IVEY BUSINESS JOURNAL | Improving the practice of management

DOES THE THINKING OF YESTERDAY'S MANAGEMENT GURUS IMPERIL TODAY'S COMPANIES?

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Strategy | March / April 2012

Ansoff's Matrix, Porter's Five Forces competitive analyses and Drucker's Management By Objectives are 3 of the best known and most frequently applied management concepts. But are these vaunted concepts, incubated and given meaning in a relatively calm and predictable economic environment, valid in today's much harsher and turbulent climate. Readers will find the answer in this article.

THE PROBLEM

The management problem-solving market today is awash with prescriptive remedies. A myriad of solutions attend to almost every conceivable management ill. There is something for behavioral ills, more for restructuring maladies, and even more for strategy failures. The scope is wide and broad. Many, if not the majority, of those prescriptions are rooted in decades-old conceptual frameworks that have were developed by "gurus" as a response to pressing events and encroaching problems.

Time, however, passed by and many — a great many — of those frameworks began to lose luster and outlive their usefulness. Some have actually come to imperil organizational survival, induced by ill fit and blurred function. All this at a time of unusual environmental turbulence and unprecedented change in business and government structures, policies and strategies.

This article reviews three of the most-quoted management concepts in the area of strategy and in terms of their usefulness in today's management environment. They are examined in terms of their intrinsic value and present-day relevance. The analysis deals with the most prized conceptual frameworks of Ansoff, Porter and Drucker i.e.: Ansoff's Product Mission Matrix, Porter's Five Forces Framework and Drucker's Management By Objectives. Those are examined in terms of their absolute benefit, relevance to today's management environment and the potential hazards inherent in their unquestioned endorsement.

The article relies on a very wide volume of work on strategy and strategic thinking, as well as on a contemporary analysis of business and economic conditions.

THE CHOICE: ANSOFF, DRUCKER AND PORTER.

If inclusion in the academic business curricula is a criterion, three names would top every list of management scholars: Igor Ansoff, Peter Drucker and Michael Porter. They represent three schools of thought and three time spans (with a measure of overlap here and there). Igor Ansoff's pioneering work on corporate strategy dates to the 60's and represented, at that point in time, the nearest thing to a breakthrough. Drucker's work first appeared in the mid-fifties and introduced a collection of fresh insights into the working of corporate management. Porter's work on competitive strategy first appeared in 1980 and constituted a landmark in terms of strategic thinking within a competitive environment. All three were heroes in their time. They provided bright and innovative conceptual frameworks that addressed core management issues of the era, and that proved viable. Their legacy endured for decades and their thinking survived time horizons, regime changes and environmental turmoil. They penetrated functional walls, management strata and geographical barriers.

However, dramatic economic events of the past few years began to cast a shadow over the magic touch of some of these individuals and their concepts. Emerging problems at country, industry and company levels assumed new dimensions, and represented a serious deviation from– if not refutations of — the conventions of the 70's, 80's, 90's and even the first decade of this new century.

The near collapse of capital markets, sudden implosion of national economies, astronomic growth of national and individual debts, quick collapse of corporate structures, and the desperate search for genuine leadership are problems that defied conventional wisdoms. They induced a questioning of the effectiveness of yesterday's concepts and whether they are of any use today. A creeping feeling began to take hold – that we need a new set of paradigms and gurus to go with them.

IGOR ANSOFF'S PRODUCT-MISSION MATRIX

Igor Ansoff is one of the earliest, if not the earliest, thinkers and authors who saw strategy as a social science, and strategic management as the prime focus of corporate performance. His work pulled together various ideas and disparate strands of thought, giving a new coherence and discipline to the concept he described as strategic planning. Ansoff's 1965 book on corporate strategy (Ansoff, 1965) is the first management work to focus solely on the subject. It could be regarded as the prime and most elaborate construct for strategic management. Although it started with a simple aim, "to produce a resource-allocation pattern that will offer the best potential for meeting the firm's objectives", it soon revealed some of the key fundamentals of the concept. The book, and subsequent Ansoff's works, contained key elements of strategic thinking, including the division of decision-making into the strategic (focused on products and markets); the administrative (organizational and resource allocating), or the operating (budgeting and directly managing). It also introduced fundamental conceptual premises of strategy as product-market scope, growth vector, competitive advantage, gap analysis, capability, synergy, environmental turbulence and silent signals (Ansoff, 1975, 1980).

Ansoff 's pioneering work laid a strong foundation for several later writers to build upon, including, among others, Michael Porter and competitive strategy (Porter, 1980) and Gary Hamel and C K Prahalad, who introduced the concepts of core competence and strategic intent (Hamel G and Prahalad C K , 1989, and Hamel G and Prahalad C K, 1990).

One of Ansoff's pioneering contributions could possibly be his Matrix, known as the "Product-mission Matrix." It was featured in a 1957 article (Ansoff, 1957) and came to provide a framework for strategy formulation under conditions of dynamic environmental turbulence. It presumed a number of strategic shifts in the face of a changing environment. These included market penetration, market development, product development and diversification. While market penetration sought an increase in existing product-market share, market and product development hoped to identify new markets for existing products and new products for existing markets. Diversification facilitated the introduction of new products to new markets. A firm could follow one or more of those strategies simultaneously, with diversification requiring an enhanced and adjusted resource base.

Ansoff's construct of environmental discontinuities, silent signals, strategic surprises, strategy alternatives and anticipatory strategic behavior render his matrix a powerful tool for strategy formulation and strategy risk assessment in the 80's and 90's. It is reasonable to ask if this construct is valid under the exceptional business and economic conditions of today.

To answer this question let us consider the following three cases:

The first is the Chinese government's decision to grant a product- replacement and product-upgrade premiums to buyers of consumer durables, including automotives, in an attempt to stimulate domestic demand and replace the rapidly contracting American and West European export volumes. This constituted a market penetration strategy (China view, 2009).

The second example is the decision by the United States government to support product innovation in the solar energy industry. A product and market development strategy was pursued by the Obama administration in order to create an American industry leadership in that industry.

The third example is Gillette's one-billion-dollar investment in the development of the Mach razors (The New Yorker, 1998). This constituted a product- and market-development strategy taken to an extreme, perhaps. In all cases, a classic strategic move along the lines of Ansoff's product–mission matrix was undertaken. Direct reference to the matrix might have not been that visible but the thinking contours of the concept are there. Ansoff's matrix is alive and well. There is a simple logic to it that renders it versatile and adoptable. It is as relevant in today's turbulent environment as it was at the time of its introduction.

MICHEL PORTER'S FIVE-FORCES FRAMEWORK

Michael Porter is a prolific writer and an acknowledged management thinker. He has authored several landmark works on competitive advantage, competitive strategy and competitive positioning, with Competitive Strategy (Porter, 1980) and Competitive Advantage (Porter, 1985) as the most cited and recognized. Their significance lies in, among other things, the introduction of the "five forces," "generic strategy," and "value chain" as the major analytical frameworks of the competitive positioning paradigm.

The five forces framework (Porter, 1980) allows a firm to assess both the attraction (potential profitability) of its industry and its competitive position within that industry by evaluating five forces: the strength of the threat of new entrants to the industry; the threat of substitute products; the power of buyers or customers; the power of suppliers (to firms in the industry); and the degree and nature of rivalry among businesses in the industry. The potential for a firm to be profitable, accordingly, is severely challenged — if not eliminated – by increased competition, lower barriers to entry, a large number of substitutes, and increased bargaining power of customers and suppliers. These forces, according to Porter, could induce an organization to develop a generic competitive strategy of differentiation or cost leadership, one that is capable of delivering superior performance through an appropriate configuration and coordination of its value chain. (Porter, 1985).

Porter referred to innovation, government, and complementary products and services as "factors" that affect the five forces (Porter, 1979).

Porter's work was universally applauded as innovative and applied. But, serious structural flaws were observed from the early days, nevertheless. There was the lack of pertinent definitions of industry, competition and competitive advantage (Meyer R, Volbeerda H, 1997). There were also the questionable underlying assumptions of the model, including the assumption that buyers, competitors, and suppliers are unrelated and do not interact and collude, that the source of value is structural advantage (creating barriers to entry), and that uncertainty is low, allowing participants in a market to plan for and respond to competitive behavior.

These flaws, however, are of another time. Just how does the five-force concept fare under the adverse corporate and market conditions of today?

One of the most serious flaws in Porter s analysis, in this author's view, is the marginal attention paid to capital markets and the profound impact such markets would have on the scope, reach and impact of the five forces. Capital markets have undergone radical change (Farrell et al, 2008) since Porter's early writing, and there was, it goes without saying, no way for him to anticipate such enormous changes. Let us recall, however, that Porter's work and publication of Competitive Advantage (Porter, 1985) ran parallel to key economic events such as Reagan's economic policy initiatives, including deregulation (Boskin, 1987) and the financial product, process and institution innovation that ensued. A shadow investment industry emerged with powerful structured-finance instruments and equally powerful investment institutions to match (El Namaki, 2010). Monetary policies stimulated leveraged acquisition. Emboldened investment institutions such as private equity and sovereign wealth funds enhanced mergers and acquisitions. The result of all of this activity was a new genre of strategies and a different pattern of strategic behavior, a behavior that embodies, among other things, capital markets as the underlying trigger of strategic moves (private equity industry); ruthless restructuring such as the road to survival (General Motors); concentration as the medium for strategic competitive advantage (Gillette) and predictable exit (Kodak). This behaviour has altered the very premises of the five forces. Corporate strategy changed color and texture by assuming a capital-market base for decisions and a capital-market speed for outcomes. The potency of the five forces today is undermined by capital-market impact on the performance of all five. Capital markets impact entry (variable investor strategies); capital markets influence substitutions (fluctuating R and D outlays); capital markets shape supplier configuration (high concentration, enhanced merger and acquisition, constrained credit); capital markets shape buyer conditions (high concentration, enhanced merger and acquisition, constrained credit), and capital markets shape rivalry.

The five-force model needs a radical adjustment if it is to continue to be of use today.

PETER DUCKER'S MANAGEMENT BY OBJECTIVES

Peter Drucker made significant contributions to management thinking and wrote extensively on novel issues ranging from management by objectives to managing oneself. Drucker's books included The Practice of Management (1954), Management Challenges for the 21st Century (1999), and The Essential Drucker. (2001).

One of his prime contributions is his Management By Objectives (MBO) concept or the process of participative setting of objectives and monitoring progress towards these objectives. The term "management by objectives" was first quoted in his 1954 book, The Practice of Management, where he argued that participative goal setting should permeate the entire organization, inducing a balance of needs and goals, rather than subordinating an institution to a single value. Employee participation in goal setting ensures, according to Drucker, motivation, communication, coordination, commitment and clarity of goals. The ensuing measurement and comparison of outputs ensures this.

Though innovative at the time of its introduction, MBO gradually lost its relevance.

MBO belongs to another era, an era of relative environmental continuity, which allows for an uninterrupted formulation of strategies, goals, capacities and resources. This straightforward and linear formulation is not valid in today's volatile environment. Setting corporate goals is a challenge under the systemic hazards of country debt default and industry credit squeeze. Business organizations are struggling with ways of managing a future economic landscape characterized by uncertainty and shifting balances. The smooth rhythm of an MBO exercise seems remote and distant within corporations facing the harsh market and performance realities as those of Lehman Brothers, General Motors or, for that matter, Kodak.

Objectives formulated in Drucker's mode are, moreover, intents whose fulfillment is dependent upon what one may term the "knowing – doing gap," or the gap between knowing what could be done, the objective, and the consequent actions (Sutton, 2000). This gap arises when barriers such as fear, internal competition, corporate culture, and faulty performance measures take hold. Output measurements often wind up overemphasizing control, as opposed to fostering creativity (Krueger, 1994)

MBO belongs to yesteryear and a substitute that accommodates today's realities is needed.

LESSONS

One is inclined to draw a few lessons from the above analysis. The first and possibly the most important is how to learn to deal with the still prevailing resort to some of the fading concepts in business teaching and consulting. Many of the less effective concepts continue to form the backbone of MBA and other business education programs in many an institution, despite the obvious limitations referred to above. This prevails on a global scale and regardless of specific or situational conditions. A review and adjustment of those curricula is needed.

Another lesson is the slow pace of innovative research or research that leads to the design of novel instruments that respond to the new business and societal frameworks. The entire area of strategy formulation, competitive strategies and objective-driven, business performance require a radical adjustment, one that takes into consideration the strategic role of government; the changing strategies of public finance; the shorter term of corporate strategic focus; the shifting rational for merger and acquisition; the strategic dimension of industry concentration; the impact of non-Western cultures on global strategic behavior, as well as many other factors. Responsive instruments could guide the process of strategy formulation within those arenas just as Porter's Five Forces once did more than three decades ago.

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