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# Management Update

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## **Corporate Strategy: A Manager's Guide**



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# Corporate Strategy: A Manager's Guide

*Strategy is on every company's agenda, and operating managers are expected to contribute. The first step: knowing what questions to ask*

**C**ORPORATE STRATEGY fires up both mind and mouth: for years business-school students (and their professors) have argued vehemently over how the railroads might have staved off decline, or how Honda engineered its successful entry into the U.S. motorcycle market (*see box, p. 3*). Once out of school and in the trenches, though, managers tend to forget strategy and apply themselves to the crisis of the day. After all, isn't strategy making up to the CEO and a few top execs?

Once, maybe. Today, not so much. Companies such as Electronic Data Systems have launched participatory strategic-planning programs involving thousands of employees. Influential consultants such as Gary Hamel urge CEOs to include "new voices"—younger managers and other newcomers—in the strategy-making process. Besides, every new-product or Internet initiative reflects a judgment about strategy, and not always top management's. Intel's middle managers gained fame some years back for pushing the company toward microprocessors when senior execs were still focused on the troubled memory-chip business. Sears and Whirlpool, among many others, have cordoned off new dot-com subsidiaries and charged them with creating strategies for e-commerce.

## The strategist's three questions

But if managers can't avoid strategy, they can—easily—be overwhelmed by it. Academic theories have proliferated. (One recent book identified 10 distinct schools of strategic thought.) Strategy-consulting firms, needing fresh wares

to peddle, seem to issue new ideas every few months. Particularly for the neophyte, cutting through the cacophony can seem a daunting chore.

What to do? The synopsis that follows is necessarily only an overview, focusing on just a few key ideas and theorists. (*To learn more, consult the Resources box on p. 5.*) But everybody has to start somewhere, and a useful way to begin is to ask yourself the questions that any corporate strategist has to answer. Three of the most important are what business a company should be in, what its capabilities are, and whether there's a good fit between business and capabilities. The answers to these should help you get started on assessing your company's strategic options.

### 1 Where should we put our efforts (and why)?

The what-business-should-we-be-in question was among the first posed by strategic theorists; it gave rise to such familiar (and now dated) management tools as the Boston Consulting Group's portfolio-analysis matrix (cash cows, dogs, etc.). Its zenith was undoubtedly the "positioning" approach identified primarily with Harvard Business School professor Michael E. Porter. Porter's famous "five forces" provided strategists with a framework for analyzing an industry, and for mapping out a defensible strategic position. His pathbreaking book *Competitive Strategy* outlined three generic strategies—

cost leadership, differentiation, and focus—that have informed positioning debates ever since.

But *Competitive Strategy* was published in 1980, when industries had stable, well-defined boundaries. Since then the marketplace has become mercurial, and strategists have urged companies to explore unconventional positions. Hamel celebrates "rule breakers" such as IKEA and The Body Shop, which step outside traditional positions to create whole new market segments or value propositions. Adrian J. Slywotzky and David J. Morrison of Mercer Management Consulting urge company leaders to look beyond their traditional business and focus on the points along the value chain where they will be "allowed to make a profit." In

**Strategists must consider a company's whole package of resources—particularly those that competitors can't reproduce.**

a variation on this theme, Orit Gadiesh and James L. Gilbert of Bain & Co. argue that industry segments are "profit pools" deeper in some places than others—and that companies can accept low margins on one kind of business if they make up the difference elsewhere. Thus U-Haul earns most of its profit not by renting trucks, which is fiercely competitive, but by providing high-margin, after-the-sale accessories such as boxes and insurance.

### 2 What do we bring to the table?

Question 1 focuses on the external world, Question 2 on a company's own capabilities. At the extreme, "internal" strategy making is based on the idea that what a company *can* do determines what it *should* do. The notion of core competences, introduced a decade ago by Hamel and C.K. Prahalad, isn't quite so extreme, but it's on this end of the spectrum. Federal Express possesses a core competence in package routing and delivery, observe the authors in their book *Competing for the Future*. That competence reflects the company's deep expertise in "bar-code technology, wireless communications,

network management, and linear programming,” among other skills. FedEx’s strategy has to grow out of this “bundle of skills and technologies.”

Like positioning, the internally focused approach to strategy has evolved with time. For example, John Kay, former director of the Saïd Business School at Oxford University, argues that core competences alone are an inadequate definition of a company’s competitive advantages. A proponent of what is

known as the resource-based view, Kay argues that strategists must consider their company’s entire package of resources, particularly those that can’t be reproduced by competitors. These “distinctive capabilities” aren’t just core competences as Hamel and Prahalad define them; they also include patented products, strong brands and reputations, a well-established position in an industry, know-how that takes time to develop, and patterns of relationships with suppliers and customers.

Companies that ignore such resources, wrote Kay in a recent article in the *Financial Times*, consign themselves to “the absurdity and irrelevance of using the blank sheet of paper approach to corporate strategy.”

### 3 Do our capabilities suit our position?

Ultimately, of course, capabilities must match market position. It does no good to focus on a position a company can’t maintain; it’s fruitless to develop competences that provide no competitive edge. Porter’s more recent work—notably his influential article “What Is Strategy?” (*Harvard Business Review*, November–December 1996)—emphasizes the importance of *fit* in this sense.

Look at the airlines, suggests Porter. Southwest Airlines has fended off competition not just because of its no-frills, low-cost strategy, which anyone can copy, but because all of its capabilities fit its strategic positioning. It operates only one kind of airplane. It has negotiated flexible union rules that permit rapid gate turnaround. It chooses airports and flight routes to avoid congestion, thus preventing costly delays. Competitive advantage, writes Porter, lies not in any single core competence but in a “whole system of activities.” Each reinforces the others, and all are appropriate to Southwest’s chosen position. What’s more, would-be competitors can’t effectively attack Southwest’s position, because they don’t have the same capabilities.

***It does no good to focus on a position a company can’t maintain—or to develop competences that provide no competitive edge.***

### How strategy is made

Answering the three questions can help you assess strategic proposals. But lurking behind every debate about strategy is another big issue: how strategy is forged. In the classic, quasi-military model, strategy really is the province of the CEO. It depends on analysis of data, detailed planning, and

## Strategy: Classic Conundrums

*Strategy, it has been said, is clear only in retrospect. But whoever said that never heard business-school classes debating cases in which strategy wasn’t at all clear, hindsight or no. Two that have provoked the most disagreement:*

**THE RAILROADS.** Harvard Business School professor Theodore Levitt published a “manifesto” in 1960 that turned out to be a blockbuster in both readership and influence; called “Marketing Myopia,” it was reprinted in *Harvard Business Review* for September–October 1975, along with a retrospective commentary. Levitt’s fundamental point: companies often commit the strategic error of defining their market too narrowly. In his best-known example, Levitt charged railroad executives with leading their companies into decline because they thought of themselves in the railroad business, not the transportation business. Once a company “genuinely thinks of its business as taking care of people’s transportation needs, nothing can stop it from creating its own extravagantly profitable growth.”

Nothing? “Nothing except the limitations of its own distinctive competences,” sniff Henry Mintzberg and colleagues in *Strategy Safari*, echoing a host of critics. “Why should a few clever words on a piece of paper enable a railroad company to fly airplanes, or for that matter, run taxicabs?...Organizations have to build on whatever strengths they can make use of.”

**HONDA.** Honda introduces a small, user-friendly motorcycle into a U.S. market dominated by big bikes and a black-leather-jacket image. Then it slowly moves up-market, elbowing aside once-powerful British and American manufacturers. A brilliantly conceived and executed strategy? So said a Boston Consulting Group report that became the basis for widely used business-school cases.

Nonsense, argued Richard Pascale, then of the Stanford Graduate School of Business. Rather, Honda had tried to introduce big motorcycles and had failed miserably. It discovered the popularity of the small bikes by accident—Honda’s representatives had brought a few to the U.S. for their own use, and people kept asking where to buy one. In effect, Honda had to create a market and a distribution system from scratch, and did so mostly by trial and error.

Mintzberg took up Pascale’s critique and publicized it. Michael Goold, coauthor of the BCG report, replied to Mintzberg—and the debate goes on. (See “The ‘Honda Effect’ Revisited,” *California Management Review*, vol. 38, no. 4, Summer 1996.)

top-down command. That model permeates Porter's work: even in his 1996 article he writes that "the leader"—note the singular—"must provide the discipline to decide which industry changes and customer needs the company will respond to.... Managers at lower levels lack the perspective and the confidence to maintain a strategy."

But other scholars have long contended that business is too complex to allow so rational and deliberative a process—and that real-world companies don't operate like that anyway. Middle managers decide which initiatives to push. Salespeople decide which customers to focus on. Some strategic moves work, others don't—and the company modifies its strategy accordingly. McGill University professor Henry Mintzberg

describes strategy in this sense as *emergent*: "A single action can be taken, feedback can be received, and the process can continue until the organization converges on the pattern that becomes its strategy."

What matters in this model of strategy making is not analysis and wise decision making at the top but creating the right conditions for effective experimentation and learning—for example, opening up the process to those "new voices" and tapping into the entrepreneurial energy that can be found in any organization. What matters as well is continual probing and testing. A "business model," to use a currently popular phrase, may be made obsolete overnight by some change in the marketplace. Companies have no choice but to test

several strategic hypotheses—or business models—at once.

What's right for your company? Strategic theorists make bold statements, as if their prescriptions are appropriate for every business at every era. Consultants want to garner all the clients they can. But for any one company, the more fruitful approach may be to begin with the company's unique situation, then assess the relative importance of industry position, internal capabilities, and the fit between them. How well-established are its markets? How powerful the competitors? How much about the near-term evolution of the industry is unknown? Answering questions like these can help you figure out where to put your own efforts, and thus how to help shape your company's strategy.

## RESOURCES

### On the field of strategy:

#### "What Is Strategy?"

*The Antidote*, No. 16, 1998

This special issue of the pricey British business publication is the ultimate Cliffs Notes of strategy: 40 pages describe and compare the thinking of Porter, Hamel, Mintzberg, and a dozen other strategy gurus. (Available for £40 from the Centre for Strategic Business Studies in the U.K. Tel. 44(0)-1962-877377, e-mail [theantidote@csbs.co.uk](mailto:theantidote@csbs.co.uk))

#### "Competition and Business Strategy in Historical Perspective"

A concise, readable note from a Harvard Business School professor; traces the evolution of strategic thinking from the 1950s through 1997. (Available for \$5.50 from Harvard Business School Publishing, Tel. 800-668-6780 or 617-783-7450, [www.hbsp.harvard.edu](http://www.hbsp.harvard.edu))

#### *Strategy Safari: A Guided Tour Through the Wilds of Strategic Management*

by Henry Mintzberg, Bruce Ahlstrand, and Joseph Lampel  
1998 • The Free Press

This is the comprehensive survey that describes 10 different schools of thought—but good writing, along with plenty of anecdotes, sidebars, and cartoons, keeps it engaging throughout.

#### "In Search of Strategy"

*Sloan Management Review*, Special issue, Spring 1999

Contributions by more than a dozen leading strategy theorists. (Tel. 617-253-7170, e-mail [smr@mit.edu](mailto:smr@mit.edu))

### (A very few) primary sources:

*Competing for the Future* by Gary Hamel and C.K. Prahalad  
1994 • Harvard Business School Press

#### "Strategy as Revolution" by Gary Hamel

*Harvard Business Review*, July–August 1996

([www.hbsp.harvard.edu](http://www.hbsp.harvard.edu))

#### "Strategy Innovation and the Quest for Value"

by Gary Hamel

*Sloan Management Review*, Winter 1998

(<http://mitsloan.mit.edu/smr>)

#### "Profit Pools: A Fresh Look at Strategy"

by Orit Gadiesh and James L. Gilbert

*Harvard Business Review*, May–June 1998

([www.hbsp.harvard.edu](http://www.hbsp.harvard.edu))

#### *Why Firms Succeed* by John Kay

1995 • Oxford University Press

#### *Competitive Strategy: Techniques for Analyzing Industries and Competitors* by Michael E. Porter

1980 • The Free Press

#### "What Is Strategy?" by Michael E. Porter

*Harvard Business Review*, November–December 1996

([www.hbsp.harvard.edu](http://www.hbsp.harvard.edu))

#### *The Profit Zone: How Strategic Business Design Will Lead You to Tomorrow's Profits*

by Adrian J. Slywotzky and David J. Morrison

1997 • Times Business