The Cultural Roots of Strategy(*)

Carlos Cavallé

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I. INTRODUCTION

The last annual meeting of the Strategic Management Society (SMS) which took place in Phoenix, Arizona, in November 1996, opened with four high-level presentations, which outlined four different but not contradictory strategic visions for today's companies. The first session was conducted by C. K. Prahalad and Gary Hamel; the second by Don Tapscott; the third by Ernest S. Micek, Chairman of **Cargill, Inc.**; and the fourth by Donald J. Schneider, President of **Schneider National, Inc.**

These four strategic visions –the "four pillars of Phoenix"– emphasised different aspects of the management task. That was to be expected: the importance of a strategic vision lies not only in formulating it properly but also in its successful implementation. And that is of course one of the most crucial and demanding tasks of top management.

2. THE FOUR PILLARS OF PHOENIX

Prahalad and Hamel's position was that in times of rapid and turbulent change, a manager must be capable of designing not only the best strategy, but also the next strategy. The most important qualities of a manager are creativity and innovation, since it is these that enable the company to achieve the necessary differentiation in a turbulent and globally competitive world. Managers have to rely on the core capacities of the organisation and to focus on differentiating themselves from their competitors. This often means breaking traditional moulds and giving talented managers their head.

The second concept, Tapscott's[1], emphasises the dominant importance of technical knowledge, and especially of the new information technologies. These technologies, which are the driving force of the economy, are developing so fast and are disseminated so widely, that unless top company managements understand them thoroughly, they will miss many excellent business opportunities. They will also miss opportunities to update the services they offer and the way they offer them, and to restructure their organisations in line with the new kinds of management skills that are needed.

The third contributor –the President of **Cargill Inc.**, one of the world's biggest foodstuffs multinationals– saw his company as a perfectly co-ordinated and "oiled" organisation whose over-riding goal is to maximise profits from the products it offers to the market. Achieving this depends on high levels of efficiency in the production processes in particular and in management generally. Managerial talent must respond to the demands of a well adjusted organisation. Managers must be flexible and prepared to change roles in the interests of general productivity.

(*) This lecture will be given during the 17th Annual International Conference of the SMS, which will be held on October 5-8 in Barcelona. The references for this article are included at the end, in order of appearance.

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The company must place a high priority on developing managers with these qualities so that they can be deployed in any of its subsidiaries throughout the world. Its future depends on this to a significant degree. Above all, the manager is seen as a part that fits into the big, organisational machine. There must be no faulty parts.

Schneider's presentation, the fourth, was a surprise. He mentioned that the company of which he is president, one of the most important road transport companies in the West of the United States, has 16,000 "associates". He went on to explain that this is the term used at **Schneider**'s for the people whom other organisations refer to as their employees. Everyone in the company is an "associate", and they are all equally important. All of them have ideas and initiatives that can contribute something towards improving the organisation. It is of the highest importance that work and the working environment should represent the best possible arena for the professional and personal development of everyone in the company. Everyone could then be expected to help achieve and even surpass the service and financial targets set for all. Mr. Schneider gave several examples of how these plans (which many may consider ideal or idealistic) are real and realistic in the context of his companies. An Asian member of the audience asked Schneider where he had got his ideas and how he had managed to put them into practice. He replied that from the outset he had based his organisation on the Christian values he had learned as a child, in which ideas about the human being had figured strongly.

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The four pillars of Phoenix can be seen as emphasising four critical factors for every modern company: creativity (Prahalad and Hamel), knowledge and techniques (Tapscott), efficiency (Micek) and human and individual values (Schneider). These four strategies presented in Phoenix are not the only possible ones: there are other ways of designing organisations and their management. However, they represent significant approaches and powerful ideas that can –and ideally should– complement one another, to the considerable benefit of both organisations and their managers. The company manager of today and tomorrow cannot conduct a true professional career without incorporating the right proportions of these four ingredients.

3. THE CULTURAL FOUNDATIONS OF WESTERN ORGANISATIONS

These four factors –creativity, knowledge, efficiency and human values– play an integral role in Western culture. They are rooted in and supported by some of its basic assumptions.

Many attempts have been made to delineate those basic assumptions, a recent example being that of Samuel P. Huntington(2). Underlying them, and linking them to the ideas put forward in Phoenix, are five general principles which have been central to all aspects of Western culture.

The first principle is the equality of people as regards their dignity. All people have the same fundamental dignity, even though their capacities, interests and objectives may be different. Therefore, they have the same basic rights, which can be expressed in various ways, one of which is the UN's Universal Declaration of Human Rights (1948).

The second principle is freedom. All of us, as part of our dignity, should be free to choose our own destiny and behaviour. Others –society and its various organisations– must respect and facilitate the exercise of that freedom, within the framework laid down by law, accepted standards of conduct, and the legitimate freedoms of those with whom we work and live.

As de Tocqueville so masterfully pointed out(3), equality and liberty are the basis of democracy, which is the characteristic system of government of Western civilisation.

The third principle is participation. From the two preceding principles, it can be deduced that everyone can and must play an active part in the design, organisation and realisation of the activities with which they are involved, and in the entities which issue the rules and standards affecting them. It is logical and legitimate that they should also participate in the outcomes of their work.

The fourth principle is expressed in a word which is once more becoming fashionable today: solidarity. No social organisation (government, company, university, trade union) can operate effectively and efficiently, or even justly, unless the people within them consider that the problems and aspirations of others are partly their own, and unless they are prepared to help resolve them and achieve them. Here we should note the contribution to the theory of organizations made by Professor Juan Antonio Pérez López[4], which has greatly influenced Spain and the Spanish-American countries, and whose impact is progressively extending to the English-speaking world.

The fifth and last basic principle in the Western social heritage can be deduced from the first four: higher-level social structures should not interfere in the internal life of lower-level social groups, depriving them of their prerogatives. Rather, they should support them in case of need and help them co-ordinate their actions with those of the other components of society, in the interests of all. This is the principle of subsidiarity. Together with the principle of solidarity, it has been the subject of special attention within Christian social thought[5].

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These ideas have a practical relevance. What might befall a company which ignores or contravenes any of the principles that are keys to the creation of successful human organisations? History has demonstrated what it meant to ignore dignity, freedom and the principle of subsidiarity in totalitarian countries, and particularly in the former communist countries.

The consequences for their organisational, social and human development are clear. By contrast there are equally clear examples of the consequences of ignoring or deprioritising solidarity, even where other principles are respected. Regardless of how much wealth may be created, social inequalities and wretchedness will persist[6].

It is also salutory to consider those companies and organisations in which long-term effectiveness and efficiency (measured as profit) are not the exclusive, or even the most important aims. To what extent have these organisations succeeded? What are the outcomes when an organisation fully respects people, their dignity, their intellectual freedom, their participation and initiative, and where solidarity is exercised at all levels?

The identification of dignity, freedom, participation, solidarity and subsidiarity as the characteristic heritage of Western culture may be open to criticism, but it is a fact that for over twenty centuries those five principles have been the subject of continuous, profound and full debate in the West. Nowhere else are they so clearly defined and so fully accepted.

An important question now arises: if the five principles are so widely accepted in the West, why was it precisely in the West that most of the antithetical notions which have traumatised the world arose, including Marxism and Nazism? The answer must lie in the fact that the five principles have not always been respected, and that the resulting abuses have provoked contrary reactions. These have included both a collectivism which denied the principle of subsidiarity and cut out freedom and participation, and an individualism which both in theory and in practice has relegated solidarity to assistance and charity, thus infringing the dignity of the person.

All the extreme situations –individualisms, collectivisms and others– have one thing in common: dehumanisation. Companies, organisations of all kinds, and even states, stop being really human when they deny people's dignity, intellectual freedom and capacity for initiative; when they prevent their active participation in the design and organisation of action; and when they disregard solidarity (which includes justice) and subsidiarity. In losing their human dimension, they definitively lose their most important values. There are innumerable examples to show that, in the long run, those organisations cease to be efficient and competitive.

It follows that Western company leaders must not permit organisations and their managements to behave in ways that contradict their long-held cultural heritage, in favour of allegedly more useful and necessary assumptions such as efficiency and competitiveness. It is true that companies must be efficient and competitive if they want to survive. But to survive (and prosper) they must also, above all, be essentially human, and not only respect but strengthen the principles on which their culture is based. They must become forums within which people can resolve their present and prepare their future with dignity and in freedom.

4. STRATEGIC VISIONS AND CULTURAL FOUNDATIONS

The four pillars of Phoenix are necessary ingredients for successful business practices. They in turn are underpinned by the five principles which are central to Western culture.

The cultural foundations of creativity

Creativity and innovation are rooted in respect for people's intellectual freedom. Where freedom is not respected, the arts and sciences do not develop, or only develop precariously and narrowly. Open markets and free competition call for free and open minds –innovators– who look for the best ways of offering new products and services.

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A company in which initiative is not stimulated will become stunted or will wither for lack of new sap –experiences which arise from inside– and fresh, clean air –ideas which enter from the outside. Likewise, managers who do not feel at ease with their work, or who feel intellectually limited will find it difficult to give of their best. They will not be productive in their posts and their future careers will be at risk[7].

This situation occurs all too frequently. Companies that do not stimulate internal innovation then have to resort to using outside talents which are offered and requested to operate with a greater degree of freedom. But, before using outside talent, top managers must ask themselves whether they have created the incentives and climate needed to facilitate innovation and creativity in their company. If they have failed to do so, are they compromising the future capacities of their company? Will they be able to solve their problems by resorting to outside talent?

It is clear that creativity is more often found in young, small and dynamic organisations than in large and bureaucratic entities that have a strong resistance to change. As Hammer and Champy have demonstrated[8], such companies will find it difficult to cope with change if they do not first change themselves.

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The cultural foundations of knowledge

Knowledge and new technologies can be acquired both inside and outside the company. We are living in the knowledge era. An explosion has taken place in every sphere of knowledge and information relevant to the company. It is simply not possible to acquire and use it all, and indeed it would be counter-productive to try to do so. Ideally, the acquisition of knowledge would be restricted to what is necessary for the present and for the future of the company; unfortunately, it is difficult to evaluate what the extent of this knowledge might need to be. The answer is for an organisation's people never to lose the habit of learning, as Ikujiro Nonaka and Hirotaka Takeuchi brilliantly explain[9]. After all, the members of an organisation are, in most cases, the ones who know best what they need to learn and what knowledge they can apply. Even if they do not know, at least they must be the parties most interested in finding out.

When an organisation in the knowledge era loses this capacity for learning, it is as if it were already dead, because it lacks the will to live. Managers who lack the capacity for learning are in professional danger. They will be replaced very soon. And then, either they will find a less demanding company or job, where their qualities and knowledge are still useful, or they will be out of the labour market. This raises the problem of current European unemployment, which for the first time in modern history is affecting not only manual and white-collar employees, but also, to a significant degree, managers.

In Europe, unemployment could be substantially alleviated in most countries and in most companies, provided that the appropriate capacities are in place. An analysis of the people who are now having difficulty in finding work –or in finding work that will progress their professional careers– will often reveal that the fundamental cause of their difficulties is not labour market inflexibilities, sectoral restructuring, or their age. Typically they are due to the fact that the people concerned lack the specific knowledge and capacities demanded by companies today, whatever other great qualities they may possess.

It is an organisation's responsibility to create the right conditions and incentives to keep alive their people's interest and capacity to learn. It is known that routine and low expectations reduce such capacity and are one of the fundamental causes of premature and accelerated ageing of organisations and their managers. What has been said about the five basic principles that underpin Western culture, implies that companies' goals must not be restricted to competitiveness alone. There is a higher responsibility in making the company a place of professional and personal progress. Responsible top managers know that they will retain their best people when they provide them with greater opportunities for development. Good managers appreciate that it is better to be bound to an organisation which provides these opportunities than to another which merely provides a better paid or more prestigious post. So, as Edgar Schein[10] has shown, the career path of a manager is based on the real development opportunities which an organisation is capable of offering.

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When an organisation creates the right conditions for its people to acquire necessary knowledge and familiarise themselves with new technologies, it is giving an implicit acknowledgement (and it is better still if it is explicit) of its employees' right to professional and personal development, and is allowing them their right to choose; their freedom. And then it can encourage participation and subsidiarity with greater vigour. On the other hand, when an organisation infringes those basic principles, the pool of knowledge within will tend to shrink. It is easy to conclude that such an organisation would cease to be efficient.

The cultural foundations of efficiency

Efficiency is not just about achieving results, but about doing so through the best possible use of the resources that are there to be used. What efficiency adds to effectiveness is the understanding that it is not enough to achieve results at any cost, whether that cost is economic or ethical. Ultimately that cost will be have to be paid, and this may endanger the survival of the organisation.

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Efficiency in the use of resources indicates that the organisation has a well-established commitment to doing things well from the outset, because doing them well is cheaper. As Michael Porter[11] among others has explained, economy in the use of resources is a differentiating factor in many companies. In the free market, companies which cannot differentiate themselves through their products (because those products are standard items or hard to improve), will find that they obtain long-term benefits from savings on their production, administration, sales or service processes. The culture of efficiency is very worthwhile at times of extravagance and consumerism like the present. Its principal value is in the way it obliges organisations to draw the maximum possible benefit from the capacities of their people. The culture of efficiency is closely bound up with the principle of subsidiarity, in that this principle encourages a reduction in the number of transactions between the levels involved in decision making.

Efficiency means reducing the economic cost and the ethical cost. A culture of economising resources cannot be maintained if it is not accompanied by a truly ethical culture. A company that has a culture of economic cost reduction can still incur ethical costs, as Carlos Llano has warned[12], if it engages in certain unethical practices inside and outside the company. Sometimes companies employ practices which are in principle unethical, in order to avoid incurring certain economic costs. Such practices range from by-passing the proper channels in order to shorten management decision-making processes, to deploying unacceptable tactics in purchasing and sales so as to speed up these processes or to improve results more quickly.

Managers who employ these practices could acquire bad habits that could damage their professional careers. They may tend to resort to unethical practices more frequently, because they can sometimes produce results more quickly and with less effort. However, they thereby lose the genuine capacity to manage. Secondly, they would frequently place themselves in a false position in relation to colleagues, superiors, suppliers and customers, thus placing their integrity in question. Both companies and the professional careers of managers should be based on integrity, reality and truth, rather than on falsehoods.

Thus where efficiency is pursued as the ultimate value this can endanger any of the five basic principles or, in the worst cases, all of them.

The cultural foundations of human values in the company

In principle, companies should be based on shared values. Without these it is difficult to maintain the company's vision and mission, and thus guarantee its survival. But the existence of values that are shared adds a sense of belonging which all organisations need. Increasingly often, organisations depend on teamwork and understanding between people for achieving their results. Some disagreements may persist, which may be useful for encouraging creativity and innovation, for finding better ways of doing things, and for coming closer to customers. But there must be cohesion in fundamental matters: what unites must be stronger than what separates.

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Shared values must fulfil two conditions. Firstly, they must be real and constructed from within, not imposed from above. Many companies have published their "creeds" at one time or another. This is fine if they reflect real experience, and if they embody goals which everyone in the company can understand. It is counter-productive if they consist of meaningless platitudes, or if they represent theoretical ideals that are unattainable in practice, or if they bear no relation to what actually happens in the company –for example where management practices are commonly "unethical".

Secondly, these values must not contradict one another, such that pursuing one of them would put the others at risk. This often happens in organisations whose exclusive goal is profit. As long as that aim is compatible with honourable and fair service to the customer, it is possible that no contradictions will arise. But when to achieve the increases in added value demanded by shareholders or top management the company resorts to what might be described as deceiving customers in small ways (through ambiguity in advertising or in relation to product specifications, or service) then the contradiction can destroy trust in the system of values, and finally may destroy the values themselves.

The great advantage of a system of shared, real values that are constructed from within is that it demands discipline and coherence, and therefore forms a framework of positive limits on action which cannot and must not be overstepped.

But above all, shared values, if they are deeply human, that is, if they are compatible with dignity, freedom, participation, solidarity and subsidiarity, help to make the company an increasingly human reality and hence also more of a company in the true sense of the word.

5. IN CONCLUSION

Last year's meeting in Phoenix cast much light on the author's reflections about the connections between culture and economic progress. This led to the formulation of the argument laid out here.

Five fundamental cultural principles that characterise our social structure –the dignity of the human being, freedom, participation, solidarity and subsidiarity– also form the foundations for excellence in business practices. These principles –and the practices that they imply– are necessarily complementary. *Mutatis mutandis*, they should be applied as fully as possible in every organisation. Without them, the strategic pillars of Phoenix could not stand up and would be unable to support a human and social structure, an organisation.

The challenge that confronts us with the new millennium is that of strengthening the foundations of the Western culture, on which companies and the rest of the institutions in the social fabric are supported.

Yet there is a darker side to these reflections, and to the experience of the West. The century now coming to a close has witnessed great horrors resulting from ideologies that ignored the foundations on which our civilisation is based. Human freedom manifests itself in paradoxical and surprising ways. As the psychiatrist Viktor Frankl wrote: «Man is that being who has invented the gas chambers of Auschwitz. However, he is also that being who has entered those gas chambers upright, with the Lord's prayer or the Shema Yisrael on his lips»[13]. How can such ideologies arise in a culture that prides itself on respecting and promoting human dignity? The West must continue to reflect on the mystery of the human race, its ways of being and its capacity to act.

In this context, Western culture must recognise of the heterogeneous world in which it is moving, aware of the contributions it has made to the rest of mankind, but not ignoring its undoubted limitations. The company and business practices which have prevailed in the West are apparently being proved satisfactory in other cultures. Will those other cultures also choose to adopt the cultural values which underpin Western social structure, and appear necessary for the proper functioning of social life? Huntington, in the book referred to earlier, answered that question in the negative, accepting that, for those cultures, the process of modernisation does not imply a process of cultural Westernisation.

Here is a serious debate which perhaps we must take up. It revolves around a number of important and far-reaching questions.

- Can excellent company and business practices be rooted in principles other than those that define Western culture?
- Have Western practices and those of other cultures influenced one another?
- Have company practices been changed to adapt them to cultural environments other than the West?
- Have some of the basic principles of those cultures been modified by the presence of Western company practices?
- If company practices have been modified by the influence of other cultures, can those modifications help to improve company efficiency in the West?
- What can the West learn from the other cultures with which it cohabits?

It is certain that it was in the West that modern technical, business and social systems first developed, and in this sense the West may perhaps claim some superiority. It is even more certain, that we all have much to learn from one another. The world's different cultures and their successful business practices, instead of turning in on themselves and seeking only to maintain their internal coherence, must be prepared for an open, calm and constructive dialogue.

The challenge that confronts us with the new millennium is that of strengthening the foundations of the Western culture, on which the companies are supported

This will be a key theme at the SMS's Barcelona meeting, where the light of the Mediterranean is expected to cast its clarity and brilliance on the questions initiated in the Arizona desert.

(1) Tapscott, D., «The Digital Economy», McGraw Hill, New York, 1995.

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(10) Schein, E. H., «Career Dynamics. Matching Individual and Organisational Needs», Addison-Wesley, Reading, Ma., 1978.

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Fighting talk

Military metaphors have become an accepted part of business language – from trade wars to killer strategies. WEE CHOW HOU suggests that western companies should follow an eastern example and discover the value of Sun Tzu's *Art of War* as a management text

Sun Tzu's *Art of War*, written in around 400 to 320BC, is the oldest military classic known in Chinese literature. It is also probably the most revered martial text throughout the world and has had a huge influence on military thought. Even in the Gulf war, Sun Tzu was cited repeatedly by reporters and analysts. His works have been translated into many languages and the book is essential reading in military schools worldwide.

What is perhaps less well known is the relevance of *Art of War* to business practices. Yet comparisons of the world of business and the battlefield are not new. The metaphor is widely accepted, consciously or not, in such familiar expressions as the US-Japan "trade war", while a militaristic turn of phrase in the boardroom is almost a cliché.

It was in July 1985 that the *New York Times Magazine* first carried Theodore White's argument that while the US may have won the war, Japan was busy winning the economic hostilities. Several years later, *International Business Week* and *Asia Magazine* both carried the headline "Car wars" on their covers. Intense competition between PepsiCo and Coca-Cola has also been termed the "Cola war".

More recently, the currency crises faced by several Asian countries in July caused the governments of Malaysia and Thailand to publicly "declare war" on the speculators and manipulators.

Military metaphors have also found their way into the writing of renowned journalists, executives and scholars. In an article in *Fortune International* in June, US business guru Gary Hamel used the term "killer strategies" for companies that truly make their shareholders rich. According to Hamel, these organisations were able to do so because they were not afraid to break the rules – a very militaristic principle.

Various research projects have considered the application of military strategies to business practices. *Marketing Warfare*, by Al Ries and Jack Trout in 1986, examined the works of General Karl von Clausewitz to illustrate the parallels between military concepts and marketing practices. Others have described Japan's economic success as if it were a world conquest.

But few writers have acknowledged the relevance of the oldest military treatise, even though *Art of War*, written in China centuries before the birth of Christ, can be said to contain the foundations of all modern combat strategies.

In fact, Sun Tzu's book offers acute insights into the nature of modern business practices, especially in societies influenced by Chinese culture, such as Japan, Taiwan and Korea. In particular, an understanding of his writings provides a basis from which to explore the analogy between business and war and offers a wide framework for interpreting o[...] the most startling economic tr[...] late 20th century: the rel[...] Asian economies at[...] in many western c[...]

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NATIONAL CONFERENCE

action was taken, 18,000 jobs could be lost as a consequence of the sector's weak "cycle of innovation".

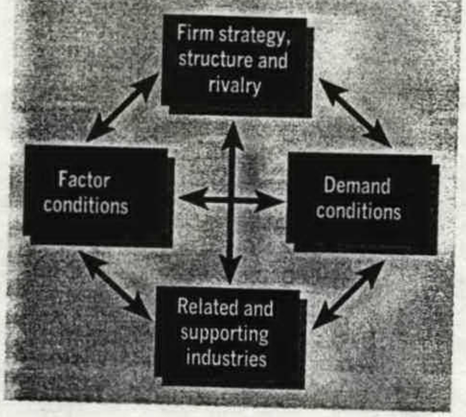
Action was duly taken. In an attempt to develop a cluster, the Scottish Electronics Forum was created. Its members, including arch rivals such as Motorola, Compaq, and Hewlett-Packard, were encouraged to share information and resources. Meanwhile, closer links were established with the electronics departments of local universities. In 1997, the success of the industry is clear for anyone to see.

"You don't have to believe everything that Michael Porter is saying, or even agree with the model," says Bob Downes, director of business at Scottish Enterprise. "But he provided a useful insight into helping Scotland's electronics industry set a road map for the future."

Distinguishing feature

In his most recent article, published in the November/December issue of *Harvard Business Review* last year, Porter described how he saw the difference between operational effectiveness and strategy. He

Model two: the Porter diamond



defined operational effectiveness as "performing similar activities better than rivals perform them", whereas strategic positioning meant "performing different activities from rivals or performing similar activities in different ways".

Such a distinction allowed him to assert that Japanese companies rarely have strategies. They are excellent at operational effectiveness, but there is a limit to how far these companies can go. "As the gap in operational effectiveness narrows, Japanese companies are increasingly caught in a trap of their own making," he wrote. "If they are to escape the mutually destructive battles now ravaging their performance, Japanese companies will have to learn strategy."

Unsurprisingly, this has not gone down well with Japanese companies, especially those that led the way in total quality management and continuous improvement. Economists have also questioned the distinction. John Kay, director of the Said Business School at the University of Oxford, called it "nonsense. It is like saying my strategy is to be a brain surgeon, and then learning how to do it is just a matter of operational effectiveness."

Kay, like many of Porter's critics, comes from the resource-based theory of strategy that says it is the internal competencies of the firm that determine how successful it will be. To these academics, Porter will remain someone who has merely translated and updated the work of the industrial economists of the 1960s and 1970s.

The criticism that attaches itself to Porter may, however, reflect his fame. Economists thrive on disagreement. The more successful you are, the more disagreement you can expect. And Michael Porter has been very successful.

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Ghoshal told *PM*. "Much of it has come from the actions of companies and their managers. The most affluent societies are those where there are the strongest and most successful firms."

He suggests that Porter's model is too static. It implies that strategy is created and then implemented. "This is not a manifestation of reality. Strategy emerges, strategy is formed. It is not formulated. There are no people in the Porterian framework, yet the formation of strategy is very much an interactive process between organisations and people."

In 1985's *Competitive Advantage*, Porter offered three alternative "generic strategies" that a firm can follow: cost leadership (that is, cost reduction), differentiation (innovation) or focus (quality enhancement). According to John Storey, professor of human resource management at the Open University Business School, this is the most interesting part of Porter's work from an HR point of view.

"Selecting any one of these approaches will clearly have an impact on HR strategy," he says. "For instance, if a decision is made to go for cost reduction, this may affect the amount of investment that is possible in training and development."

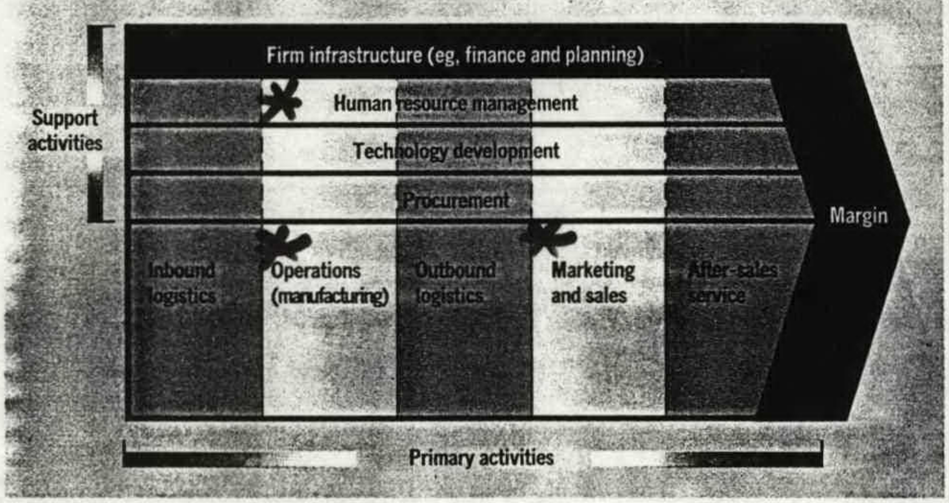
But research conducted by Storey and Keith Sisson, of Warwick Business School, suggests that few companies have a sufficiently explicit corporate strategy from which an HR strategy can be deduced. Even if there is a stated strategy, that may not be the approach taken. This makes it difficult for HR practitioners to use the generic strategies meaningfully.

"Given the difficulties of translating these three pure types into indicative HR action points, it would be helpful if Porter would and could direct some part of his undoubted analytical expertise to clarifying the people implications," Storey says.

The absence of a people perspective is the major criticism of Porter's work. His approach tends to be systems-driven, concentrating on the company, its industry and its location. He does not look at the competence of people, their development or the importance of knowledge management to the same extent as other leading thinkers such as Ghoshal or Chris Argyris.

According to Ian Smith, a group director of the Monitor consultancy in the UK: "The role of individual personality and human beings is usually absent from much ...'s work. He would argue that it ...d in his 'value chain', but it is ... his work that he stresses."

Model one: the value chain



Porter's value chain was first described in *Competitive Advantage* (see model one, above). It divides the actions relevant to competing in a particular industry into primary activities (including production, marketing and delivery) and support activities (such as human resource management and technology). But a deep analysis of HRM is not part of the model.

"Most of Porter's writings, especially his earlier work, focus on external strategy: on what firms should do to make a profit, based on where they position themselves in the marketplace. But the direction of strategy now focuses much more on what firms should do internally to enhance competencies or capabilities," says Steve Tallman, associate professor at the University of Utah and currently on sabbatical at Cranfield School of Management.

Tallman chaired the session at last month's Boston conference of the US Academy of Management, where Porter took part in a debate with other strategy experts. Despite questioning his approach, Porter was the speaker that all of the delegates wanted to talk to. "He is a superstar among business academics," Tallman adds. "He is the most influential person in business strategy in the past 20 years."

Gem of an idea

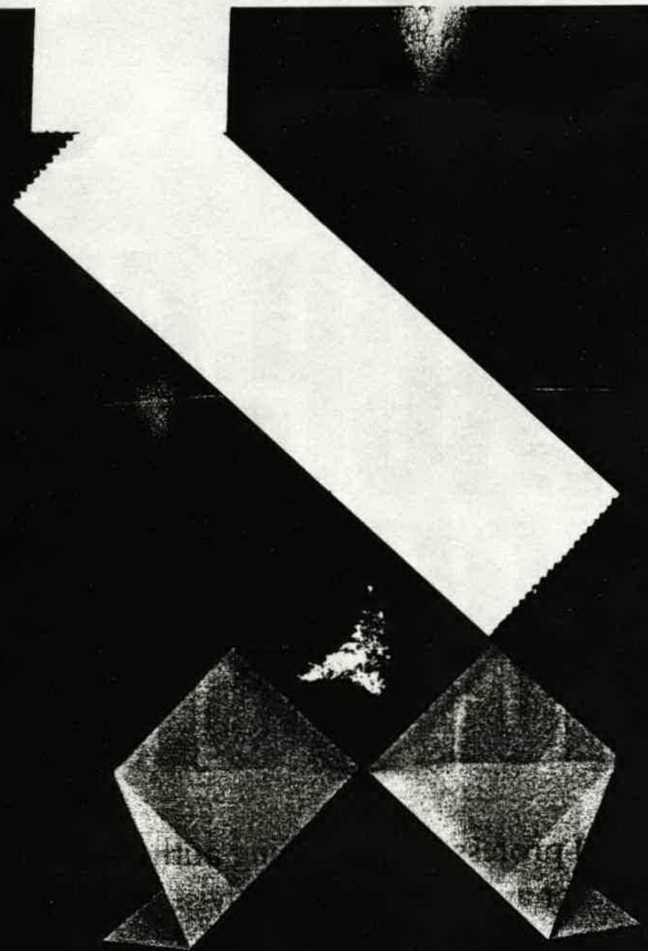
In 1983, Porter was asked by Ronald Reagan to join the President's Commission on Industrial Competitiveness, a group of business executives, labour leaders, academics and former government officials charged with examining competitiveness in the US. As a result, he became more interested in the international perspective, and his later books reflect this. *Competition in Global Industries* (1986) was followed by *The Competitive Advantage of Nations* (1990).

The 1990 text, alluding to Adam Smith's *The Wealth of Nations*, took forward the model of competitive advantage outlined in his earlier work and extended it beyond national boundaries. It introduced the "Porter diamond" (see model two, page 39), now the bedtime reading of many an MBA student. This model describes the four elements necessary to achieve international success in a particular industry:

- **Factor conditions**. The presence of specialised pools of skills, technology and infrastructure.
- **Demand conditions**. The presence of sophisticated and demanding local clients.
- **Related and supporting industries**. The presence of a critical mass of capable local suppliers of specialised inputs.
- **Firm strategy, structure and rivalry**. The presence of capable, committed, fiercely competing local rivals.

Nations are most likely to succeed in industries or industry segments where the national diamond is most favourable. Success, Porter says, does not occur in isolated industries, but in clusters: firms and institutions, both public and private, linked through customer, supplier and other relationships. Develop the cluster and you develop national competitive advantage.

This approach was attempted in Scotland in the early 1990s. Concerned about economic development trends, Scottish Enterprise commissioned a report from Porter. On the electronics industry – the jewel in Scotland's economic crown – the analysis was extremely pessimistic. Porter and his Monitor consultants said that if no



Ace of diamonds

Harvard professor, best-selling author, management consultant and government adviser: Michael Porter is a guru among gurus. His models of international competitiveness and strategy have become seminal works for academics, students and managers alike. MIKE THATCHER finds out why he is so influential

Economists are notorious for never reaching a conclusion. But on Michael Porter they are all agreed. The Harvard University professor and bestselling author is widely accepted as the world's most influential thinker on business strategy.

This is not to say that all economists and management theorists agree with Porter: few do. But even those who differ with him work off his ideas. His books sell in their thousands and he has been an economic adviser to the US, India, New Zealand, Canada, Portugal and Scotland.

Porter has never been one to accept second place. In his youth he played all-state American football and baseball, and was a member of the US colleges' all-American golf team. A degree in aerospace and mechanical handling at Princeton University was followed by an MBA and a PhD in economics from Harvard Business School. At 35, he became one of the youngest tenured professors in the school's history.

He has since published 14 books and over 50 articles on strategy and international competitiveness, each of which has managed to popularise serious economic arguments in a way that is accessible to disparate audiences. Economics undergraduates, MBA students and business school lecturers all follow his work avidly, while managers search his books for clues on how to gain competitive advantage.

Porter, now the C Roland Christensen professor of business administration at Harvard, is also the speaker most in demand at business conferences around the world. A charismatic and enthusiastic public orator, he tops the "guru league" in appearance fees, while his consultancy, Monitor, employs more than 800 people.

Porter's work has its origins in the school of industrial organisation economics. His early research focused on how companies could position themselves in the marketplace. In *Competitive Strategy*, published in 1980, he described the "five forces" that drive competition in any industry: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and rivalry among existing competitors.

This analysis has become a standard part of the curriculum for teaching competition in industries. *Competitive Strategy*, now in its 52nd imprint and translated into 17 languages, is widely regarded as the leading work in its field, but is still hotly debated.

Sumantra Ghoshal, professor of strategic leadership at London Business School, has been a rival to Porter on the strategy circuit for many years. He says *Competitive Strategy* assumes a conflict between what is good for a company and what is good for society. The purpose of the company is to make as much profit as possible, to the detriment of social welfare in general.

"I believe this is profoundly flawed. If you think about the past five to seven decades, there has been uninterrupted progress in the quality of human life,"

Michael Porter is the C Roland Christensen professor of business administration at Harvard Business School.
He is taking a master class on strategy and is also making the keynote address at the IPD's national conference in Harrogate on Thursday 23 October

NATIONAL CONFERENCE