

Harvard Business Review



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Reprint [R0801C](#)

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Strategy is not what it used to be—or what it could be. In the past 25 years it has been presented, and we have come to think of it, as an analytical problem to be solved, a left-brain exercise of sorts. This perception, combined with strategy's high stakes, has led to an era of specialists—legions of MBAs and strategy consultants—armed with frameworks and techniques, eager to help managers analyze their industries or position their firms for strategic advantage.

This way of thinking about strategy has generated substantial benefits. We now know far more than before about the role market forces play in industry profitability and the importance of differentiating a firm from its competitors. These gains have come in large part from the infusion of economics into the study of strategy. That merger added much-needed theory and empirical evidence to strategy's underpinnings, providing considerable rigor and substance. But the benefits have not come without costs. A host of unintended consequences have developed from

what in its own right could be a very good thing. Most notably, strategy has been narrowed to a competitive game plan, divorcing it from a firm's larger sense of purpose; the CEO's unique role as arbiter and steward of strategy has been eclipsed; and the exaggerated emphasis on sustainable competitive advantage has drawn attention away from the fact that strategy must be a dynamic tool for guiding the development of a company over time.

To redress these issues, we need to think about strategy in a new way—one that recognizes the inherently fluid nature of competition and the attendant need for continuous, not periodic, leadership.

The Road to Here

Fifty years ago strategy was taught as part of the general management curriculum in business schools. In the academy as well as in practice, it was identified as the most important duty of the chief executive officer—the person with overarching responsibility for setting a

company's course and seeing the journey through. This vital role encompassed both formulation and implementation: thinking and doing combined.

Although strategy had considerable breadth then, it didn't have much rigor. The ubiquitous SWOT model taught managers to assess a company's internal *strengths* and *weaknesses* and the *opportunities* and *threats* in its external environment, but the tools for doing so were pedestrian by any measure.

Advances over the next few decades not only refined the tools but spawned a new industry around strategy. Corporate-planning departments emerged and introduced formal systems and standards for strategic analysis. Consulting firms added their own frameworks, among them the Boston Consulting Group's influential growth-share matrix and McKinsey's 7-S framework. Academics weighed in, unleashing the power of economic analysis on problems of strategy and competition.

It has been a heady period, and the strategy tool kit is far richer because of it. That said, something has been lost along the way. While gaining depth, strategy has lost breadth and stature. It has become more about formulation than implementation, and more about getting the idea right at the outset than living with a strategy over time.

The teaching of strategy has both led and followed suit. At many top business schools, general management departments have been replaced by strategy groups made up of experts who delve into the economics of competitive advantage but rarely acknowledge the unique role leaders play in the process of formulating and implementing strategy. When the head of the strategy group at one major business school was asked recently to describe the common denominator among faculty members in his department, he replied, "We are a group of economists with a lively interest in business." An honest man and a telling comment.

Pulled apart and set on its own in this way, strategy both gains and loses. In terms of analytical precision, it is a big plus; organizationally, it is not. What we have lost sight of is that strategy is not just a plan, not just an idea; it is a way of life for a company. Strategy doesn't just position a firm in its external landscape; it defines what a firm will be.

Watching over strategy day in and day out is not only a CEO's greatest opportunity to outwit the competition; it is also his or her greatest opportunity to shape the firm itself.

Strategy and Being

In "How to Evaluate Corporate Strategy," an article that appeared in this magazine in 1963, the Harvard Business School lecturer Seymour Tilles proposed that of all the questions a chief executive is required to answer, one predominates: What kind of company do you want yours to be? He elaborated:

If you ask young men what they want to accomplish by the time they are 40, the answers you get fall into two distinct categories. There are those—the great majority—who will respond in terms of what they want to *have*. This is especially true of graduate students of business administration. There are some men, however, who will answer in terms of the kind of men they hope to *be*. These are the only ones who have a clear idea of where they are going.

The same is true of companies. For far too many companies, what little thinking goes on about the future is done primarily in money terms. There is nothing wrong with financial planning. Most companies should do more of it. But there is a basic fallacy in confusing a financial plan with thinking about the kind of company you want yours to become. It is like saying, "When I'm 40, I'm going to be *rich*." It leaves too many basic questions unanswered. Rich in what way? Rich doing what?

As strategy has striven to become a science, we have allowed this fundamental point to slip away. We need to reinstate it.

In 1996 Adam Brandenburger and Barry Nalebuff got close to this idea in their book *Co-opetition*, which recognized that in order to *claim* value, firms must first *create* value. This requires bringing something new to the world, something customers want that is different from or better than what others are providing.

To press their point, Brandenburger and Nalebuff urged managers to consider the world with their firm versus the world without it. The difference (if there is one) is the firm's unique added value—what would be lost to the world if the firm disappeared. Tilles might have described this as the firm's purpose, or its *raison d'être*. To say that a firm

Cynthia A. Montgomery is the Timken Professor of Business Administration and head of the strategy unit at Harvard Business School in Boston.

should have a clear sense of purpose may sound exceedingly philosophical. It is in fact exceedingly practical.

In the strategy portion of the Owner/President Management executive program at Harvard Business School, the notion of added value is core to everything we do. Early in the module, executives are asked to respond to the following questions:

- If your company were shuttered, to whom would it matter and why?
- Which of your customers would miss you the most and why?
- How long would it take for another firm to step into that void?

When the questions are presented, classrooms that minutes earlier were bursting with conversation fall silent—not because the questions are complex but because they are so basic and yet so difficult. Managers long accustomed to describing their companies by the industries they are in and the products they make often find themselves unable to say what is truly distinctive about their firms. For these leaders the challenge is a matter not of unearthing an existing purpose but of forging one.

The questions are as relevant to large multi-business companies as they are to focused owner-led ones. As private equity firms proliferate and supply chains open up around the world, nothing is more important for complex corporate entities than a clear sense of purpose, a clear sense of why they matter. A board chairman at one such firm made the point bluntly when he asked, “What hot dish is this company bringing to the table?” He was issuing the same challenge.

Sam Palmisano, the CEO of IBM, is well aware of the importance of this sort of reflection. In 2003 he hosted a 72-hour online Values Jam in which he asked IBM’s nearly 320,000 employees to weigh in on these questions: If our company disappeared tonight, how different would the world be tomorrow? Is there something about our company that makes a unique contribution to the world? (See “Leading Change When Business Is Good,” HBR December 2004.)

In my experience, few leaders allow themselves to think about strategy at this level.

Purpose should be at the heart of strategy. It should give direction to every part of the firm—from the corporate office to the loading

dock—and define the nature of the work that must be done. In “Unleashing the Power of Learning,” a 1997 interview with HBR, John Browne, then the CEO of British Petroleum, put it this way: “A business has to have a clear purpose. If the purpose is not crystal clear, people in the business will not understand what kind of knowledge is critical and what they have to learn in order to improve performance....What do we mean by *purpose*? Our purpose is who we are and what makes us distinctive. It’s what we as a company exist to achieve, and what we’re willing and not willing to do to achieve it.”

The most viable statements of purpose are easy to grasp and true to a company’s distinctiveness. Pixar, one of the world’s most innovative animation firms, says that it exists “to combine proprietary technology and world-class creative talent to develop computer-animated feature films with memorable characters and heartwarming stories that appeal to audiences of all ages.” No films for mature audiences only. Lots of pushing the envelope. And who wouldn’t recognize IKEA’s intent to offer customers “a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them”? Sitting at the hub of the strategy wheel, purpose aligns all the functional pieces and draws the company into a logically consistent whole. Well understood, it serves as both a constraint on activity and a guide to behavior. As Michael Porter has argued, an effective strategy says not only what a firm will do but also, implicitly, what it will not do.

Forging a compelling organizational purpose is a close corporate equivalent to soul-searching. It does require the kind of careful analysis and left-brain thinking that MBAs have honed for a generation. Equally important to the task, however, is the right-brain activity in which managers are almost universally less well schooled. Creativity and insight are key, as is the ability to make judgments about a host of issues that can’t be resolved through analysis alone.

Articulating and tending to a purpose-driven strategy so that it fills this role is no easy task. It is a human endeavor in the deepest sense of the term. Keeping all the parts of a company in proper balance while

moving the enterprise forward is extraordinarily difficult. Even when they have substantial talent and a deep appreciation for the job, some CEOs ultimately don't get it right. Their legacies serve as sobering reminders of the complexities and the responsibilities of stewardship. (Witness BP's recent travails—the deficiencies in investments and operating practices that compromised workers' safety, threatened the environment, and contributed to Browne's abrupt departure from the company in 2007.) On the other hand, it is exactly these challenges that make the triumphs so rewarding.

Strategy and the Strategist

In most popular portrayals the strategist's job would seem to be finished once a carefully articulated strategy has been made ready for implementation. The idea has been formed, the next steps specified, the problem solved. But don't be fooled. The job of the strategist never ends. No matter how compelling a strategy is, or how clearly defined, it is unlikely to be a sufficient guide for a firm that aspires to a long and prosperous life.

Just as complete contracts are difficult to write with one's trading partners, so too complete strategies are difficult to specify in all their particulars. There will always be some choices that are not obvious. There will always be countless contingencies, good and bad, that cannot be fully anticipated. There will always be limits to communication and mutual understanding. As Oscar Wilde quipped, "Only the shallow know themselves." At heart, most strategies, like most people, involve some mystery.

Interpreting that mystery is an abiding responsibility of the chief strategist, the CEO. Sometimes this entails clarifying a point or helping an organization translate an idea into practice, such as what "best in class" will mean in that company and how it will be measured. Other times it entails much more: refashioning an element of the strategy, adding a previously missing piece, or reconsidering a commitment that no longer serves the company well. Whether you call this strategy implementation or strategy reformulation (the boundaries blur), it is arduous work and can't be separated from leadership of the firm.

Ryanair provides a case in point. During its early years the Irish airline entered the Dublin–London market with full service priced at less than half the fares of incumbents British Airways and Aer Lingus. Ryanair's leaders didn't anticipate the ferocity with which its competitors would respond. When the resulting fare war brought Ryanair to its knees, its leaders didn't simply urge the airline to try harder. They revamped the strategy and transformed the company into a no-frills player with a true low-cost business model. This involved changing the airline's fleet as well as its cost, fare, and route structures. "Yes, Aer Lingus attacked us," Michael O'Leary, Ryanair's CEO since 1994, has said, "but we exposed ourselves." Reborn, Ryanair went on to become a major airline and one of the world's most profitable.

When confronted with challenges, the CEO must recognize the strategic significance of issues being raised and opportunities being contemplated and see them through the lens of the whole, even as those with narrower responsibilities may be seeing the same issues parochially. While faithfully translating purpose into practice, the CEO must also remain open to the idea that the purpose itself may

The Missing Dimension

Over the past few decades strategy has become a plan that positions a company in its external landscape. That's not enough. Strategy should also guide the development of the company—its identity and purpose—over time.

| The Prevailing Approach: Strategy as a Set Solution | | What Is Missing: Strategy as a Dynamic Process |
|--|------------------|--|
| A long-term sustainable competitive advantage | Goal | Creation of value |
| The CEO and strategy consultants | Leadership | CEO as chief strategist; the job cannot be outsourced |
| Unchanging plan that derives from an analytical, left-brain exercise | Form | Organic process that is adaptive, holistic, and open-ended |
| Intense period of formulation followed by prolonged period of implementation | Time Frame | Everyday, continuous, unending |
| Defending an established strategy through time | Ongoing Activity | Fostering competitive advantages and developing the company through time |

need to change. The judgments made at these moments of transition can make or break a leader or a firm.

Lou Gerstner, Palmisano's legendary predecessor, faced such a moment when he became CEO of a troubled IBM in 1993. To resurrect the company, he concluded, a radical shift in its mind-set was necessary. This required taking a fearless moral inventory of the business, realistically evaluating the firm's core capabilities, and shedding everything else. After making this assessment, Gerstner announced that IBM would no longer concern itself with the invention of technology but instead would focus on application. The company would move beyond its long history of creating computer hardware in order to provide integrated information technology services and solutions. "History," Gerstner has written, "shows that truly great and successful companies go through constant and sometimes difficult self-renewal of the base business."

The CEO is the one who chooses a company's identity, who has responsibility for declining certain opportunities and pursuing others. In this sense he or she serves as the guardian of organizational purpose, watching over the entity, guiding its course, bringing it back to the center time and time again, even as the center itself evolves.¹ This is why the job of the strategist cannot be outsourced. This is why the job of the strategist is never done, and why the vigil the CEO keeps must be a constant one.

Strategy and Becoming

What, after all, is the strategist trying to achieve? The conventional wisdom would say a sustainable long-term competitive advantage. I challenge this view. Although critically important, competitive advantage is not the ultimate goal. That way of thinking mistakes the means for the end and sends managers off on an unachievable quest.

Competitive advantage is essential to strategy. But it is only part of a bigger story, one frame in a motion picture. The very notion that there is a strategic holy grail—a strategy brilliantly conceived, carefully implemented, and valiantly defended through time—is dangerous. It is akin to the complete-contract view, in which all the thinking is done at the beginning and *the* key job of the strategist is to get that analysis right. If this were so, the

role of the strategist would be limited and easy to separate from the leadership of a firm. If this were so, the strategist wouldn't have to be concerned with how the organization gets from here to there—the execution challenge writ large—or how it will capitalize on the learning it accumulates along the way.

But this is not so. Great firms—Toyota, Nike, and General Electric, to name a few—evolve and change. So do great strategies. This is not to say that continuity has no value. It is not to say that great resources and great advantages aren't built over the long term. It is, however, to acknowledge that the world, both inside and outside the firm, changes not only in big, discontinuous leaps but in frequent, smaller ones as well.

An ancient Greek legend provides a powerful metaphor for this process. According to the legend, the ship that the hero Theseus sailed back to Athens after slaying the Minotaur in Crete was rebuilt over time, plank by plank. As each plank decayed, it was replaced by another, until every plank in the ship had been changed. Was it then still the same ship? If not, at what point—with which plank—did the ship's identity shift?

This metaphor captures the evolution of most companies. Corporate identities are changed not only by cataclysmic restructurings and grand pronouncements but also by decision after decision, year after year, captain after captain. An organic conception of strategy recognizes that whatever constitutes strategic advantage will eventually change. It recognizes the difference between defending a firm's added value as established at any given moment and ensuring that a firm is adding value over time. Holding too strongly to one competitive advantage or one purpose may result in the firm's being controlled by a perception of value long after that value has diminished in significance. It encourages managers to see their strategies as set in concrete and, when spotting trouble ahead, to go into defensive mode, hunkering down and protecting the status quo.

Apple Computer was caught in this trap for most of the 1990s. The company stubbornly stuck to its original strategy of producing high-end differentiated personal computers, convinced that it was adding value even as the intensely competitive marketplace told it otherwise. By the summer of 1997 Apple's share

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price was at a 10-year low, its market share had plummeted to about 3%, and industry pundits were trumpeting the company's demise. The strategy had performed so poorly that there was little left to defend. Only after Steve Jobs returned as CEO, reclaimed the best of what Apple once was (a passionate design company that believed technology could change the world), and took the firm into new businesses (digital audio players, cell phones, and retailing) with distinctive products did the company attract a new mass of passionately loyal customers and generate handsome returns. Plank by plank the company changed its identity while remaining in many respects the same. Fittingly, in January 2007 it dropped "Computer" from its name and became simply Apple Inc.

The need to create and re-create reasons for a company's continued existence sets the strategist apart from every other individual in

the company. He or she must keep one eye on how the company is currently adding value and the other eye on changes, both inside and outside the company, that either threaten its position or present some new opportunity for adding value. Guiding this never-ending process, bringing perspective to the midst of action and purpose to the flow—not solving the strategy puzzle once—is the crowning responsibility of the CEO.

1. Kenneth R. Andrews, in *The Concept of Corporate Strategy* (Irwin, 1971), described one of the roles of the CEO as the "architect of organization purpose." I prefer the term "guardian of organizational purpose," because it encompasses both formulation and implementation, and because it implies a more ongoing responsibility.

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