Growing Businesses by Generating Genuine Business Opportunities: a review of recent thinking

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ABSTRACT *The short-term growth cycles experienced by many companies in the 1980s were largely followed by extensive downturns. During the 1990s many US and UK companies chose to cut costs and improve efficiencies to tackle the problem of increasing competition from just about everywhere. This paper discusses this emphasis on reducing costs and improving productivity and asks whether such a policy is an effective way of preparing a company for the future. While there is much agreement in the literature about the need to create business opportunities and ultimately new products, there is much less agreement over the types of activities companies should undertake to generate them. Following a review of the strategic and innovation management literatures, this paper provides a different conceptual approach to generating business opportunities. The paper closes with some observations on the limitations of too great an emphasis on efficiency and several specific areas of further research are identified.*

Introduction

As businesses enter the latter part of the 1990s and prepare for the next century, the need to cut costs and improve efficiencies continues to be at the centre of management thinking. This has been the accepted approach of many US and UK companies in tackling the problem of increasing competition. What is of concern is not the desire to cut costs but the apparent disregard of the damage that such policies may bring about. Indeed, such an approach may have implications for the company's ability to create new business opportunities for its future well-being. The emphasis on improving productivity and cutting costs appears to be relentless. Even as the economy grows, albeit slowly, companies continue to pursue a policy centred around cost reductions. The recent decision by 'Royal Insurance' and 'Sun Alliance' to merge is another example of senior management's prerogative to reduce costs in order to compete rather than the generation of new business opportunities.

Strategies that focus on 're-design' and 're-engineering' are put forward when management is faced with the problem of ensuring its company's future ability to compete. Hamel & Prahalad (1994) suggest that 'such activities have more to do with shoring up today's businesses than building tomorrow's industries'. Indeed, while reducing costs and improving produc-

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tivity are necessary management activities in the short term, these strategies do not encourage the company to reach out for the future. Management needs to create new business opportunities to ensure the company is successful in the long term. This paper argues the need to raise the profile of creating genuine business opportunities *even* at the expense of reducing efficiency gains.

'Downsizing' and 'delayering' in pursuit of the leaner, flatter organisation may cut costs but they also lead to increased demands on each individual usually accompanied by an increased burden of additional activities. Hence, it becomes increasingly difficult for individuals to find time to reflect, a key component of double-loop learning models (Argyris, 1977; Cordey-Hayes *et al.*, 1995). There has been recent interest shown in concepts such as 'downshifting' whereby company managers trade in their 'high-powered' and stressful jobs in exchange for simpler jobs with lower rewards but improved quality of life. This trend may be a fall-out of the increasing demands being placed on each individual (Dominguez & Robin, 1993). Recent studies on modern performance-oriented incentives and performance-related pay, in particular, have suggested that the longer term effects of introducing such initiatives may be the erosion of the innovative capability of organisations (West & Fletcher, 1994). Many of the world's largest chemical companies such as Shell, Du-Pont and ICI have for many decades afforded their scientists a percentage of their time to work on projects they considered interesting and of future potential value. Concentrating rewards on results alone distorts the behaviour necessary for tackling complex, involved problems and disturbs the balance between short-term needs and long-term aims. Many companies frustrate the creativity of their employees with incentive schemes linked to short-term goals. In neglecting their creative activities, companies may seriously affect their ability to innovate. Indeed, West & Fletcher (1994) go on to say that performance-related pay is stifling innovation and organisations should get rid of it!

The British manufacturing sector is used as an example by Hamel & Prahalad (1994) to illustrate the theory that while efficiency and productivity are necessary for survival in the short term they are insufficient for survival in the long term. 'While Britain's financial press and government ministers praised Britain's manufacturing industry for improving efficiencies, British companies demonstrated scant ability to create new markets at home and abroad. In effect, British companies surrendered global market share.' This suggestion gained more credence in 1995 when, at that time the UK's remaining mass manufacturer of production cars, 'Rover', announced further reductions in its UK market share, to 11%, a fall of 20% over 20 years (Lorenz, 1995). This was clearly a significant factor in the eventual decision to sell Rover to BMW in 1996.

Business managers are acutely aware that companies do not compete on costs alone. Quality, performance, differentiation, branding and service are only some of the additional factors on which companies also compete and that companies have also to manage. It is, none the less, understandable why this should be the case; focusing attention on costs enables managers to produce noticeable results for the short term. The chief executive of BP Chemicals acknowledged recently that 'cost reduction is a miserable management job but conceptually it is easy' (Houlder, 1994).

It is necessary to look again at what delivers long-term success as opposed to short-term gains. A different conceptual approach is required. Managers should not be obsessed with cutting costs in a vain effort to compete with developing countries. They should be concentrating on utilising the organisational knowledge base to develop new products for the future. These are often termed 'high added-value products'. Senior managers need to reconsider their strategies to ensure they have activities in place that will facilitate creativity and ultimately realise new products in the future. In an area such as the management of innovation and the development of new products, where uncertainty is much greater than in other areas, it would be misleading to suggest that managers can in some way be taught how to manage innovation successfully. But this does not mean it is all a matter of fortune and chance. A realistic approach would be to try and improve managers' understanding of the processes involved in developing genuine business opportunities, which in turn may enhance their ability to make better decisions. There is therefore a need for a conceptual approach to begin to uncover these processes at work.

Competing in the Future: a review of the strategic management literature

At the beginning of this century management thinking was dominated by scientific management, in particular the writings of F. W. Taylor (1947). This approach to the management of resources and organisations was largely responsible for the division of labour and the production line or 'Fordist' approach. Control was top-down; the man with the pen telling the man with the screwdriver what to make. Control was achieved on the basis of raw positional power. Successful companies, however, realised that respect was never achieved in the same way. The creation of new products was dominated by new scientific developments—the so-called 'technology-push' approach. As the century moved through its mid-term the behaviourists were to dominate management thinking and the importance of team work and improved working conditions received much greater attention (Maslow, 1954; Drucker, 1954). Increasing competition during the 1950s led to the increasing influence of the strategists. Competition issues also raised the importance of market knowledge and the creation of new opportunities was dominated by 'market-pull' approaches to new product development.

The idea that sustained organisational success was the result of extensive, logical, sequential planning mechanisms that continued to dominate strategic management thinking in the 1950s and 1960s. Chandler's (1962) influential work popularised the notion of strategy and strategic planners became commonplace within multinational organisations. The sequential view was criticised by Lindblom (1959) who argued that it was unrealistic to suggest that managers could always manage change through logical, sequential planning mechanisms. This led to an evolutionary view of management whereby the process involves continual iteration over time between the various parts of the organisation until a strategy emerges. Mintzberg's (1978) historical studies of organisations showed the importance of incremental change. Similarly Quinn (1978) proposed a view of decision making based upon learning from experience through which strategies emerge over time. This 'logical incrementalism' accommodates an interactive model of

innovation whereby market considerations interact with the science and technology base of the organisation.

During the latter stages of this century, management practice has been dominated by accounting perspectives. There has been a perceived need to cut costs, particularly labour costs. Layers of management were removed as flatter organisational structures became fashionable. Management techniques such as total quality management (TQM) and business process re-engineering (BPR) received even more attention, especially from the management consultants. The emphasis, however, remained on cutting costs and on leaner organisations.

The literature on strategic management has evolved into two main streams. The dominant stream, in terms of quantity, is the 'content' view of strategy. This body of literature is dominated by industrial economics and marketing and is concerned mainly with the content of strategies formed through analysis of the external environment. In particular, it is concerned with strategic analysis of what should be done at different levels or units of analysis (see, for example, Ansoff, 1968; Abernathy & Utterback, 1988; Porter, 1985; Roussel *et al.*, 1991). It is argued that successful strategies can be identified and selected in advance to deliver success. A major criticism of the 'content' view of strategy is that it adopts a static approach and neglects the context within which, and the processes whereby, strategies are generated, chosen and implemented. In practice, formulation of strategy is often not clearly defined.

The 'content' approach has also been used to identify internal factors that are seen as necessary for success (Van de Ven, 1986; Buzzell & Gale, 1987; Rothwell, 1992). This body of literature is responsible for identifying key individuals in the innovation process such as 'product champions', 'gatekeepers' and 'business sponsors'. Critics of the 'content' approach argue that the use of such key individuals can be said to be necessary but insufficient in itself to ensure continued innovative success. Rather, it is the activities performed by these individuals which should be the focus of management studies. This is the approach used by the 'process' theorists and represents the other main body of literature within strategic management. 'Process theory' is concerned mainly with the 'process' of managing change. From an external perspective it concentrates on uncovering how companies compete. It is within this stream that we find the themes of inter-organisational networks, game theory and resource-dependency (Ansoff, 1982; Grindley, 1991). In analysing how strategies are implemented from within, research has uncovered a series of activities that together represent a process explaining how an outcome is achieved (Child, 1974; Burgleman, 1983; Pavitt, 1990; Trott, 1993). For a comprehensive review of the different schools of thought in strategic management see Venkatraman & Camillus (1984), Van de ven (1992) and Kay (1993).

Uncovering Innovative Capability

The field of strategic management is characterised by a wide variety of conceptual frameworks and paradigms, including: experience curves, growth-share matrices, industry structures, and game theory. There has, however, been limited research that attempts to address both the external

and internal considerations. Arguably, the emerging theory within strategic management, the *dynamic competence based theory of the firm*, attempts to address this limitation. The new theory sees both the external and internal environments as dynamic. Whilst the external environment is constantly changing as different players manoeuvre themselves, a company's internal environment is also evolving. The management of this internal process of change together with an understanding of the changes in the external environment offers a more realistic explanation of the challenges facing senior management. In addition, firms are seen as possessing different qualities (Nelson, 1991) allowing them to compete on the basis of competencies and capabilities (Tushman & Anderson, 1986; Nelson & Winter, 1982; Prahalad & Hamel, 1990; Pavitt, 1990; Cohen & Levinthal, 1990; Seaton & Cordey-Hayes, 1993; Heene & Sanchez, 1997). These papers present a related theoretical view that centres around an organisation's ability to develop specific capabilities. These capabilities tend to be dependent on the organisation's incremental and cumulative historical activities. In other words, a company's ability to compete in the future is dependent on its past activities. This view of an organisation's heritage is developed by Cohen & Levinthal (1990), who put forward the notion of 'absorptive capacity', in the context of the management of research and development.

In their study of the American manufacturing sector, Cohen & Levinthal (1990) reconceptualise the traditional role of R&D investment to that of simply being a factor aimed at creating specific innovations. They see R&D expenditure as an investment in an organisation's 'absorptive capacity'. They argue that an organisation's ability to evaluate and utilise external knowledge is related to its prior knowledge and expertise and that this prior knowledge is, in turn, driven by prior R&D investment. Similarly, the notion of 'receptivity' advocated by Seaton & Cordey-Hayes (1993) is defined as an organisation's overall ability to be aware of, to identify and to take effective advantage of technology. This is explored in Trott & Cordey-Hayes (1996) who present a process model of receptivity showing the activities necessary for innovation to occur. The issue of an organisation's capacity to acquire knowledge was addressed by Nelson & Winter (1982) who emphasised the importance of 'innovative routines'. They argue that the practised routines that are built into the organisation define a set of competencies that the organisation is capable of doing confidently. These routines are referred to as an organisation's core capabilities. It is important to note that the notion of routines here does not necessarily imply a mechanistic, bureaucratic, organisational form. The potential for controversy is resolved by Teece *et al.* (1986) who distinguish between 'static routines', which refer to the capability to replicate previously performed tasks and 'dynamic routines' which enable a firm to develop new competencies. Indeed, 'dynamic organisational routines' are very often those activities that are not easily identifiable and may be dominated by tacit knowledge. The point here is that over long periods of time organisations build up a body of knowledge and skills through experience and learning-by-doing. In addition to these internal organisational processes, Kay (1993) suggests that the external linkages that a company has developed over time and the investment in this network of relationships (generated from its past activities) forms a distinctive competitive capability. Moreover, this can be transformed into competitive advantage when added

to distinctive capabilities such as technological ability and marketing knowledge.

A Process of Knowledge Accumulation and Application in Innovative Firms

The accumulation of knowledge and the effective assimilation and application of this knowledge is what appears to distinguish innovative firms from their less successful counterparts. This capability is popularly referred to in the management literature as 'organisational learning'. However, it is the internal processes that lead to this ability that need to be the focus of management attention. One would expect that a review of the organisational innovation literature would help in revealing these activities. However, this body of literature tends to use a structural approach when exploring the ability of organisations to innovate. Hence, discussions are dominated by how organisational structures and management strategies affect an organisation's ability to innovate. For example, Burns & Stalker (1961) supported the view that flexible organisational firms will sustain innovation but bureaucratic firms will not. Ansoff (1968) suggests the need for forecasting and environmental analysis techniques at the strategic management level. Rothwell (1977) discusses the importance of key individuals in the process; in this case, the business innovator. Daft (1982) emphasises the need for stable knowledge bases enhanced by stable communication. Rothwell (1992) offers a list of 'critical success factors' necessary for successful industrial innovation, including: company interaction with technology sources and markets; innovation as strategy and internal control systems. All of these studies emphasise the presence or absence of certain factors rather than describing the actual activities or processes that are required by them. Recent studies by Japanese scholars on the development of new products have argued that Western managers fail to understand the nature and concept of organisational knowledge and consequently they are unable to manage it—let alone exploit it. This, they say, is because Western management has been indoctrinated by the writings of Frederick Taylor (1947) to Herbert Simon (1957) who viewed the organisation as merely a machine to process information. Following this through, the only useful knowledge is formal and systematic; hard data and codified procedures (Nonaka, 1991; Nonaka & Takeuchi, 1995). Yet it has been shown that to develop competencies, companies have to uncover and understand their 'dynamic routines' which will invariably be built on tacit knowledge.

Defining precisely what processes are required on the part of the organisation and the individuals within it are not explored by any of the above authors. So while there is some conformity on the importance of the accumulation of organisational knowledge and capabilities, and the importance of external linkages, there is little written about the processes required by the organisation to create business opportunities. The following section offers a different conceptual approach for examining how companies can generate new business opportunities.

Utilising the Knowledge Base of the Firm to Generate Genuine Business Opportunities: a conceptual approach

In examining ways to generate new opportunities, the focus here has been to

recognise the importance of external organisational linkages (often called networks) as sources of knowledge and the process of associating these with the internal knowledge base of the organisation. It is this notion (shown diagramatically in Figure 1) that helps to identify a different approach to the generation of new business opportunities. It is important to understand that the framework in Figure 1 is not intended to be an operational model of the process of creating business opportunities. Rather, it is a conceptual framework or vantage point from which to explore the issues involved.

Figure 1 highlights the prominent role played by the knowledge base of the company. We need to view this as a dynamic entity made up of skills, know-how and expertise, much of which is tacit, that is difficult to articulate and capture, but is none the less present in all organisations. At the centre of the framework in Figure 1 is the process of association (Trott, 1993). This is where technical opportunities are matched with commercial opportunities to form genuine business opportunities. A genuine business opportunity comprises a commercial opportunity[1] and a technical opportunity.[2] This combination must be aligned with existing commercial and technical competencies to ensure the company genuinely has the ability to turn the opportunity into a product (even if it decides not to). The extent of associations made will be dependent on the amount of internal scanning being undertaken. Internal scanning involves the search and acquisition of technical and commercial knowledge within the company that can be associated to form genuine business opportunities. This highlights the importance of a certain amount of slack in the system to allow for this important activity to occur. The breadth of ideas received, however, will depend largely on the current projects being undertaken. In other words, the current portfolio of research projects will dictate areas of most interest to research scientists and project managers. This will have a significant influence on the degree of receptivity with respect to new ideas discussed. The likelihood of technical ideas outside these areas being accepted is limited. This situation is mirrored on the commercial side. Hence, the focus for business opportunities is determined largely by current projects. However, a much wider range of technical and commercial ideas will invariably enter the organisation. This will be dependent on the knowledge base of the organisation, which will almost always be broader than the current projects being undertaken. Once again this is shown diagramatically in the framework as the commercial knowledge base and the technological knowledge base. The breadth of external scanning will be dependent on the knowledge base of the organisation. This introduces a potential paradox; to evaluate technical or commercial information it is necessary to have a correspondingly competent technical or commercial ability. It is not a coincidence that the world's largest licencers are also some of the world's biggest spenders on technology development.

The conceptual framework detailed in Figure 1 may help to explain why creating genuine business opportunities (GBOs) is so difficult to achieve; for a wide range of activities needs to be in place in order for associations to be made. One company that seems not only to have recognised the importance of generating new business opportunities and new products but is also extremely successful in this practice is 'Rubbermaid'. 'Rubbermaid' is known widely in the USA for manufacturing a variety of plastic products, from trash cans to mail boxes. In the UK the company is currently not widely known.

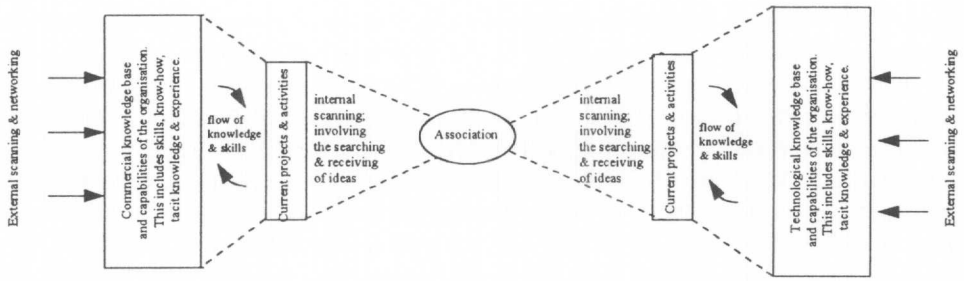

Figure 1. A conceptual framework for the development of genuine business opportunities.

However, a review of the Fortune 500 companies will reveal that the most respected company in 1994 and 1995 was 'Rubbermaid' (Robinson, 1997). The company has built its success on generating new products (at a rate of almost one a day) and in many ways its strategy is relatively straightforward. It is to examine a wide variety of existing products on the market and see to what extent they meet the customers' needs and in what ways Rubbermaid could improve the product. A host of ideas from drip-proof drinking bottles to vandal-proof mail boxes have provided 'Rubbermaid' with a stream of successful products. However, to simplify 'Rubbermaid's' formula for success fails to acknowledge the environment that the company has created. It has been successful where many other companies have failed. Rubbermaid has long recognised the value of its external linkages which include customers and suppliers. The company has developed a range of competencies based on the ability to capture opportunities from these linkages and to associate them with its knowledge base, generating business opportunities and new products (Farnham, 1994). The company has thus facilitated the creation of genuine business opportunities by increasing the richness of the information received in terms of detail and breadth.

It is necessary to counsel caution at this point because the process of turning these genuine business opportunities into commercial successes is one of the most long-standing and fundamental issues facing businesses. One does not have to look too hard within the literature to uncover examples of companies which have developed ideas and identified business opportunities and yet failed to turn these into commercial success. Xerox, which over the years has created numerous new product ideas (including much of the technology behind the icon-driven computer operating system, known today as a 'windows' environment), did not recognise the potential of the opportunities it created and did not benefit financially from their commercial success. It is significant to note, however, that the company has continued to generate other business opportunities for itself with resulting commercial success while others have not.

Discussion

The constant creation of genuine business opportunities may be described as a 'knowledge acquisition strategy' that needs to be an implicit component of an organisation's overall long-term survival. A large organisation's variety

of activities provides it with an additional competitive advantage: not only does it have depth of knowledge and competence in certain technical and commercial areas, but also a diversity of knowledge. The evolution and survival of such organisations, however, will rest on their ability to capture and mobilise the learning capabilities within the organisation.

Businesses are constantly being reminded of the speed at which markets now change. Product life cycles have become much shorter. Hence, organisations are having to change and adapt rapidly in order to compete. Such changes have implications for product development managers and research managers within industrial organisations. The traditional role of a laboratory research scientist as a world expert in a particular field, using a convergent, narrow-focus approach, is being replaced by researchers who can offer additional attributes. These include an ability to interact with customers, thereby increasing their awareness of specific customer needs and market changes, the activities of competitors and the larger environment.

There is still a need for research scientists who are able to focus narrowly and take a reductionist approach. This paper, however, has highlighted the value of divergent activities such as scanning and networking. Research managers need to ensure that scientists have a mix of *convergent* skills to enable them to focus on a specific area and *divergent* skills such as technology scanning that will make them 'receptive' to fresh new ideas.

This apparent paradox mirrors another internal 'tension'. Organisations require both 'static routines', necessary for the efficient manufacture, marketing and distribution of products as well as 'dynamic routines' (exploratory innovative behaviour) necessary to develop new linkages and associations leading to new business opportunities. Only careful management of this tension will lead to success in both the short and long term.

Senior managers need to ensure that they encourage their managers to generate genuine business opportunities as well as rewarding efficiencies. Current management thinking places too much emphasis on short-term business goals with redundancy or dismissal often the price of failure. Concerns about the short-term future prosperity of the business lead to a negative influence on the performance of business teams, especially in the area of generating business opportunities (Trott, 1993). The emphasis on efficiency has tended to relegate the need for the generation of new business opportunities. Organisations need to re-evaluate their *modus operandi*. The extent to which companies are equipped with efficient operations, but hindered by their inability to create new opportunities and products to compete in the future, is an area worthy of further research.

Further investigation, however, is required in order to uncover the range and extent of the operational activities necessary to generate these opportunities. In particular, the notion of 'association' needs to be examined further to see whether there are particular activities that facilitate or hinder this process. In addition, the processes involved in capturing and mobilising knowledge within the organisation needs to be explored further.

It has long been accepted that accountancy has proved beneficial in reviewing where companies go wrong but ineffective in identifying the new products of tomorrow, emerging markets and interesting technology. Today, this is even more significant. When one considers for a moment the assets of a company like 'Microsoft', few of these can be identified simply on a balance

sheet. Its intellectual assets and capabilities are embedded in its people and organisational routines, in what it knows and what it can do. Moreover, traditional measures of an organisation's intellectual property such as patents and copyright also fail to capture these organisational capabilities.

Britain's industrial heritage should serve as a reminder that technological innovation is a key factor in competitiveness and long-term economic performance and growth. Its importance has not diminished with time. In many of today's growth industries such as computer software, telecommunications and pharmaceuticals labour costs usually account for no more than 10% of the final cost of the product. Increasingly, the growth industries of tomorrow will be 'knowledge-based industries' where manufacturing or the provision of services involves high added value processes.

This paper has suggested that the ability to generate business opportunities is largely dependent on cumulative knowledge built up over many years of experience. Contrary to the model used by economists, innovative ability cannot be simply bought and sold. Hence, the need to remind senior managers of the unwitting harm that may be inflicted on the ability of the organisation to survive in the long term if creativity continues to be underemphasised. This paper has put forward a different conceptual approach for how companies can view the innovation process in general and the creation of business opportunities in particular.

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Notes

1. A commercial opportunity is defined as involving essentially commercial knowledge such as the identification of a new market, improving distribution through a strategic alliance, effective pricing strategies, etc.
2. A technical opportunity is defined as involving essentially technical knowledge such as the improvement in performance of a new material, the identification of an interesting new patent, the development of a new manufacturing process, etc.

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