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THE PAST, PRESENT, AND FUTURE OF STRATEGY: BROADENING CHALLENGES; ADVANCING  
INSIGHT

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## **THE PAST, PRESENT, AND FUTURE OF STRATEGY: BROADENING CHALLENGES; ADVANCING INSIGHT**

### **ABSTRACT**

In this perspective article, Derek Abell, former Professor of Harvard, founder of IMD (Swiss) and ESMT (Germany), presents the perspective of strategy management and strategy management evolution in an executive view. The objective is to provide mainly the students and practitioners a broad view of strategy evolution and its' future challenges.

**Keywords:** Strategic Management; Strategy Evolution.

## **O PASSADO, PRESENTE E FUTURO DA ESTRATÉGIA: AMPLIANDO OS DESAFIOS; COMPREENDENDO OS AVANÇOS**

### **RESUMO**

Neste artigo perspectiva, Derek Abell, ex-professor de Harvard, fundador do IMD (Suíça) e ESMT (Alemanha), apresenta o ponto de vista da gestão da estratégia e evolução da gestão da estratégia em uma visão executiva. O objetivo é fornecer, principalmente, aos estudantes e profissionais uma visão ampla da evolução da estratégia e seus desafios futuros.

**Palavras-chave:** Gestão Estratégica; Evolução Estratégica.

**PASADO, PRESENTE Y FUTURO DE LA ESTRATEGIA: AMPLIACIÓN DE LOS RETOS;  
COMPRENSIÓN DE LOS AVANCES**

**RESUMEN**

En este artículo de perspectiva, Derek Abell, ex profesor de Harvard, fundador del IMD (Suiza) y ESMT (Alemania), presenta la perspectiva de la gestión de la estrategia y la evolución gestión de la estrategia en una vista ejecutiva. El objetivo es proporcionar principalmente a los estudiantes y profesionales de una amplia visión de la evolución y estrategia de sus "retos del futuro.

**Palabras-clave:** Gestión Estratégica; Estrategia de Evolución.

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## 1 INTRODUCTION

The answer to the question “what is strategy?” depends on when the question is asked. And the famous quote by ex-Yankee baseball star Yogi Berra “The future ain’t what it used to be” applies as aptly to strategy as it does to life in general. Both the meaning of strategy and its practice have changed considerably over the years, and more changes are already on the horizon.

There are two reasons why such an evolutionary perspective is important for practicing executives: The first has to do with differing impressions of the **scope** of strategy. Oftentimes, lacking a broader evolutionary perspective, different members of the same company management team, describe their business strategy differently! They simply focus on that part of strategy that they are most familiar with personally, and fail to recognize and communicate other dimensions that, for one reason or another, were important to other organizations at other times. The second reason for understanding the origins and future strategy has to do with **focus**. New strategic insights have invariably resulted as a response to new strategic challenges. Those executives who understand the relationships between challenges confronted and approaches that may be used to resolve these challenges are better placed to resolve their own specific challenges.

The scope and precise definition of strategy has changed and continues to change for three main reasons: First and foremost, strategic ‘thinking’ evolves to meet the new business challenges of the times, and the challenges that executives confront today are a far cry from what they confronted even a few decades ago. If we are to believe Yogi Berra, future challenges will result in changing our strategic thinking further. Second, the scope and definition of strategy has evolved as academics, consultants and practitioners themselves have developed new ‘research’ insights into what elements of strategy need to be considered in different situations and why. Third, our understanding of business strategy is inspired by thinking in other fields—within and beyond business. Within business, developments in areas such as innovation, change management, and leadership, which overlap with strategy, have stimulated new strategic thinking. Beyond business, military and political strategy, the biological sciences, and most recently the arts in general, have contributed to and inspired our business thinking. Commenting on the second of these, Bruce Henderson, founder of the Boston Consulting Group (BCG), once remarked “Biologists may be better guides to business than economists”!

## 2 STRATEGY’S CONSTANT COMMON CORE

‘Plus ça change, plus ça reste le même’. Yes, that is also true of the **essence** of strategy. After many meanders and attempts to track the evolution of strategy at each twist and turn along the way, this author at least has concluded that business strategy does consist, and has always consisted, of five primordial decisions. The scope and definition of each may well evolve for any of the reasons above, but the skeletal form remains the same. These five primordial strategic elements (and functional strategies including marketing strategy, operations strategy, financial strategy, HR strategy etc. have to be aligned with these five) are decisions with respect to:

- 1) Strategic purpose and objectives
- 2) The definition of the business in both horizontal and vertical terms
- 3) The positioning of the business in terms of choices between perceived value and delivered cost/price
- 4) The segmentation scheme used (if at all) to divide the market, and the specific segments targeted
- 5) The basis for differentiation from competitors, and the specific Unique Selling Proposition (USP) claimed

There is less agreement in the literature of strategy about these primordial dimensions than might be imagined. Any scan of the literally thousands of books and articles dealing with this subject will reveal, perhaps surprisingly, quite wide variation in what strategy consists of, even at a single point in time. From this author’s perspective, the understanding of strategy which is needed, and which is the subject of this article, is not to home in on any one or other set of dimensions; it is rather to understand how the scope and definition of each of these dimensions has developed and is likely to develop, with time. As we look back over the last 100 or so years of business history, and try to glimpse the future, the five elements referred to above will always be found to be present in some form or other. What changes is their relative priority and a deeper understanding of what is meant by each.

As we look back to the past and ahead to the future, it will be necessary also to separate what we mean by the **content** of strategy, and what might also be said about the **organizational structures and processes** within which strategy is made. Changing business challenges, new research insight and inspiration from other fields have impacted all three of these, not just strategy itself.

### 3 THE ORIGINS OF STRATEGY

Strategy as a military concept predates its use in business. We only have to read ‘The Art of War’, a military treatise attributed to Sun Tzu, a high-ranking Chinese military general, strategist and tactician, to realize that the origins of strategy go back at least 2500 years. All that we know of Egyptian and Greek civilization (Homer’s ‘Iliad’ for example) tells us that it goes back even further than that. One of Sun Tzu’s most quoted pieces of strategic wisdom is ‘those who excel in defeating their enemies triumph before the enemy’s threat becomes real’—wise words for business strategists for sure! Not so clearly recognized until more recently was that military strategists need strategies to win current battles, but also enjoy ‘downtime’ to strategically reconfigure their fighting forces for battles in the future. And it only became clear in the 1960s and 70s, as the speed of change picked up after steady post-war recovery and growth, that business also needed a ‘dual strategy’ agenda (Abell, 1993). The difference is that business does not enjoy the same luxury of downtime; strategies for winning current competitive encounters have to go on in parallel with strategic preparations for the future.

Military strategy from periods all the way from Sun Tzu’s time to the present continues to inform business strategy. Perhaps one of the most widely read books on this subject is de Caulincourt’s ‘With Napoleon in Russia’, but for those who are interested in the military’s contributions to strategic thinking, this is only one of very many sources. ‘Must’ references are Machiavelli’s ‘The Prince’ and ‘The Art of War’. The following quotations surely demonstrate Machiavelli’s relevance to business strategy:

“Entrepreneurs are simply those who understand that there is little difference between obstacle and opportunity and are able to turn both to their advantage.”

“Never was anything great achieved without danger.”

“I am not interested in preserving the status quo; I want to overthrow it.”

Other roots of strategic thinking can be traced to developments in the biological sciences. Bruce Henderson, founder of BCG, and referred to earlier, published a seminal short paper in the 1960s entitled ‘The Origins of Strategy’. In this paper he likened the search by business for competitive advantage and differentiation to the struggle for survival which Charles Darwin so brilliantly exposed in ‘The Origin of Species’. It is also only more recently that the two forms of evolution that Darwin identified, namely the slow incremental improvements that mark ‘the survival of the fittest’, and the periodic mutations which change the direction of evolution more abruptly have, as we shall see later, their exact counterparts in business innovation and business strategy.

The arts have provided another important source of inspiration to business thinking—particularly more recently. Creativity is of course an underlying theme, but the literary and performing arts provide many references to leadership and strategy, while the visual arts teach us to distinguish between the real and the apparent, and to look at the world from multiple perspectives. Painters particularly have had an almost uncanny ability to portray emerging trends—an ability much in demand by those who make strategy. Both painting and music also provide us with deep insight into the nature of patterns—another growing requirement for those trying to decipher the future.

### 4 THE EVOLUTION OF BUSINESS STRATEGY AND THINKING

As far as developments in business itself are concerned, we can reasonably begin our story with the Industrial Revolution, although early traders were certainly concerned with business concepts from times immemorial. The Industrial Revolution was the transition to new machine-driven manufacturing processes in the period from about 1760 to some time between 1820 and 1840. This transition included not only going from hand-production methods to machines, but also new chemical manufacturing, and some non-production process improvements. It coincided with the increasing use of steam power and with the development of machine tools. The Industrial Revolution was above all a shift in **production** technologies and processes. Prices fell dramatically as manual work was displaced by machines, but it is questionable whether many of the new capitalists were yet thinking strategically about the many new business options which were to appear. Marketing in the sense that we understand today was unheard of, and sales of goods produced was the main pre-occupation on the market side. As the Industrial Revolution gathered momentum, producers were looking at vast new markets resulting from price levels heretofore unknown and these ‘sellers markets’ meant that strategy was still largely unnecessary to succeed. Far more important was to adopt the new mechanized production processes (often with great worker upheavals and resistance), to lower costs and prices, and to provide the new industrialized goods to a hungry market.

A century later, Henry Ford applied many of the concepts of the Industrial Revolution to the nascent automobile industry. His brilliance was not so much to conceive and develop the methods of mass production, but to recognize that if a car could be produced for a few hundred rather than a few thousand dollars, the market for such a vehicle would be huge. The result was 14 million Model-T Fords, all virtually identical! The (in)famous quote ‘you can have any color you like as long as it’s black’ defined this production-centered approach. Was this strategy? Certainly yes, but it was



only when General Motors under Sloan's leadership, responded in the late 1920s with its five car lines (Chevrolet, Oldsmobile, Buick, Pontiac, Cadillac) to meet the needs of different value segments that the strategic option of value vs price positioning was seen for the first time. And actually it was really only identified as a strategic alternative to Ford's low-cost approach in the 1970s, when Professor William ('Bill') thy at the Harvard Business School published his article "Limits to the Learning Curve" in the Harvard Business Review (Abernathy & Wayne, 1974).

We can see this phenomenon repeatedly as we trace the evolution of strategic thinking. A 'strategy' is used in practice, but not initially recognized as such, even by its protagonists. It is only later—sometimes decades later—that it is expressed in conceptual terms by a 'student' of practice, for a broader set of practitioners and academics to understand. This development of concepts which have their roots in practice itself is quite different, as we shall see as we go along, from the more deliberate empirical research whose very aim is to develop new theory.

The conceptualization of business strategy took a leap forward in the aftermath of the Second World War. The sea change was the arrival of 'marketing'—the notion that a firm had to produce (in the larger sense of the word) what it could sell, not sell what it could produce. Marketing was broadly defined not only by getting the product itself right, but also its price, promotion, and distribution—the famous 4 Ps of the marketing mix. It is not going too far to say that marketing strategy was then strategy in many people's minds. With advances in marketing thinking came advances in other intrinsic concepts such as segmentation, positioning, and differentiation. Strategies of 'push' (communication via the channels) and 'pull' (communication directly to the customer) were frequently used to distinguish one company strategy from another.

The unprecedented growth, which resulted from pent-up demand after the World War in virtually all parts of the previously developed world, put a strong emphasis on choosing the right business approach and simply multiplying it geographically. Strategic change was less important in this time than well-oiled execution. With some ups and downs this strong growth continued into the late 1950s and early 1960s. In this period of relatively stable growth the 'content' of strategy changed less than organization and the processes for making strategy. To take advantage of new business opportunities and to better exploit existing ones, firms were diversifying and decentralizing. The highly centralized, top-down managed, functional structures which had characterized large enterprise up to then were giving way to new divisional forms of organization where divisions were organized around 'lines of business'. Strategic practice and thinking thus took a second major leap forward, comparable in importance to that which occurred with the rise of marketing and the key strategic concepts that

went along with it. Three major advances in the way we think about strategy today were all driven by this underlying trend to decentralized organization. This trend was driven in turn by both diversification and the increasing need to segment markets to retain competitive advantage.

The first resulting advance in strategic thinking was to recognize more clearly the differences between 'corporate', 'business', and 'functional' strategies. Business-level strategies were increasingly needed not just at divisional levels, but for strategic business units (SBUs) within larger divisions. The second, and related advance came in new thinking about how to define these divisions and subdivisions in a way that best separated activities in separate competitive strategic arenas. As surprising as it seems today some companies up to that time were subdividing divisions based on simple size criteria, arguing, for example, that once a division exceeded 100 million dollars in sales volume, the division should be split into two! New thinking about business definition resulted sensibly in some business units being split out from others with only 20 million dollars of sales, while others, based on arguments of strategic integrity, had sales of over a billion dollars. The underlying logic was not size per se, but whether the unit competed in a strategically well-defined market place.

The third advance was to think of products within a business unit, and at a higher level, business units within a divisional or corporate structure, as parts of a financial portfolio. This occurred for two distinct reasons: The first was that many diversified companies were nudging up against debt ceilings which were viewed by lenders as overly risky. When debt to equity ratios were still below 30%, most companies could go down to their bank 24/7/365 to get loans to fund any projects which were predicted to exceed their cut-off hurdle rates of return. Each business in a division, and each division in a company could be regarded as a 'tub on its own bottom'. Whatever it earned could be used to finance its own growth, and if funds were in short supply, the bank was a ready lender. But as debt to equity levels started to hit higher levels, and banks were shy of more lending, the only way to fund growth was with internal funds. Cash rich businesses and divisions had to be turned to fund the investments needed to grow the cash-poor ones. The idea of the 'product portfolio' was born. Developed particularly by the consulting firm Boston Consulting Group (BCG), the language of 'cash cows', 'stars', 'question marks', and 'dogs' became common strategic parlance. BCG had been working in parallel on empirical research to understand the phenomena of experience curves, and these concepts were used to construct matrices which portrayed the cash flow consequences of various combinations of industry growth rates and relative market shares. For once, theory overtook practice as empirical findings demonstrated that high growth—high share businesses typically could turn into cash

cows as industry growth slowed, and these funds could be used to drive up share in growth businesses for the future. Failure to invest in growth at the right time could result in the reverse: Instead of question marks becoming stars, they could slide down to unprofitable dog status when growth slowed.

In the late 1960s, another important piece of original theoretical/empirical research (as opposed to the continuing efforts to conceptualize practice) revealed yet new strategic insight. Dubbed the 'PIMS' project (Profit Impact of Market Strategy) by its originators at the General Electric Company, PIMS set out to understand some of the most elusive strategic questions of this time. Why, asked then GE CEO Fred Borch, did some GE businesses (like steam turbine generators) yield very modest returns of around only 3-4%, while others (like engineered plastics) regularly turned in results of more than 20%. Borch had several hypotheses, of which one was that market share was a key driver of profitability and cash flow. He turned to a professor from the University of Massachusetts at Amherst, Dr. Sidney Schoeffler, to search for answers. Data was collected on a wide array of GE businesses over several years and fed into a large regression equation with 35 independent variables and one dependent variable—cash flow. Lo and behold, Borch's intuitive hypothesis about market share was borne out, along with a much deeper understanding of the underlying business and competitive factors affecting cash flow. From this, the strategic concept of a 'PAR' (as in golf) cash flow for various types of business and competitive situation, was born. For the first time, GE was able to set quite different financial objectives for each business based on the PAR, and incentive schemes followed. In fact, the PIMS project grew and multiplied to eventually include not just GE, but some 200 of the Fortune 500 firms, with data spanning 10 years of company history. This was perhaps the first time that 'science' was applied to business strategy with clear indications coming out of the empirically established relationships between different strategic variables and cash flow performance. Predictably, risk was one of these factors, and risk/return issues, which had been well documented at the overall corporate level in financial markets, started to appear on the strategic radar screens of individual business units. As we shall see later in this article, that is very much a subject for strategic thinking today, and most likely will continue to be in the future.

From the author's memory, it was Sid Schoeffler who coined the term 'market strategy', making a clear distinction between this and marketing strategy, which was concerned principally with the 4 Ps. Market strategy in Schoeffler's view was a complete business strategy for a particular market or market segment—a much broader concept. This paved the way for a better understanding of the relationship between corporate strategy, business unit 'market' strategy, and functional strategies. In any case,

personal contact with Sid Schoeffler and his PIMS thinking deeply influenced this author's thinking on the subject of strategy. One result was second-year course at the Harvard Business School and later a book, with the title 'Strategic Market Planning' (Abell, 1976).

We must deviate here for a moment to turn to the evolution of strategic planning processes—which was proceeding in parallel with what we have described about strategy itself and the changing organizational structures in which strategy was formulated and implemented. Decentralization had sparked the need for improved processes to join top-down objective setting with bottom-up detailed planning, and various processes were in use and being conceptualized to link the bottom-up and top-down in complementary and constructive ways. Most large companies had settled for a process that resulted in a complete and detailed strategic plan and budget for each separate business. The problem was to overlay this detail business-by-business approach with the growing perceived need to define some businesses as cash producers and others as cash users. Many times plans that ran into a hundred pages or more with detailed budgets, had to be completely reworked as other plans were submitted and surpluses and deficits became evident. Strategic planning needed to be streamlined and less bureaucratic.

This time, practice led theory. Some companies, and Nestlé under the leadership of Helmut Maucher was one, drastically simplified their planning processes in the early 1970s, to focus on key strategic issues—ahead of making detailed plans. Usually this involved face-to-face discussions between business heads and corporate leadership, so that the broad strategic issues confronting each business could be identified and objectives set, ahead of detailed plans and budgets being worked out. This attempt to get to the heart of the strategic issues facing each particular business in the corporate portfolio triggered further process changes. Strategic planning moved increasingly from staff to line, becoming a principal preoccupation of business level general management—albeit backed up by staff support. In many corporations, large strategic planning staffs were drastically reduced in scale as a result. It is worth noting here that other corporate staff activities including HR, and now CSR (Corporate Social Responsibility) are headed the same way. They are becoming a key responsibility of line general management, and staff activities are being redefined to support this. Further streamlining of strategic processes has taken place in many companies, and continues right up to the present. One is the 'collapsing' of what were separate processes for marketing planning, strategic planning, financial planning and budgeting, into a single integrated strategic process. And there is increasing recognition that in such an integrated process, 'vision' must come ahead of strategy, strategy ahead of plans, and plans ahead of budgets. The days

when the annual budget had a life of its own, apart from these other planning elements, are either over or numbered.

Our understanding of strategy took further jumps forward in the 1970s and 1980s in two main directions: First, it was increasingly recognized, thanks to the research efforts of Michael Porter at the Harvard Business School, that value could be created for customers not only within the firm's own 'value chain' (which he elaborated in new terms), but also in 'upstream' and 'downstream' stages of the overall 'business system'. Competition was not only between firms at various business system stages, but from the end customer's perspective, between complete business systems in terms of the total 'perceived value' and the total 'delivered costs' (which translated to price) of each. This represented a sharp departure from previous concepts of vertical integration which had dealt primarily with upstream and downstream ownership issues. Business system analysis emphasized, by contrast, that a firm could orchestrate its business system for high performance without necessarily incurring the fixed costs of outright ownership. Porter's work on 'Industry and Competitive Analysis' (Porter, 1980) led on quite naturally to concepts such as his 'five forces' model, and to the benefits of predicting not only the likely scale of profitability, but where in the business system profits could best be made.

Second, new thinking about vertical business systems was parallel by new advances in thinking about 'horizontal' business definition. Previously firms had thought about definition mainly in terms of products offered and markets served. This author's broader perspective at the time (Abell, 1981) was to insist that product and market choices were simply manifestations of more fundamental decisions in three dimensions: customer groups served ('who'); customer functions covered ('what'); and 'technologies' or means used to meet these needs ('how'). Business definition in both vertical and horizontal dimensions thus became firmly established as one of the five main elements of strategic decision-making. Porter went on to use these and other ideas to describe 'generic' strategies found in most industry sectors, namely 'focused', 'differentiated' and 'undifferentiated' approaches to various types of market.

A further second major development in the 1970s and 1980s was the realization that dealing with change was at least as important as setting a strategy for the present in place, and honing it further. Spurred by the near failure of corporate giants like IBM to recognize and act on fundamental changes on their industry (in IBM's case, the shift to distributed PC-driven computing), change management took center-stage in strategic thinking and practice. This resulted in developments in many further directions: in new thinking about 'external' political, social, demographic, technological, and environmental analysis; putting vision and mission ahead of strategy; and of the central roles of innovation, of investment, and of

transformation to become and stay competitive and profitable. It became clear to many at this time that change was in fact a constant, driven fundamentally by the two forces of technology and globalization.

Jack Welch at GE was busy at this time insisting in his own company that unless a business unit could be among the top three competitors in its industry, it should be sold off or closed down. A development which integrated change management with earlier concepts of current strategy was the idea, mentioned earlier, that companies needed 'dual strategies' (Abell, 1993)—namely one strategy to succeed today, and a second strategy for the future. And as we had noted earlier, unlike the military, which mostly has the luxury of finishing one war and having a break to prepare for the next, business has to manage 'today-for-today' and 'today-for-tomorrow' in parallel. One observer<sup>2</sup> likened this to 'changing the wheels on the train while it is running down the track'.

By the turn of the century, Darwin's theories of evolution were increasingly recognized as being applicable to business. Making a difference between incremental change and innovation (which Darwin had identified as the slow process of evolution in which the fittest survive) and strategic 'game-changing' innovation (which Darwin had identified as mutations) was not only becoming clearer but more of an imperative. The vocabulary of strategy changed accordingly with the nomenclature of 'blue ocean strategies' (Kim & Mauborgne, 2005), new 'business models', and industry 'turning points' and 'breakpoints' (Strebel, 1992). Companies were realizing that continual improvement was necessary but often not sufficient to stay in the lead; they had also to engineer the kinds of radical innovation and strategic movement which could be less easily imitated, and would result in more durable competitive advantage. The search for clues, not only from nature and from the life sciences, but from the arts, where completely new ways of looking at things have demarcated development, has continued apace.

This section on the history of strategy would be incomplete if further reference were not made to the two main driving forces of strategic change noted earlier, namely technology and globalization. Neither are of course new, but the development of both appears to be proceeding at an ever-increasing tempo. Generational shifts in technology increasingly originating with new developments in sciences that lie behind specific technologies, are succeeding one another with increasing rapidity (the internet, mobile telephony, information and communication technologies generally, healthcare and life sciences, and material sciences are just a few of these). Strategy thinking has developed to take account of so-called 'disruptive' technologies (Christensen, 1997), and

<sup>2</sup> Kurt Schär, Professor, IMD, Lausanne, 1985



these have become the most prominent drivers of game-changing strategy. Strategists nevertheless do well to remember that non-technological innovation also plays a substantial role, even though currently new business formation as well as new corporate business seems increasingly rooted in technology and particularly the internet.

Globalization has been no less important in opening up new strategic possibilities. There has been a sea change not only in the need to 'go beyond borders'

in a market sense, but also to understand that we live in an increasingly borderless world when it comes to sourcing the people and competences that are needed to support strategy. There are perhaps as many possibilities to source globally and market locally as there are to source locally and market globally—our original concept of international strategy.

Table 1 provides a time line of the developments, both in strategic practice as well as strategic thinking that have been described above.

**Table 1** - Timeline of the developments in strategic practice and in strategic thinking

| YEAR               | DEVELOPMENT   |
|--------------------|---|
| 700 BC             | Homer's Iliad   |
| 500 BC             | Sun Tzu: The Art of War   |
| Early 1800s        | de Caulincourt: With Napoleon in Russia   |
| Mid 1800s          | Darwin: The Origin of Species   |
| Mid 1700/Mid 1800s | Industrial revolution   |
| 1920s              | Henry Ford: Model T etc.  |
| Late 1920s         | GM: segmentation for value creation (Chevrolet, Oldsmobile etc)   |
| 1940s              | Marketing mix, 4 Ps   |
| 1950s/60s          | Diversification/segmentation: new structures;<br>Corporate vs business planning   |
| 1960s/70s          | Debt ceilings: product portfolio analysis<br>Cost importance: experience curves   |
| 1960s/70s          | PIMS<br>Market strategy vs marketing strategy<br>Streamlining planning processes: top-down/bottom-up<br>Integration of planning and budgeting |
| 1970s/80s          | Porter: Value chain; Industry and Competitive Analysis<br>5 forces model  |
| 1980s              | Abell: Business Definition as Strategy Starting Point   |
| 1980s/90s          | Abell: Dual Strategies  |
| 1990s              | Strebelt: Breakpoints<br>Kim & Mauborgne: Blue Ocean Strategies   |
| 1990s/2000         | Christensen: Disruptive Technologies  |
| 1990s-             | Globalization: Product markets <u>and</u> resource markets  |

## 5 THE MEANING OF STRATEGY TODAY

When we talk of strategy today, nearly 100 years since Ford adopted his famous strategy of 'any color you like as long as it is black', much flesh has been put on the bare bones of the five key elements referred to in the previous section, 'Strategy's Constant Common Core'. What we now include and mean by each of these five primordial elements of strategy can be summarized as follows:

### Objectives:

Mainly the role in the overall corporate or business portfolio, namely, is the business to be a cash

user, cash provider, or cash neutral vis-à-vis other businesses.

### Business Definition and Scope:

- Horizontally: The definition in terms of customer groups served, customer functions performed and technologies/means used to meet these requirements.
- Vertically: Where and how the firm uses the value chain 'inside', and business system beyond the firm, to gain competitive advantage

**Positioning:**

Where the firm competes in a two-dimensional map where perceived value is on one axis, and delivered cost/price on the other. Further, how the firm and its competitors move on this map as they prepare to compete in the future.

**Segmentation and Focus:**

How the market may be segmented for competitive advantage, and where the firm chooses specifically to compete through a focused strategy, a differentiated strategy segment-by-segment, or an undifferentiated approach to the whole market.

**Differentiation and USP:**

What the basis of the firm's competitive advantage is overall, as well as segment-by-segment, and how this differentiation is communicated.

Today's strategic thinking also recognizes that strategy can be described in two distinct time horizons. The first is 'current strategy' to guide today-for-today activities; the second is a strategy for tomorrow which is required to guide the development and transformation of the firm so that when tomorrow arrives, the firm is well prepared for this future. The five key elements can thus be thought of in two distinct lists (Table 2).

**Table 2 – Five key elements**

| <b>STRATEGY TODAY REQUIRES</b> | <b>STRATEGY TOMORROW REQUIRES</b> |
|--------------------------------|-----------------------------------|
| Objectives                     | Resetting of Objectives           |
| Business Definition            | Redefining the Business           |
| Positioning                    | Repositioning                     |
| Segmentation and Focus         | Resegmentation and Refocus        |
| Differentiation                | Redifferentiation                 |

Strategy can therefore be looked at as a filmstrip, which unrolls continuously. As change occurs in the competitive or external environment of the firm, it requires an anticipation of what has to be put in place in terms of competences and resources to be ready to meet the future and to implement a future strategy. The strategic process can be conceived of as one which looks outwards at opportunity and inwards at competences to maintain the best 'fit' between the two, as the film strip continually unrolls.

## 6 THE LIKELY SCOPE AND FOCUS OF STRATEGY TOMORROW

Forecasting the shape of things to come is, of course, fraught with difficulty. And Yogi Berra's wise words 'the future ain't what it used to be' should ring in our ears as a constant reminder of this. Nevertheless when it comes to strategy, cristal ball-gazing is not so doomed to failure as it may seem at first glance, the reason is simple: the new challenges are already upon us! What are yet to be developed are the concepts and ways to think and act strategically in the face of these challenges.

This author, at least, has for close to a decade been placing his bets on two main new development directions, and the unfolding picture of executive practice has only reinforced the conviction that these development efforts are on the right track. There is little place in this article to elaborate the insights which have already emerged from this work, but the broad

outlines can be indicated here. A fuller coverage must await the publication of a companion piece to this entitled 'The Evolution of Strategy: A Look Ahead' (Abell, forthcoming).

The first likely direction in the development of new strategic thinking will be to provide practicing executives with better ways to envision and plan for the future. To this end, this author has been working on six related threads of this difficult and complex challenge. The six in question are:

- The complementary roles of vision, which 'pulls' the company to the future, and the more concrete plans which 'push',
- How companies manage the three key, and complementary, instruments of change, namely, innovation, investment (in the broader sense of 'platform' building inside and outside the company), and transformation, as they navigate to the future.
- The dual roles of leadership, namely the leader as manager (focused on current performance), and the leader as entrepreneur/intrapreneur, to move the company to the future.
- 'Pattern recognition' and the understanding the patterns of evolution in such areas as customer behavior, market behavior, competitive dynamics, supplier behavior, and the broader interplay between innovation and investment.
- 'Pathways' followed by competitors in dynamic markets on the perceived value—

delivered cost/price map, as they jostle for competitive advantage and search for competitively empty spaces. When these competitor moves are aggregated together, recognizable patterns may be deciphered which give clues about future breakpoints and turning points.

- Strategies and competitive counter strategies involving the other four primordial strategic elements, namely, objectives business definition, segmentation, and differentiation.

The second likely direction, which this author has been pursuing, is to find ways to conceptualize and deal with the increasingly difficult **dilemmas** that now confront most general managers. Setting strategic direction is one thing; dealing with what often appear to be irreconcilable dilemmas is quite another. New 'strategic' thinking is necessary if firms are to succeed in moving towards the elusive goal of sustainability—not only for the planet and society, but for the firm itself.

Among the most pressing dilemmas in the new world that executives and their firms find themselves in are:

- To balance the requirement to maintain high short-term current performance with the innovation, investment, and transformation needed to succeed in the future. The question of estimating such long-term futures was already raised previously; the issue here is rather how to achieve the right balance between short and long-term. Achieving this balance is complicated by the fact that the needed balance changes almost constantly as business cycles evolve, as financial markets swing in pendulum fashion between an emphasis on short or long term, and as incentive schemes follow.
- To balance risk and return, as on one hand, globalization produces new competitive pressures which lower margins and profits, and on the other, financial markets demand adherence to financial performance which can seemingly only be realized by taking on more risk.
- To balance the business agenda with the growing calls and needs to take into account at the same time the needs of society-at-large. Societal needs are multi-dimensional, but jobs, the minimization of the negative social fall-out resulting from business growth, and environmental concerns, stand out. This author is not convinced that it is always possible, as one book proclaims, 'to do well by doing good' (Lazlo, 2008), and that often hard choices have to be made. To make purely business choices, we have seen earlier that the strategic process is centered on finding the

best fit between opportunities, which are available, and competences which the firm possesses. When the question becomes one of balancing the business agenda with broader societal agendas, the process also needs to be broadened. Not only opportunities (what 'could' be done) and competences (what 'can' be done) need evaluation, but also what 'should' be done and what the executive 'wants' to do. This balancing of can, could, want, and should involves a considerable step up in complexity, and needs not only analysis but shrewd judgment.

- To balance the business agenda with the personal agendas of both business leadership and employees. Two strategies which can be observed in practice in this respect which clearly do not work are for business leadership to ride the corporate horse till the horse flags or even dies (as we have seen with some very large poorly- led organizations over the last couple of decades), or for leadership to ride the corporate horse till either they and/or their employees flag or die (as we have also seen recently).
- Ensuring that ethical slippage does not undermine the integrity of a company. This author has for a while been convinced that this has less to do with deciding in a black or white way what is right or wrong, but rather in finding ways to install behaviors in organizations which lead to desirable results. Codes of conduct and Compliance systems are only two of the seven Cs which management and leadership need to use to do this. A number of cases<sup>3</sup> have been written in the last few years which show the importance of the other five Cs, namely, Communication, Controls, Culture, Compensation systems, and personal Conduct in achieving such desirable behavior.

Work so far on these dilemmas points in two clear directions with respect to the growing scope of strategic thinking which will be required: First, it suggests that line executives need to give considerable more attention than they do at present to defining the underlying purpose of the business, as they set objectives. Without a clear idea of enterprise purpose in hand, decisions about how the firm should handle the dilemmas it confronts cannot be made on a consistent basis. Executives in lower or subsidiary positions are therefore unlikely to make the right decisions.

<sup>3</sup> See for example the cases and teaching notes: 'George, Mario, and Kati'; and 'George Martin', by Derek F. Abell, ESMT Berlin 2009 (also available through ECCH, UK).

Second, work so far suggest that business leadership has to recognize more clearly than before that it has three main roles to play (not just the two described earlier): The leader as manager; the leader as mover and shaper of the future; and the leader performing a governance role. Governance, as the word is used here, means to put in place the guiding principles of vision, values, and purpose which frame all other decisions that the enterprise has to make. Today, concepts of governance are mostly applied to the role of boards. In fact, a high proportion of governance breakdowns can be traced to governance failures in top management.

Of course, the author's concentration on the two broad directions outlined above cannot possibly include all the possible strategic developments that will challenge executives in the future. Globalization will continue to bring ever-new challenges and opportunities. And technological change will continue to disrupt markets, and to turn conventional industry logic on its head. One important trend is already quite visible here, and that is the shift from technological development to developments in the basic sciences that often lie behind technology. The food industry is just one example. Two decades ago technology development was centered on manufacturing processes, and food features such as presentation, taste, and aroma. Today, the food industry is increasingly driven by developments in the life sciences as nutrition and well being become ever more important to the consumer.

On the process side, we can only expect more decentralization and more 'pushing down' of strategic responsibility to lower levels within the organization. The drivers of this are an ever increasing need to segment markets for competitive advantage, and the increasing need for entrepreneurial initiative further down the line. Strategy making continues not only to shift from staff to line, but from upper levels of line management to lower ones.

## 7 TAKE HOME

At the outset of this article, the author suggested two reasons why all executives need to grasp the broad evolutionary sweep of strategy-- past, present and future-- which has been described above. The first was to reduce errors of omission--executives talking about the same strategy in only partial terms, or using different language systems. Hopefully this article, and particularly what was summarized under the heading 'The Meaning of Strategy Today' will serve this first need.

The second reason given was to reduce errors of commission--executives using the wrong approach(es) to the challenge(s) that they confront. This article can help here too, but care must be taken not to apply blindly an approach developed at a different point in time and in a quite different economic

context. Frameworks and concepts should rather be used to ask relevant questions than to provide concrete answers. Above all, what is required to make intelligent use of the approaches referred to in this article is a trained and experienced eye and mind to identify the shape of the real problems at hand. Experience tells us that a large part of successful strategy-making, past, present and future, has to do with defining the strategic problem at hand at least as much as solving it.

Ibero-American executives, like executives in other emerging markets may well be asking themselves about the relevance of concepts and frameworks developed largely in response to challenges faced in the so-called developed markets of North America and Europe, and at quite other time points. The answer depends of course on the level of detail at which the relevance test is applied. It also depends on whether we talk about past, present, or future insights.

As far as level of detail is concerned, the generic concepts pointed to in this article have wide-ranging applicability. The specific strategic choices which may emerge from the application of these concepts are likely to be substantially rooted in the specifics of each country's and firm's situation. To be more explicit, the five primordial dimensions of strategy are quite universal, so even are the current definitions of what we now understand by each. What will not be the same are the specific strategies which will emerge. To give an example: many German multinational technology companies are currently strategically positioned in the high perceived value-- high cost and price 'North West' segment of the positioning map. Their problem is how to counter lower-cost Asian competition which often offers more 'appropriate' value to customers. For many Ibero-American competitors the strategic challenge is quite different--how to add more value to products and services through innovation (especially in the absence in some areas of leading-edge technology), and to move from somewhere in the middle of the positioning map to outflank foreign competitors attacking their home and regional markets.

As far as the applicability of past, present, and future concepts is concerned, the answer is most likely that there is much to learn from developed market's history. But future challenges and concerns may well diverge considerably from the concerns of companies in more mature markets. Even when looking back, the executives in Ibero-American and other emerging markets should be careful to recognize the particular nature of their own challenges before applying this or that approach too quickly.

With respect to insight which is likely to be needed in the future, certainly the two broad directions described earlier, namely, preparing for uncertain futures, and finding the right balance between conflicting objectives, will likely be highly relevant wherever the executive does business. But here it may well be that concepts developed in Ibero-America and



in other emerging markets inform thinking in the world's more mature markets, not the other way round as has historically been the case. The strategic challenges that are now likely to be confronted in the world's new and developing economies have ingredients never seen before anywhere. There is no reason to believe that those regions which are now locked into lower growth have a better chance to find solutions than those wrestling with rapid or sometimes volatile development. Some of the dilemmas which have been referred to above, and in particular trade-offs between short and long-term, risk and return and business and societal agendas, are now being confronted even more starkly in the developing world than in more developed mature markets. If, as the proverb suggests, 'necessity is the mother of invention', Ibero-American and other emerging markets are likely to lead as much as follow in the development of strategy and of strategic thinking in the future.

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