Management Focus

essential management knowledge for today's leaders

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An interview with

Emerald

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Welcome to Management Focus

… and welcome to the third edition of 2014

It has been claimed that the **verbal behaviour of leaders** comprises up to 82 per cent of their work time when communicating goals to others, clarifying standards, or giving feedback. To this day **managers still maintain communication** (verbal and written) as a **key facet of their role**. And this communication has impact. Find out more in our latest issue of ***Management Matters***.

"**Boom and bust**" is a highly emotive term for many economic observers. Most people would allow that the phrase reflects accurately enough one of the frightening realities of the **cyclical business world**. In other words, the potential fall-out from these cycles tends to come with the territory. For some, it suggests a **flawed system** in which successes can be revealed to be built on sand. Seen from that more extreme perspective, the recent global financial perspective was a **disaster waiting to happen**. Whatever your view, macroeconomic developments such as economic boom and bust are a fact of life. As such, they will have a significant effect on a firm's business performance. Read our article "**Boom and bust – how firms respond via marketing and innovation**" to find out more.

Dr Max Mckeown is the author of ***The Strategy Book***, winner of the Commuter Read at the Chartered Management Institute Book of the Year 2013 and Amazon's Best Business Books of 2012. He is also author of The Innovation Book, Adaptability: The Art of Winning in an Age of Uncertainty, and four other books. He works as a **strategic coach with *Fortune 100* companies** and is also a popular keynote speaker at conferences worldwide. In this exclusive interview with Management First, Max talks about the inspiration behind The Strategy Book, what to look out for when **playing strategic games**, and finding the right balance so that **disunity does not become destructive**.

Remember, log on to our website at: **http://first.emeraldinsight.com** to expand on the topics highlighted in this issue of *Management Focus*.

Best wishes,
Debbie Hepton

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Management Matters

Incisive commentary on topical business issues

Leadership and language – is it motivational?

Leaders communicate verbally as well as through their actions and behaviours. Without the capacity to involve others in their strategic vision for the company, leaders lose their impact.

It has been claimed that the verbal behaviour of leaders comprises up to 82 per cent of their work time when communicating goals to others, clarifying standards, or giving feedback. To this day managers still maintain communication (verbal and written) as a key facet of their role. And this communication has impact. For instance, a study of 140 leaders and 455 direct reports in Germany found that verbal consideration was associated with lower levels of follower irritation, and higher levels of job satisfaction and affective commitment.

Leaders today are increasingly subject to public scrutiny through the electronic media, so what they say not only has greater immediate impact, but also demands that the message is understood as intended.

What leaders say and do inform us of the state of thinking in organizations and society. When leaders translate ideas into actions, they participate in "the discursive process of constructing and interpreting their social world". One of the key skills required by leaders is the ability to motivate others, which is based almost entirely communication skills.

In their article "Leaders and their use of motivating language", James C. Sarros, Elvira Luca, Iain Densten and Joseph C. Santora attempted to identify the type of leadership enacted in times of dynamic global economic change, and examine the extent to which each type of motivating language was used by leaders in times of change.

They surveyed 1,918 members of the Australian Institute of Management in relation to leadership style, organizational culture, and job outcomes, of whom 511 provided written comments on leadership and culture. From these 511 managers, they selected another group of managers across industry sectors to interview on the nature of leadership in a dynamic and competitive market place.

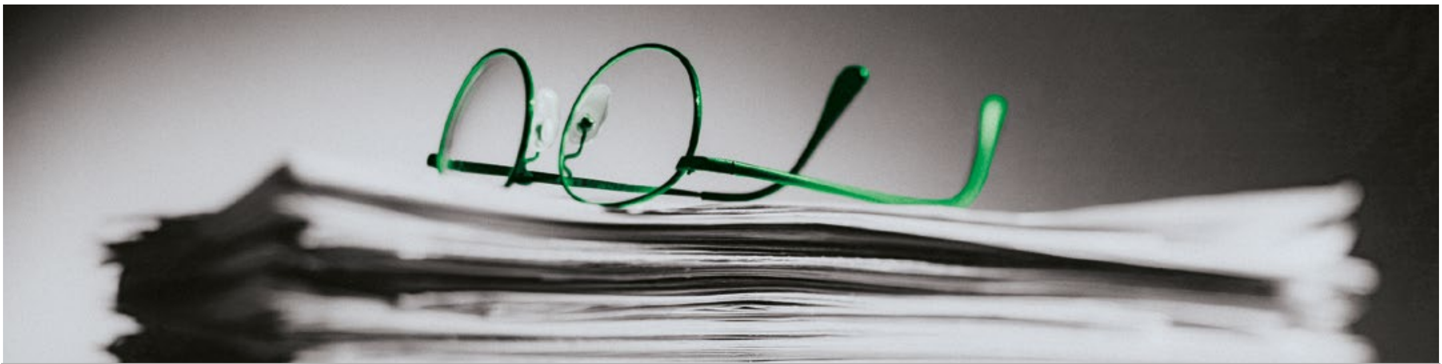
Their findings revealed that, with an ever-increasing need by leaders to develop strategies for dealing with change, both direction giving and meaning-making language used by leaders will be prominent. In particular, direction-giving language was most used by leaders due to dynamic international and domestic market conditions that demand precise articulation of a company's mission and objectives.

> "One of the **key skills** required by leaders is the **ability to motivate others**, which is based almost entirely on **communication skills**."

Previous studies of over 20,000 executives in the USA demonstrate that forward-looking behaviour is a critical dimension in credible leadership. These findings suggest that in times of unrelenting and ubiquitous change, direction-giving language is always in demand, and its use should be both encouraged and developed.

Providing direction, solving problems, and together with meaning-making language, envisioning the future state and direction of the company, are crucial leadership functions. CEOs are consistently sending messages through their behaviours, as well as by setting and communicating strategies, and putting sound processes in place.

Meaning-making language engages workers in the organization's cultural heritage by articulating to employees the structure and values of the company, the importance of achieving performance outcomes, and how these outcomes rely on the best fit between worker and organization needs and expectations. Good person-job fit appears to underlie many of the observations associated with meaning-making language.



This is a shortened version of "*Leaders and their use of motivating language*", which originally appeared in *Leadership & Organization Development Journal*, Volume 35, Number 3, 2014.

The authors are James C. Sarros, Elvira Luca, Iain Densten and Joseph C. Santora.

Boom and bust – how firms respond via marketing and innovation

Financial crisis insights

"Boom and bust" is a highly emotive term for many economic observers. Most people would allow that the phrase reflects accurately enough one of the frightening realities of the cyclical business world. In other words, the potential fall-out from these cycles tends to come with the territory.

For some, it suggests a flawed system in which successes can be revealed to be built on sand. Seen from that more extreme perspective, the recent global financial perspective was a disaster waiting to happen.

Whatever your view, macroeconomic developments such as economic boom and bust are a fact of life. As such, they will have a significant effect on a firm's business performance.

All sorts of factors come into play. In unstable economic times, firms will tighten their budgets. Marketing strategy might well suffer as budgetary allocations to advertising and innovation are reduced. Previous studies have shown that economic fluctuations affect individual marketing activities as well as their performance outcomes

Not all bad news

However, there can be a more positive side to this. Good marketing strategy can counter the effect of economic fluctuations through flexible and proactive approaches. What happens with marketing during different phases of the economic cycle is crucial.

The research here focuses on the role of market orientation – how a firm relates to its markets – and innovation capability in determining business performance before and during the global financial crisis that started in 2008. It is based on the assumption that a market-orientated organizational culture has a vital role in seeking out ways to create good value for customers.

> "Good **marketing strategy** can counter the effect of economic fluctuations through flexible and **proactive approaches**."

Firms operating in this way will be better able to focus their innovation capability on responding to those untapped needs of customers. The outcome should be creation of superior value for the customer, which in turn leads on to better business performance.

The global financial crisis had a notable impact on the Baltic Sea region. Finland's gross domestic product decreased by 5.5 per cent between 2008 and 2010. Those two dates are key to this research. It capitalizes on two extensive datasets collected in Finland during the spring of 2008, representing a boom, and the spring of 2010, by which time the effects of the crisis were being felt in the Finnish market. The study investigates the economic cycle's impact on the links between market orientation, innovation capability and performance.

Pilot version

The surveys were carried out in Finnish companies, preceded by a pilot version in which a questionnaire was tested on 34 managing directors. Subsequently, the survey was sent out to top-management team members of companies in industries ranging from agriculture, fishing, construction, hotels and restaurants to financial services, insurance and real estate. The second survey attracted 1,134 responses, an 11 per cent return rate.

Issues raised here related to the ways in which each firm dealt with customers, competitors, innovation and business policy, as well its "inter-functional coordination" – in other words, issues such as the way different departments communicate and share their resources. Among significant customer orientation issues for consideration were: "Our business objectives are driven primarily by customer satisfaction" and "we constantly monitor our level of commitment and orientation to serving customers' needs".

Innovation capability items ranged from examination of companies' ability to develop new products, ideas and services to exploitation of new business models, and return on R&D developments.

The findings were used to test five hypotheses which all related to the way these factors were linked and made an impact on one another during both stages of the economic cycle.

Among the findings, it emerged that during both the 'ups' and 'downs', market orientation had a positive influence on innovation capability. In connection with the hypotheses that specifically tested the effects of innovation capability, three interesting effects were identified

Mediated effects

- The relationship between customer orientation and business performance was fully mediated during the economic upturn, with no such effect seen during the downturn.
- Innovation capability partially mediated the effect of competitor orientation on business performance during the downturn, but not during the upturn.
- Contrary to the hypothesis, the relationship between inter-functional coordination and business performance was not mediated by innovation capability at any stage of the cycle whatsoever.

The study here shows, then, that economic fluctuations alter the mechanism through which market orientation affects business performance in terms of the roles of its individual components. During an economic upturn, its effectiveness culminates in a customer orientation, and this does not exert a significant performance effect during a downturn. On the other hand, competitor orientation and inter-functional coordination work in precisely the opposite direction: they play a key role in defining a firm's business performance only during an economic downturn.

In an upturn, companies can exploit the benefits of customer orientation by offering a better customer service which in turn enables them to make their market bigger. But during a downturn, the size of that market is likely to decline or, at best, remain stable. In those circumstances, it is a better policy to focus on competitors and on gaining some of their market share.

And with the increasing scarcity of resources during a downturn, it becomes more important to ensure that internal functions are well coordinated. Indeed, the finding that inter-functional coordination has a direct and positive impact on business performance is particularly interesting: recent studies have also pointed to its importance in safeguarding the customer focus during the very early stages of product/service development.

Mixed findings

The research also reveals that the mediating role of innovation capability between market orientation and business performance changes drastically during different phases of the business cycle. Innovation capability fully mediates the performance effects of market orientation during an upturn; during a downturn the mediation is only partial. This suggests that other factors are coming into play, including customer relationship management which is perhaps not the focus of adequate attention.

"During an upturn, a firm's ability to innovate gains greater prominence because that is the way it will attract and retain customers. During a downturn, the role of innovation decreases as the managerial focus shifts to operational efficiency and the exploitation of existing offerings"

During an upturn, a firm's ability to innovate gains greater prominence because that is the way it will attract and retain customers. During a downturn, the role of innovation decreases as the managerial focus shifts to operational efficiency and the exploitation of existing offerings.

Managers and those public funding organizations that give financial support to innovation activities would do well to observe that the components of market orientation affect performance differently, and that various market orientation components will differ drastically in performance depending on the phase of the business cycle. Managers would also do well to develop skills beyond innovation capability, focusing more strongly on operational excellence.

During periods of economic downturn, firms should be looking to focus more strongly on direct competition and survival in the marketplace. In these circumstances, a concentration on beating rivals and enhancing efficiency is likely to serve them better than activities aimed at creating new demand.

The Finnish managers here are making subjective judgments about business performance. This appeared to researchers to be the best way to counter the natural variation in objective measures of performance (such as return on investment or profit margin) which you would expect to find with a cross-industry dataset.

"Boom and bust" is a very extreme way of putting things. If companies can't quite attain the giddy heights of one, there's no reason why they should be dragged down to the bottom of the pit in any economic climate, so long as managers make sound judgments and understand the way that the different marketing concepts impact on one another.

This is a shortened version of "*Market orientation, innovation capability and business performance: insights from the global financial crisis*", which originally appeared in *Baltic Journal of Management*, Volume 9, Number 2, 2014.

The authors are Juho-Petteri Huhtala, Antti Sihvonen, Johanna Frosen, and Matti Jaakkola and Henrikki Tikkanen.

How to effectively engage in strategy

An interview with Max McKeown

Interview by: ***Debbie Hepton***

Dr Max Mckeown is the author of The Strategy Book, winner of the Commuter Read at the Chartered Management Institute Book of the Year 2013 and Amazon's Best Business Books of 2012.

He is also author of *The Innovation Book*, *Adaptability: The Art of Winning in an Age of Uncertainty*, and four other books. He works as a strategic coach with Fortune 100 companies and is also a popular keynote speaker at conferences worldwide.

Q What inspired you to write *The Strategy Book*?

Strategy is powerful but often misunderstood – and so neglected by people who could really benefit from its power. *The Strategy Book* aims to keep all the good stuff – the deep smarts – while making it accessible and practical for people who really want to shape the future.

Q Can you give our readers a brief overview of your book?

*The Strategy Boo*k is split into six parts. The first five parts concentrate on the individual strategist – the heart of strategy is the strategist – the individual, and how the individual thinks and acts.

The book starts with your strategic self and then moves outwards; showing how strategists think and act, and how to do so more strategically. It then moves into how to get your team and your company involved, and how to actually help strategy win and work in the real world.

In part six, I highlight a set of 28 strategy tools, each of which get a concise bite-sized description that allows someone to think "that's a popular tool, I can see how you would use that," and "that's a tool that I have never heard of before, but I see its practical value and I can use it in this afternoon's meeting to create a strategy around my new idea!"

Q What is the biggest pitfall to watch out for when playing strategic games?

The biggest pitfall would be to become obsessed with winning at all costs, especially when you forget what those costs are and you become increasingly negative – when you want to win even when your market is damaged or to win the particular battle even when your product is damaged. This often happens when you forget the higher purpose of your company – the good "why!"

> "There's a **big danger of fear increasing** when there is constant bad news. The question is; **in a crisis which way are you going to go?** Are you going to go for growth and a transcendence of your situation, or are you going to opt for a **negative and demeaning game?**"

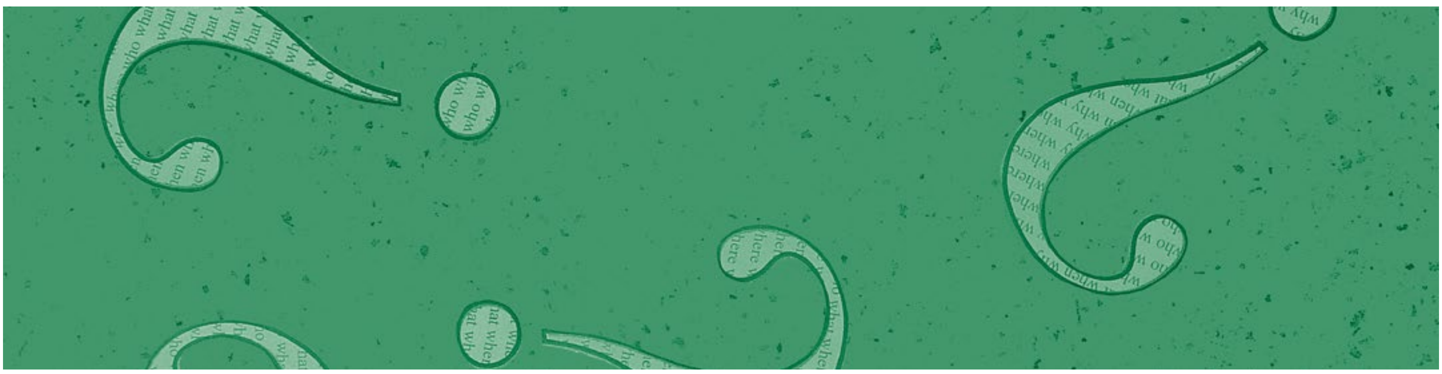
IBM's good "why!" at one stage was to really help people in business to use computing. They had the power to do great things, but they forgot that and started to really push through the sales with anti-competitive practices. As a result, they went through a number of court cases, which damaged the company for a decade. The same thing happened to Microsoft. Great to have a computer on every desk – very inspirational – but they began to do dubious things with their licensing and their sales, and they too ended up in trouble.

When an Apple or a Samsung end up in court all the time, you could say that one or other, or both, are forgetting the positive game, and getting embroiled in something that will end up distracting them.

So, therefore, the biggest pitfall is becoming obsessed with winning the wrong game!

Q I suppose the same could be said for individuals working within a company?

Absolutely. If you are working in a company that has some higher purpose it unifies people incredibly well. Also, when you are a growing there is more than enough to share. Whereas when companies experience a lack of growth, people begin to scrabble



around being fearful of their own positions or being greedy and self-preserving. None of which helps at all.

Q That has been a big risk over the last five years – during this most recent recession

Yes. There's a big danger of fear increasing when there is constant bad news. The question is; in a crisis which way are you going to go? Are you going to go for growth and a transcendence of your situation, or are you going to opt for a negative and demeaning game?

Q You state that "you need just enough disunity for progress." How do you find the right balance so that the disunity does not become destructive?

I have mentioned the idea of having an overall unified purpose, which is part of it. People need to believe in unifying principles – even something as basic as wanting to truly help customers. If people keep asking "does it help the customer?" then you can have as much constructive conflict as you want. In fact in my new book, The Innovation Book, there is a section on how to increase that kind of conflict. If it is done towards the same purpose then everybody knows it was just an argument to improve the customer experience, rather than a destructive, meandering and political argument.

When my clients have meetings, I get them to put up various overall agreed purposes on the wall of the meeting room. They agree on what it is that they really want to achieve and everything below that they can disagree on, to a point. When there is agreement and you have found a best way of doing something, it is very important to agree on that and then move to disagreeing on other areas to maintain productivity.

You will find that Toyota has a huge amount of continual improvement and thousands of suggestions from its workers, but those suggestions for improvements go into a very detailed working manual for how to operate, so that you do not waste time disagreeing on things that have been agreed. Once agreed, it was worth having the arguments because it has improved everybody's work. Apple does a very similar thing. It has an incredibly detailed checklist so that you can get your design absolutely right, whereas the creativity and the debate are saved for things that have not been agreed – things outside of the checklist.

Some organizations have a Wiki, or an internal web page, that contains all the agreed rules for the best way of doing things. These organizations then allow employees to make suggestions on any part of it. Meanwhile, everybody should be following the rules that have been agreed until you agree to follow another rule.

It can get complicated, and I am not suggesting that everybody should do it, but it is a good idea to find better ways of doing things rather than forcing people to break the rules.

"I have enjoyed watching a company like **IKEA**, who are really the result – despite what Michael Porter says – not of a detailed deliberate plan, but of being **intelligent and responsive** to great new opportunities."

Q In *Adaptability* you outline a number of case studies from companies such as Starbucks. Of the companies that you have studied, which prove to be the most successful examples and why?

One of the principles of Adaptability is that it is always the beginning, and that there are no hero companies. Many books have been written – like Tom Peter's In Search of Excellence or Collin's Good to Great - that give the impression that "here are the best seven or ten companies who always get it right."

History shows that that is simply not true. As soon as these hero companies are being written about in books they get full of themselves, hubris takes over, managerial thinking takes over and they protect what they have got rather than pursuing the original purpose. That said, the companies that have been most successful are those that realize it is always the beginning. As with actors, you are only as good as your last picture; you are only as good as your last book, your last song or your last product.

I have enjoyed watching a company like IKEA, who are really the result – despite what Michael Porter says – not of a detailed deliberate plan, but of being intelligent and responsive to great new opportunities. They have done that right from the beginning, each time something went wrong. One example was not being able to fit a table into a car, which made the designer turn it into a flat pack. Even better was that the founder was able to recognize the design as a business opportunity rather than forgetting about it. He built a showroom and when it burnt down he built a bigger showroom. When the showroom got really busy, he asked people to serve themselves. The whole Ikea concept – flat pack, big warehouse and self-service – was born through that series of serendipitous events. LEGO is similar – its factory burnt down and it nearly went out of business which is why it started the Lego system – each time there was an opportunity for rebirth Lego were determined to do better. Nintendo and Disney provide other examples where, each time, they adapt to the information in their environment to be reborn, rather than giving up or continuing as they were.

This is a shortened version of "*How to effectively engage in strategy: an interview with Max McKeown*". To read the full interview, please visit: http://first.emeraldinsight.com/interviews/mckeown.htm