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Future Power: The Control of Corporate Strategy

by KENNETH R. ANDREWS/Editor, *Harvard Business Review*

Future shock" is Alvin Toffler's famous phrase for the malady afflicting those who are paralyzed by the prospect of change. For business, the cure is management confidence in its powers and its adaptability to sudden changes of fortune. The control that executives exert over the development of their companies might, in turn, be labeled "future power."

I contend that managers of any corporation can move into the future in full command of their faculties—alert, calm, and unshockable—and their businesses. Hysterical forboding may be the province of anti-nuclear environmentalists and nervous journalists, but not of managers.

The word *strategy* has attained a certain vogue these days. It often is applied to the functions within a company, as in marketing, manufacturing, or research and development strategy. It also appears as a designation for organizational entities, as in strategic business units. But corporate strategy is the most comprehensive term, for it purports to embrace actions of the total company rather than mere economic decisions. The common element is a choice of goals

and a program to attain them.

The widespread use of the term strategy may be an attempt to label age-old management skills with a marketable, and chic, new jargon. For the word has been accompanied by a new set of planning tools that evaluate alternatives, govern investment choices, allocate resources among opportunities, and decide on diversification or divestment. Portfolio analysis, matrices for the classification of businesses by market share and growth prospects, and models, mathematical and otherwise, have been devised to embody assumptions and to produce detailed projections. With the aid of such tools it is possible to construct pro forma operating statements and balance sheets to reflect an almost infinite combination of assumptions—made up, if you will, of whole cloth by using the computer rather than the spinning wheel. In myriad what-if calculations, the tools for strategic decision-making sometimes overwhelm the simple purpose they are to serve.

The simple but powerful idea that can help determine the future starts with the proposition that every

company, like every family or individual, should have a set of purposes to guide its progress in a chosen direction. Preparing for an uncertain future begins with clarifying what we can know and deciding what we want to have happen.

A Definition

This, then, defines corporate strategy. It is the pattern of a company's decisions that determines its objectives, that decides how to achieve those goals, and that defines the company's range of business, the kind of economic and human organization it is, and the nature of the contribution it intends to make to shareholders, employees, customers, and communities. In a changing world, it helps to limit certain new activities, while focussing attention on others.

The pattern that results from a series of strategic decisions will define the character of a company and the position it will occupy in its industry and its markets. Some aspects of this pattern, such as a commitment to quality, high technology, certain raw materials, or

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good labor relations, will not change over long periods of time in an established corporation. Other aspects of a strategy must change as the world changes, such as a product line, manufacturing process, or merchandising and styling practice. The basics of a company's character usually persist, however, despite product-market changes or a new allocation of resources. The New York Times Company, for example, after many years of being shaped by the values of its owners and staff, is now so self-conscious and respected an institution that its nature is likely to remain unchanged, even if its services and news processing capacity are altered drastically.

The essence of strategy, as I have defined it, is pattern. The interdependence of purposes, policies, and organized action determines the character of a particular strategy and its competitive advantage. The consistency of a company's strategic decisions gives the firm its identity, power, and potential for success in the marketplace. An awareness of the interrelationship between its policies and goals can help a company recognize its problems so they can be seized upon and solved.

The Formulation

Logically, the pattern of purposes I have described has to be decided and then implemented, in that order. In real life, the formulation and implementation of strategy interact with each other. In concept, corporate strategy is a combination of four processes, the first of which is to identify the business risks and market opportunities.

The second is to identify the financial, physical, human, and technical resources available to the company and to assess the qualities that will give a company a competitive advan-

tage. What a company can do, after assessing its strengths and weaknesses, is less than what it might do after looking at market opportunity. Matching opportunities with resources, the result of which is called economic strategy, usually produces a number of alternatives which need to be reduced still further.

The third process is for a company to decide what its leaders, and sometimes its larger membership, most want to do. The influence of personal values should not be ignored.

The president of the old Underwood Typewriter Company reportedly did not want to "peddle typewriters all his life." Now, that emotion did not justify the company's embarking on a disastrous course into computer manufacturing, for which it had neither the financial, technical, nor marketing resources. But that emotion, together with the opportunity offered by the information revolution, probably made the decision inevitable.

Similarly, the personal desire of a small manufacturer, in the early days of stereo, to produce the highest possible quality of loud speaker, led to the development of the acoustic suspension speaker and to the opportunity, not fully realized because of other values, to become a dominant company in the sound reproduction components business.

Finally, what a company's managers can and might want to do needs to be judged alongside what they ought to do. The public is becoming increasingly explicit in its insistence that corporate behavior be responsible and moral, and that it be sensitive to community concern. Most corporate leaders do want to be as responsive as economic restraints

permit, although almost all are opposed to any regulations that may be forthcoming if these concerns are ignored. For these two reasons, the impact of an economic strategy on a company's employees, on the communities in which these companies are located, and on society at large must be considered well in advance.

The essential art, then, in deciding what a company's total (or corporate) strategy should be is to balance the four sets of conflicting considerations so that the result will be a harmonized pattern unique to the company. The opportunity for distinctiveness is wide open. Hindsight suggests, for example, that the automobile industry did not recognize its opportunity, given such developments as the rise of small car imports, the energy crisis that began in 1973, and increasing concern about pollution. On the other hand, the success of *The New York Times*, Crown Cork & Seal, Lincoln Electric, Heublein, and Wang, for example, testifies to the value of formulating a strategy different from the conventional strategic "wisdom" of industry leaders. The key to developing a uniquely appropriate strategy is distinctive competence. Its identification, protection, and development lie at the heart of planning for an uncertain future.

The Process

The leadership of a strategically managed company must be committed to the company's purpose and be capable of communicating its benefits and requirements to all levels of the organization. The most obvious implication of strategic management is the large amount of time that must be committed to planning.

The chief executive of a small

company often will be besieged by short-term emergencies and will end up operating by day and planning by night, if at all. However, it is a brute fact that, for very small companies, if time cannot be found to prepare for the future, there will not be any. And even in a company of larger size, the time requirements of strategic management tend to be underestimated. When one is confronted by the needs of today, patience and will power are needed if one is to concentrate on the needs of tomorrow.

Strategic decisions must be more than improvisations of the moment. Essential to the lasting superiority of a company's performance or the maintenance of its unique market position is the high quality of a product or service and the communication of its importance to customers. The establishment of value in relation to price and the reduction of cost to permit greater value at lower price is a continuing process in most of the successful strategies we know about. Strategic decision has an ethical quality that goes hand in hand with its economic effectiveness.

A willingness to defy conventional wisdom and appear as a maverick questioning industry consensus is central to a strategy's originality. George Romney found much opposition in his own company when he attacked the big car and focussed American Motors' limited resources on a single small automobile. He said that it took him seven years to convince his management of this, and seven more to convince the public. But he had no strategy for following up that breakthrough. When the Rambler became successful, he repaid the company's debts rather than modernize facilities, develop a new engine, or seek special

market segments. He left it to Ford to develop the Mustang and to foreign carmakers to develop the small car market here. He threw away the opportunity that his stubbornness had won for him.

The commitment to a long-range purpose often is not a natural part of the temperament of a successful operator. A president of a large company once protested to me, "I don't want to decide a strategy on Wednesday that I can't change on Saturday." With hundreds of millions of dollars invested in fixed assets and in vertical integration, he was hardly as free as a quick-footed entrepreneur. But he was a man of the past and present, not of the future, and indeed his career was cut short, perhaps by coincidence, but probably not.

The Chief Strategic Officer

If every company needs a chief operating officer—the title grows increasingly common—then the chief executive officer must be the chief strategic officer. Doubt grows, however, that the chief executive officer can serve as chairman of the board, outside spokesman for the company, and final arbiter of all important decisions in the company, as well as give adequate attention to long-range strategy. It is clear in any case, as Bill Womack has pointed out in the *Harvard Business Review* ("The Board's Most Important Function," September-October 1979) that the chief strategic officer, whether CEO or a vice-president, must be supported by a strategic planning structure within the company.

If we accept the importance of strategic management, it follows that one of the principal functions of the board of directors is to satisfy itself that the proposals made to it are part

of the strategy it understands and has approved, and that management is competent in carrying out. Because the time required to analyze and revise strategy is so great, a committee of the board, comprised mostly of outside directors with special interest and competence, is likely to be more effective than the full board. But in any case, the value of detached points of view and diverse experience is nowhere more evident than in the examination of management commitments that extend far into the future. An innocent question that asks "why" can sometimes explode the provincialism that is a result of years of inbred decision-making.

It is interesting to note how reluctant many CEOs are to permit discussion of strategic alternatives by board members prior to management decision. Such sensitivity to "potential interference" may be something like the concern that many men have about their masculinity. Challenge to or even mild questioning of the strategy of some executives means a threat to what they regard as the center of their power and responsibility. The more uncertain they are about the soundness of a strategy, or the more uneasy they are about their relations with their board, the more complicated is their rejection of what really could be important guidance and support.

I am glad to see that a growing number of annual board-management strategy meetings are taking place away from the company. During these two to three days, updates of long-range plans and details of annual operating plans are reviewed. Besides the ideas and exchanged information, the relationships and trust that are developed among directors and senior management make the expenditure of this

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time worthwhile. Such meetings often can be top-heavy in presentations to the board and short on contributions from directors. But directors, like managers, can learn how to handle strategic questions. Directors cannot take away from management the duty of recommending strategy, nor can they wish away their own responsibility for understanding and approving strategy.

Strategy for "Future Power"

The creation and implementation of strategy are essential in preparing for the future. Steadiness and clarity of purpose allow an organization and its people to learn what they have to do and how to do it better. People who are attracted to a company's unique strategy are drawn to it; people with different goals are sorted out. The momentum that is possible under steady direction builds market power, which can lead, for example, to an increased market share in times of recession.

The uniqueness of a company's strategy must clearly be preserved and extended as competition duplicates that company's strategy. Differentiation of product must be progressive—not only to meet the competition, but to match changing public tastes. The mobilization of advertising, pricing, product development, personnel practices—or all management functions, in fact—is effective to the extent to which future challenges are anticipated by management.

Above all, strategic management makes what lies ahead seem clearer. Where developing trends can be reversed, moves can be made to head them off. Where the proper response is adaptation, contingency plans can be based on the range of possible developments. If strategic manage-

ment is changed as a result of new trends, then whatever it does bring certainly should catch no one by surprise.

What to do Next

When I addressed these remarks to a group of businessmen, their major unspoken question was: "What, if anything, can a businessman do about what has been said here?" This would be my response. First, write down the corporate strategy of your company. Use only one piece of paper. Avoid all motherhood statements. Be sure to name in specific terms the business your company is in and the future expansion foreseen for that business. Specify the products you provide and what you propose to offer to designated markets.

Identify channels of distribution, profit goals, the key functional strategies essential to the particular character of your business. For example, the marketing essential for branded consumer goods companies; manufacturing for standard commodity-type products; and research, development, or engineering for high technology companies.

Quantify the growth goals that follow from (not precede) the policies in place. Be sure that the summary statement presents at least a glimpse of the kind of company you are trying to create—not only for customers, but also for employees and, if relevant, for non-transient shareholders.

Some may have trouble with this exercise. If you find important empty spaces, ask your colleagues for assistance. In the absence of an explicit identifiable strategy, deduce it from what your company has been doing. Action speaks louder than policy statements.

Next, evaluate that strategy in the terms suggested here. Do not use present and recent profits, for there may be a canker in the heart of your rose of success. Discuss the criteria you use with your management associates. Look for answers to questions like these:

- What distinguishes your company's strategy from that of your competitors?
- To what extent is your strategy internally consistent?
- In what way is your strategy consistent with or designed to overcome industry characteristics and trends?
- What distinctive competence is being produced or exploited to give you a competitive edge?
- How fully are you and your associates committed to your strategy? Is it really what you want to do? Does it excite you?
- What degree of success can you reasonably foresee, given your present view of the best, worst, and most likely future developments?

Finally, if you are in a position to, involve your board with this evaluation. Assure yourself first, of course, that it will be the strategy, not any individual, that is being evaluated.

Of course, however competent your board is, its members, like your management associates, will not be able to answer fully the questions asked here. But considering the questions will stimulate a reexamination of new and old possibilities. An exercise of this kind is more productive, though less restful, than the motionless and exposed posture of a sitting duck. ▲

This article was adapted from a talk given earlier this year to St. Louis business leaders. Dr. Andrews is Donald K. David Professor of Business Administration at Harvard and a director of four corporations. He is currently doing research on corporate boards of directors in large publicly held companies.