

Business schools need to focus more clearly on their dynamic capabilities in order to re-invigorate and re-develop themselves and their students.
By **Howard Thomas**, **Peter Lorange** and **Jagdish Sheth**

DYNAMIC CAPABILITIES & THE BUSINESS SCHOOL OF THE FUTURE

If business schools are to be persuaded to embrace the strategic management concept of dynamic capabilities (which we believe they need to do), two perspectives are involved:

First, a review of the most relevant, appropriate and useful capabilities and qualities that management educators should develop in their students. These capabilities (also known as “core competences” or “strategic assets”) represent an organisation’s capability to deploy resources, usually in combination, through organisational processes to achieve superior long-term performance.

Such capabilities may include expertise in the areas of leadership, strategy, innovation, people management and delivery/customer service. These represent different kinds of skills, organisational systems, routines and so on. The management educator must make choices regarding which to focus on and nurture in their students in order to produce impactful, practical managers.

Second, there needs to be a thorough examination of the dynamic capabilities of the business school itself, addressing effectively the challenges of impact, relevance and competition.

Dynamic capabilities for students and the curriculum

Management educators have long questioned whether there is “a theory of managing”, and whether the necessary capabilities and qualities that should be developed in their students are clearly understood.

Basing our analysis on Henry Mintzberg’s 10 managerial roles, there are clusters of interpersonal, informational and decisional skills. Reinterpreting these, it is argued that management education should increasingly embrace a cross-disciplinary, holistic and interactive philosophy that covers:

- the intellectual skills of analysis, criticism and synthesis (advocated by Cardinal Newman and other proponents of liberal education)
- the study of the domain of management knowledge, (ie knowledge skills about the structure and functioning of organisations, including process skills about the interactions and interfaces between the different functions, for example marketing, finance and so on)
- the range of Mintzberg’s interpersonal skills, including imagination, vision and leadership capabilities
- the multi-disciplinary nature of the managerial skill set required to develop the broader skills of global and cultural intelligence. This includes the need to be sensitive to ethical and socio-cultural differences and the adoption of a holistic view of the enterprise in global networks

The challenge for business schools is to produce students who have the skills, flexibility and training to compete in the new economy defined by globalisation, social responsibility and technological change.



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Many capability models seek to identify and assess key managerial capabilities. In practical terms, a full range of capabilities (the exact balance will vary between organisations) would involve a combination of effective, efficient and reliable current operations (ie meeting delivery and efficiency targets), the ability to develop evidence-based, implementable policies and the more dynamic capabilities such as:

- continuous improvement in effectiveness (as perceived by the customer/citizen) and efficiency
- more robust systems and processes and improved risk management to reduce the likelihood of future crises
- a more flexible, adaptive organisational culture and systems, seeking both to improve the response if a crisis does occur and to support and deliver new or reprioritised policies
- the ability to deliver more radical innovations, increasingly in collaboration with other organisations (delivery or alliance partners, for example)

Most capability models focus primarily on what are usually recognised as the most crucial areas of capability: leadership, strategy and delivery (performance). These managerial capabilities include:

Leadership

The ability of leaders to:

- envision, frame and communicate the big picture and be committed to working corporately, across boundaries and organisations, to deliver the right strategic outcomes
- be a role model, promote collaborative teamwork, foster innovation and creativity, and reflect on how to improve and drive the development of others
- lead others through the complexities of change by creating a shared vision of the future that all can understand and help deliver
- be open, honest and courageous and not flinch from delivering tough messages to colleagues
- pose tough questions and encourage feedback and discussion about their resolution

Thus strong and effective leaders excel at:

- setting direction, intent and vision
- igniting passion, pace and drive
- taking responsibility for leading organisational change
- building organisational capabilities

The leadership area thus focuses primarily on managerial and problem-framing skills. Creating strong organisational performance and delivery is also an important leadership outcome from a balanced scorecard viewpoint.



Strategy

Strategy is a contested concept in the literature but is here defined as the ability of an organisation to:

- optimise outcomes in support of the organisation's objectives within the constraints of time and resources
- make choices about what is best offered in terms of products and services and to whom, and through which processes and which partners in order to create public and customer value
- act upon these choices

Thus strategy involves:

- a focus on outcomes
- basing choices on evidence
- building a common purpose

Especially important are problem identification, policy development, strategic prioritisation and so on. Thus a broad set of people in the organisation and not just the top management team need to be involved in the gathering of evidence and analysis of options.

Performance delivery

Performance delivery is defined as:

- the ability of the leadership team to lead the implementation of agreed strategy through the collective action of a network of people and organisations

This involves the need to:

- formulate plans, assign resources and prioritise goals
- develop clear roles, responsibilities and business models
- manage performance

The performance delivery capabilities of the top management team involve issues of performance management, problem solving and managing delivery across business units. The resulting higher-level capability judgements, however, may require insights and evidence from an even wider set of participants including those at the centre, various delivery and distribution channels, and so forth.





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On balance, existing capability models are seen to be a good starting point for assessing key strategic execution skills. The focus on leadership, strategy and delivery capabilities sets out clearly the organisational change agenda.

The models may also help to identify common themes and capability gaps across organisations in areas such as resource utilisation, talent management and delivery/outcome assessment. Nevertheless, the question remains as to whether identifying common capability gaps will subsequently lead to the development of dynamic capabilities.

David Teece, a renowned strategy professor at UC Berkeley in the US, believes the dynamic capabilities perspective with its emphasis on managing the “soft assets” needed for orchestrating resources inside and outside the firm can provide a framework for business school curricula. He suggests that the interactive aspects of managing across functions and the wider business ecosystem should be recognised and that three key elements (or clusters) of dynamic capabilities should form the anchors for a new curriculum.

These three clusters are:

- **sensing** – the identification and assessment of a business opportunity (involving problem framing, opportunity recognition and definition, and experimentation)
- **seizing** – the mobilisation of resources to address an opportunity and capture value from doing so (involving making choices about revenue/business models, idea valuation, and innovation and risk appetite)
- **transforming** – continued renewal (involving executing through managing ambiguity, conflict and governance mechanisms) for transformational change

Leadership and dynamic capabilities

But Teece believes that dynamic capability development also requires strong innovative and courageous leadership. In a *Financial Times* column (Oct 24, 2010) UC Berkeley Dean Richard Lyons argued that leading in complex environments characterised by fast-paced technological change and global economic uncertainty requires what the sociologist J D Thompson described as “inspirational leadership”.

This concept was reframed during a major curriculum revision at UC Berkeley by the introduction of the archetype of a “path-bending” leader; that is, one who transitions from a philosophy of incremental adaption to a more innovative, anticipatory strategic leadership.

Lyons argues that “path-bending leaders are not just CEOs but people working at all levels in all kinds of organisations. Path-bending leaders need to know the fundamentals, such as problem framing, experimentation, influence without authority, managing ambiguity and other capabilities”.

In essence, path-bending leaders need to have courage and capabilities that produce “innovating” rather than “adaptive” behaviours.

Some emerging dynamic capabilities of the business school of the future

It is also useful to examine the emerging dynamic capability requirements for the business school of the future. Of particular interest are:

- the identification of relevant dynamic capabilities to attract and develop greater differentiation among faculty members so as to better address pressures for relevance and impact
- the importance of developing capabilities to monitor new competitors and to respond to these competitive challenges
- dynamic capabilities associated with future funding and fund-raising requirements given the diminishing willingness of the government sector to fund business schools and the fear of tighter economic situations. Both corporations and students are likely to have to contribute more

As a result, the following might occur:

Greater faculty differentiation

There is likely to be a need for an increasingly diverse and more practically oriented faculty to meet increasing demands from business. Thus there will be a demand for faculty members with classical academic training (PhD) and careers (full-time professor at an academic institution) plus more applied researchers, teaching practitioners and innovative business practitioners.

To achieve continuous improvement in efficiency and effectiveness, and also increase teaching quality, it might be necessary for schools to develop a range of dynamic capabilities including:

- creating an effective network of available “affiliated” faculty from both practice and from leading business schools
- developing an ability to attract and nurture “affiliated” faculty by integrating them into programme offerings and linking them to core faculty
- promoting continuous training in new pedagogical approaches involving both technology and experimental learning options
- revising its organisational culture to encompass the management of faculty “networks” of core and affiliated faculty using social and digital media
- stimulating the delivery of more radical innovations by demobilising old bureaucratic routines and fostering an open-minded attitude to experimentation in teaching methods. This might include changing the role of a professor from that of an orator, a communicator of knowledge in a “linear” fashion, to that of a “facilitator”



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New competitors

Clearly, new sources of competition are rapidly emerging, partly from the academic sector itself and partly from those who have been our customers (corporate universities for example) and partly as a result of new “blended” learning technologies. Business schools will have to monitor carefully and respond quickly to these competitive forces.

Various dynamic capabilities will need attention including, first, the concerns of customers and students over the efficiency, value, quality and effectiveness of our teaching. This calls for the following:

- the ability to deliver programmes in a more cost-efficient manner involving such capabilities as outsourcing, blended learning, simpler pedagogy and creative, innovative designs for programme learning effectiveness

Second, an understanding of the risks arising from new competition that require further capability development. This includes:

- the dynamic capability to respond more quickly as well as being willing to innovate so as to compete more effectively against well-funded “for profit” competition such as the Apollo group and Hult University. There needs to be an openness to new ideas and approaches rather than a stubborn sticking with the *status quo*
- the capability to offer customers and students value for money as well as a creative menu of options that provides appropriate personal customisation of learning
- the willingness to implement alternative instructional approaches such as Moocs and blended learning, which requires an organisational culture ready to embrace change and creatively adopt these new approaches.

Finances

The continuing tightness in funding models for business schools certainly requires innovative capabilities in designing new business models. For example, the Lorange Institute embraces a business model that involves both high-quality delivery focused on practical concerns with cost efficiencies brought about through lower fixed faculty costs (ie no core faculty but “networked” part-time faculty) and associated overheads. In Porter’s (1980) terms this is both a “cost leadership” and a creative differentiation strategy.

This is just one example of a model to address the concerns of Kai Peters and Howard Thomas (*Global Focus*, Volume 05, Issue 02, 2011) about the continued long-term sustainability of many current rather “luxurious” business school models.

Other innovative business models may adopt closer modes of collaboration involving creative co-sponsoring of specific research projects with corporate clients as well as other practical funding partnerships requiring deep immersion with corporate and public-sector organisations.

Further, the creative design of joint ventures, alliances and even mergers with both academic and managerial institutions clearly requires new capabilities. These include co-ordination abilities, open-mindedness, continued communication and an atmosphere of trust in order to deliver quality outputs at high performance levels across merger or alliance partners.

Mergers such as SKEMA in France and AALTO in Finland show how to achieve strategic change, appropriate financial synergies and better capacity utilisation.

There are many lessons to be learned. The way ahead is likely to prove tough. But business schools will have to respond.

Many of the ideas in this article are based on the authors’ recent book The Business School in the 21st Century, Cambridge University Press, 2013



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