Theme 1

Operations as Strategy

1   Introduction to Theme 1: Operations as Strategy

Alison Bettley, David Mayle and Tarek Tantoush

In many instances it is the distinctions between operations and strategy that receive emphasis. We are typically, in our teaching and research and in some senses also in th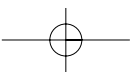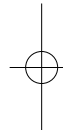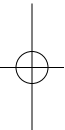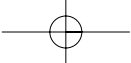e practice of management, at pains to separate the day-to-day *operational* concerns, of little individual significance, from the big *strategic* corporate decisions taken relatively infrequently and requiring substantial investment of resources. Yet the two domains are inextricably linked. The notion and practices of strategic management are now well established within academic and organizational contexts, so it is timely perhaps to call for the balance to be redressed and the interwoven nature of strategy and operations to be acknowledged and explored anew.

Hayes and Upton argue that abstract strategy – something conceived in isolation from the day-to-day operation of the business and then imposed in top-down fashion – is almost too esoteric to be of real value. Instead they argue that strategic advantage may be more robustly maintained via something more deeply embedded; something almost cultural, something that is fundamentally operational in nature, and something which is at least partly emergent rather than deliberately planned.

In many ways, Hayes and Upton's view involves matching operations to strategy. Having established how the company wants to differentiate itself in its chosen marketplace – the classic strategic decision – the company must then set about evolving an operational approach that is appropriate for that differentiation. Whether the intention is to provide lowest cost, or highest quality, or fastest response, the manner in which these goals are implemented is paramount; thus the quality of the operational design becomes the crucial determinant of *initial* success. According to Michael Porter[1], such operations-based advantages are limited in that they are readily replicable, but that may be to deny the subtlety of operations.

Continued success is even more of a challenge, and here again the design of the operational process is vital. The world changes; customers may become seduced by things about which they previously had no knowledge,[2] and their needs will change. Companies that wish to change to exploit the new reality may have to adapt their operations to suit, and this is where earlier decisions may come home to roost. In the absence of reliable crystal balls, no-one can completely future-proof their designs, but some will prove to be more flexible than others. To take an example from manufacturing, investing in a complex machine tool that allows relatively unskilled labour to perform a particular operation may enable very low production costs (as long as the production volumes are high enough to justify the initial investment), but if the output suddenly becomes obsolete and the particular process is no longer needed, then the attractions of skilled labour driving more adaptable, general-purpose tools may suddenly look very attractive. As we argue throughout, the design of operational systems *matters*.

Hayes and Upton claim that Porter's view, that being operationally excellent is

not in itself a strategy to achieve sustainable competitive advantage because good practice is relatively easy to emulate, misses the fundamental point: the operation of a complex organizational arrangement with socio-technical subtleties of technology and culture is *not* readily replicated. Porter argues that what is key is that operations is configured appropriately to confer uniqueness and differentiation, and in recognition of the trade-offs that are an inherent part of effective positioning strategy. Doing things right is not enough for Porter – doing the right things is also needed. We would argue that the tension between the two approaches is largely illusory; both perspectives agree that the key criterion is operational capability that is difficult to emulate – the point at issue is what this amounts to in practice. An agile organization has advantages in that if it is doing the things right (in being fast and flexible) it can soon also do the right thing by adopting a new and more advantageous strategic position and avoid any tendency to start on the 'glide path to oblivion'.

This need for a deeply embedded and resource-based approach to strategy is also emphasized by Stéphane Gagnon in his literature review of the bases of operations strategy. Gagnon argues for a much more integrated approach to the management of organizations, and elaborates on Hayes and Upton's argument that a highly integrated and resource-based model is actually not readily replicable by would-be competitors. ('A new paradigm of operations strategy could emerge, where "management fundamentals" such as learning and culture would be actively integrated within operations, in order to become key sources of competitive advantage. Accordingly, the operations function could progressively: take the leadership of strategy formulation; create "portfolios" of optional capabilities for strategies of organizational agility; and implement world-class practices more effectively through evolutionary strategic frameworks'). The same argument is also deployed to explain why so many management fads fail to deliver on their promises.

Gagnon also emphasizes several key points which are central to our arguments regarding the centrality of operations to strategic

advantage. On the *art* of operations management: 'Operations strategy could become more emergent and less structured. In the end, only a few excellent companies may be able to sustain competitive advantages over long periods of time'. On the need to retain *flexibility* (citing Dorothy Leonard-Barton): 'once capabilities have reached the strategic core of an organization, they can easily become core rigidities'.[3] On the centrality of *people*: 'Operations strategy may become concerned with the creation of new forms of organizational cultures, where key sources of operating excellence may be better rooted.' And on the role of *technology*: 'Operations strategy may provide a new outlook on the design of operational systems focussed on organizational learning and effective knowledge creation and diffusion.'

The chapter by Freeman and Liedtka 're-interprets the value chain in stakeholder terms'. The concept of stakeholders may have been around for a while now, but it is only relatively recently that the purely pragmatic argument – that business is no longer a zero-sum game and that consistent value-creation requires the concerted efforts of all parties – has been advanced with confidence. The authors offer four principles that underpin their model of stakeholder capitalism: principles of cooperation ('business is not a zero-sum game'): of complex motivation ('human beings are not just economic maximizers'): of continuous creation (echoes of Collins and Porras's seminal *Built to Last*?)[4] and of emergent competition ('stakeholders have options').

The authors also note the changing nature of modern business wherein the challenges of the economics of information, competition based upon capabilities and the extension of a firm's activities beyond traditional boundaries need to be faced. The sub-text (again) is the need for continual renewal but the arena within which this takes place is now vastly broader than hitherto. The expanded sphere of operations must embrace the key notions of the stakeholder value chain (the creation of value – of a variety of types – for a wide range of stakeholders) and the importance of a more 'architectural' perspective.

If one were to postulate a spectrum ranging from 'pure' goods to 'pure' service, the extremes of purity would be sparsely populated. Most organizations tend to find themselves interacting with their customers via some sort of goods/service 'package'. This trend can be seen to accelerate as customers become increasingly sophisticated and concern themselves less with initial acquisition cost and more with total-cost-of-ownership over the life of the product. The chapter by Oliva and Kallenburg offers advice to organizations that may hitherto have regarded themselves as primarily goods-based as they grapple with the rather different challenges posed by service operations. The key challenge would seem to be a change of mindset, as the authors argue, 'the emphasis of the business model changes from transaction- to relationship-based'. Under this 'new regime', old habits may need to be re-assessed. A narrow, manufacturing-based perspective might argue that enhanced quality and an extended product lifetime will erode the traditional business by extending the replacement cycle (yes, some people still think like that). A more enlightened perspective reveals that customers have more invested in their acquisition than just the numbers on the sticker-price, they are also interested – albeit implicitly – in such things as reliability (mean time between failure) and maintainability (mean time to repair). The natural trend towards 'servicization' may today be seen *in extremis* in the civil airline industry, where the likes of Rolls-Royce sell not engines, but flying hours. The shift in emphasis resulting from this seems likely to constitute a seismic change in the way companies conceive of their business.

The inclusion of the chapter by Jeanne Liedtka was essentially driven by our convictions regarding the centrality of design to issues of business organization. Much of Operations Management's image problem is arguably to do with old-fashioned ideas of it being overly mechanistic, concerned with little more than 'turning the handle' of some pre-existing machine. Even if organizations can be regarded as machines, surely they cannot be said to be 'pre-existing' – someone has to design them, and then continually evolve that design. Which brings us back to the question of 'architecture'.

Mintzberg's critique of the 'design school' of strategy[5] seems to us to embody a once-off, top-down definition of design. Any output from such a process would necessarily seem ponderous, inflexible, and monolithic. Our contention, echoed here by Liedtka and amplified by her with great distinction, is that operational design is an ongoing, negotiated process wherein people at all levels and locations in a given enterprise seek to come to grips with the contingencies of their situation: '… difference in performance is not made by choosing design, it is made in the process of designing'. Thus, to pursue her architectural metaphor a little further, a concentration on the provision of an enabling and flexible architecture is therefore the legitimate province of senior management, and arguably an essential prerequisite for the agile organization seeking to develop and exploit its operations capabilities to the full.

NOTES

1. Porter, M.E. (1996) 'What is strategy?', *Harvard Business Review*, Nov–Dec: 61–78.

2. 'Man's desires are limited by his perceptions, none can desire what he has not perceived'. (William Blake, 1757–1827).

3. Leonard-Barton, Dorothy (1988) 'Implementation as Mutual Adaptation of Technology and Organisation', in E. Rhodes and D. Wield (eds), *Implementing New Technologies* (1994). Oxford: Blackwell, pp. 401–21.

4. Collins, J.C. and Porras, J. (1997) *Built to Last: Successful Habits of Visionary Companies*. New York: Harper Business.

5. Mintzberg, H. (1994) *The Rise and Fall of Strategic Planning*, New York: The Free Press.