

---

---

# Michael Porter's Big Ideas

The world's most famous business-school professor is fed up with CEOs who claim that the world changes too fast for their companies to have a long-term strategy. If you want to make a difference as a leader, you've got to make time for strategy. Here's Michael Porter's clear-eyed take on why strategy matters now more than ever.

by Keith H. Hammonds

Here is how Michael E. Porter regards the business landscape:

Beginning in the mid-1980s, he more or less left the strategy world to its own devices, focusing his attention instead on the question of international competitiveness. He advised foreign governments on their economic policies and headed a U.S. presidential commission. He wrote books and papers on industry dynamics—from ceramics manufacturing in Italy to the robotics sector in Japan. He spoke everywhere. He was consumed by understanding the competitive advantage of nations.

Then, in the mid-1990s, he resurfaced. "I was reading articles about corporate strategy, too many of which began with 'Porter said... and that's wrong.'" Strategy had lost its intellectual currency. It was losing adherents. "People were being tricked and misled by other ideas," he says.

Like a domineering parent, Porter seems both miffed by the betrayal and pleased by his apparent indispensability. *I can't turn my back for five minutes*. Well, kids, the man is back. Porter seeks to return strategy to its place atop the executive pyramid.

Business strategy probably predates Michael Porter. Probably. But today, it is hard to imagine confronting the discipline without reckoning with the Harvard Business School professor, perhaps the world's best-known business academic. His first book, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (Free Press, 1980), is in its 53rd printing and has been translated into 17 languages. For years, excerpts from that and other Porter works have been required reading in "Competition and Strategy," the first-year course that every Harvard MBA student must take. Porter's strategy frameworks have suffered some ambivalence over the years in academic circles—yet

they have proved wildly compelling among business leaders around the world.

This is the paradox that Porter faces. His notions on strategy are more widely disseminated than ever and are preached at business schools and in seminars around the globe. Yet the idea of strategy itself has, in fact, taken a backseat to newfangled notions about competition hatched during the Internet frenzy: Who needs a long-term strategy when everyone's goal is simply to "get big fast"?

With his research group, Porter operates from a suite of offices tucked into a corner of Harvard Business School's main classroom building. At 53, his blond hair graying, he is no longer the wunderkind who, in his early thirties, changed the way CEOs thought about their companies and industries. Yet he's no less passionate about his pursuit—and no less certain of his ability. In a series of interviews, Porter told FAST COMPANY why strategy still matters.

**Business keeps moving faster—but you better make time for strategy.**

It's been a bad decade for strategy. Companies have bought into an extraordinary number of flawed or simplistic ideas about competition—what I call "intellectual potholes." As a result, many have abandoned strategy almost completely. Executives won't say that, of course. They say, "We have a strategy." But typically, their "strategy" is to produce the highest-quality products at the lowest cost or to consolidate their industry. They're just trying to improve on best practices. That's not a strategy.

Strategy has suffered for three reasons. First, in the 1970s and 1980s, people tried strategy, and they had problems with it. It was difficult. It seemed an artificial exercise. Second, and at the same time, the ascendance of Japan really riveted attention on implementation. People argued that

strategy wasn't what was really important—you just had to produce a higher-quality product than your rival, at a lower cost, and then improve that product relentlessly.

“Strategy is about making choices, trade-offs; it's about deliberately choosing to be different.”

The third reason was the emergence of the notion that in a world of change, you really shouldn't have a strategy. There was a real drumbeat that business was about change and speed and being dynamic and reinventing yourself, that things were moving so fast, you couldn't afford to pause. If you had a strategy, it was rigid and inflexible. And it was outdated by the time you produced it.

That view set up a straw man, and it was a ridiculous straw man. It reflects a deeply flawed view of competition. But that view has become very well entrenched.

The irony, of course, is that when we look at the companies that we agree are successful, we also agree that they all clearly do have strategies. Look at Dell, or Intel, or Wal-Mart. We all agree that change is faster now than it was 10 or 15 years ago. Does that mean you shouldn't have a direction? Well, probably not. For a variety of reasons, though, lots of companies got very confused about strategy and how to think about it.

#### **Of course strategy is hard—it's about making tough choices.**

There's a fundamental distinction between strategy and operational effectiveness. Strategy is about making choices, trade-offs; it's about deliberately choosing to be different. Operational effectiveness is about things that you really shouldn't have to make choices on; it's about what's good for everybody and about what every business should be doing.

Lately, leaders have tended to dwell on operational effectiveness. Again, this has been fed by the business literature: the ideas that emerged in the late 1980s and early 1990s, such as total quality, just-in-time, and reengineering. All were focused on the nitty-gritty of getting a company to be more effective. And for a while, some Japanese companies turned the nitty-gritty into an art form. They were incredibly competitive.

Japan's obsession with operational effectiveness became a huge problem, though, because only strategy can create sustainable advantage. And strategy must start with a different value proposition. A strategy delineates a territory in

which a company seeks to be unique. Strategy 101 is about choices: You can't be all things to all people.

The essence of strategy is that you must set limits on what you're trying to accomplish. The company without a strategy is willing to try anything. If all you're trying to do is essentially the same thing as your rivals, then it's unlikely that you'll be very successful. It's incredibly arrogant for a company to believe that it can deliver the same sort of product that its rivals do and actually do better for very long. That's especially true today, when the flow of information and capital is incredibly fast. It's extremely dangerous to bet on the incompetence of your competitors—and that's what you're doing when you're competing on operational effectiveness.

What's worse, a focus on operational effectiveness alone tends to create a mutually destructive form of competition. If everyone's trying to get to the same place, then, almost inevitably, that causes customers to choose on price. This is a bit of a metaphor for the past five years, when we've seen widespread cratering of prices.

There have been those who argue that in this new millennium, with all of this change and new information, such a form of destructive competition is simply the way competition has to be. I believe very strongly that that is not the case. There are many opportunities for strategic differences in nearly every industry; the more dynamism there is in an economy, in fact, the greater the opportunity. And a much more positive kind of competition could emerge if managers thought about strategy in the right way.

#### **Technology changes, strategy doesn't.**

The underlying principles of strategy are enduring, regardless of technology or the pace of change. Consider the Internet. Whether you're on the Net or not, your profitability is still determined by the structure of your industry. If there are no barriers to entry, if customers have all the power, and if rivalry is based on price, then the Net doesn't matter—you won't be very profitable.

Sound strategy starts with having the right goal. And I argue that the only goal that can support a sound strategy is superior profitability. If you don't start with that goal and seek it pretty directly, you will quickly be led to actions that will undermine strategy. If your goal is anything but profitability—if it's to be big, or to grow fast, or to become a technology leader—you'll hit problems.

Finally, strategy must have continuity. It can't be constantly reinvented. Strategy is about the basic value you're trying to deliver to customers, and about which customers you're trying to serve. That positioning, at that level, is where continuity needs to be strongest. Otherwise, it's hard for your organization to grasp what the strategy is. And it's hard for customers to know what you stand for.

#### **Strategy hasn't changed, but change has.**

On the other hand, I agree that the half-life of everything has shortened. So setting strategy has become a little more

complicated. In the old days, maybe 20 years ago, you could set a direction for your business, define a value proposition, then lumber along pursuing that. Today, you still need to define how you're going to be distinctive. But we know that simply making that set of choices will not protect you unless you're constantly sucking in all of the available means to improve on your ability to deliver.

So companies have to be very schizophrenic. On one hand, they have to maintain continuity of strategy. But they also have to be good at continuously improving. Southwest Airlines, for example, has focused on a strategy of serving price-minded customers who want to go from place to place on relatively short, frequently offered flights without much service. That has stayed consistent over the years. But Southwest has been extremely aggressive about assimilating every new idea possible to deliver on that strategy. Today, it does many things differently than it did 30 years ago—but it's still serving essentially the same customers who have essentially the same needs.

The error that some managers make is that they see all of the change and all of the new technology out there, and they say, "God, I've just got to get out there and implement like hell." They forget that if you don't have a direction, if you don't have something distinctive at the end of the day, it's going to be very hard to win. They don't understand that you need to balance the internal juxtaposition of change and continuity.

The thing is, continuity of strategic direction and continuous improvement in how you do things are absolutely consistent with each other. In fact, they're mutually reinforcing. The ability to change constantly and effectively is made easier by high-level continuity. If you've spent 10 years being the best at something, you're better able to assimilate new technologies. The more explicit you are about setting strategy, about wrestling with trade-offs, the better you can identify new opportunities that support your value proposition. Otherwise, sorting out what's important among a bewildering array of technologies is very difficult. Some managers think, "The world is changing, things are going faster—so I've got to move faster. Having a strategy seems to slow me down." I argue no, no, no—having a strategy actually speeds you up.

### **Beware the myth of inflection points.**

The catch is this: Sometimes the environment or the needs of customers do shift far enough so that continuity doesn't work anymore, so that your essential positioning is no longer valid. But those moments occur very infrequently for most companies. Intel's Andy Grove talks about inflection points that force you to revisit your core strategy. The thing is, inflection points are very rare. What managers have done lately is assume that they are everywhere, that disruptive technologies are everywhere.

Discontinuous change, in other words, is not as pervasive as we think. It's not that it doesn't exist. Disruptive technologies do exist, and their threat has to be on every-

one's mind. But words like "transformation" and "revolution" are incredibly overused. We're always asking the companies we work with, "Where is that new technology that's going to change everything?" For every time that a new technology is out there, there are 10 times that one is not.

Let's look again at the Internet. In FAST COMPANY two years ago, we would have read that the Internet was an incredibly disruptive technology, that industry after industry was going to be transformed. Well, guess what? It's not an incredibly disruptive technology for all parts of the value chain. In many cases, Internet technology is actually complementary to traditional technologies. What we're seeing is that the companies winning on the Internet use the new technology to leverage their existing strategy.

### **Great strategists get a few (big) things right.**

Change brings opportunities. On the other hand, change can be confusing. One school of thought says that it's all just too complicated, that no manager can ever solve the complex problem that represents a firmwide strategy today. So managers should use the hunt-and-peck method of finding a strategy: Try something, see if it works, then proceed to the next. It's basically just a succession of incremental experiments.

I say that method will rarely work, because the essence of strategy is choice and trade-offs and fit. What makes Southwest Airlines so successful is not a bunch of separate things, but rather the strategy that ties everything together. If you were to experiment with onboard service, then with gate service, then with ticketing mechanisms, all separately, you'd never get to Southwest's strategy.

You can see why we're in the mess that we're in. Competition is subtle, and managers are prone to simplify. What we learn from looking at actual competition is that winning companies are anything but simple. Strategy is complex. The good news is that even successful companies almost never get everything right up front. When the Vanguard Group started competing in mutual funds, there was no Internet, no index funds. But Vanguard had an idea that if it could strip costs to the bone and keep fees low—and not try to beat the market by taking on risk—it would win over time. John Bogle understood the essence of that, and he took advantage of incremental opportunities over time.

You don't have to have all the answers up front. Most successful companies get two or three or four of the pieces right at the start, and then they elucidate their strategy over time. It's the kernel of things that they saw up front that is essential. That's the antidote to complexity.

### **Great strategies are a cause.**

The chief strategist of an organization has to be the leader—the CEO. A lot of business thinking has stressed the notion of empowerment, of pushing down and getting a lot of people involved. That's very important, but empowerment and involvement don't apply to the ultimate act of choice. To be

successful, an organization must have a very strong leader who's willing to make choices and define the trade-offs. I've found that there's a striking relationship between really good strategies and really strong leaders.

That doesn't mean that leaders have to invent strategy. At some point in every organization, there has to be a fundamental act of creativity where someone divines the new activity that no one else is doing. Some leaders are really good at that, but that ability is not universal. The more critical job for a leader is to provide the discipline and the glue that keep such a unique position sustained over time.

Another way to look at it is that the leader has to be the guardian of trade-offs. In any organization, thousands of ideas pour in every day—from employees with suggestions, from customers asking for things, from suppliers trying to sell things. There's all this input, and 99% of it is inconsistent with the organization's strategy.

Great leaders are able to enforce the trade-offs: "Yes, it would be great if we could offer meals on Southwest Airlines, but if we did that, it wouldn't fit our low-cost strategy. Plus, it would make us look like United, and United is just as good as we are at serving meals." At the same time, great leaders understand that there's nothing rigid or passive about strategy—it's something that a company is continually getting better at—so they can create a sense of urgency and progress while adhering to a clear and very sustained direction.

A leader also has to make sure that everyone understands the strategy. Strategy used to be thought of as some

mystical vision that only the people at the top understood. But that violated the most fundamental purpose of a strategy, which is to inform each of the many thousands of things that get done in an organization every day, and to make sure that those things are all aligned in the same basic direction.

If people in the organization don't understand how a company is supposed to be different, how it creates value compared to its rivals, then how can they possibly make all of the myriad choices they have to make? Every salesman has to know the strategy—otherwise, he won't know who to call on. Every engineer has to understand it, or she won't know what to build.

The best CEOs I know are teachers, and at the core of what they teach is strategy. They go out to employees, to suppliers, and to customers, and they repeat, "This is what we stand for, this is what we stand for." So everyone understands it. This is what leaders do. In great companies, strategy becomes a cause. That's because a strategy is about being different. So if you have a really great strategy, people are fired up: "We're not just another airline. We're bringing something new to the world."

---

KEITH H. HAMMONDS (KHAMMONDS@FASTCOMPANY.COM)  
IS A *FAST COMPANY* SENIOR EDITOR BASED IN NEW YORK.  
CONTACT MICHAEL PORTER BY EMAIL (MPORTER@HBS.EDU).

---

From the *Fast Company* magazine, March 2001, pp. 150, 152-154, 156. © 2001 by the Fast Company.