Thriving in the post-crisis economy: managing a nexus of capabilities

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Twenty-first century management challenge

Prompted by conditions associated with the global financial crisis (e.g. unemployment, growing income inequality, examples of corporate ethical misconduct), management is under a microscope. Intense discussions have been sparked about the unresponsiveness of corporations to society, short term-ism and the prudence of shareholder value as a guide to management, and the apparent lack of human grounding in much of the world's corporate activity.

At the same time, the fallout from the financial crisis has made the task of management even more difficult. Four years after its onset GDP growth in both Euro zone economies and the US is lackluster, national economies continue to operate with deficits, unemployment remains uncomfortably high, consumers are tentative in their buying behavior. Continuing economic weakness and uncertainty has prompted corporations to cut capital and other discretionary spending, refrain from hiring unfilled positions, and hoard cash. For most senior managers in most industries, this is an extremely challenging environment in which to grow a business.

In November, 2012, an international group of business executives, managers and scholars came together at the Fourth Annual Global Drucker Forum in Vienna, Austria, to discuss implications for management in the twenty-first century raised by the recent crisis. The focus of the conference was on a new context in which business growth and concern for a functioning society are better aligned, and the nature of management practice that successfully addresses this alignment. The conference is held annually in memory of management consultant Peter Drucker, who believed that management's ''competence, its integrity and its performance will be decisive to the US and the free world in the decades to come.''

Nexus of capabilities

Achieving growth in this environment, while simultaneously acknowledging a corporation's broader social impact, requires conceiving of the business as a ''nexus of capabilities.'' Nexus of capabilities refers to the coordinated combination of activities across a company which creates value in the short term, flexibility to address emerging stakeholder needs, and provides an unassailable platform for future growth. Contemporary thinking in strategy holds that sustainable competitive advantage arises from the development of ''extraordinary resources'' which exhibit ''VRIST'' characteristics. That is, they:

- are valuable;
- are rare;
- cannot be imitated;
- cannot be substituted for; and
- cannot be traded for.

DOI 10.1108/02580541311311221

Extraordinary resources are seldom reflected on the balance sheet. They tend to be intangibles, usually including exceptional coordinating routines and processes within the company, as well as unique knowledge the company has developed about its products, services, or methods. What confers sustainable advantage is that these cannot be observed or easily reproduced by competitors (Figure 1).

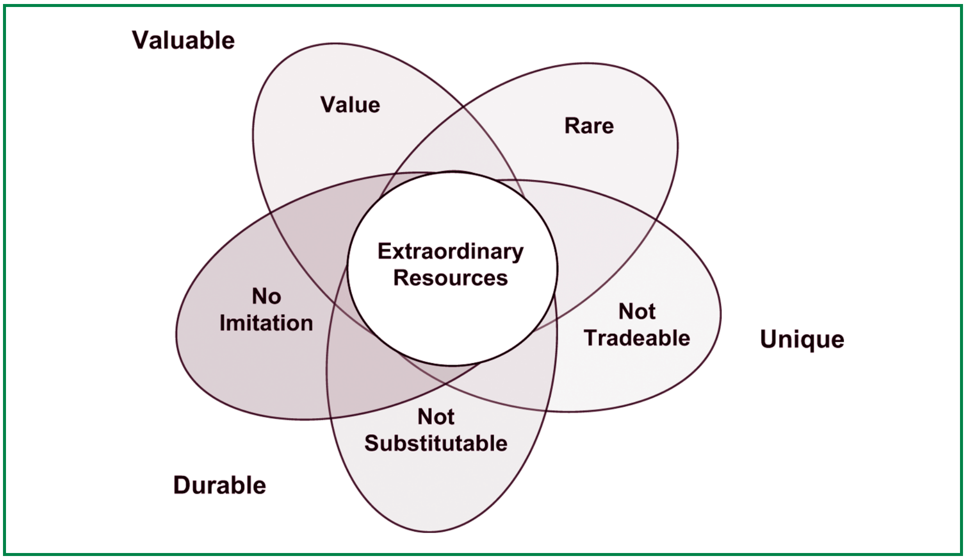
The best practices and knowledge fulfilling the VRIST criteria are deeply embedded in the organization, and depend on integrative thinking and coordinated practice. But most companies are not organized this way. Most companies are functionally organized with hierarchical lines of reporting; managers in most departments or functions have only limited authority or responsibility for managing across dimensions of the business.

New management thinking and practice

Through its value creation orientation, a ''nexus of capabilities'' approach provides both a strong foundation for growth and the ability to flexibly respond to markets. Successful companies represented at the conference – including family business, partnership, employee-owned, customer-owned, and traditional corporation models – all have followed this new approach. But it calls for a new set of management practices:

1. Create horizontal internal networks to achieve synergy and speed:
   - *Growth depends on coordination*. All key sources of growth in a company –, e.g. new product development, geographic market development, expansion, or acquisition – depend on tight coordination across functions. Often reserved for senior leadership, this type of coordination oversight should be pushed down throughout the organization on important initiatives.
   - *Decision speed*. Horizontal coordination avoids decision delays associated with going up and then back down a vertical reporting and decision hierarchy.
   - *Rapid feedback and learning*. Horizontal coordination facilitates rapid iteration between functions working together, enhances feedback, and thus experimentation on new initiatives. Learning about best practices and approaches occurs more rapidly.
2. Create external networks to stay current and provide a seedbed for new value opportunities:
   - *Reach out upstream and downstream*. Suppliers and customers are excellent sources of ideas for new business and improving existing business practice. Procter & Gamble

Figure 1 Extraordinary resources confer sustainable competitive advantage



embeds researchers in communities, and has engineered a ''connect and develop'' program that formalizes information-seeking efforts within customer and supplier networks.

- *Proactively embrace social media*. Local geographic and broader social communities can dramatically impact the company's reputation and its business. Siemens learned the hard way when a disgruntled customer posted a Youtube video of a refrigerator-smashing event, subsequently viewed by thousands of customers. Proactive use of social media can provide advance warning of concerns and issues, but also help manage the perception of the business.
- *Identify new value opportunities*. Technology, globalization, and competition constantly push out the ''value frontier.'' Proactively connecting with the dynamic external environment aids in continuous re-contextualization of how value is shifting over time. Identifying shifts early on can lead to first-mover advantages in addressing emergent trends.

3. Structure follows strategy. Building effective internal horizontal and external network approaches requires new roles, authority and responsibility:
   - *Shift to project level*. Decision authority and responsibility should be shifted down to the level of projects that are critical in growth.
   - *New leadership identified*. For horizontal teams at the project level, methods need to be developed to identify and appoint ''local'' coordination leaders.
   - *Bringing the external inside*. A new process is needed to regularly and continuously bring together the external network insights with internal network expertise. This process, once refined, can itself become a VRIST extraordinary resource.
   - *Senior management's new role*. Senior managers will need to re-conceptualize their roles as mentors to lower-level leaders and advocates for resources needed for projects to succeed. Senior managers can also add significant new value by identifying nexus of capabilities practices that exhibit VRIST characteristics, working to invest in and amplify such practices, and sharing such practices across the company.
4. Managing networks has implications for recruitment, hiring, training:
   - *Looking for breadth of experience and working across functions*. Traditional single-function experience is less valuable in this new environment than accomplished managers with broader exposure.
   - *Training opportunities and apprenticeships* for general management should be developed.
   - *Opportunities to attract younger generation*. Efforts to proactively reach out to communities through social media are particularly attractive to talented young people, who are looking to work in companies with generational cohesion and a social awareness.
5. Renewed emphasis on mission and vision:
   - *Importance in guiding lower level practices*. Carefully articulating mission and vision provides useful guidance for the development and coordination of best practices at lower project levels, and for lower level decision making.
6. Strategic reporting should connect coordinating practices at the nexus of capabilities with long term performance.
   - *Develop a causal logic*. The nexus of capabilities arises from a series of coordinated practices that sequentially, over time, lead to superior competitive position and performance.
   - *Use metrics*. Metrics should be developed to track each of the coordinating practices as well as their expected results. Using metrics enables testing and refining the contribution of each, or changing the logic.

- *Offsets short term-ism*. The challenge of strategy is the inevitable uncertainty between present actions and future results. Logic and metrics associated with the nexus of capabilities provides balance to the short term metrics corporations are associated with.

Drucker once commented ‘‘Long term results cannot be achieved by piling short term results on short term results.’’ Re-conceptualizing the business as a nexus of capabilities requires a new focus on integrative thinking and practice. In this way managers can more adeptly build positions of competitive superiority while simultaneously accounting for external social environments.

Keywords:
Strategic management,
Growth,
Economic recession,
Social concern,
Strategic planning

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