

FEATURE

What, Precisely, Is Corporate Strategy?

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Individuals can hold quite different opinions on the best way to go forward, on the best way to increase the effectiveness of their organizations. Their opinions are likely to be embedded in a rich social context, shaped in part by their education, personality, personal ambitions, dislikes, loyalties, and prejudices. Hence, disagreement is often inevitable, rendering strategy-making a process of negotiation. By implication, strategy may not inevitably result in the most rational and ‘best possible’ solution but, instead, is likely to constitute a workable compromise.

In this article I will argue that strategy is more complex, more ubiquitous, and more emergent than often supposed. Intellectually, we remain heir to the Presocratic, Enlightenment, and Taylorist belief that (a) to every question there exists only one true answer, (b) these answers can be found by applying reason, and (c) these answers cannot be in conflict with one another — that put together they must form a coherent and orderly system (Berlin, 2000).

But what if a grand, all-inclusive theory of strategy proves implausible?

Towards A Definition of Strategy

Consider the following excerpt from the *Economist*:

No single subject has so dominated the attention of managers, consultants, and management theorists as the subject to corporate strategy. . . [What is] puzzling is the fact that the consultants and theorist cannot even agree on the most basic of questions: “What, precisely, is corporate strategy?”

And, given the ubiquitous character of strategy, why should one expect any easy answers to exist? For if the recipe for successful strategy could be purchased for \$25 at an airport bookshop or at Amazon.com, we wouldn’t pay our top managers so much. This is the inherent implausibility about textbooks on strategy, as Whittington (2001) pointed out. On the one hand, one finds 35 or more books

of more or less the same type, covering the same topics in the same traditional manner, relying on the same authorities, using the same types of articles and cases. However, if there really does exist so much agreement on what good strategy is all about, why then do we pay our CEOs such exorbitant amounts? Would corporate failure still be excusable? And, if strategic ended up being homogeneous, is there still any benefit to be gained from “good” strategy? The reality may well be that “most managers still don’t know how to manage” – as admitted by a senior manager in a recent letter to the Harvard Business Review.

What if there are no easy answers?

This would appear to be the most obvious alternative. Reading through recent issues of the popular business press, one finds some interesting examples that call into question the orderliness, sustainability, and planning-friendliness of strategy. Consider the following:

1. Amazon.com, though having been successful in the US, only has a presence in only a small handful of countries. Despite its high valuation, it has yet to make a profit. The issues it faces include: (a) the competition in the books and music markets getting more intense (in response the firm has sought to diversify its services), and (b) Amazon.com derives its competitive advantages primarily from “convenience of shopping from home.” However, in providing this service it is highly dependent on shipping companies, like UPS and FedEx, dependency which became painfully obvious during Christmas 1999. Given a huge backlog of orders to be shipped, its advantage was at risk of being eroded, leading customers to return to conventional shopping (*WSJE*, Nov. 15, 1999).
2. During 1994 and 1995, Netscape changed the world by putting the Internet within reach of normal people. What they did from 1996 to 1999 was ride the wave of success --with dismal results. Why? Because the company stopped innovating. According to former employee Zawinski, “the company got big, and big companies just aren’t creative...great things are accomplished by small groups of people who are driven, who have unity of purpose.... The more people involved, the slower and stupider their union is,” (from ‘Resignation and Postmortem’ by Jamie Zawinski. You can find his letter at: www.jwz@jwz.org).
3. Strategy is intended to help create a competitive advantage over competing firms, thus reducing competitive pressure. However, paradoxically,

intensifying competition appears to benefit some companies. Microsoft's best products appeared in those areas in which it had most competition (e.g., Microsoft Explorer vs. Netscape, Microsoft Word vs. WordPerfect, Microsoft Money vs. Quicken). Its product quality grew progressively worse in those fields in which it dominates: Operating Systems (e.g., Windows 98 being seen as too unreliable), and now also Word, becoming too fat and too slow. Thus, paradoxically, Microsoft faces the greatest difficulties in those areas where it has the least competition (*WSJE*, Nov. 19).

4. Hewlett-Packard, being at risk of the same, has taken preemptive strategic measures. Ms. Fiorina, CEO of HP, upon entering her office, drew up a list called 'the rules of the garage,' based on how the original HP operated, trying thus to get rid of HP's 'bad habits' like risk aversion and slowness to innovate. Labs are now encouraged to come up with 'disruptive technologies' that can rattle and change the industry — for instance, 'molecular computing,' a technology to build integrated circuits using molecules. Risk taking is again rewarded. The number of product groups were cut from 83 to only 12 (*The Economist*, July 15-21, 2000: 85-6). Yet, HP's recent performance has been dismal. It announced significant layoffs (as did many other high-tech companies) and plans to merge with Compaq. The day of the announcing the intention to merge, the combined market capitalization of HP and Compaq (or the value of the merger) fell from \$25 billion to \$20 billion, suggesting that stockholders are yet to be convinced of the merits of this merger.
5. Given that the net worth/earnings of its employees are tied to the value of their stock options, and that Wall Street (the US stock market) is very volatile with respect to Internet-based companies, the surging and slumping of stock creates insecurity. Stock valuations have taken up an abnormally large importance in judging business performance, particularly with technology-based firms. This is good when markets are up but detrimental when markets are taking a downturn.
6. If you think this applies only to 'new economy' type firms, consider what happened to the share prices of established firms in late 2000: Microsoft's stock rose sixteen-fold between the end of 1994 and late 1999 only to see its stock down 55% less than a year later; Dell's stock multiplied 93-fold between late 1994 and its peak in March 2000 only to drop by 54% later that year; Intel's stock rose 19-fold and AT&T's Lucent Technologies 12-fold, only to drop 47% and 72%, respectively (*WSJE*, 16 October 2000). One

recent 'old stock' firm to see its share price drop so significantly was Kvaerner, the Anglo-Norwegian engineering conglomerate, whose shares lost 80% of their value in a single week in late September 2001.

7. Though stock options have become the norm in much of business life, particularly at the senior management level, there is an inherent irony to them. As Hamel (2000) pointed out, more than 50% of the senior executives of America's largest companies derive a significant portion of their compensation from stock options. While the theory was that option-owning managers would work ever harder to create new wealth, the reality may well be different. With so much of their net worth riding on a single stock (and obviously being unable to diversify this risk), senior executives can be expected to prefer low-risk strategies for pumping up the share price. For instance, buying back one's own shares is a safer bet than betting on novel business concepts.
8. The apparently erratic behaviour of investors can be significant particularly for companies (or their owners) seeking to raise cash from IPOs. For example, when Invitrogen Corp. — a maker of gene-research tools — went public on the Nasdaq in early 1999. The response to this IPO was not impressive as their shares rose a mere 2.5% that day. Precisely one year later, on 1st February 2000, Sequenom Inc. went public (IPO), a company whose line of business is similar to Invitrogen's. However, the demand for Sequenom shares was so great that its IPO price was raised by 205%. Two companies. Same business. Same locale (San Diego). Same time of year. Similar fundamentals. But a completely different reception from investors. (*WSJE*, March 17, 2000, p. 1)
9. The difficulty of measuring (and defining) success. This is well illustrated by an example taken from Kay (1996). General Electric has adopted various different strategies over its life (each under a different leadership): from being in every aspect of the electric business (circa 1900), to decentralization (circa 1950-1960), to the creation of SBUs (circa 1969), to the regrouping of SBUs into six sectors (circa 1977), to the "re-engineering" of the entire business (circa 1981). Jack Welch upon becoming CEO, put a strong emphasis on "visioning": (a) "We will only run businesses that are number one or two in their global markets," and (b) "We are committed to developing the sensitivity, the leanness, the simplicity, and the agility of a small company." 'Neutron Jack,' who was succeeded by *Jeffrey Immelt* in September 2001, started with 411,000 employees and ended with 276,000.

As Kay (1996) pointed out, the history of GE parallels the business literature, with its cycles of centralization and decentralization, the shifting role of the corporate centre, and the steady move from hard, quantifiable planning to looser, organizationally-based ones. GE's strategic behaviour produces two different perspectives—one positive, one less so. On the one hand, GE has consistently outperformed the S&P index (i.e., beaten the return on the average mutual fund). This would seem to be good news, particularly for its shareholders. On the other hand, GE failed to take leadership of the rapidly developing computers and consumer electronics market—thus, missing out on some of the fastest growing markets. Why did GE choose not to (or fail to) leverage these opportunities?

10. The difficulty of predicting the future. Between 1994 and 1999 the number of mobile phones sold each year exploded from 26 million to nearly 300 million (allowing such entrepreneurial startups like DX Communications to make a fortune). At the same time, the technology standard changed from analog to digital. Motorola, the world leader in the cellular phone business until 1997, missed this shift to digital wireless technology by a year or two, allowing Nokia to overtake them. A decade earlier, Nokia was involved in the production of snow tires and rubber boots, being also the largest manufacturer of toilet paper in Ireland and the provider of electricity to 350 Egyptian villages—not mobile phones (Hamel, 2000, 7).
11. The difficulty of delineating industry boundaries. Supermarkets (e.g., Sainsbury, Albert Heijn), automotive multinationals (e.g., General Motors), diversified entrepreneurial (e.g., The Virgin Group), and Internet companies (e.g., ebay) have entered the financial services and credit card markets. Banks (e.g., Barclays) and High Street retailers (e.g., Marks and Spencer, Boots) are entering the insurance and investment markets. Tesco, the UK supermarket chain, is currently the largest distributor of petrol in the United Kingdom, having surpassed traditional suppliers like Shell and British Petroleum. Insurance firms (e.g., Direct Line, started by Peter Wood) now also provide road-side assistance, as does British Gas through their acquisition of the Automobile Association (AA).
12. *The questionable merits of 'business concept reengineering.'* Shareholder pressure is forcing diversified companies to 're-engineer' their organizations towards a singular focus on their 'core' business, though the question as to what this 'core' might constitute is sometimes difficult to answer. It could be a product (e.g., Warner-Lambert and Pfizer's cholesterol fighting drug

'Lipitor'), *a process* (e.g., 'The Boeing Way'), *intellectual property* (e.g., Capital One's database of 20 million cardholders, which can be used for direct marketing purposes), or *a distinct business design* (e.g. Amazon.com Inc.'s concept, which is now employed across multiple industries) (*WSJE*, Nov. 10).

13. The questionable merits of size — does it really matter? Apparently we think so. The total market value of M&As announced worldwide amounted to nearly \$2.5 trillion in 1998. Examples are Exxon and Mobil, BP and Amoco, Travelers Group and Citicorp, Norwest and Wells Fargo, AT&T and TCI, Daimler-Benz and Chrysler, Bell Atlantic and GTE, SBC and Ameritech, Pharmacia and Upjohn, Pharmacia Upjohn and Monsanto, GlaxoWellcome and Smithkline Beecham, Pfizer and Warner-Lambert, AOL and Times Warner.
14. But does size really pay? Not necessarily. A 1999 study found that of the 700 largest deals completed between 1996 and 1999, more than 50% had actually diminished shareholder value (*Wall Street Journal*, 8 Dec. 1999). Many turn out to be significant 'stinkers' with subsequent sell-offs of the acquired company, as was the case with AT&T's purchase of NCR (for \$3.5 billion), Novell's purchase of WordPerfect, and Quaker Oats's acquisition of Snapple Beverage. And consider the following statistic: for the top 1,000 publicly listed companies in the US, the correlation between company size (as measured by average revenues over the past 3 years) and profitability (measured by average operating margins for the same period), whether measured over 3, 5, or 10 years is no more than .004—a result that isn't statistically significant (Hamel, 2000, pp. 46, 47).
15. *The questionable merits of management fashions.* Managers are regularly faced with dramatic new claims of new knowledge creation (e.g., through the popular business press or practitioner-oriented journals. Even the popular press has condemned managers as being too quick to take up 'management fads.' Some have even mockingly wondered whether most managers are simply attempting to outsource critical thought. The most important fads of the late 20th century include: *MBOs* (1950s), *Quality circles* (1970s), *Corporate culture*, *TQM*, *Benchmarking* (1980s), and *Employee empowerment*, *Vision*, *Business process reengineering*, and *Core competencies* (1990s). But, surely, despite the irony, this raises a very relevant question: How are managers to discriminate between the different recipes suggested to them by management gurus and consultancies? How are

they to justify their decision (perhaps to abstain from a certain dominant train of thought) to their colleagues and boards?

16. *The strategic importance of serendipity.* Quite a number of companies don't appear to have any clear written plans outlining their 'corporate strategy.' More likely, companies have succeeded by 'placing the right bets' in an unpredictable, dynamic market place, and by being 'pro-active' in being sufficiently open-minded to allow *serendipity* to shape their future directions. Examples of such products are Pfizer's *Viagra*, 3M's *Scotchguard* and *Post-It Notes*, Dupont's *Teflon*, and Kodak's *Weekender* camera. For strategy-making, the issue thus may be this: If "fortune favours the prepared mind," as suggested by Louis Pasteur, how does one go about being prepared? What are the requirements in terms of organizational structure, HR management, innovation management, communication flows, knowledge management, and strategy?
17. As for the *international* playing field, a number of Europe's largest organizations are facing the *deregulation of their industries*. For many there exists less protectionism, as restrictions to trade are being dismantled and government-run organizations are being privatized. This deregulation is affecting profitability of industries, changing patterns of competition and market opportunities for new entrants due to lower barriers to entry (except where the initial capital investment is extremely off-putting. Entry barriers can be lowered by no longer needing a government sanction to operate in a particular industry). Examples of such industries include airlines, telecommunications, gas, electric, railways, and financial services.
18. Given the increasing unimportance of national boundaries and the opening up of markets, industries risk facing a problem of *excess capacity*, particularly in automotives, consumer electronics, and pharmacology. Every year new capacity is being added by newly developing countries, including China and India. This is one reason why we have witnessed a gamut of mergers, acquisitions, and the formation of alliances, employed as means to cope excess capacity. The issues that emerge from this include anti-trust regulation, valuation, cost, and the problem of integration.
19. Finally, one might legitimately question the *merits of a MBA*. Do MBAs really make better CEOs? Henry Mintzberg and Joseph Lampel addressed this question in a recent issue of *Fortune* (Feb. 19, 2001). What is striking is that we have come to take MBA degrees for granted as being valuable (one

merely has to look at the salary differences between those with and without a MBA) without ever having examined the 'value added' in depth. Mintzberg and Lampel suggested that some of the most admired CEOs (including Bob Galvin of Motorola, Bill Gates of Microsoft, Andy Grove of Intel, Jack Welch of GE) do not hold MBA degrees. In fact, Galvin and Gates never even finished their undergraduate degree. When examining "failed" CEOs (using a 1999 Fortune article on "Why CEOs Fail?"), one finds that of 33 out of 38 companies appeared on the "failed" list, 40% were run by CEOs with MBA degrees (many of them from Harvard). Finally, when examining the individuals listed in a book "Inside the Harvard Business School," one finds that of the 19 "star" students, only nine were doing OK, whereas ten had run into major problems with their corporation.

Mintzberg and Lampel went on to suggest that there appears to be a similarity between these "failing" CEOs: they all appear to have run their businesses according to a formula, regardless of the people involved or industry idiosyncracies. This, they argued, may well be due in part to the way we teach business, forcing students to decide on strategies for organizations of which they know virtually nothing, having only been provided with a 20-page case description of the firm in question. This method may give students the confidence to make decisions, but artificially isolates them from the messy reality in which business decisions are made.

In Summary

From an empirical perspective one can easily come to see strategy as inherently complex, pluralistic, ubiquitous, ambiguous, and emergent, often forced to respond to competitors and scenarios that are unfamiliar. We find that managers have no choice but to act before they have all the relevant information, even if this involves making mistakes, for at least you can correct these mistakes afterwards. They realize that there is not necessarily a consensus in the organization on goals of the organization, on which a logical strategy can be based and calculated. They realize also that the demands of consumers may not be fully rational — but still they want it. Finally, they recognize that formal rationality cannot deal with conflicting values — the idea that multiple and incompatible ideals exist simultaneously in the minds of consumers, suppliers, employees, and stakeholders (cf. Hampden-Turner 1990).

One, thus, wonders to what extent the Enlightenment *philosophes* (including Jean-Jacques Rousseau and August Comte), despite their vast

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contributions, were correct in assuming that human values could be derived from human nature — that everyone basically wants the same things, and that these things are not in conflict with one another? Perhaps we may learn more as managers from their contemporaries, the 18th century Romantics, who emphasized instead the idiosyncracies of human life and even of the divided self — the notion that not only people can hold vastly different beliefs, but that individuals themselves are often torn by competing impulses.

What, thus, emerges is a dynamic and rather complex arena, anathema to traditional business principles, in which management is to unfold and take charge. An observation by the early 20th century philosopher Otto Neurath seems immensely appropriate:

We are like sailors who must rebuild their ship on the open sea, never able to dismantle it in dry-dock and to reconstruct it out of the best materials (as quoted in Higgin, 1999, 178, 179).

However, the recognition of complexity does not absolve us from trying to provide explanations and conceptual frameworks for the formulation and implementation of strategy. By implication, we find ourselves in a Tolstoyian conflict: the sense that real life is full of conflict and contradiction, diversity and unpredictability, and yet the need to speak to the practitioner, the need to provide some simple explanations about what is going on and why, and how one might control or manipulate this.

This, for Tolstoy, is the central tragedy of human life; if only men would learn how little the cleverest and most gifted among them can control, how little they can know of all the multitude of factors the orderly movement of which is the history of the world; above all, what presumptuous nonsense it is to claim to perceive an order merely on the strength of believing desperately that an order must exist, when all one actually perceives is meaningless chaos (Berlin, 2000, p. 48).

Tolstoy's unique sensitivity to the reality of diversity was ultimately self-destructive. As Berlin passionately concludes:

Tolstoy's sense of reality was until the end too devastating to be compatible with any moral ideal which he was able to construct out of the fragments into which his intellect shivered the world, and he dedicated all of his vast strength of mind and will to the lifelong denial of this fact (Berlin, 1999: 81).

Conclusion

Retracing our steps, we find our point of departure: *What precisely is corporate strategy?* A recent Harvard Business Review article (Vol 5, No. 1, Jan 2000) captured the essence of strategy well by means of three relatively simple questions. These are questions that any corporate strategist should ask him or herself on a regular basis. These answers can then help to get one started on assessing the strategic options open to the organization. They are these:

1. Where should we put our efforts? And why?

This is the inevitable “what-business-should-we-be-in?” question. It dates back at least to Michael Porter’s earlier work (in the late 1970s and early 80s) to emphasize the importance of ‘positioning’: through cost-leadership, differentiation or focus. These alternatives, Porter argued, are mutually exclusive in that each requires a different configuration of resources. Pursuing multiple strategies would simply be too expensive, too inefficient, or too confusing for the consumer. We know now, however, that several firms have successfully combined cost-leadership with differentiation: IKEA and DELL, among others. But questions as to *where our consumers are*, and *what are value proposition to them is going to be* are still immensely relevant.

2. What do we bring to the table?

This question forces us to think deeply about our own capabilities. What is it that we are particularly good at? And how easy is it for others to imitate or otherwise acquire these capabilities? Do we hold patents that afford us a temporary window of superior profits? Does our reputation help us to earn above normal profits? How can we inventorize these capabilities (i.e., are they embedded in some of our people, our corporate culture, based on filed patents)? What can we do to best protect these core capabilities?

3. Do our capabilities suit our position?

This is the essence of strategy. It is this, and only this, that helps secure a sustainable competitive advantage. Distinctive capabilities become a competitive advantage only when applied to a market.

Where does this lead us in defining strategy? By way of summary I propose a working definition, as follows:

Strategy is the ability to see the simple in the complex, not by digging through layers of complexity so as to find an underlying order (for no such thing may

exist), but to affirm the legitimacy of incompatibility and being able to prioritize inside it—to see what matters most—and thus provide explanation, vision, and leadership. This prioritization is based on a deep understanding of organizational capabilities and its relevance to customer wants, and a commitment to renewing these resources as time and competition erode their value.

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