

# **Session 2 (JW)**

## **Organisational Capabilities**

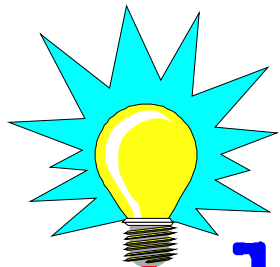
**Week 2 (Friday)**

**MAST4001 & MASTG003**

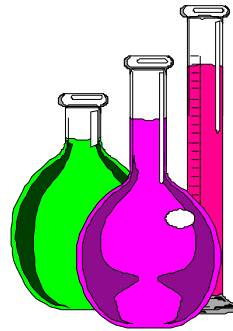
**Student handouts to be distributed in**  
**class**

# Session 2

## Organisational Capabilities



idea



Research  
And  
Development

TEAMWORK

# Today....

- **To discuss the influence of the technical, cultural, political strands of an organisation**
- **To develop a framework for analysing an organisation's distinctive capabilities**
- **To discuss how organisations *become* successful (by *building* distinctive capabilities)**

# Session Objectives

- **At the end of this session you will be able to:**
  - **Explain the ways in which the technical, cultural & political strands influence an organisation and its activities**
  - **Describe Kay's distinctive capabilities framework and how it might be applied to build competitive advantage**
  - **Describe the ways in which an organisation can build, develop & exploit distinctive capabilities for future prosperity**
    - **Approaches to innovation**

# Which Innovations?

- **Usually more opportunities than funds**
- **Most likely to succeed:**
  - Feasible to implement (technical, cultural, political)
  - Build on existing strengths (cheaper & easier)
- **Will contribute to success**
  - Are in line with the organisation's strategy
  - Build new (needed) capabilities
  - Most likely to give them market advantage

# Organisational Strands

- **Three strands to an organisation**
  - **Technical**
  - **Political**
  - **Cultural**

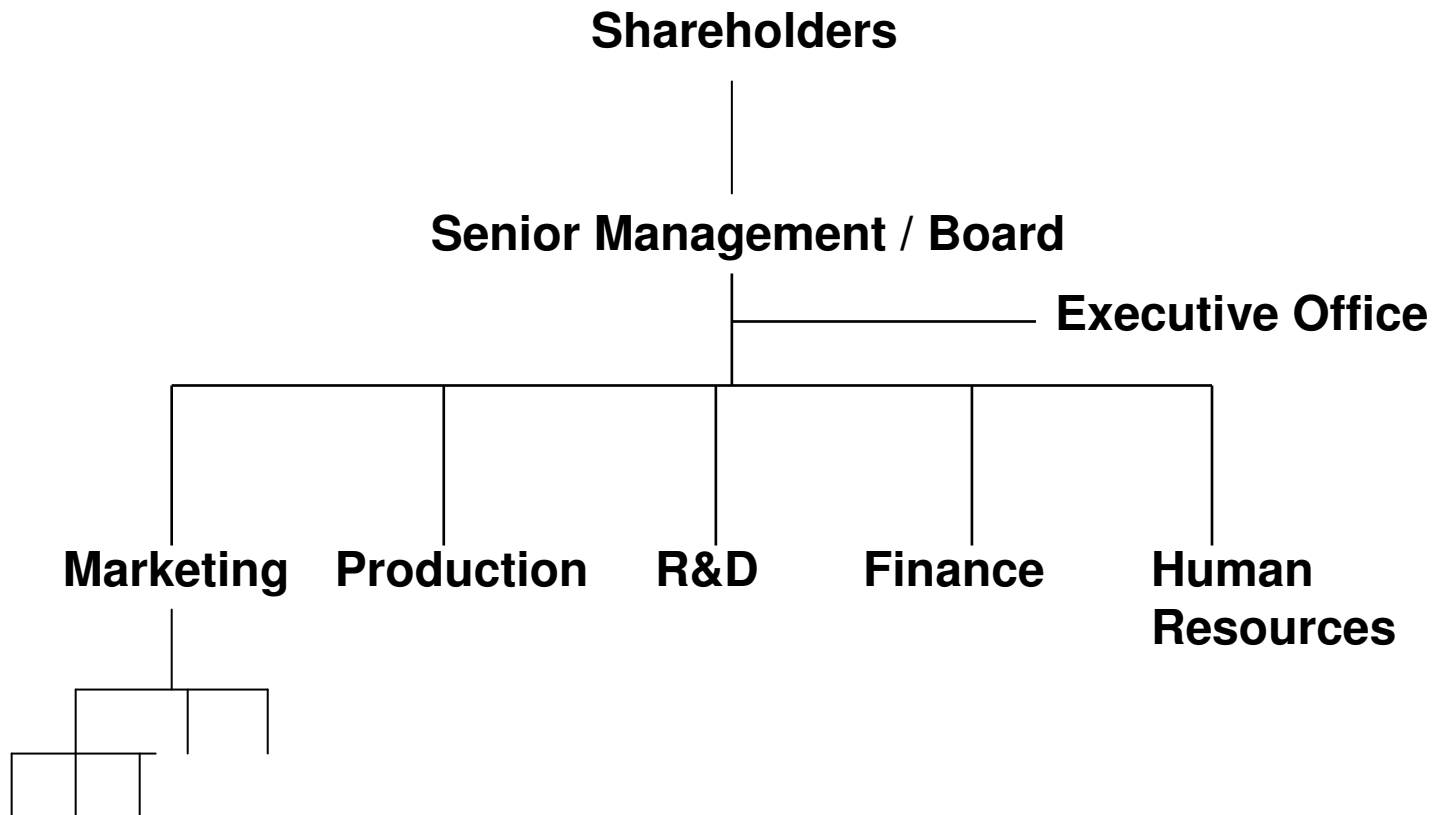
# Technical Strand

- **Organisation design:**
  - Structure and hierarchy
  - Roles & responsibilities
  - Rules & incentives
- **Change is a ‘re-engineering’ (mechanistic) task**

- **“We trained hard, but it seemed that every time we were beginning to form into teams, we would be re-organised. I was to learn later in life that we tend to meet any new situation by re-organisation; and what a wonderful method it can be for creating the illusion of progress while producing confusion, inefficiency and demoralisation”**
- **Petronious Arbiter, Greek Navy – 210 BC**

# Hierarchy and Structure

- **Chain of command / power structure**
- **Division of work, roles, responsibilities**
- **Formal communication / information flows**



# Rules

" I DON'T KNOW IF WE  
CAN DO THAT ELDER,  
BETTER CHECK THE  
MISSION RULES "



# Rules

- **Set base levels of behaviour and prevent anarchy:**
  - Policy, regulations, guidelines
  - Operating procedures
  - Contract of employment
  - Chain of command and extent of authority
- **Backed up by punishment, penalties**
- **Fear of loss, people comply**

# **Rules Impeding Innovation**

- **Outdated (slow) approvals procedures**
- **Rules used as an excuse to say 'No'**
- **Something new / different often outside existing 'rules'**
- **People can 'abide by the rules' but not give their best / support the innovation**
  - **No sanction because no 'rule' has been broken**

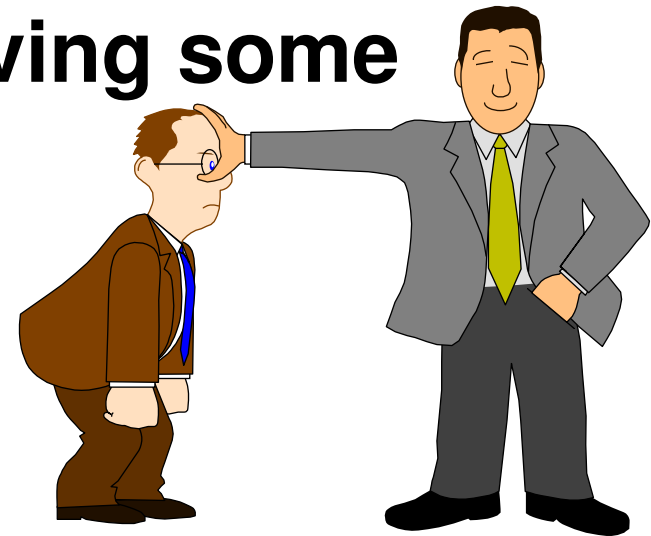
# Incentives



- **Extrinsic rewards**
  - e.g. Pay, bonus, share options, company car
- **Intrinsic motivation**
  - e.g. Enjoyable tasks, sense of achievement, kudos
- **The problems:**
  - Rewards (especially extrinsic) can lose salience over time
  - Can encourage selfish behaviour (e.g. individual bonus)
  - Great scope to dissatisfy (especially extrinsic)
  - Does e.g. more money always engender creativity / a desire to innovate?

# Politics

- **Where people acquire and use power to get things done their way**
- **A result of everyone having some power (not just those at the top)**



# Politics & Innovation

- **Innovation often involves political processes:**
  - Outside organisation's normal operating rules and procedures, no agreed 'best' way
  - Uncertainty on priorities, methods etc.
  - Often cuts across (affects) departments and hierarchies, diverse interests
  - Often requires the use of scarce resources (people, equipment, specialist skills etc.)
  - Involves change (people resist)
  - Threatens the status quo (existing power bases)
  - Innovator often has limited formal power over resources

# Politics

- **Can be a positive way of getting things done:**
  - **The only way to ‘make it happen’**
  - **Persuasion through discussion**
  - **Exchange of favours**
  - **Persuasion is two-way, so ideas are honed and made workable**

# Political Problems

- **Can occur even if the ‘organisation’ backs the innovation**
- **Where other interests are threatened**
- **‘Blocking’ behaviour:**
  - **Insufficient support from those who have control over vital resources**
  - **Unable to gain agreement on what to do, how etc.**

# **Destructive Politics**

- **When it develops into a corporate jungle:**
  - **Cynical, ruthless, ‘get ahead at all costs’ mentality**
  - **Breeds mistrust, unpleasant work atmosphere**
  - **Energy and effort spent on unproductive political game-playing**
    - **e.g. In-fighting, empire-building, personality contests**
  - **Self-interest (or that of one’s sub-unit) overrules (and subverts) the organisation’s interests**

# Culture



- **Learned beliefs, values and customs which regulate the behaviour of members of a particular society**
- **Assumptions on 'the way things are done' and 'what works' are taken for granted**
- **Organisational culture built up over many years - very difficult to change**
- **People 'fit in' or can't stand it and leave**

# Benefits of Powerful Culture

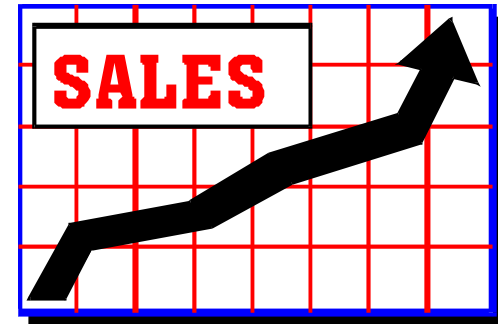
- **Creates unity:**
  - Identification with organisation, its purpose
  - Cohesiveness & loyalty
- **Framework for behaviour & responses**
  - Guiding principles that are understood by all
  - A means of dealing with uncertainty, provides stability and continuity
- **Can be basis for competitive advantage**
- **For decision-makers:**
  - Unwritten norms and 'rules of thumb', know what works
  - A short cut for thinking, can be effective & efficient

# **Cultural Hindrances**

- **Complacency,**
- **No challenge to received wisdom (groupthink)**
- **Closed to new ideas**
- **Suppress / reject 'alternative' individuals - loss of diversity and fresh ideas**
- **Loyalty becomes sentimentality (living in the past)**
- **Culture very difficult to change even when it's killing an organisation**

# Three Strands

- **In a climate of change**
  - The technical strand can be ‘re-engineered’ (mechanistic task)
- **Political and cultural strands less malleable:**
  - Can be harnessed to strengthen the organisation
  - Can strangle the organisation by stifling change



## **Distinctive Capabilities**

**Why are some organisations consistently more successful than others in a market?**

# Capabilities

- **Various (organisational) capabilities are needed to:**
  - Succeed in a market / compete successfully
  - Turn an idea (or invention) into an innovative product / offering (innovation)
- **Four phrases**
  - Capabilities
  - *Distinctive* capability (something that no-one else has)
  - Competitive advantage
  - *Sustainable* competitive advantage (difficult for others to imitate)

# **AEP - Capabilities**

- **What are AEP's strengths (capabilities)**
- **What capabilities did it need (but didn't have) for the AOD venture?**

# **AEP Capabilities**

- **External architecture**
  - Strong links with hi-tech industry
  - Relationships with knowledgeable existing end users
- **Internal architecture**
  - Relationships between scientists
  - Organisational knowledge from high calibre scientists
  - Relationship with product units
- **Reputation**
  - For discovery, prototyping, feasibility studies, design & fabrication
- **Strategic assets**
  - Labs, equipment, patents etc.
- **Innovation**
  - Track record in research & publications

# Missing Capabilities

- **Producing working, finished items**
  - Products are usually one-off lab bench devices
- **Customer service infrastructure for mass market**
  - No ability to deal with post-sale enquiries

# **Distinctive Capabilities**

- **Four broad types of organisation (or personal) capability (Kay):**
  - **Architecture of relationships**
    - External
    - Internal
  - **Reputation**
  - **Strategic assets**
  - **Innovation**

# External Architecture

- **Suppliers and customers:**
  - Long-term relationship that transcends any single interaction
  - (Recognised) mutual benefits from continuing to transact / work together
  - Whose personalities and ways of working you know
  - Mutual trust



# External Architecture

- **How does it help:**
  - **Creation of inter-organisational knowledge, understanding of each other's needs**
  - **The establishment of a co-operative ethic, lower contractual costs**
  - **Inter-organisational routines, streamlined interfaces**
    - e.g. JIT supplies, phone instructions
  - **Trust sustained by the assurance that it is in neither's interest to behave opportunistically**

# Internal Architecture

- **Relationship between the organisation and its employees and among employees**
  - **Formal**
    - **Hierarchy, division of tasks, project teams, committees**
  - **Informal**
    - **Social networks, trust, knowledge of other functions and divisions, co-operative spirit**
    - **Others with whom you have a long-term relationship that transcends any single transaction**
    - **Whose ways of working you know**
    - **Mutual trust**

# Internal Architecture

- **How does it help:**
  - **Creation of organisational knowledge, understanding of each other's needs and routines**
  - **Co-operative ethic, give & take, investment in relationships, teamwork, mutual support etc.**
  - **Organisational routines, streamlined interfaces, speed, responsiveness to customers**
  - **Trust sustained by the assurance that it is in no-one's interest to act opportunistically (destroy relationship)**

# Reputation

- **Track record, how you (or your organisation) are perceived**
- **Takes years to build / develop**
- **Difficult (for competitors) to imitate**
- **Provides reassurance to end customers, suppliers etc. (implicit guarantee)**
- **People sometimes choose on reputation because they know others will not question their choice**
  - e.g. “No-one ever got fired for buying IBM”

# Reputation

- **Of value in the market in which it is created**
  - UCL in higher education and research
  - But not BMW in soft drinks
- **Often linked to a ‘brand’ name**
  - e.g. UCL, Microsoft, BMW
- **Can be transferable to other products**
  - UCL offering Continuous Professional Development (CPD) courses to industry
  - Virgin in anything

# Strategic Assets

- **Rights that you have by law, e.g:**
  - Plant, premises, owned distributors, cash reserves
  - Royal charter, Government license, permit
  - Patents, trademarks, copyright
  - On-going contracts when switching costs are high
- **First mover advantage**
  - Room for very limited number of players
  - Economies of scale / sunk costs

# Innovation

- **Scope for innovation in:**
  - The structure or creation of an organisation
  - Steps in or organisation of the production process
  - The product itself
- **Must add more value (in the eyes of the customer) than cost**
- **Ability to innovate not automatic**
- **Some organisations incapable of harnessing inventiveness of staff**
- **Often a fruit of other capabilities (e.g. architecture)**

# **Maintaining a Lead Through Innovation**

- **Innovation confers no (or limited) advantage if it can be imitated quickly**
- **“...Gillette spent 10 years and \$1 billion developing its Mach 3 razor; it took a British supermarket only a year or so to produce a reasonable imitation.”**

**The Economist, Dec 1999**

# **Invention vs Innovation**

- **An invention or idea is rarely enough in itself**
- **Other capabilities are almost always needed to exploit**
- **Established organisations and individuals often cease to be able to innovate.....**

# Lack of Innovation

- **Some organisations lose the ability to innovate:**
  - Closed mind-set or limited vision of management
  - Close down research labs [e.g. to cut costs]
  - No mechanism for funding experiments
  - Self-select obedient non-thinkers
  - R&D do not talk to product units
  - Low trust environment, do not share ideas
  - Vested interests greater than common interest
  - Customers cease to believe that organisation can innovate
  - Success breeding complacency

# Building for the future



# **Building For the Future**

- **Vision and strategy**
- **Serendipity (right place at right time)**
- **Opportunism and flexibility**
- **Constant experimentation**
- **Power to control or dominate market**

# **Vision and Strategy**

- **Someone in power takes a view on the future (opportunities and threats)**
- **Looks at organisation and decides**
  - **What opportunities it is best equipped to attack**
  - **How to counter (key) threats**
- **Devises and implements a strategy:**
  - **Exploit existing DCs**
  - **Develop new capabilities**
  - **A mixture of both**

# But....

- **The ‘future’ difficult to predict accurately**
- **The ‘vision’ may be wrong**
- **Emphasis on ‘strategy’ (usually involving downsizing and restructuring) to get out of the mess**
  - e.g. BT, M&S
- **Inventors and start-ups often stronger on vision (less ‘formal’ strategy)**
  - e.g. Dyson

# **BT's Restructuring**

- **“Everything about our business and our market is changing....Doing the things we do now, and doing them better, faster and cheaper, will take us so far. But it will not take us far enough. We're going to have to do new things in new ways.”**

**Sir Peter Bonfield Chief Executive, BT**

**(Sunday Times, 23 July 2000)**

# Sony in the 1950s

- **“We will create products that become pervasive around the world....We will be the first Japanese company to go into the American market and distribute directly....We will succeed with innovations like the transistor radio that American companies have failed at....Fifty years from now, our brand name will be as well known as any on earth....and will signify innovation and quality that rivals the most innovating companies anywhere....’Made in Japan’ will mean something fine, not shoddy”**

Source: Built to Last, Collins & Poras

# Sony in 2005

## **BAD STRATEGY OR BAD MANAGEMENT?**

- **“Sony’s music interests hindered it from launching a digital-music player capable of playing music in the popular MP3 format, for fear of encouraging internet piracy. As a result, Sony handed its leadership of the portable music market, which it had established with the Walkman, to Apple”**

The Economist, 12 March 2005

## **SONY UNVEILS LOSS**

- **“Sony moved yesterday to strengthen its board with the addition of Sir Peter Bonfield, former chief executive of BT...”**

The Times, 28 April 2005

# Dyson in the late 1970s

- **“....this was a real seat-of-the-pants, kamikaze approach to getting a product off the ground. I had not drawn up any business plans or anything. I had merely partitioned off an office in the loose boxes with a piece of chipboard....and painted ‘Ballbarrow is Here’ on the side of a van. But how to start shifting the things, I had no idea.”**

Source: *Against the Odds*, James Dyson

# **Serendipity**

- **Many organisations in the world**
- **There is a demand for output - someone has to supply**
- **Organisations with DCs closest aligned to market needs do best**
- **As technology and customer tastes change, another organisation (with more relevant DCs) rises to #1**
  - e.g. Intel in microprocessors

# More Luck Than Strategy?

- **“.....IBM’s choice of the Intel 8088 microprocessor as the ‘brain’ of its new personal computer was viewed within Intel as a ‘small design win’. Even after IBM’s stunning success with its personal computers, Intel’s internal forecast of the potential applications for the company’s next-generation 286 chip did not include personal computers in its list of the fifty highest volume applications. In retrospect, the application of microprocessors to personal computers is an obvious match....”**

# Opportunism & Flexibility

- **Wait until the market becomes clear**
- **Perhaps even be content with second place, learning from leader's mistakes**
- **Then develop products and missing capabilities quickly, e.g:**
  - **IBM in PCs (but market lead was short-lived)**
  - **Glaxo with Zantac**
    - **Exploited concerns over incumbent ulcer treatment drug, Tagamet**

# Experimentation

- **Develop a number of capabilities simultaneously - perhaps to an embryonic stage**
- **When market opportunity becomes clear, use and scale up the most promising experiments:**
  - e.g. 3M, Johnson & Johnson

# Industry or Market Domination

- **Ensure competition is weak or limited and entry barriers are high, e.g:**
  - Acquisition of competitors
  - Monopolise supply or distribution channels
  - Lobby for standards to present entry barriers
  - Convince customers that they're happy with existing products (easier if competition is limited or weak)
    - Microsoft?

# The Problems...

- **The envisaged opportunity (vision) may not arise (or may be so obvious that everyone goes for it)**
- **The strategy might be wrong (or badly implemented)**
- **Can't rely on (serendipity) being in the right place at the right time**
- **Opportunism - may not spot early enough or may not be able to respond quickly**
- **Expensive to cover all bases (experimentation)**
- **People dislike dominant companies, politicians start to take action...**

# **A Combination**

- **Most organisations try to adopt a mix of the approaches by:**
  - Taking a view of the opportunities and identifying gaps
  - Initiating and resourcing initiatives that broadly support the strategy
  - Being flexible to react to competitive changes
  - Attempting to lock out competitors
- **And if it works, they are lucky!**

# Conclusion

- **As innovators you should know:**
  - Direction and aims of sponsoring organisation
  - The strengths of the organisation
  - The Technical, Cultural, Political strands and dynamics
- **Your proposals should:**
  - Be in line with strategic objectives
  - Build on / leverage existing strengths OR
  - Develop new (needed) capabilities
- **Know what matters to your investor**