

Praise for *25 Need-to-Know MBA Models*

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Stephen Martin, Director General, Institute of Directors

‘This book is an essential tool for anyone working in management today. It explains in clear terms the important management models and techniques that are widely used, and what management need to do next if they want to learn more.’

**Shinsuke Toda, Managing Director, Head of Europe
Department, Mizuho Bank**

‘Captures brilliantly the key ways businesses think and act in an easy-to-read book. Complex business frameworks made easy to understand, with helpful tips and guidance.’

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25 need-to-know MBA models



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25 need-to-know MBA models

Julian Birkinshaw and Ken Mark



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Introduction

There are many models and frameworks in use in the business world today, and it is hard to keep track of them all. We wrote this book to help you make sense of the most important of these models – to understand where they came from, when you might use them, how to use them and what are their biggest benefits and weaknesses.

The title *25 need-to-know MBA models* reflects the fact that these models are all taught to students at business schools seeking to get an MBA (Masters in Business Administration). The MBA is a generalist degree – in other words, it is designed to provide students with a broad grounding in all the key aspects of business. This book reflects the breadth of the MBA. It has five sections, each one corresponding to a typical core course in the first year of an MBA programme. While we only discuss five models in each section, we also make reference to other important models, to give you a flavour of the scope of the materials covered in such a core course.

Who should read this book? If you are doing an MBA, this is an easy-to-access summary of the key models you are being taught, with useful pointers about how they should be applied, and follow-up readings if you want to know more.

If you are an executive or a manager who didn't go to business school, the book is a valuable reference guide. If your subordinates or colleagues start throwing out unfamiliar terms they picked up at a business school, you will want to know what they are talking about. Most of the concepts in the world of business are actually pretty straightforward – this book provides enough details on twenty-five of the most important ones to get you up to speed.

Finally, the book should also be of interest to prospective MBA students, who are studying in advance of entering an MBA programme or who are fascinated by the prospect of doing an MBA. If the models and concepts described here look valuable and interesting, then you should take the plunge and sign up for a programme. While we have covered the ‘need-to-know’ models here, it goes without saying that you learn vastly more in the course of an MBA programme than could ever be picked up in a single text.

What is included?

In researching this book, we reviewed the course materials at the business schools we work with, or where we have good friends (e.g. London Business School, Richard Ivey School of Business INSEAD, Wharton, Harvard), and we sought to identify the most important models, frameworks and concepts that students were taught during their ‘core’ courses. (In most programmes, the core courses are followed by a range of ‘elective’ courses that allow students to specialise.) We also market-tested our initial selection with a group of students and graduates, by asking them how important they thought each model was. This allowed us to fine-tune our choices.

While our selection process was careful, the final list of models is still highly subjective. It is a bit like choosing the most influential people in history, or the best movies of the last twenty years: there is some data you can use to support your choices, but ultimately there is a lot of judgment involved, and we wouldn’t expect anyone else to agree 100 per cent with the list we finally settled on. One important criterion we used, for example, was deliberately to include a mix of ‘classic’ and ‘contemporary’ models in each section, so you can develop some perspective on the evolution of the subject matter.

The book is organised into five parts, corresponding to five of the most important areas or topics that are taught in an MBA programme. Each section includes the five ‘need-to-know’ models, arranged in alphabetical order, and at the beginning of each section

we have written a brief overview to explain how the models we chose fit together. Of course, there are many important topics in each of these areas that we don't have space to cover. The further readings listed at the end of each chapter provide useful pointers for where to get additional information.

We will be the first to acknowledge that our chosen structure is a very traditional way of looking at the business world. Some business schools have sought to develop cross-disciplinary or integrative approaches to their teaching, for example by focusing on real-world business challenges. But they are in the minority – the vast majority of business schools still organise their courses as we have done here.

To keep the book to a reasonable length, we have had to make some tough choices. We have not included any models that describe the 'macro' business environment, whether in terms of economic theory, government policy, law, or trade regulations. We have steered clear of basic statistical models and tools, and we have spent relatively little time on individual-level psychological issues, or on the challenges of starting a business from scratch. We also made the tricky decision not to have sections on accounting or operations management. These are important topics, but in our experience they are becoming less central to the curriculum in business schools, and decreasing numbers of MBA students are moving into jobs in these areas. As a general rule, we have focused on issues that are the concern of the firm or business as a whole. Ultimately, these are things that a 'general manager' in a firm needs to know.

What is a 'model'?

We have used the term 'model' very loosely in this book to include frameworks, concepts, models and tools. We decided that it was more important to cover the key ideas that MBA students are exposed to in their core courses, than to stick narrowly to a dictionary definition. For example, 'open innovation' is an important

concept in the world of innovation and strategy today, so we have a chapter on it, even though it isn't a model as such.

Technically speaking, a *model* is a simplified version of something more complex – it helps you understand a specific phenomenon by identifying its key elements. A *framework* is a way of structuring your understanding of a multi-faceted phenomenon, often by pulling together a number of diverse elements. A *concept* is a high-level idea, a way of looking at the world that provides new insight. And a *tool* is a practical way of applying a body of thinking to address a particular task. These distinctions are of academic interest only; what matters is that this book includes what we believe to be the most important models, frameworks, concepts and tools in each area.

How you should read this book

For most readers, this is primarily a reference book – something to dip into, to remind you what a particular model is for, or to help you understand a concept you haven't heard of before. For others, it might be a way to get up to speed on an entire subject. If you are moving into a marketing role, for example, it would be very useful to read up on the five marketing models included here to make sure you understand the lie of the land. There may also be readers who are entering the business world for the first time, in which case reading the whole book from start to finish would make sense.

Julian Birkinshaw

Ken Mark

Design thinking

Design thinking is an approach to innovation that blends traditional rational analysis with intuitive originality. Rather than focusing on developing clever new technologies, or on hoping that someone has a ‘eureka’ moment, design thinking is an approach that involves iterating between these two modes of thinking. It is characterised by experimentation and rapid prototyping, rather than careful strategic planning.

When to use it

- To understand how innovations emerge in a business setting.
- To develop new products and services.
- To create a more experimental and innovative culture in your firm.

Origins

The notion of design thinking has become extremely popular in the business world over the last decade. It has roots in two different bodies of work. One is the pioneering work done by Nobel Laureate Herbert Simon on ‘artificial intelligence’. In his 1969 book, *The Sciences of the Artificial*, he wrote that ‘engineering, medicine, business, architecture and painting are concerned not with the

necessary but with the contingent – not with how things are but how they might be – in short, with design’. The other is the world of industrial design and design engineering, in which designers sought to create buildings, town plans and products that blended form and function.

Design thinking was brought into the business world in the 1990s. IDEO, a California-based industrial design firm led by David Kelley, was one of the first proponents of this methodology. Kelley went on to lead the ‘D School’ (design school) at Stanford University. More recently, the idea has been formalised and popularised further through books by Tim Brown, current CEO of IDEO, and Roger Martin, former Dean of the Rotman School of Business.

Design thinking builds on many established management tools, such as brainstorming, user-focused innovation and rapid prototyping. It offers a methodology for bringing these various tools together.

What it is

Design thinking is an approach to innovation that matches people’s needs with what is technologically feasible and what is viable as a business strategy. It can be viewed as a solution-focused approach to innovation, in that it seeks to address an overall goal rather than solve a specific problem.

Design thinking differs from established ways of thinking in some important ways. The analytical scientific method, for example, begins with defining all the parameters of a problem in order to create a solution, whereas design thinking starts with a point of view on the possible solution. Critical thinking involves ‘breaking down’ ideas, while design thinking is about ‘building up’ ideas. Moreover, rather than using traditional inductive or deductive reasoning, design thinking is often associated with *abductive* reasoning. This is a way of hypothesising about what *could* be, rather than focusing on what *is*.

Design thinking employs a different methodology to traditional innovation approaches (as described below). It also requires a different type of individual. Design thinkers need to be:

- **empathic** – to see the world through the eyes of others;
- **optimistic** – to assume that a better solution always exists;
- **experimental** – to have a desire to try out new ideas and to see many of them fail; and
- **collaborative** – to be happy working with others and not taking personal credit for results.

How to use it

You can apply design thinking through a four-step process:

- 1 **Define the problem:** This sounds simple, but usually it requires quite a lot of work to get to a clear statement of the problem that needs addressing. For example, if you work for a university and you are getting feedback that the lectures are poor, you might conclude that the problem is (a) poor-quality lecturers, who need more training, or (b) the lecture rooms are badly designed and need a refit. However, a design-led approach to this problem would be to look at the bigger picture, and ask what the purpose of the lectures is in the first place. This reorients the analysis towards providing students with a high-quality education, which may involve fewer traditional lectures. For example, it might need more online learning, or small-group tutorials.

To define the problem, you often have to suspend your views about what is needed, and instead pursue an ethnographic approach – for example, observing users of your products or services, and identifying the problems or issues they face. Another approach is to use relentless questioning, as would a small child, by asking ‘why?’ multiple times until the simple answers are behind you and the true issues are revealed.

- 2 Create and consider many options:** Even talented teams fall into ingrained patterns of thinking, which often means jumping to solutions quite quickly. Design thinking forces you to avoid such shortcuts. No matter how obvious the solution may seem, many options need to be created for consideration. This might mean working in small groups of competing teams, or deliberately building a highly diverse team.
- 3 Prototype, test and refine:** Out of this process, you typically end up with a handful of promising options. These ideas should all be pushed forward as quickly as possible, often using crude prototyping methods so that people can see how the idea might work in practice. There are usually several iterations in this step, as you go back and forth between what is possible and what your users need. Sometimes, this process reveals flaws in the original specification of the problem, in which case you have to go all the way back to the beginning.
- 4 Pick the winner and execute:** At this point, you should be sufficiently confident that the idea works and that you can commit the significant resources needed to execute it. You should also have established, at this stage, that the idea is commercially viable and technologically feasible.

Top practical tip

Design thinking is a way of looking at the world that is subtly different to the traditional approach. The methodology described above does not sound radically different to what people are used to, so you have to work very hard to remind participants in a design-led project what the points of difference really are. This means, first of all, spending a lot of time getting the problem definition correct and, second, being prepared to go through multiple iterations in coming up with a solution.

Top pitfall

Sometimes a design-led approach to innovation leads to elegant 'designs' that are well received by users and technologically feasible, but they fail to pass the test of commercial viability. These are the most difficult cases to deal with. Sometimes it is possible to redesign them sufficiently that they become commercial viable, but if this is not the case, then you must drop them.

Further reading

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