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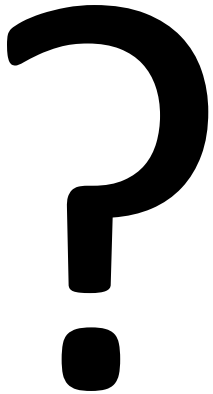
LEVERS OF CONTROL (1)

How Managers Use Innovative Control Systems to Drive Strategic Renewal

VARIUOS KINDS OF CONTROL

CONTROL

- MANAGEMENT CONTROL
- STRATEGIC CONTROL
- OPERATIONAL CONTROL
- INTERNAL CONTROL (AUDIT)
- QUALITY CONTROL (ASSURANCE)
- TASK CONTROL



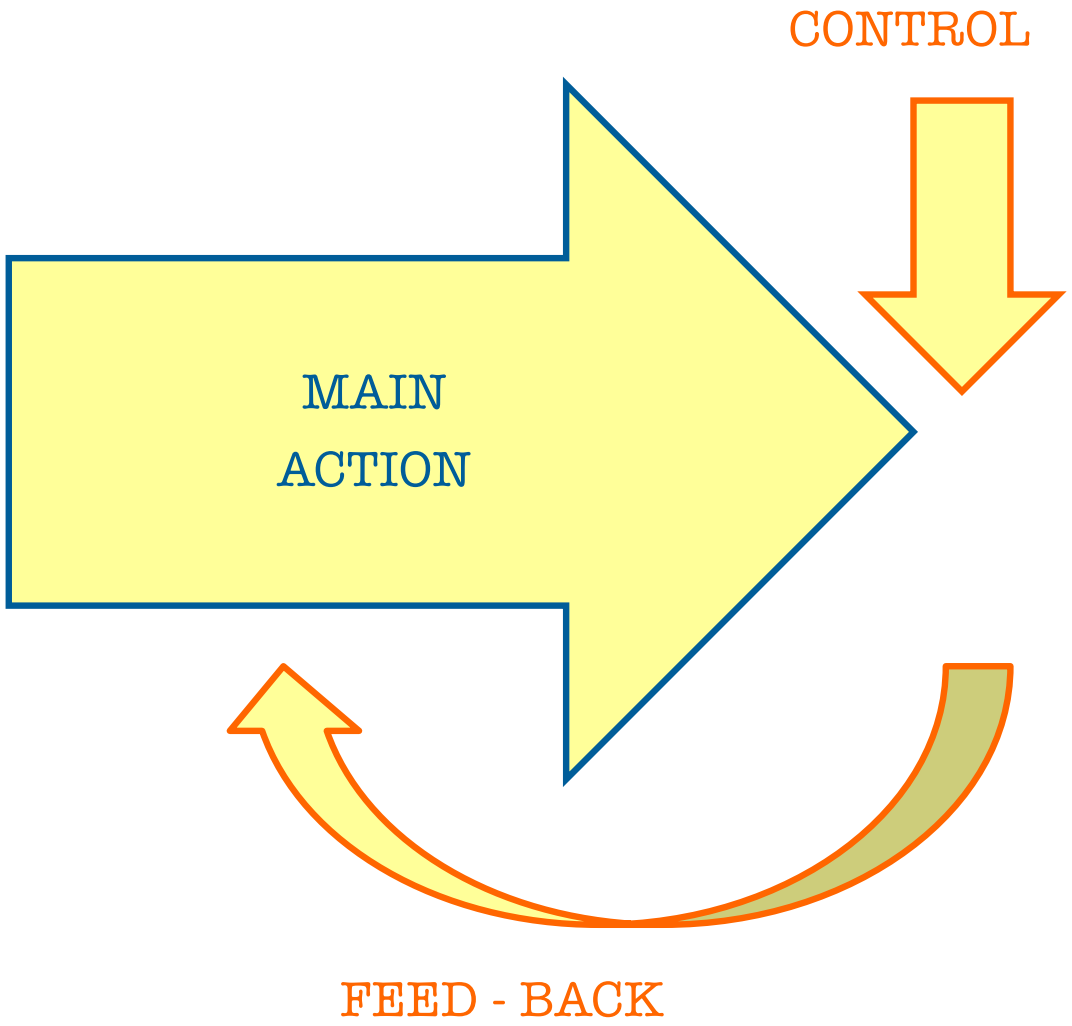
DO YOU LIKE TO BE CONTROLLED?

TWO DIFFERENT MEANINGS OF THE TERM

CONTROL

- POST ACTION CONTROL (FEED BACK)
- CONTROLLER AS A THIRD PART ("GUARDIAN")
- SANCTIONS

EX POST CONTROL



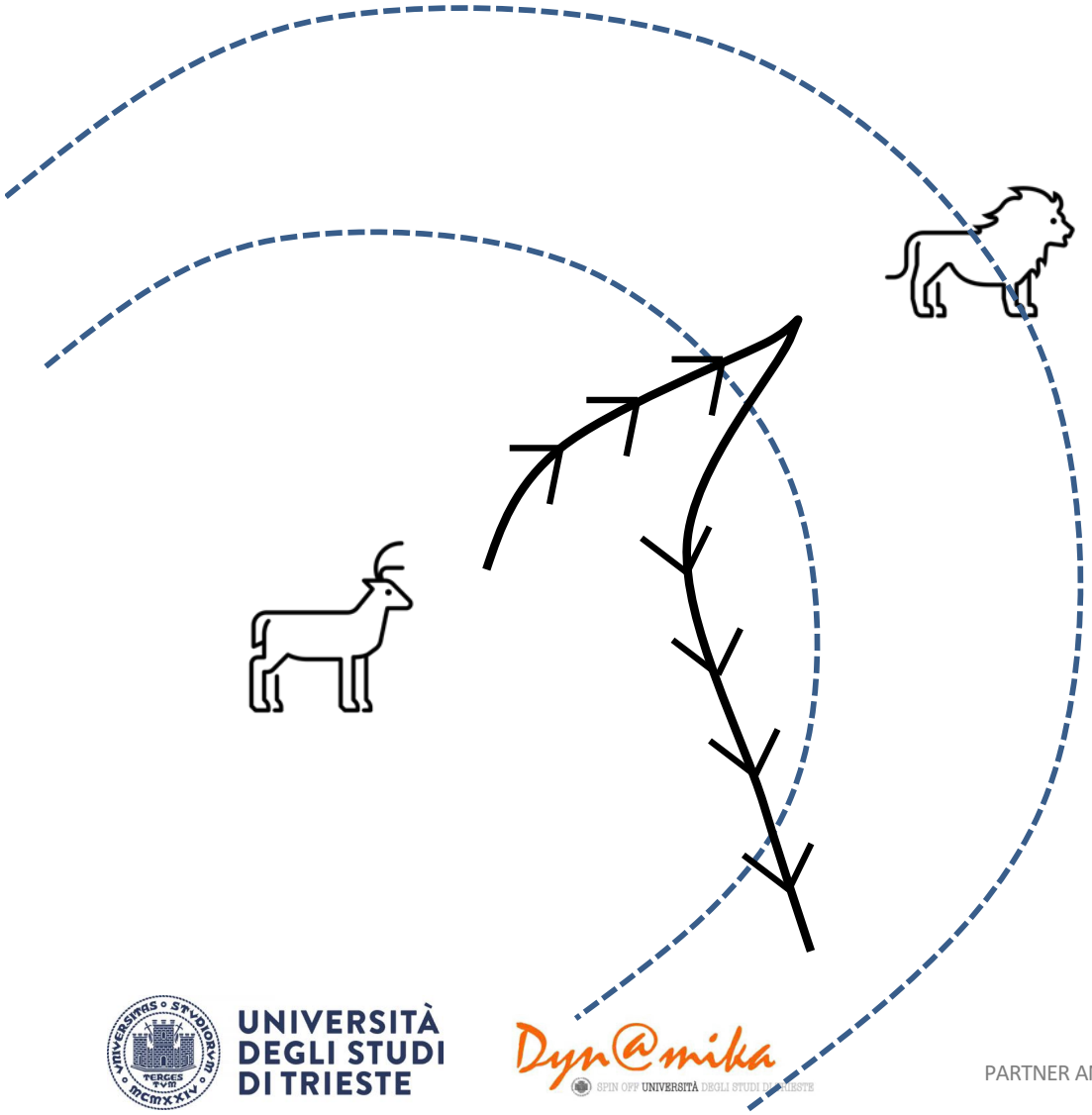
DO YOU LIKE TO BE CONTROLLED?

SECOND POSSIBLE MEANING

CONTROL

- PREVENTIVE AND CONCURRENT CONTROL
- SELF CONTROL
- REWARDS

CONTROL AS A NATURAL NEED



TWO DIFFERENT MEANINGS OF THE TERM

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- PREVENTIVE AND CONCURRENT CONTROL
- SELF CONTROL
- REWARDS

BOTH ARE NEEDED!

MANAGEMENT INVOLVES DIRECTING THE ACTIVITIES OF OTHERS

A dual sets of **control mechanisms** Is needed

The first is designed to **guard against undesirable behavior.** It aims, therefore, to **avoid that wrong or dangerous actions are carried out.** It performs the same functions of **"brakes"** in a car: it blocks actions, avoids collisions.

The second set of control mechanisms is used in order to **encourage desirable behavior,** to **motivate people** to perform better than average, to induce them, if possible, to **go above and beyond their duties and abilities**. The aim of this different group of control mechanisms, therefore, is to "provide energy to the system". The analogy, here, is clearly with the **"accelerator"** (throttle) of the car.

MANAGEMENT INVOLVES DIRECTING THE ACTIVITIES OF OTHERS

A dual sets of
control mechanisms
Is needed

LIMITS AGAINST UNDESIRABLE BEHAVIOR

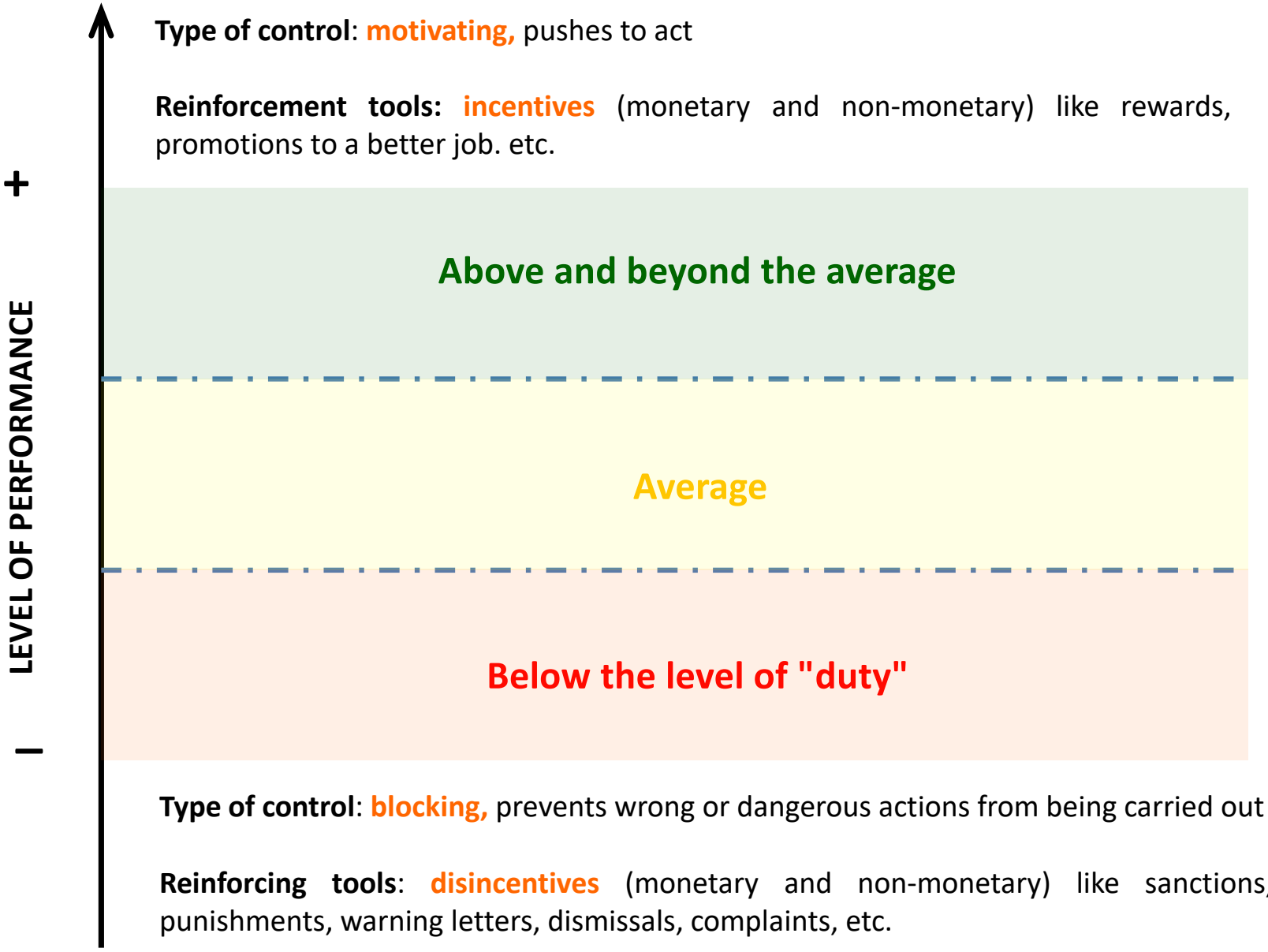
The "Administration" responsibility centre may not, in the coming year, exceed the following values for any single cost item

- consultancy costs $250,000
- training expenses $120,000
- travel and transfers $80,000

INCENTIVE TO CARRY OUT DESIRED ACTIONS

The manager of the “Painting” centre will receive a bonus if the average cost per square centimetre painted is less than $ 2.15

DIFFERENT TYPES OF CONTROLS FOR DIFFERENT REASONS



AND THEY NEED TO BE BALANCED

"I think I should warn you that the flip side of our generous bonus-incentive program is capital punishment."

THE GLOOMY EFFECTS OF LACK OF CONTROL…

WHY ARE CONTROLS NEEDED?

If all personnel always did what was best for the organization, control - and even management - would not be needed. But, obviously individuals are sometimes **unable or unwilling** to act in the organization's best interest, and a set of controls must be implemented to guard against undesirable behavior and to encourage desirable actions.

Personal limitations. **People do not always understand what is expected of them nor how they can best perform their jobs, as they may lack some requisite ability, training, or information.** In addition. human beings have a number of innate perceptual and cognitive biases, such as an inability to process new information optimally or to make consistent decisions and these biases can reduce organizational effectiveness. Some of these personal limitations are correctable or avoidable but for others. controls are required to guard against their deleterious effects.

Lack of goal congruence. **Even if employees are properly equipped to perform a job well. some choose not to do so. because individual goals and organizational goals may not coincide perfectly**. In other words. there is a lack of goal congruence. Steps must often be taken either to increase goal congruence or to prevent employees from acting in their own interest where goal incongruence exists.

SOURCE: Kenneth A. Marchant, The control Function of Management, Sloan Management Review, Summer 82, (43-55)

MANAGING THE PROBLEM OF INABILITY

3S

- **SIMPLIFICATION**
- **STANDARDIZATION**
- **SPECIALIZATION**

DISTINCTION BETWEEN WORKERS AND MANAGERS

Taylorism also cemented the distinction between "workers" and "managers." In scientific management, workers were no longer responsible for selecting tools, devising methods, setting schedules, or resolving disputes. In Taylor's view, the average employee was too thick-headed for such work. In a particularly feculent passage, Taylor portrayed the typical steelworker as "so stupid that the term 'percentage' has no meaning to him." Accordingly, it was necessary not only to standardize work, but to strip it of anything requiring judgment. On this point Taylor was adamant: "It is only through enforced standardization of methods, enforced adoption of the best implements and working conditions, and enforced cooperation that this faster work can be assured." And who was to do the enforcing? Managers, of course.

Excerpt From: Gary Hamel. "Humanocracy." iBooks.

IMAGE OF AN ORGANIZATION

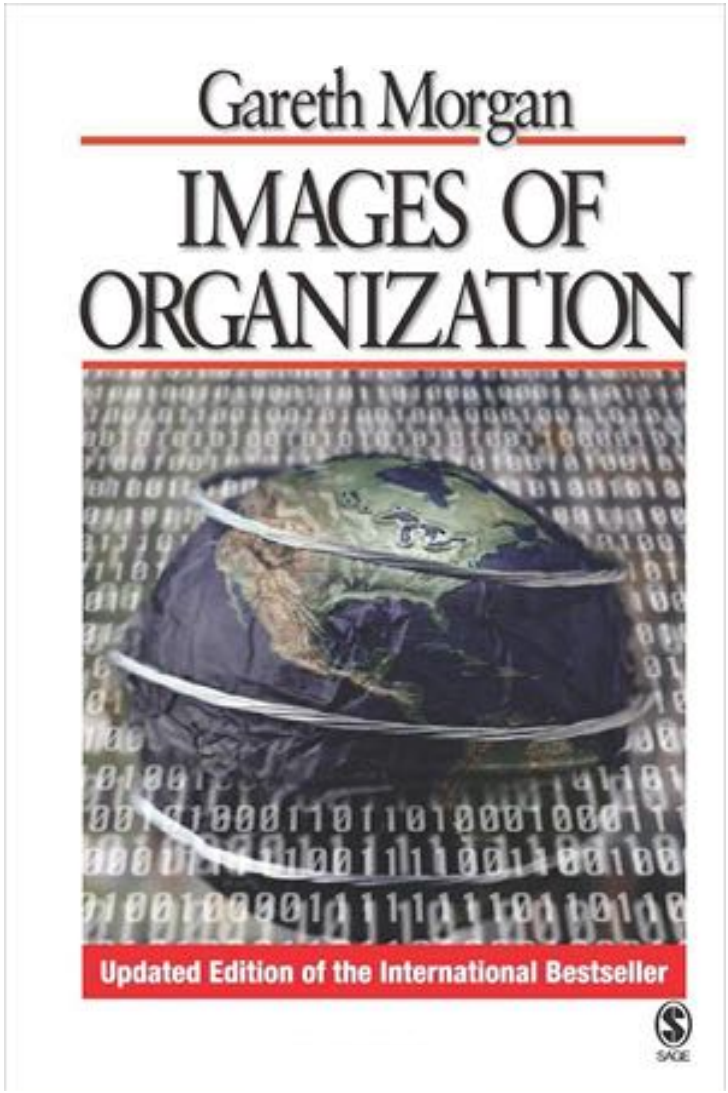
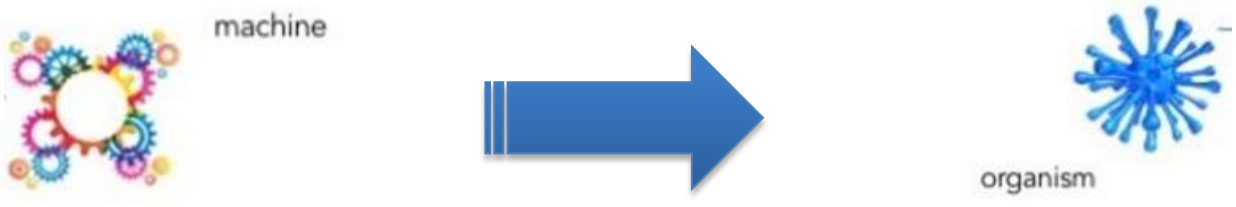


IMAGE OF AN ORGANIZATION

EVOLUTION OF A CONCEPT



Organisation as machine

Characterised by order, efficiency, inputs and outputs, standardisation, ...

The machine metaphor assumes that employees behave more as inanimate cogs and gears than intelligent, thinking, and flexible individuals. This mechanical perspective tends to focus on organisational efficiency and standardisation by breaking down complex organisation systems into discrete parts whose response to change may be predicted.

Change is best achieved through a planned approach managed by those in formal roles of authority.

Organisation as organism

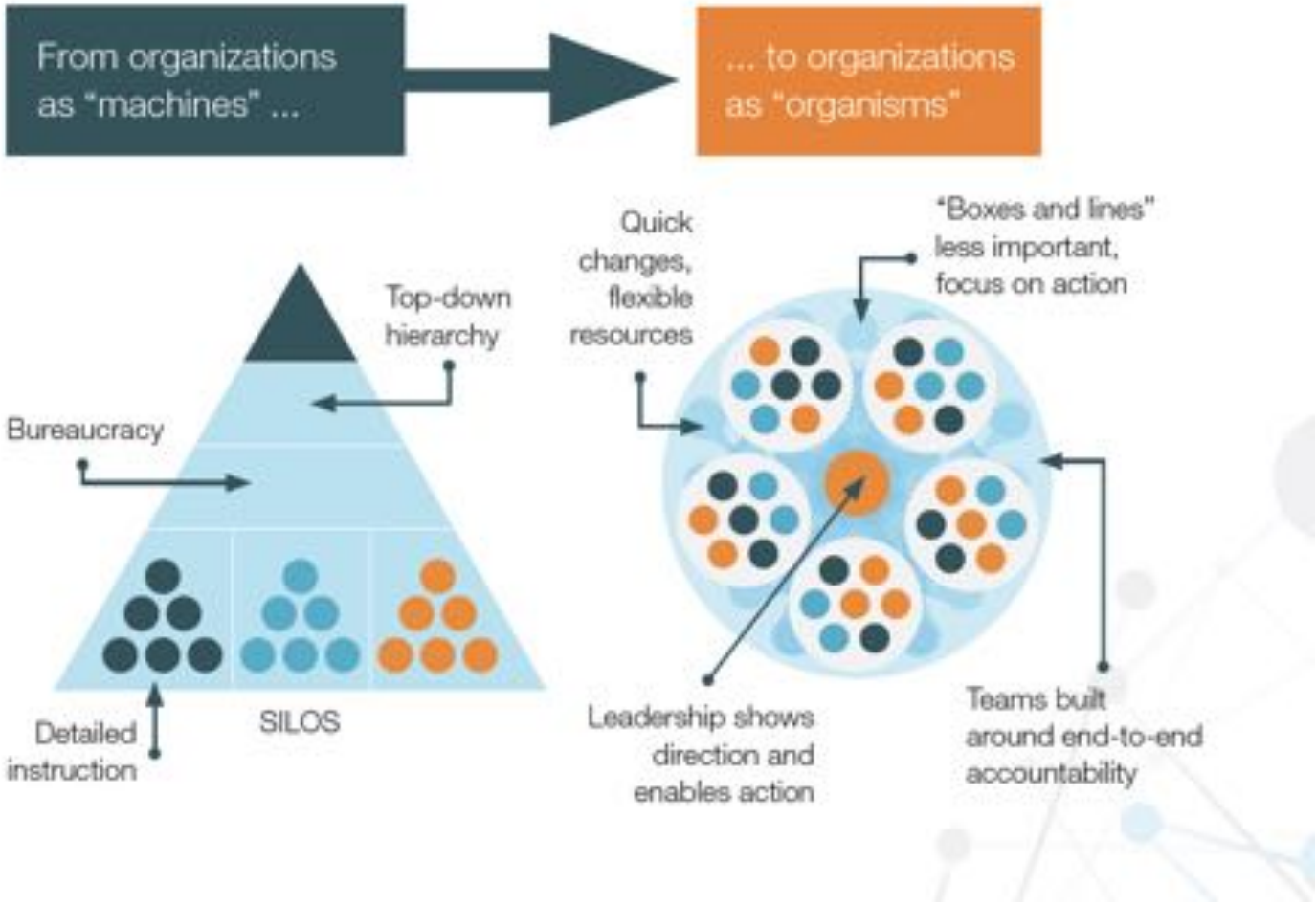
Characterised by living systems, adaptation, life cycles, homeostasis, ...

The organism metaphor focuses on the organisation as a dynamic and adaptive system - one that might change its form to reflect its environment. The systemic inter-relationships between the many parts of the organisation need to be appreciated in order to understand the implications of changing any one part.

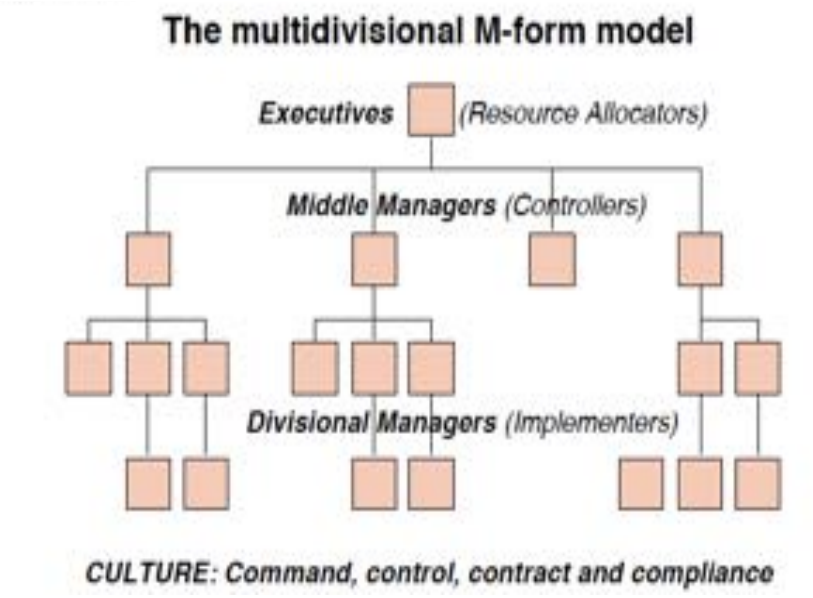
Change is best achieved through appreciating the systemic and dynamic inter-relationships between various elements.

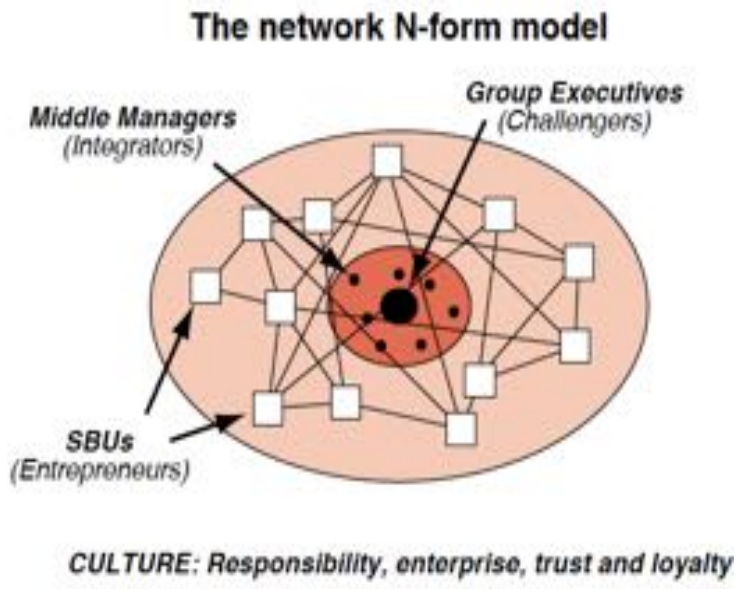
EVOLUTION OF A CONCEPT

Rather than organization as machine, the agile organization is a living organism.

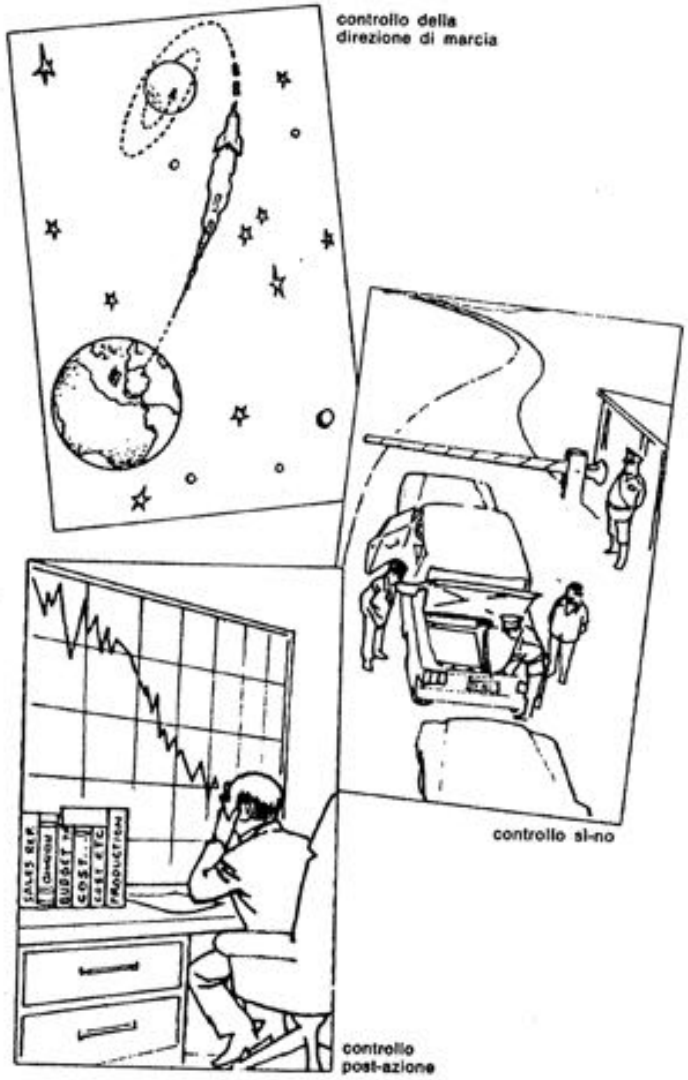


EVOLUTION OF A CONCEPT





TYPES OF CONTROL ACCORDING TO NEWMAN



TYPES OF CONTROL ACCORDING TO NEWMAN

Control efforts can be made much more effective by recognizing three different types of control:

1. **Steering-controls.** Results are predicted and corrective action is taken before the total operation is completed. For example, flight control of the spacecraft aimed for the moon began with trajectory measurements immediately after take-off and corrections were made days before actual arrival.
2. **Yes-no controls**. Here, work may not proceed to the next step until it passes a screening test. Approval to continue is required. Quality checks and legal approval of contracts are examples.
3. **Post-action controls.** In this type of control action is completed; then results are measured and compared to a standard. The typical budgetary control and school report cards illustrate this approach.

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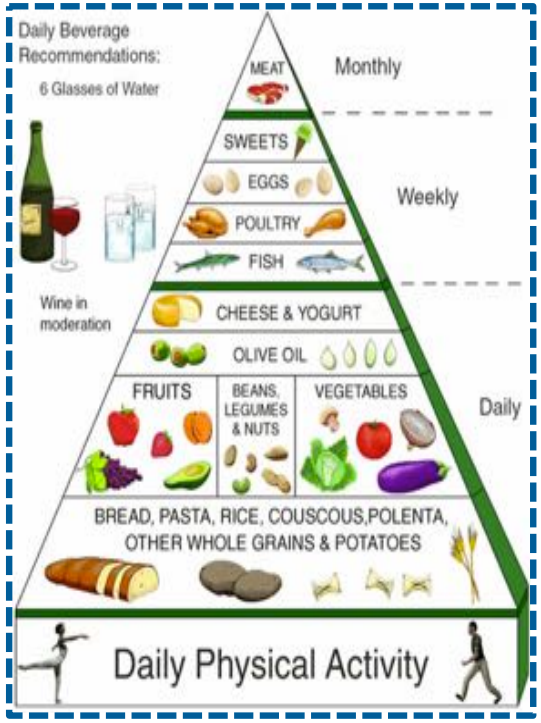
LEVERS OF CONTROL (2)

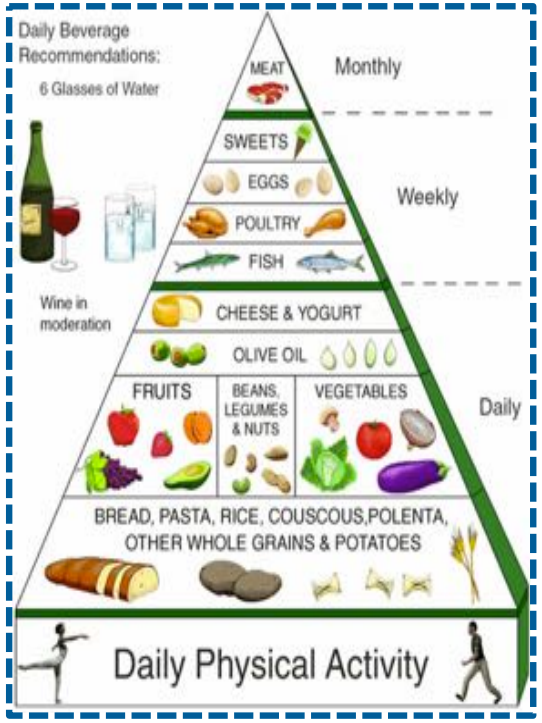
How Managers Use Innovative Control Systems to Drive Strategic Renewal

I. TO ACQUIRE INFORMATION

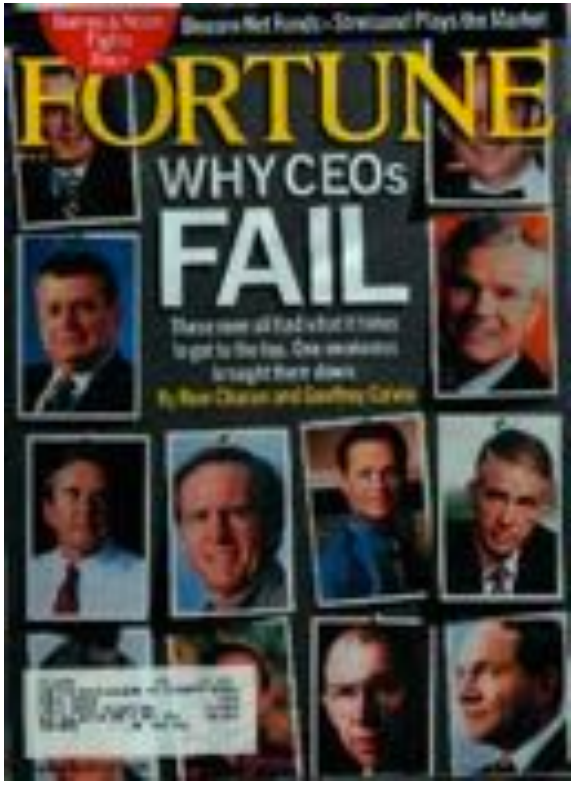
II. TO MAKE DECISIONS



III. TO PUT (THE DECISONS TAKEN) IN PRACTICE



“WHY CEOs FAIL”

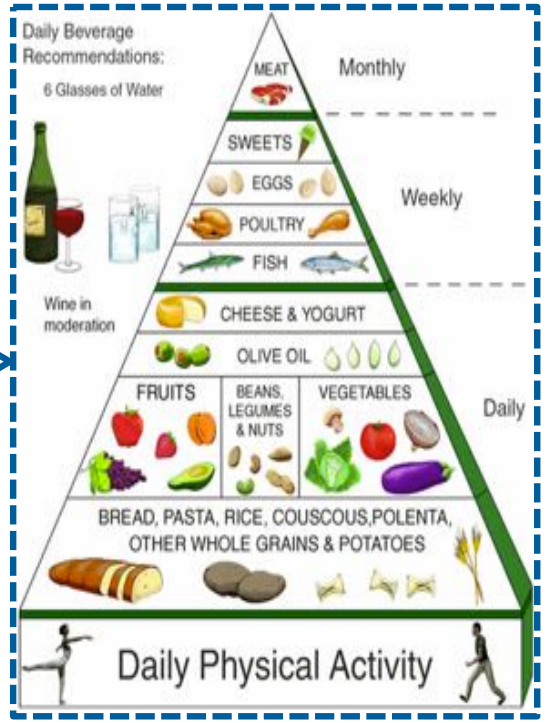


It's bad execution. As simple as that: not getting things done, being indecisive, not delivering on commitments.
We base our conclusions on careful study of several dozen CEO failures we've observed over the decades--through our respective work as a consultant to major corporations and a journalist covering them. The results are beyond doubt.

SCHIZOPHRENIC ORGANIZATIONS

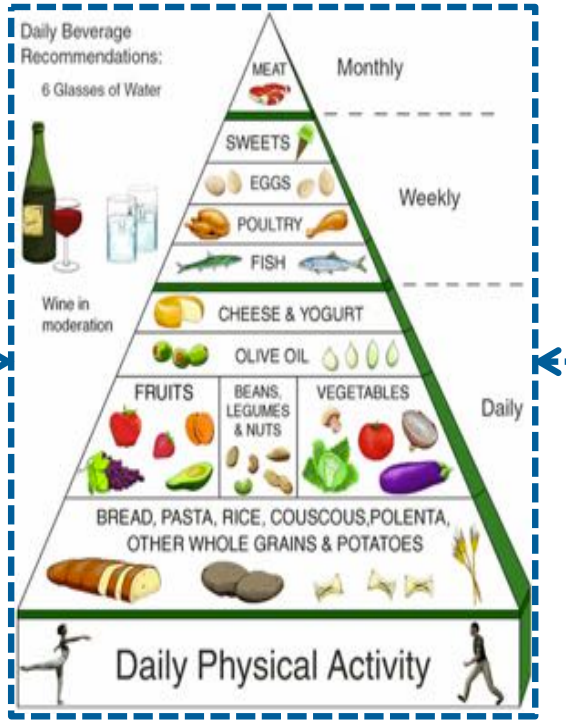
ALIGNMENT

MENTAL MODEL



MENTAL MODEL

CONTROL



MENTAL MODEL

CONTROL

BACK TO THE ORIGINS

Robert Anthony is unanimously recognized as the originator of the whole idea of Management Control. He did more than anyone else to introduce a conceptual structure to this new discipline, derived from Accounting.

In his 1965 masterpiece *Planning and Control Systems: A Framework for Analysis*, published in 1965, Anthony defined management control as "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives".

Subsequently he adjusted it in the following way: "Management control is the process by which managers influence other members of the organization to implement the organization's strategies", Robert Antony, *Planning and control systems: a framework for analysis,* 1988.

PETER DRUCKER ON CONTROL AND CONTROLS

In the dictionary of social institutions, the word “controls” is not the plural of the word “control.” Not only do more controls not necessarily give more control, but the two words have different meanings altogether. The synonyms for controls are “measurements” and “information.” The synonym for control is “direction.” Controls pertain to means; control to an end. Controls deal with facts, that is, with events of the past. Control deals with expectations, that is, with the future. Controls are analytical, concerned with what was and is. Control is normative and concerned with what ought to be.

We are rapidly acquiring great capacity to design controls because of a great improvement in techniques, especially in the application of logical and mathematical tools and in the ability to process and analyze large masses of data very fast.

What does this mean for control? Specifically, what are the requirements for these greatly improved controls to give better control to management? For, in the task of a manager, controls are purely a means to an end. The end is control.

CONSTRUCTIVE VIEW OF THE CONTROL PROCESS

1. **Control is a normal, pervasive, and positive force.**

   Evaluation of results accomplished and feedback of this information to those who can influence future results is a natural phenomenon.

   The cook watches the pie in the oven; the orchestra conductor listens to his orchestra-and its recordings; the doctor checks his patient; the oil refiner tests the quality of his end-product; the farmer counts his chickens; the football coach keeps an eye on the scoreboard.

   The news received may be good or bad, and the "corrective action" may be encouragement or restraint. Assuming a purpose or goal, each person and manager needs to know what progress he is making. There is nothing sinister nor dictatorial about such controlling. Rather, it is a normal aid in achieving results.

CONSTRUCTIVE VIEW OF THE CONTROL PROCESS

2. Managerial control is effective only when it guides someone's behavior

Behavior, not measurements and reports, is the essence of control. We often become so involved with the mechanics of control that we lose sight of its purpose. Unless one or more persons act differently than they otherwise would, the control reports have no impact. Consequently, when we think about designing and implementing control, we must always ask ourselves, "Who is going to behave differently, and what will be the nature of his response?"

Some controls provoke over-reaction. Many profit-centered controls, for instance, lead to excessive preoccupation with very short-run results. On the other hand, controls seeking personnel changes –such as increased employment of blacks-often get token acceptance and may even lead to practices that restrict "equal opportunity."

It is the behavioral response to controls that really matters.

CONSTRUCTIVE VIEW OF THE CONTROL PROCESS

3. Successful control is future-oriented and dynamic.

We use early measurements to predict where our present course is leading, and modify inputs to keep us on target evaluation comes early and involves prediction. Fine tuning then can be introduced prior to the main completion date.

Even those evaluations made after work is completed yield their chief benefit in guiding similar activity in the future.

The future is uncertain. So most controls provide for adjusting to unexpected conditions. For some routine operations we can safely use a static response. Often, however, the control design should include monitoring of the environment to flag changes in operating conditions.

Increasingly, controls must aid managers in reaching a "moving target."

CONSTRUCTIVE VIEW OF THE CONTROL PROCESS

4. Control relates to all sorts of human endeavors

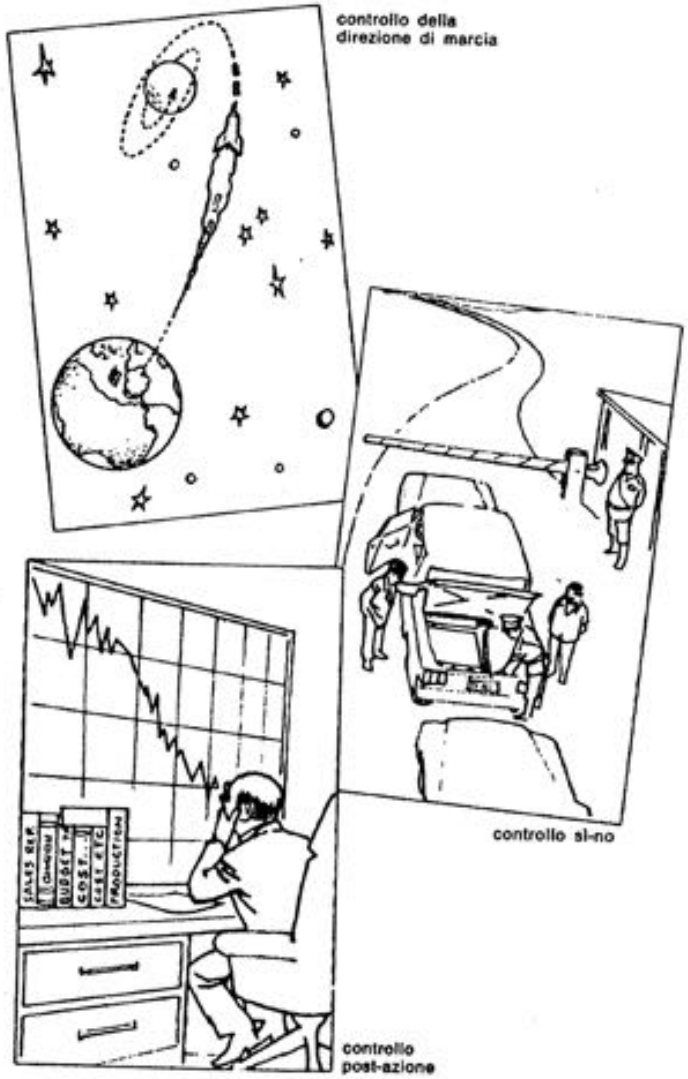
The need for evaluation and feedback is just as pressing in charitable organizations as in profit-seeking corporations. Each is concerned with attaining its goals and each has limited resources.

Moreover, control should not be confined to easy-to-measure results. Ingenuity may be required to devise measures of intangible output.

Nevertheless, constructive managerial control has a vital role to play whenever people join their efforts to achieve some common purpose.

Traditional controls miss many opportunities. To obtain the potential benefits we need a fresh approach-viewing control as a positive force, concentrating on behavioral responses, taking a future orientation, and including intangible and long-run results in a balanced control system.

TYPES OF CONTROL ACCORDING TO NEWMAN



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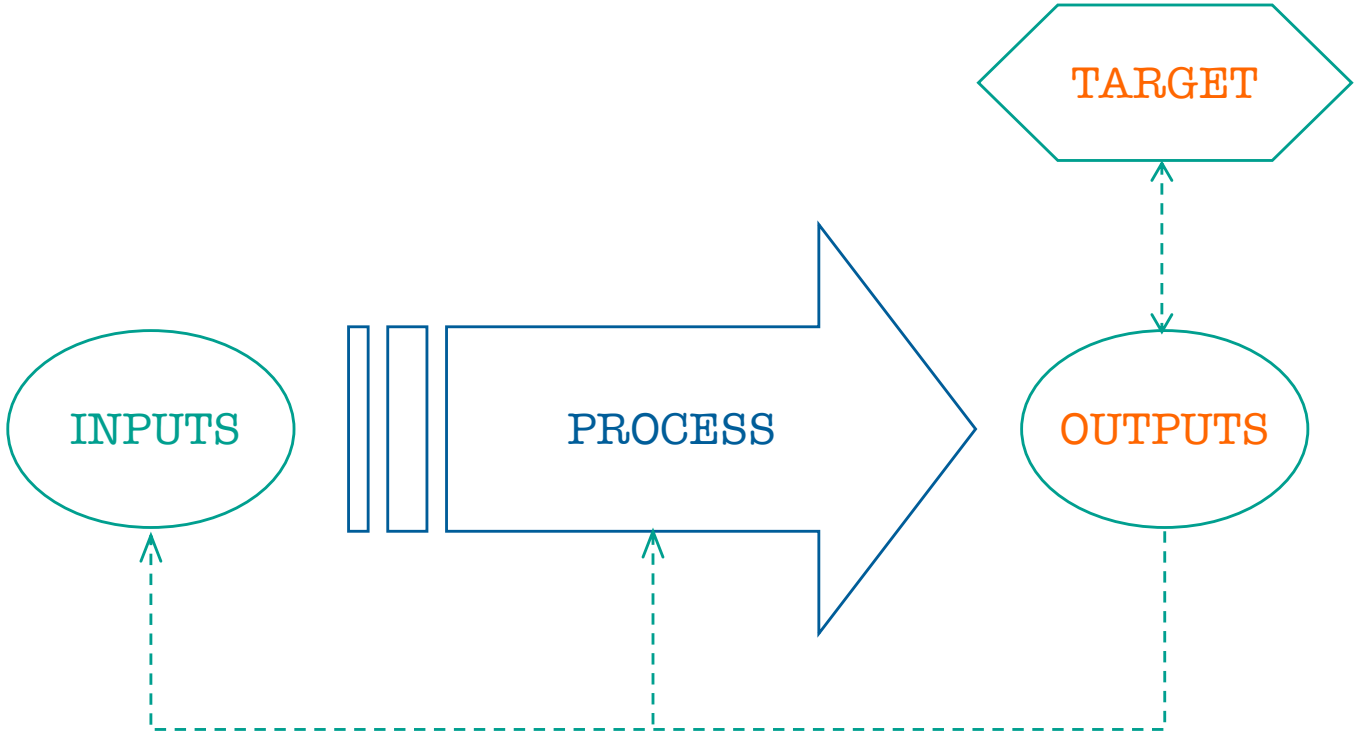
SOME REFLECTIONS

It is **steering-controls** that offer the greatest opportunity for constructive effect. The chief purpose of all controls is to bring actual results as close as possible to desired results, and steering-controls provide a mechanism for remedial action while the actual results are still being shaped.

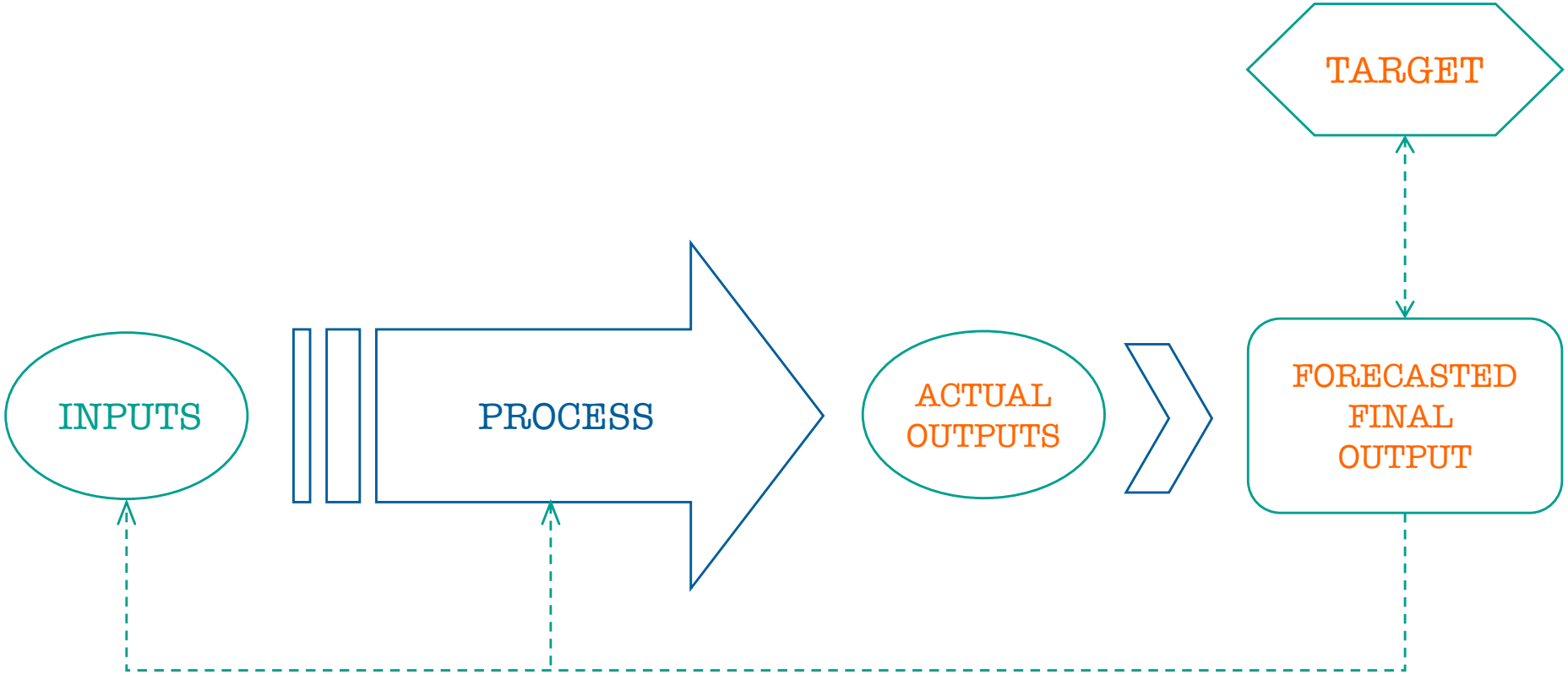
Yes-no controls are essentially safety devices. If we could be confident that our steering-controls were effective, the yes-no controls would be unnecessary; unfortunately, steering-controls may not be fully reliable, or may be too expensive, so yes-no controls are applied.

Post-action controls, by definition, seem to be applied too late to be very effective. The work is already completed before it is measured.

POST ACTION CONTROL



STEERING CONTROL



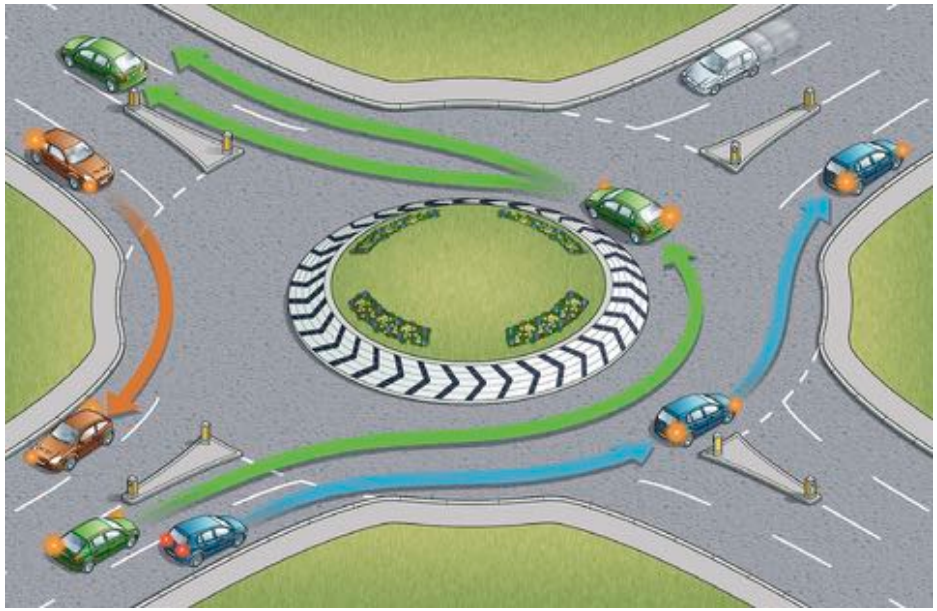
POSSIBLE PURPOSES OF POST-ACTION CONTROLS

Actually, post-action controls do serve two purposes.

a) If rewards (a medal, bonus, discharge, self-esteem, etc.) based on actual results have been promised, these results must be measured and the appropriate rewards made to build future expectations about the dose relationship between actual results and rewards. The aim is psychological reinforcement of the incentive scheme. The pay-off in this reinforcement lies in future behavior.

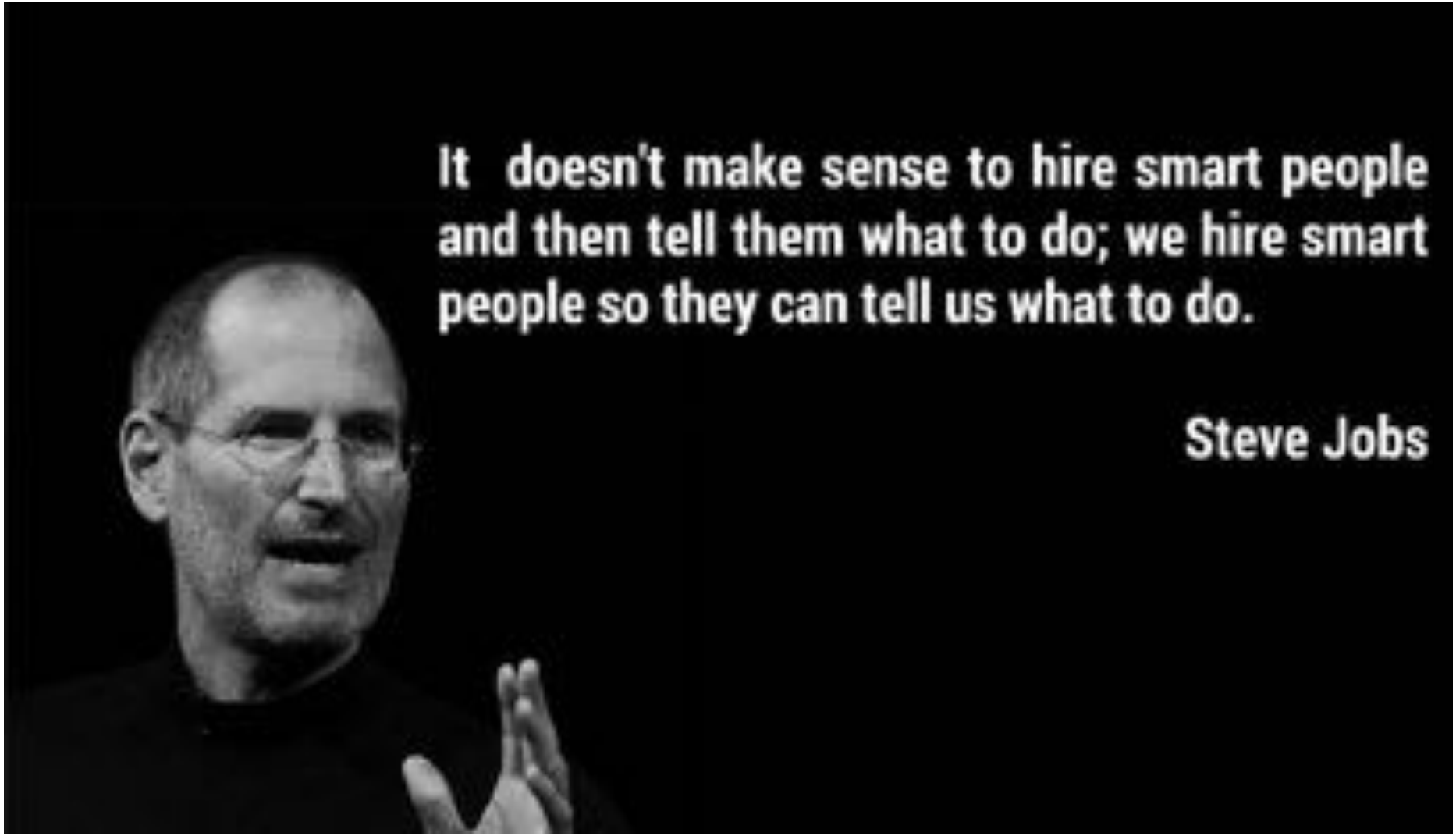
b) Post-action controls also provide planning data if similar work is undertaken in the future.

DESIGNING CONTROLS



Source: Bjarte Bogsnes, Implementing Beyond Budgeting Unlocking the Performance Potential, Wiley, 2016.

DESIGNING CONTROLS



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LEVERS OF CONTROL (3)

How Managers Use Innovative Control Systems to Drive Strategic Renewal

CONTROLING AS DRIVING: A GREAT ANALOGY

Like a formula 1 driver, a manager must have the ability to direct the resources assigned to him or her along winning directions!

IF HE OR SHE WANTS TO WIN, A GOOD DRIVER MUST…

- know at all times where he is and have an idea of where he wants to go and, therefore, which trajectories he wants to follow
- know how the opposing drivers are behaving
- know perfectly well how the 'resource' (the car) at his disposal really works
- have the ability to perceive the onset of any problems before they are manifested
- have at the same time the ability to understand what is working properly
- have sufficient information flow (from the pits) and be able to interpret it correctly and quickly
- be able to extract the maximum result from his vehicle, without depleting it, but on the contrary making it grow in quality over time.


POWER IS NOTHING WITHOUT CONTROL
Carl Lewis – multi gold medalist at the last two Olympics
No matter what you drive, we have the perfect tyre for you!
PIRELLI


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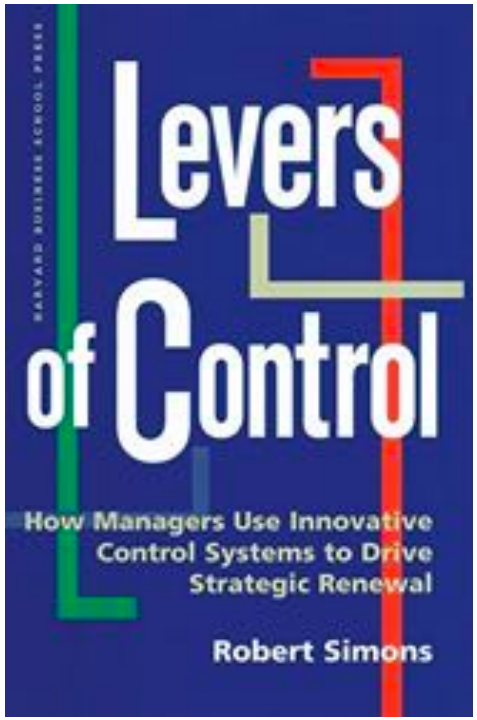
MANAGING TENSIONS

COMPLEXITY OF HUMAN NATURE

A BALANCED APPROACH TO CONTROL

A GREAT FRAMEWORK



MANAGEMENT CONTROL SYSTEMS (1)

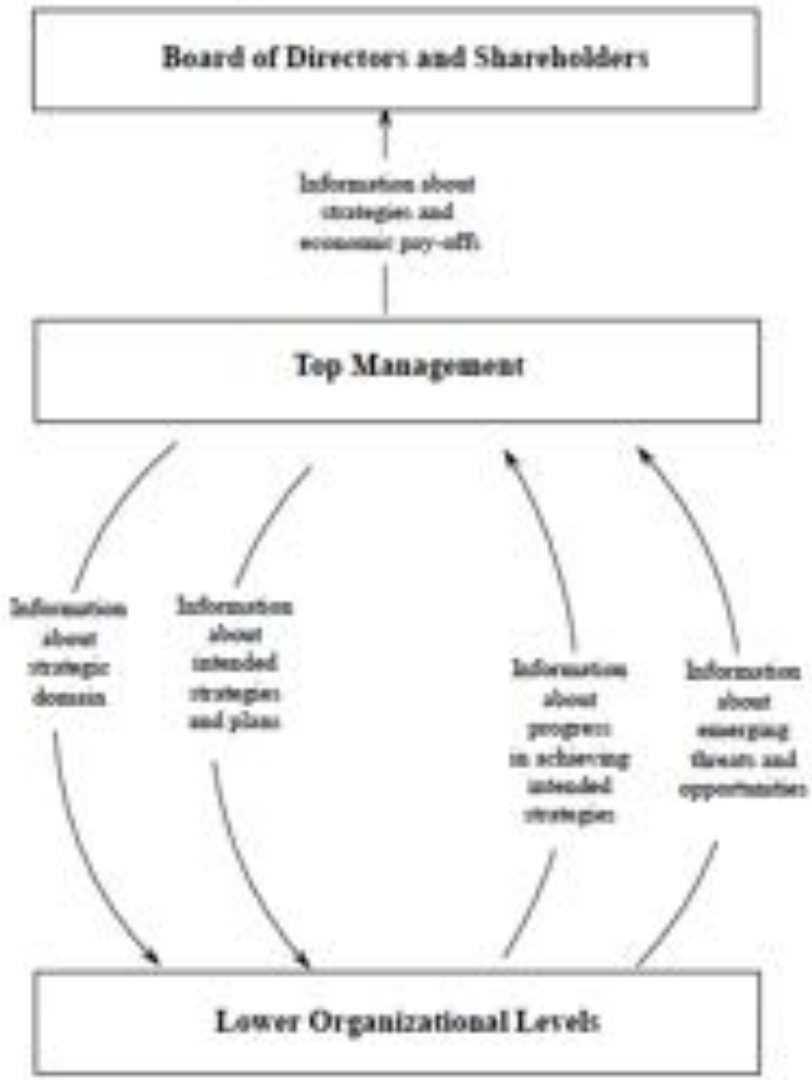
"Management Control Systems (MCS) are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities".

Four aspect of this definition are important:

1. The purpose of any MCS is to convey information. This systems focus on data – financial and non financial information that influence decision making and managerial action;
2. The components of this systems are formal routines and procedures. Information is written down or entered into a computer system and captured in standard formats, either on paper, either in paper documents or in computer based systems. The recording, analyzing and distributing of this information is embedded in the rhythm of the organization, and is often based on predetermined practices and at present times in the business cycle.

INFORMATION FLOWS

UNDERLYING ORGANIZATIONAL PROCESSES

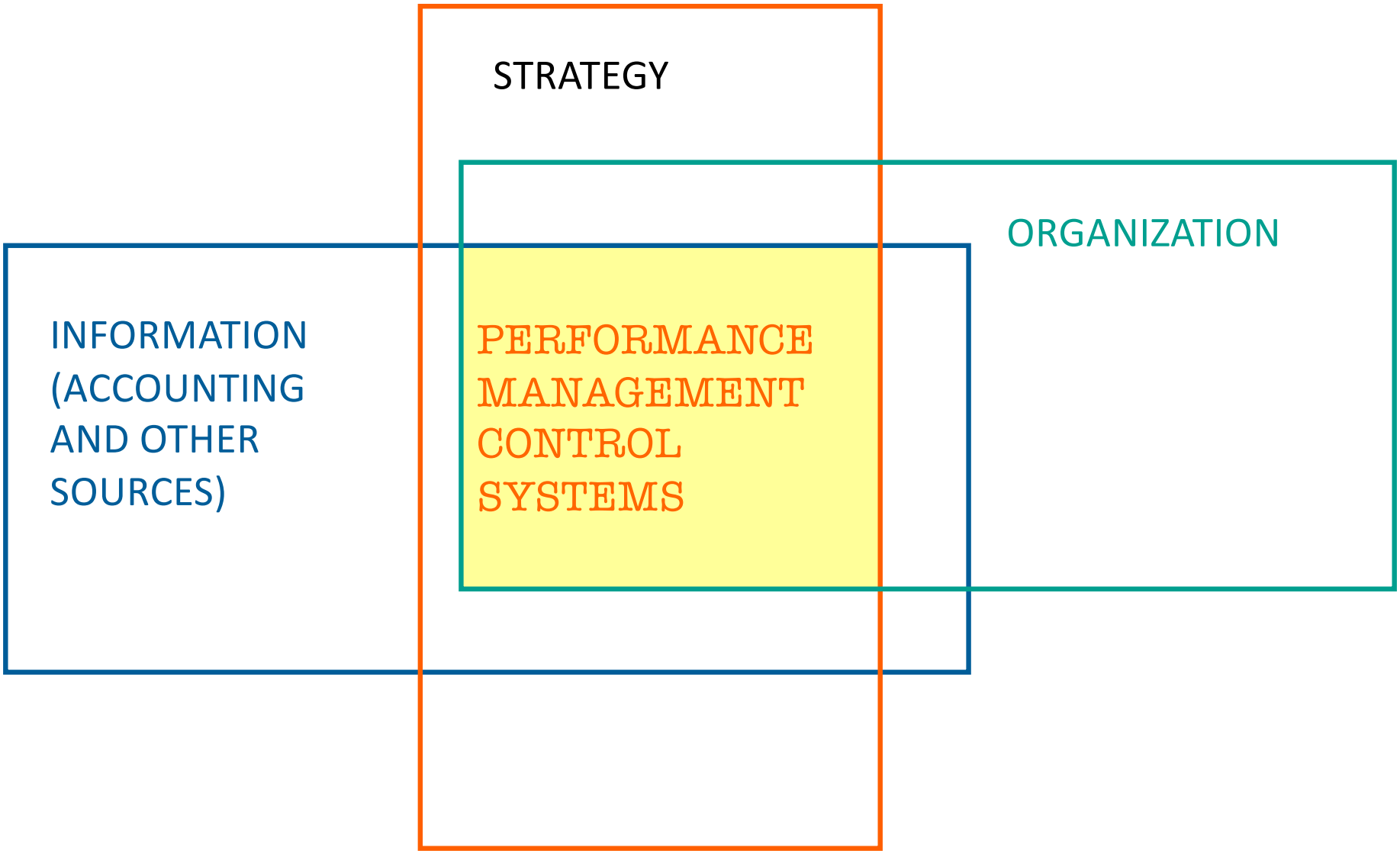


Source: Robert Simons, "Strategy Execution Module 3: Using Information for Performance and Control", HBS Publishing, 2017

MANAGEMENT CONTROL SYSTEMS (2)

3. These systems are designed to be used by managers. Organization create massive amounts of information, not all of which is directly relevant to managers in their day-to-day work. A profit statement for a division or data on customers satisfaction is part of a management control system; information received by shipping clerks to allow them to pick merchandises from inventory for specified customers is not.
4. Managers use these systems to maintain or alter patterns in organizational activities. Desirable pattern of activity may relate to efficiency and error-free processing, such yield rates in a manufacturing process. In other instances, they may relate to patterns of ongoing creativity and innovation in product or internal processes, such as the percentage of sales from new product or year-over-year improvement in processing speed. .

CROSS FUNCTIONAL SYSTEMS

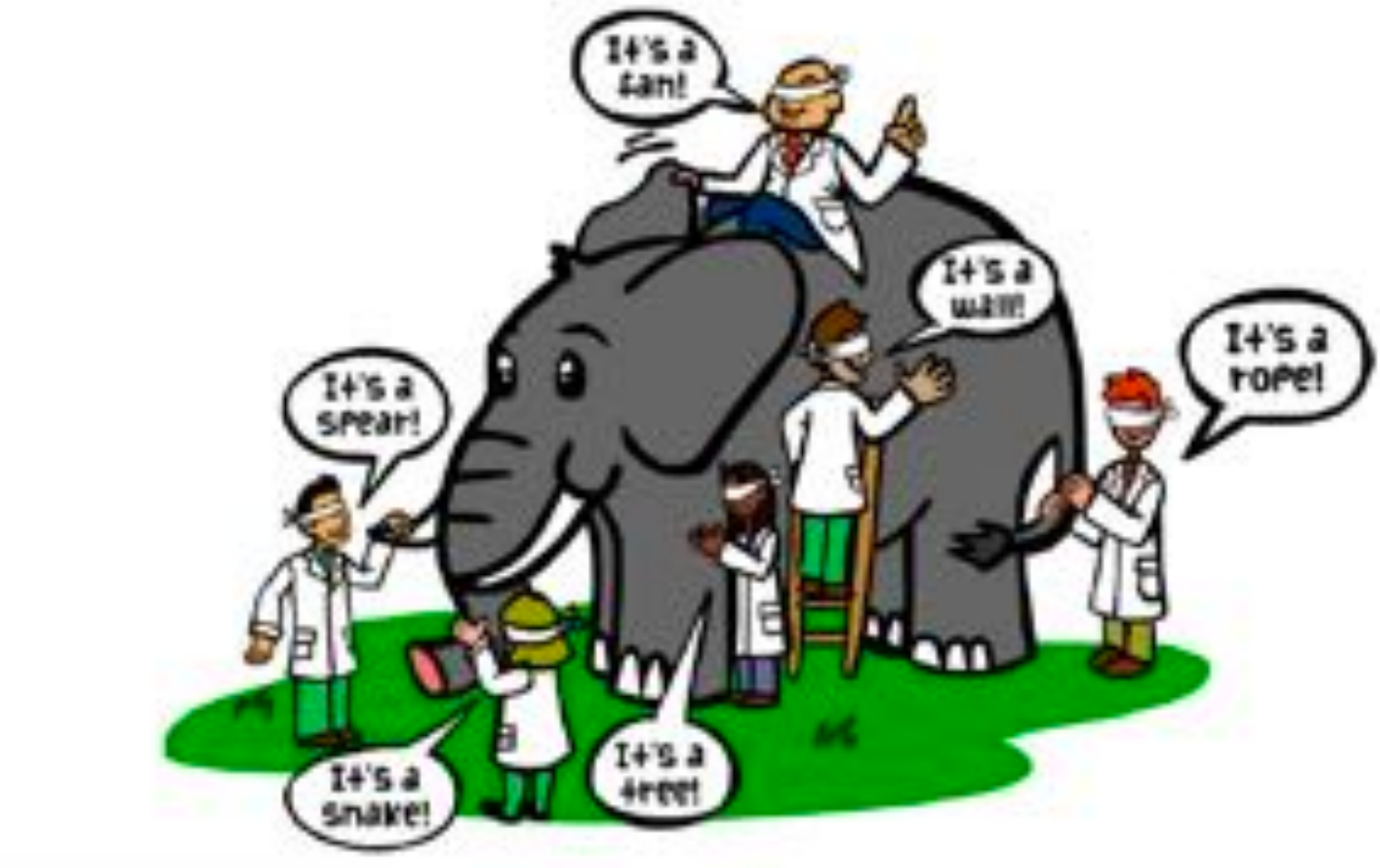


LEVERS OF CONTROL

THERE IS NO CONTROL WITHOUT STRATEGY

BUSINESS
STRATEGY

THE CONCEPT OF STRATEGY IS MULTIFACED



THE CONCEPT OF STRATEGY IS MULTIFACED

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 BLIND MEN AND THE ELEPHANT

I.
IT was six men of Indostan
To learning much inclined,
Who went to see the Elephant
(Though all of them were blind),
That each by observation
Might satisfy his mind.

II.
The *First* approached the Elephant,
And happening to fall
Against his broad and sturdy side,
At once began to bawl:
"God bless me!—but the Elephant
Is very like a wall!"

III.
The *Second*, feeling of the tusk,
Cried: "Ho!—what have we here
So very round and smooth and
sharp?
To me 't is mighty clear
This wonder of an Elephant
Is very like a spear!"

IV.
The *Third* approached the animal,
And happening to take
The squirming trunk within his
hands,
Thus boldly up and spake:
"I see," quoth he, "the Elephant
Is very like a snake!"

V.
The *Fourth* reached out his eager
hand,
And felt about the knee.
"What most this wondrous beast is
like
Is mighty plain," quoth he;
"'T is clear enough the Elephant
Is very like a tree!»

VI.
The *Fifth*, who chanced to touch the
ear,
Said: "E'en the blindest man
Can tell what this resembles most;
Deny the fact who can,
This marvel of an Elephant
Is very like a fan!"

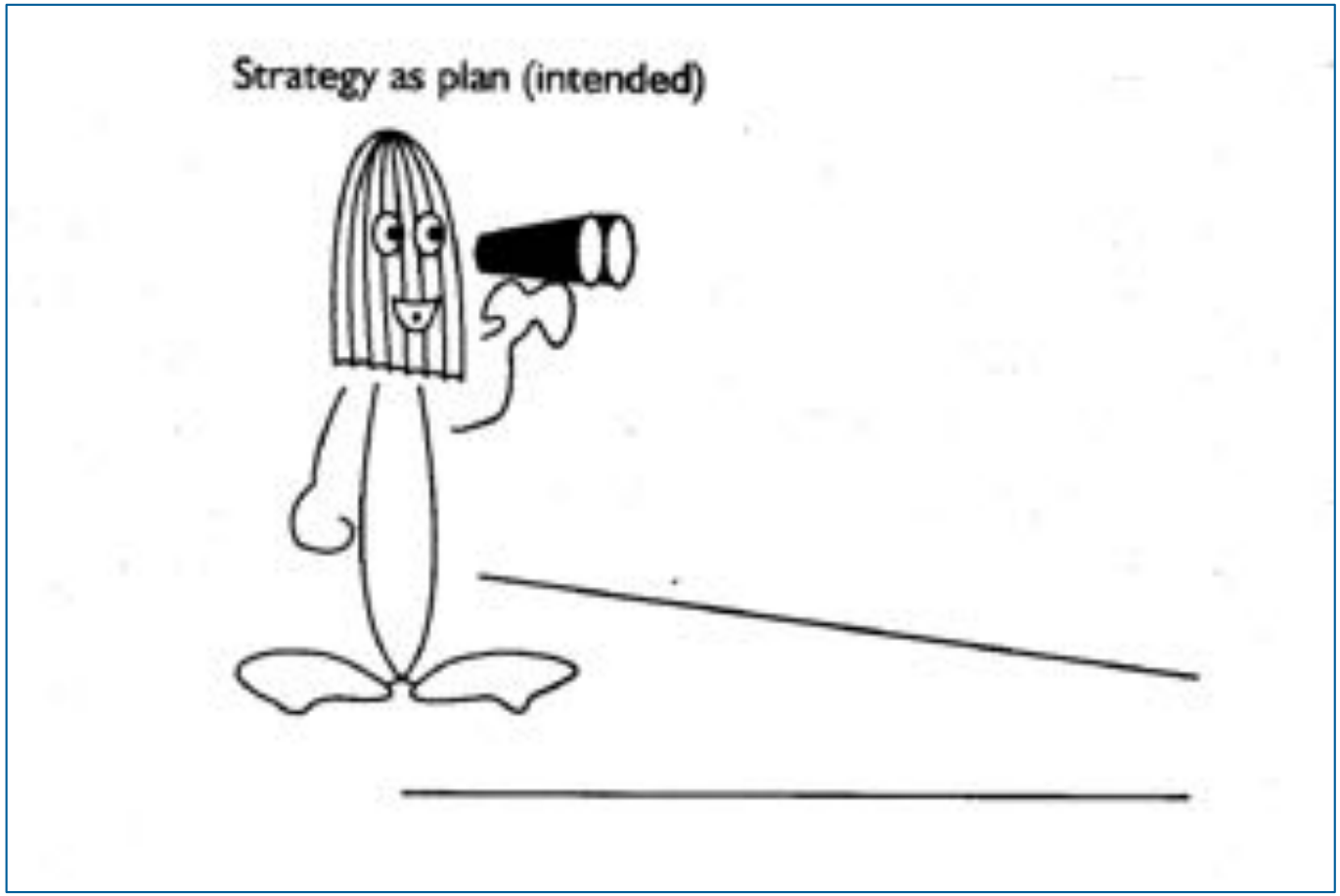
VII.
The *Sixth* no sooner had begun
About the beast to grope,
Than, seizing on the swinging tail
That fell within his scope,
"I see," quoth he, "the Elephant
Is very like a rope!"

VIII.
And so these men of Indostan
Disputed loud and long,
Each in his own opinion
Exceeding stiff and strong,
Though each was partly in the right,
And all were in the wrong!

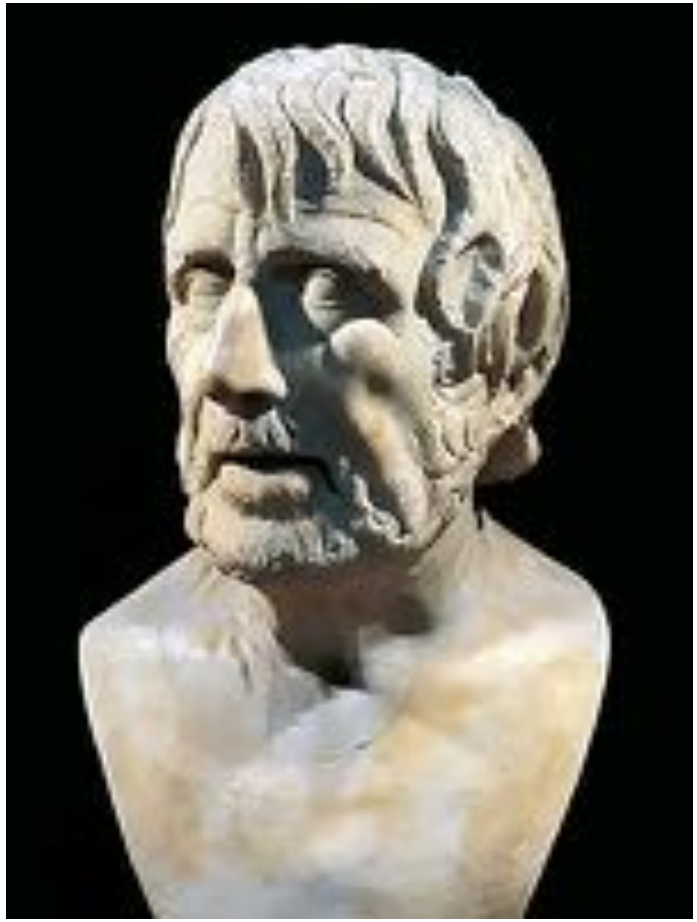
MORAL.
So, oft in theologic wars
The disputants, I ween,
Rail on in utter ignorance
Of what each other mean,
And prate about an Elephant
Not one of them has seen!

by John Godfrey Saxe (1872)

STRATEGY AS PLAN



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.

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

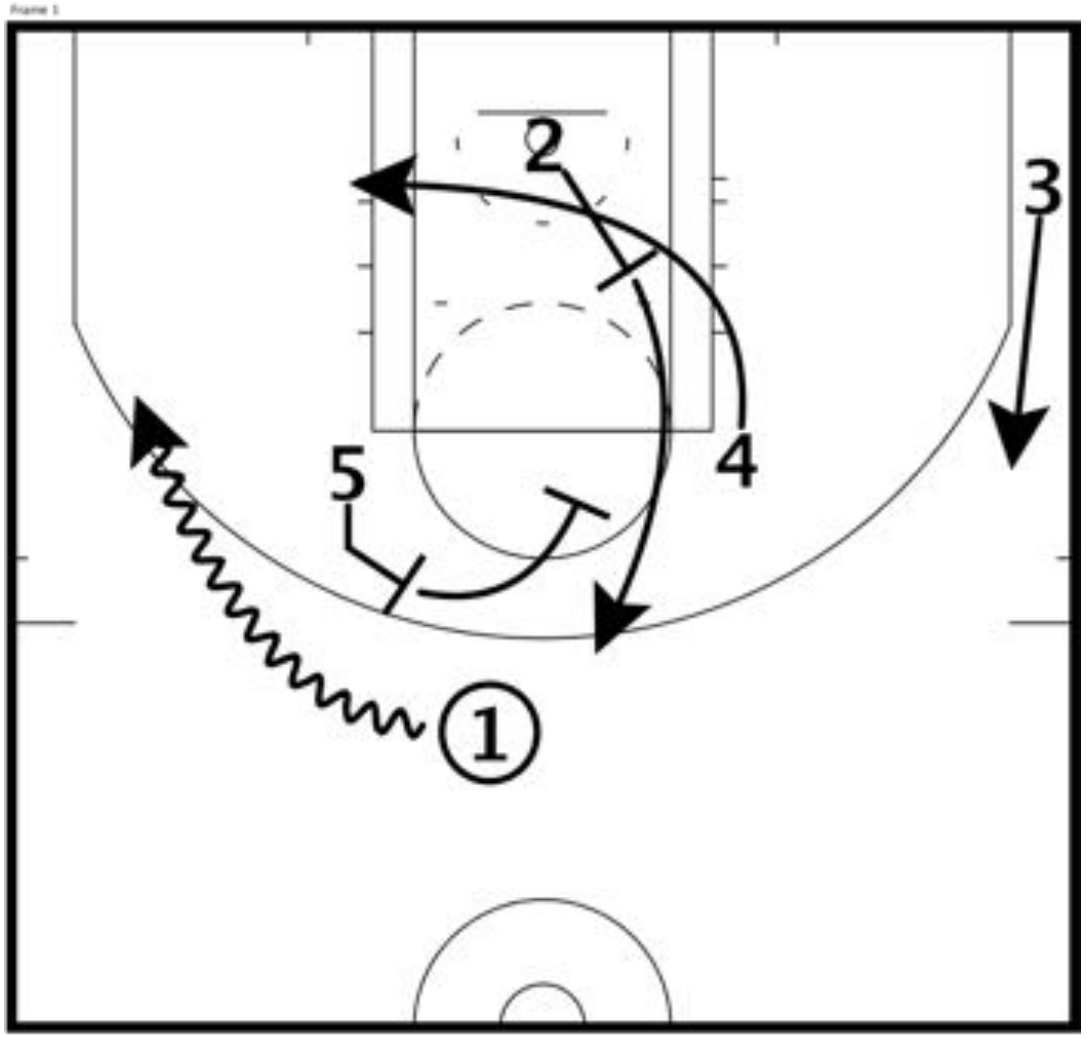
- **S**trengths
- **W**eaknesses

INTERNAL

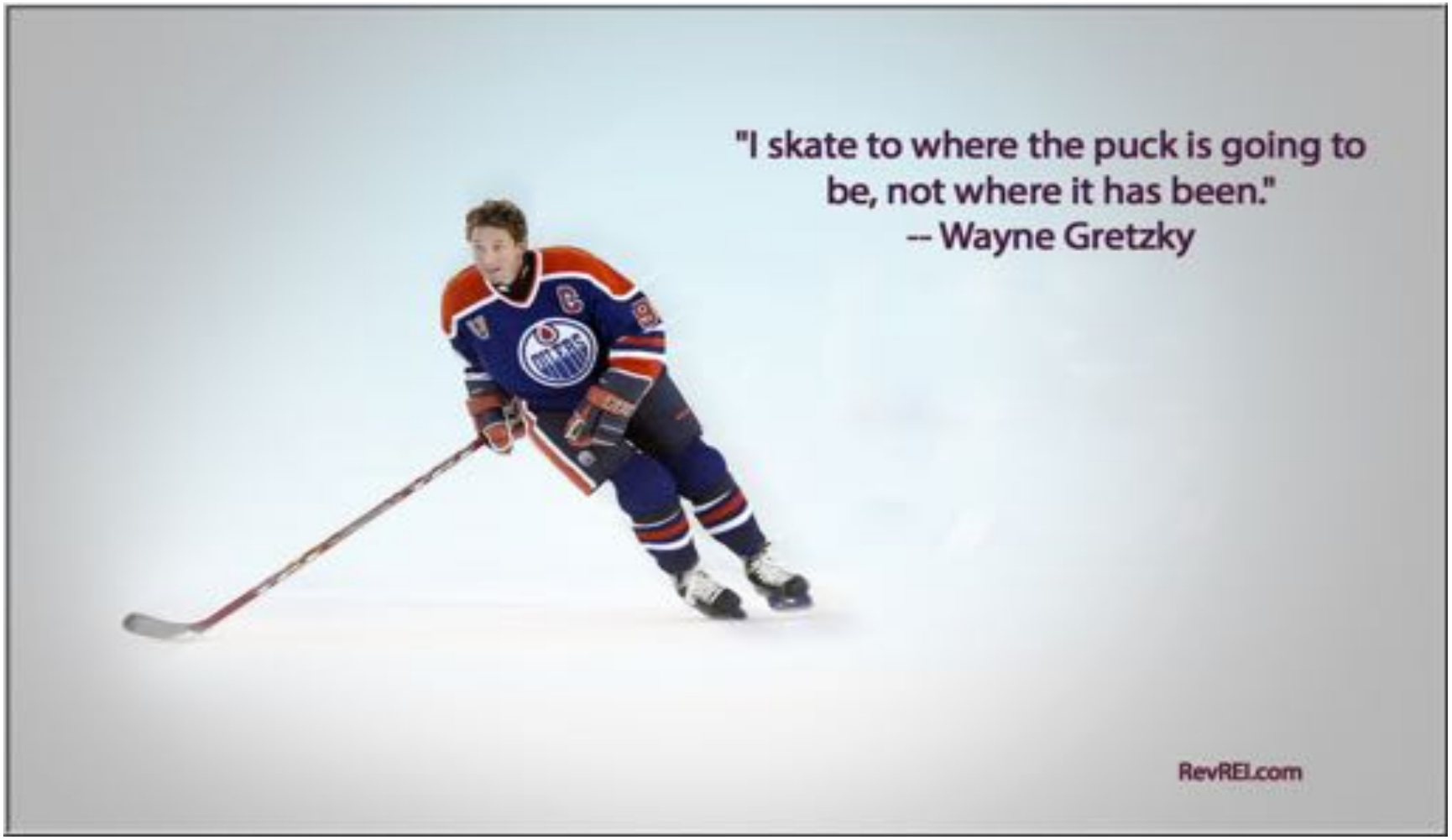
- **O**pportunities
- **T**hreats

EXTERNAL

BASKETBALL PLAY DIAGRAM

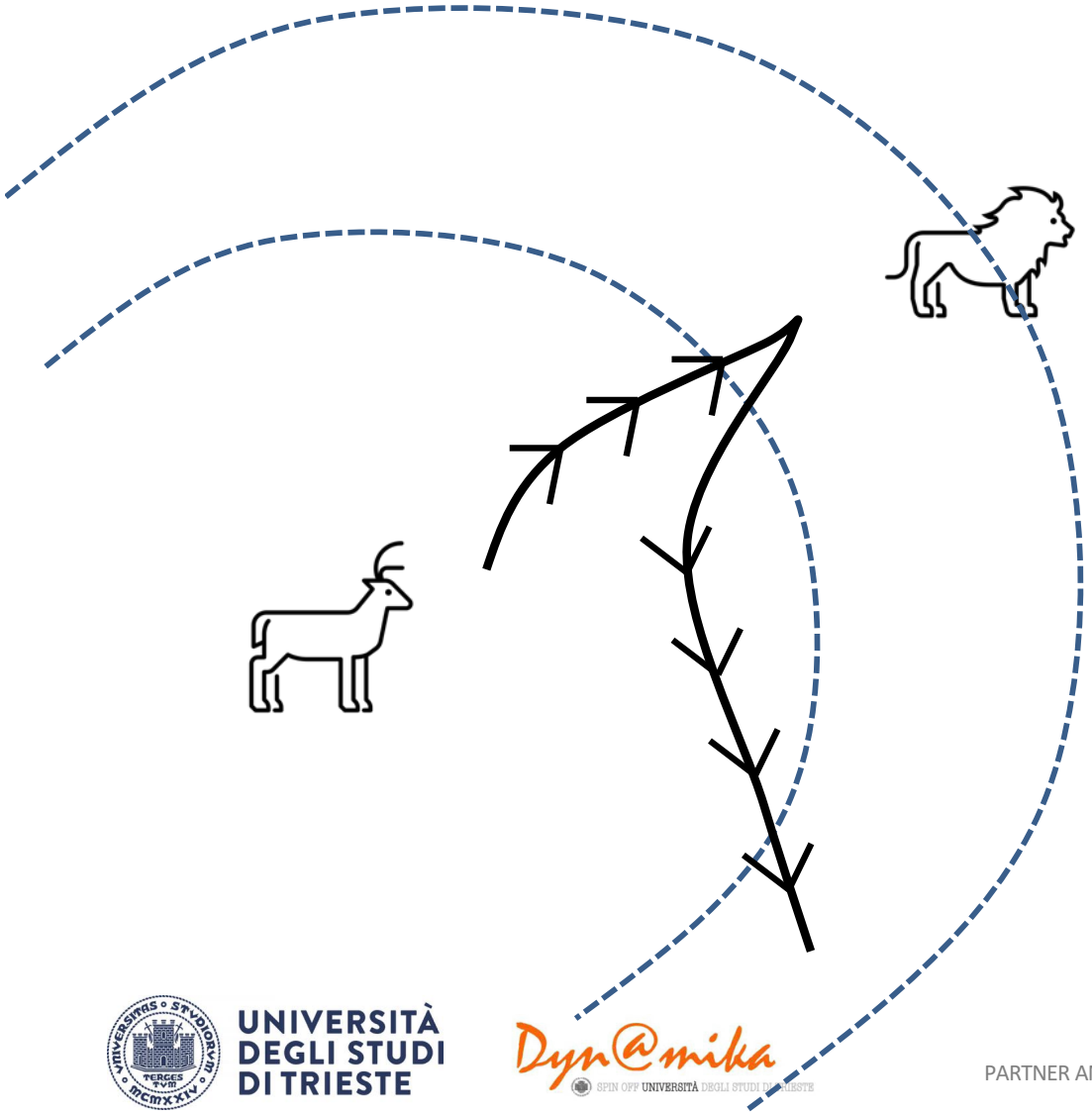


A PLAN IS FORWARD LOOKING

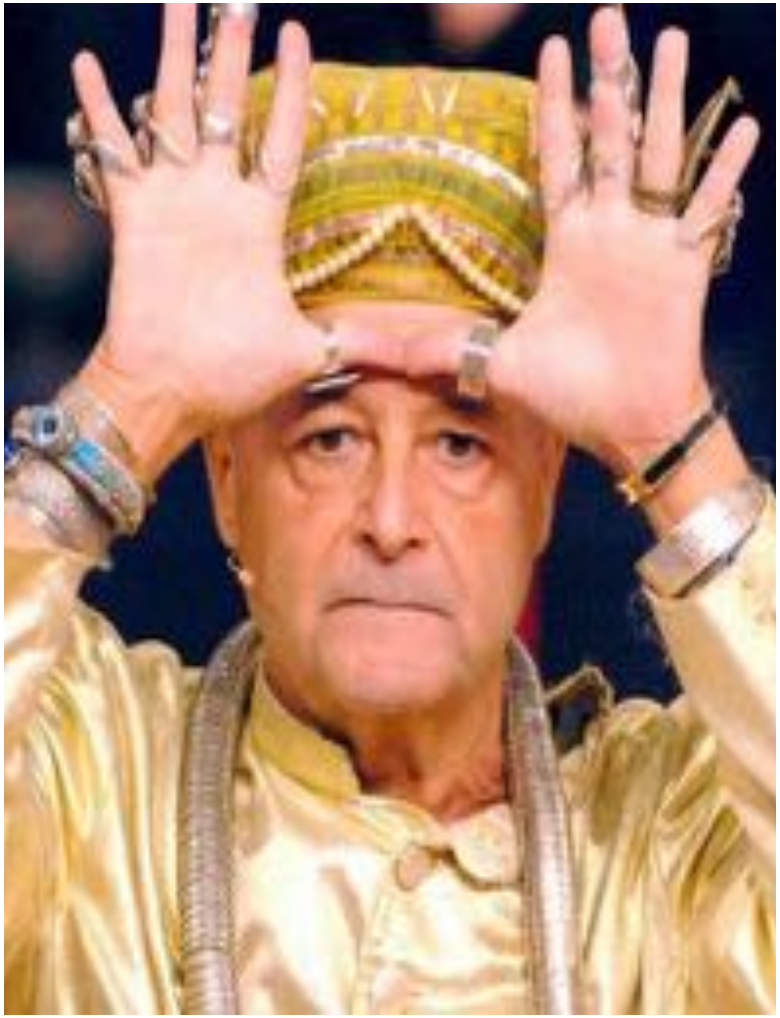


… BUT IT IS NOT A PREDICTION

CONTROL AS A NATURAL NEED



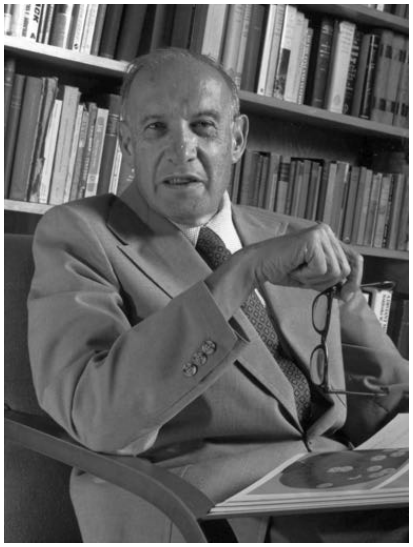
A PLAN IS NOT A PREDICTION



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 AND FORECASTING



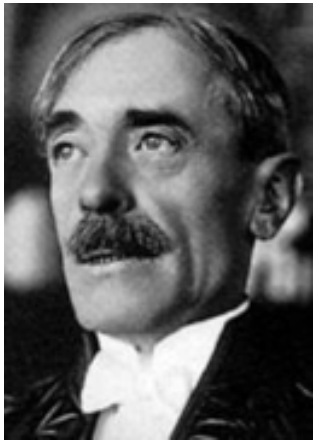
"Any attempt to base today's actions and commitments on predictions of future events is futile."

Peter Ferdinand Drucker, management consultant, educator, and author.

"The only function of economic forecasting is to make astrology look respectable."

John Kenneth Galbraith, economist, diplomat, public official, and intellectual.

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.

ON PLANS

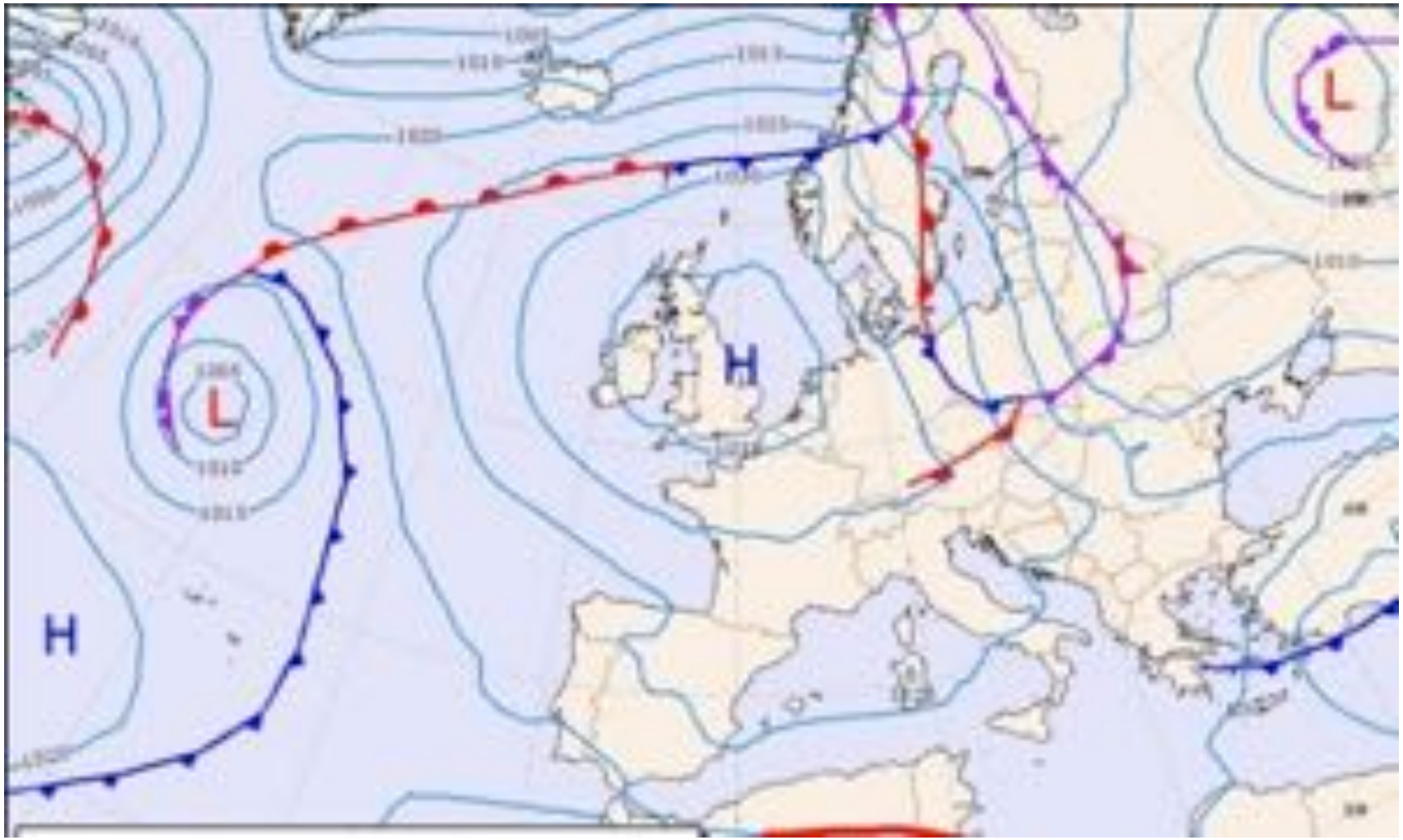
"In preparing for battle, I have always found that plans are useless, but planning is indispensable"

Dwight Eisenhower, military officer, USA president

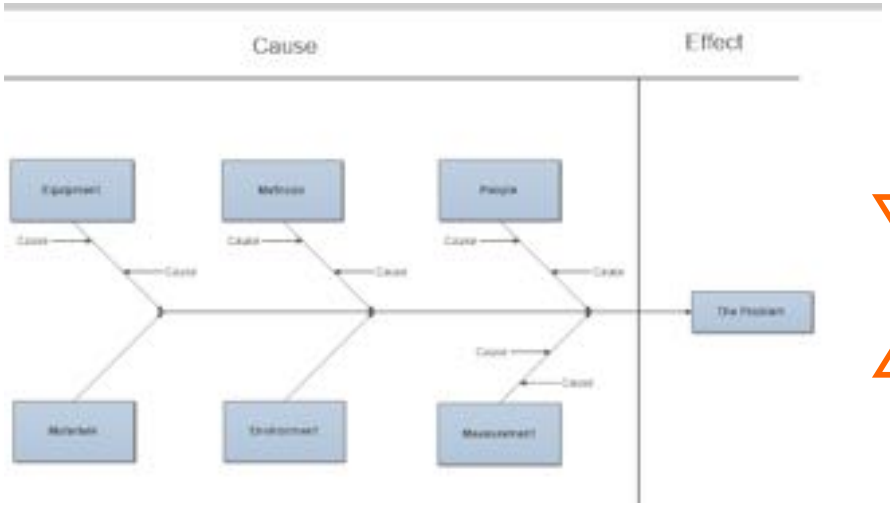
"Plans are of little importance, but planning is essential."

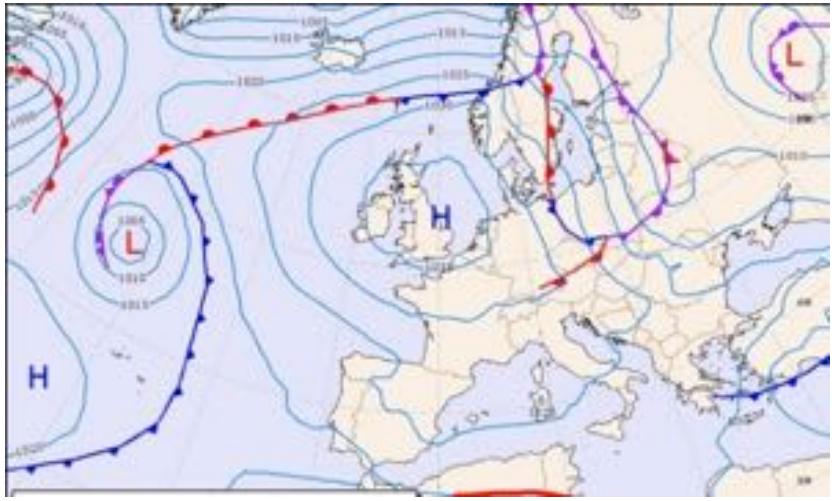
Winston Churchill, former British Prime Minister.

RELATION BETWEEN A PLAN AND A FORECAST?



A FORECAST BASED ON A CAUSE-AND-EFFECT MODEL





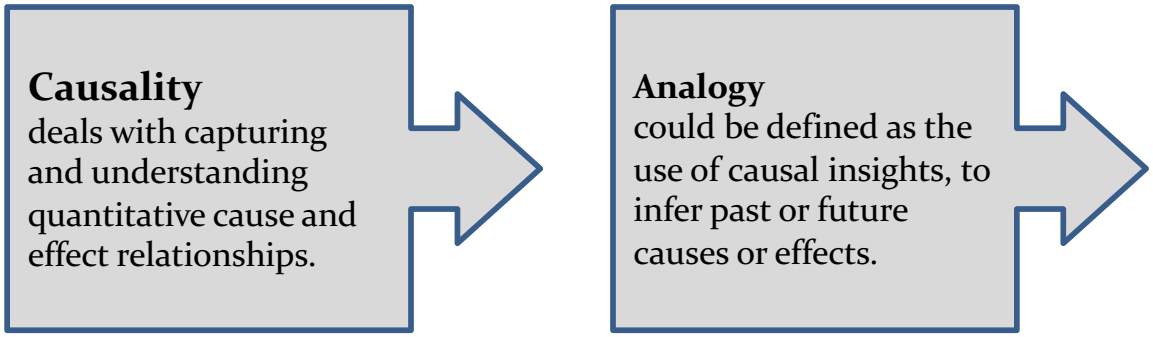
Causality
deals with **capturing and understanding quantitative cause and effect relationships.**

Analogy
could be defined as the use of causal insights, to infer past or future causes or effects.

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

GOOD STRATEGY

Good strategy is **coherent action backed up by an argument**, an effective **mixture of thought and action** with a basic underlying structure I call the kernel:

The kernel of a strategy contains three elements:

- A **diagnosis** that defines or explains the nature of the challenge. A good diagnosis simplifies the often overwhelming complexity of reality by identifying certain aspects of the situation as critical.
- A **guiding policy** for dealing with the challenge. This is an overall approach chosen to cope with or overcome the obstacles identified in the diagnosis.
- A **set of coherent actions** that are designed to carry out the guiding policy. These are steps that are coordinated with one another to work together in accomplishing the guiding policy.

SOURCE: RICHARD P. RUMELT, "GOOD STRATEGY/BAD STRATEGY"

GUIDING POLICY

The guiding policy outlines an overall approach for overcoming the obstacles highlighted by the diagnosis. It is "guiding" because it channels action in certain directions without defining exactly what shall be done.

Like the guardrails on a highway, the guiding policy directs and constrains action without fully defining its content.

Good guiding policies are not goals or visions or images of desirable end states. Rather, they define a method of grappling with the situation and ruling out a vast array of possible actions.

SOURCE: RICHARD P. RUMELT, "GOOD STRATEGY/BAD STRATEGY"

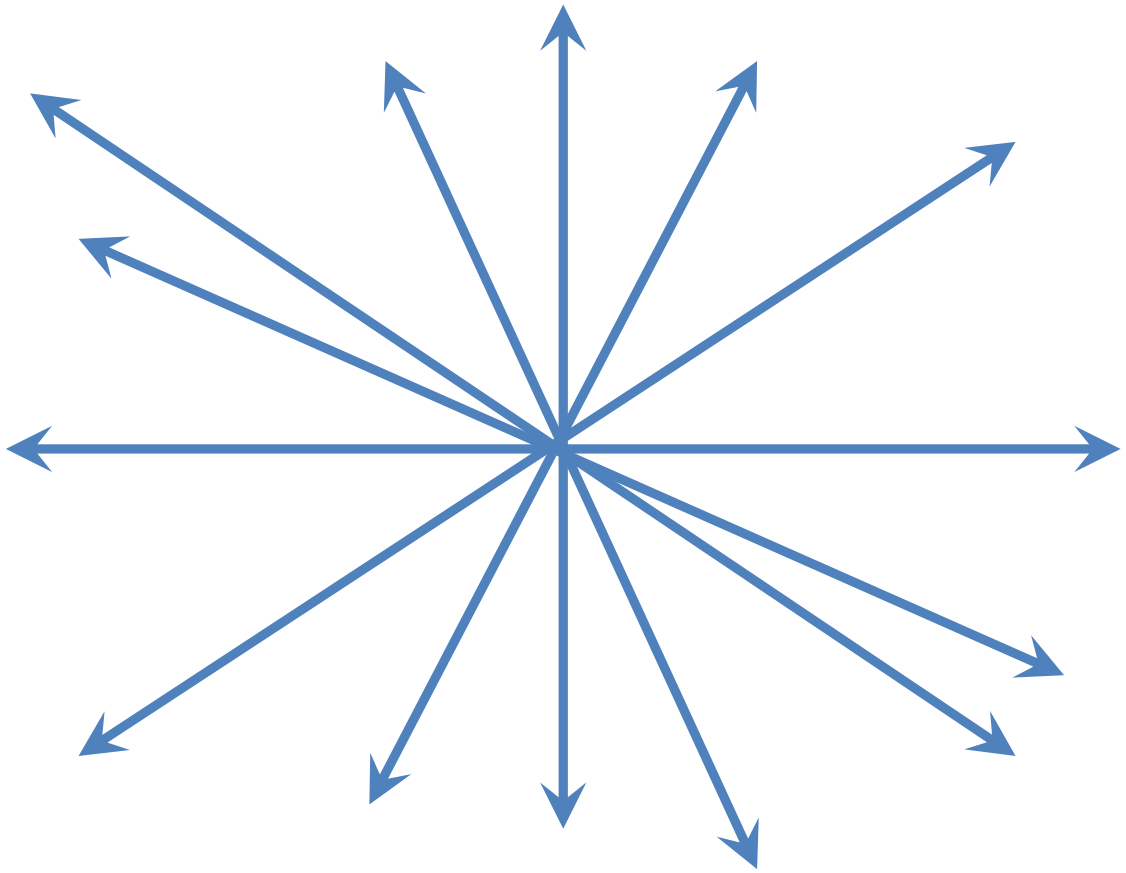
ADVANTAGES PROVIDED BY GUIDING POLICY

A guiding policy creates advantage by:

1. **anticipating the actions** and reactions of others
2. **reducing the complexity and ambiguity** in the situation
3. exploiting the leverage inherent in **concentrating effort on a pivotal or decisive aspect of the situation**, and
4. creating **policies and actions that are coherent, each building on the other rather than canceling one another out.**

SOURCE: RICHARD P. RUMELT, "GOOD STRATEGY/BAD STRATEGY"

WHAT IS THE EFFECT?



ALLIGNMENT

PLANS ARE BASED ON ASSUMPTIONS

<<A plan is typically any diagram or list of steps with timing and resources, used to achieve an objective. It is commonly understood as a temporal set of intended actions through which one expects to achieve a goal.>>

SOURCE: WIKIPEDIA

In order to be really effective a plan must be developed using as a starting point the knowledge achieved thanks to a deep analysis of internal strengths and weaknesses as well as of the opportunities and threats existing in the environment. The result of this structured form of investigation (often called SWOT analysis, even if other framework may be applied) establishes therefore the premises/assumptions upon which the plan is built.

ALICE'S ADVENTURES IN WONDERLAND …

"Cheshire Puss," she began, rather timidly, as she did not at all know whether it would like the name: however, it only grinned a little wider. "Come, it's pleased so far," thought Alice, and she went on. "Would you tell me, please, which way I ought to go from here?"

"That depends a good deal on where you want to get to", said the Cat.

"I don't much care where—" said Alice.

"Then it doesn't matter which way you go," said the Cat.

"— so long as I get somewhere," Alice added as an explanation.

"Oh, you're sure to do that," said the Cat, "if you only walk long enough."

PROCESS IS MORE IMPORTANT THAN THE PRODUCT

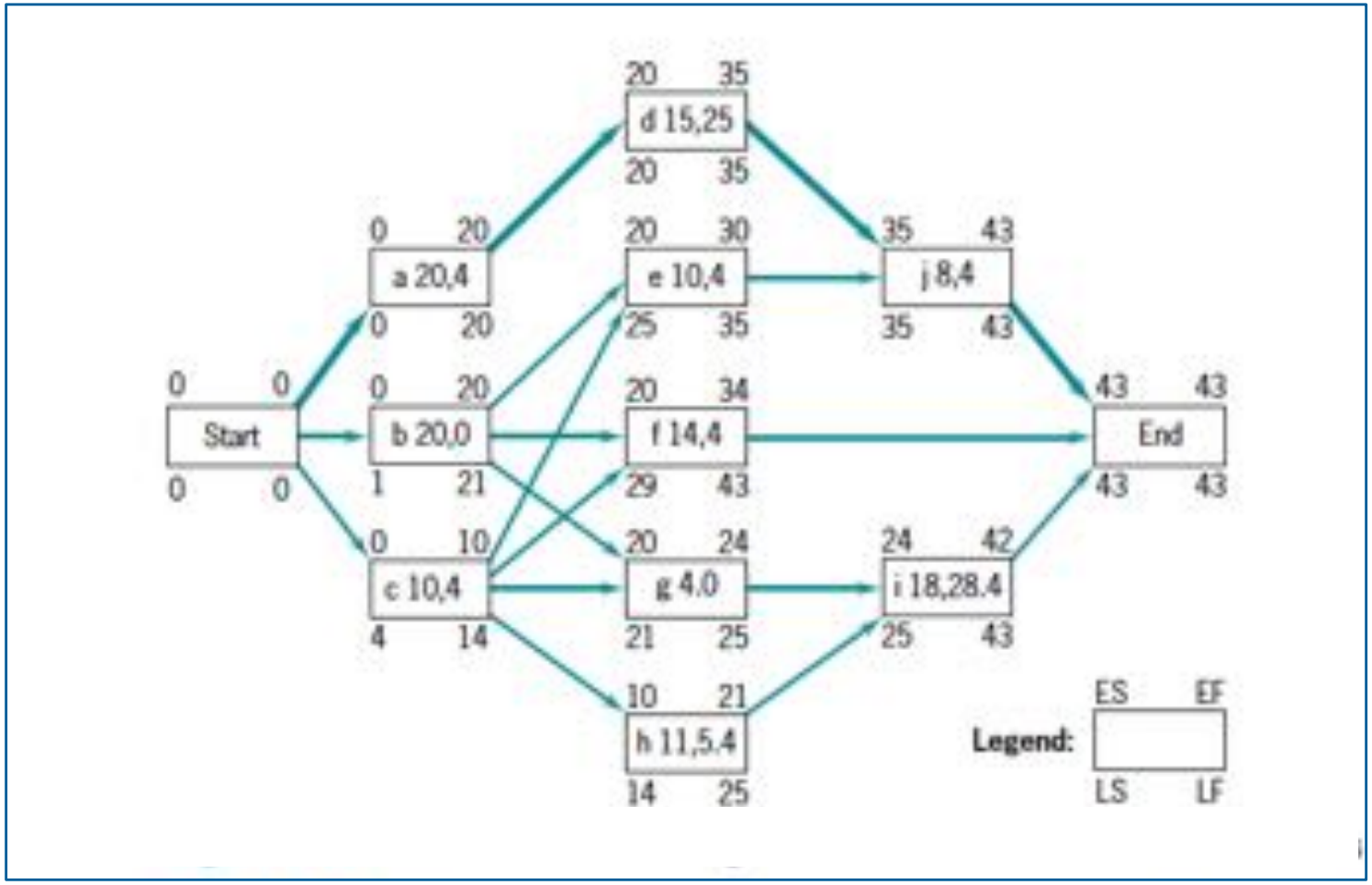
"... systematic analysis is a vital input into the strategy process. Without analysis, strategic decisions are susceptible to power battles, individual whims, fads and wishful thinking. Concepts, theories, and analytic tools are complements not substitutes for experience, commitment and creativity. Their 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

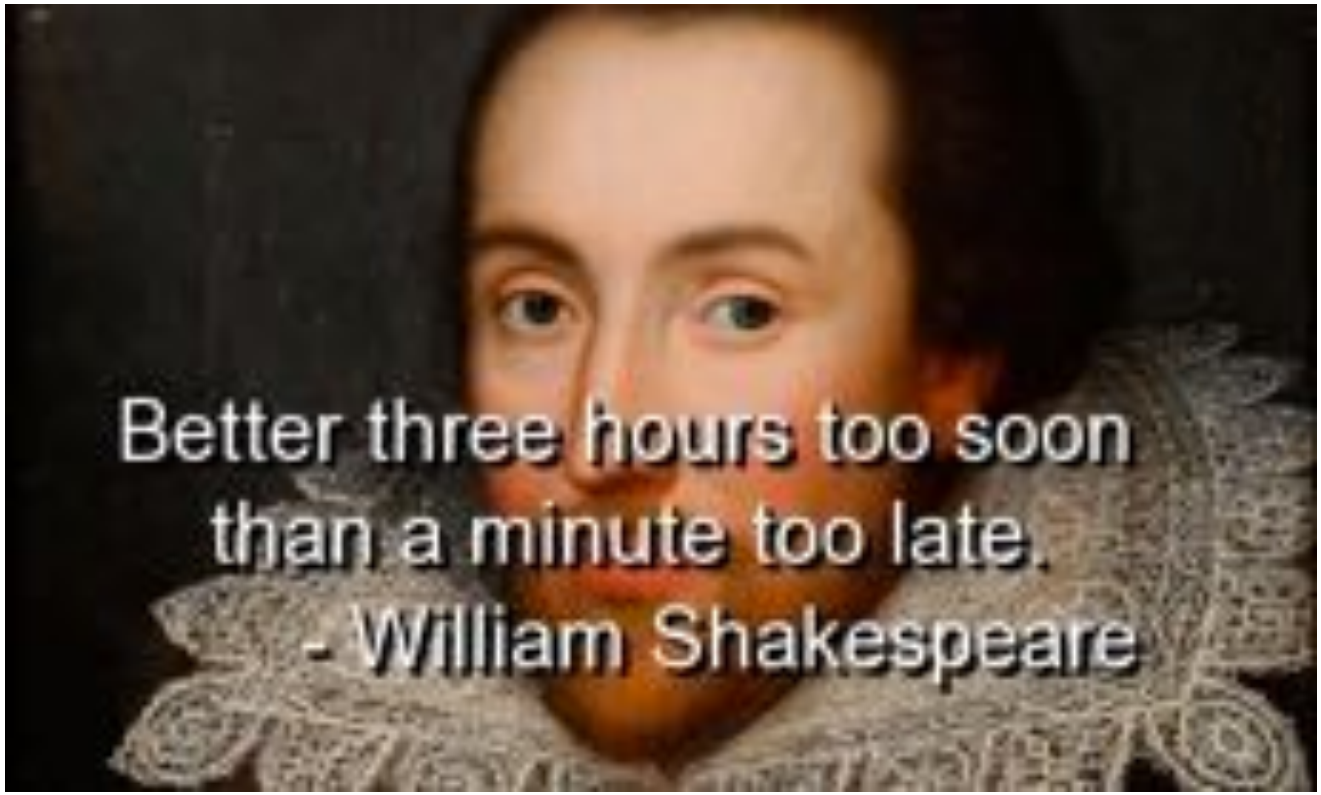
TIME COORDINATION



IMPORTANCE VERSUS URGENCY

Adapted from Stephen Covey's "The 7 Habits of Highly Effective People"

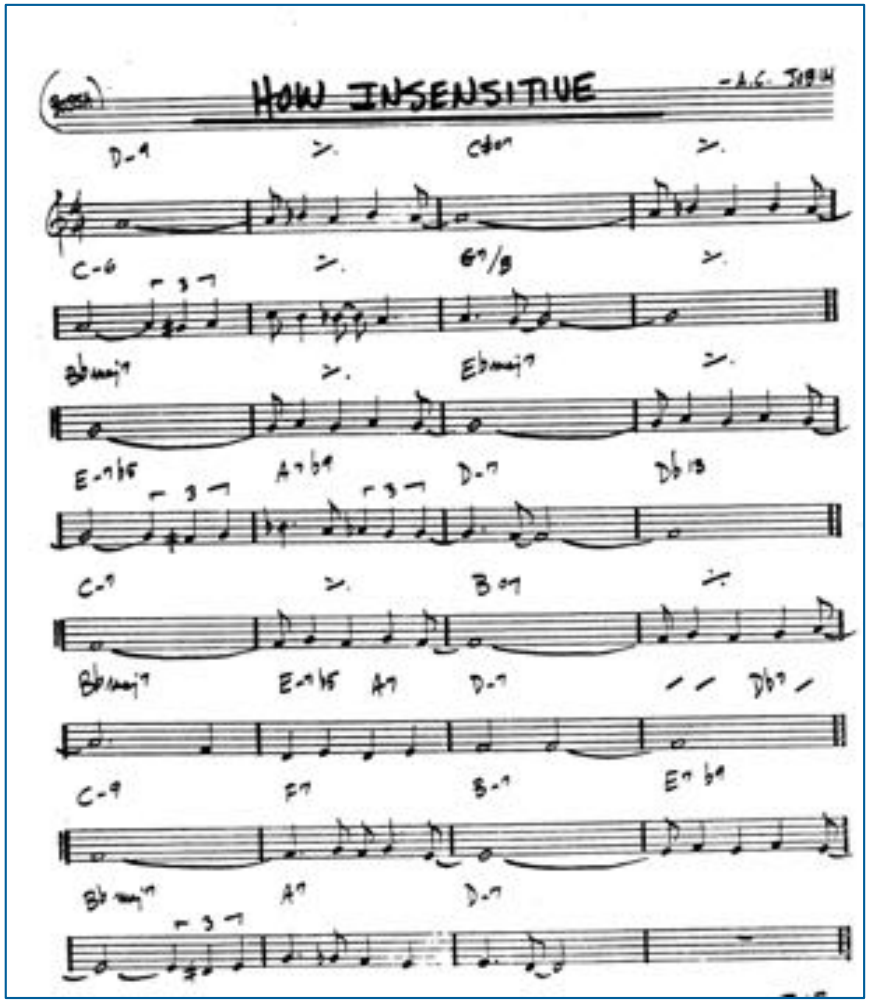
THE IMPORTANCE OF "TIME COORDINATION"

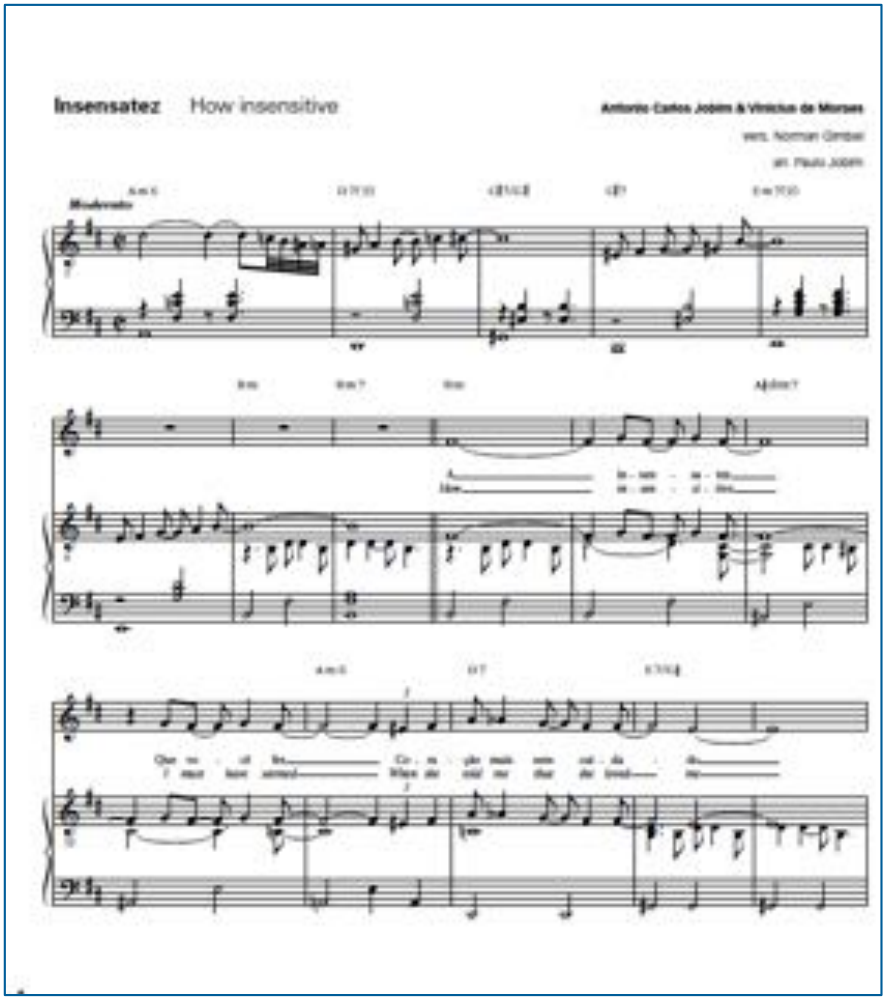


COORDINATION AMONG DIFFERENT PLAYERS

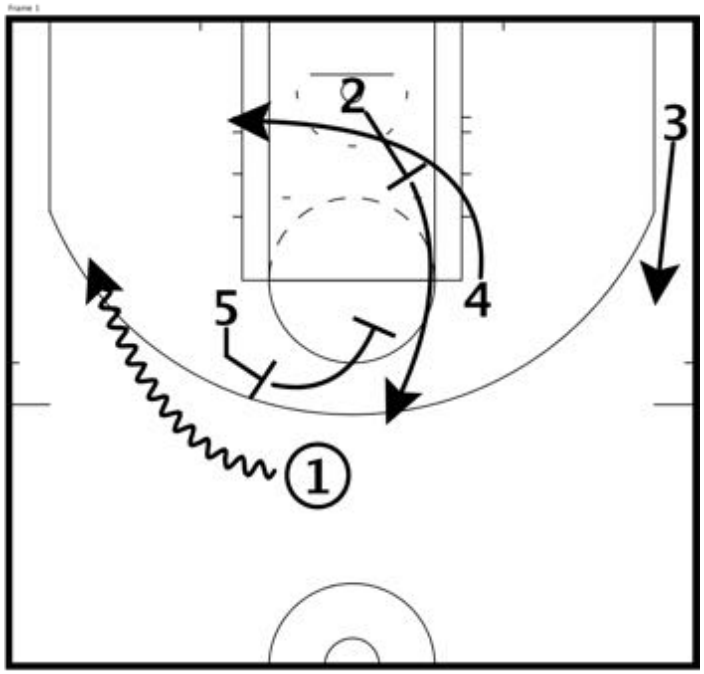
LINING UP: DEPLOYMENT OF RESOURCES

A PLAN IS NOT A PROCEDURE

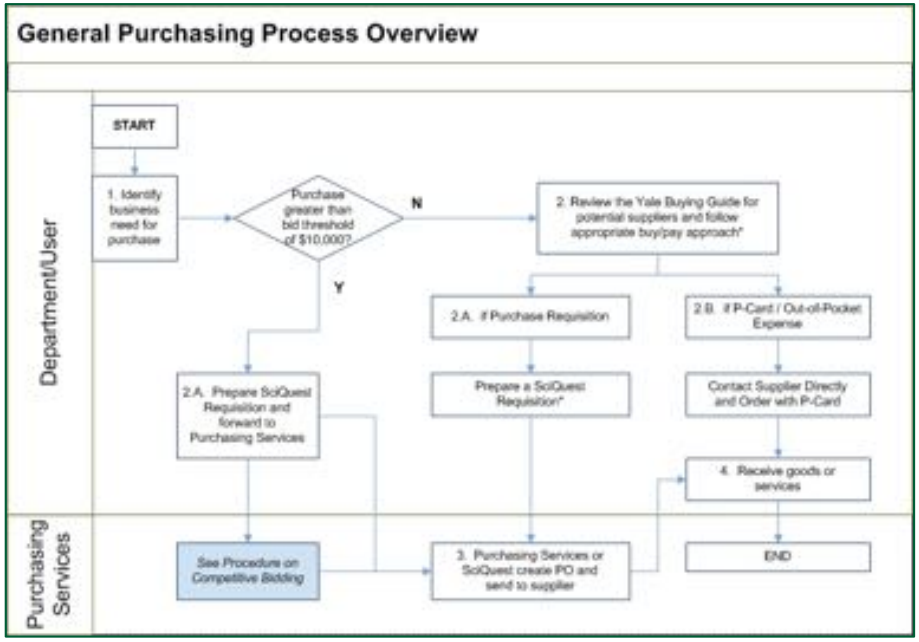




WHAT ARE THE DIFFERENCES?



PLAN



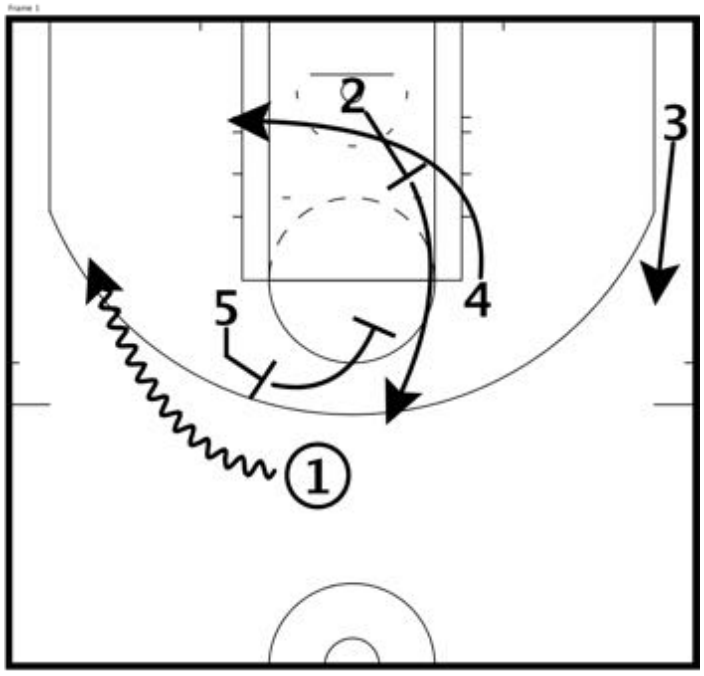
PROCEDURE

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

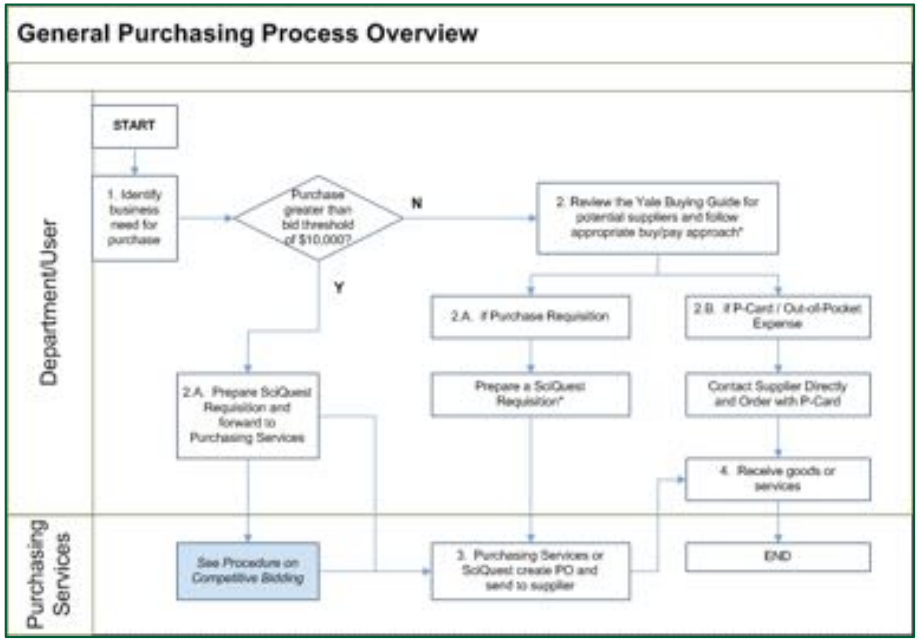


PLAN

NORM: it states as the activity must be preformed

Variability is a problem, it has only unwanted consequences

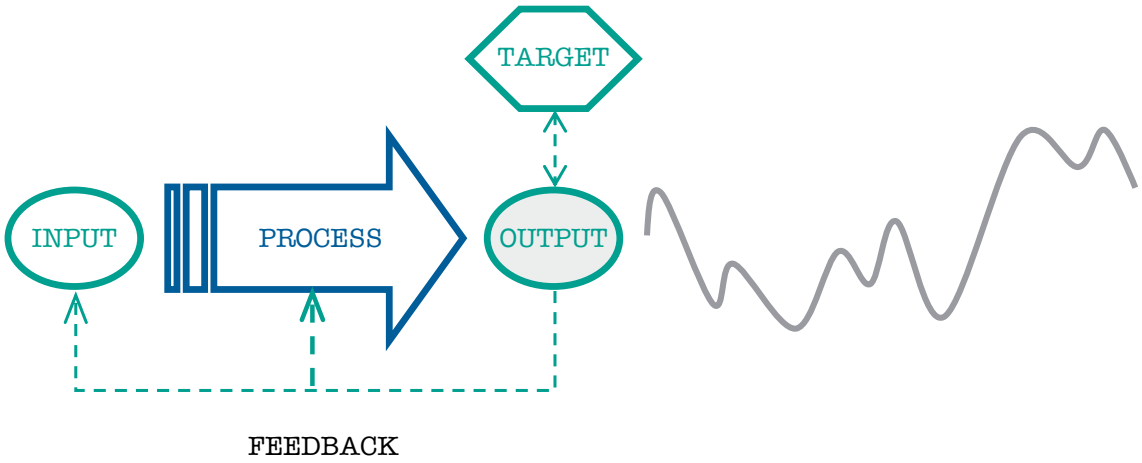
No deviations are allowed, deviations **MUST BE REPRESSED**



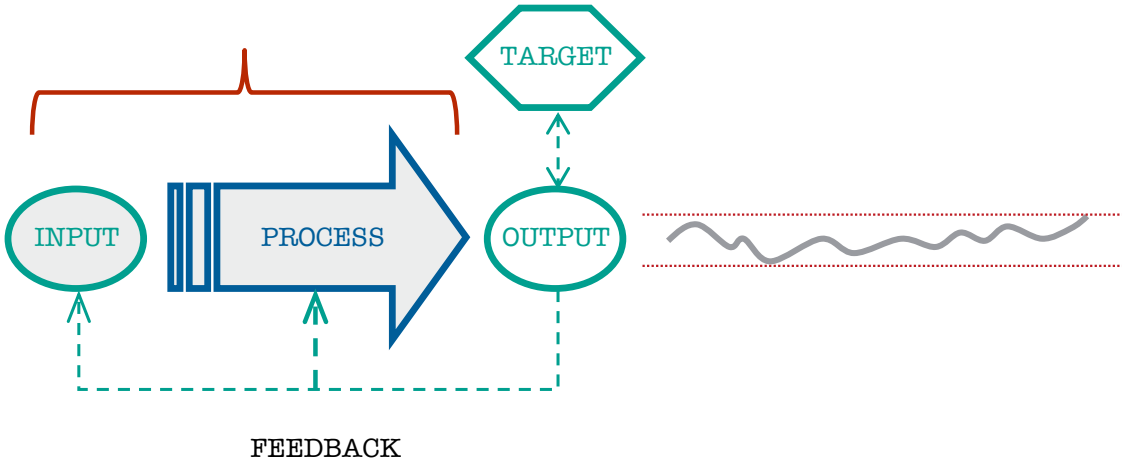
PROCEDURE

DIFFERENT TYPES OF CONTROLS WITH DIFFERENT EFFECTS

ACCOUNTABILITY



STANDARDIZATION



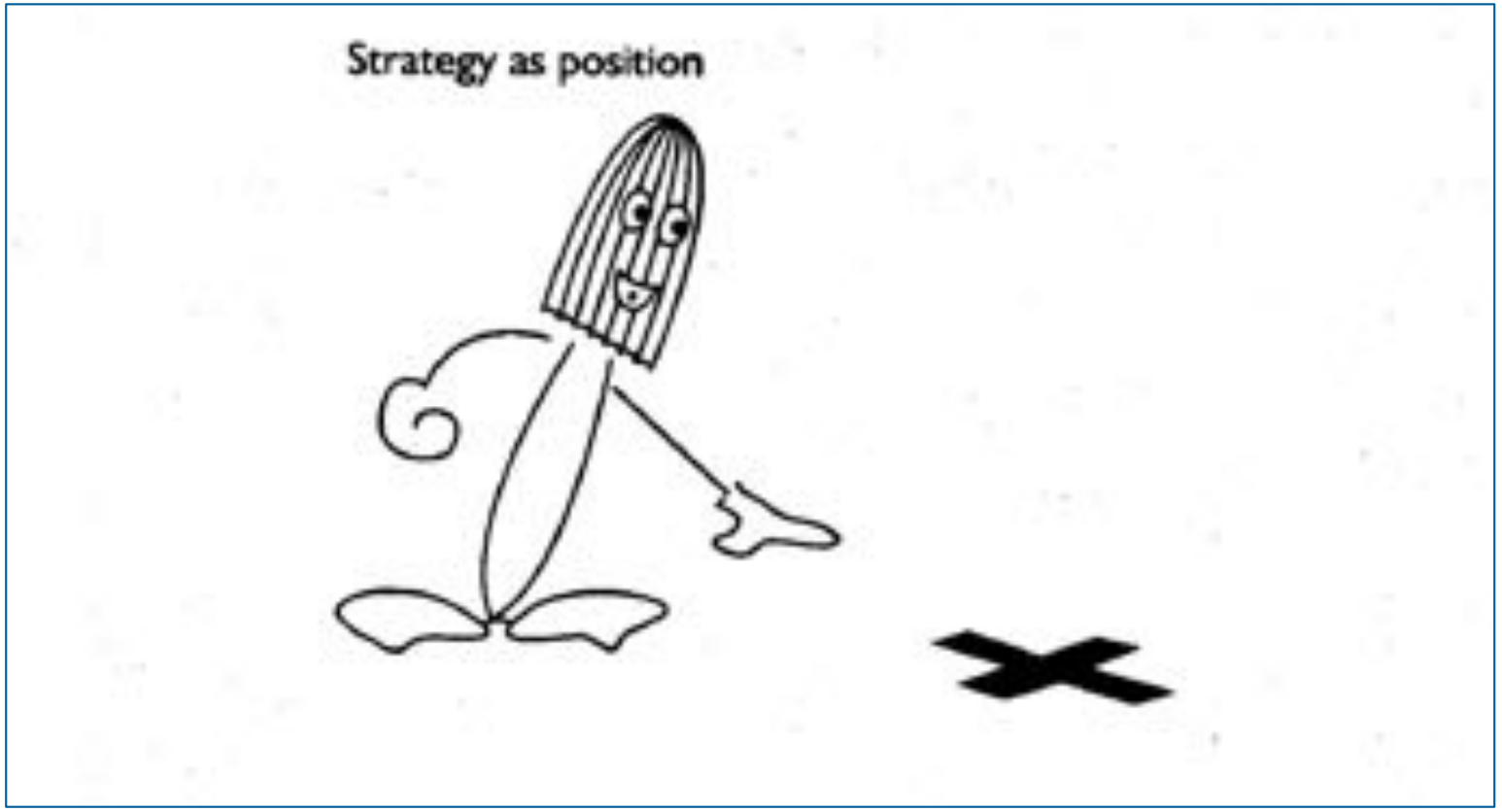
UNIVERSITÀ DEGLI STUDI DI TRIESTE

Dyn@mika
SPIN OFF UNIVERSITÀ DEGLI STUDI DI TRIESTE

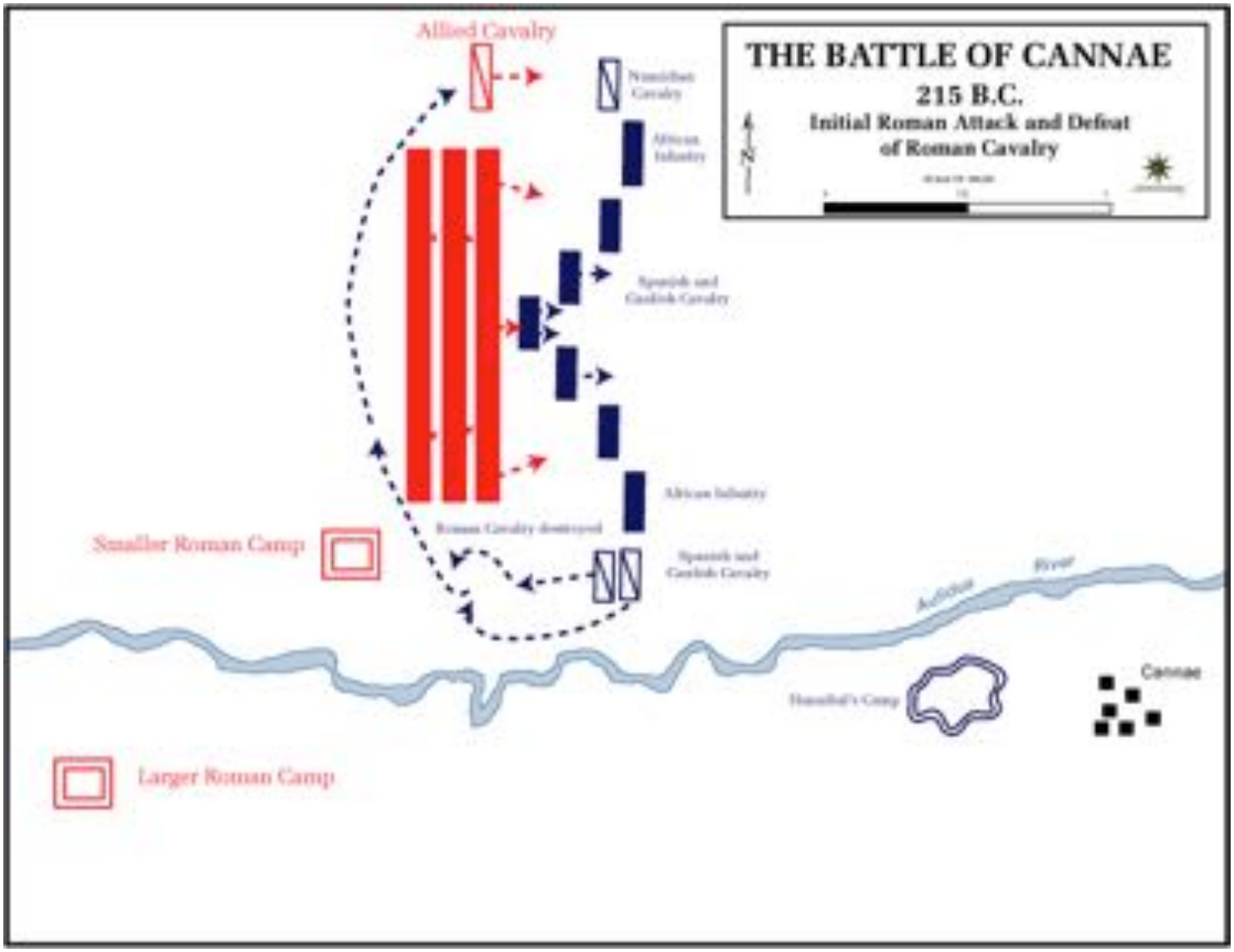
LEVERS OF CONTROL (4)

How Managers Use Innovative Control Systems to Drive Strategic Renewal

STRATEGY AS POSITION



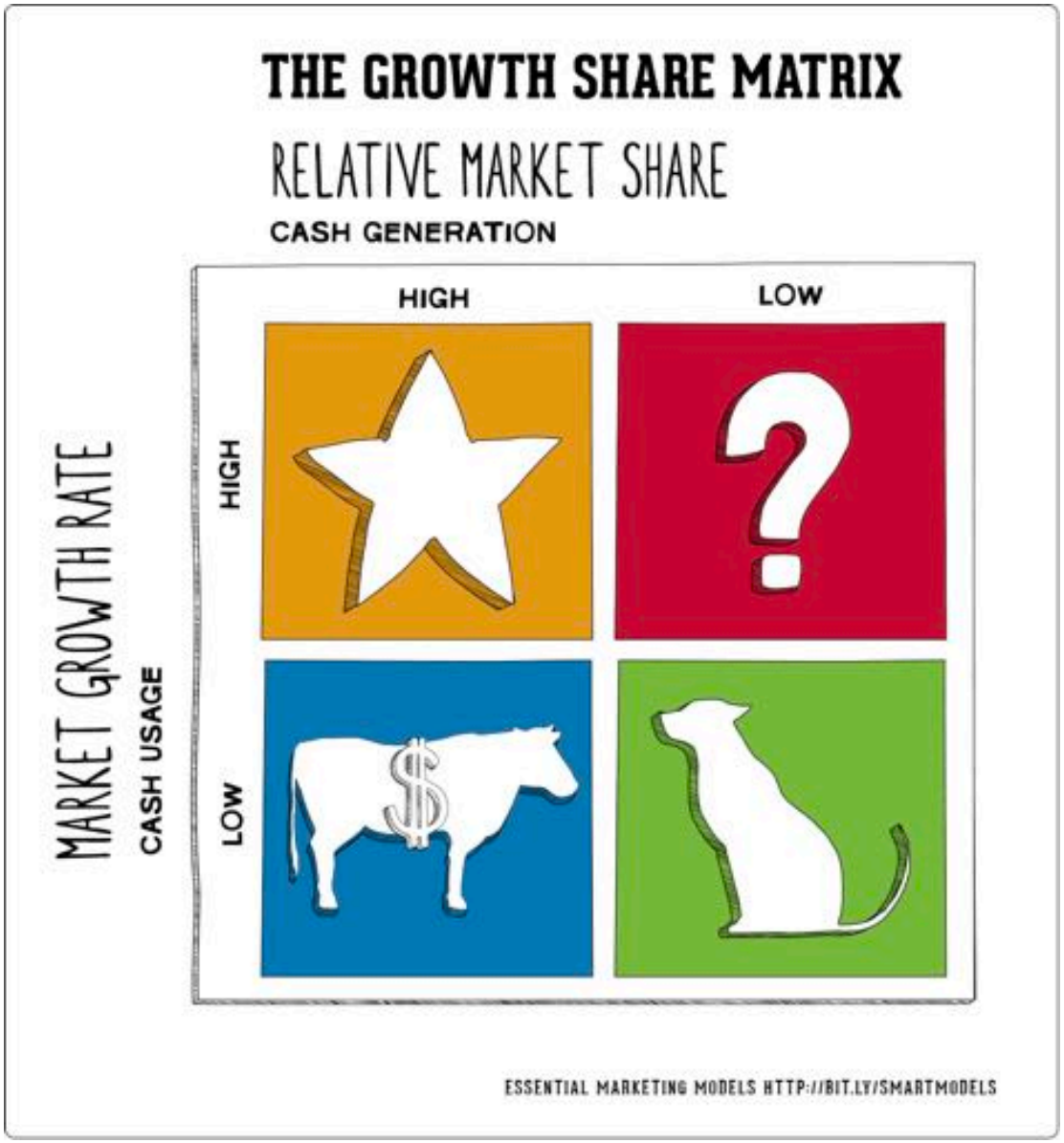
DEPLOYMENT OF THE ARMIES



CHESS PIECES POSITIONS

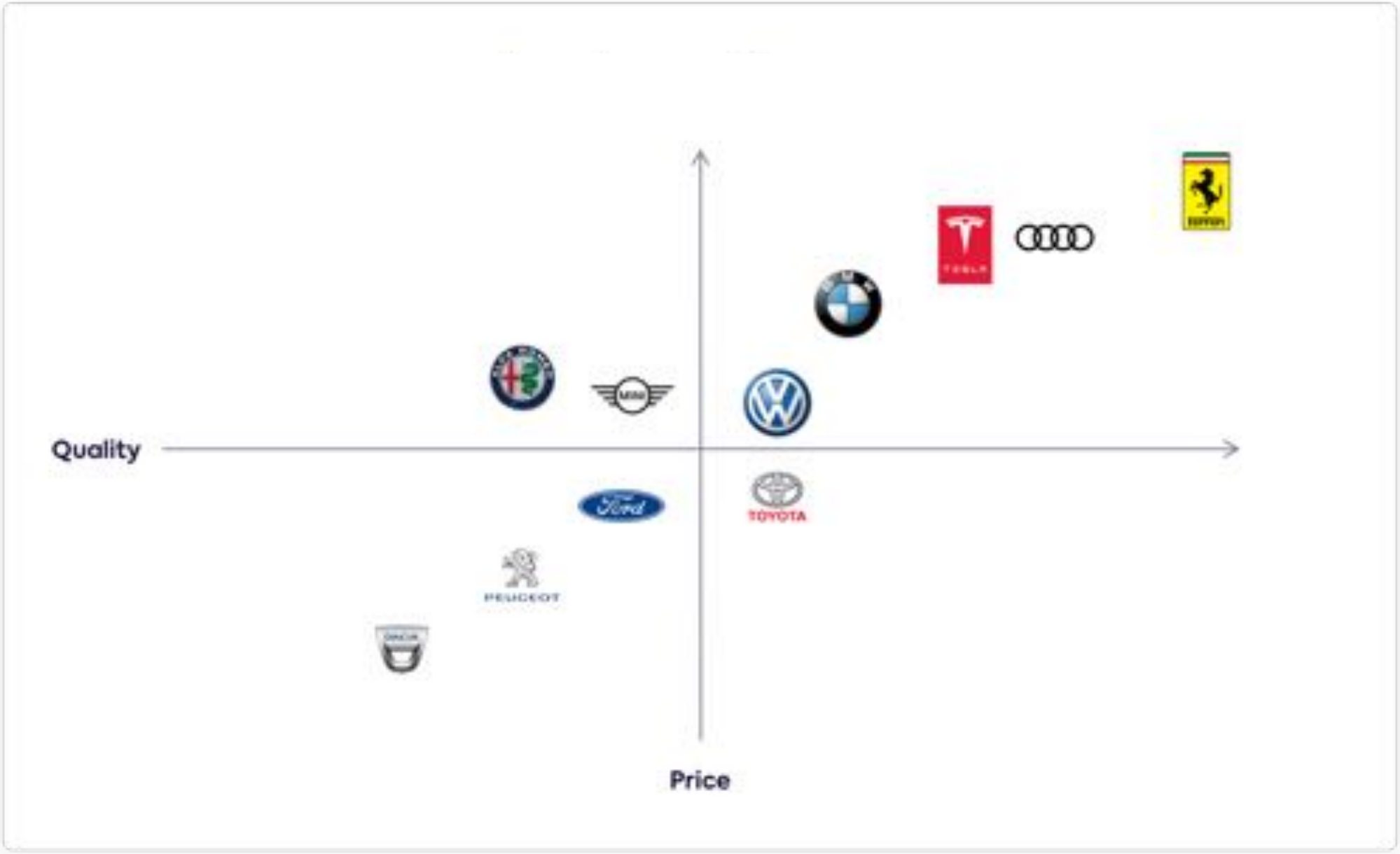
Chess strategy is the aspect of chess playing concerned with evaluation of chess positions and setting of goals and long-term plans for future play. While evaluating a position strategically, a player must take into account such factors as the relative value of the pieces on the board...

THE BCG MATRIX



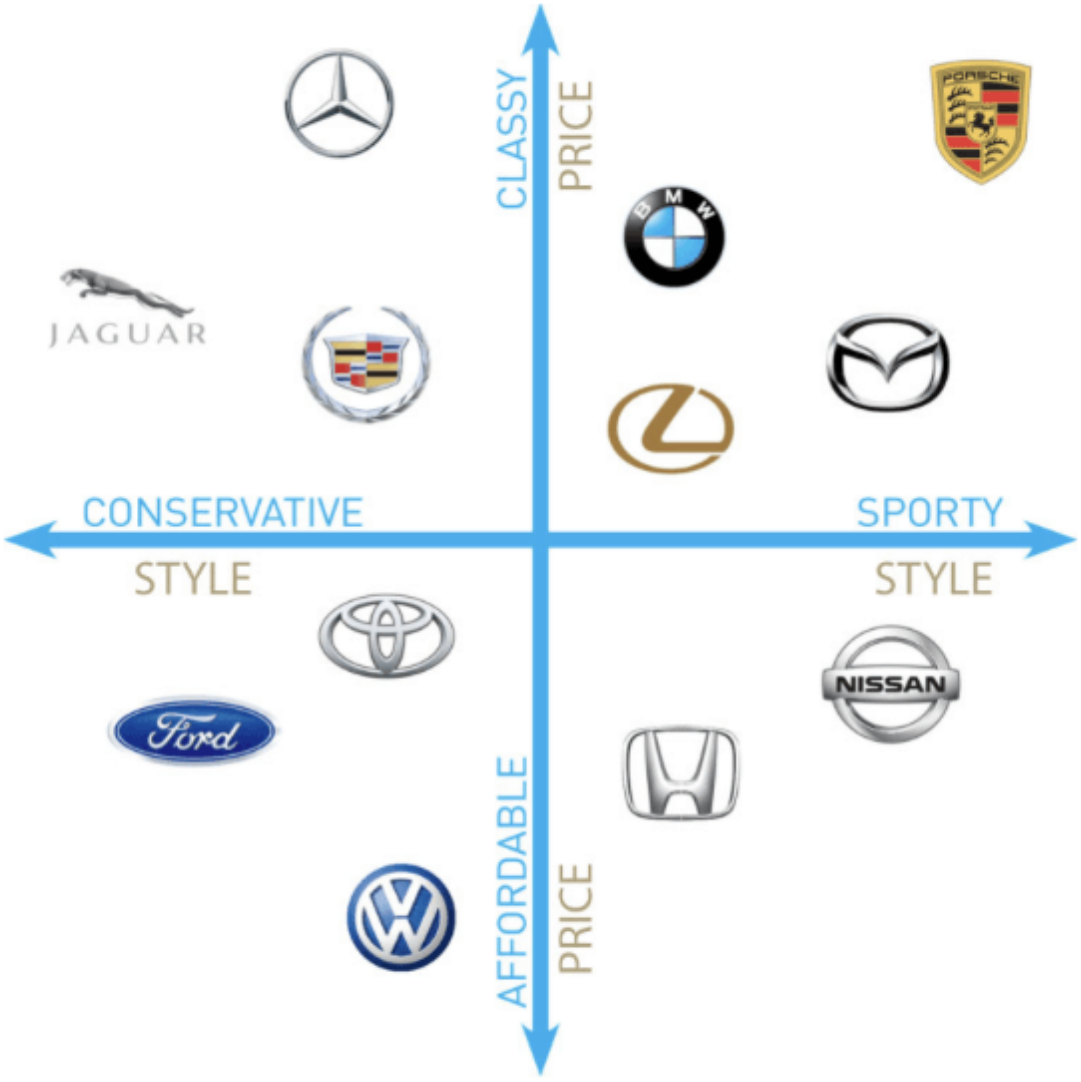
THE GE-MC KINSEY MATRIX

CONSUMER PERCEPTION BY PRICE AND QUALITY

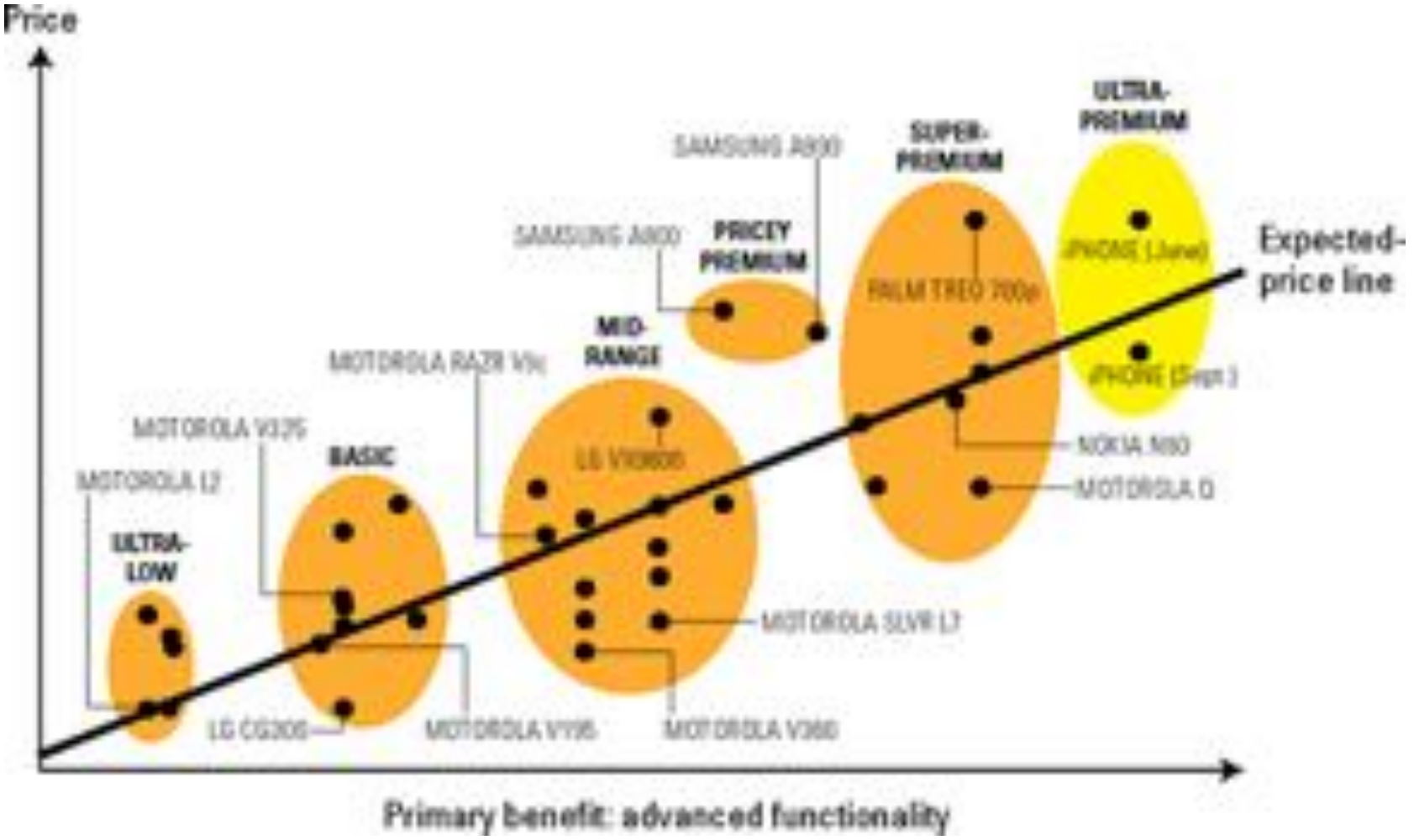


PERCEPTUAL MAPPING FOR COMPETITIVE ANALYSIS

PERCEPTUAL MAPPING FOR COMPETITIVE ANALYSIS



MAPPING YOUR COMPETITIVE POSITION



SOURCE: Richard A. D'Aveni, "Mapping Your Competitive Position", HBR November 2007

SETTING LIMITS

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.

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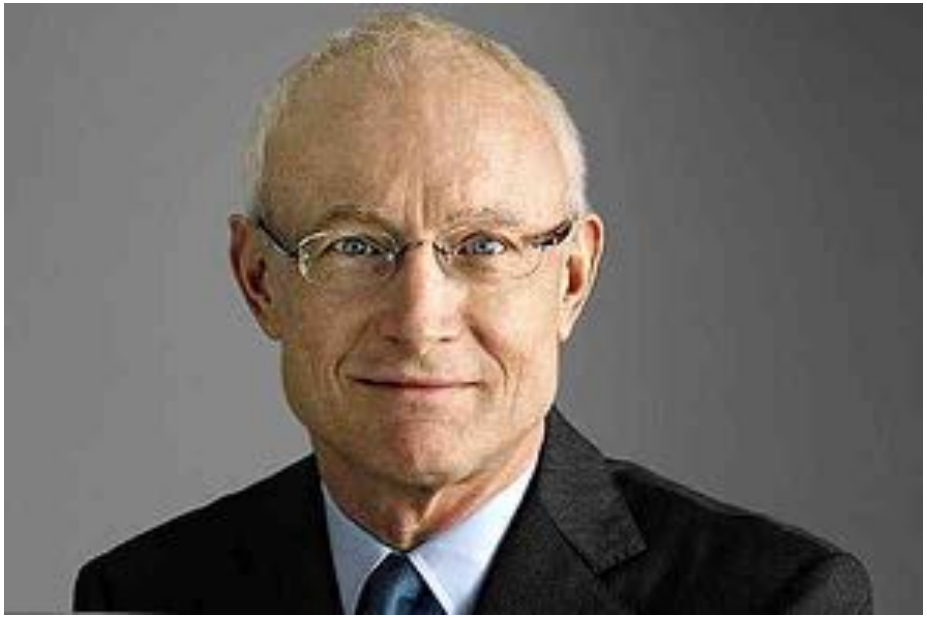
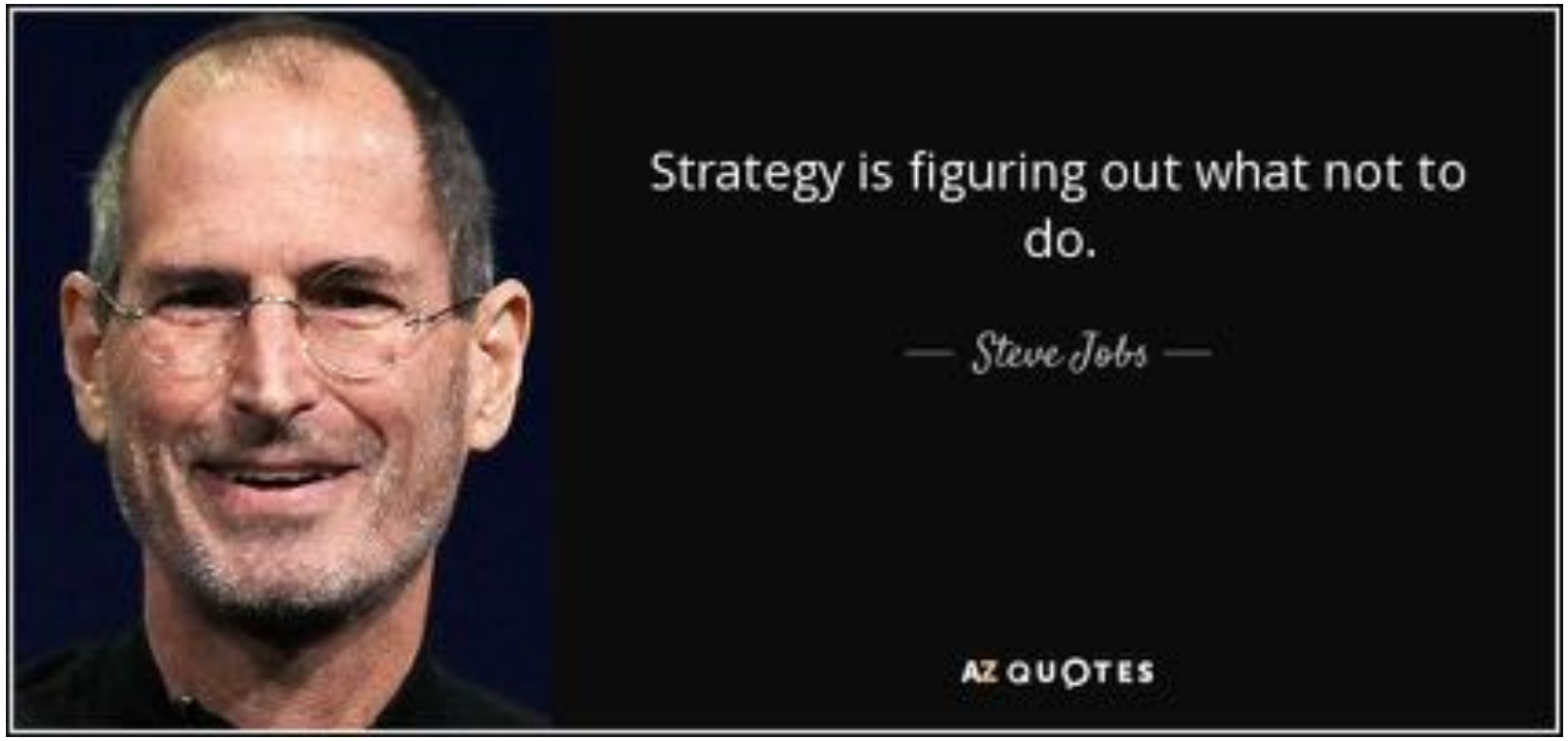
As we return to the question, What is strategy? we see that trade-offs add a new dimension to the answer. Strategy is making trade-offs in competing. The essence of strategy is choosing what *not* to do. Without trade-offs, there would be no need for choice and thus no need for strategy. Any good idea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



STATEGY IN NEGATIVE TERMS



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."

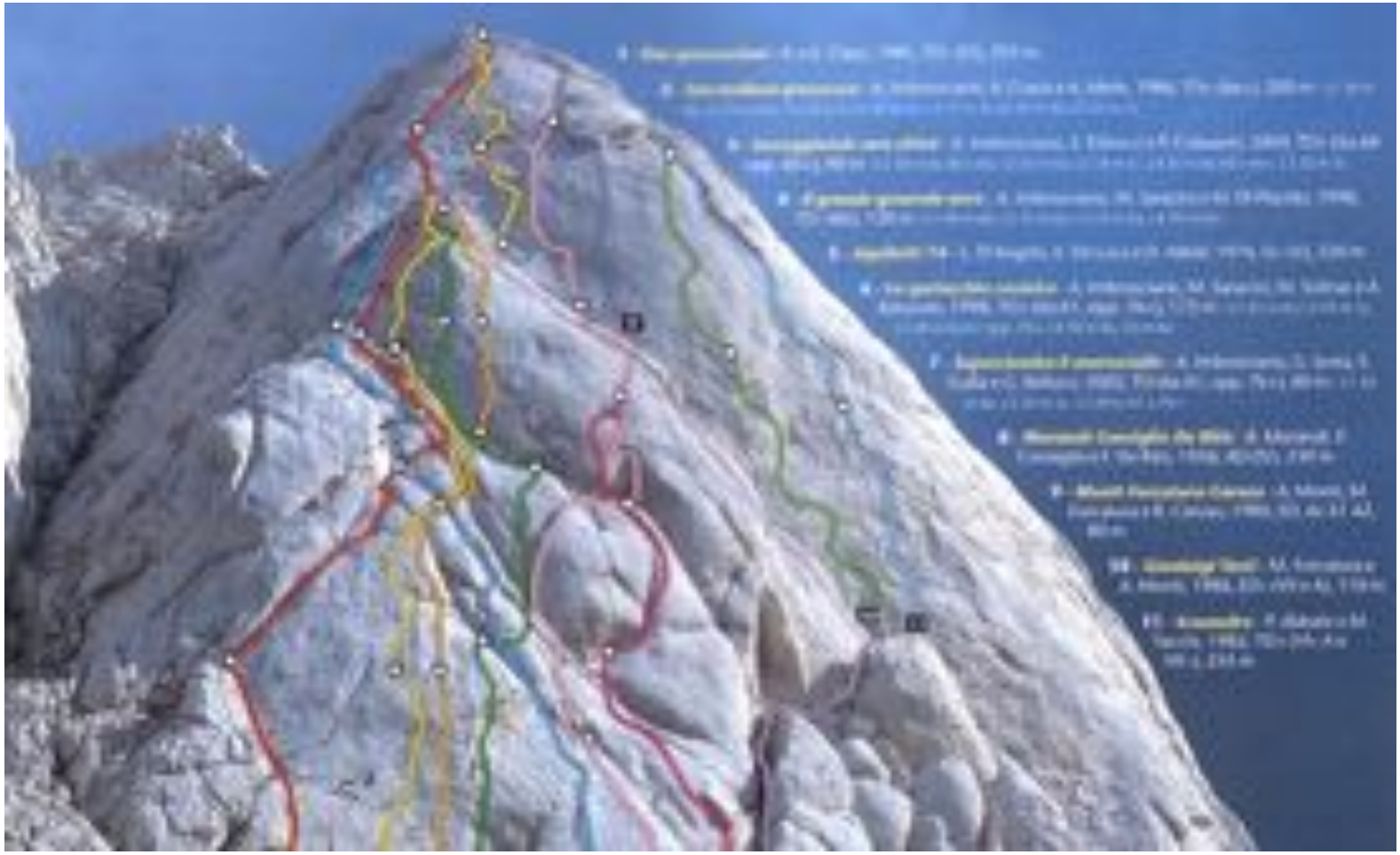
The product review revealed how unfocused Apple had become. The company was churning out multiple versions of each product because of bureaucratic momentum and to satisfy the whims of retailers. "It was insanity," Schiller recalled. "Tons of products, most of them crap, done by deluded teams." Apple 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 TO BE AVOIDED

DIFFERENT LEVELS OF RISK



SOURCE OF BUSINESS RISK

OPERATION RISK

Results from the consequence of break down in a core operating manufacturing, or processing capability.

ASSET IMPAIRMENT RISK

Loss of significant portion of the current value of an economic resource due to a reduction in the likelihood of receiving future cash flows from its use

COMPETITIVE RISK

Results from changes in the competitive environment that could impair the ability of a business to create value and differentiate its product or services

FRANCHISE RISK (REPUTATION RISK)

Occurs when the value of the entire business erode due to a loss in confidence by critical constituents

Franchise risk occurs when a problem or set of problems threaten the viability of the entire enterprise

COMMON RISK INDICATOR

OPERATION RISK

- System downtime
- Number of errors
- Unexplained variances
- Unreconciled accounts
- Defect rates – Quality standard
- Customer complaints

ASSET IMPAIRMENT RISK

- Unhedged derivatives
- Unrealized holding losses
- Concentration of credit or counterparty exposure
- Default history
- Drop-off in product sales

COMPETITIVE RISK

- Recent product introduction by competitors
- Recent regulatory changes
- Changes in consumer buying habits reported in trade journals
- Changes in distribution systems

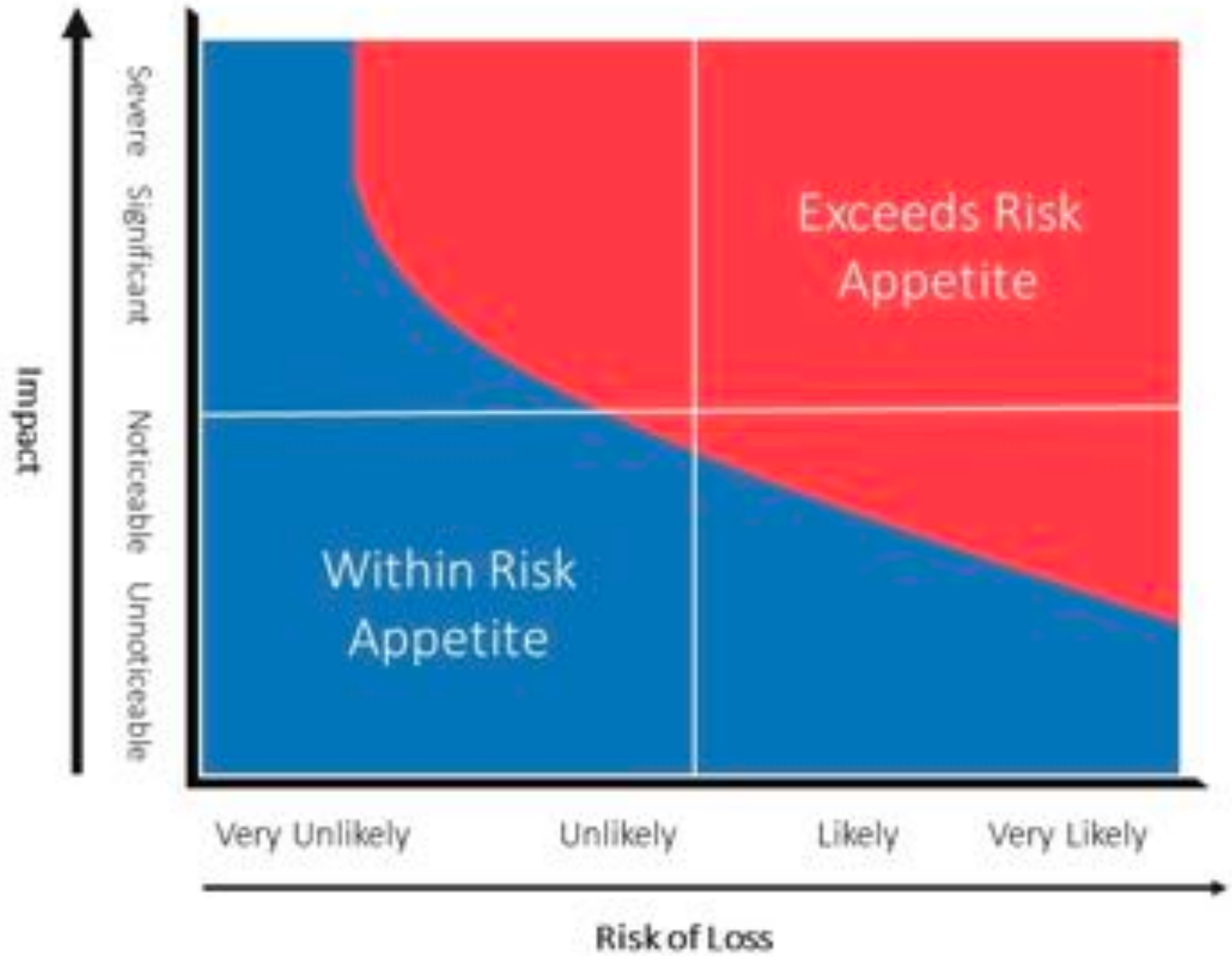
FRANCHISE RISK (REPUTATION RISK)

- Customers/bids lost to competitors
- Unfavorable news coverage
- Pending lawsuits – legal actions
- System Downtime
- Competitor business failure

THE GLOOMY EFFECTS OF LACK OF CONTROL…

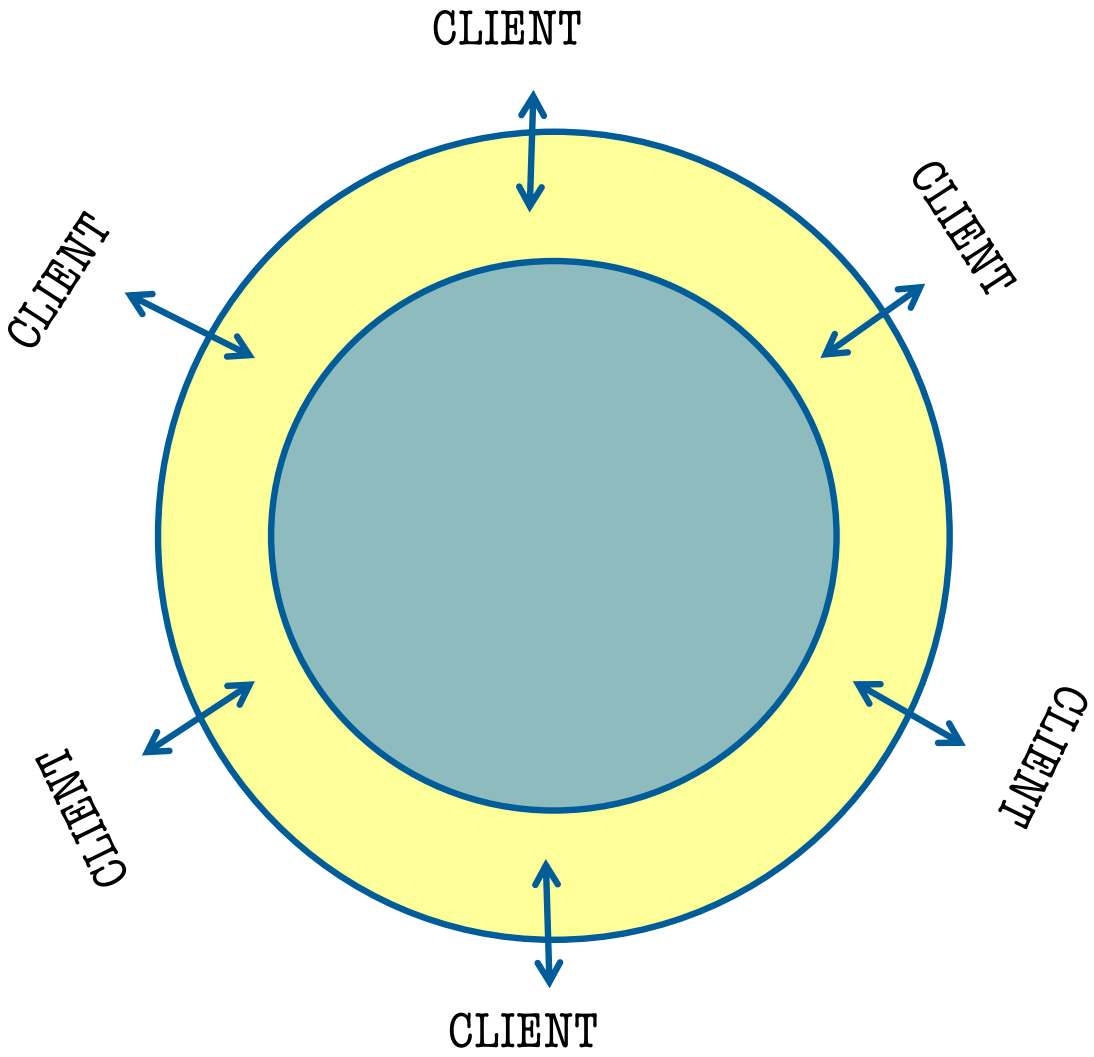
RISK PROFILE, RISK APPETITE AND RISK CAPACITY

RISK APPETITE = IMPACT * LIKELIHOOD

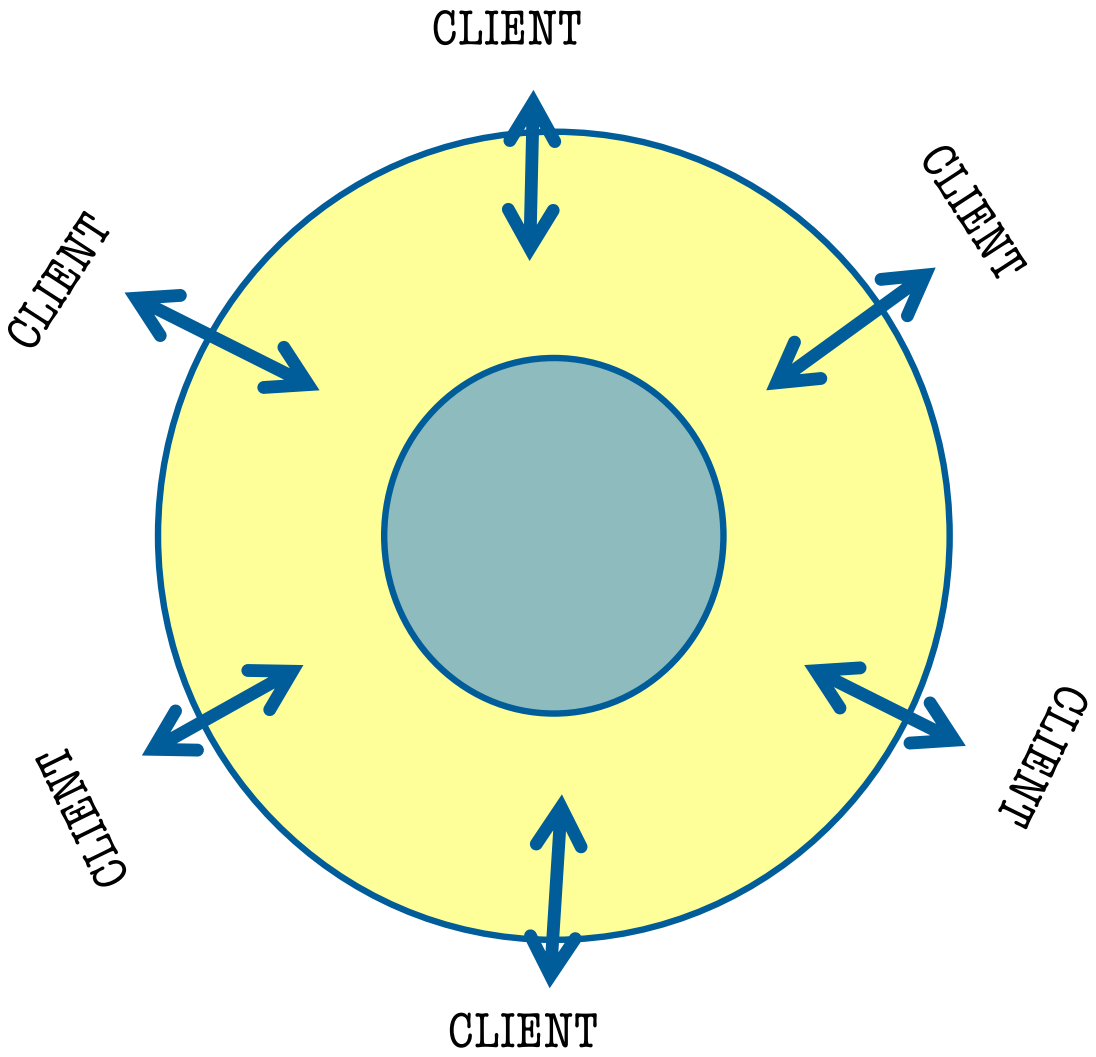



WE ARE
HIRING

COST LEADERSHIP



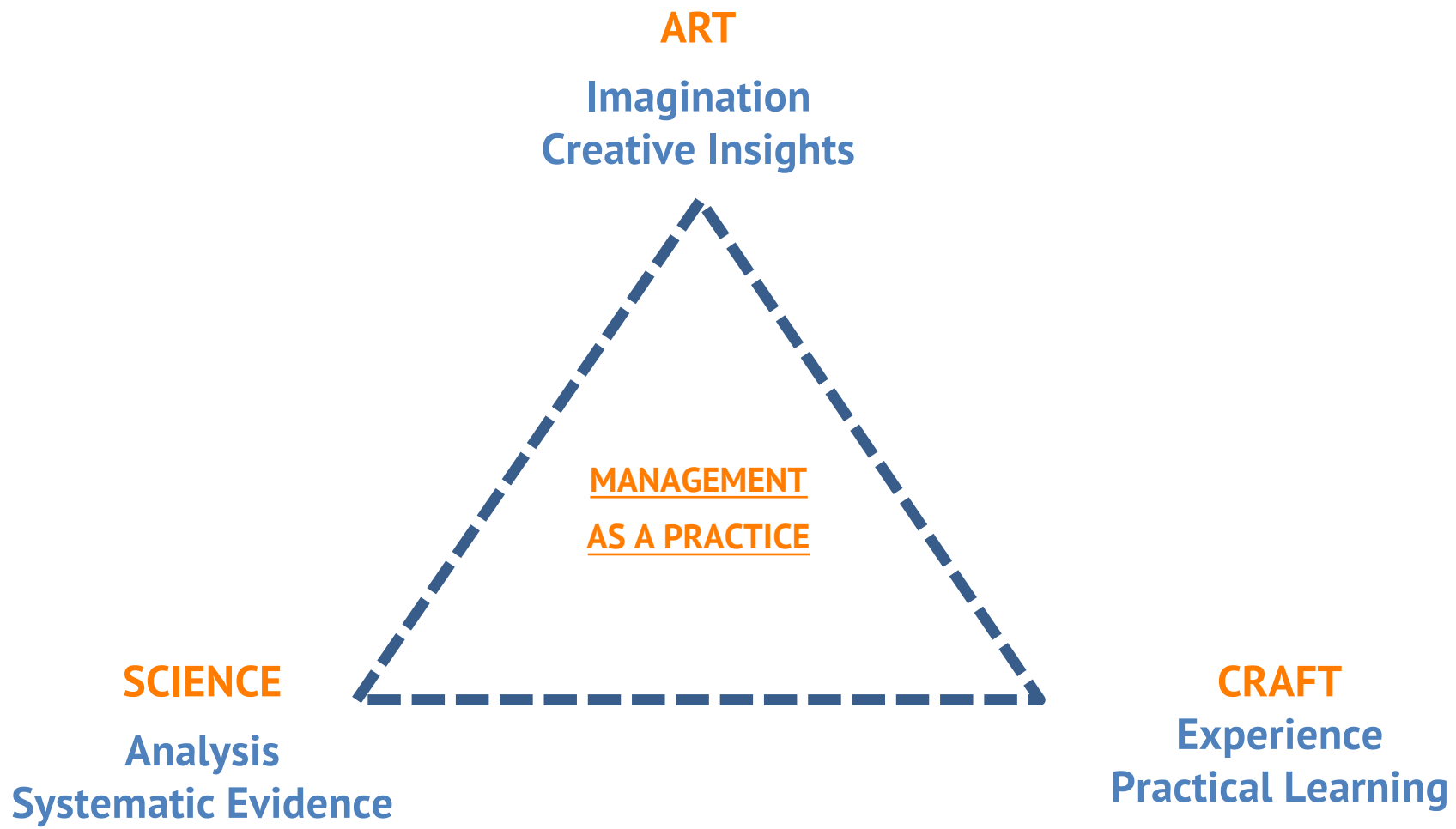
PRODUCT DIFFERENTIATION



MANAGEMENT AS A PRACTICE

You can find this video on line: https://mintzberg.org/videos/hm-decision-making

MINTZBERG TRIANGLE



MINTZBERG TRIANGLE

Seeing First

insight → action

(inductively)

Thinking First

diagnose → design → decide → do

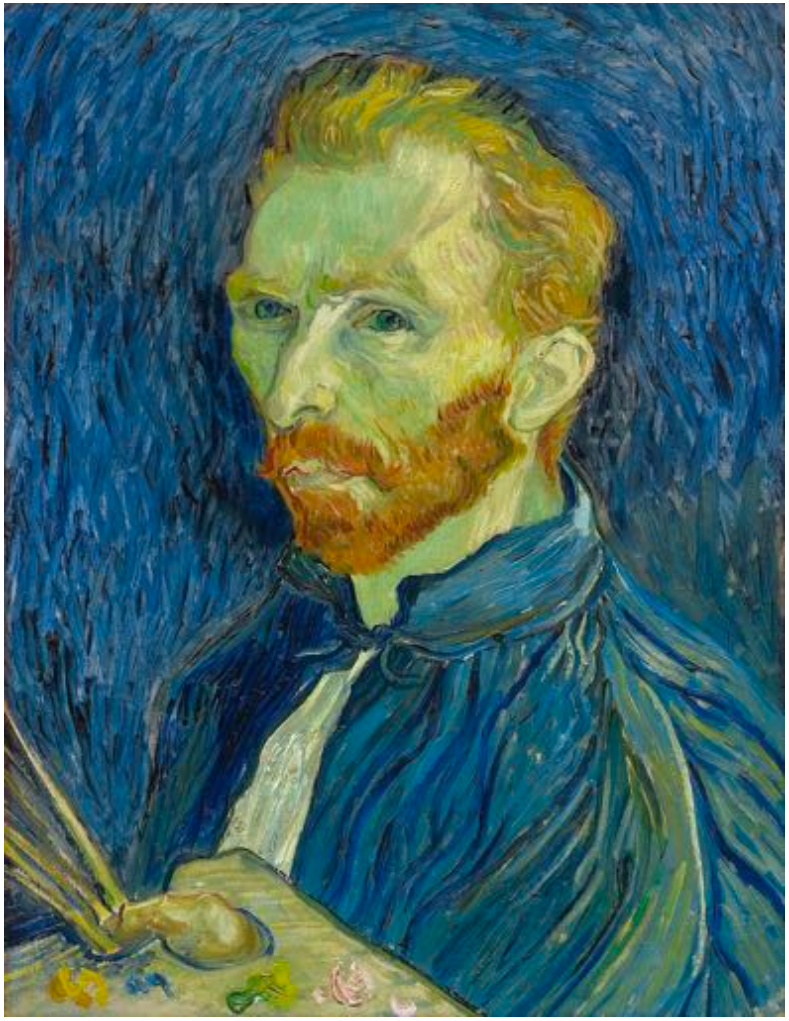
(deductively)

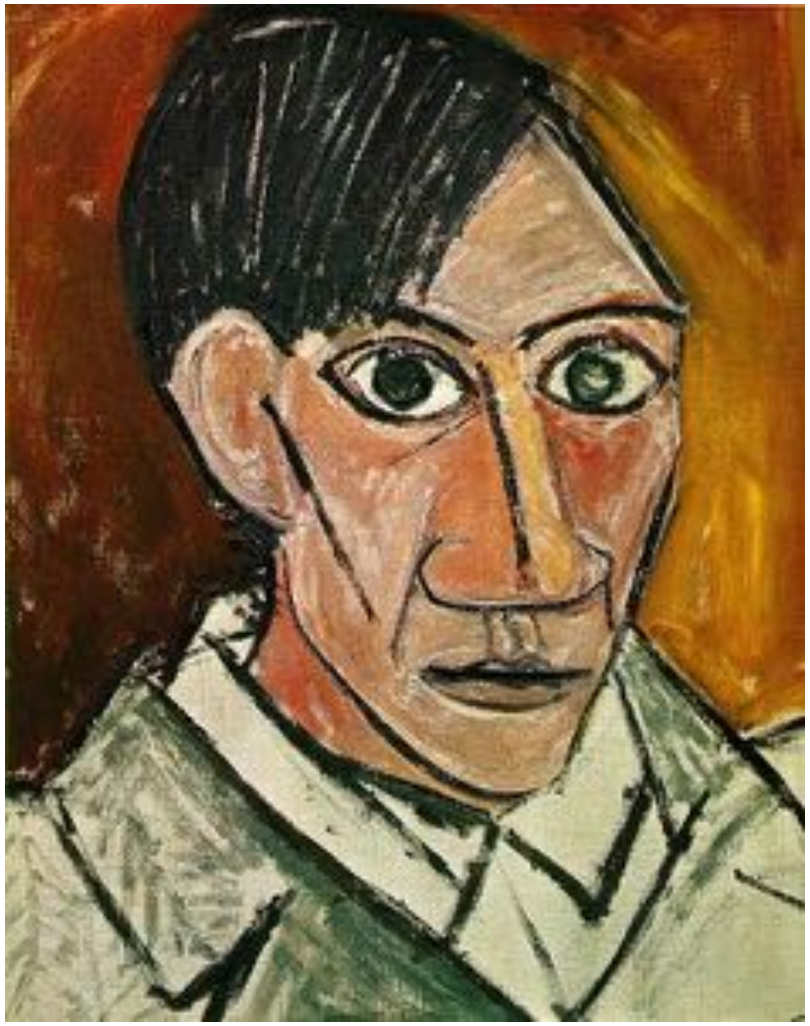
Doing First

act→ think

(iteratively)

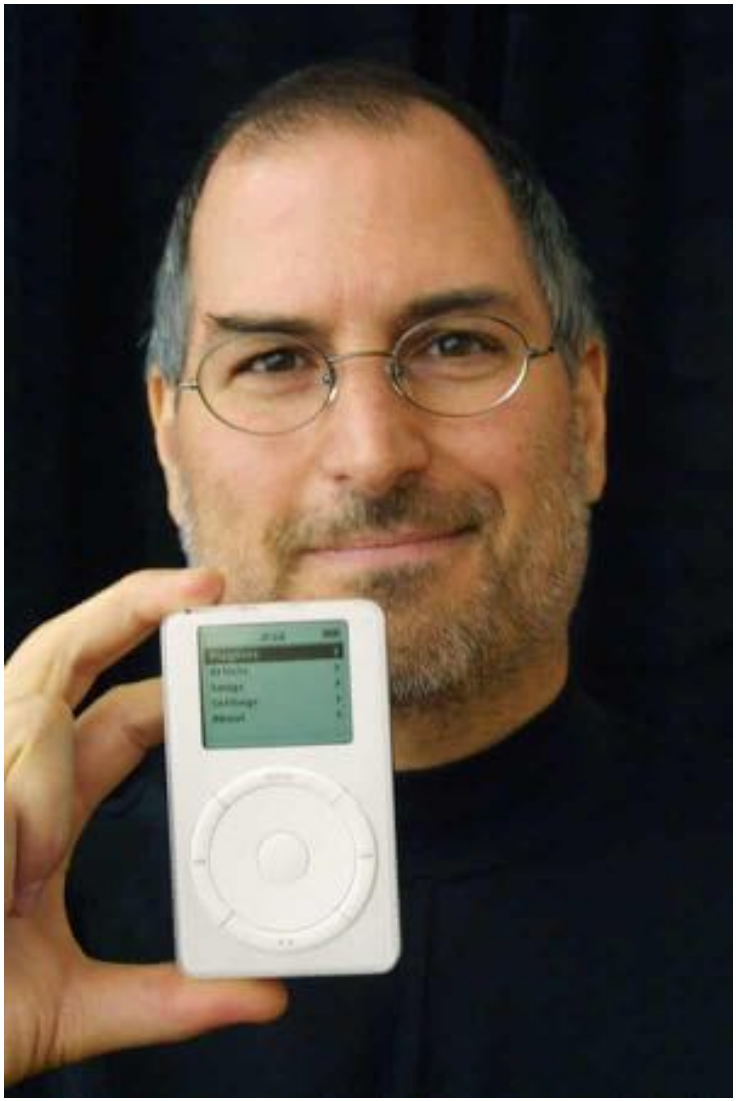
OVERCOMING PARADIGMS





OVERCOMING PARADIGMS

OVERCOMING PARADIGMS



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.

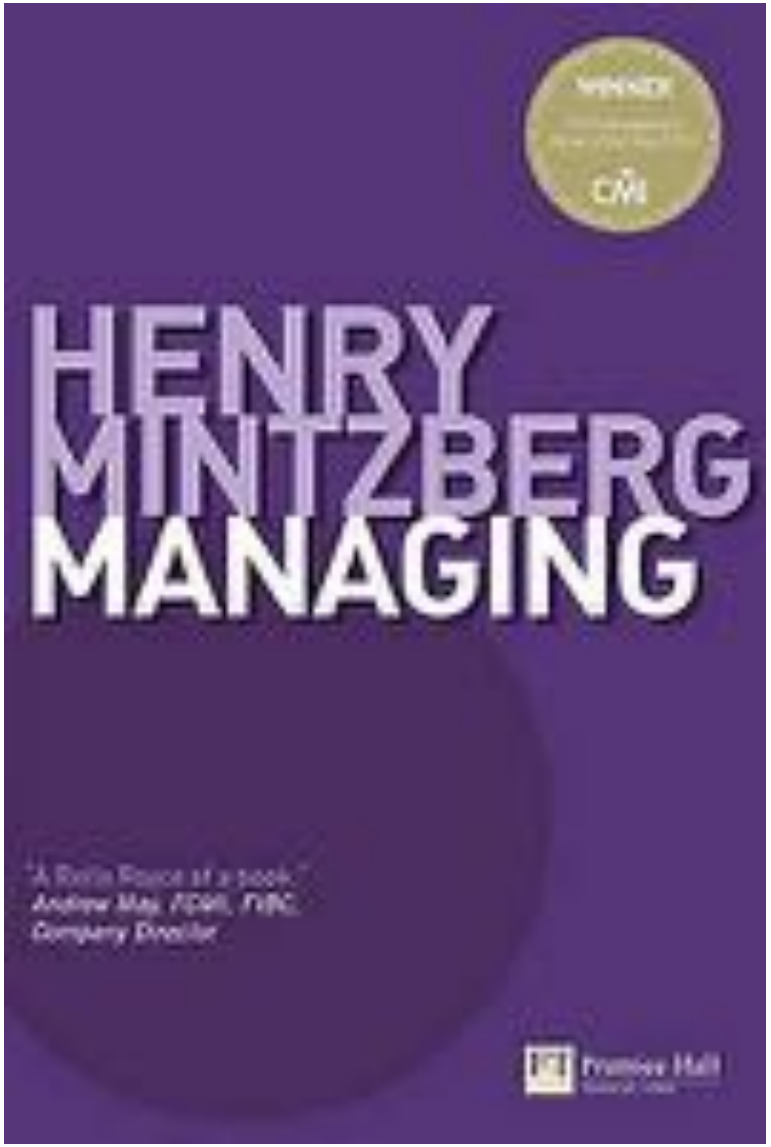
On the drive home I called my attorney, who is my main business adviser. I told him I wanted to buy the factory. He thought it was a terrible idea. He had three good arguments: First, because I'd be buying it "as is," I really had no idea how well it would function. Second, Kraft is a pretty successful 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.

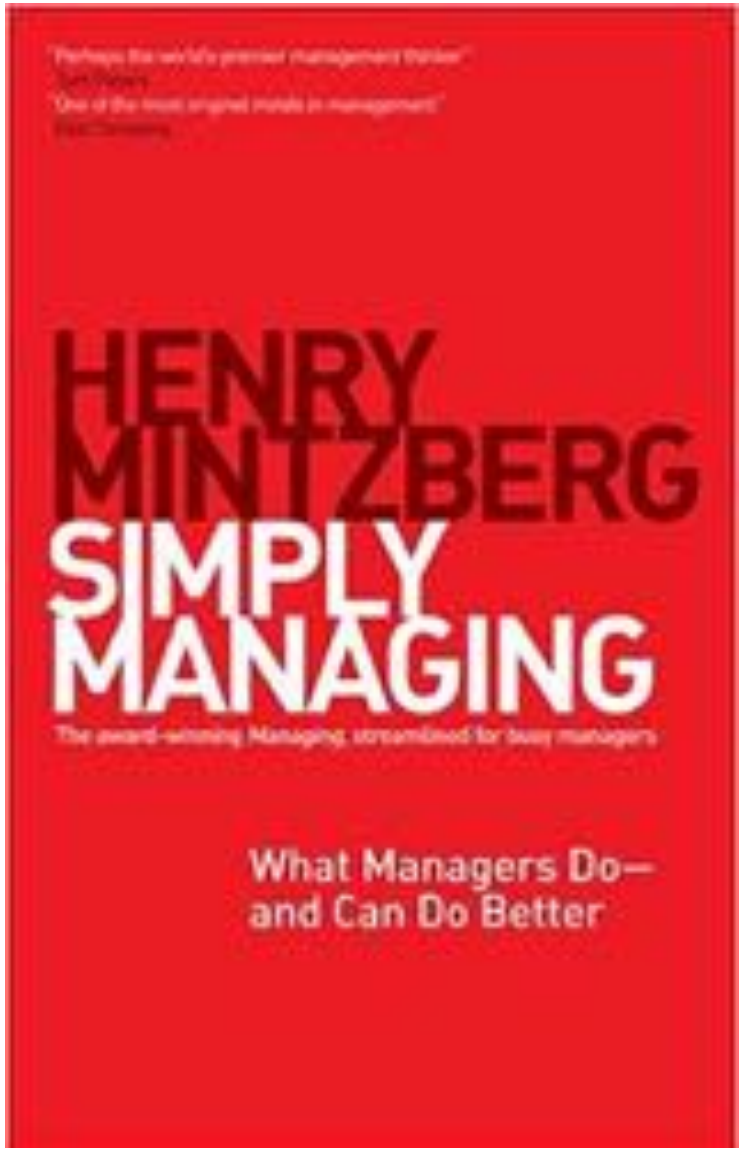
But as it turned out, I was able to borrow the money to buy the factory—and after Chobani hit the market, I financed our growth through further bank loans and reinvested profits. This is a crucial piece of the Chobani story. Our ability to grow without reliance on external investors—the venture capitalists, 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

AT THE HEART OF MANAGING





MANAGEMENT IS NOT A SCIENCE

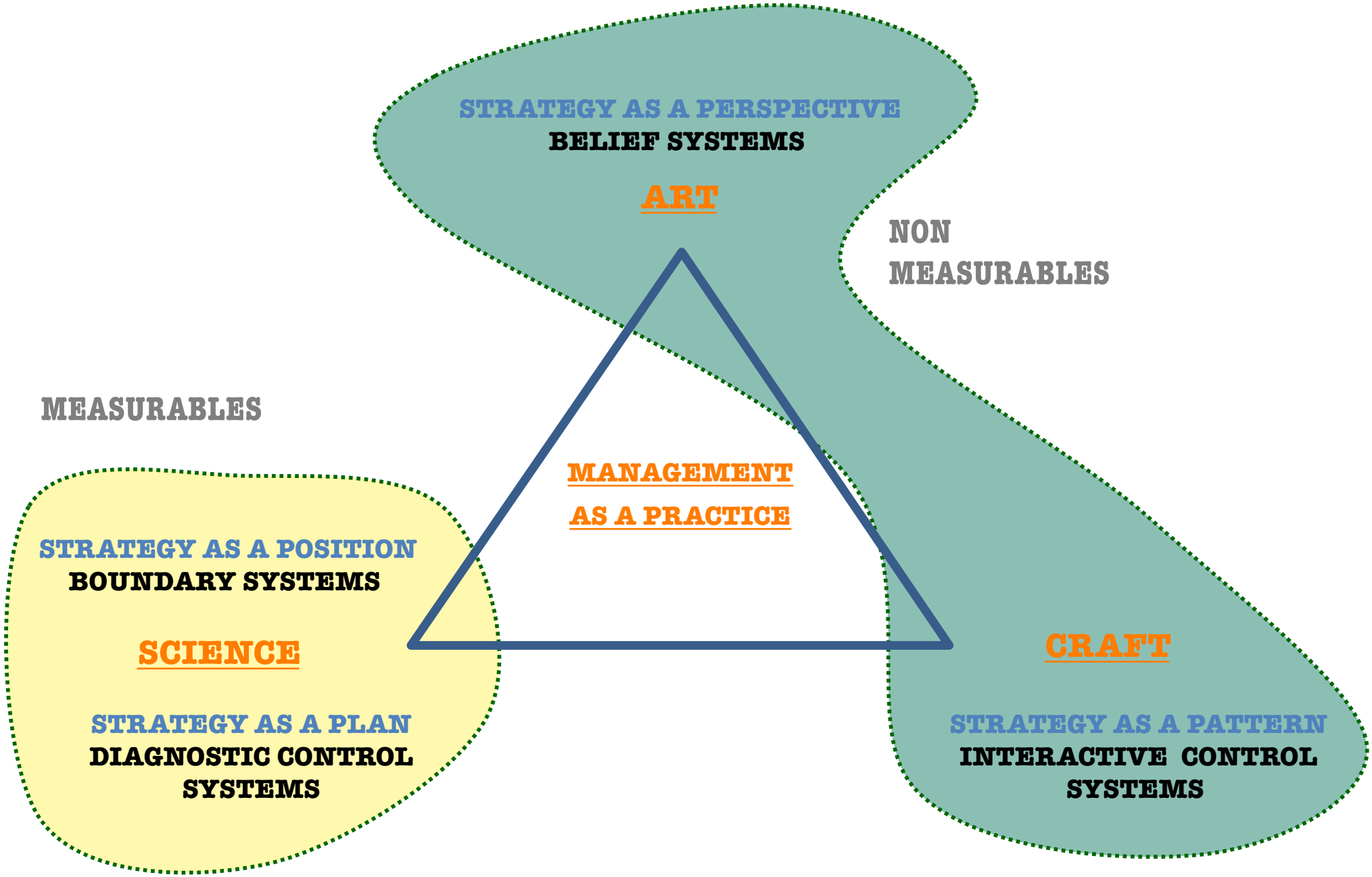
«Science is about the development of systematic knowledge through research. That is hardly the purpose of management, which is about helping to get things done in organizations. Management is not even an applied science, because that is still a science. Management certainly applies science: managers 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».

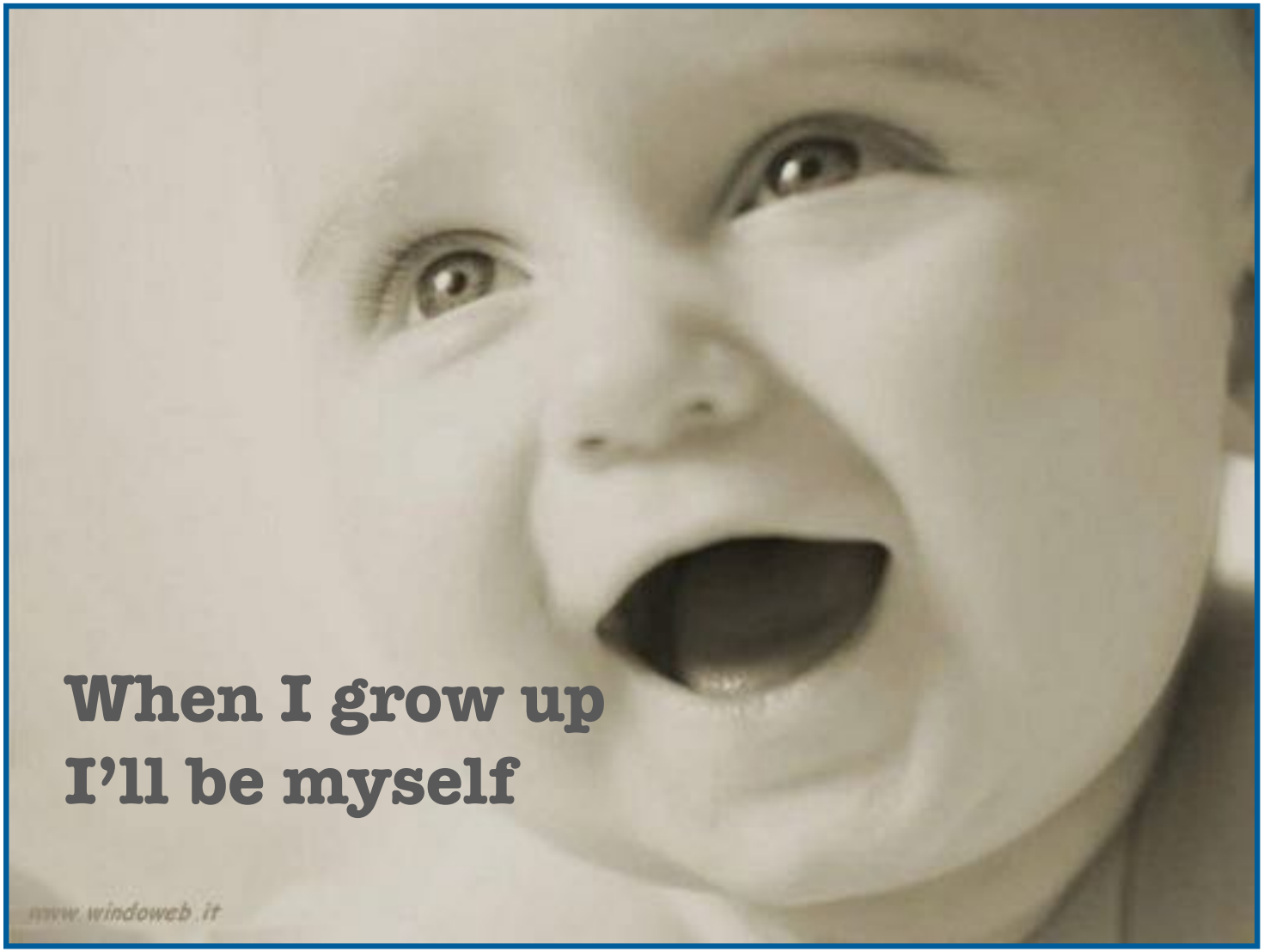
* Art is the imposition of a pattern, a vision of a whole, in many disparate parts so as to create a representation of that vision; art is an imposition of order on chaos" (Boettinger 1975:54; see also Vail 1989).

MINTZBERG TRIANGLE

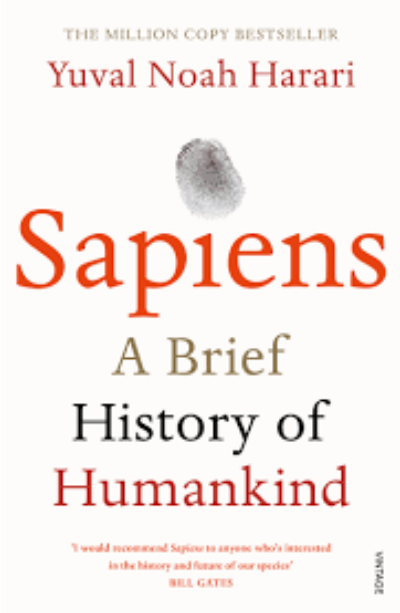


STRATEGY AS PERSPECTIVE

STRATEGY AS PERSPECTIVE



BELIEVING IN COMMON MYTHS



"Sociological research has shown that the maximum 'natural' size of a group bonded by gossip is about 150 individuals. Most people can neither intimately know, nor gossip effectively about, more than 150 human beings. [...] How did Homo sapiens manage to cross this critical threshold, eventually founding cities comprising tens of thousands of inhabitants and empires ruling hundreds of millions? The secret was probably the appearance of fiction. Large numbers of strangers can cooperate successfully by believing in common myths.

Any large-scale human cooperation – whether a modern state, a medieval church, an ancient city or an archaic tribe – is rooted in common myths that exist only in peoples collective imagination. Churches are rooted in common religious myths. Two Catholics who have never met can nevertheless go together on crusade or pool funds to build a hospital because they both believe that God was incarnated in human flesh and allowed Himself to be crucified to redeem our sins. States are rooted in common national "myths. Two Serbs who have never met might risk their lives to save one another because both believe in the existence of the Serbian nation, the Serbian homeland and the Serbian flag. Judicial systems are rooted in common legal myths. Two lawyers who have never met can nevertheless combine efforts to defend a complete stranger because they both believe in the existence of laws, justice, human rights – and the money paid out in fees.

Yet none of these things exists outside the stories that people invent and tell one another. There are no gods in the universe, no nations, no money, no human rights, no laws, and no justice outside the common imagination of human beings".

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: H. Mintzberg, "The Strategy Concept 1: 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

DIFFERENT PERSONALITIES

Mario Draghi

Dennis Rodman

“OUR PHILOSOPHY”

<<Over the years, I have noticed that some executives—particularly top-management executives in the most successful companies—often refer to “our philosophy”.

They may speak of something that “our philosophy calls for” or of some action taken in the business that is “not in accordance with our philosophy”. In mentioning “our philosophy”, they assume that everyone knows what “our philosophy” is.

As the term is most commonly used, it seems to stand for the basic beliefs that people in the business are expected to hold and be guided by—informal, unwritten guidelines on how people should perform and conduct themselves.

Once such a philosophy crystallizes, it becomes a powerful force indeed. When one person tells another “That’s not the way we do things around here”, the advice had better be heeded. >>

SOURCE: BOWER, COMPANY PHILOSOPHY: ‘THE WAY WE DO THINGS AROUND HERE’

A SET OF LAWS OR GUIDELINES

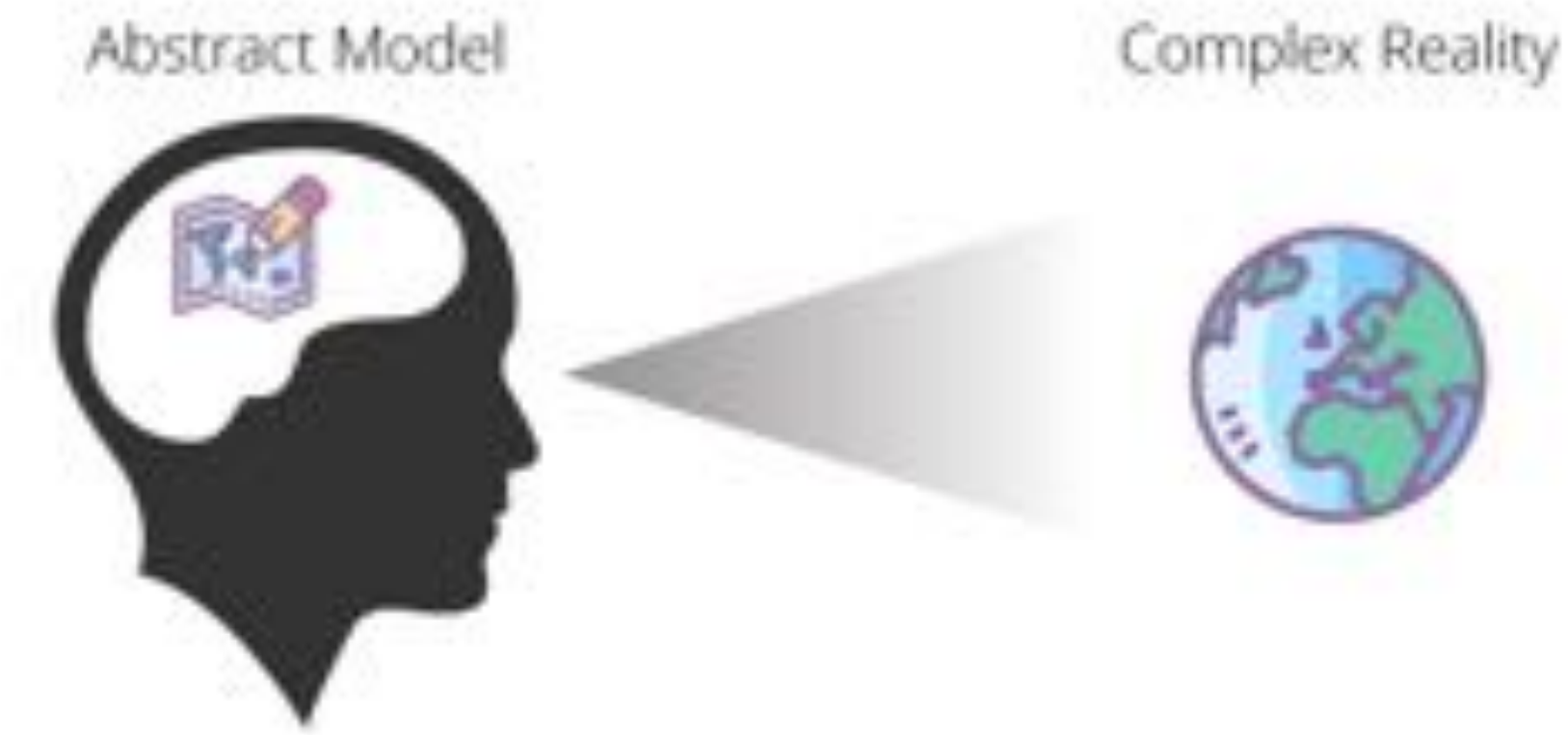
<<The literature on company philosophy is neither very extensive nor very satisfactory. But one dictionary definition of philosophy does apply: "general laws that furnish the rational explanation of anything".

In this sense, a company philosophy evolves as a set of laws or guidelines that gradually become established, through trial and error or through leadership, as expected patterns of behavior.

Even without planning or specific effort, any company will gradually develop a philosophy as people observe and learn through trial and error "the way we do things around here" However, it is my conviction that a positive program by top management to build or reshape a sound fundamental philosophy should be the underlying and overriding component of the company's system of management.>>

SOURCE: BOWER, COMPANY PHILOSOPHY: 'THE WAY WE DO THINGS AROUND HERE'

MENTAL MODELS



A mental model is a simplified observation of a certain part of reality that you can keep in your head.

MENTAL MODELS

In 1971 Jay Wright Forrester defined mental models as follows:

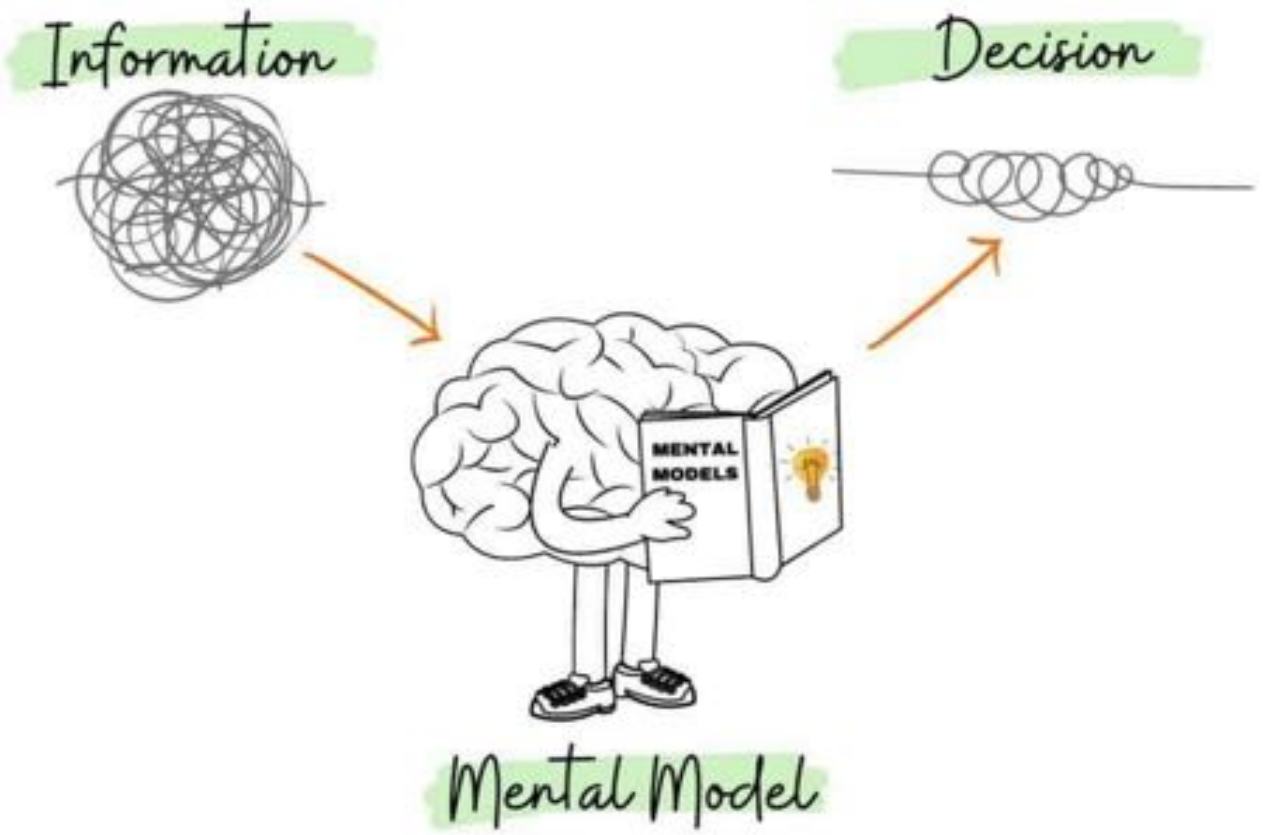
"The image of the world around us, which we carry in our head, is just a model. Nobody in his head imagines all the world, government or country. He has only **selected concepts, and relationships between them,** and uses those to represent the real system"

Mental model is an explanation of someone's thought process about how something works in the real world. It is a representation of the surrounding world, the relationships between its various parts and a person's intuitive perception about his or her own acts and their consequences. Mental models can help shape behavior and set an approach to solving problems (similar to a personal algorithm) and doing tasks.

A mental model is a kind of internal symbol or representation of external reality, hypothesized to play a major role in cognition, reasoning and decision-making. Kenneth Craik suggested in 1943 that the mind constructs "small-scale models" of reality that it uses to anticipate events.

SOURCE: https://en.wikipedia.org/wiki/Mental_model

MENTAL MODELS



https://thewizdomproject.com/mental-models-basics

MENTAL MODELS

"One thing all managers know is that many of the best ideas never get put into practice. Brilliant strategies fail to get translated into action. Systemic insights never find their way into operating policies. A pilot experiment may prove to everyone's satisfaction that a new approach leads to better results, but widespread adoption of the approach never occurs.

We are coming increasingly to believe that this "slip 'twixt cup and lip" stems, not from weak intentions, wavering will, or even nonsystemic understanding, but from mental models. More specifically, new insights fail to get put into practice because they conflict with deeply held internal images of how the world works, images that limit us to familiar ways of thinking and acting. That is why the discipline of managing mental models—surfacing, testing, and improving our internal pictures of how the world works— "promises to be a major breakthrough for building learning organizations. None of us can carry an organization in our minds—or a family, a community. What we carry in our heads are images, assumptions, and stories. [...]

Our "mental models" determine not only how we make sense of the world, but how we take action."

Excerpt From: Peter M Senge. "The Fifth Discipline: The Art and Practice of the Learning Organization: First Edition." iBooks.

SHARED VALUES AND ALIGNMENT

THE CONTRA EFFECT

“COGNITIVE BIAS” AND BLINKERS

ENACTED ENVIRONMENT

WEICK: ENACTMENT & ENACTED ENVIRONMENT

Weick (1988) describes the term enactment as representing the notion that when people act, they bring structures and events into existence and set them in action.

The process of enactment involves two steps. First, preconceptions are used to set aside portions of the field of experience for further attention, that is, perception is focused on predetermined stimuli. Second, people act within the context of these portions of experience guided by preconceptions in such a way as to reinforce these preconceptions. Hence, attention to certain stimuli will guide subsequent action so that those stimuli are confirmed as important.

The result of the process of enactment is the enacted environment. This enacted environment comprises "real" objects but the significance, meaning and content of these objects will vary. These objects are not significant unless they are acted upon and incorporated into events, situations and explanations. In this way the enacted environment is a direct result of the preconceptions held by the social actor.

CORE VALUES

<<The core values of any organization are rooted in its history, traditions, and the values of its current senior managers.

Core values create momentum that can either help or hinder the implementation of business strategies. These values are the starting point for determining the competencies of an organization.

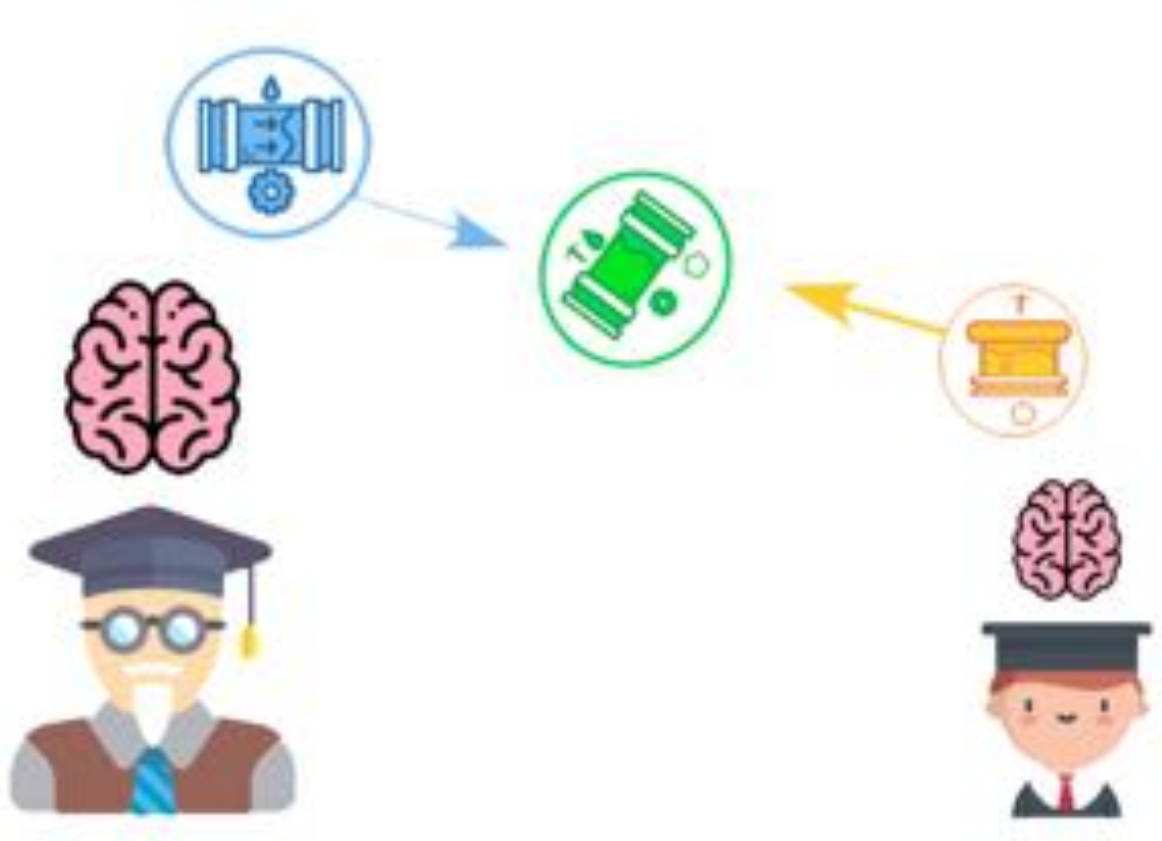
Managers must analyze the core values of their business to understand the extent to which they are in tune with the desired strategic direction. For many years, IBM's core values related to the mastery of complex technologies and a marketing prowess that focused on large commercial customers. The strongly held and clearly articulated beliefs of its founder, Thomas J. Watson, created a sense of pride to IBM employees all over the world (Watson 1963, 1990). In the 1990s, as IBM struggles to redefine itself in changing markets, these same values are liabilities.>>

SOURCE: SIMONS, LEVERS OF CONTROL

MIND CLEANSING

PREACHING

SCHOOLING

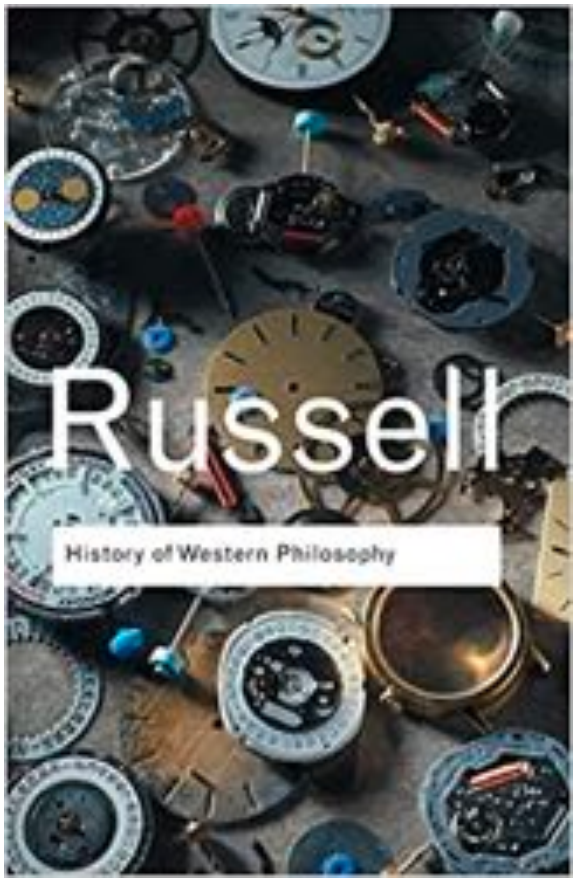


MILIEU

Milieu è una parola di origine francese adottata in italiano, che significa "contesto, ambito, ambiente" in special modo usata dal punto di vista sociale e culturale, ad esempio per indicare appunto l'ambito sociale e culturale in cui opera un artista, o da cui emerge una corrente di pensiero.

THE ROOTS OF THE STRATEGY

OSSIFICATION VS DISSOLUTION



Social cohesion is a necessity, and mankind has never yet succeeded in enforcing cohesion by merely rational arguments. Every community is exposed to two opposite dangers: ossification through too much discipline and reverence for tradition, on the one hand; on the other hand, dissolution, or subjection to foreign conquest, through the growth of an individualism and personal independence that makes co-operation impossible. In general, important civilizations start with a rigid and superstitious system, gradually relaxed, and leading, at a certain stage, to a period of brilliant genius, while the good of the old tradition remains and the evil inherent in its dissolution has not yet developed. But as the evil unfolds, it leads to anarchy, thence, inevitably, to a new tyranny, producing a new synthesis secured by a new system of dogma.

TWO SIDES

I have, myself, full confidence that if all do their duty, if nothing is neglected, and if the best arrangements are made, as they are being made, we shall prove ourselves once again able to defend our Island home, to ride out the storm of war, and to outlive the menace of tyranny, if necessary for years, if necessary alone. At any rate, that is what we are going to try to do. That is the resolve of His Majesty's Government-every man of them. That is the will of Parliament and the nation. The British Empire and the French Republic, linked together in their cause and in their need, will defend to the death their native soil, aiding each other like good comrades to the utmost of their strength. Even though large tracts of Europe and many old and famous States have fallen or may fall into the grip of the Gestapo and all the odious apparatus of Nazi rule, we shall not flag or fail. We shall go on to the end, we shall fight in France, we shall fight on the seas and oceans, we shall fight with growing confidence and growing strength in the air, we shall defend our Island, whatever the cost may be, we shall fight on the beaches, we shall fight on the landing grounds, we shall fight in the fields and in the streets, we shall fight in the hills; we shall never surrender, and even if, which I do not for a moment believe, this Island or a large part of it were subjugated and starving, then our Empire beyond the seas, armed and guarded by the British Fleet, would carry on the struggle, until, in God's good time, the New World, with all its power and might, steps forth to the rescue and the liberation of the old.

THE PILLARS


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

UNIVERSITÀ DEGLI STUDI DI TRIESTE

Dyn@mika
SPIN OFF UNIVERSITÀ DEGLI STUDI DI TRIESTE

LEVERS OF CONTROL (5)

How Managers Use Innovative Control Systems to Drive Strategic Renewal

STRATEGY AS PATTERN IN ACTIONS

TO BE AWARE OF CHANGING PATTERNS OF ACTION

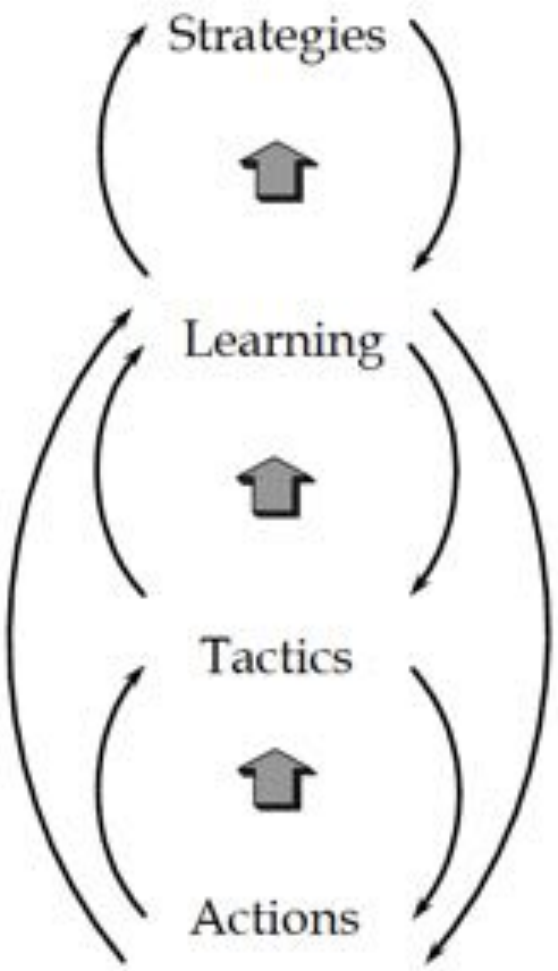
Many successful strategies arise from local experimentation and replication.

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.

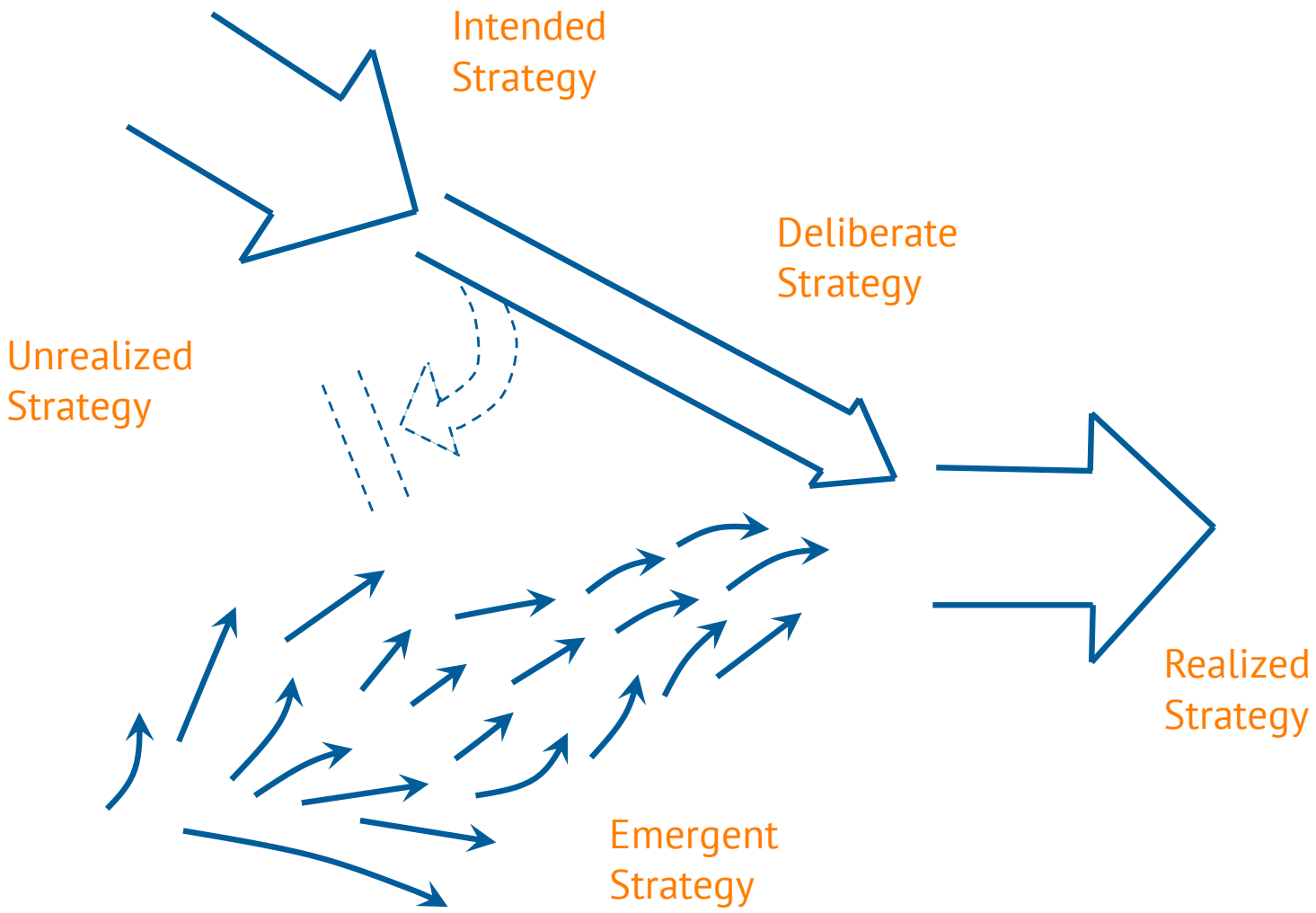
Experiments, trial and error, and sometimes just plain luck lead to new tactics and ways of competing. If these innovations are replicated, managers can learn over time how to change and/or improve their strategy.

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

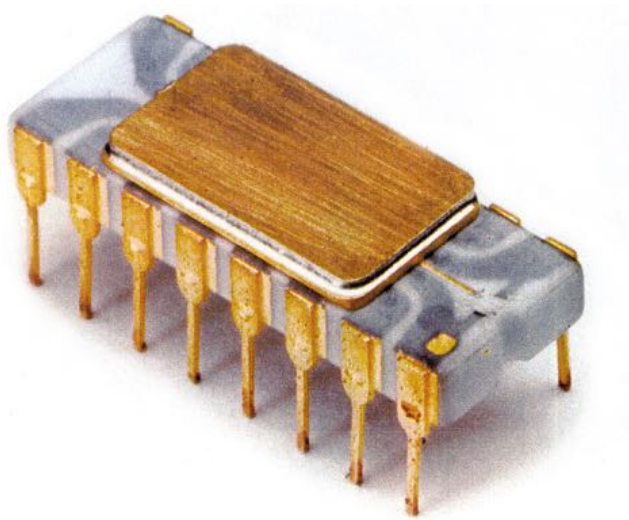
BOTTOM-UP OR EMERGENT STRATEGY



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.

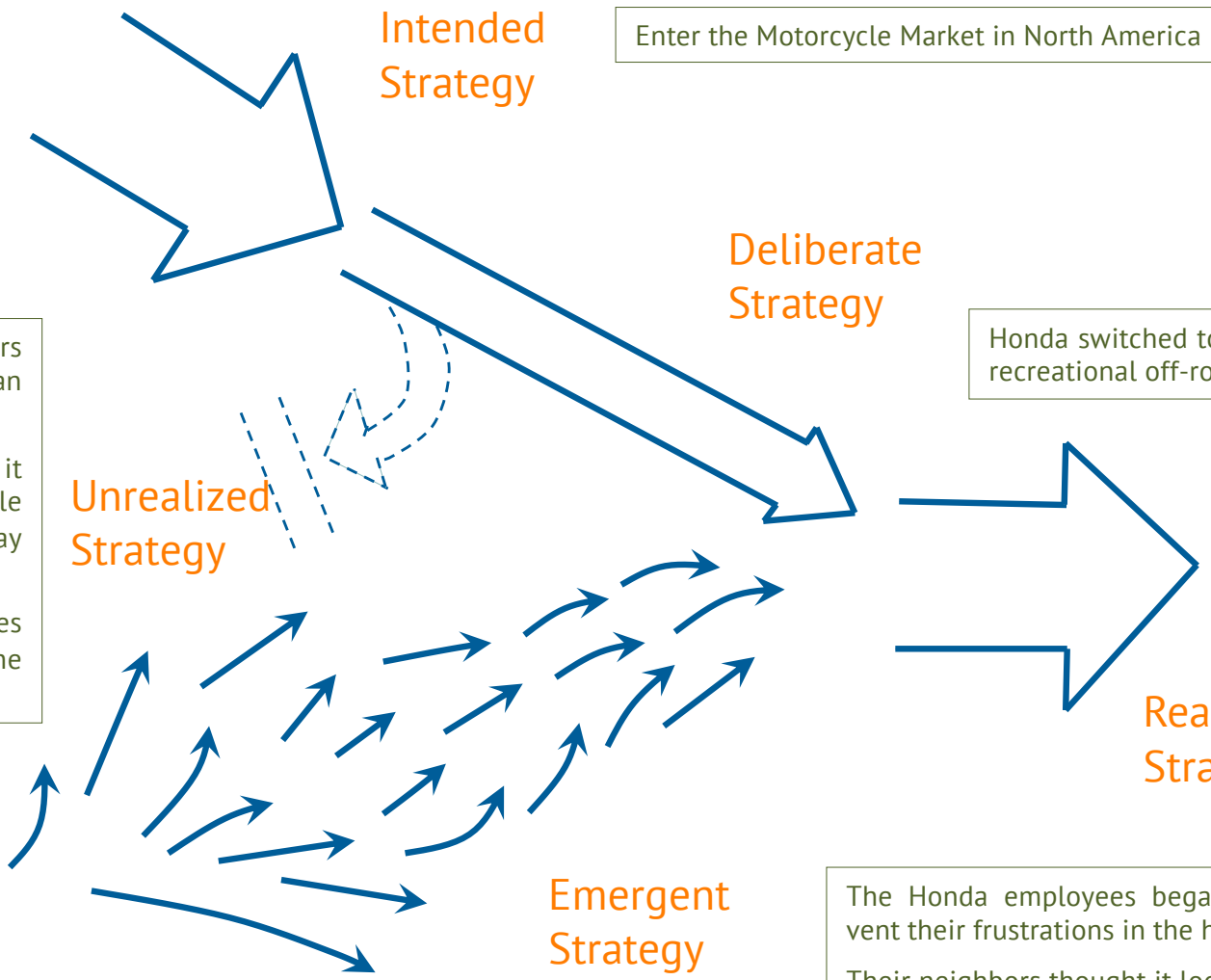
There continued to be a disconnect between stated corporate strategy and the activities of middle managers during the transition period. Top executives gave weak justifications for the company's reluctance to face reality and exit the DRAM space; they were emotionally attached to the DRAM business. A 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.

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

SERENDIPITY

SERENDIPITY

SERENDIPITY

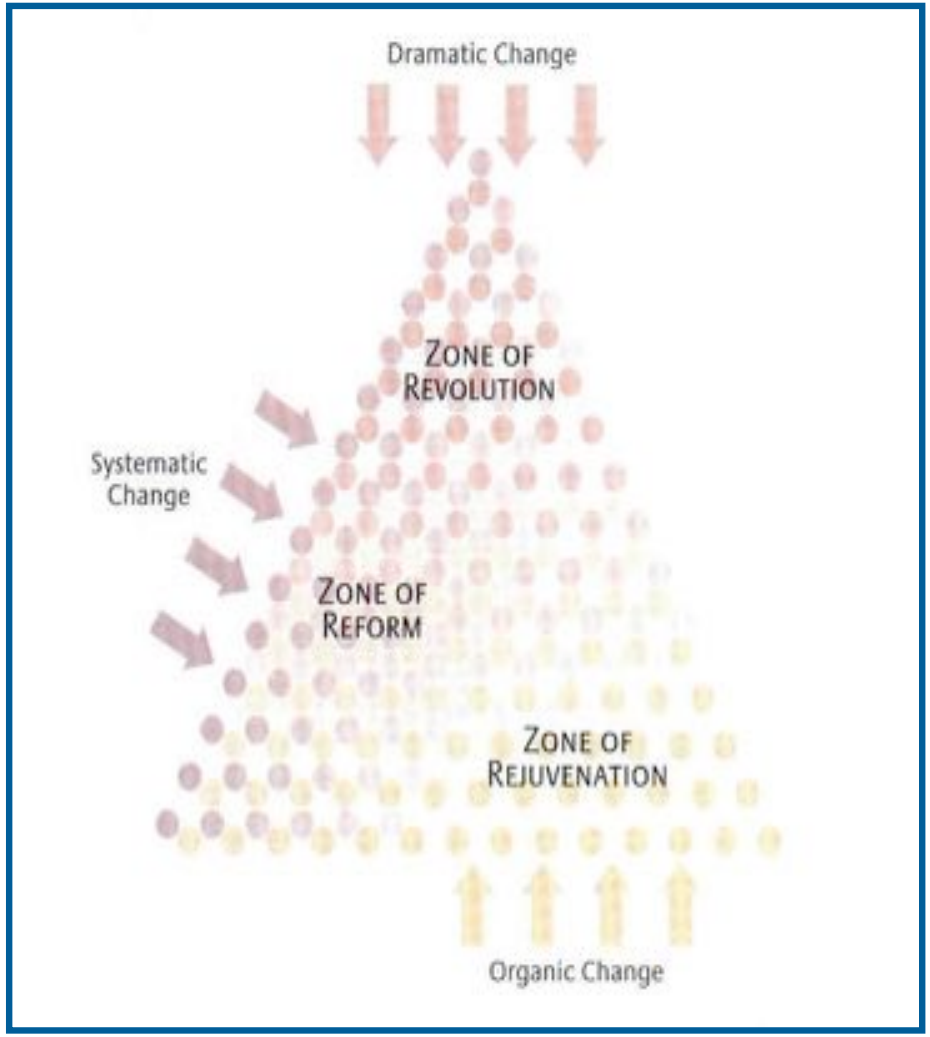
ORGANIZATIONAL LEARNING

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.

THE CHANGE TRIANGLE



Source: Quy Nguyen Huy & Henry Mintzberg, "The Rhythm of Change"

DRAMATIC CHANGE

<<Dramatic change is frequently initiated in times of crisis or of great opportunity when power is concentrated and there is great slack to be leveraged (for example, in the sale of assets).

It can range from rationalizing costs, restructuring the organization and repositioning strategy to reframing the organization's mind-set and revitalizing its culture.

Usually, a company's leadership commands this dramatic change in the expectation of compliance by everyone else.

Although this kind of initiative can be effective, it can also be misguided and engender covert resistance. >>

Source: Quy Nguyen Huy & Henry Mintzberg, "The Rhythm of Change"

ORGANIC CHANGE

<<Whereas dramatic change is usually driven by the formal leadership and systematic change is usually promoted by specialists, organic change tends to arise from the ranks without being formally managed.

It often involves messy processes with vague labels like venturing, learning and politicking and is nurtured behind the scenes in the skunk works of big companies such as 3M Co. or Intel Corp. and in those near-legendary garage startups that spawned industry giants like Apple Computer Inc. and Dell Computer Corp.

The trouble is that the organic approach can be splintered and is itself anarchical. Groups may begin to work at cross-purposes and fight each other over resources. When informal groups indulge in experiential learning, narrowed competences can result if each focuses on promoting only what it knows best to serve its own interests. >>

Source: Quy Nguyen Huy & Henry Mintzberg, "The Rhythm of Change"

SYSTEMATIC CHANGE

<<Systematic change is slower, less ambitious, more focused, and more carefully constructed and sequenced than dramatic change. In a word, it is more orderly. Often it is promoted by staff groups and consultants who handle planning and organizational development.

Over the years, many approaches to systematic change have appeared, including quality improvement, work reprogramming, benchmarking, strategic planning and so on.

As the nature of these approaches suggests, systematic change draws heavily on technique and, in that sense, is change imported to the organization.

But it can also be overly formalized and so stifle initiative in the organization.>>

Source: Quy Nguyen Huy & Henry Mintzberg, "The Rhythm of Change"

ORGANIC CHANGE

<<The important thing to understand about organic change is that it is not systematically organized when it begins or dramatically consequential in its intentions, and it does not depend on managerial authority or specialized change agents.

Indeed, it often proceeds as a challenge to that authority and those agents, sometimes in rather quirky ways.

Yet its results can be dramatic.

Clever leadership can, however, stimulate organic change by socializing the organization to prize it. >>

Source: Quy Nguyen Huy & Henry Mintzberg, "The Rhythm of Change"

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.

SOME EXAPLES

STRATEGIC UNCERTAINTIES

- New technologies
- Changes in population demographics
- Product unknown defects
- Predatory pricing by competitors
- Exit of a competitor from the market
- Changes in government policy or regulation

STRATEGIC UNCERTAINTIES

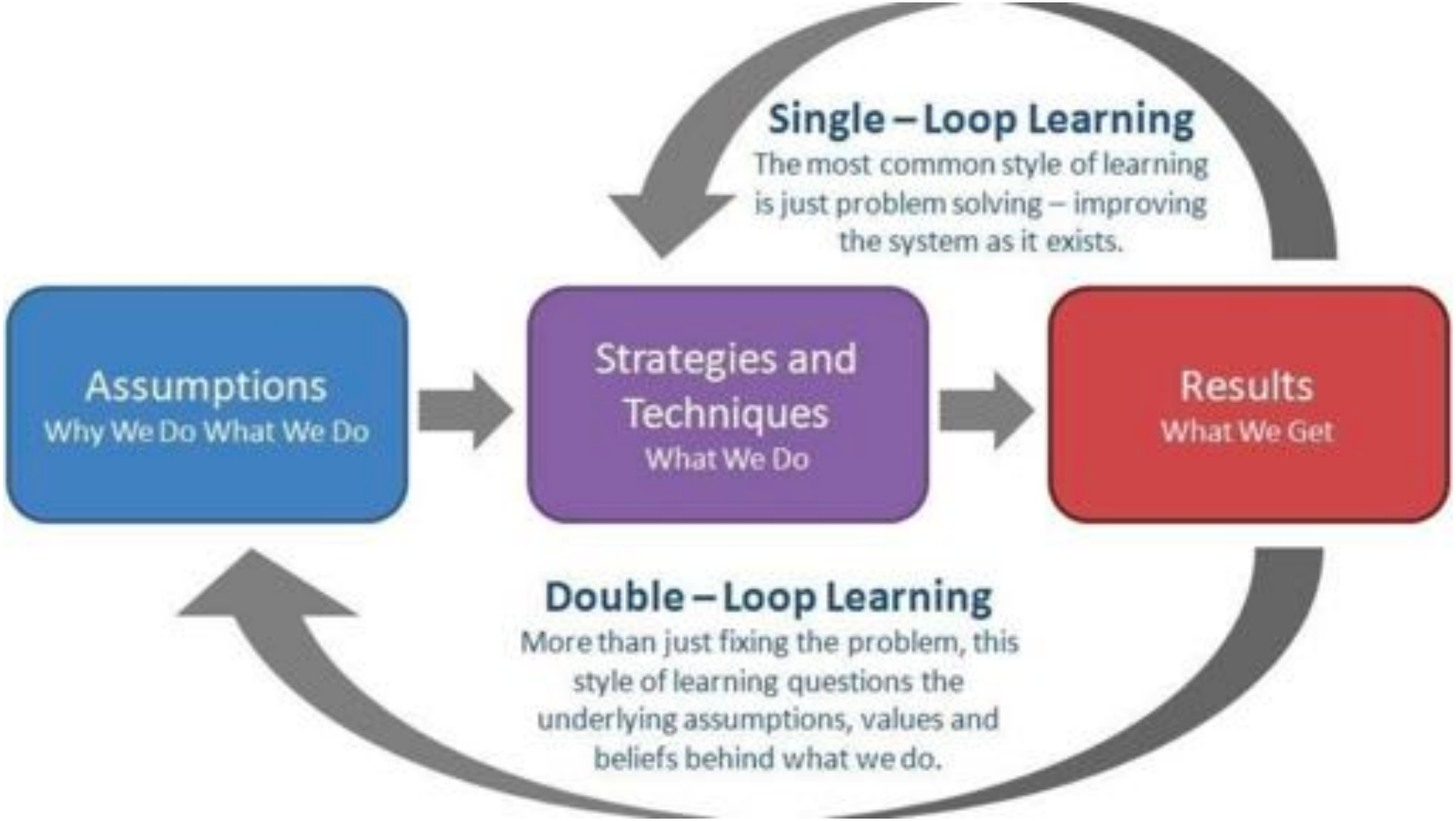
Strategic uncertainties basically relate to:

1. Changes in customer tastes that could undermine the attractiveness of the company's products and/or services;
2. Revolutions in the state of technology that could undermine the ability of the business to deliver products valued by the market;
3. Legislative amendments that could block or limit business activities performed by an enterprises.
4. Any other unknown future event that can change the structure of the industry in which the business is competing or modify its competitive position.

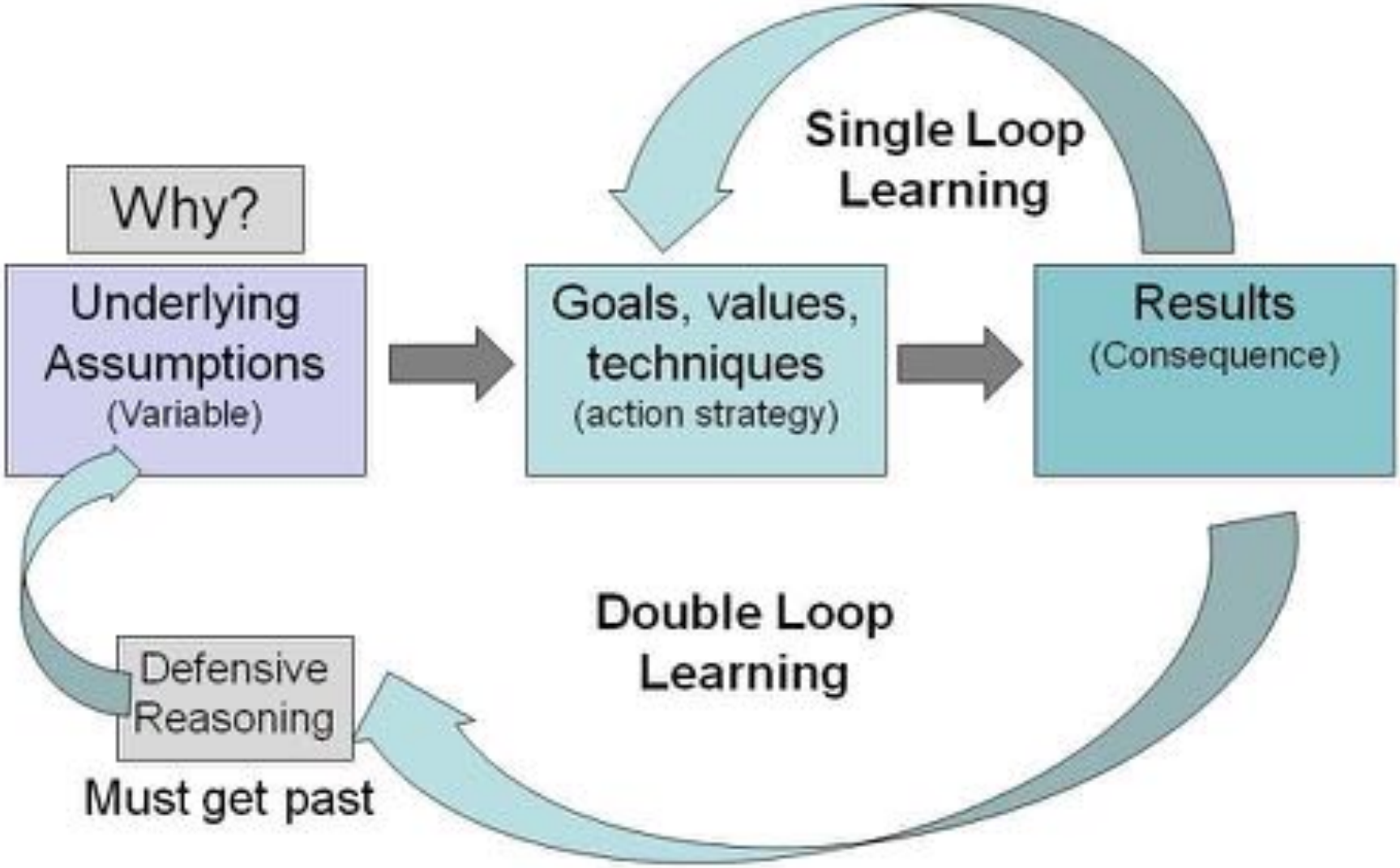
DISTINCTION BETWEEN C.P.V. AND S.U.

	CRITICAL PERFORMANCE VARIABLES	STRATEGIC UNCERTAINTIES
Recurring questions	What must we do well to achieve our intended strategy?	What changes in assumptions could alter the way we achieve our vision for the future?
Focus on	Implementing intended strategy	Testing and identifying new strategies
Driven by	Goal achievement	Top management unease and focus
Search for	Efficiency and effectiveness	Disruptive change

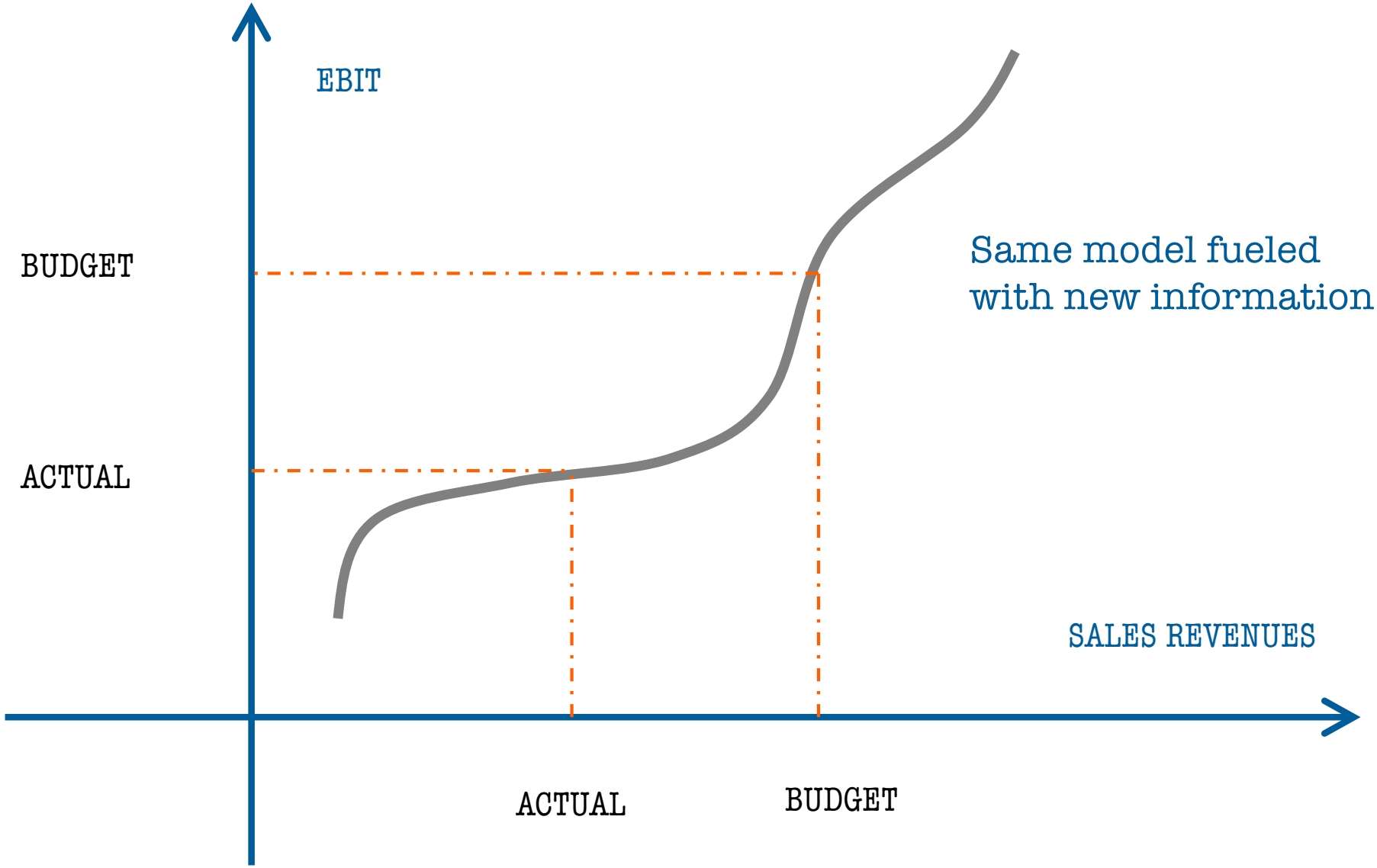
DOUBLE LOOP LEARNING: ARGYRIS & SCHÖN.



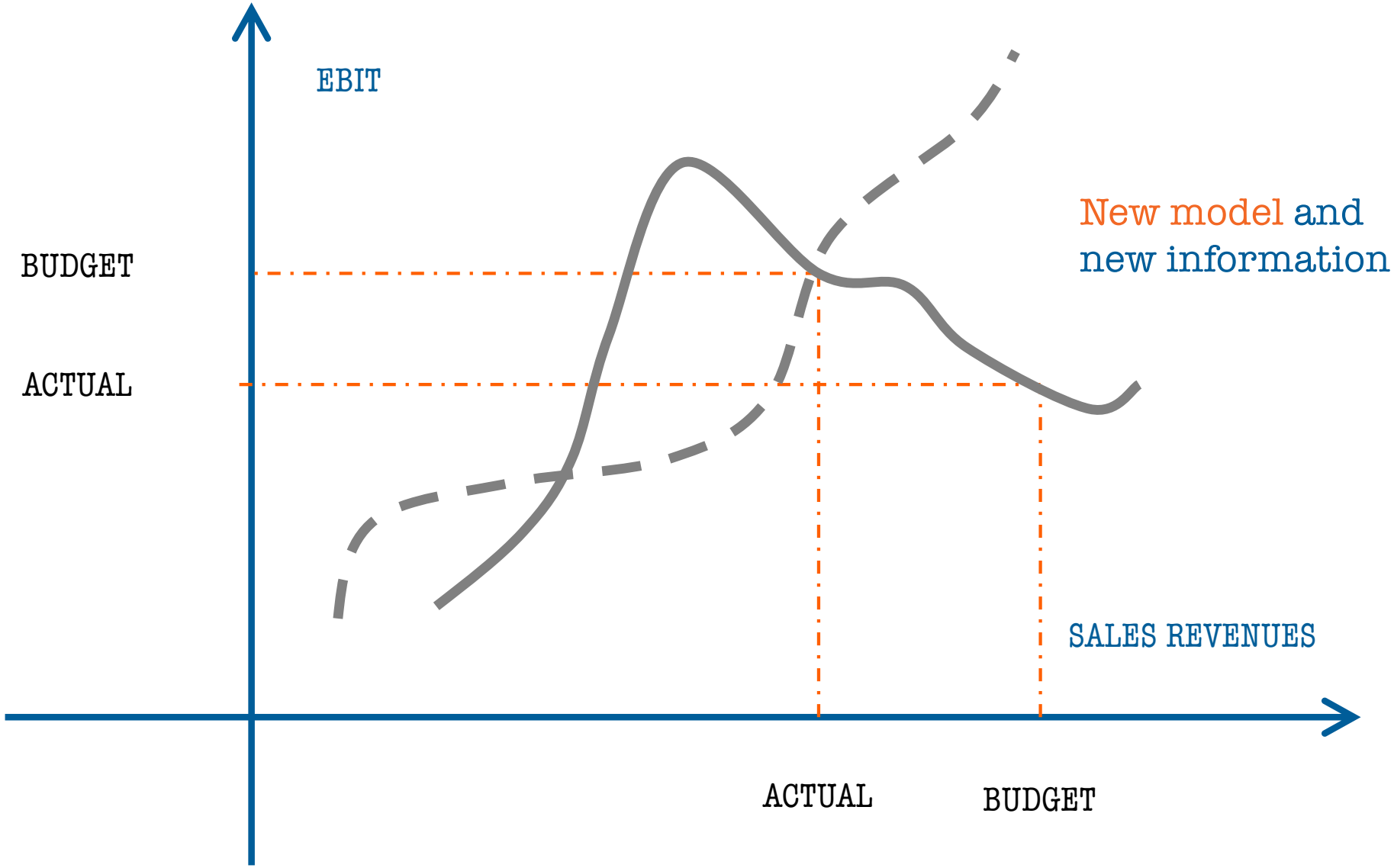
DOUBLE LOOP LEARNING: ARGYRIS & SCHÖN.



ONE LOOP LEARNING



DOUBLE LOOP LEARNING

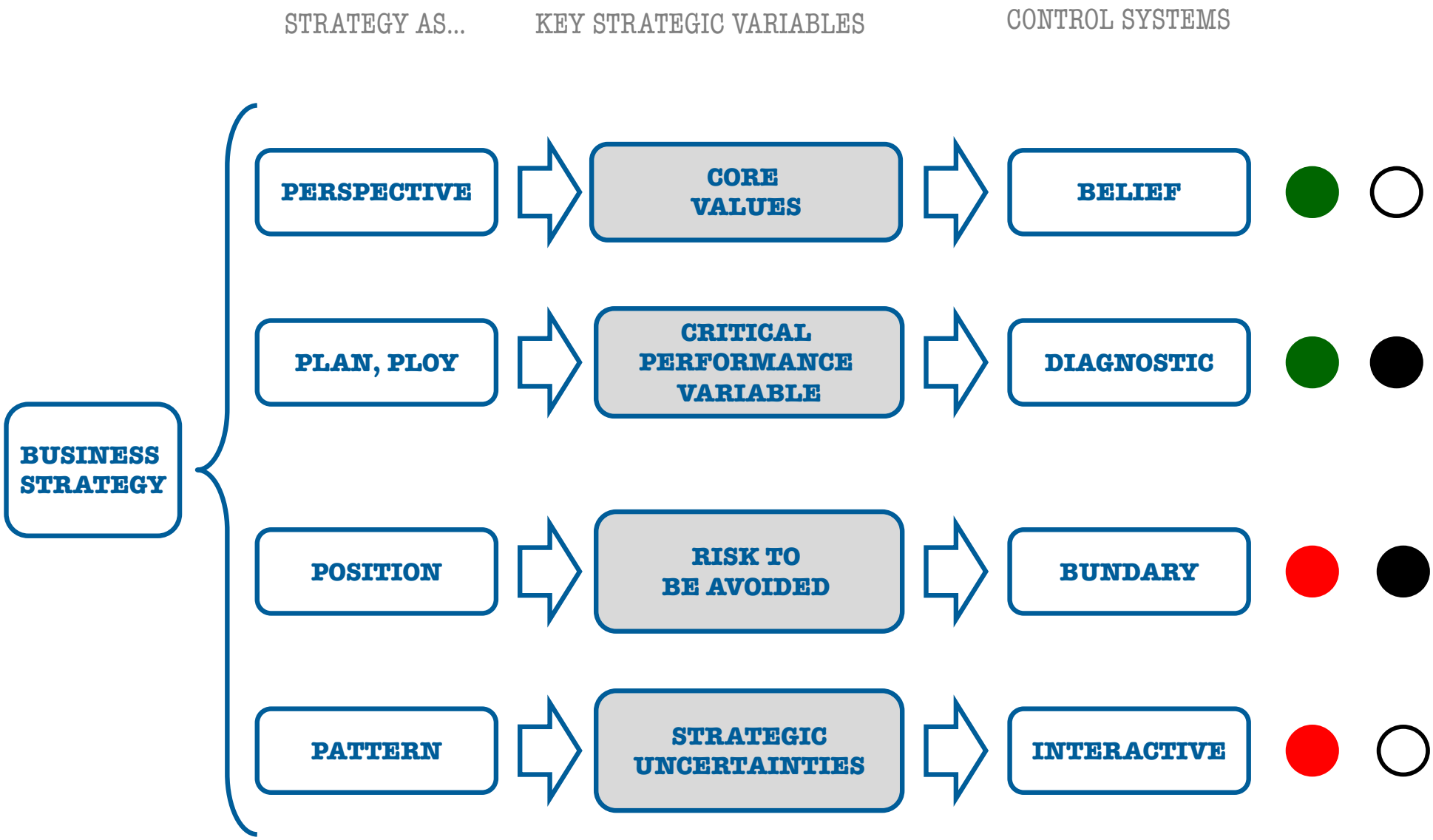


A SYNTHESIS

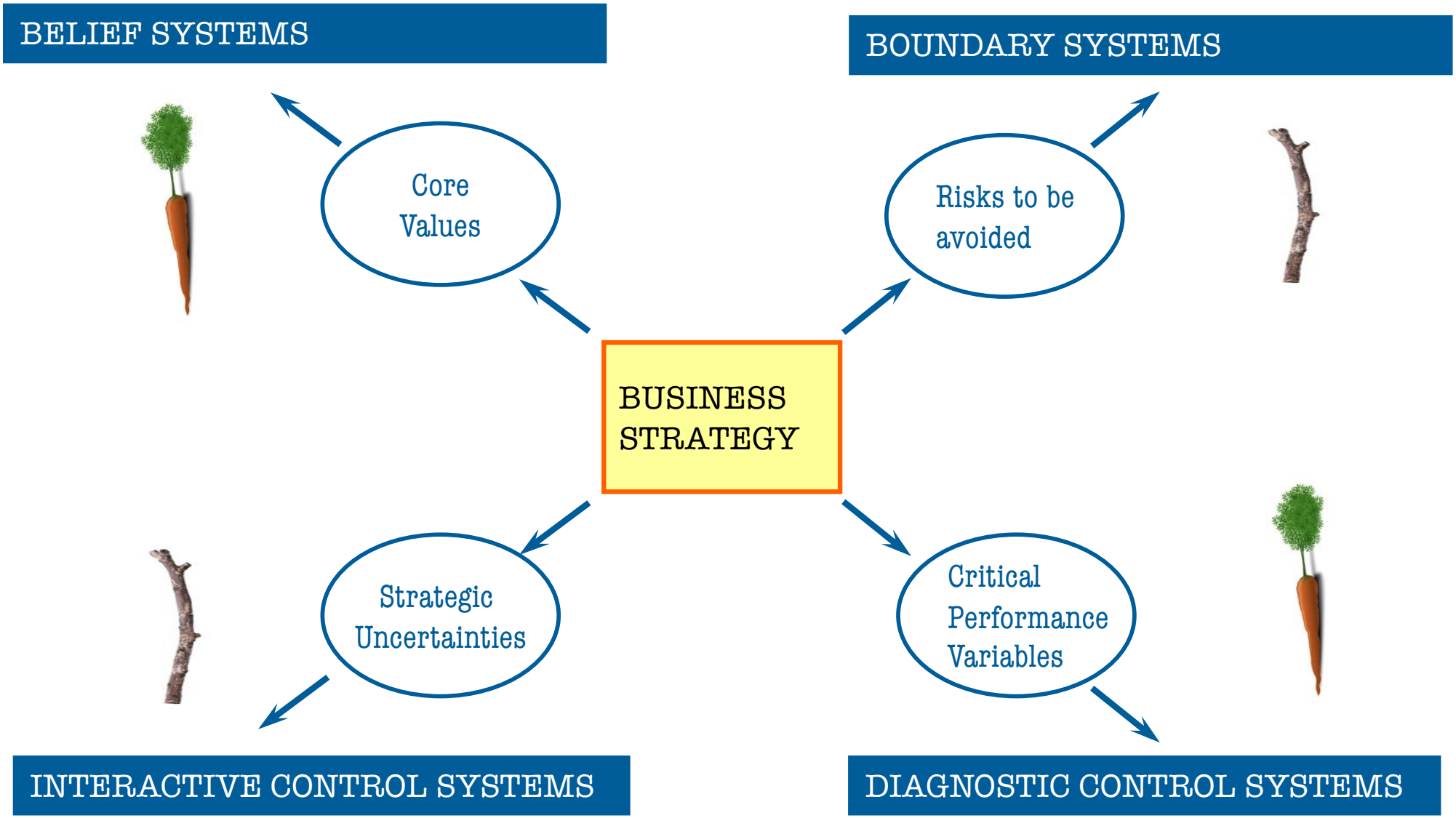
POTENTIAL	ORGANIZATIONAL BLOCKS	MANAGERIAL SOLUTION	CONTROL LEVER
To contribute	Uncertainty about purpose	Communicate core values and mission	Beliefs Systems
To do right	Pressure or temptation	Specify and enforce rules of the game	Boundary Systems
To achieve	Lack of focus or resources	Build and support clear target	Diagnostic Control Systems
To create	Lack of opportunity or fear of risk	Open organizational dialogue to encourage learning	Interactive Control Systems

Robert Simons, "Control in a Age of Empowerment"

IN CONCLUSION ...



CONTROLLING BUSINESS STRATEGY



MINTZBERG TRIANGLE

STRATEGY AS A PERSPECTIVE
Belief Systems

ART

STRATEGY AS A POSITION
Boundary Systems

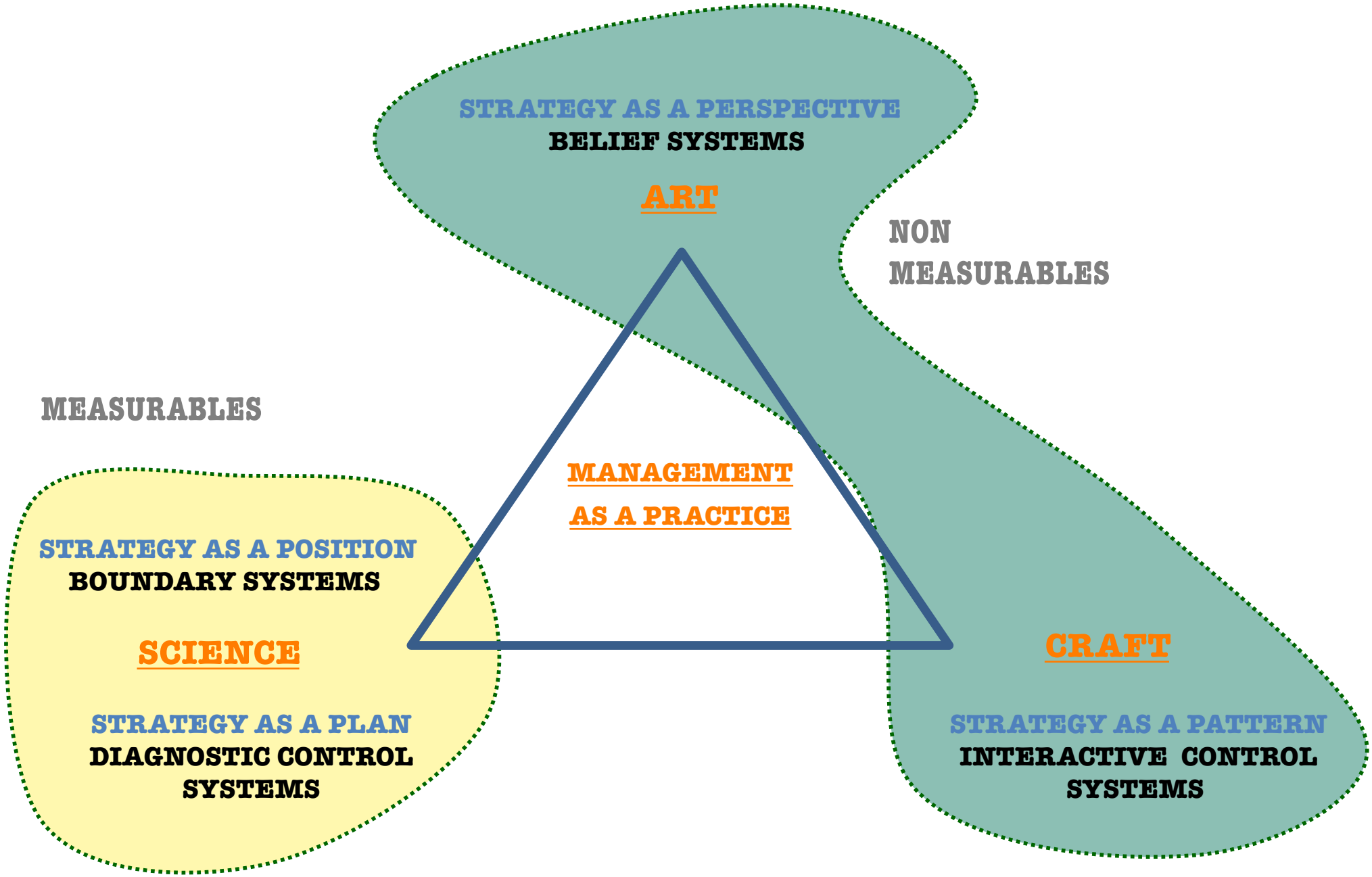
SCIENCE

CRAFT

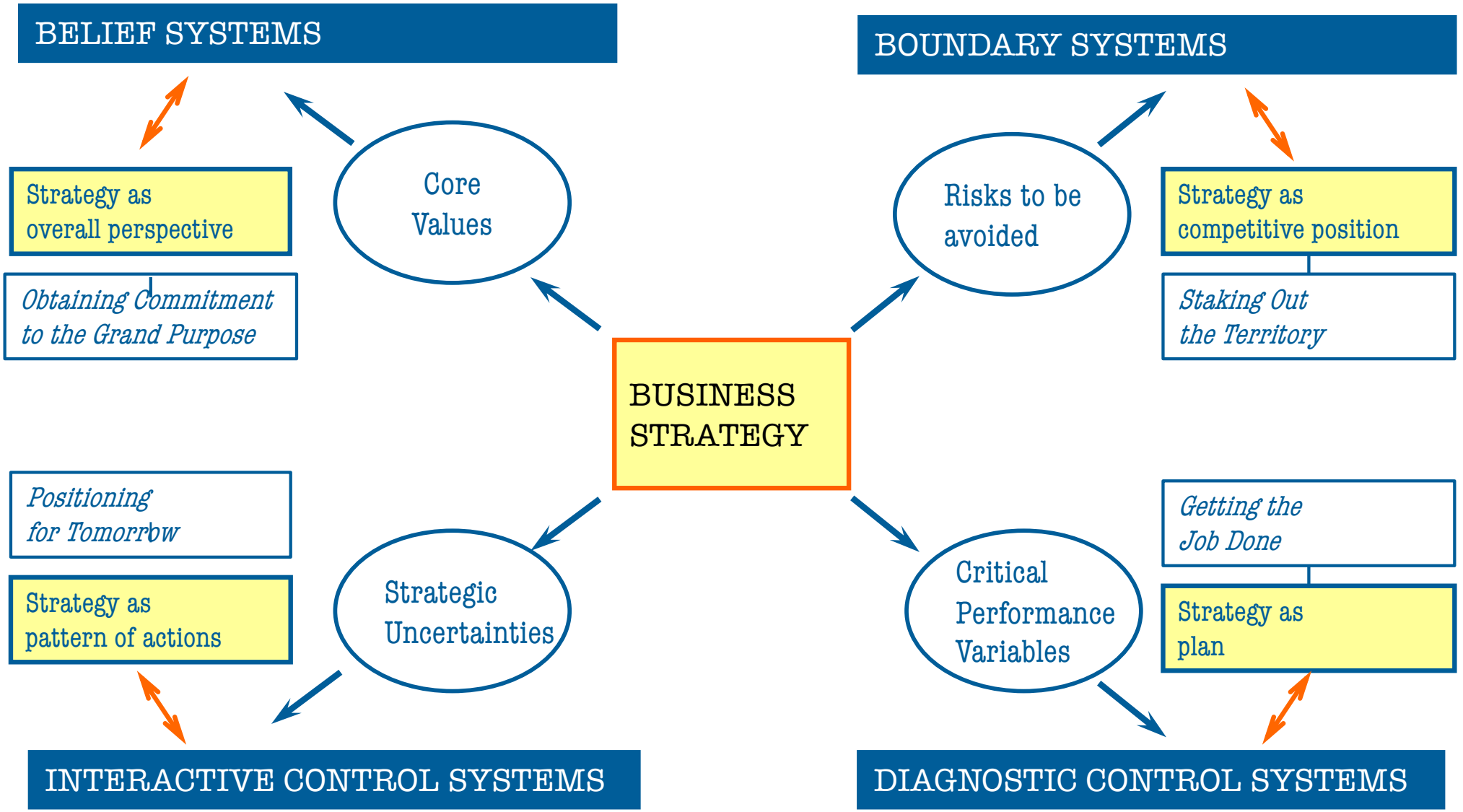
STRATEGY AS A PLAN
Diagnostic Control Systems

STRATEGY AS A PATTERN
Interactive Control Systems

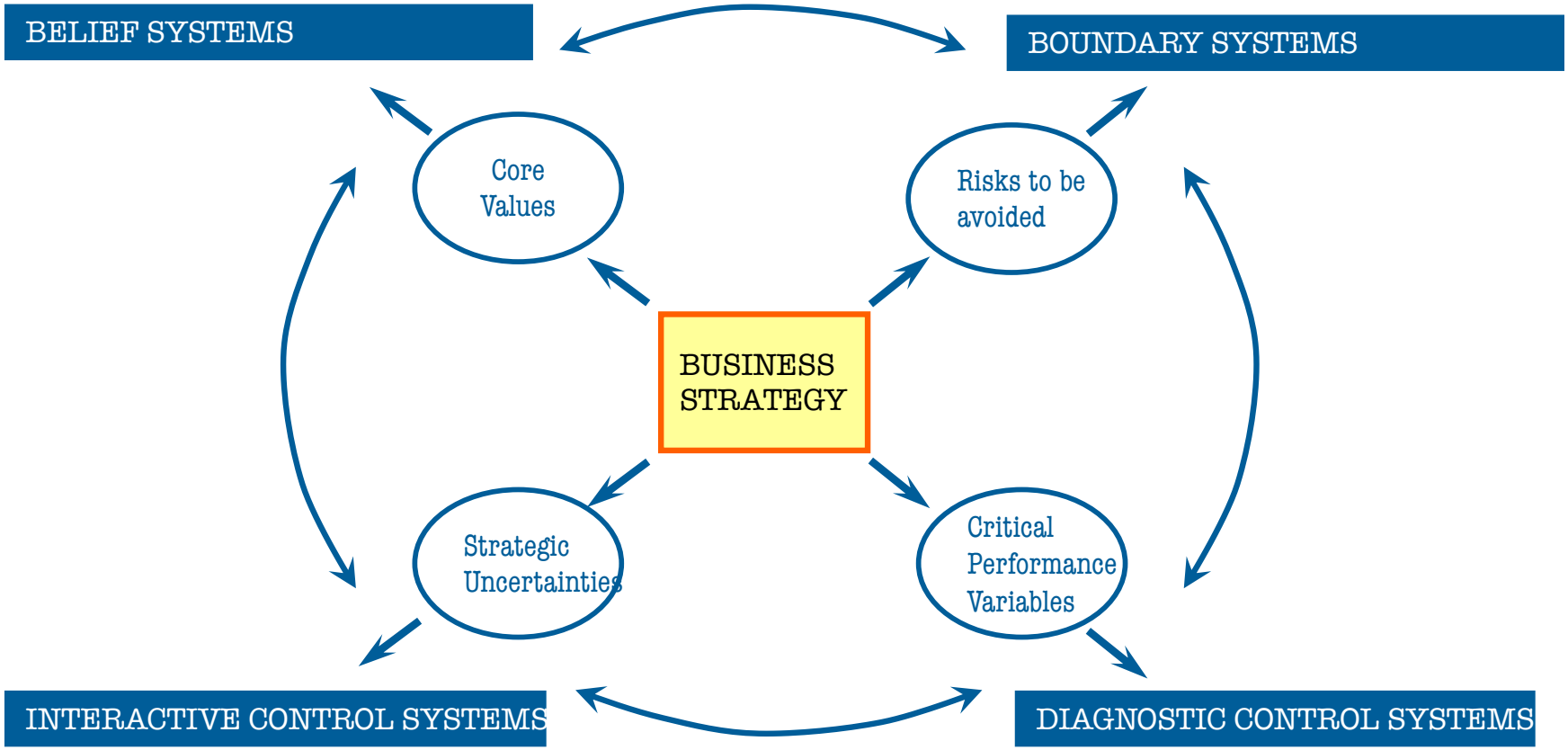
MINTZBERG TRIANGLE



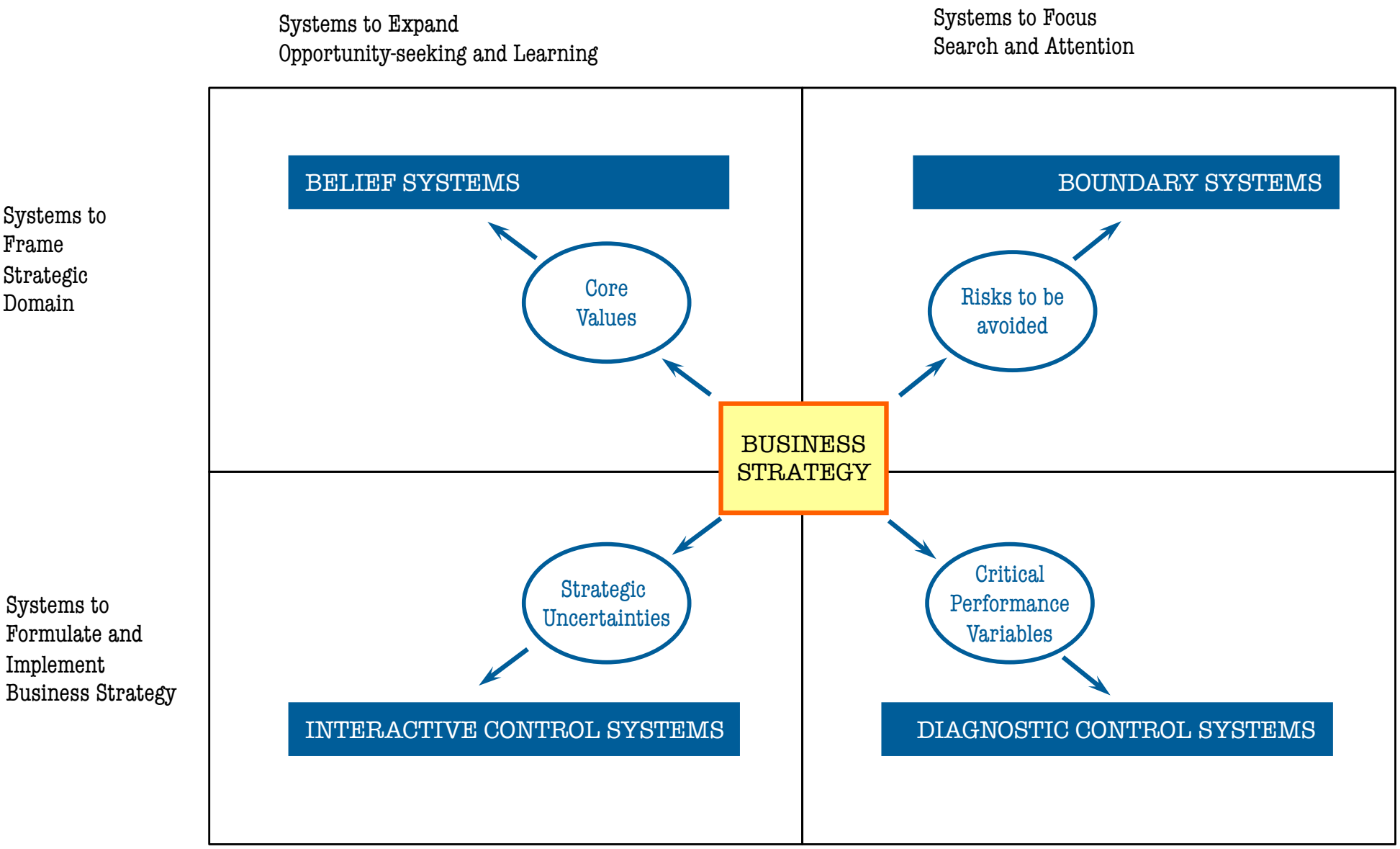
CONTROLLING BUSINESS STRATEGY



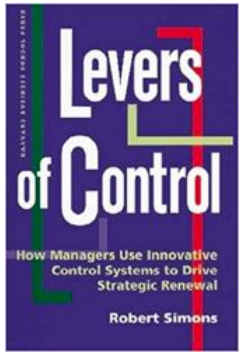
DYNAMIC INTERPLAY OF FORCES



LEVERS OF CONTROL



READING SUGGESTIONS



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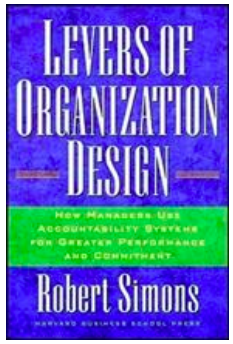

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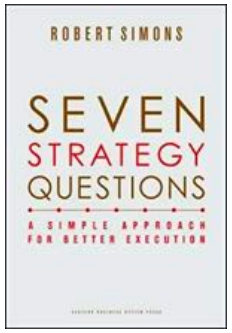

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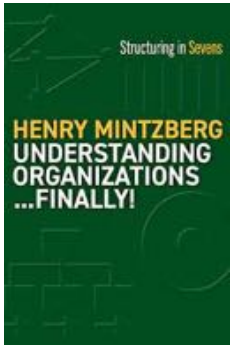

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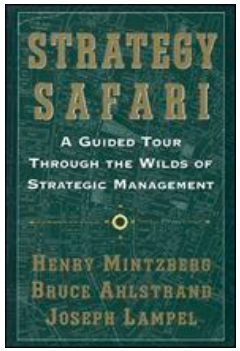

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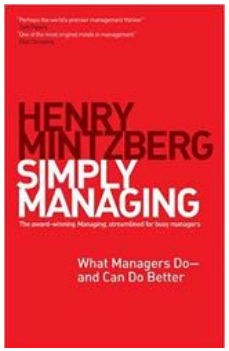

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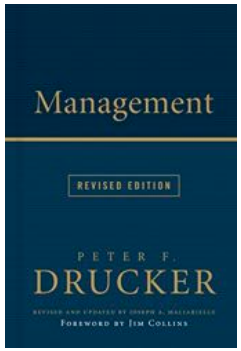

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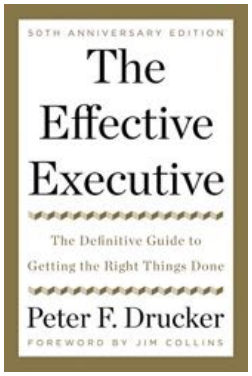

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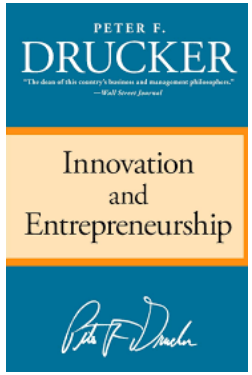

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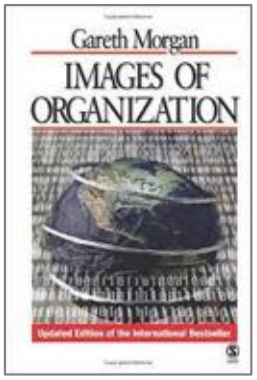

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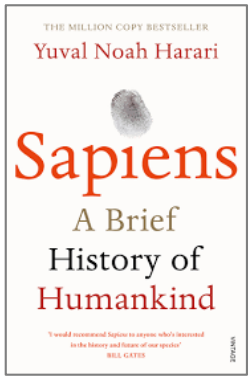

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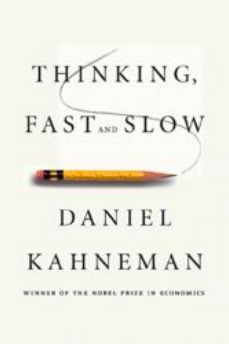

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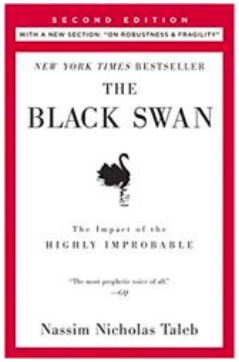

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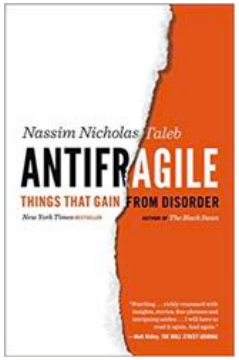

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