A TENTATIVE MODEL OF OPERATIONAL CAPABILITY DEVELOPMENT

This research highlights the centrality of managerial activities in the development of operational capabilities in two organisations. Managerial activities recombine themselves with existing routines and resources to contribute to the development of these capabilities. The activities identified such as creating action plan, controlling, organising and driving improvement are crucial in shaping the operational capabilities and their dynamic adaptation. The proposed tentative model mainly contributes to the existing literature on capability development by (a) incorporating a direct role of managerial agency in capability development; (b) incorporating a central role for micro level activities through which managerial agency shapes the development of capabilities and (c) incorporating a critical role for the strategising practices that mediate and enable constituents to conceptualise the activity. This model also contributes to the resource based view of the organisation by explaining the micro activities that shape capabilities, the strategy as practice perspective, leadership development in organisations and to the development of a dynamic view of strategy.

This research has focused on the empirical evidences that emerged from the analysis of two case studies with respect to the development of operational capabilities and has proposed a model through analytic generalisation (Yin 1984). The proposed model (see Figure 6) emphasises three aspects of operational capability development that drive improvement in organisations.

(a) Managerial activities form the core of capability development: The model explicitly focuses on the micro level activities through which managerial agency can directly shape the development of capabilities. The two field studies have suggested that operational capabilities that drive improvement can be developed through managerial activities such as creating action plan, organising, controlling and driving improvement.

(b) Managerial agency uses strategising practices: Managers used procedural, interactive and integrative strategising to connect with the community for the
Figure 6: A Model of Operational Capability Development in Organisations

Previous Action Plan / Routines / Rules and Procedures

COMMUNITY

ORGANISATIONAL CONTEXT
- Organisation Alignment

STRATEGISING PRACTICES
- Procedural
- Interactive
- Integrative

MANAGERIAL ACTIVITIES
- Creating action plan
- Controlling
- Organising
- Driving improvement

Recombination

MANAGERIAL AGENCY

NEW FACTORS /
MARKET DYNAMICS
Resources / Competencies / New Technologies / Customer Demands / Client Expectations
development of operational capabilities. The activity system dynamics generated from the data showed differences in the application of strategising practices.

(c) Managerial agency intentionally guides the capability development activities: The managers in B1 and B2 had intentionally either recombined the existing activities or evolved new activities for the development of capabilities. The managerial agency has directly intervened in identifying activities to be focused for capability development and guided the recombination effort.

The two cases, B1 and B2 have exhibited different patterns of continuity and adaptation with respect to the practice of operational capability development. It is conceived that the varied patterns of continuity and change depended on the role played by the strategising practices while mediating among the contradictions in the activity system and conceptualising a shared understanding for action.

B1 was involved in the business of refining crude oil and marketing of various petroleum products at the national level. In 2009, the Chairman of B1 proposed the new strategic goal for the company ‘to be number one’ in the sales of total motor fuel and suggested that employees should aim to achieve a leading position in the national retail petroleum sector. Infrastructure development was seen by the management as the growth driver and most of the regions have focused on retail network expansion to contribute to the strategic goal. Statistics shows that the retail network expansion has contributed significantly to the increase in sales volume of the total motor fuel. Retail network expansion was identified as the capability for B1 and this research has studied the development of this capability and the associated micro level activities.

The business of B2 was transformational in nature and was implemented for better direct tax administration and service delivery in our country. B2 has revolutionised the tax collection by introducing small ticket and transparent transactions, end to end audit trail and by eliminating paper based fraud. The quality of data with respect to error has significantly improved from 55 percent in 2004 to 93 percent in 2010. Direct tax collection in our country has grown at an annual rate of 24 percent in the last five years and the direct tax share in the gross domestic product has increased to 6.1 percent. B2 has shown an increase of 25 percent in 2010 than the previous year with respect to the total accounts and total entries.
B2 was a total solution provider dealing with information technology, process design, operations, legal environment, administrative infrastructure and multiple customers to manage high performance data centers and large volume transactions in a secure and efficient manner. B2 generated revenue mainly out of the transactions it carried out. The financial model was such that all the transactions that happened at B2 were not priced and it was a continuous challenge for the business (a) to be adaptive in a dynamic environment and (b) to bring down the expense on transactions to be competitive in the market. B2 responded to these challenges by strengthening the processes, enhancing technology and by empowering people. To contribute to the efficient and effective operations, B2 has focused on reducing the response time of online processes, the processing time of batch processes and the turnaround time of product development processes. Over a period of time these three focus areas have evolved as operational capabilities for B2 and directly contributed to the strategic goal of ‘improving the day to day operations efficiently and effectively’.

The managerial activities that contributed to the development of operational capabilities in both the organisations were (a) creating action plan, (b) controlling, (c) organising and (d) driving improvement.

To respond to the environmental demands and to practice the organisation’s agenda of customer focused growth, in B1 the routines and resources were recombined and facilitated the creation of network expansion as the capability of the organisation. After the development of the action plan by the regional team, based on the sales potential, the nature of competition and the performance of existing retail outlets, the locations for commissioning the outlets were identified. Unlike earlier, introduction of different formats of retail outlets for different customer and market segments have given the sales officers enough choices to identify locations across the regions. The use of Network Development and Dynamic Pricing (NDDP) tool further validated the selection of the location. The rules and regulations were well laid down in terms of advertisement, processing of application forms, interview and selection processes, issue of letter of intent to prospective dealers, processing of land related documents, no objection certificates, tendering process and the formats of outlets. The use of NDDP tool, extensive use of enterprise resource planning system, changes in the limit of authority manual and the introduction of committees at the regional level
to take critical decisions, have contributed significantly to build the capability of network expansion. The network planning team at the zonal office has coordinated with different regions to facilitate the selection process of dealers and other related network expansion activities to reduce the time of commissioning of outlets.

The Regional Manager contributed to the recombinnation of activities for capability development mainly (a) by facilitating informal communication and coordination between different functions and other stakeholders in the regions; and (b) by aligning members with the shared strategic goal of the organisation. In B1, new initiatives with respect to retail network expansion in regions were the result of the recombinination of the already existing detailed guidelines and both new and already existing resources and competencies. These initiatives were driven by the region in alignment with the strategic plan of the organisation.

In B2, the strategic initiatives and action plans were created through extensive discussion and reflection by the team members, process owners and the top management. Process owners have facilitated informal communication and collaboration within and between teams and equipped the members with project management expertise. Team members were oriented thoroughly about the objective, the ways to carry out processes and the execution plan. B2 believed that excellence in the business evolved out of strict adherence to certain key components related to processes, technology and customer such as measurement and continuous improvement of processes; technological optimisation and adoption of new technology that contributes to improved performance; and focus on both internal and external customers for evolving process refinement.

B2 has developed relevant matrices keeping in mind the relevant objective and measured the performance through diagnostic control and better decision making. Process exceptions, trend shifts and volatility of select measures were tracked and customer service commitments were reformulated to enhance process excellence. In a dynamic environment, the measurement processes get refined and team structures get reconstituted while responding to the changing concerns of customers and demands of the client. Customer concerns drive the development of processes and measurement matrices. Apart from the internal and external regular compliance audits, the team members ensured that processes were compliant to the set standard and kept tracking
and trapping exceptions, if any. Most of the process checks were automated and alerts were sent to the concerned periodically. All the exceptions were documented, analyses were done to prevent such exceptions and rules were laid down to handle all the exceptions. Process delivery was tracked with respect to response time of online processes, processing time of the batch processes, turnaround time of new product releases and the quality and cost associated with these. The services offered by B2 needed to be continuously improved to address the current and future concerns of the customers and the client. Improving the competencies of team members through continuous learning has significant impact on building robust processes. Analyses of the trends and exceptions have guided B2 in locating the root causes and helped in identifying potential pitfalls in advance and to take both, preventive and proactive measures. In B2, customer was the prime focus in all the continuous improvement activities.

The proposed model focuses also on strategising practices such as norms, rules and routines through which capability is developed (Turner 1994) in these organisations. In B1, the development of capability is greatly dictated by procedural strategising or through the use of formal administrative practices. The situated bundles of interconnected organisational routines and resources have contributed to the realisation of the strategic goals of the organisation. After the articulation of the strategic goal, strategic initiatives were developed at the regional level using integrative strategising. The community, discussed and developed the detailed action plan and operationalised the action plan for the region after taking cognisance of the local realities. Interactive strategising created a new interpretive framework and a well aligned action plan and procedural strategising enabled the regions to set targets with timelines to realise the strategic goal. While the interpretations of activity which are strongly embedded in the historical context that provided continuity over time, the actors actively exploited internal resources to drive improvement for developing retail network expansion as B1’s current capability.

The managers in both B1 and B2 used integrative strategising practices for creating action plans to contribute to the strategic goals. Interpretive systems make constituents commit to shared activities as these systems promote consensus over activities and the associated rationale. Unlike B1, B2 used integrative strategising
within and between teams whenever required for all the managerial activities. Both B1 and B2 displayed continuity in their patterns of activity over the period of study. To generate shared frameworks, B1 used predominantly procedural strategising and B2 used integrative strategising with respect to all the activities such as organising, controlling and driving improvement. In B1, for changing activities, members have mainly focused on better planning and effective coordination mechanisms. Ongoing tensions and contradictions were significantly high in B2, as it was a transformational project and operated in a dynamic environment. Through integrative strategising, B2 kept changing the interpretive frameworks to address the challenges and for evolving better mechanisms for capability development.

The analysis of the organisations suggests important linkages between strategising practices and the capability development activities. Strategising practices play a critical role in both maintaining the activities as well as generating and executing changes or facilitating the dual function of work, that is, every member works on both, process standard operating procedures and process improvements. In B1, the activities brought about continuity through formal procedures and provided a state of agreement between constituents over a period of time with new conceptualisations of action (Nelson and Winter 1982) within the execution domain. In B2, the managerial agency intentionally constructed purposive and goal oriented activities through integrative strategising, developed contradictions that result in new conceptualisations and shared activities to contribute to the strategic goals.

The Context of Organisation and Managerial Agency:

This research uses the strategy as practice approach with an activity based view to study operational capability development in two organisations. Capability development is conceived as (a) a situated activity, (b) as an adaptive activity and (c) a deliberate agential activity. As a situated activity, the embedded historical and environmental layers of context influence the managerial agency (Jarzabkowski 2004) in shaping the capability development activities. The agency constructs and is constructed by the context on a continuous basis. Situation provides an interpretative context for action (Brown and Duguid 2000) and meaning for activities. The dynamic and ongoing construction of activity results in mutual intelligibility that contributes to a body of shared meaning (Suchman 1987). Understanding the managerial activities
that contribute to the development of capabilities demands an analysis of the organisational context that is impacted by market dynamics (Eisenhardt and Martin 2000) and problems in relations to organisational alignment (Powell 2006).

It is pertinent to note the role of managers and officers in the regional offices of B1 and the process owners and team members in B2 and their day to day activities in the context of operational capability development. The strategic change process started in B1 in 2003 with the co-creation of strategic goal for the retail business unit. The strategic initiatives were developed regionally by the regional manager and the team to contribute to the strategic goal. In 2009, B1 reformulated the strategic goal ‘to be number one in sales of the total motor fuel’ and started the alignment exercise in the retail strategic business unit. The co-creation of the strategic initiatives, action plan and other managerial activities has contributed to the development of retail network expansion as a capability for the organisation. The faster execution of the network expansion activities had made B1 command a market share of 25.17 percent in 2010-2011 in total motor fuel, for the first time in the last 25 years.

“It was the ‘visioning exercise’ which we initiated in 2003 that made all the difference to us. We were working in silos before 2003. Now we know the responsibility of each function and we are driven by a shared strategic goal. We are poised for a major growth in coming years”

(Chief Executive Officer, B1)

“Alignment exercise gave us clarity about our course of action or what has to be done, to realize the strategic goal of becoming Number one in sales. It was an inclusive process, where we wanted our employees to articulate their aspirations in the context of the strategic goal”

(Executive Director: Human Resources, B1)

In B2 the process owners and the team members worked together to develop the strategic initiatives, action plans to contribute to the strategic goal. Unlike B1, B2 had operated in a very dynamic market and had to address very different kind of challenges. The changing customer needs and client expectations, technological changes, team structures and customer service commitments have made the operation of B2 very complex and the managerial activities both reflective and procedural.
Aligning all the processes in view of the customer and client needs facilitated collaboration among team members and the decision making easier and better in B2. All the employees of B2 were trained in project management, keeping in view the understanding that employees faced higher level of uncertainties in a project management environment and they required different kind of competencies to manage the situation. Another very important initiative B2 had undertaken was the team orientation workshop in order to create more interfaces that could make people understand each other and to create customer focus in their day to day activities.

“The project management orientation that we provided to all our employees from 2006 made a significant difference to them when operating in a transformational project like B2, which faces uncertain situations on a regular basis”.

(Managing Director, B2)

“I have understood the importance of keeping the customer in my mind while taking decisions during the team orientation workshops. I always impress upon my new team members with the learning from this workshop”

(Process Owner, B2)

Research in the area of communities of practice (Lave and Wenger 1991) proposes that idiosyncratic localised activities can create shared interpretive contexts (Brown and Duguid 2000) and contribute to changes and thereby development of capabilities. Through dialogue and interaction the actors create new knowledge (Cook and Brown 1999), new meanings and solve problems that are contextual. These generative practices in communities that evolve out of new challenges and relationship with external networks can create learning opportunities for its members. Organisational learning is necessary for organisations to adapt their capabilities (Eisenhardt and Martin 2000; Dosi; Zollo and Winter 2002). Organisational learning and specifically the ability to adapt is influenced by the prior culture and structure of the organisation (Dixon, Meyer and Day 2007). Organisations that promote diverse micro communities (Regner 2003), decentralisation (Bartlett and Ghoshal 1993) and structures that share knowledge are more adaptive than bureaucratic (Mintzberg 1979) organisations. The organisational initiatives taken by B1 and B2 would have influenced the strategic choices of the managerial agency to introduce certain
practices and policies for the development of capabilities in these organisations. Absorptive capacity, an organisation’s ability to assimilate new knowledge, is an important factor in enabling or restricting adaptations (Lewin, Long and Caroll 1999) and prior learning and skills provided by similar learning experiences can be a determinant of this ability (Cohen and Levinthal 1990). The regional teams of B1 were engaged in similar activities with respect to retail network expansion since 2003 and this initiative had emerged as a capability after the alignment exercise of 2009. The organisation wide visioning exercise initiated by the top management of B1 in 2003 and the project management orientation provided to all the members of B2 from 2006 had promoted a culture of learning in these organisations. The organisation wide alignment exercise in B1 and the team orientation workshops in B2 have facilitated the coordination and collaboration within and between functions and teams.

While organisations adapt themselves to the changing environmental demands, they also need basic stability to be efficient in the market place (Mintzberg 1994). The ability of managerial agency to construct activities intentionally can be understood through the theory of structuration (Giddens 1984) that emphasises the reciprocal interaction between the agency and socially evolved structures. While actors draw upon the structures to carry out activities, to create and recreate them, structures partially constrain and partially enable human activities. Practice is embedded in social structures which are evolved and sustained through tacit knowledge and the practical consciousness of actors that make them ‘ontologically secure’ (Giddens ibid.). The persistent operational routines have a social architecture (Henderson and Clark 1990) and tend to promote recursiveness through normative influences or organisational memory (Walsh and Ungson 1991). While recursiveness promotes efficient operations in organisations, it can also lead to organisational inertia (Hannan and Freeman 1984) and the inability to adapt.

Sztompka (1991) proposes the unified socio individual field, integrating the agent and social structure to explain adaptiveness through social becoming. Agency plays a major role in developing these internal contexts in relation to external contexts for the adaptive processes (Child 1997). Changes in organisational routines are carried out in the micro contexts, which are characterised by localised activities in interaction with the macro contexts. The nature of external environment in terms of market
dynamics is one of the pertinent characteristics of the macro context, that has recursive or adaptive influence on organisations (Jarzabkowski 2004). Organisations in dynamic markets pursue adaptive strategies such as low formalisation of organisational processes (Eisenhardt and Sull 2001) to respond to environmental demands unlike organisations that function in low velocity markets where repetitive activities may be more effective (Eisenhardt and Martin 2000). Organisations in competitive markets, which are characterised by disruptive technologies and frequent product variations, require continuous adaptation of structures (Volberda 1996) to respond to the environmental demands.

The proposed model highlights the importance of certain managerial activities and strategising practices in the context of operational capability development and their contribution in the realisation of strategic goals of the organisations under study. This research used an activity system framework and activity system dynamics based on the activity theory, to understand capability development activities and strategising practices. Activity system represents the context of practical activity (Engestrom 1993). The regional offices headed by the regional manager and his or her team members in B1 and the major modules headed by the process owners and respective team members in B2, were considered as activity systems. An activity system comprises of four main constituents i.e., the managerial agency, collective social structures, the activities in which the agency engages and the mediating strategising practices. The managerial agency and the collective structures interact and construct capability development activity through the mediating strategising practices. Capability development activities are built around the strategic goals of the organisation. Strategising practices can be either procedural or interactive (Jarzabkowski 2005). Procedural strategising represents the institutionalised policies and procedures that realise in the organisational context as administrative practices. Interactive strategising helps in aligning varied divergent interests of the community around certain common interpretive frameworks of meaning (Blackler 1995). While procedural strategising has structural legitimacy and persists without active managerial intervention, interactive strategising confers interpretive legitimacy and necessitates sustained managerial intervention to create shared meaning. When organisations construct activities that demand both high structural and interpretive legitimacy, managers interact with the community to create and reframe objectives.
and use policies and procedures to make the diagnostic controls relevant to contribute to capability development. This integration of procedural and interactive strategising is termed as integrative strategising.

Activity theory posits that an activity system is capable of both continuity and change in its activity patterns. An activity system has multiple voices and the situated interpretive rationale that underpins the activity promotes continuity in activity patterns. Changes in activity patterns arise through the interaction between the managerial agency, collective structures and the activity. These interactions generate contradictions among the constituents of the activity system as they may hold dissimilar interpretations. Contradictions and different interpretations generate system level tensions and serve as sources of change and development of organisational capability related activities through the reconceptualisation of the interpretive rationale (Blackler ibid.; Engestrom 2001). The strategic goals, strategic initiatives and action plans of the organisations form the basis of the interpretive framework that the managerial agency construct, maintain and change.

Strategising practices can be used to mould the context for action, to mediate in continuing the existing activity patterns, making changes in the existing activities and in creating new activity patterns. Strategising practices enable constituents to interact and conceptualise the shared activity and create continuity. When the shared nature of conceptualisations gets contested, strategising practices serve as mediators between constituents to effect change in interpretations. New patterns of activity arise out of these contradictions which create tensions and lead to the modifications or improvement in the existing activities. Despite path dependence, intentional managerial intervention can create new activities or modify the existing ones.

To summarise, organisations in dynamic environment display more adaptive use of managerial activities that contribute to operational capability development than organisations in relatively stable environment. Managerial activities such as creating action plan, controlling, organising and driving improvement contribute to the development of operational capabilities. Managers in organisations that operate in dynamic environments tend to use integrative strategising as they need to create activities that represent both stability and change. Managers who operate in relatively stable environment may resort to procedural strategising except in instances where
they need to develop regional strategies, create new activities or drive significant changes in existing activities. Certain characteristics of the organisation context such as shared strategic goal, decentralisation, informal communication and customer focus may be associated with more adaptive or recursive uses of managerial activities. This research has attempted to link the ‘micro’ with the ‘macro’ or the everyday managerial activities with the strategic goals of the organisation. The managerial agency in both studied organisations consistently exhibited their abilities to contribute to the recombination processes to evolve operational capabilities. Studies (Feldman and Pentland 2003; Howard-Grenville 2005) that emphasise the ostensive and performative aspect of routines, the conceptualisation of agent in the temporal-relational context (Emirbayer and Mische 1998) with constitutive elements such as iterative, projective and practical evaluative imply the agents’ ability to act intentionally. These conceptualisations are consistent with the proposed model of operational capability development.

The model which is proposed after the grounded theorising of two case studies may prove extremely useful in developing a general understanding about managerial activities and strategising practices in the context of operational capability development. Nonetheless, this research approach has limited generalisability, due to the specific contextual settings of the cases studied, as explained before. The present research has tried to address these limitations by doing cross case analysis and by using established theoretical explanations to evolve the model in line with analytic generalisation methods. Further research and validation in varied contextual settings are necessary to improve the generalisability of the proposed model of operational capability development.