Differences in opinion on the content and process of developing strategy are passionately-argued. They often seem rampant and huge – particularly to the protagonists. Yet these debates are mostly little more than “academic”. They cease to matter when we realise that: (1) strategy needs to be approached from a variety of perspectives; and (2) rather than adopt a single perspective at the expense of all others, good strategies have to achieve a fine balance between seemingly divergent views.

What issues should senior executives consider in thinking about a new strategy and how should they think about them? Despite the apparent simplicity of this question, it is one of the most controversial in the field of management. People seem to disagree about almost everything contained in this question: about what issues are relevant; about the process that a manager should go through to develop strategy; and about the actual physical output that should emerge at the end of a strategy process. Sometimes, they even disagree as to whether we can actually “think” about strategy at all.

As with most academic debates, when one probes below the surface, the apparently-divergent points of view are in fact amazingly similar. And even when views are not so similar, it does not mean that one is superior to another. Further analysis reveals that rather than depend on one perspective at the expense of all others, good strategies encompass elements from all the different perspectives and points of view. Yet, the academic debates continue to rage on like uncontrolled forest fires, spreading confusion among both academics and managers. In this article, I identify the three main areas of “controversy” and discuss how strategy must achieve a fine balance between these “different” points of view. The three main areas of controversy are:

- What constitutes the content and process of strategy.
- Strategy as analysis or as creativity.
- Strategy dynamics.

Problem One: The Content and Process of Strategy
There is general agreement that every company needs a strategy – either explicit or implicit. Yet, there is surprisingly little agreement as to what strategy really is. Within both business and academic circles, it is not easy to identify two people who share the same definition of strategy. For example, consider the numerous ways that academics have defined strategy over the years: as positioning the company in its industry environment; as a collection of a few simple rules; as hustle; as stretch and leverage; as the embodiment of a company’s values; and so on. Add to these the plethora of other possible definitions currently making the rounds (definitions which might
include such “hot” concepts as strategic intent, vision, core competences, breaking the rules, learning, systems thinking and so on) and you begin to understand why even The Economist has claimed that “nobody really knows what strategy is”. (20.3.93, p106).

Similar confusion and disagreements also exist on the process by which good strategies are developed. According to Gary Hamel (1998), we are all experts after the fact in identifying companies with superior strategies but we have little to say on how these superior strategies were created in the first place or how other companies could develop similarly innovative strategies. Along similar lines, the big debate that ensued following the publication of Michael Porter’s 1996 Harvard Business Review (HBR) article: “What is Strategy?” was whether a company can choose its strategy through a rational thinking process or whether the strategy really “emerges” through a process of experimentation.

Let us first consider the debate on the content of strategy. Beyond the rhetoric, we can identify two main schools of thought on what strategy is. The more “Porterian” view of strategy emphasizes the positioning elements of strategy. This school views strategy primarily as positioning the company in its industry environment. This is another way of saying that strategy is all about choosing a good game to play (Porter 1980). The other main school of thought considers positioning to be “static” and old news. Proponents of this school encourage us to embrace the “new” and more “dynamic” view of strategy which emphasizes outplaying and out-maneuvering our competitors, no matter what game they are playing. According to this way of thinking, strategy is more about how you play the game than about choosing what game to play (D’Aveni 1994, Kay 1994).

It should be quite obvious to all that strategy is both of these things: strategy must decide what game we want to play and then determine how to play that game well. Both are important decisions and both belong to strategy. Deciding on what game to play boils down to making choices on two dimensions: who to target as customers and what to offer them. Determining how to play this game requires us to decide what value-chain activities we will perform (and what not to). Put the two together and it becomes quite clear that strategy is all about finding answers to three interrelated questions: Who will be my targeted customers? What products and services should I be offering? And How should I offer these products and services to my targeted customers in an efficient and innovative way (Markides 2000)?

To see how these three decisions combine to form an organization’s strategy, consider the situation facing the newly-appointed CEO of the Nestlé subsidiary, Nespresso, in 1988 (see box). Note in particular how this manager had to make some difficult choices on all three of these parameters.

The “new” challenge: competing for the future

As if the confusion generated from the two schools of thought identified above was not bad enough, we now have a new challenge to strategy. In their best-selling book Competing for the Future, Gary Hamel and C.K. Prahalad (1994) have argued that the prevailing view of strategy is flawed. Their main criticism is that as practised today, strategy is preoccupied with fixing the problems in the existing business rather than thinking about future businesses. To them, strategy is not about deciding on “What game to play?” or “How to play the game?” because both of these issues emphasize how to win in the current business. For them, the essence of a good strategy is to create new markets, new products, new industries, new “white spaces”. This leads them to their position that strategy should be about competing for the industries of the future rather than competing for market share in the industries of today.

It is hard to argue with the need to focus the organization’s attention on discovering new markets. But this should not come at the expense of today’s businesses. Sure, every company needs to worry about the future and every company should attempt to create the industries of the future. But in the meantime, a company must also ensure that it is still making money in its existing markets. After all, without making sure that we are winning in the markets of today, there will be no future for us to worry about!

Therefore, the key question for any company is not whether it should try to create the industries of the future but how to take care of its existing business
In early 1988, Mr Jean-Paul Gaillard had just taken over the Nespresso subsidiary which, despite selling one of Nestlé’s most innovative new products, was facing serious financial problems. He therefore had to decide how to rejuvenate the subsidiary’s financial fortunes by developing a new strategy.

The Nespresso product was a system which allowed the consumer to produce a fresh cup of espresso coffee at home. Though simple in appearance and use, it took Nestlé more than ten years to develop it. The system consisted of two parts: a coffee capsule and a machine. The coffee capsule was hermetically sealed in aluminum and contained 5g of roast and ground coffee. The machine consisted of four parts – a handle, a water container, a pump and an electrical heating system. These four parts were cast into a body and formed the machine.

The use of the Nespresso system was straightforward. The coffee capsule was placed in the handle which was then inserted into the machine. The act of inserting the handle into the machine pierced the coffee capsule at the top. At the press of a button, pressurized, steamed water was passed through the capsule. The result was a creamy, foamy and high-quality cup of espresso coffee.

The new product was introduced in 1986. The original strategy adopted by Nestlé was to set up a joint venture with a Swiss-based distributor called Sobal to sell the new product. This joint venture (named Sobal-Nespresso) was supposed to purchase the machines from another Swiss Company (called Turmix), the coffee capsules from Nestlé and then distribute and sell everything as a system – one product, one price. Offices and restaurants were targeted as the customers and a separate unit called Nespresso SA was set up within Nestlé to support the joint venture and to service and maintain the machines.

By 1988, it was clear that the new product was not living up to its promise. Sales were well below budget and quality problems were driving costs through the roof. Nestlé headquarters was considering freezing the operation when Jean-Paul Gaillard took over. He had to decide whether and how to strategically reposition the subsidiary.

But which way should he go? At the top of his “to-do” list were questions such as: “Should we continue targeting offices and restaurants as our customer or should we focus on upper-income households and individuals?” “Should we continue focusing our activities in Switzerland or should we expand in other espresso-friendly countries?” “Should we stick to our current strategy of selling both the coffee and the machines as a system or should we just concentrate on coffee?” “Does our current distribution policy make sense or should we choose an alternative distribution method such as the Internet or mail order?”

These were not easy questions and the answers were not immediately obvious. Yet, these questions had to be asked, possible alternatives identified and specific choices made. In fact, going through the process of asking these questions and then making difficult choices (which may turn out to be wrong) is what strategy is all about.

As it turned out, Jean-Paul Gaillard chose correctly for Nespresso. He changed the targeted customer from offices to high-income households and the distribution of the coffee capsules from the joint venture to mail order (through the “Nespresso Club”). As a result of these choices and other strategic decisions, Nespresso grew tremendously in the next five years. The main point of this story is simple: the heart and soul of strategy is asking the “who-what-how” questions, developing alternatives and choosing what to do and what not to do.

Let me therefore repeat my main point: strategy is all about deciding what game we want to play and then playing that game well. Both are important decisions and both belong to strategy. Both require the company to make choices – often painful ones. A company that fails to make choices abdicates one of its most important responsibilities.
while at the same time attempting to create the industries of the future. This means that strategy is more than just deciding what game we want to play and playing that game well. While doing this, every company should also prepare for an unknown future – either by trying to create this new future itself or by creating the conditions that would allow it to exploit the future when this unfolds.

A company can do this in two basic ways. The first way is simple enough: once it has settled on a “Who/What/How” position in its existing business, a company must repeatedly revisit these choices and continuously question the answers it has given to these three questions. Strategic planning, if done properly, should primarily be about challenging and questioning the answers that a company has given to the “Who-What-How” questions in previous years.

The second way that a company can take care of its existing business while attempting to create the industries of the future is to accept that in all likelihood, that company will not be the one that comes up with the new innovation that creates a new industry. In most cases, the best that the company can do is to be ready to take advantage of an innovation when somebody else develops it. But what exactly does it mean “to be ready”?

Research shows that most established companies fail when a new technological innovation invades their market (eg Cooper and Smith 1992, Cooper and Schendel 1976). But the reason they fail is not because they neglect to adopt the new technology but because: (1) they do not have the necessary core competences to take advantage of it; (2) they wait too long before adopting it and they abandon it with the first sign of trouble; (3) they are trapped in their ways of competing so that their past core competences have become core rigidities; and (4) even when adopting a new technology, they do not manage the organizational transition from the “old” to the “new” as effectively as they should.

What all this means is that for an organization “to be ready” for the inevitable innovation that would disrupt its market, it has to:

- build internal variety that would allow it to develop competences even before it even knows which competences will be needed.
- Institutionalize continuous innovation in its culture and values.
- Develop a culture that continuously questions the established status quo and encourages experimentation and change.
- Develop an early monitoring system that warns it of what Intel’s Andy Grove called “inflexion points” in its future – well in advance.
- Continuously challenge and update its capabilities so as prevent core competences from becoming core rigidities.
- Organize itself to be effective in a dying business while making the transition to the new market.

This discussion suggests that we need to broaden our definition of strategy. The new definition must include not only a consideration of what game to play and how to play it, but also a consideration of how our company can attempt to create, or at least prepare for, the industries of the future while taking care of its existing business.

More confusion: The making of strategy

The discussion so far has focused on the question: “what is strategy?” It is obvious that differences of opinion exist on the answer to this question. Unfortunately, similar confusion and disagreements also exist on the process by which good strategies are developed. As argued by Gary Hamel (1996): “...the practice of strategy must be re-invented. Sorry, did I say re-invent? Let’s not pretend. There’s little that’s worth re-inventing. Surely we’re not going to start with the traditional planning process in our quest to increase the value-added of strategy! No, we must start from scratch.”

The big disagreements on the process of creating strategy revolve around two issues:

- Can we plan for strategy – or do good strategies emerge through experimentation and trial and error (the “Design” versus “Emergent” schools of thought)?
In developing strategy do we start with an analysis of the market and then think what we need to do in this market or do we start with an analysis of our existing core competences and think how to build competitive advantage on the back of these competences (the “Industrial Organization” school versus the “Resource-based” view of the firm).

(1) Can we plan strategy?

A marvellous articulation of the first debate (ie can we plan for strategy?) is found in the exchange of letters between Michael Porter and Ian MacMillan/Rita Gunther McGrath (1997), following Porter’s article in HBR. Whereas Porter seems to imply that strategy can be a well-thought out plan of action, MacMillan and McGrath argue that strategy is nothing more than the final outcome of a process of trial-and-error and learning by doing.

As before, the answer to this debate lies somewhere in the middle of these two extreme points of view: strategy must encompass both ends of this spectrum. On the one hand, it has to be thought-out and planned at a general level; on the other hand, it must remain flexible and adaptable to new learning and changes in the market. Although analysis will not produce a full-fledged strategy ready to be implemented, it does help us narrow the options. Experimentation can then follow on a limited number of options so that the dead ends can be identified and the “unexpected” opportunities uncovered. It would take a hopelessly romantic planner to argue that in-depth analysis alone is what creates masterful strategies. However, it would be equally silly to pretend that analysis or thinking are not necessary ingredients and that trial and error alone will give rise to a winning strategy. Both are essential elements of strategy: analysis sketches the “skeleton” of a possible strategy; experimentation allows us to refine, add or change altogether our original skeleton.

To see this point in action, consider once again the case of Nespresso. There is no question that the strategy adopted by Jean-Paul Gaillard at Nespresso was a winning strategy. By targeting households instead of offices as his customers; by unbundling the coffee machines and their servicing from the sale of coffee; by developing two separate selling and distribution methods – one for the coffee and one for the machines; and by developing an “aura” of exclusivity through the “Nespresso Club”, Gaillard rejuvenated the fortunes of Nespresso and turned a dying operation into a growing unit within Nestlé.

But how did Jean-Paul Gaillard come up with his brilliant strategy? Did he really plan for all this or did the ideas somehow “emerge” over time through trial and error? According to Gaillard, it was a mixture of both. When he joined Nespresso, it was clear that the existing strategy was not working. Based on the situation he inherited and using his past experience as a guide, he made certain decisions – like the decision to change the targeted customer focus from offices to households and the decision to separate the coffee from the machine side of operations. According to Gaillard: “I knew in my guts that these were the correct decisions. But you are not 100% sure. So you try them out in a limited way; and you learn as you go along...”

The Nespresso example demonstrates a simple but powerful point: the process of developing superior strategies is part planning, part trial and error, until you hit upon something that works. Sometimes you start with the planning part and then adjust what you have through trial and error. Other times you start with trial and error and then use planning to fine-tune the system.

Strategy-making must encompass both elements. This point must be emphasized because it has become fashionable lately for people to argue that, in today’s volatile environment, planning is useless: by the time you decide on a plan, the claim goes, the environment has changed so much that your plan is no longer valid. The best you can do is develop an organizational environment that allows superior ideas and strategies to emerge through day-to-day experimentation by everybody in the organization (Hamel 1998).

Without denying the importance of developing such an organizational environment, I argue that this is not enough. A company that relies only on trial and error to develop its strategy is like a rudderless ship being torn apart in the middle of the ocean. The parameters within which the firm will operate must be developed before experimentation is allowed to take place; and these parameters can only be developed...
by top management – not by just anybody in the organization. Experimentation without clear boundaries will lead to chaos, confusion and ultimately a demotivated workforce. Similarly, top managers that shy away from deciding the parameters within which their people can maneuver (in the name of democracy and flexibility), are abdicating one of the most crucial responsibilities of leadership.

Therefore, to repeat my main point, the ideas that make up a strategy (such as what customers to target or what products to sell) can emerge through careful planning or after experimentation. Anybody in the organization can come up with these ideas, but it is the responsibility of top management to decide what will be implemented and what will be discarded.

(2) Where do we start our analysis?
The second debate on creating strategy stems not so much from real disagreements as from differences in emphasis: should we start our strategy process by analysing the external market or should we start by building on our existing competencies? The first approach emphasises an external orientation while the second approach stresses an internal one.

Needless to say, consideration of both the outside market and the inside competences must underpin any strategy development – after all, the goal is to discover a fit between the inside and the outside so consideration must be given to both. However, how we decide to start will ultimately determine how creative we are in thinking of strategic options.

This is because most companies have a dominant way of thinking about strategy. Some start with the outside market and try to decide what to do while others start with their internal competences and try to leverage them. The problem is that after following the dominant way of thinking a few times, people become comfortable in that way of thinking and passive thinking sets in. As a result, we don’t really think about the issues in a creative way. For this to happen, people must become “uncomfortable”.

Therefore, innovations in strategy take place when a company is able to switch from its dominant way of thinking to an alternative way. It is this continuous switching from one way of thinking to another and the continuous switching from one sequence of questions to another that “wakes up” the mind and prompts active thinking. And it is active thinking that leads to strategic innovation. This implies that sometimes a company must start its strategy process with an external orientation and then switch to an internal orientation. At other times, it should start with an internal orientation and then switch to an external one. It is the continuous switching from one to the other which is crucial – not picking one of them as the “right” one.

A fascinating illustration of the power of switching the starting point of our thinking was recently articulated by Hal Rosenbluth, the president and CEO of Rosenbluth Travel. In describing how he managed to transform the company from a $20m business in 1978 to a $1.3bn global travel management company by 1990, he argues that: “...our biggest advantage was to understand that as deregulation changed the rules of travel, we were no longer in the travel business so much as we were in the information business” [emphasis added]. This fundamental re-thinking of what business the company was in led Rosenbluth to initiate a series of actions (such as acquisitions of computers and airline reservation systems, the development of a private reservation data system, the development of relational databases, etc) which to an outside observer must have seen, at the very least, “strange”. But to Rosenbluth, these actions made perfect sense: if you are in the travel information business, this is what you need to be successful. Hal Rosenbluth claims that the company had undergone a similar transformation in 1892, when his great-grandfather had an insight into the business. He realized that “...he wasn’t just in travel, selling tickets to people who wanted to cross the Atlantic. He was in family immigration, getting whole clans of people successfully settled in America.”

Such redefinition of the business is at the heart of strategic innovation. It is truly remarkable how many of today’s strategic innovators started out on their revolutionary journey by first redefining the business they were in. Thus, Howard Schulz, president of Starbucks, does not believe he is in the coffee business. Instead, he is in the business of creating a consumption experience, of which coffee is a part. Thus, a visit to one of his stores is “...romance, theatrics, community – the totality of the coffee experience” (Wall Street Journal, 8.1.93, pB2). It goes without saying that if you think you are in the “experience” business rather than the coffee business, you will behave very...
differently from any competitor who thinks he/she is in the coffee business. Not better, just differently.

Such redefinition of the business is possible only if the question “What business are we really in” is asked. It does not mean that by asking the question a new or even better definition will be discovered. But even a remote possibility of discovering something new will never come up if the question is never asked.

Problem Two: Strategy as Analysis Rather than Creativity

The second major problem with strategy today is that we often confuse tools and frameworks with the strategy itself, while rational analysis of data has become the accepted way to develop strategy. Strategic thinking and strategic planning in the modern corporation have degenerated into a search for “the formulae of success” where wishful thinking (ie stargazing), sexy slogans (ie vision statements) and/or non-thinking and logical analysis of data have replaced true strategic thinking. In many companies, strategic planning takes the form of mindless number crunching and endless projections whose ultimate purpose is to prepare huge reports that nobody would read.

Inevitably, there has been a justifiable backlash against such waste of company time and resources. One response has been to get rid of the “strategic planning” department and to abandon “strategic planning” altogether. Another response has been to emphasize the importance of “emergent” strategies over “planned” ones – that is, strategies that apparently emerge over time through experimentation and trial and error. Yet another response has been the recent rise of the “democratic” way to develop strategy – where everybody in the organization is expected to put on their army-general hats and contribute to the development of the company’s strategy. My position is that all these reactions are unnecessary and the wrong response to the problem.

Strategy should be a mixture of rational thinking and creativity; of analysis and experimentation; of planning and learning. Researchers who have examined how the eyes of chess masters move during a competitive game have found that, once their opponent has made a move, the chess master’s eyes will go straight to the best move possible 75% of the time. However, after this initial reaction, the chess master’s eyes will evaluate other possible moves before eventually returning (75% of the time) to the original best move. This suggests that chess masters rise to the top on the basis of creativity and analysis. Strategy should not be any different.

To be effective, strategic thinking should be creative and intuitive (rather than just rational) and should be supported (but not substituted) by analysis. Effective strategic thinking is a process of continuously asking questions and thinking through the issues in a creative way. Thus, correctly formulating the questions is often more important than finding a “solution”; thinking through an issue from a variety of angles is often more productive than collecting and analysing unlimited data; and actually experimenting with new ideas is often more critical than scientific analysis and discussion.

Unfortunately, as Kenichi Ohmae (1982) has commented in his book The Mind of the Strategist, the culture of the modern corporation exalts logic and rationality. Hence, it is analysts rather than innovators who tend to get ahead.

To be effective, strategic thinking should be a creative thinking process based on real facts and analysis which tries to combine the rational with the emotional. Thus, the essence of effective strategic thinking is (1) to think through the issues in a creative way; and (2) to not only come up with innovative new ideas but to generate the necessary emotional commitment on the part of the organization that will result in the people actually changing their behaviours to effectively implement these new ideas. A good strategy must, therefore, balance:

- the emotional with the logical and rational;
- the thinking process with the application and implementation of ideas;
- the creative jumps with the analysis of facts.

Consider, for example, what the CEO of the small Danish bank Lån & Spar had to say upon the successful implementation of a radical new strategy at the bank in the early 1990s: “…I have been in the banking industry since the age of 16. By the time I
moved to Lån & Spar as the CEO, I had already thought about the issues and I had pretty much decided on the main elements of our new strategy. In fact, I had tested this concept in a limited way in my previous bank. However, I had to go slow at first. We had to try out some of these things first before rolling them out full scale...

Most strategy books and most teaching on strategy tend to focus on the techniques and the analytical tools that people can use in developing strategy, forgetting that tools are not a substitute for thinking. Any manager entrusted with developing strategy must understand that the thinking process that they go through is more important than finding “the answer”; and that strategy is based more on creativity than analysis.

A major reason for the current sad state of affairs is the way strategy is taught at most business schools. When one looks at how companies actually develop strategy, the process that they use (either formally or in the CEO’s head) is one of trying to find answers to specific questions, such as: who are my competitors and how can I position myself relative to them? Who are my customers and how can I satisfy their needs? What are the key success factors in this business and what can I do to develop a competitive advantage? What changes are taking place in my business and how should I react to them?

Yet, when one opens any strategy book (which supposedly aims to help managers develop a strategy), you very rarely find the book devoted to helping managers ask and find answers to these questions. What you find instead is a book with chapter titles such as “Cost and Differentiation Strategies” or “Analyzing the Environment”. In other words, we do not structure our books in the way a manager thinks of strategy but in self-contained chunks of knowledge which we then expect the manager to integrate and put together so as to develop a strategy.

This implies that the strategy field is in need of process re-engineering. We business schools never look at the issue of “how to develop strategy” from the customer’s point of view. We are – like every other organization in this world – supply-driven. We therefore teach our MBA students a course on Marketing, a course on Finance and a course on OB and we then expect them to do the integration. Our strategy books provide the intellectual inputs that go into a strategy but we then leave it up to the customer to put it all together and develop the strategy.

However, our customers do not think like this. They have certain questions to answer, such as: “who are my competitors and what shall I do to gain competitive advantage over them?” In answering this question, they have to use some knowledge from Marketing and some from OB. But they do not care if we call some of this knowledge Marketing and some OB. Just like a customer who doesn’t care if it is the front desk or the room service people who messed up his stay at the hotel, the customer of strategy is not interested in the labels we put on our different inputs. What they want is a “total” service from us. Thus, to be truly customer-driven, business schools need to identify all the relevant questions that a manager needs to address and then help this manager think through these questions.

The worst side-effect of our tendency to be supply-driven rather than customer-driven is the chasm that has been created between strategy formulation and implementation. We have very little to say to our customers about how to do anything. We have been preoccupied with telling them how to think about something and we left them to do it as they saw fit. It is only when we think in terms of the questions that they themselves think that it becomes impossible for us not to think of the implementation issues as well. It is only when we look at the issues as they (the customers) see them that formulation and implementation cease to be two separate entities and, as if by magic, fuse into one.

Problem Three: The Dynamic Elements of Strategy

The third and final problem with strategy today is that it is ahistorical – that is, it does not place a company in its historical context. Yet, what a company needs to do and what strategy it needs to follow is often contingent on where in its evolution that company is. For example, whether a company should “stick to its knitting” or diversify out of its core depends to a large extent on whether a technological innovation is about to destroy the company’s core. Similarly, whether a company should try to be “better” than its competitors or try instead to be “different” by breaking the rules of the game depends primarily on where in its evolution that company’s industry is located.
Failure to think of companies in a dynamic way has resulted in two major problems. The first and more apparent problem is the conflicting and contradictory advice given to companies by academics or consultants. Examples abound:

- Following the success of the book *In Search of Excellence* by Peters and Waterman (1982), companies were advised to “stick to their knitting”. Yet, another consultant (Richard Foster) from the same firm (McKinsey) in his study of technological innovations (Foster 1986) suggested that the last thing a company wants to do in times of technological upheaval is stick to its knitting.

- Similarly, Ted Levitt (1960) argued in his influential HBR article *Marketing Myopia* that companies should define their business according to the underlying functionality of their products. Yet, Hermann Simon (1996), in his study of German success stories (*Hidden Champions*) found that these German companies succeeded by defining their business narrowly, according to the product they were selling.

- Finally, a well known dictum from Marketing is that companies should stay close to and listen to their customers. Yet, the article that won the McKinsey award in the 1995 HBR argued that companies which pay too much attention to their existing customers at times of technological change will fail (Bower and Christensen 1995).

All these examples are meant to show that no advice – however sound and practical – will apply to all the firms all the time. What a firm should do depends on its own particular circumstances which are in turn determined by where in its evolution that company is in. Strategic advice that fails to put the company in its historical context runs the risk of being dangerous advice.

A less obvious problem with being ahistorical is the failure of strategy to consider how a company’s past as well as its (still to unfold) future influence its strategic choices of today. What the company does today will determine what options the company has tomorrow. This should have an effect on what the company decides to do. Similarly, just because the future has not happened yet, it does not mean that a company cannot do anything today to prepare for things to come. For example, every company ought to know that its product will eventually mature and will most likely be replaced by another product made possible by a technological innovation. This will happen sometime in the future but surely the company’s strategy today ought to take this into consideration. It should therefore ask: “What can I do today to make sure that when the ‘death’ of my product arrives, I am ready for it? It should not wait for this to happen before doing anything.

**The Future of Strategy**

For any company, success stems from the exploitation of a distinctive or unique strategy. As I argued here, this strategy is nothing more than the answers we have given to the “Who-What-How” questions. Unfortunately, no strategic position will remain unique or attractive for ever! Not only do attractive positions get imitated by aggressive competitors but also – and perhaps more importantly – new strategic positions keep emerging all the time. A new strategic position is simply a new viable Who-What-How combination – perhaps a new customer segment (a new Who), or a new value proposition (a new What), or a new way of distributing or manufacturing the product (a new How). Over time, these new positions may grow to challenge the attractiveness of our own position.

You see this happening in industry after industry: once-formidable companies that built their success on what seemed to be unassailable strategic positions find themselves humbled by relatively unknown companies who base their attacks on creating and exploiting new strategic positions in the industry.

New strategic positions – that is, new Who-What-How combinations – emerge all around us all the time. As industries change, new strategic positions emerge to challenge existing positions for supremacy. Changing industry conditions, changing customer needs or preferences, countermoves by competitors and a company’s own evolving competences give rise to new opportunities and the potential for new ways of playing the game. Unless a company continuously questions its accepted norms and behaviours, it will never discover what else has become available. It will miss these new combinations and other, more agile players will jump in and exploit the gaps left behind.
Therefore, a company must never settle for what it has. While fighting it out in its current position, it must continuously search for new positions to colonize and new opportunities to take advantage of. Simple as this may sound, it contrasts sharply with the way most competitors compete in their industries: most of them take the established rules of the game as given and spend all their time trying to become better than each other in their existing positions – usually through cost or differentiation strategies. Little or no emphasis is placed at becoming different from competitors. The majority of companies which strategically innovate by breaking the rules of the game tend to be small niche players or new market entrants. It is indeed rare to find a strategic innovator who is also an established industry big player – a fact which hints at the difficulties of risking the sure thing for something uncertain.

There are many reasons why established companies find it hard to become strategic innovators. Compared to new entrants or niche players, leaders are weighed down by structural and cultural inertia, internal politics, complacency, fear of cannibalising existing products, fear of destroying existing competences, satisfaction with the status quo, and a general lack of incentives to abandon a certain present for an uncertain future. In addition, since there are fewer industry leaders than potential new entrants, the chances that the innovator will emerge from the ranks of the leaders is unavoidably small.

Despite such obstacles, established companies cannot afford not to strategically innovate. As already pointed out, dramatic shifts in company fortunes can only take place if a company succeeds in not only playing its game better than its rivals but in also designing and playing a different game from its competitors. Strategic innovation has the potential to take third-rate companies and elevate them to industry leadership status; and it can take established industry leaders and destroy them in a short period of time. Even if the established players do not want to strategically innovate (for fear of destroying their existing profitable positions), somebody else will. Established players might as well pre-empt that from happening. The culture that established players must develop is that strategies are not cast in concrete. A company needs to remain flexible and ready to adjust its strategy if the feedback from the market is not favourable. More importantly, a company needs to continuously question the way it operates in its current position while still fighting it out in its current position against existing competitors.

Continuously questioning one’s accepted strategic position serves two vital purposes: first, it allows a company to identify early enough whether its current position in the business is losing its attractiveness to others (and so decide what to do about it); second and more importantly, it gives the company the opportunity to proactively explore the emerging terrain and hopefully be the first to discover new and attractive strategic positions to take advantage of. This is no guarantee: questioning one’s accepted answers will not automatically lead to new unexploited goldmines. But even a remote possibility of discovering something new will never come up if the questions are never asked.

Costas Markides is the Robert P. Bauman Professor of Strategic Leadership and the chairman of the Strategy Department at London Business School

Selected References*


*For the full list of references, see www.london.edu/bsr and click on "references"