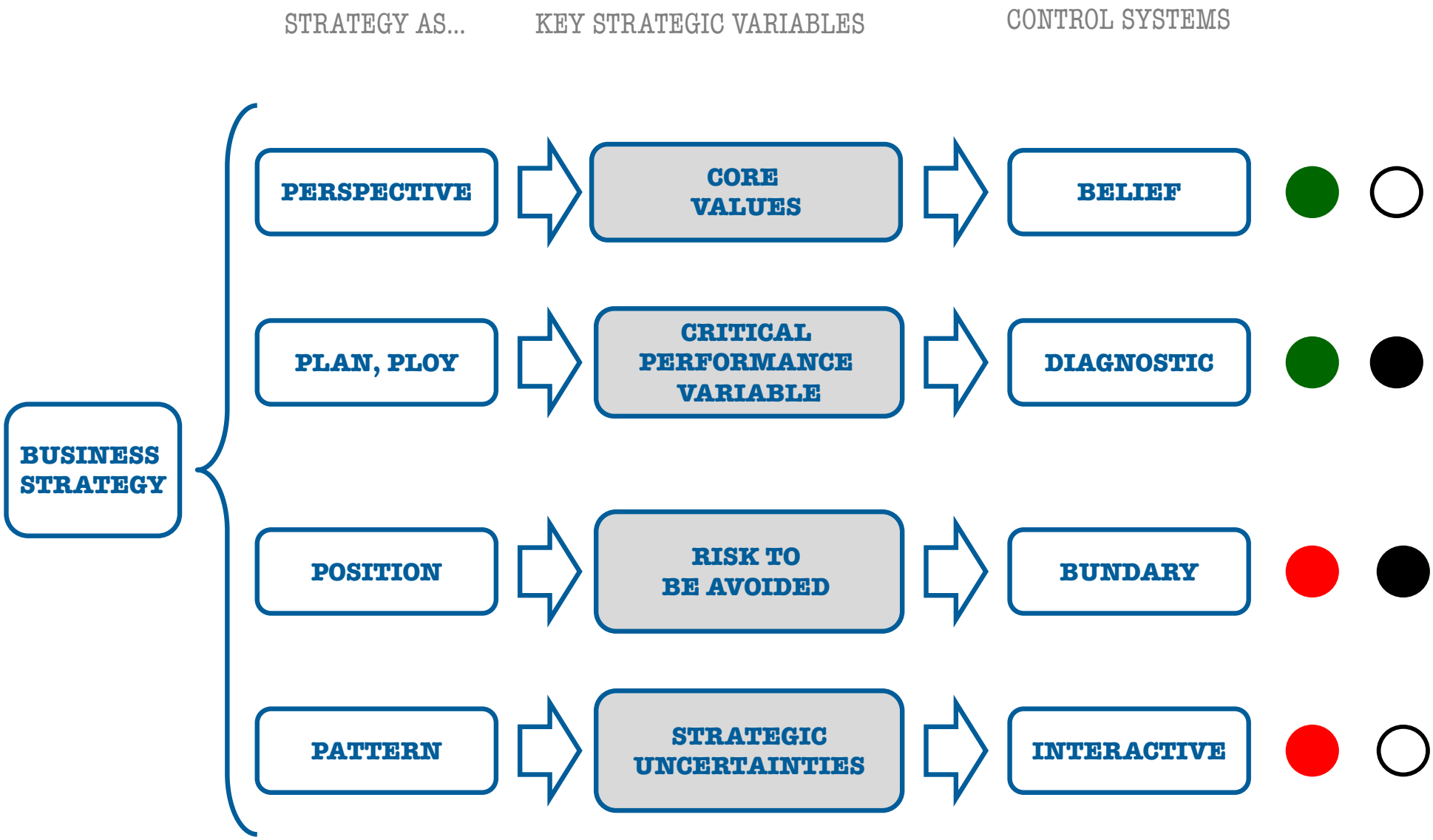
Are used to stimulate search and learning, allowing new strategies to emerge as participants throughout the organization respond to perceived opportunity and threats.

Robert Simons, "Levers of control"

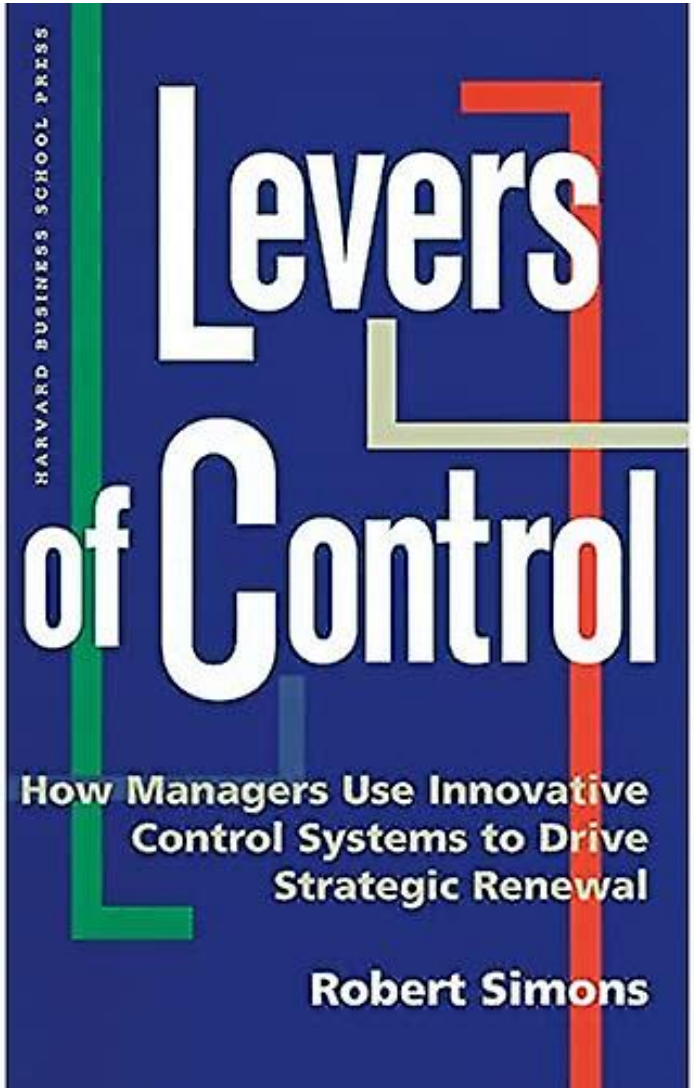
LEVERS OF CONTROL



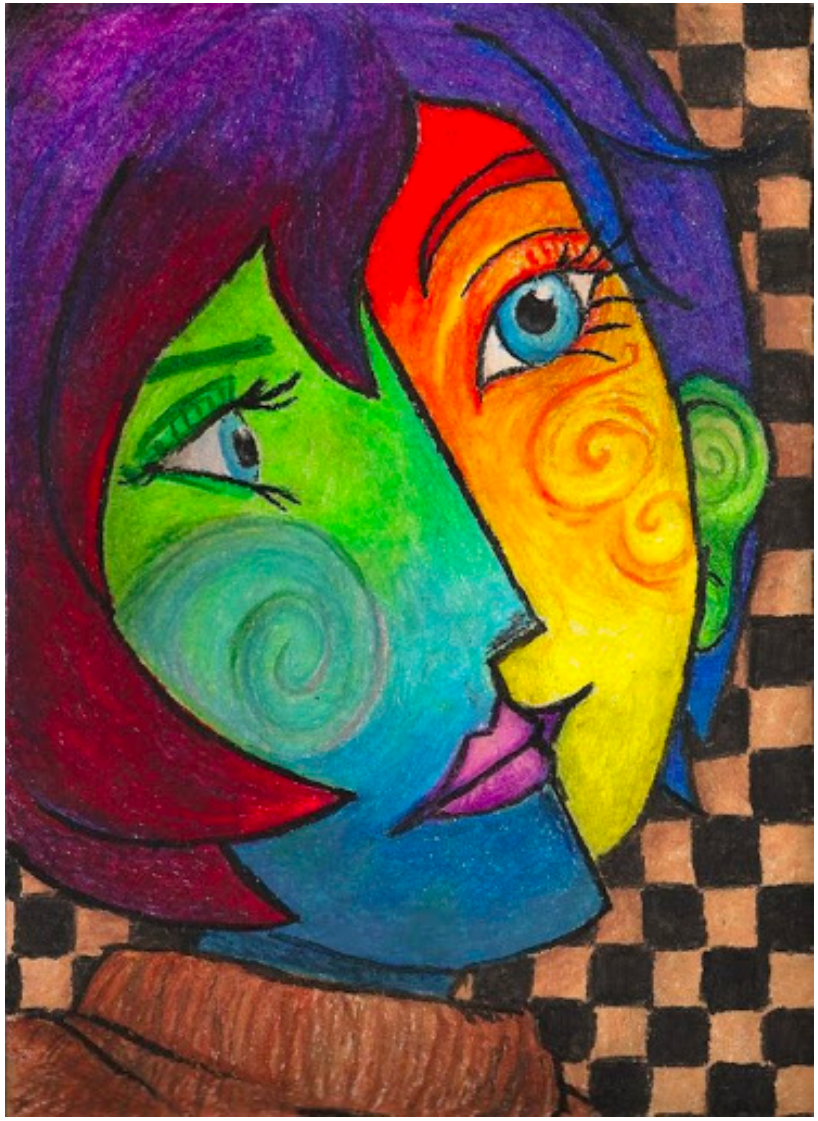
LEVERS OF CONTROL



ROBERT SIMONS' FRAMEWORK

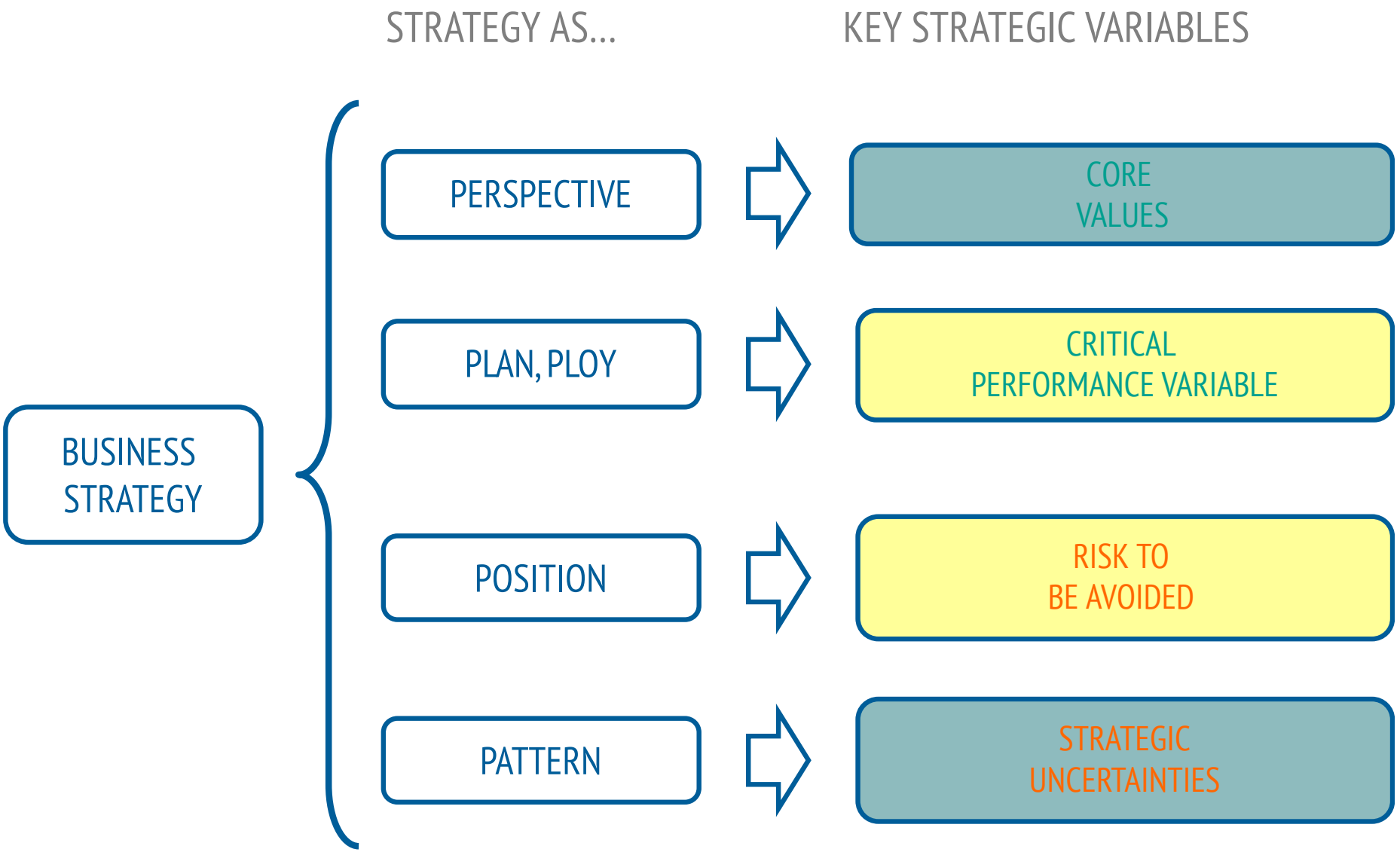


COMPLEXITY OF HUMAN NATURE

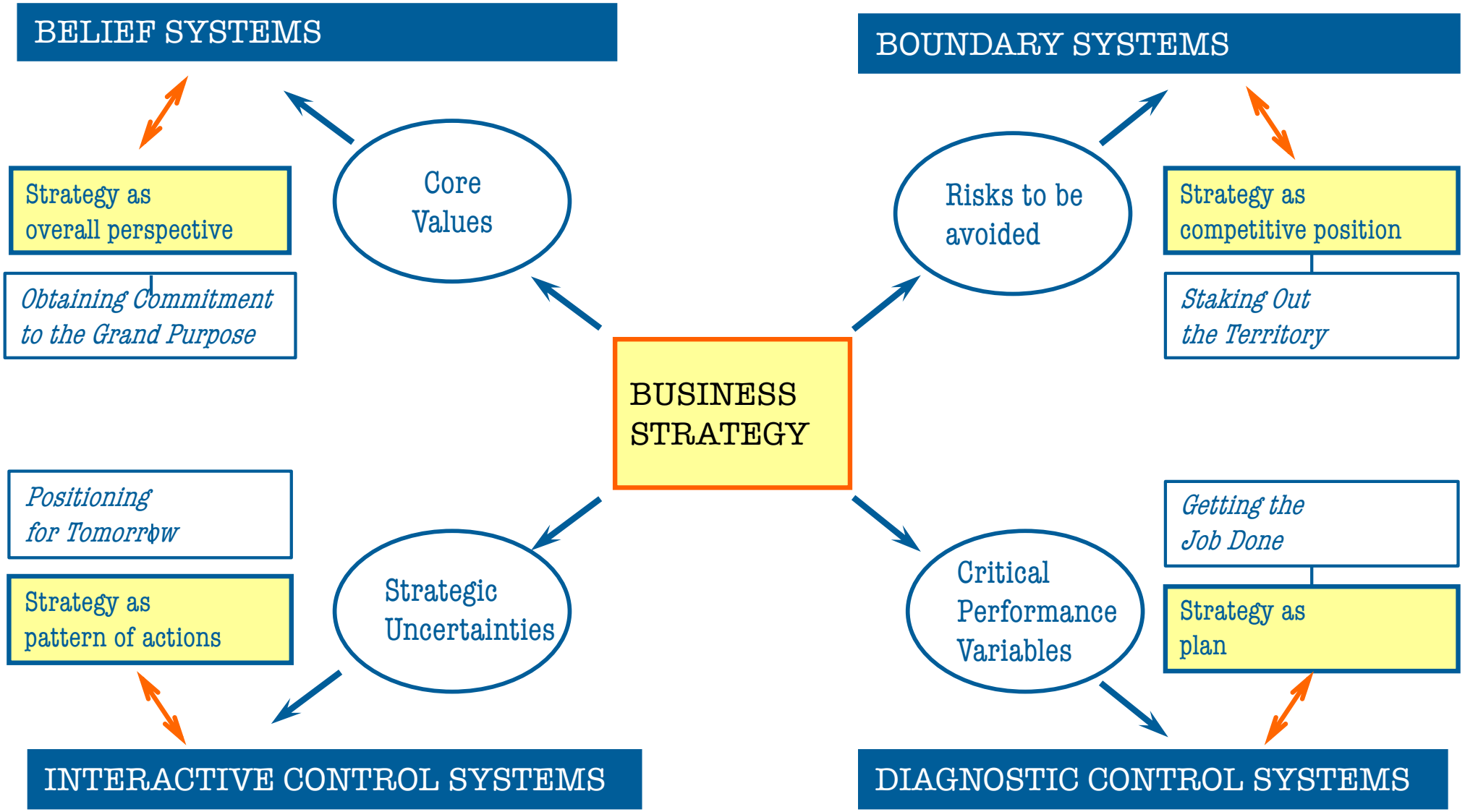


CONTROLLING IS A MATTER BALANCING DIFFERENT TENSIONS

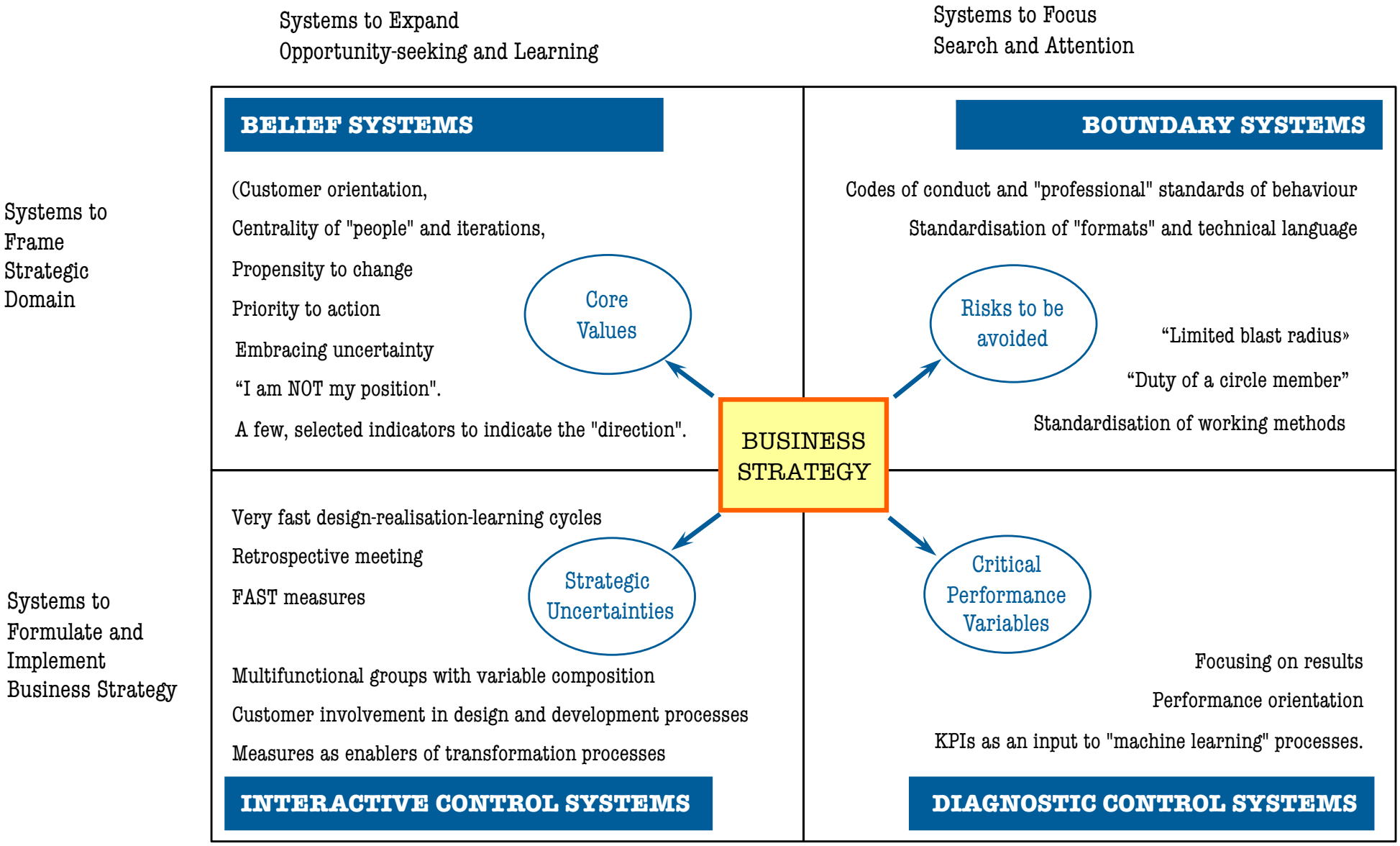
A BALANCED MANAGERIAL CONTROL SYSTEM



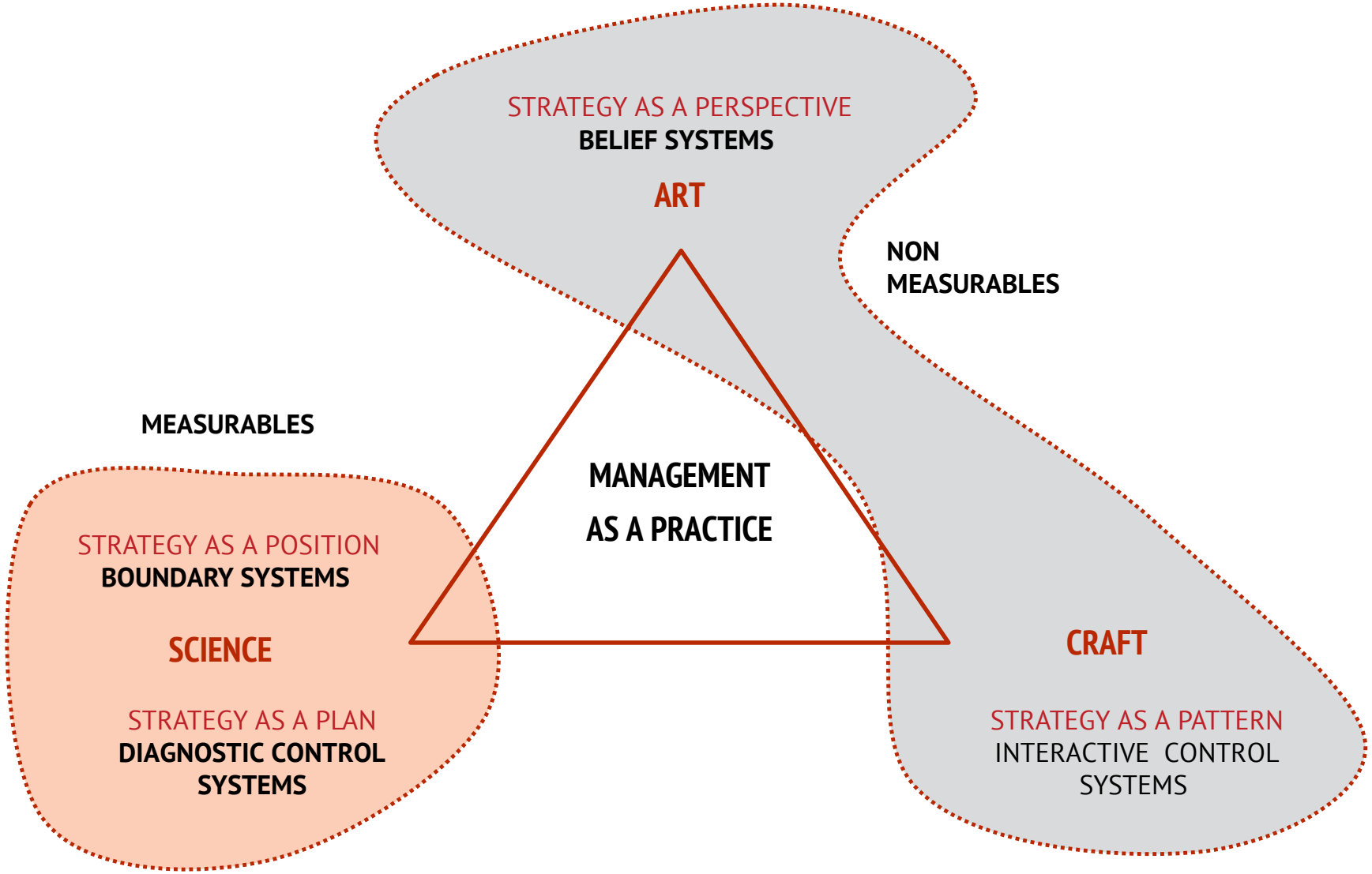
A BALANCED MANAGERIAL CONTROL SYSTEM



A BALANCED MANAGERIAL CONTROL SYSTEM



WITHOUT SYSTEMATIC ANALYSIS: DISORGANIZED MANAGEMENT



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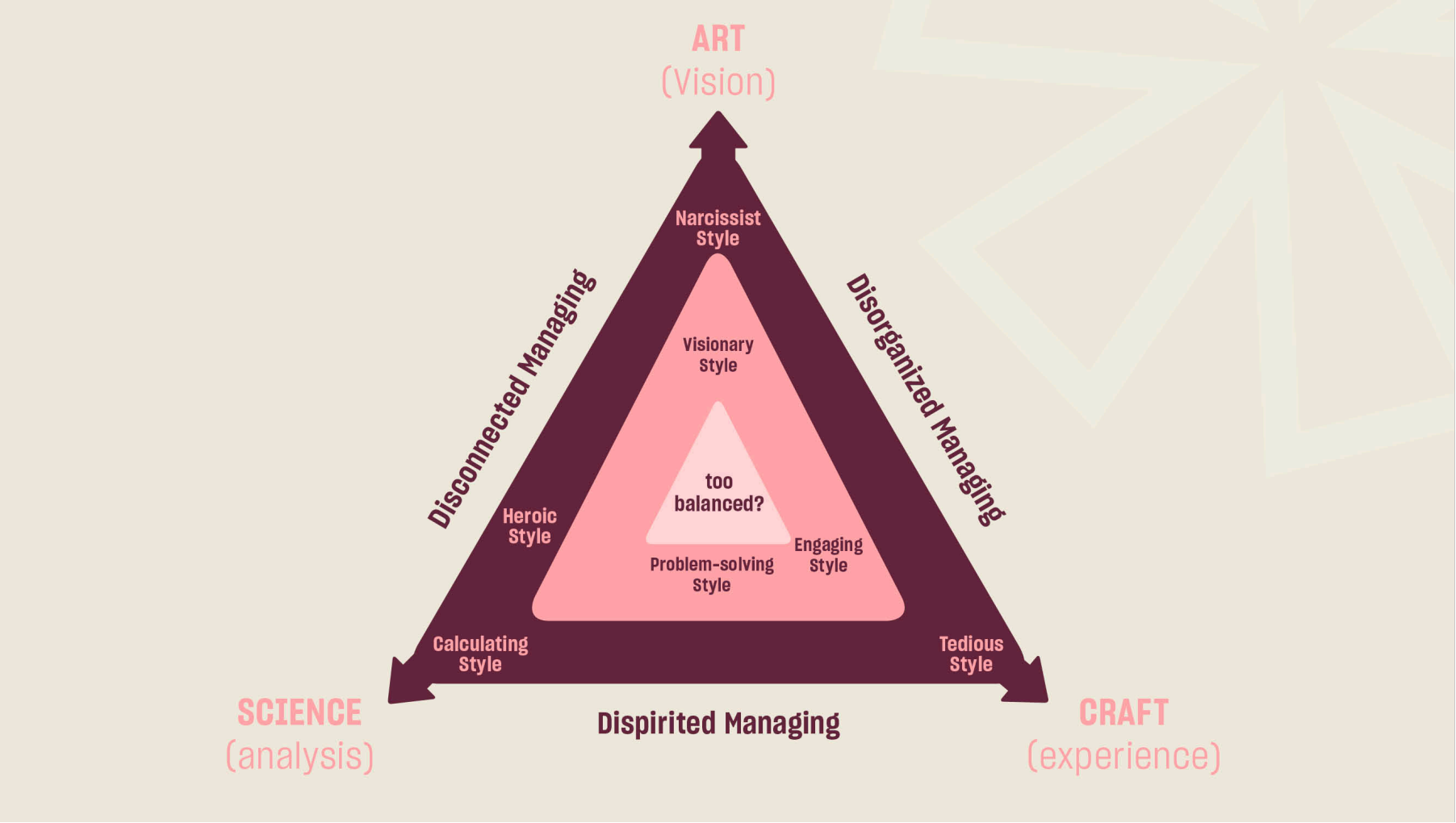

SOME TAKEAWAY POINTS FROM PART # 3

- In the previous module we have investigated the role of *"measurement"* within the field of management and a big portion of this whole course will be devoted to further analyze this aspect. Before embarking on this journey, nevertheless, it is advisable to spend some time stressing the importance for control of what are normally called "soft variables". This label identifies entities or aspects that – even if they aren't measurables – are of a paramount importance in order to induce desired behavior inside an organization.

- According to Henry Mintzberg, one of the gurus of strategy and organizational science, "managing is neither a science nor a profession; it is a practice learned primarily through experience and rooted in context".

- Management certainly applies science. As a matter of fact, managers must use all the knowledge they can get. And they certainly use analysis, that is rooted in the scientific method. The three steps that are described in the previous module depict the classical route followed by a manager that is applying this kind of logic: firstly, one inquires; secondly, one decides; then and only then one acts.

SOME TAKEAWAY POINTS FROM PART # 3

- Sometimes however the scarcity or the low quality of information available simply prevent or deter from following this sequence. In these instances, the managers must behave like a craftsman that acts in order to be able to think. This is what it is normally called “learning by doing”: here the action anticipate reflection and promote the emergence of new knowledge.

- But management effective management requires the ability to creatively use “vision” and “insights” in order to overcome existing paradigms; the ability to envision and create a new future. This is, clearly, something normally connected with the concept of art.

- The analysis performed by Mintzberg regarding the true nature of “management” help us to understand the required level of complexity of the whole set of mechanisms and devices that are necessary to induce desired behavior in such a multifaced context. That’s why the variables of control needed are of different kinds. Some of them are measurable, some are not. Some of them aim to induce correct behavior, other are used in order to deter people from doing pointless or dangerous activities.

SOME TAKEAWAY POINTS FROM PART # 3

- An effective summary of the different components that constitute a complete control system is offered by the framework proposed by Robert Simons, a professor at Harvard Business School, that is called “Levers of Control”.

- Simons clusters the key strategic variables in four different classes: there are, therefore, four different clusters composed by:
  - Performance measures,
  - Risks to be avoided
  - Core values, and
  - Strategic uncertainties.

- Linked to each class there is a specific subset of control mechanism that are in charge to effectively implement the relative variables and transform them in desired behavior. These systems are called:
  - Diagnostic control system
  - Boundary system
  - Beliefs system
  - Interactive control, system.

SOME TAKEAWAY POINTS FROM PART # 3

- "Diagnostic Control Systems" are the backbone of traditional management control and are designed to ensure predictable goal achievement. They are linked to the idea of strategy as "plan", that is to say a set of pre-established actions that serve as "guiding policy" aimed to channel action toward certain directions, those intentionally chosen. Within this strategic context, Diagnostic Control Systems are therefore used to motivate, monitor and reward achievement of specified goals. It is wort noting that Diagnostic Control Systems implement the idea of cybernetic controls and are based on the feed-back logic. Their purpose is to monitor and analyze deviations from pre-established objectives in order to focus attention on the achievement of deliberate strategy

- Based on the idea of strategy as "position", "Boundary Systems" delineate the acceptable domain of activity for organizational participants. They establish limits, based on defined business risks, to opportunity-seeking". These systems are based principally on rules that establish bans or restrictions and on other forms of formal provisions like procedures and codes of conduct.

SOME TAKEAWAY POINTS FROM PART # 3

- "Beliefs Systems" are composed by "the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organization". These systems deal with all forms of internal communication, indoctrination and learning that are needed in order to set general directions that are likely to affect the behavior of organizational members. The key strategic variable here consist of "core values": a set of fundamental beliefs, ideals or practices that inform how a company conducts its business and concur to define the way it perceives the world. These systems are clearly linked to the idea of strategy as "perspective".

- Another important set of "strategic variables of control" that are not measurable – in this case because they refer to events that have never occurred in the past – is composed by the so called "Strategic Uncertainties", that is to say by those uncertainties and contingencies that could threaten or invalidate the current strategy of the business. Here the focus is on the evolution of the general environment or the competitive arena that could make obsolete the strategy conceived by managers or even the business model adopted by the company.

SOME TAKEAWAY POINTS FROM PART # 3

- The only way available to managers in order to act against strategic uncertainties is to focus their attention on “change” and its determinants. The systems in charge of focusing managers’ attention on evolutions of the environment that requires adaptation and variations in previous strategy are called by Simons “Interactive Control Systems”.

- The idea of strategy that supports the existence of these control systems is called “emergent strategy”: according to this perspective a portion of the realized strategy can arise from unplanned actions and initiatives that assume a sufficient level of consistency and relevancy. It can therefore be described as a pattern in a stream of actions.

- The emergence of a strategy as a pattern of actions, require that the attention of managers is focused on more impalpable and ephemeral aspects of the organization and the business. Here the soft components of the control process become extremely important. This, then, is the context in which soft, imprecise, subjective information plays a relevant role.