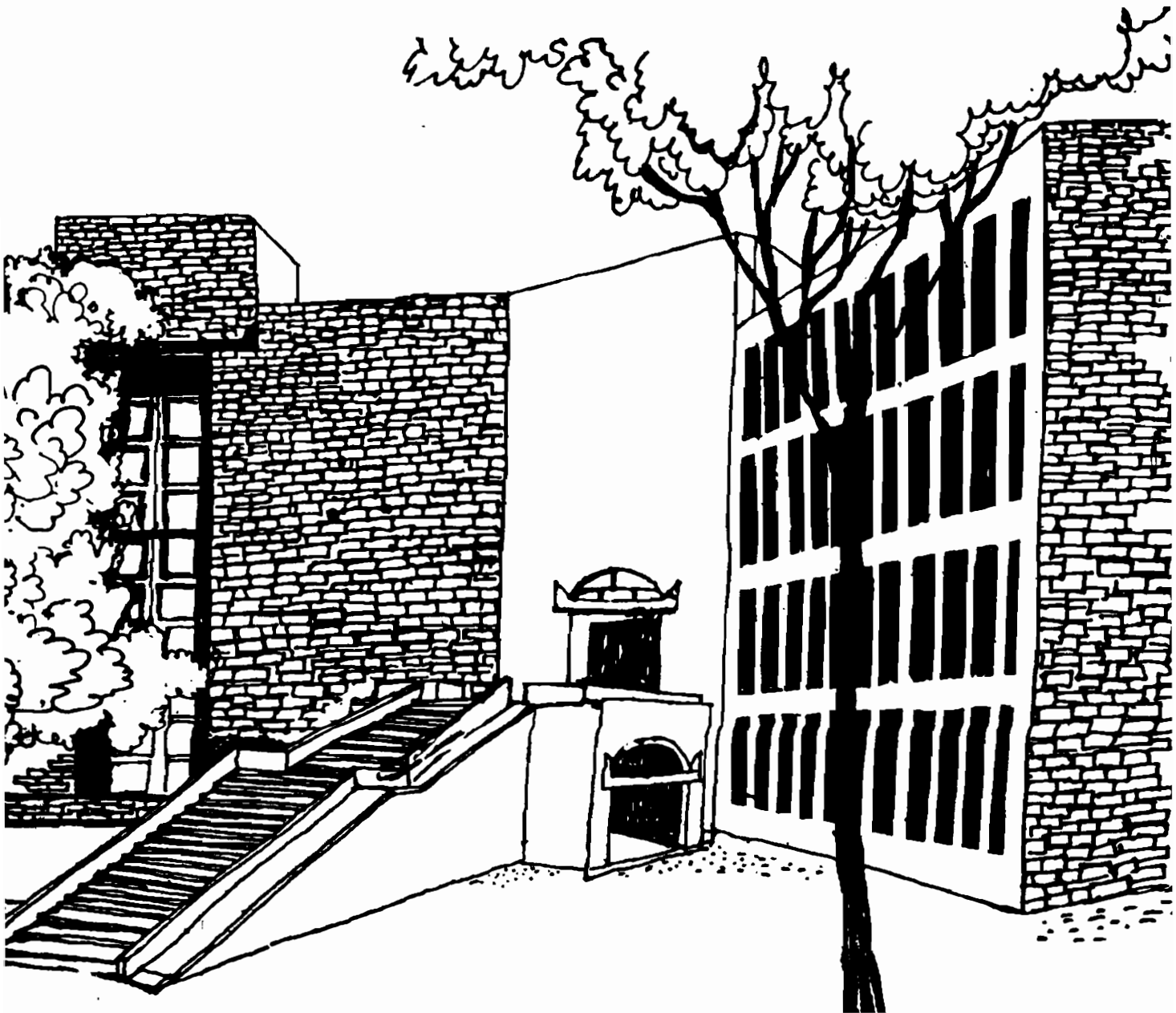




Working Paper



The Focal Faculties of the Firm: Using Knowledge Power for Global Leadership

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**The Focal Faculties of The Firm:
Using Knowledge Power for Global Leadership**

ABSTRACT

There is indubitably more to the sources of sustained competitive advantage of corporations than meets the eye. Among the most promising of these are the focal faculties of the firm, the areas of expertise ingrained in organizations over long periods of time. If properly developed and managed these focal faculties can be mixed and matched, both internally as well as externally, to pioneer promising lines of business that can sustain the firm from one generation to the next.

Previously many firms succeeded by combining the best features of the family, the school and the military while minimising bureaucratic proclivities. In future, firms may also have to adopt the recognized strengths of the collegiate approach, fundamental to which is knowledge creation, dissemination and use in a truly democratic manner. What a firm produces will always be important. Increasingly, what it **knows** will be even more important. This knowledge will basically be about its environment, about itself and about creative strategies which combine the two for success over the long term. If crystallized meaningfully into focal faculties, the foregoing knowledge may help the firm not only to perform well currently but also to adapt to changing circumstances and to seize the opportunities which appear from time to time on distant horizons.

The Focal Faculties of The Firm: Using Knowledge Power for Global Leadership

By now it is common knowledge that there is more to the sources of sustained competitive advantage of corporations than meets the eye. Among the newer sources the most promising seem to be what we call the focal faculties of the firm. These are simply the areas of expertise ingrained in organizations over long periods of time. If properly developed and managed these focal faculties can be mixed and matched, both internally as well as externally, to pioneer promising lines of business that can sustain the firm from one generation to the next.

Introductory Example

When IIMA pioneered management education in India, it inherited the Harvard Business School's focal faculty of the "Case Method" (CM) which combined a way of acquiring management knowledge from the field with a way of disseminating it in the class room. In the face of an early financial crisis, IIMA quickly developed expertise in the prevailing project research methodology. This enabled it to successfully tap the lucrative market for Indian government and, subsequently, international agency research contracts and it quickly diversified from a limited "business" clientele to large client systems such as agricultural policy and other public management sectors. However, CM itself atrophied at IIMA over the years though, comparatively, case teaching (including the teaching of

numerically complex foreign cases) remained a focal faculty for IIMA in the Indian context, enabling it to dominate (a) the placement of MBAs in the nation's international sector, (b) the domestic market for training of mid career executives and government officials and (c) the national pool of management PhDs. With liberalization and globalization, the lack of world class CM expertise (i.e. in integrated teaching and research and associated administrative systems) may prove to be detrimental to IIMA's future as international players in management education, including big time management consultants, skim the cream of management research and publication opportunities in India.

In fact the efficacy of traditional CM is also seemingly giving way to a potent new approach viz the consulting and communication method (C2M). Consulting is used to access exemplary situations while communication is used to widely propagate marketable ideas of a generalised type. This in turn improves opportunities for access to attractive research sites and so on. Global combing of the underlying knowledge base is subsumed under both phases. So far Indian management schools do not seem to have realised the value of C2M pioneered by Peter Drucker and Tom Peters of the USA and developed into a black art by some of its recent international exponents. A switch in the missions of Indian management schools from probing and propagating professional management to knowledge based leadership is long overdue.

Understanding Focal Faculties

Thus Indian organisations may need to devote significant resources to the understanding and use of the focal faculty concept for purposes of ensuring the continued socio-economic relevance of their organisations. Understanding focal faculties revolves around the four tests for positive identification (functionality, superiority, specificity and generality) and the four corollaries of faculty based management viz faculty based operations, faculty based growth, faculty based competition and the development of societal faculties.

Faculty-based operations gives pride of place to the education and talents of the organisation's employees. A pervasive concern for quality in operations has to be uppermost and employees have to be empowered to expose and trouble-shoot the sources of bad quality solely for the sake of learning (and prevention) rather than witch-hunting. The *chaltha hai* mentality has to change to one of being "on target" in terms of functionality, cost and delivery since even minute deviations can have disastrous multiplier effects over the long run. But a consistent emphasis on least cost "quality" is bound to translate into volume as well as variety over the long term. Employees have to be able and willing to work in smoothly functioning teams taking a unified view of every client's individual needs. There is no room for a "not my job" response. Good qualities such as these cannot be obtained "on

demand" but have to be persistently pursued as an inescapable organizational development responsibility.

Focal products, which are subassemblies of the foregoing operations that enjoy strong demand as components from affiliates as well as competitors, constitute the lynch pin for two other mechanisms viz faculty based growth and competition. By providing access to a wider range of end-markets than the organisation itself can serve and by providing insights into competitors' strategic thinking, focal products benefit from scope and scale economies and help the organisation dominate its industry in the future.

Faculty based growth consists of an evolutionary approach to absorbing the fruits of faculty based operations. As practice makes perfect, the resources rendered surplus have to be redeployed for growth, rather than summarily released to cut costs. What better way to redeploy them at lower cost and investment than by application of the underlying faculty or expertise to new opportunities. Most of the time these opportunities will be apparent from a sound knowledge of industry dynamics. At a basic level the expertise can go into product upgrades, line extensions and the creation of product families. But organisational imagination (often stimulated by competitive necessity) may find applications in far from "familiar" territory (especially if complementary developments have occurred in the interval) which the pioneer can then dominate in future. Thus faculty based growth can,

theoretically at least, be highly diversified and yet sharply focused. This is the beauty of knowledge. But one may only be able to succeed if the ventures are consistently managed in focal faculty terms over the long term. This means placing more importance in faculty development on movements in the firm's intellectual capital markets rather than just the traditional areas of the stock markets and the product markets.

In focusing on the intellectual capital market, the firm is faced with the phenomenon of faculty based competition. The competition in product markets which is the traditional pre-occupation of managers at the business unit level is paralleled at the corporate level by competition for acquiring and leveraging focal faculties. Corporate management which traditionally functions as a mere financial authorisation and consolidation level, has to become more entrepreneurial and involved in business unit operations especially regarding the movement of key people and investment in focal products (referred to earlier). Faculty based competition will involve expeditionary ventures into terra nova (unserved segments in total market space) to fine tune desired faculties. It will initially involve seemingly quixotic and radical initiatives which when sustained over a decade or more may manifest themselves as revolutionary developments. At the same time, the corporate level has to be alert to the real possibility of faculty based competition which may turn out to be a threat to the firm's own core business in future.

It will be apparent that the cause of faculty based operations, growth and competition will be better served if the nation's intelligentsia and policy makers themselves are imbued with a will to develop societal faculties. Knowledge based work and activities have to be valued and furthered in society at large in preference to sheer physical labour. Towards this end, the role of competition and cooperation in the sphere of domestic industry has to be recognised. The role of competition and cooperation in the global sphere has also to be recognised by society at large. A key function of societal competence is the ability to move flexibly from national sectors of declining socio-economic significance to those that enjoy better future prospects. A key measure of societal competence is the real improvement of the standards of living in the country on a global basis without aggravating income and regional inequalities among its subjects. Thus it is necessary to take the most holistic perspective possible of the focal faculties of the firm as outlined above since focal faculty development is an arduous long term process and requires sustained progress at multiple levels- operational, organisational, industrial and societal - for best results.

Use of Focal Faculties

Once there is appreciation of the scope and possibilities of a focal faculty management system along the above lines work can begin on its introduction and use in the organisation. It is necessary, in the first place, to sensitise key people to

educational and training efforts at the outset to get people on the same "wave length". Insights into the organisation which can surface during this process may have to be carefully accumulated for subsequent use in the application stage.

The application stage is an integrative one involving re-iteration of top down and bottom up perspectives in order to arrive at a picture of not only the firm's existing, potential and desired focal faculties but also the "forgettable" ones whose relevance is clearly lost but which continue to add to cost. The top down perspective is essentially a synoptic (or macro) one which capitalises on senior management's overall view of the organisation's star executives, core businesses, focal factories and key technologies. The bottom up view is essentially a synthetic one built up from micro-level knowledge of the organisation's operations, processes, specialised knowhow and employee attitudes and aptitudes (i.e. its core competences or capabilities).

The challenge is at the middle level which has, simultaneously to differentiate synoptic perspectives on the firm's focal faculties into viable constituent core competences and to integrate synthetic perspectives on core capabilities into potentially meaningful firm level focal faculties. Once this is done, mid-level executives have to assist top management to communicate the resulting focal faculties in terms which are

understandable and actionable by the organisation as a whole but which would be opaque to outsiders and difficult to replicate. Ideally management must create an aura or mystique around the firm's focal faculties so as to simultaneously secure the support of stakeholders and deter competitors from making escalating commitments of their own. The main role of the middle is to test whether the focal faculties proposed by both top and bottom are truly strong in competitive terms and critical in terms of their future value. As stated earlier the tests pertain to the existence of functionality or customer benefit; evidence of superiority or excellence; organisational specificity or inimitability and potential degree of generality or portability to new products and new markets. Such positively identified focal faculties will have to number about 5 to 10 (no more no less) if the entire process is to be kept to manageable (and meaningful) proportions. Note that this number includes the full set of existing, potential, desired and forgettable faculties. Such a set can be termed a focal faculty matrix or portfolio.

A number of possible management actions may be considered parallel with and subsequent to a formal focal faculty analysis. The start up of R & D units is probably one of the first. Consolidation of focal faculties into sentient business units is another. Re-engineering and re-structuring, mergers, acquisitions, spin offs, strategic alliances and joint ventures (domestic as well as international) may have to be contemplated for highlighting, leveraging and building focal faculties while

guarding against the real risks of inadvertently jettisoning some "crown jewels" in the process. Collaboration may be necessary at the industry level and even with policy makers to achieve stretch goals beyond the reach of any one player but amenable to a multi-pronged and concerted effort over several years. After all, there are no constraints in the long run. Cooperation also helps to cushion players against unacceptable risks from too sharp a focus especially on new focal faculties as more bases can be covered. Within the organisation the development of industrial insights and creative imagination of possibilities has to be fostered at all levels. At the corporate level, as suggested earlier, the actual and potential competitors for the identified and selected focal faculties have to be carefully monitored on a global basis. Counter action has to be through coordinated efforts at operational levels undertaken in the larger corporate or strategic interest. A particularly keen eye may have to be kept on "core knowledge predators" who are known to decamp at dead of night with the core skills of even their closest "allies".

A key drawback of the focal faculty approach is the time and knowledge intensity of not only the faculty development process but especially of the focal faculty identification process which precedes it. A collective ability to get to the intellectual roots of a firm's success is not easy to develop even for a conventionally successful firm. Besides, the firm's industrial insight may well be flawed. The result of all this may be that by the time a faculty is identified as focal it may

have irreversibly lost its relevance or it may have been overtaken by events. Further investment in it on the one hand (or lack of it on the other) may only result in the occurrence of a "fatal non-flexibility". This is where the chief executive's role becomes crucial. Opportunities to leverage focal faculties may stand out like a beacon compared to the invidious (and sometimes catastrophic) creep of fatal non flexibilities. Ultimately the chief executive cannot escape responsibility for corporate collapse, confusion or paralysis and has to make the identification and monitoring of fatal non-flexibilities his/her sole preserve. Here again, prudent inter firm cooperation may help to hedge the risks that are inevitable.

The Knowledge Imperative

In conclusion, many firms succeeded previously by combining the best features of the family, the school and the military while minimising bureaucratic proclivities. In future, firms may also have to utilise the power of the collegiate approach, fundamental to which is knowledge creation (including identification and assimilation), dissemination and use in a truly democratic manner. What a firm produces will always be important. Increasingly, what it knows (including how it knows what it knows) will be even more important. This knowledge will basically be about its environment, about itself and about creative strategies which combine the two for success over the long term. If crystallized meaningfully into focal faculties, the foregoing knowledge may power the firm not only

to perform well currently but also to adapt to changing circumstances and even to seize the opportunities which appear from time to time on distant horizons. Thus, focal faculties appear to be the key to global leadership in the emerging era of infinite possibilities.

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