



## HOW TO SURVIVE: DYNAMIC MANAGEMENT SKILLS HOLD THE KEY

If firms are to survive and compete, then it is the dynamism of their top management teams, linked to CPD, that matters most, writes Aidan Harney

Everybody's talking about the need for innovation and change but few are providing a road-map detailing how to get there. Firms that are intent on surviving and competing need to look to their top talent to get them out of this downturn. It is only through a thorough understanding of human capital as the key strategic resource that firms can drive competitive advantage. In thinking about 'strategic resources', we can say they possess four qualities: V.R.I.N. for short. The strategic resources of any firm will have:

- (1) value – the resource can produce something which is valued by consumers;
- (2) rarity – the resource must be limited in supply;
- (3) inimitability – the resource must be difficult for other firms to imitate; and,
- (4) non-substitutability – the resource must have few close substitutes.

The first two elements render a resource strategic. The second two amplify this strategic nature and, thus, allow for sustained competitive advantage. What makes a resource inimitable? In this post-industrial era, particularly for engineering organisations, it's largely down to a firm's people, the knowledge they generate and how this is protected (intellectual property rights, patents etc). You can think of the resources in your organisation as being pure resources and as being capabilities. In this respect, pure resources are tradable and non-specific to your firm, while capabilities are firm-specific. They are used to deploy the resources within the firm.

### Capability and dynamic capabilities

Today, in strategic management, organisational capabilities are depicted as critical success factors. However, a paradox can arise during times of change in that capabilities can invert



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from once being an organisational blessing into becoming an organisational burden. There are three cautionary notes every chief executive officer and chief financial officer needs to be aware of.

Firstly, many firms go unaware of the insidious creep pattern that emerges through reliance on building tried-and-tested capabilities. This so-called 'path dependency' ('this is the way we've always done things') can lead to self-reinforcing processes that actually narrow the scope of strategic management. Secondly, structural inertia describes how focusing on improvement of existing capabilities makes experimentation with alternatives less attractive. Thirdly, commitment to, or investment in, firm-specific resources creates a sort of scaffolding. Deconstructing this framework in an effort to change can be difficult in the extreme because the cost of separating and abandoning such 'sticky' resources is too high. As a consequence, paradoxically, resource commitment can restrict an organisation's options and flexibility. In the current climate, every top management team needs to challenge this paradox. Innovate or die, is the ubiquitous mantra. But how can a firm morph? Dynamic capabilities are super-focused on change.

New product development, is a prototypical example of a 'first-order' dynamic capability, but also a rather expensive one. Firms' key decision-makers need to accept that dynamic capability is anchored to them. If they rust-up, the firm can sink. To survive and compete, it's down to the senior management team's entrepreneurial nous to perceive, be willing and be able to drive change.

### 'Micro-foundations'

A growing body of research highlights the importance of these managerial, entrepreneurial activities for the initiation, development, structuring and evolution of dynamic strategies in new firms as well as established companies. The 'micro-foundations' of dynamic capabilities require top management teams to have the abilities of:

- sensing and shaping market and technological opportunities and threats;
- seizing opportunities through strategic decision skills and execution; and,
- the skills to combine, reconfigure and protect assets.

Firms that want to compete today need to assess senior managers' competencies against these core criteria. Empirical research on these skill-sets points to their uniqueness in their employability as levers for change and transformation.

Examples of studies include:

- the internal and external integration of knowledge in a healthcare firm;
- dynamic learning in telecommunication firms;
- technology accumulation in cross-border transactions of biotech firms;
- continuous transformation of organisational forms in web innovator, Yahoo!;
- mobilising and transforming capabilities in the Hollywood

movie industry; and,

- knowledge creation, absorption, integration and reconfiguration in the Danish hearing-aid manufacturing firm, Oticon.

A major review of commonalities of dynamic capabilities across firms points to (i) adaptive capability, (ii) absorptive capability and (iii) innovative capability.

So, dynamic capabilities are the solution to innovation and diversification then? Well, not quite. In the same way lower-order capabilities are prone to become less effective as a result of the effects of path dependency, inertia and rigidity through commitment, dynamic or meta-capabilities, in time, could come to fall foul of exactly the same Achilles' heel.

To make the most of their dynamic capabilities, smart firms couple them with a dual, protective process. This can be thought of as capability monitoring at group, unit, division and corporate level in order to keep dynamic capabilities dynamic. This 'super-reflective' capability should run independently, but alongside, firms' dynamic capabilities.

### Best practice

To do this, good Continuing Professional Development (CPD) systems and processes can play a major part. The Engineers Ireland CPD Accredited Employer standard and Engineers Ireland's CPD Training Department give organisations a range of suggested current best-practice criteria to reduce the likelihood of a firm 'standing still' in terms of dynamic capability. Indeed, through the annual CPD Company of the Year awards, now in their sixth year, Engineers Ireland has been able to recognise and share excellent examples of how engineering firms have managed to display dynamic capability and, thus, win market share through the clever use of CPD. Past winners include HP Leixlip, Intel, Boston Scientific Galway, ABB Dundalk Ltd and, in 2008, the very aptly named indigenous Irish firm, ChangingWorlds, now a division of Amdocs.

To match current market fluctuations, to outpace technological change or, indeed, to drive it, dynamic capabilities, linked to CPD, can certainly be employed to good effect. That's not to say organisations don't need stability and norms which support and enhance the individual's ability to learn: they do. But organisations also need to develop, in tandem, strategies and supports that drive constant change and, crucially, knowledge of when to change. If firms are to thrive, and not just survive, they need to be great at what they do, but also dynamic enough to develop the capabilities to achieve excellence in something else at the same time. This calls for adaptive and guided change processes hard-wired into the truly knowledgeable organisation. The top management team must be first to embrace and drive this revolution. Do your managers display the entrepreneurial skills of sensing and shaping market and technological opportunities and threats; seizing opportunities through strategic decision skills and execution as well as combining, reconfiguring and protecting core assets? Does your firm have

the (i) adaptive capability, (ii) absorptive capability and (iii) innovative capability of a knowledgeable organisation?

The litmus test for a dynamic, knowledgeable organisation is one which tracks the processes and practices of leadership that reinforce learning. Organisations need to realise that leaders who are blind to the importance of CPD, learning and development are highly unlikely to spot when it's time to adapt and change.

A love of the established, a reticence for learning and a refusal to explore new knowledge can spell disaster for a firm. The good news is that entrepreneurial skills, creative thinking, strategising and risk management can all be developed. The question is: is your top management team using CPD to achieve adaptability and develop survival skills?  $\Phi$



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#### Recommended reading:

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Half Page