

management focus

essential management knowledge for today's leaders

Inside this issue – May/June 2010

Featured article: *Enhanced organizational learning:
generating new knowledge through outsourcing*

An interview with: Martin Moehrle



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Welcome to Management Focus

... and welcome to the May/June issue.

The notion of a firm as a coherently-bounded entity has conventionally meant that a firm is the source of learning and of new knowledge. However, a new perception is taking shape: new knowledge can be generated from both internal and external sources.

While external learning is a very broad topic encompassing a wide variety of learning processes and sources, not much attention has been paid to learning from suppliers within the context of the service industry. Find out more in our featured article, which examines six studies of firms that have outsourced parts, or all, of their information technology (IT) activities.

From 2002-2008, Martin Moehrle was Chief Learning Officer, Global Head of HR Development and a member of the Global HR Committee at Deutsche Bank. This role got broader over the years and, together with his team, he managed all learning and development practices in the bank, be it at a divisional, regional, or corporate level. Martin is now self-employed, working as a consultant for major international companies.

In this interview he talks about the key challenges facing HR teams today, HR outsourcing, and the challenges and experiences he faced in his role as Chief Learning Officer at Deutsche Bank.

Finally, our latest issue of *Management Matters* discusses the subject of commoditization.

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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Enhanced organizational learning: generating new knowledge through outsourcing

The notion of a firm as a coherently-bounded entity has conventionally meant that it is the source of learning and of new knowledge. However, a new perception is taking shape: new knowledge can be generated from both internal and external sources.

While external learning is a very broad topic encompassing a wide variety of learning processes and sources, not much attention has been paid to learning from suppliers within the context of the service industry.

Furthermore, although there has been much theorizing about learning from external sources, there is actually very little empirical evidence to support the concepts and models that have been proposed.

Case studies

Six studies were conducted of firms that have outsourced parts, or all, of their information technology (IT) activities. The firms – all located in Sweden – include:

- financial industry including retail banking, Bank AB; an insurance company, Insure AB; and a financial institution, Finance AB (all fictitious names);
- retail industry, represented by Kooperativa Förbundet (KF);
- petrol industry, exemplified by British Petroleum (BP); and
- public utilities, represented by Stockholm City (SC).

The three cases from the financial sector were the first financial institutions in Sweden to have opted for some form of IT outsourcing. Overall, informants differ as to whether IT is strategic or not.

KF and SC opted for total IT outsourcing. By contrast, because BP, Finance, Bank and Insure view IT as being central to the financial world, they adopted a more cautious approach. Finance, Bank and BP outsourced computer operation activities only, while Insure also outsourced network, help desk and workplace installation.

Externalization

For their interface with their suppliers, the firms formed cross-functional teams (consisting of IT specialists, end-users, marketers, controllers etc.) headed by a senior manager possessing general management skills and called IT coordinator.

On the decision to outsource, their task began with the transfer of large amounts of documentation to the supplier, including program specifications and information related to projects in progress, etc. Furthermore, externalization of firm-specific knowledge is a requirement if suppliers are to appropriately understand their clients' specific IT needs. Exchange of written material is often augmented by dialogue and face-to-face interactions between firms, suppliers and other market players.

For the firms, outsourcing now engages the attention of end-users and executives more pressingly, forcing them to become involved in codifying, formulating, specifying in writing and measuring their IT requirements. IT suppliers are not supposed to know the particularities of the businesses underlying all the firms they serve; therefore, it is the task of outsourcing firms to develop a more accurate "requesters" knowledge.

Internalization

Outsourcing has given rise to increased documentation and face-to-face interchanges between firms, their suppliers and other market players. Mundane though the practices of writing and documenting are, they play an important role in learning and forming new knowledge. Writing has enhanced firms' critical sense and logical thinking.

Such efforts at understanding IT have, in turn, led firms to come to terms with what IT consists of and what each of these areas means in terms of costs and business implications. End-users are now able to describe and specify their IT needs and requirements more clearly than before. They have become aware of the extent to which, and why, certain IT areas impact their businesses more than others and to respond more effectively.

“With outsourcing IT activities turned into an economic terminology, which is comprehensible to senior executives.”

Most significant are the effects of combining facts from different sources on senior executives' attitude towards IT. Prior to outsourcing, they felt they were held hostage to their IT heads and threatened by the technological jargon used to speak about technology. With outsourcing IT activities turned into an economic terminology, which is comprehensible to senior executives. Benchmarks also provided top managers with information that helped them enhance decision-making procedures and their control of IT costs.

New rules, routines and procedures

Although organizations learn through the learning of individuals, organizational learning becomes embedded in organizational memory, in rules, routines and procedures.

Performance-monitoring routines

In the process of externalizing tacit knowledge, the firms adopted performance-appraisal and monitoring routines in order to continuously evaluate the effectiveness of the supplier's IT activities. Benchmarking and measuring routines also became an important "toolbox" for the IT coordinators.

In the push to track their suppliers' performance and quality, the firms developed new routines for measuring such things as response time to computer problems, system downtime, the cost of supplier services, and so on. They also developed other measurements for the activities related to helpdesk, application development, desktop computer support, network downtime and average number of complaints by employees.

New operating procedures and rules

Over and above performance-appraisal monitoring, measuring and benchmarking routines, some of the firms managed to adopt new operating procedures. The process of procuring IT services has become formalized, proceeding according to specific rules and regulations. Proposals for IT requests have to be submitted in writing to the IT co-ordinator, with clear justification of their business implications. IT requests are to stem from the end-users' needs; technological solutions are to be dictated by the business needs.

A significant change in work procedures is the integration of programmers, product developers and marketers.

Prior to outsourcing, each group led its own life but, as a result of outsourcing, they were often brought together to work side by side. Another rule is that major decisions concerning IT investments are to be decided by board members. Such new decision-making procedures are an indication that top management's knowledge relating to managing IT has improved.

Exploiting external knowledge

Purchasing IT services requires new skills in deal making, contract monitoring, trust making and relationship management. Because IT services are no longer produced in-house, a set of new practices and ways of scrutinizing, evaluating, benchmarking and appraising IT activities is required. Documenting, listing and tabulating are practices that are not akin to the cognitive operations required for in-house production and management of IT activities. Therefore, these cannot be associated with prior knowledge.

The possession of internal capabilities for evaluating and eventually exploiting external knowledge tends to convey the idea that such capabilities pre-exist firms' engagement with the process of evaluating external knowledge. Evaluation is only possible when the knowledge-seeking firm's externalized and objectified knowledge is confronted with external knowledge. The process of learning is a dynamic interaction between the learner's knowledge made explicit and the targeted knowledge.

Only when organizational knowledge is articulated in an organization-wide code does it become available to organizational members, and only then can it be questioned, assessed, quantified and compared with that of others – all of which constitutes an opportunity for identifying gaps and deficiencies and for correcting them by infusing external learning inputs.

This is a shortened version of a review of "Outsourcing as a mode of organizational learning" by Ali Yakhlef. The review originally appeared in *Development and Learning in Organizations: An International Journal*, Volume 24 Number 1, 2010



From 2002-2008, Martin Moehrle was Chief Learning Officer, Global Head of HR

Development and a member of the Global HR Committee at Deutsche Bank.

This role got broader over the years and, together with his team, he managed all learning and development practices in the bank, be it at a divisional, regional, or corporate level. After joining Deutsche Bank in 1994, Martin led many initiatives to help develop it into an agile, learning, global and diverse organization.

Martin is now self-employed, working as a consultant for major international companies.

Global HR issues: an interview with

Martin Moehrle

Interview by Alistair Craven

Alistair Craven: Generally speaking, what are the key challenges facing HR teams today?

Martin Moehrle: The key challenge is not to be swamped by the pressures of the day and the speed with which businesses move on these days, but to actively liaise with managers and businesses, create transparency with easy to understand and relevant data, do workforce scenario planning, support change efforts and coach managers who struggle with it, secure open communication and fair play and develop overall an engaged workforce.

AC: What is your opinion on the often contentious issue of HR outsourcing?

Martin Moehrle: HR's identity is, amongst others, defined by securing work and employment, and this partially stems from its historic industrial relations role and tends to oppose the idea of outsourcing. In addition, HR has difficulty sometimes in applying a pure systems and process view to the operations of its service delivery, in fear of losing the human touch. However, there are many situations in which outsourcing parts of the HR value chain makes good sense. Either there is a scale effect which makes things cheaper, or one can variabilize fixed cost or tap into expertise in certain topical or geographical areas where one has been relatively weak. Outsourcing large parts or all of HR will continue to be, in my eyes, a rare case, but outsourcing specific aspects of HR service delivery will continue to become the norm. Corresponding decisions, however, need experience and there has been some naïvety in the past in how to solve all kinds of problems by just outsourcing them.

AC: Your research paints a pretty bleak picture of the HR area. For example, 70 per cent of companies

were engaged in reducing headcount, 60 per cent had reduced training budgets, and 45 per cent had implemented a hiring freeze. Can you comment on the implications of these findings?

Martin Moehrle: When revenues collapse and markets get unpredictable, management has no choice but to adjust the cost base and manage cash very carefully. Measures such as making staff redundant, banning their replacement or limiting discretionary spend, such as travel and training expenses, are part of the usual toolkit. You are right, this is not the dream scenario of HR people. Letting people go is highly emotional and stressful.

However, there have been many cases of creative cost reductions which helped to avoid layoffs, at least to a certain point, and to which HR has significantly contributed. HR has a role to play in managing the cost base, especially in service industries where compensation cost counts for half or more of total cost.

These tough times are also an opportunity for HR to partner even better with the line to secure tight performance management and to do more with a lighter training budget. For example, by engaging internal leaders and experts in the learning process and thereby moving learning back again to the reality of the workplace.

AC: You worked as global Chief Learning Officer at Deutsche Bank. Can you tell us about your challenges and experiences in this role?

Martin Moehrle: The first five years were governed by the transformation of Deutsche Bank from a conservative, somehow aristocratic, hierarchical commercial bank with a German management and the large bulk of its revenues coming from Germany into a global, diverse, agile and learning

organization with a strong capital markets orientation. Recruiting and bringing in a different kind of talent, facilitating growth overseas and increasingly in the Asia region, supporting the global integration of a so-far regionally run bank, the implementation of a matrix organization, driving culture change and the re-establishment of leadership unity were the name of the game. This was an enormously dynamic and perilous time that freed up lots of entrepreneurial energy.

The second half of my tenure centred on the professionalization and the lean management of a global L&D function overseeing an extraordinarily broad product range, including all learning, talent management, leadership and organizational development and diversity management, sharing a joint operational platform, learning from one another and yet at the same time very much aligning deliverables with the specific needs of the different globally run business divisions.

AC: What would you say was your biggest achievement in your role at Deutsche Bank?

Martin Moehrle: In retrospect, I have fond memories of forming a global team that represented all dimensions of Deutsche Bank's organization, i.e. global business divisions, geography and corporate (which normally are separate entities), and thereby to a considerable degree overcoming the inherent barriers to collaboration associated with more traditional structures.

This is a shortened version of "Global HR issues: an interview with Martin Moehrle." To read a longer version visit <http://first.emeraldinsight.com>

Management Matters

Incisive commentary on topical business issues



Richard D'Aveni

The lurking threat of commoditization

In a recent interview with Management First, business Professor and author Richard D'Aveni explains how commoditization – a virulent form of hypercompetition – is “destroying markets, disrupting industries, and shuttering long-successful firms.”

Commoditization is nothing new, but tackling it continues to be a massive challenge for organizations. D'Aveni's research begins with a simple premise: commoditization is really a fact of business life. Indeed, everything becomes a commodity over

time. Realizing this is an important step, but some organizations still do nothing to face up to this reality. The danger is that by sitting still an organization faces the real risk of failure.

New technology and the increase in low cost competitors in a multiplicity of industries are two of the reasons why commoditization remains a threat. Traditionally, a common method for responding has been the pursuit of differentiation. Depending on your particular industry, this can be a potential escape route, or instead a much more difficult idea to put into practice. Look at how BMW over many years has differentiated itself as a premium car manufacturer: “the ultimate driving machine.” Quality has become synonymous with the brand, and a price premium is the reward. However, change the product to a washing-powder, for example, and differentiating between brands becomes much harder. According to D'Aveni, “Just about every manager I talk to is engaged in differentiation, but very few of them feel that continuous differentiation is a solution. They simply don't get the results they expect because everyone else is doing it too.”

Whilst much commoditization is caused by markets and natural competition, D'Aveni also points out that organizations can be partly to blame, with reference to stalled innovation, launching poor products, or a plain denial about what is occurring. Apple has a proud and successful history of innovation, but what about the mixed reception for its iPad? Could this be the start of a difficult period for the company?

D'Aveni's research in over 30 industries led him to conclude that, in facing commoditization, as managers we simply do not act quickly and decisively enough. In one example he found that a favoured strategy for tackling new low-cost rivals was a blind pursuit of discounting, which he cites as dangerous and ill-advised. However, as he graphically illustrates, “in a hole, executives often grab the nearest spade and carry on digging ...”

Overcoming this mindset will require reserves of patience and vigilance. D'Aveni's ground-breaking research appears to show that the days of product-based advantages are narrowing and fleeting, making it harder for companies to extract a price premium in most markets; including markets where traditional barriers to entry are now no longer as effective as they once were. Fortunately, the research also finds that there are patterns evident in the creation of commodity traps, and falling into one is neither inevitable nor incontrovertible. Remind yourself too of the companies that have taken on commoditization and won: Wal-Mart in retailing and Ryanair or Southwest in the airline industry, for example. Can you reach similar heights?

If you would like to know more about what Professor Richard D'Aveni has to say, please visit <http://first.emeraldinsight.com/interviews/daveni.htm>





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Final thought ...

“

Vitally important for a young man or woman is, first, to realize the value of education and then to cultivate earnestly, aggressively, ceaselessly, the habit of self-education.

”

B.C. Forbes

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