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The Science of Creating Business Acumen

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Managing an organization successfully long term is like running a marathon. You need lasting power and the right timing to deploy your strength to race ahead of the pack at the critical juncture. It is very much unlike a 100-metre race where a short but tremendous burst of energy can help attain you to your objective.

There have been countless occasions in my B-school academic life when I have been confronted with a very simple question – What sustains successful organizations? Believe it or not, every time I have struggled to provide a convincing answer.

Inevitably, my discomfort is shared by many, although there are numerous suggestions of the need for Management Principles like Efficiency and Prudence, Innovative Climate, Flexible Organization and Strong and Foresighted Leadership, Customer Focus and Effective Stakeholder Relationship Management, which steer respected organizations to greater heights. In spite of the truism associated with these Principles, many of us remain unsure about the criterion for using them – are they all needed in equal doses in every organization or, they vary across circumstances. A relatively safe alternative would be to bet on the latter, although it still does resolve our simple question with which we started this discourse.

Doubtlessly, the principles stated above are traits that better managed organizations pick up – there are many case studies of champions in the corporate world that have built or imbibed such healthy habits. The evidences are inscribed in various management chronicles over the years. However, one wonders why the Management Principles keep changing over time with changes in the environment. Lurking behind these "healthy" practices, there may be a shred of a scientific theorem that determines success of business organizations, never mind the nature of the context that may change from time-to-time. It is somewhat like unraveling the "Practice of Good Cooking", no matter what is being cooked.

Unraveling the "Science"

Often times in my mission to unravel this "mystery" of good management science in my classroom conversations, I have begun the discussion with elementary questions, such as, a) What is a Manager paid for.. and, b) How does (s)he achieve this and sustain it over time?

The discussion usually veers around the dynamics of the outside environment and the need to Forecast well and control external environment parameters "as best as is possible" in the long term. But it is a known fact that the Forecasting function is usually "wildly" stochastic (indeterminate), where the unpredictability can run as high as like predicting the weather conditions of Ahmedabad city for the next ten days in advance. A significant part of the manager's effort goes in sensing what may be the business conditions in the days to come, since much of our internal "preparedness" to weather the new business climate depends upon it.

The fact of the matter is that we almost never succeed anywhere close to predicting anything right. Much of the rest of the manager's time goes in to deciding the best way to react to such "unforeseen" changes in the environment and ensuring that the health of the organization is not impaired because of "too late" or "inflexible" reaction.

Business world's topmost attention is paid to this eternal struggle to predict the future. Additionally, in the light of the fact that that is largely untenable, provide a buttress to the organization to react suitably and to the extent possible seamlessly to changing contours of the outside topography.

Interestingly, while we may rue the fact that the outside world is hard to predict and control to a great degree, it is important to realize that this element of unpredictability is often the root cause of the need for good managerial talent in the organization. On a lighter vein, some introspection will reveal that it is best that the future does not reveal itself anywhere close to perfection, for that would mitigate the need for intelligent managerial interventions to run organizations. Loss in uncertainty in the business environment could result in organizations being programmed in a preset fashion to react optimally to a perfectly predicted future. Hopefully, such "eventualities" will not show up anytime soon.

The formula behind the "Science": The Value Creation Objective

Most of us have heard the virtues of value creation for customers to reap profits for the long term. What is relatively unknown is the path to creating value for customers profitably. In today's context, a lot of emphasis is being given to the role of innovation and creativity in the value creation process. The argument posed is that new ideas that create path breaking products and service models and that are relevant to consumers are needed and processes ought to be developed to harness such ideas continuously. It is undoubtedly a prudent investment for organizations, but value in a competitive environment is not just about innovation, but "smart" innovation. By this I mean that it is important for organizations to innovate as described above, but they must also do enough to ensure that such innovations (if they create impact) are less likely to be emulated by competitor, even if the latter wanted to. Hence, innovations which create "true" value are the ones that are, a) relevant for customers and, b) are difficult for competitors to copy almost "instantaneously".

$$\text{VALUE} = \frac{\textbf{Benefits Delivered Relative to Competition}}{\textbf{Price at which it is Delivered}}$$

One of the governing principles of value creation is to look within your organization to identify dimensions (people, processes and assets) that can be translated to value drivers in such a way that may be superior compared to competitor capabilities. Most successful businesses seem to have managed this strategy well, at least during the period they remained successful.

The last issue about value creation is the one about scope. Value creation can happen due to innovation in product, technology or service dimension and that provides additional but relevant benefits to customers. It may also manifest itself in the form of lower "cost to customer" through promotions and price reductions. The complication with the latter is that price reduction strategy is imminently copyable by all competitors in the short run and hence if an organization has to harness long term benefits due to low cost, it must ensure that it remains one of the lowest cost producer in the market (efficiency in delivery has to be high). That would ensure that it is able to beat all other competitors successfully by having the ability to lower price (without making loss) more than anybody else.

Hence, in the value creation process, organizations must look within for dimensions of competency that can be transformed into relevant differentiators in their delivery process. The manifestations may be appropriately created, be it Efficiency-led or Benefit-led, depending upon the organizations competency profile relative to competition.

Sustenance for Value Creation

Historically, a monopoly condition refers to a situation where the value creation is dominant and sustained and no other supplier could match up to supply similar or better output. Such monopolistic opportunities are few and far between in today's environment. Good innovation of product, process and services and its smart implementation does not ensure sustainability of a competitive position in the value creation process. Over time, it will inevitably be neutralized by competition, or by changes in the environment which bring in a new set of expectations from the consumer replacing old ones. Hence, continuously looking for opportunities to create "Value" replacing old and worn-out opportunities provides sustenance for the competitive advantage which organizations require to remain healthy long term. It is important to emphasize the virtue of identifying (forecasting) "right" opportunities to create "Value" in the future, for that links well with the exposition of the "Science" of creating "Business Acumen" as described earlier in the article.

How can organizations apply the Science to remain successful long term (ATM)?

Managing a process of continuous and relevant innovation which provides unique and sustained advantage to the supplier is usually a tough proposition. Besides, a long term vision and competent people to execute, it also requires the discipline of revisiting the organizational chemistry from time-to-time to check if its competencies are in line with the requirements for the future. If they are not, then a phase of replenishment of skills is necessary. What then may be a mix of processes (habits) that successful organizations should perhaps develop (pick up) to ensure their longevity? Our multiple in-class case analyses, discussions and research have helped us to cull out a few major ideas about such processes/"habits" which we list below.

1 **Accurate Anticipation (A):** It is perhaps the most critical and difficult habit to develop in organizations. Forecasting, as was earlier discussed, is a part of this more holistic discipline of Anticipation. The longer the foresight and its accuracy, the better is the possibility

of equipping the organization with the right competency, in the long run. Most average performing business corporations remain closer to a state of extreme reactiveness to the environment (almost zero accuracy in Anticipation). On the other hand, successful organizations are likely to have processes, discipline or just individuals in their top management cadre who are extremely foresighted and have steered their respective organizations successfully. The unfortunate part is that many such success stories (with exceptions) can be largely attributed to the farsightedness of specific individuals who have been at the helm of running these organizations for an interval of time rather than a habit or discipline persisting across time in the organizational culture. This preceding statement subtly highlights the need for organizational capabilities in farsightedness that go well beyond some visionary individuals.

I must also reiterate that while it is easy for me to stress on the importance of developing the discipline of "Accurate Anticipation" in the management cadre of organizations beyond just a few individuals, it is often times the most intractable of all the organizational initiatives and usually has the lowest degree of widespread success. A significant difference here lies in its substantive dependence on the human instincts developed by managers over time and with experience, which is difficult to substitute with a predefined protocol of scientific tools and processes that are easier to build and to train workforce on their usage.

A pertinent reason for this unique challenge is aptly described by Paul Ormerod in his book[1]. He considers changes in the external environment as a derivative of complex relationships that lead to small but significant changes in the environmental topography. The changes that we see in the external world are an integration of these numerous small but complex phenomena, which is hard to unravel by relatively simple mathematical and analytical models that are prolifically used in business forecasting processes. Hence, by nature's machination, most forecasting models tend to be elementary in describing future.

A somewhat "satisficing" solution to overcome this challenge is to build forecasting processes that gather information about the future from various independent sources, for instance, from scientific and analytical models, as well as, subjective and qualitative inputs from individuals with expert knowledge that are based on legacy and experience (and partly bestowed by Providence to a few). These are then churned by heuristics sophisticated enough only for the human brain to apply, which provides the final closer to accurate estimate of the future.

It is easy to perceive the important role of instincts in this process. While some pieces of input information and truly scientific, the final output usually is a strange concoction of both a "Science" and an "Art" of Anticipation. This may the reason why "Visionary" as a trait is associated with only a handful of individuals in the corporate world. Unfortunately, very few organizations have been able to effectively transfer this amorphous competency (should they possess it) across generations of managerial resources as a part of their leadership succession plans.

2 **Timely Transformation (T):** "Accurate Anticipation" is a necessary condition for a successful organizational Transformation (change) process in a dynamic environment. No significant change is devoid of aggravation (both physical and psychological) in the organization. Hence, to replenish

[1] Paul Ormerod, "Why Most Things Fail…..And how to avoid it", Faber and Faber, 2005.

and reequip in order to take on a changing environment, adequate lead time is required with enough organizational stamina to weather the challenges of change. As stated earlier, change can be an exacting process and hence, the need for heightened readiness. A major reason attributable to many organizational failures is the lack of lead time to cope up with a changing environment, perpetuated by the inability to accurately "Anticipate" the future.

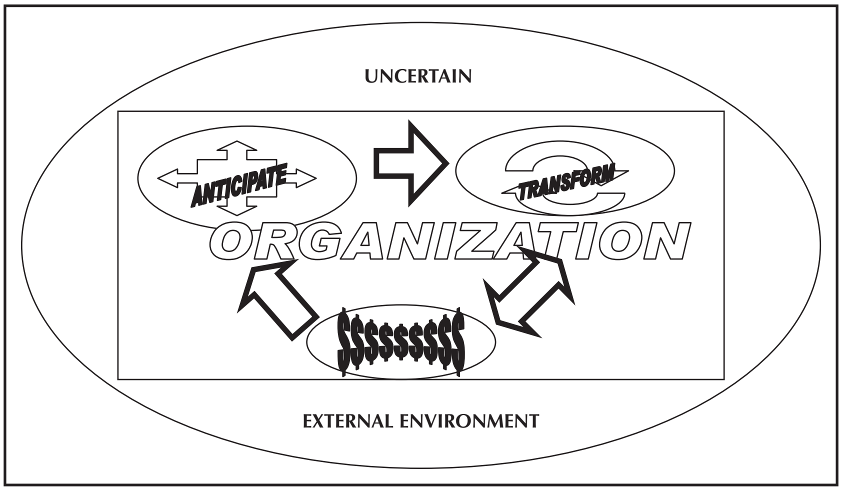
Do organizations have a fair chance to survive rapid changes in the environment when anticipating the future is fraught with such high degree of uncertainty? Well, maybe. A key to such survival plan is to build internal processes that can rapidly address changing environmental conditions in a reactive mode. Should an unforeseen circumstance befall the organization, can it respond to the "calamity" to mould itself in a timely manner? "Quick Response" with seamless "Adaptability"[2] along with measures to accumulate resources for a "rainy day" (Inventory and Portfolio Management and Safety Stock Planning), are some ways that well-managed organizations attempt to mitigate the risks of ineffective "Anticipation". However, this above exposition on "Response Time" and "Adaptability" should not shift the focus away from the critical task of building more effective Anticipatory mechanisms in the organization, which is the perhaps most significant catalyst for long term survival.

3 **Money Matters (M):** No one can deny the assistance that financial resources can provide. Any significant transformation in organizations requires enormous stamina and strength to overcome the inertia of incumbency and to cope up with the volatility of a new structure and composition. An important source of such stamina and strength lies in the financial coffers of the organizations. It is hard to manage significant changes in organizations on a lean budget. Most "emaciated" businesses have limited staying power and almost no latitude to steer change within them. Hence, another reason for transformation to be managed in a timely fashion is to ensure that they are undertaken when the organization has enough financial strength to enable the acquisition of the right resources for the future. Many timely transformations with an eye on future opportunities are undertaken when the organization is cash-rich and still raking money by mining it current opportunities. The key is to avoid the "complacency trap" that financial strength and strong current performance create by looking beyond the current euphoria and be able to "coldly" assess the competency requirements for the future.

That summarizes the discipline of the "ATM". It is worth reiterating that the fuel to the successful deployment of this discipline lies largely in the effectiveness of first component (Anticipation). If we were to trace back to the success stories of many respected corporate leaders of India and the world that we have discussed in various business settings, it is most likely that people pay tribute to their "Farsightedness" and "Vision beyond the immediate". It is not difficult to perceive why. Unfortunately, there are fewer instances of business success that transcend beyond the tenure of a specific individual or a group of individuals.

It is difficult though to identify an organization in recent history has managed this discipline of the "ATM" very well over the long run. Probably many profit making organizations in the long run have successfully developed this discipline when compared to their competitors, but whether they have done it well enough, is

[2] Examples of such managerial interventions are: Organization Design to build Flexibility, Job Rotation, and Retooling.



hard to tell. There have also been cases of successful and reputable organizations ending up being less so over the years primarily for not staying in tune with changing environment – the Big Three Auto Companies in the United States should largely fall in this category. At the same time, many respected and long lasting organizations in very dynamic environments like telecom (e.g., Ericsson, Huawei), Information Technology and Outsourcing[3] (e.g., Genpact, Infosys) and High End Technology (Intel and IBM) have battled with appropriate and timely transformations to cope with changes in the external environment. Only time can deliver the verdict on their ability to transition appropriately like they have done in the past. What is a fact is that many of these organizations have indeed transformed their competency "make up" to address changes in external stakeholder requirements. Intel[4] is far more "front-office" oriented compared to a largely "Technology and R&D" focussed organization that it was more than twenty five years ago. Similarly, IBM is significantly more "service-driven" compared to its original focus on "products".

The fact of the matter is that for every cited case of a successful organization in transition, there are more than hundred cases of failures, mostly unknown and unheralded. Failure is unfortunately a part of organizations' life and "age tells on them all"[5]. Even organizations that have been successful over a period of time have eventually disappeared. What perhaps distinguishes between long lasting organizations and others which have not been so may well be the former group's better adoption of the discipline of "ATM" in creating "Value" to their customers on an ongoing basis.

[3] Banerjee, Arindam and Scott A. Williams, "International service outsourcing: using offshore analytics to identify determinants of value-added outsourcing", Strategic Outsourcing: An International Journal, February, 2009, Emerald Publishing.

[4] "Intel Corporation – Leveraging Capabilities for Strategic Renewal", HBS Publishing Division Case 9-394-141, March, 1994.

[5] Marshall, Alfred, "Principles", 1890.