

## Kiechel's history of corporate strategy

Robert J. Allio and Robert M. Randall

**T**he *Lords of Strategy: The Secret Intellectual History of the New Corporate World* (Harvard Business Press, 2010), by Walter Kiechel III, chronicles the rise and stumbles of a number of leading consultancies – primarily Boston Consulting Group, Bain and McKinsey – as they, Professor Michael Porter and a few others “invent” the concept of strategy over the course of about six decades. First as a *Fortune* writer, then as its editor and finally as editorial director of Harvard Business Publishing, Kiechel has interviewed originators of the core ideas behind strategy and strategic management, and executives at the large companies where it was first practiced. His engrossing book is based on several premises:

- The development of strategic thinking has caused a genuine revolution in the way business is done.
- Strategy is now the dominant framework by which companies understand what they are doing and want to do.
- The intellectual models of innovative consulting firms have played a key role in figuring out competitive advantage.
- The big ideas of a few consultants and several star academics deserve much of the credit for propelling the history of strategy.
- “Greater Taylorism,” the application of analytics to virtually every aspect of what a company does, is as important a product of the strategy revolution as strategy itself.

*Strategy & Leadership* asked Kiechel about his book and the lessons it offered for today's managers. Robert J. Allio is a contributing editor and a founder of this publication. Robert M. Randall is the editor.

**Strategy & Leadership:** What are some of the lessons that the current generation of business leaders can take from your history of the founding of strategic management?

**Walter Kiechel III:** Let's start with a handy half dozen, roughly in descending order of importance, though that will vary with a company's circumstances: Managers need a clear fix on costs, customers, and competition, with data unclouded by what a division head or unit manager may be trying to sell them by way of next year's budget. Continuous cost reduction – systematic, predictable, year in year out, everybody knows it's expected of them – should be built in to how business is done. You're probably in too many businesses; concentrate on those where you have a true competitive advantage, and winnow out the rest. Any competitive advantage won't last long these days, so plan to innovate to sustain existing advantages or create new ones. If you launch an initiative or contemplate an acquisition, make sure it's in keeping with your corporate DNA – a.k.a your core competencies or corporate capabilities, and you probably have fewer of these than you want to lay claim to.



First as a *Fortune* writer, then as its Editor and finally as Editorial Director of Harvard Business Publishing, Walter Kiechel has had entrée into leading consultancies where the core ideas of strategy were invented and large companies where it was first practised. Photo courtesy of Harvard Business Press

Focus on cash, not the numbers you're reporting for financial statements (and track costs down to the SKU level).

**S&L:** What were some of the lasting accomplishments of the consultants you call the Lords of Strategy? What do you think of the relevance of experience curve and the BCG matrix now?

**Kiechel:** At the very least the pioneering consulting efforts helped instill a sense that empiricism, as in digging for all the facts, was vital to competing. Also that concepts, a.k.a. recognizable patterns for interpreting the data, could help you figure out what to do.

In the perpetual sandstorm that doing business is today, ideas, just like competitive advantages, are always being chipped away at. None of them stands in its pristine glory, undented by criticism. I think the limitations and inaccuracies of the experience curve have been well explored, including by some of the same people who originally expounded it. But as I quote one expert in the book, "You defy the experience curve's logic – that costs can and should be managed ever downward – at your peril."

As for the growth-share matrix, critics point out that you can define markets and their size and the shares of each in a host of ways, and that predicting their growth is a hopeless undertaking. But the underlying message of the matrix – that you should have hard data for understanding your businesses, their competitive situation and likely potential – seems to me as true as ever. Otherwise you're left at the mercy of every business unit's manager telling you "Next year is going to be different; this baby is really set to take off."

**S&L:** Data suggest that corporations often fail in the implementation of the strategy suggested by consultants. Is this the result of externalities that change too rapidly? Resistance to adaptation? The consultancy model?

**Kiechel:** All of the above, of course. Probably the best way to ensure failure is to leave out of the strategy-making the people who going to be charged with implementing it. Smart companies and their consultants have learned not to do this.

**S&L:** Much of the recent literature on achieving better performance focuses on the importance of leadership rather than just strategy. What role does leadership play in implementing the strategy that shapes the destiny of the firm?

**Kiechel:** One of the points I argue in the book is that the folks who have argued for the importance of people in strategy –as opposed to numbers –have resolutely failed, or maybe they just refused, to come up with an integrated framework or, pardon the expression, a paradigm to compete with strategy. And "leadership" is an even squishier construct than "people." As I understand it, the Academy of Management's section on organizational science won't permit the formation of a sub-section on leadership because they concede there isn't enough solid research and agreed-upon findings to qualify the subject as an academic discipline.

**S&L:** Knowing what we know now about the history of strategy, as enacted by the Lords of Strategy, which were the worst missteps and how might they have been avoided?

**Kiechel:** The biggest oversight, and this goes back to the beginnings of modern strategy, was not thinking clearly enough about how to integrate "people" – the talents, hopes, dreams, fears and ambitions of the individuals who would be charged with carrying out strategy – into its creation at the outset. This is a huge set of issues that still haunts the development of strategic thinking and one where inroads will have to be made if the

discipline is to advance. It's the root of the endless, not particularly fruitful debate about implementation vs formulation of strategy.

And history and unfolding circumstances have made clear the shortcomings in many of the original ideas, or in the ways they were carried out. As early BCGers now lament, their thinking about how to handle the dogs in the corporate portfolio was all wrong – instead of selling them at a discount or shutting them down, they should have been LBOed. The folks behind business-process reengineering were all too complicit in letting it become a synonym for downsizing. Apostles of core competencies or corporate capabilities should have insisted that companies be more disciplined in what they identified as the strengths they had to build on. But that's the nature of intellectual history, or at least the history-as-progress version of it: New ideas are invented, tried out in practice, refined and if necessary supplanted in the cauldron of experience.

**S&L:** Your book suggests the history of strategic management is an arc from intuitive management by clever men through a period of heavy analysis (with strong input from consultants!) back down to a reliance on clever men as the key to success. Is there no future for staff strategic planning?

**Kiechel:** I don't quite see that arc. The development of what I call Greater Taylorism, the application of sharp-penciled analytics to virtually every aspect of what a company does, was in many ways as important a product of the strategy revolution as strategy itself. Greater Taylorism isn't going away; it will just become more sharp-penciled and intense. How many conferences have you been invited to recently on the wonders of analytics? So the clever men and women of today will be a hell of a lot more clever thanks to all the information they have at hand.

Every company needs on its payroll smart men and women interested in thinking about the corporate future, up to date on the latest strategic ideas, and courageous enough to act as honest brokers of information on the three "C's" – costs, customers, and competitors. I'm not at all sure that such people are well-served by being consigned to the role of "planner." In a book I'm sure your readers are all familiar with, *The Rise and Fall of Strategic Planning*, Henry Mintzberg makes a convincing case about how seldom planning delivers on the promises made for it. But having a strategy, and thinking about strategy, isn't necessarily the same as planning. These days, with competitive advantages being competed away faster than ever and new opportunities and threats popping up all over the global place, it's even tougher than it used to be to predict how many washing machines you're going to be selling in the South Asian market three years from now.

**S&L:** What changes in corporate and consulting behavior will be required in our emerging world of slow growth or economic stagnation and global competition?

**Kiechel:** It is going to be a tougher environment, at least that's what most of the people I respect on the subject are telling me. Maybe paradoxically that means that companies and consultants are going to have to be quicker on the uptake, faster to spot small opportunities that suddenly appear or threats that loom up just as quickly. That probably means being in better touch with your people on the corporate periphery, the ones actually dealing with customers day to day and manning the battle lines with the competition.

**“The development of what I call Greater Taylorism, the application of sharp-penciled analytics to virtually every aspect of what a company does, was in many ways as important a product of the strategy revolution as strategy itself.”**

It also means companies will need to be more disciplined in managing their portfolios of businesses. Like what the private-equity operators do with the businesses they acquire, they'll need to put their money and energy in the businesses that truly do have a competitive advantage.

**S&L:** You suggest that nothing of significance has emerged in the field of strategy after about 1995. Who's doing interesting research today on strategy? What about all the books about value innovation? Is it the new fashionable paradigm?

**Kiechel:** It's not necessarily that nothing of significance has emerged, but rather that no huge mega-concepts with wide applicability, on the order of a value chain or experience curve, have surfaced. Partly that just reflects the fact that strategy has been so successful, in the sense of so widely installed, that the intellectual gains have become more incremental, less like big surprising discoveries.

With success has come specialization as well. Academics tell me that their research is now more granular. Practitioners and consultants say that they've been picking up fewer useful new concepts from the academics than they did, say, in the 1980s, when Michael Porter started publishing his books.

Similarly, at consulting firms more of the idea development is in the specialized practices, like the industry practices. No self-respecting company of any size today is without a strategy, or what they think of as a strategy, so there's no business for consultants in introducing potential clients to the idea, as there was in the first two or three decades of strategy's modern history.

Value innovation and the blue-ocean strategy work of Kim and Mauborgne is probably the leading contender for Biggest New Idea, but hasn't yet achieved the currency of Porter's work, or of Hamel's and Prahalad's. Give it time; maybe it will. The imperative to innovate is certainly right there at the heart of any 21st century discussion of strategy.

**S&L:** The *Lords of Strategy* offers little acknowledgement of Peter Drucker's contributions to strategic management. Wasn't he uniquely prophetic and visionary?

**Kiechel:** In any pantheon of great thinkers on management, Peter Drucker is going to have an honored place, perhaps the most honored place. His work is both smart and wise. Almost every reflective business practitioner I've ever encountered reports having had all sorts of "ahah" moments in reading Drucker's work.

But as I observe in the book, I don't see any armies of managers marching under Drucker's banner – like those that formed around management guru W. Edwards Deming. I can't think of any consulting firms devoted to putting Drucker's ideas into practice nor academic departments expounding on his work. Drucker was a rich and ruminative intellect, and so prolific over so many decades. But his work wasn't particularly susceptible to pick-up-and-run-with-this takeaways. That made it harder, at least for me, to say he had this particular effect on the history of strategy at this particular time.

**S&L:** Some consultancies seem to have been left out of your history. For example, Arthur D. Little worked with many major firms, using a technology largely based on two concepts: the life cycle of the industry, and the distinction between corporate and business strategy. Do these and other accomplishments have a place the complete history of strategy?

**Kiechel:** I'm sure there are omissions in the book. As I say in the preface, I hope it will serve as an invitation for others to write a more complete intellectual history of the subject.

**“Value innovation and the blue-ocean strategy work of Kim and Mauborgne is probably the leading contender for Biggest New Idea.”**

**“Greater Taylorism enabled companies to crunch the numbers on their own situation such that they didn’t have to be as reliant on more general truths or empirical findings that pertain to all industries rather than just their own.”**

What I tried to focus on were ideas that got some traction, fairly broad circulation and at least attempts to put them into practice. The concept of the life cycle of an industry and locating your business within it clearly is a useful intellectual exercise. I think of it as partly getting subsumed in Porter’s broader work on looking at your company within the context of its industry. And I’ve always been interested in the issue of corporate vs business strategy, in the sense of when you have strategies for all your business units, does the stack of them equate to a corporate strategy? Of course it doesn’t. I interviewed some professors who have done striking work on how to think about your overall corporate strategy as distinct from unit strategies. In the end, though, I couldn’t find enough people working at the coal face of business problems, practitioners and consultants, who were struggling with the issue these days to find a place for it in the history. Maybe I just didn’t look in the right places.

**S&L:** Early attempts at prediction by firms as part of the strategy process have been displaced in many organizations by scenario planning, developed initially by Herman Kahn and others. You ignore this strain of strategic thinking – does it have lesser utility?

**Kiechel:** One of the questions that you have to ask with respect to any strategic concept is, “So now that I understand this, what exactly am I supposed to do with it?” The answer to that was pretty clear with the experience curve and the growth-share matrix, even with time-based competition. It’s a trickier question to answer with respect to scenario planning.

I’ve long been intellectually intrigued by scenario planning, read Kahn’s work when I was considerably younger, have tried to follow the literature, the writings of people such as Peter Schwartz and Arie de Geus, and what Royal Dutch Shell did. It strikes me that scenarios work better for companies with long-product development times, like oil companies – how many years does it take to find and develop a new field? – than they do for outfits whose products have the lives of fireflies. And more and more businesses these days are on the firefly side.

But anything that plays a devil’s-advocate role, that says to management or whoever is making strategy at a company, “Hey wait a minute, did you consider this possibility which is not otherwise dreamt of in your philosophy?” – that has merit. And there’s certainly a role for scenario planning in doing that.

**S&L:** What are the landmark research projects the major consulting firms have done over the past four decades? What do you see as some of the most urgent research challenges in strategic management?

**Kiechel:** My sense is that the consulting firms don’t think of themselves as doing “research projects” – that’d be too ivory tower – but rather as trying to come up with constructs that can help clients cope with problems the companies are facing. The consultants, when they’re being smart about it – which isn’t always – look across the spectrum of issues clients raise with them and try to spot common issues or questions, a response to which may sell some consulting.

In the Sixties and Seventies those problems included competition from new sources – including Japan – at prices US firms couldn’t make sense of. That and how to manage the dog’s breakfast of unrelated businesses they had acquired, partly in response to antitrust rules at the time. Among the responses were the experience curve and the growth share matrix.

In the Eighties, a common client issue was how to catch a rising stock market and compete with upstarts or new players from abroad who quickly understood technologies and processes. Core competencies and time-based competition were offered up as potentially helpful solutions.

In the Nineties the challenges included how to respond to the Internet and other disruptive technologies, along with mounting pressures from the stock market for results. Business process reengineering was one attempt to do that.

In the current decade, the research challenges will include how to conceive and execute strategy in a milieu where the half-life of a successful strategy may be shorter than ever before, how to ground your strategy in the abilities and inclinations of your people, or how to match your corporate ambitions with the right set of people.

**S&L:** The collaboration of a number of firms at the Strategic Planning Institute produced some significant correlations between strategic variables and profitability (the PIMS data base). Market share, product quality, and investment intensity, for example were found to be critical variables. Hasn't "Greater Taylorism" recently failed to refine or further develop this kind of analysis? Don't we now have the capability to process larger amounts of data and provide strategic guidance to managers?

**Kiechel:** I don't think Greater Taylorism failed to refine that analysis – I think it blew past it in the sense that it found that the correlation of those variables changed a lot with industry, and that industries themselves were changing so much that some of the old data bases, like PIMS, no longer seemed so relevant. Who foresaw that encyclopedia companies would be taken down by software providers, or the music industry revolutionized by a computer company?

Greater Taylorism enabled companies to crunch the numbers on their own situation such that they didn't have to be as reliant on more general truths or empirical findings that pertain to all industries rather than just their own. That trend continues to today. One consultant I know quotes a Google executive saying, "Who needs models when you have all the data?"

**S&L:** What's the current best-selling idea at Bain/BCG/McKinsey?

**Kiechel:** These days the big three strategy consulting firms derive most of their business from industry- or issue-specific work, not from big ideas. But all three are trying to figure out how to make strategy more "adaptive." Each now uses that word, but each seems to have a slightly different take on what it's likely to mean.

---

To purchase reprints of this article please e-mail: [reprints@emeraldinsight.com](mailto:reprints@emeraldinsight.com)  
Or visit our web site for further details: [www.emeraldinsight.com/reprints](http://www.emeraldinsight.com/reprints)