strategy+business

ISSUE 70 SPRING 2013

The Thought Leader Interview: Cynthia Montgomery

A Harvard Business School strategy professor observes that leaders become better strategists by engaging in conversations about the purpose of a company.

BY KEN FAVARO AND ART KLEINER

REPRINT 00163

This article was originally published by Booz & Company.

The Thought Leader Interview: Cynthia Montgomery

A Harvard Business School strategy professor observes that leaders become better strategists by engaging in conversations about the purpose of a company.

BY KEN FAVARO AND ART KLEINER

Photograph by Brad DeCecco

When you look at strategy as a frame of mind to be cultivated, rather than as a plan to be executed, you are far more likely to succeed over the long run. That is the core premise put forth by Cynthia Montgomery, the Timken Professor of Business Administration and former chair of the strategy unit at Harvard Business School, in her book *The Strategist: Be the Leader Your Business Needs* (HarperBusiness, 2012). The book is based in part on her work over the past five years teaching executive education programs at Harvard for leaders of owner-managed companies. It is also grounded in her work with large diversified companies. For example, she has served on the boards of Newell Rubbermaid, UnumProvident, and several mutual funds, as well as on the board of McLean Hospital, a not-for-profit organization based near Boston.

Throughout her career, Montgomery, who has also taught business strategy at Northwestern University's Kellogg School and the University of Michigan, has found herself in the middle of a little-known but strongly felt debate that has gone on since the early 1980s in executive education and similar milieus. On one side is the "positioning school" of business strategy: Success depends on analyzing industry dynamics and competitive advantage, and staking out a position that is most resistant to competition on the basis of industry forces. Montgomery's credentials on this side include numerous articles in leading economics and management journals, and co-editorship with Michael Porter of the influential anthology *Strategy: Seeking and Securing Competitive Advantage* (Harvard Business School Press, 1991). On the other side is a perspective known in academia as the "resource-based view of the firm": Success depends on cultivating the capabilities and assets that no one else can match. One of the leading developers of this field is Montgomery's husband, MIT Sloan School professor Birger Wernerfelt. Montgomery and David Collis built on the resource school's insights in "Competing on Resources: Strategy in the 1990s" (*Harvard Business Review*, July–August 1995), one of the most reprinted articles in the history of *HBR*.

Montgomery's new book and her ongoing research into strategists' attitudes and actions represent an effort to move past the dichotomy, and to focus on what it means for a leader to be a strategist. To Montgomery, a business strategist is not primarily an analyst of position, or of resources; nor is the strategist purely adaptive, responding reactively to the vagaries of fate. He or she is someone who engages in a conversation about the purpose of a company. The company rises or falls on the quality of that conversation and the way it is used to make decisions about the ongoing work of the enterprise.

To get a clearer view of that approach, and what it might mean for senior executives, we sat down with Cynthia Montgomery in her office at Harvard Business School in November 2012. (She subsequently obtained permission to publish the anecdotes in which students are named.) This interview provides a glimpse of the direction that we think many business schools will take in the years ahead: combining the positioning and resource views, the entrepreneurship and management roles, and the strategy and execution imperatives into a single discipline that could be described as "identifying and realizing the purpose of your organization."

S+B: You've written that a leader who wholeheartedly embraces a strategic perspective is not the same as a conventional manager. Why not?

MONTGOMERY: Think about who does strategy in most large companies and where the strategist typically resides in an organization. It's not the CEO; it's a specialist function. Of course, everybody says that strategy is the CEO's responsibility. But it's just one of many things that the CEO is responsible for. So strategy becomes an area for experts. The company draws on specialists to help with external analysis, to do a deep dive on competitors, and to look at trends around the world.

All of that may indeed provide incredible added value. It's certainly helpful in setting the stage. But underlying all this activity is a fundamental question that any company's leader must ultimately answer: What will this firm be, and why will it matter? This is not a soft, philosophical question. It is a hard-nosed, economic one. As my former colleague Adam Brandenburger puts it, "Why would the world need this business? What would be different if it didn't exist?"

And a leader can't consider the question just once and be done with it. That question needs a compelling answer every day of a firm's existence, an answer that's relevant as the business evolves, and as markets and customers evolve. To enable that kind of continuous evolution, strategy should never be thought of as a problem that's been solved and settled. There are occasional dramatic changes, but mostly it's an evolutionary process, with the CEO at the center.

In some executive courses, I ask students to describe the strategy for their companies. Many of them start out thinking that the goal is to have a product, get it all down in writing, and they're done. But the process doesn't end there. We bring the strategies up for critique, and they have to defend them. It's always surprising to see how the same individuals who are good on their feet and have brilliant things to say when talking about a case study like Nike or General Electric falter when they're talking about their own companies. They revert to the same old generics that could apply to any company: "We will succeed because we're the quality leaders, we're best in class, we have the lowest costs," and so on.

S+B: The same old "blah, blah, blah."

MONTGOMERY: Exactly. For many leaders, there's an immense gap between intellectually understanding the theory of strategy and being able to apply it in their own businesses. It's only by directly engaging in strategy themselves that most leaders internalize the important questions and get a clear sense of what's involved—the trade-offs, choices, commitments, and actions—in bringing a strategy to life. In working with these executives in class, my goal is to help them confront the gap between the high standards they're developing for others' strategies, and the often considerably less rich reality of their own.

S+B: How do you try to accomplish this in the programs you teach?

MONTGOMERY: I've taught some courses with 180 owner–managers coming to campus for three, three-week sessions, spaced a year apart. When they enter the program's third session, they work on their own strategies. First they write up a strategic plan on their own, with input from their teams back home, then they share their work with one another. That's when things get really serious.

We usually divide the group into cohorts of eight to 10 people. Each person presents his or her strategy to the cohort, and then each cohort selects one strategy to present to the full class. I ask them to select the one that makes the most use of the

Ken Favaro
ken.favaro@booz.com
is a contributing editor to *strategy+business* and a senior partner with Booz & Company. Based in New York, he leads the firm's work in enterprise strategy and finance.

Art Kleiner
kleiner_art@strategy-business.com
is editor-in-chief of *strategy+business.*

principles we've talked about together. We end up with about 20 strategies presented to the full class, 10 each in two long sessions. Each strategy is critiqued by another group, and then discussed openly by the whole class. The sessions go on for hours. The people in the room typically have very helpful things to say, so much so that we now give an award for the best critique, along with an award for the best strategy presentation.

The tone for the critiques was set several years ago by Jack, an executive from Venezuela. Between the second and third year of the program, as pressures from Hugo Chavez's government increased, Jack's business suffered; it lacked a clear growth path. He came back for the third year anyway, and as he dealt with his own challenges, he became a major presence in the class.

Jack was a regular at the preclass lounge sessions, which often went on well past midnight. Students came there to test out their strategies with me and whoever else was interested, and often 30 or 40 people would show up.

Jack took the seat next to mine, night after night. He asked each presenter the same question: "What are you doing that's really distinctive?" Sometimes he'd put it as I did in class: "Help me understand why your business really matters." And he kept after them until they gave a thorough answer. By the end of those sessions, everybody had internalized those questions. I came to feel that this process was the heart of a strategic conversation. A leader builds a strategy through in-depth conversations with a group of his or her peers, testing the ideas against a variety of situations. Knowing how to do that well will serve the graduates better as leaders than any particular plan they develop at Harvard Business School.

S+B: Are you saying that in a well-run company, the CEO should have a group of senior executives who play the same questioning role?

MONTGOMERY: That's right. And yet that's not the way it works in many companies today; business heads make presentations, but often they're choreographed ahead of time, and they often don't question their peers as much as they could. I'd like to see the managers at all those meetings raise the game by challenging one another.

A strategy shouldn't be only a document, or an occasional exercise. It should be a way of looking at the world, interpreting experience, and thinking about what a company is and why it matters. The formal strategic planning process is only part of it; the deeper responsibility is ongoing and continuous. I often refer to a quote from the great 19th-century Prussian military strategist Helmuth von Moltke: "Certainly the commander in chief will keep his great objective continuously in mind, undisturbed by the vicissitudes of events. But the path on which he hopes to reach it can never be firmly established in advance. Throughout the campaign he must make a series of decisions on the basis of situations that cannot be foreseen.… Everything depends on penetrating the uncertainty of veiled situations to evaluate the facts, to clarify the unknown, to make decisions rapidly, and then to carry them out with strength and constancy."

That's the job of a business strategist, no less than a military commander, and it's a challenging balancing act—an ongoing, not a periodic, responsibility. Unfortunately, that's not the way strategy is generally taught in business schools, and it hasn't been for a long time.

The Capstone Course

S+B: How has the teaching of strategy changed?

MONTGOMERY: Back when I was an MBA student in the 1970s, strategy at most schools was taught as part of a course called Business Policy and General Management. It was thought of as the capstone course; it came last in the sequence, after marketing, finance, production, and organizational behavior. Having seen all the pieces, the student was supposed to put them together. The course combined thinking and doing, strategy formulation and strategy execution. The main textbook, *Business Policy: Texts and Cases*, was written by legends in the field: C. Roland Christensen, Joseph Bower, and Kenneth Andrews [Irwin, 1965, rev'd. 1982]. The very first chapter was called "The Presidential Point of View." Another major section was called "The Accomplishment of Purpose." To this day, I tell the executives I work with, "If someone asks you what you do for a living, just look them in the eye and say, 'I'm an architect of organizational purpose.'"

Many business schools began to change their approach to strategy in the early 1980s after Michael Porter introduced the idea of competitive analysis. His course material on the subject was wildly popular because he brought economic rigor to the analysis of strategy. On its own, that was absolutely good. It transformed the era. My own work followed in that wake. Using large-sample statistical analysis, I examined the relationship between the overall profitability of a corporate enterprise and the average profitability of the industries in which it competed.

> "A strategy should be a way of looking at the world, interpreting experience, and thinking about what a company is and why it matters."

But over time, the economics began to distract people from the leadership aspect of strategy. Before long, strategy at many top business schools was taught by economists focused on theory and analytics. If you do this, how will your competitors respond? How do the structural characteristics of an industry shape competitive behavior? All important issues, to be sure, but gradually strategy became an exercise in getting the analysis right, providing the answer, and letting someone else implement it. That reinforced the idea that strategists were a group with specialized training.

Today, Harvard doesn't even have a course called General Management. Nor do most other business schools. Many students have come to view entrepreneurial management courses as the capstone experience of the MBA curriculum, where you learn about defining businesses, moving them through growth, changing course, and doing it again. But entrepreneurship courses don't teach people how to run a large company; they teach them how to create and finance a startup. If we care about improving the quality of large-enterprise strategy, we management academics have to avoid hoisting ourselves on our own petard.

S+B: Hasn't the specialized, analytic approach to strategy lost some of its value in recent years?

MONTGOMERY: Yes. It started to level off in the early 2000s. I saw that recently when, as part of my work on *The Strategist*, I talked with several speakers bureaus, thinking the subject of strategy would be hot. But instead, they said they would market me as a speaker on innovation or change management. Their interest in my book came not from the topic of strategy per se, but from its focus on what strategy means for business leaders.

The discussions helped me come to terms with how much strategy had lost its vitality—its edginess—and the tremendous opportunity we have to embrace it in a new way. I think other academics are beginning to see the same potential. For instance, at a strategy conference in celebration of the Harvard

Business School centennial, our theme was "putting leadership back into strategy."

S+B: When did you realize the limits of the analytic approach yourself?

MONTGOMERY: A lot of it came through executive education, working with managers who had an opportunity to use strategy to make a powerful difference in their companies. In countless late-night conversations, I learned a lot about the challenges they faced and their aspirations, and I saw what happened to companies where no one stepped up. The existentialist philosopher Jean-Paul Sartre wrote about the "courage to choose," and understood that choosing isn't just an intellectual thing; it takes guts.

Strategy books don't talk about that. They also rarely talk about how to get others involved, or how to serve as a champion of the process. Thomas Saporito, the coauthor of *Inside CEO Succession: The Essential Guide to Leadership Transition* [Wiley, 2012], has written about CEOs who fail because they know their strategy is correct, and they assume that's enough to overcome any lack of buy-in. He reminds them that "executives don't get paid to be right. They get paid to be effective."

In working with leaders, I also realized how vitally important creativity is in strategy. It takes the whole brain—intuition and analytic skills—to do it well. But creativity isn't considered very important in the culture that has grown up around strategy. That has to change.

S+B: What does strategy work look like when it is action-oriented?

MONTGOMERY: Let's say you're a business leader, and you have an idea for your business. That's just the beginning. You have to articulate it, choose to invest in it, and create the organizational context where people can bring it [to life]. That means building a system of advantage—a business model tailored to that purpose, where the pieces work in sync, and where the whole is more than the sum of the parts. Done well, it turns a concept into an animating idea: A clear view of *what* your company will bring to the world, *why* it will matter, and *how* you will do it. A lot of those *hows* will be determined by others throughout the organization, but that can't happen unless there's clarity at the core.

> **"Creativity isn't considered very important in the culture that has grown up around strategy. That has to change."**

Look at a business like Ikea, which I wrote about in *The Strategist.* The founder, Ingvar Kamprad, stated his animating idea back in the 1940s. They would offer a line of practical, well-designed furnishings at prices so low everyone could afford them. When you walk into an Ikea store, every detail goes back to that idea. It's not in a document on a desk; it's the energy that gives life to the company. Ikea's system of advantage, built around that idea, is one of the company's most important resources. Anders Dahlvig, former group president, put it this way: "Many competitors could try to copy one or two of these things. The difficulty is when you try to create the totality of what we have." For instance, copying the low prices would not work without copying their approach to sourcing, their flat-pack distribution concept, the way they design their stores and catalogs, and their Scandinavian furniture design—"which is not easy," he says, "without a Scandinavian heritage."

S+B: Ikea has essentially one business. Can a multi-business, diversified company also be built around an animating idea?

MONTGOMERY: Certainly. One of my favorite examples comes from Apple. In 2001, when Steve Jobs had only been back at the company for a couple of years as CEO, he gave a presentation at the Macworld Expo in which he talked about the three ages of the PC. First came the age of productivity, then came the age of the Internet, and now would be the age of the digital hub. He talked about MP3 players, cell phones, and digital cameras, which at the time accounted for only 15 percent of all camera sales, but, "in a couple of years," he said, "it will be 50 percent." Going forward, Apple would add value to a host of digital devices, and be the company whose computers would tie them all together.

Some people argue that a strategy is understood only in hindsight, retrospectively trying to make sense of a group of haphazard, reactive moves. But here's a case where, when the stock price was still very low, Steve Jobs laid out his animating idea in public, in advance. When Apple came out with iTunes, the iPod, and the Apple Store, it all made sense in light of that idea.

S+B: In *The Strategist* you write that people respond to this story by saying, "Sure, but I'm not a genius like Steve Jobs." Does a good strategist have to be a genius?

MONTGOMERY: Jobs is widely praised as a genius today, but one of the things I appreciate most about him is his failures—the Lisa computer at Apple and the ego-busting demise at NeXT, the startup Jobs founded when he was ousted from an operating role at Apple. When you dive into that story, you can see that his victories were hard won. I'm trying to get people excited about being strategists and to see why it's a distinctive way that they as leaders can add value to their businesses. I'm also trying to help them understand that strategy is far more than an idea. There's a conundrum you sometimes hear in business school: "Would you rather have a brilliant, fully worked-out strategy and poor execution, or a half-baked strategy well executed?" The point is supposed to be that good execution is preferable every time. At least it gets you some results. But, at root, it's a vacuous question. How can you implement the hell out of something if you don't know what you're trying to accomplish?

I can understand that you might be tempted to favor execution because you don't really know if your strategy will succeed. If your strategy says you should take dramatic, disruptive risks, do you really dare to stand with it and keep supporting it? But frankly, a lot of businesses face more pedestrian choices, with much less risk—and they're *still* not living deliberately, and are *still* flying by the seat of their pants.

More importantly, strategy is not a matter of immaculate conception, where you get a single answer and forever rule out other options. As a business, you operate in a complex system of other companies in which any advantage is fragile. Even Steve Jobs embellished and subtracted as time went on. You need to think about your strategy as an open, living thing. You start out by defining who you are as a company. But then you try it out, and discover that it's not working so well, so you adjust it.

For example, we teach David Yoffie's case on the Gucci Group. The company hit the skids in the 1980s, when counterfeit products and an undisciplined licensing strategy nearly destroyed the brand. Maurizio Gucci, grandson of the founder, stepped in and tried to reposition the company, but customers balked and were slow to come back. A new CEO, Domenico De Sole, was hired in 1993 to pick up the pieces. De Sole forged a new purpose built around providing fashion-forward clothing at good value, and rebuilt every activity in the company to align with it. Did Gucci survive? Yes. Did it thrive? Yes. But it was a different company than it had been in its former heyday, a company that mattered for a different reason.

Similarly, when Ingvar Kamprad started out, he was forced to leave Sweden. The existing Swedish retailers didn't like his low prices and put pressure on local manufacturers to refuse to supply him. In fear that he'd lose the whole business, he went to Poland in search of new suppliers; their prices proved to make not just a difference in degree, but a difference in kind. In other words, this wasn't just an incremental shift in one factor—it led Ikea into a completely different business model. Kamprad's strategy developed because he was open to redefining the business.

S+B: **So the point of a strategy is to keep improving your animating idea, and to keep building your own capacity to develop and execute it.**

MONTGOMERY: Yes, usually that's true. Isn't that preferable to the dichotomy we've been talking about, between conception and execution? Isn't it better than being just the caretaker of a plan? Isn't it a much better insight to pass on to the other managers in your company, who could be developing their strategic perspective along with you?

One must also acknowledge, though, that sometimes the animating idea itself has run its course and more radical action is necessary. The question remains the same: Why does the world need this company?

The Education of a Strategist

S+B: **If you could spend time with a group of prospective chief executives, could you tell the strategists from the caretakers?**

MONTGOMERY: Yes. A leader who is a strategist has clarity not only about what's being done, but why. He or she understands that the quality of execution begins there. No matter how successful an operator or executor you are, no matter how good your product innovation or manufacturing processes are, if your company doesn't have a meaningful distinction, you won't be effective; and if you can't move it forward, your company will stagnate.

You learn those skills over time. Robert Katz, who wrote a classic article called "Skills of an Effective Administrator" [*Harvard Business Review*, September 1974], said that when you start your career, to succeed, you need a functional skill: For example, you need to be good at accounting, engineering, or HR. At the next level up, you need to be good with people. And at the very top, you need conceptual skills. Years later, someone asked him if he still agreed with that statement, and he said he was even more fervent about it now. But he thought that people either had those skills by the time they were teenagers, or they would never have them.

I don't agree with that part of it. I think those skills can be developed later in life. But I do agree that such skills are the key to becoming an architect—or, better yet, a steward—of organizational purpose. As it happens, I've been at the boardroom table with Bob Katz, and he has incredible conceptual skills himself. But he also understands that they create value only when they're intimately linked to action.

I am sometimes asked to help develop the search criteria for an incoming chief executive, and I always underscore the need to marry the ability to conceptualize with the ability to translate those concepts into action. Generally, I'd look for people who have transformed a business—redefined what it was and why it mattered, rebuilt the business model, and delivered. To lead, you need to be able to do more than just clean up operations or coast on an existing path.

And I've worked with enough CEOs to know that they need to be able to make meaning for an organization, to connect the efforts of everyone in it with a purpose that really matters to some set of customers.

S+B: **What is the future of strategy education?**

MONTGOMERY: Thinking about the cultural connections among business leaders as an ecosystem, we want to create an atmosphere where a new type of conversation can be held—not just in a university class or in a management consulting firm engagement, but among leaders in general. We want to set up the kind of conversation that opens the window to new strategic possibilities and allows people to move a company in a new direction.

One of our students, Yegs Ramiah, is an executive at Santam, the largest short-term insurance company in South Africa. Santam operates in a category where there is little differentiation, with high levels of commoditization, rampant price competition, and a race to the bottom that has been threatening the profitability of the industry. Moreover, Santam had been in the game for 95 years; it was perceived as old-school, conservative, and expensive, mainly serving the country's older white population. To ensure future success, Santam had to tap into the growth market—it had to appeal to people of all races and ages and extend its reach into the growing middle class.

"Nobody could beat Ford at his own game, but Sloan reinvented the auto company. A really good strategy revitalizes the company."

Yegs led a process to redefine the brand positioning and the personality, refresh the logo and the visual identity, and develop an integrated communication and marketing campaign. She realized that in order to challenge accepted norms, Santam would have to redefine the short-term insurance category. She looked for ways to change the conversation about insurance from its being trivial and dispensable, cheap, and a little bit nasty, to its being important and meaningful, with enduring value and substance. This meant inspiring South Africans to take the issues of managing risk and preparing for their future more seriously.

Yegs hired Oscar-winning actor Sir Ben Kingsley to narrate a new series of ads. In one of them, he stands in a restaurant, with a bartender behind him mixing drinks, moving in and out of the frame. He reminds the audience how easy it is to wear blinders and overlook things that are right in front of you. If you go for the cheapest home insurance, you might miss an important detail. "What if I told you," he concludes, "that Floyd's uniform has changed four times while I've been talking?" The ad caught on, and people wanted to watch it carefully to see where the bartender's outfit changed. It won several accolades, including a Silver Clio award as well as a Bronze Lion in Cannes.

Nando's, a large South African fast-food chain renowned for their satirical advertising, then parodied the ad with one of their own, stealing the concept. Instead of ignoring it, or threatening to sue, Yegs got the same agency to create a response. "Under normal circumstances we'd be upset, but frankly we're flattered," said a Kingsley-like narrator in the new ad. Then he made a demand: Santam would "overlook the indiscretion" if Nando's delivered a package of food—a list of dishes from the Nando's menu—to the Johannesburg Children's Home.

Santam's challenge to Nando's took South Africa by storm. The ad got more than 250,000 hits on YouTube, and Santam's name is now everywhere, as an example of a company that is humane, progressive, contemporary, and accessible to a growing group of customers. The campaign reinvented the brand and, with that, the business.

That's strategy. It's not unlike what Steve Jobs did for Apple, or what Alfred Sloan did for General Motors when he first went up against Henry Ford. Nobody could beat Ford at his own game, but Sloan reinvented the auto company. A really good strategy doesn't happen on the margin; it doesn't simply perpetuate an industry game that is mature and may be decaying.

A really good strategy revitalizes the company, and to do that, you need to assemble a group of people who have the courage to confront business at its roots. You need people who can say, in effect, "Strategy is dead. But long live strategy." +

Reprint No. 00163

strategy+business magazine
is published by PwC Strategy& Inc.
To subscribe, visit strategy-business.com
or call 1-855-869-4862.

For more information about Strategy&,
visit www.strategyand.pwc.com

• strategy-business.com
• facebook.com/strategybusiness
• http://twitter.com/stratandbiz
101 Park Ave., 18th Floor, New York, NY 10178

pwc | strategy&
Formerly Booz & Company