CHAPTER ONE
INTRODUCTION

The current complex environment demands organisations to adapt and respond in multiple ways to create competitive advantage and this has attracted a lot of interest among both researchers and practitioners (Winter 2003). A major study titled ‘Global dreams, local realities: the challenge of managing multinationals’ commissioned by United Kingdom Trade and Investment agency highlights the importance of practicing more decentralisation in organisations for greater flexibility and better customer orientation (The Economist Intelligence Unit 2006). The study covered 298 executives from different parts of the globe, who belong to organisations that have established operations in multiple countries. The changing market dynamics, new realities of business and the focus on customers have forced organisations to have a closer look at the periphery or the forefront of their operations, develop new business models and to evolve locally driven strategies. Procter and Gamble, a multinational organisation, which has been operating across the globe, restructured and grouped more than 200 of its product brands into seven major ‘global’ business units. These units operate in a decentralised manner taking cognisance of the regional realities specifically in product delivery and marketing. The British–Dutch company, Unilever is another organisation which is closer to customers and gives its regional managers all the authority to make business decisions in the regional markets. Unilever develops local strategies to address the unique characteristics of its customers. The recent restructuring at Wipro, the Indian software major, to create different vertical businesses with ‘mini chief executive officers’ as heads aims at shifting most of the decision-making to the markets from the headquarters. Fabindia, the flagship store for Indian handloom textiles and apparel, has recently created 3 community-owned companies to manage 17 community-owned clusters with nearly 40,000 shareholders as part of expansion of its domestic retail business exemplifies how the ground realities are influencing the creation of new business models and strategies.

Strategy creates sustainable competitive advantage for organisations. Traditional thinking in management supports the contention that new strategies evolve
from the centre of the organisations either by analysis and planning or as responses to environmental demands. But as seen, there has been an increasing organisational focus on the periphery to respond to the emerging complex business challenges. Managers tend to seek greater flexibility in decision making to respond to dynamic markets and the role of middle managers gains strategic importance as organisations get geographically distributed and become increasingly dynamic and complex (Huy 2002). According to Johnson and Huff (1998) managerial activities at the periphery can have substantial effects on strategising. Regner (2003) concurs with this idea and argues that competitive advantage does not arise out of the planning sessions or organisational resources at the centre but from the complexities at the periphery of the organisations shaped by varied contexts and activities. Consequently, it is imperative for organisations to understand how strategies originate and develop as well as how managers contribute to competitive advantage.

There is a major shift in the strategy debate towards a micro perspective on strategy and strategising. Researchers, in the area of strategy are calling for an emphasis on processes and practices which constitute the day today activities of organisational life and which contribute to strategic outcomes. Johnson, Melin and Whittington (2003) argue that the emphasis on micro activities is due to the changes in resource markets and the hypercompetitive environment. The current business environment is seeing a remarkable shift in the resource market in terms of the information abundance, labour mobility and wide market access to both investors and customers. In fluid resource markets like this, competitive advantage lies in inimitable micro processes and activities.

The concept of organisational capability has gained a lot of attention in the field of strategic management as their development and constant adaptation have substantial impact on the strategic prospects of organisations (Agarwal and Helfat 2009). In the resource based view of strategy, organisational capabilities have been identified as one major source for the development and sustenance of competitive advantage for organisations (Barney 1991; Peteraf 1993). These unique bundle of capabilities are valuable, rare, hard to substitute and hard to imitate and create more value in generating the advantage than the least efficient competitor (Peteraf and Barney 2003). According to RBV, organisation heterogeneity in resources and capabilities is responsible for building competitive advantage and rent differentials
(Amit and Schoemaker 1993; Oliver 1997). However, there is hardly any theoretical model that gives a clear explanation on how this heterogeneity arises. As capabilities adapt and change (Helfat and Peteraf 2003) and can offer explanation for competitive heterogeneity, it is important to examine the ways in which organisational capabilities emerge, develop and change over time and the resulting effects on organisation performance (Helfat 2000). Most of the theoretical or empirical works in the RBV is at the macro level (Bowman and Helfat 2001) and these researches suffer from a higher level of abstraction (Priem and Butler 2001). According to Johnson, Melin and Whittington (2003) ‘the resource based view will advance as it shifts towards a micro-perspective capable of capturing both details and activity’ (p.7)

Despite the fact that managerial role and the creation and development of capabilities are fundamental in the area of strategic management, there have been few efforts in strategy research to address this concern. While strategy process research has given insights on the roles of various actors in strategy making and on the importance of contextual influences, a little attention is given to understand the micro level activities, actors and practices involved in strategy creation (Whittington 2003). Even those researches that delved into specific strategic processes such as routines in decision making, resource allocation, and use of heuristics in fast decision making are less specific with respect to managerial activities and their situatedness (Jonsdon, Melin and Whittington 2003). The traditional strategic management research focused more on the planning and analysis practices and the role of top management and it hardly developed explanations regarding the managerial activities and creation and development of strategies or capabilities at the micro level. Researches focusing on micro activities of middle managers are more pertinent as organisations are increasingly focusing on their periphery for strategy making and development (Balogun and Johnson 2004). A detailed research study of the different actors, various activities at the micro level and their linkage with capability development can contribute to the understanding of strategy making at the periphery of the organisations.

Understanding the actors, managerial activities, strategy creation and development at the micro level can delineate those organisational activities and behaviours that create competitive advantage for organisations (Barney 1991). These activities and behaviours can be capabilities which are organisation specific and
developed over time through the interactions among organisations’ resources to achieve a desired objective (Amit and Schoemaker 1993). Studying micro activities such as how managers are involved as actors in the strategy making and how they contribute to the strategic goal provide ample opportunity to understand capability development that create competitive advantage for organisations. There is hardly any research attempted to address the dynamics involved in the development and change of organisational capabilities which provide competitive advantage (Cockburn, Henderson and Stern 2000). Even though researches in the area of organisational capability see a role for managerial agency in shaping capabilities (Eisenhardt and Martin 2000; Wang and Ahmed 2007), the managerial activities are undermined and placed in the background. Researchers attribute this to the existing focus of capabilities as collective entities that drive heterogeneity and linking this organisational level construct directly with organisational level effects (Winter 2003; Felin and Foss 2005). Focusing only at the organisational level for analysis may not reveal the basic sources of heterogeneity in knowledge and knowledge transfer (Salvato and Leif 2008) and how capabilities are created and evolved (Zollo and Winter 2002). Recent studies on organisational routines have also highlighted the importance of individual actors and how their activities have the potential to change these routines (Howard-Grenville 2005). This study advances our thinking beyond the currently prevailing view of capabilities as collective entities and looks specifically at the micro level managerial activities that contribute to the development of operational capabilities which drive improvement.

To be competitive in the current environmental uncertainties instead of relying on a specific set of capabilities, organisations need to improve the existing capabilities or develop new ones (Winter 2003). In this context, while focusing on the micro activities, it is pertinent to study how managers use different methodologies, tools or strategising practices for the development of capabilities. Research shows that the kind of tools and the way they are used by managers primarily depend on their innate properties and also on how they are operationalised in practice to address specific challenges (Weick 1995; Gunn and Williams 2007). According to Whittington (2003) one of the critical questions to be answered is about the tools and techniques and their use in managerial practice by the agency. Since the use of strategising practices have been generally studied independently of the context of their practice (Jarratt and Stiles
the focus was more on the strategy process, form and content (Johnson, Melin and Whittington 2003) and less on the interaction between practice and strategy knowledge. *In situ* studies that focus on understanding more about the interaction between strategising practices, actors, strategic initiative and the strategic goal can contribute to developing new insights into not only the methodology and the use of strategic tools but the managerial activities in the context of capability development. The present study is an effort in that direction. This research also aims to understand how managers engage with strategising practices as they involve in capability development.

This research focuses on explaining the managerial agency, what they do in relation to micro level activities and how they are consequential for realising strategic goals. This research proposes to use an activity based view to study capability development which is conceived within the strategy as practice approach. The emerging field of strategy as practice approach explores micro level managerial activities in organisations that contribute to strategic outcomes. This approach can provide insight into the micro-activities of agents through which capabilities are created and developed (Regner 2008). The perspective that capabilities are foundational components which can drive competitive advantage for organisations collapses the dichotomy of thinking and doing as these become reciprocal and iterative at different levels of the organisations (Bitar and Hafsi 2007). Strategy as practice approach focuses on the role of heterogeneous agents at various levels of the organisation (Balogun and Johnson 2004; Jarzabkowski, Balogun and Seidl 2007) and stakeholders who are both internal and external to the organisation (Mantere 2005). Johnson, Melin and Whittington (2003) argue for an activity based view of the strategy as practice approach as it focuses on the micro activities and investigates what is actually done and by whom. Activity based view allows the exploration of the centrality of managerial agency within the notion of organisational activities and the complexity of various organisational processes. Apart from linking macro level outcomes with micro level explanations, the activity based view can also provide immense opportunity to translate micro level research findings into actionable guidance to managerial agency (Johnson, Melin and Whittington ibid.)
**Research Problem:**

The present study focuses at the micro level of two select organisations to develop a closer understanding of the managerial activities, the organisational contexts and the capability development that create competitive advantage for these organisations. More specifically, the study intends to understand the individual managerial activities including strategising practices through which the organisations realise the creation and development of the identified operational capabilities that contribute to strategic goals.

In view of the above discussion, the general research problem of the study is proposed as ‘how do micro level managerial activities in organisations describe the development of operational capabilities that drive improvement?’

The general research problem will be operationalised into pertinent research questions after the theoretical discussion in the next chapter. This inductive study will propose a set of bold conjectures at the end to address the general research problem.

**Personal Inspiration:**

There has been a growing debate about relating academic research with the practice of management. According to Huff (2000) the unprecedented knowledge explosion in organisations poses major challenges to the current modes of management teaching and research. In terms of management research the debate concerns about its relevance to the practice of management (Pfeffer and Sutton 1999; Aram and Salipante 2003). In the area of strategic management, researches have a macro focus and are quite remote from the managers who manage activities at the micro level. It is relevant to understand and highlight what these organisational actors are doing at the micro level and how it contributes to the competitive advantage of organisations. This study gave the researcher an opportunity to be closer to the knowledge production, to collect rich data and through iteration and abstraction put forward bold conjectures in the area of capability development. The findings of this study can be of substantial use to both academics and practitioners to base their thinking and actions. Effort has been made to narrow down the academic-practitioner gap and make the study desirable by choosing a relevant area for the research and by practicing methodological rigour. Needless to say, for the researcher,
the experience and knowledge gained through this research can add tremendous value to the students in the classroom and specifically towards the individual and group conferences conducted as part of their field work process.