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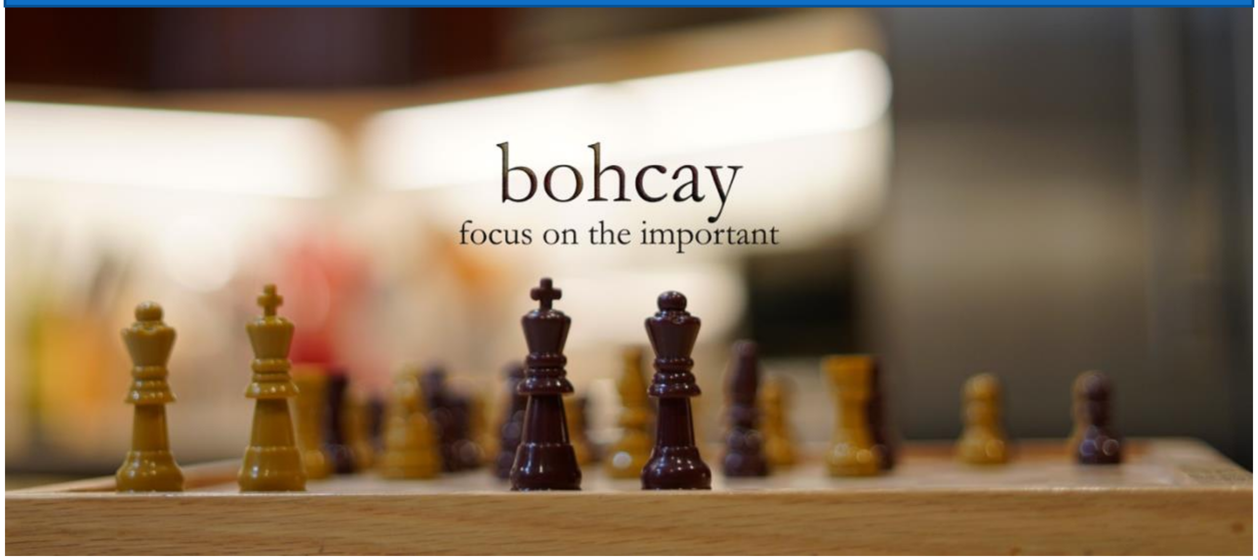

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A Bookscape™ captures the essence of a book, outlining the key issues raised, and highlighting, if any, the inferred call to action.

BOOKSCAPE™: LORDS OF STRATEGY

Book

- “Lords of Strategy: The Secret Intellectual History of the New Corporate World”
- Author: Walter Kiechel III
- Copyright: 2010 Walter Kiechel III
- Publisher: Harvard Business Press
- ISBN: 978-1-591-39782-3
- Kindle Edition

The Important

- “Lords of Strategy” is an enjoyable romp through the “Strategy Revolution” that started in 1960’s America when the post WWII boom was coming to an end, and other structural changes over successive decades, created a new competitive landscape, and business leaders looked for answers on how to respond. The strategy revolution is now global.

- The initial lords of strategy focused on cost as the key determinant of competitive advantage. A key thought leader in this area was BCG, that made contributions like the experience-curve. BCG also became famous for the growth-share matrix.
- As strategy evolved, the strategy to execution gap became apparent, which Bain & Co stepped into, with a very different business model than BCG, one that focused on deep and long engagements with only one company within a set of competitors.
- As BCG and Bain gained ground, McKinsey, who had been mostly focused on organizational restructuring, had to consider its response. That response came in a new dedication to internal training as well as the Strategic Management framework, that focused on integrating and elevating strategy and planning.
- While McKinsey as a whole was integrating organizational insights into strategy, McKinsey alum Peters and Waterman where taking that lens to a finer granularity: what is the impact of the employee on excellence.
- From academia, inspired by industrial organizational economics, came Michael Porter, perhaps the most famous business professor of all time, who expanded previous structure conduct and performance ideas to a rich five forces model, that put competitive rivalry at the center of his strategic thinking.
- Despite the many innovations and gains within the discipline of strategy, one area remains unintegrated and less well understood: the entrepreneur and her merry band of women and men that go off and change the world, despite no quantitative reason to predict they might do so. Broadening that point, there is probably still more work to do, to understand the role of people/employees in strategy.

Call to Action

You must approach strategy as something that is constantly evolving, not as something that is static. The market is a dynamic conversation, strategy must be as well.

- Strategy addresses the big issues in business.
- What the big issues are, changes over time.
- To have an effective strategy discipline:
    - The way you frame strategy must change over time.
    - The way you approach strategy must change over time.

Abstract

While strategy geeks will enjoy this tale more than most, there are some important takeaways here for everyone, and most especially for CEOs and other executive leadership. We live in a dynamic world, and therefore everything needs to be dynamic and evolving, including strategy. This book traverses the big ideas tackled by the great management consulting companies and academics from the 1960's to 2010: greater Taylorism, reengineering, shareholder capitalism, people as strategy, and the increasing call for companies to serve more than a single stakeholder. If you want a book that challenges you to zoom out,

and survey the landscape of big business ideas over the last 50-60 years, then this might be the book for you. That said, this book is specifically about the journey over those years of management consulting companies, and academics, such as BCG, Bain, McKinsey, and Michael Porter.

A New Hope

Each successive business discipline brings with it new hope; the promise that the holy grail of business will be obtained through it. One of the newer kids on the block is strategy. Despite its relative youth compared to other disciplines such as finance, strategy is being adopted globally, as a way to frame all the compelling issues that confront a business. Strategy is responsible for the global competitiveness of many American industries, and increasingly, many non-American industries. When strategy is adaptable, as it should be, it adapts to whatever new challenges and opportunities present itself to a business. In this sense, strategy is arguably the most flexible of all business disciplines. At the same time, the world of big ideas that strategy swims in, is foreign to many of the "just get it done" practitioners in business. The great business consulting houses have struggled with this tension, often developing implementation practices that dive deep into the get it done phase. Despite this tension, strategy remains a powerful tool for executive teams to frame what has to change, and to maintain relevance, in the ever-changing world of "fiercening capitalism".

The Journey Begins

This engaging journey through the annals of America's great strategy houses, and strategy academia, begins in the 1960's when the "strategy revolution" was about to takeoff. Says the author "What companies didn't have before the strategy revolution was a way of systematically putting together all the elements that determined their corporate fate, in particular, the three Cs central to any good strategy: the company's costs, especially costs relative to other companies; the definition of the markets the company served—its customers, in other words—and its position vis à vis competitors." *Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World. Harvard Business Review Press. Kindle Edition.*

But all that was about to change, when in 1963, Bruce Doolin Henderson founded the Boston Consulting Group (BCG). Upon his death in 1992, the Financial Times said of Henderson "few people have had as much impact on international business in the second half of the twentieth century." *Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World. Harvard Business Review Press. Kindle Edition.*

Strategy is adaptable not Immutable

The "Lords of Strategy" asserts that the big challenge with strategy is that "lack of enthusiasm for the power of ideas extends more widely than one might suspect." *Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World. Harvard Business Review Press. Kindle Edition*.

To this challenge, the lords of strategy, and especially Henderson himself were consistent with an intellectual tradition that sees ideas as tools to explain the world in which business finds itself, and and "…they believed that since ideas are provisional responses to particular and unreproducible circumstances, their survival depends not on their immutability but on their adaptability." *Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World. Harvard Business Review Press. Kindle Edition.*

Perhaps the most important idea in this book is that strategy is not immutable, but adaptable. This is a tension we have seen ourselves in business many times. A strategy has to be consistent for a long enough period to be executable, but it cannot be so rigid as to become irrelevant as the shifting sands of business change what is *the important*. This is a particularly hard tension to navigate for companies that have long development, deployment, and life cycles.

The Business World is Awoke from its Slumber: Fiercening Capitalism

It is for sure thought provoking to consider some of the shocks to the business world that have occurred over the last 50 years: deregulation, the impact of new technologies, the freedom from old ideas in financial markets that was a catalyst for the era of LBOs / private equity / activist investors, and of course globalization. What Kiechel refers to as the "Four Horsemen of the Corporate Apocalypse". These horsemen, says Kiechel, extended the reach of markets, and hence of competition, resulting in a new paranoia that "miscreats" are popping up all the time. Today, says Kiechel, competitiveness is so ingrained in our thinking that we forget the mindset that evolved under thirty years of postwar [WWII] prosperity. Today we live in a world captured in Andy Grove's book "Only the Paranoid Survive".

Early lords of strategy, like Henderson, passionately believed in the power of competition to spur performance, in addition to looking at the challenges facing clients as mysteries to be solved. The use of data by these lords, and the new analytical approaches popularized by academics like Michael Porter, transformed the business degree from a soft discipline, to a robust discipline that resulted in the ever increasing number of MBAs churned out by universities, and the ever increasing number of MBAs and ex-strategy consultants that have leadership positions in American business. Strategy, MBAs in the modern form, quants, and other analytics are responses to what Kiechel calls "fiercening capitalism".

The Big Ideas of Strategy

At the beginning of the strategy revolution, many companies did not know how their costs compared with competitors; perhaps many still do not. As a result, there was an initial focus on deep data analysis, and more generally, an "unprecedented", at the time, collection of data/information on costs, markets, and competitors. We would say these are still among the fundamental activities / benefits of a strategy discipline.

Frederick Winslow Taylor (1856-1912) is (in)famous for his leadership in the "Efficiency Movement", in the early 20th century. He was a pioneer in industrial engineering and scientific management. Such was his impact, that the term "Taylorism" was coined to refer to work in this area, as both a benefit to business and a pejorative with respect to the impact of this efficiency focus on workers. Kiechel uses the term "Greater Taylorism" to refer to one of the first focal points of strategy leaders, the sharp-penciled application of analytics, though instead of having a focus on the individual, this time with a focus on processes and functions; ultimately to a focus on all activities across the entire value chain. Greater Taylorism, Kiechel argues, has been adopted globally, and the availability of more data only drives it to greater heights. We believe the importance of this discussion is to highlight that there are times in an industry where operational excellence is the basis of competition and/or differentiation. In the late twentieth century, the emergence of Japanese industrial giants awoke American business leaders to this reality.

Looking more broadly at the history of strategy, Kiechel articulates that Barry Jones of BCG describes three broad phases. Phase I from the 1960's to the mid-1980's saw a focus on positioning, the 1980's to the late 2000's saw a focus on processes, and now, strategy is centered on people, and the view that they are the most valuable resource a company has; people generally still remain a company's largest expense. People focused strategy remained, at the time of the writing of "Lords of Strategy", more nebulous because it was only a recently embarked on focus. Importantly, from this focus, is the intellectualization of entrepreneurship – why the entrepreneur can get it done outside of a large company, and why large companies fail to do the same so consistently.

Two important schools of thought in the history of strategy have been strategy as positioning and strategy as organizational learning. The former, as evangelized by Michael Porter, focuses on choices around where to compete. The latter, as evangelized by McKinsey alum Tom Peters & Bon Waterman + McGill's Henry Mintzberg, focus on the constraints around strategy choices for existing companies, that no strategy works as originally planned, and that companies must point in a direction, learn from market responses, then adapt. While each school, according to Kiechel have a history of "besmirches" against the other, we believe that there are important lessons from each. We would also say that startups / entrepreneurs necessarily and commonly learn (or not) from an initial thesis and then adapt. Large companies that have big buckets of resources and complicated value chains in play, must necessarily focus on positioning. The big challenge for entrepreneurs, in our opinion, is to appropriately position for the long term. The big challenge for established companies, in our opinion, is how to learn and adapt. Therefore, we do not believe that there is an either / or for positioning vs organizational learning.

The LBO and PE revolutions have been facilitated not only by more liberal financial thinking / markets, but also by the question "what businesses should I be in" and by strategists focusing on the profitability / costs of one line of business vs another. This wave of strategy thinking moved corporations from immutable portfolios to line of business performance driven portfolios, with pieces of one company stripped and combined with pieces of another company for improved overall market efficiencies, along with the accompanying controversy surrounding the amount of wealth accrued by those doing the stripping and combining. In the awake of this aspect of fiercening capitalism, management teams saw both opportunities to accrue wealth to themselves. With the emergence of shareholder capitalism, came the idea that the shareholder was more important than any other stakeholder, which also answered the question how to optimize the value of a portfolio, or as commonly stated, how to "unlock" value. In Henderson's own 1985 words "Nearly all companies I have known have a number of businesses they should not be in."

The emergence of shareholder capitalism also gave strategy a focus that it needed – the purpose of strategy is to increase shareholder value. In the wake of the global financial crisis (GFC) of the 2000's, some are asking whether this singular focus has been a good thing or not, in addition to asserting that increasing shareholder value is not a strategy, but the outcome of a strategy. As there are so many aspects to the GFC, including the roles of the new quant whiz kids and government/pseudo government organizations, the GFC cannot be squarely pinned to the role of strategists, or whether they were able to understand the broad range of businesses they encouraged their clients to be in. What can be said is that for a time, at least, shareholder value was a significant focus of the large consulting firms. This focus is yet another illustration of how conditions change over time – the liberalization of financial markets, the influence of so many Americans being invested in 401K and similar products, and the role of regulation / reserve banks. We all wanted growth from our investments, and what resulted was institutional pressure on businesses to achieve that growth. A new pressure emerged that previous business leaders did not have to deal with, to anywhere the same extent.

The Lords of Strategy also focused on another thing we now take for granted: market segmentation. We would observe there is a link here to the previous discussion on a business understanding its costs. In market segmentation, what a business is trying to do is carve up all its customers, all the products and services sold to them, and understand where the business is or is not marking money. Other dimensions of market segmentation may also be added, such as geography and demographics. The analysis of where a company was profitable was to become one of the biggest consulting money generators for at least a few decades. We suspect there is still plenty of money to be made there. At the very least, internal corporate strategy groups should be tackling this issue on a systematic basis if the internal capacity exists.

Of course, the very definition of strategy had also to be tackled, and here the lords came up with more than one. Strategy is change, being one. A lengthier definition by Alfred Chandler in 1962 was "Strategy can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals." *Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World (p. 25). Harvard Business Review Press. Kindle Edition.* We are in agreement with these two definitions and find some overlap between them. If you are just doing what you have always been doing, then you probably are not executing a particularly robust strategy that is retaining relevancy in a changing business environment, so we find merit in the idea of strategy as change. We also find merit in the idea of allocating resources to that change, for the old saying goes "A goal without a plan is a wish". How many strategies are aspirations that remain in a PowerPoint deck? The real test of a management team's commitment to a strategy is not what they say at company meetings or investor meetings, but what resources they are allocating internally to realize the strategy; investment that more often than not, will require the cessation of something else.

The Lords and Their Contribution to Evolving Strategy

BCG

Among the most important ideas in launching the strategy revolution was BCG's "experience-curve", which despite its detractors and flaws, stood for a decade as an answer to the increasing competition being felt by American businesses, by asserting that the costs of a business should decline systematically at a rate that can be accurately predicted. This view of business was at the time heretical, that different businesses making the same product may have different costs, with those businesses who have the most share having the lowest cost, because they have the most experience. While BCG would itself move on from this framework, and there came a time when it no longer was as relevant as when first introduced (for example when economic shocks led to the cost of raw materials increasing), it was prescient in its insight about business. While we may quarrel with the certainty of this assertion, that costs will always reduce systematically, we applaud the insight within this view, that not all companies will have the same costs, even for the same product. What seems obvious today, was at the time, revolutionary. There was one downside of the experience-curve thinking, it could be interpreted as suggesting that if a company cuts prices, to gain share, its costs will go down. What this kind of thinking can do, as we know today, is lead to price wars that drive market participants into unprofitability and/or bankruptcy. Strategists might suggest that represents inexpert application of a good idea.

Building on the experience curve was BCG's famous 2x2 framework, the Growth-Share matrix (stars, cash cows, dogs, and question marks). In its time it encapsulated much of what was then understood about the elements of strategy: Market share is a measure of competitiveness; your place on the experience-curve has relation to market share; and market growth had something to say about your customers. While we know longer think of market share as the be all and end all of business purpose, the Growth-Share matrix was so powerful, that every practicing strategist today is likely aware of it and has also probably used it at some point. The matrix also gave BCG its first "product" which changed its trajectory as a company, in addition to driving more consulting business than "perspectives" (written and freely published insights). In America, it was a time of huge conglomerates, companies like ITT and American Standard, and executives in those companies could not "keep the whole business in their head." With BCG's Growth-Share matrix, they now could. What this also did was tilt the power balance in large conglomerates from unit heads, back to the center. We would observe that the tension between the corporate center and business heads, is one that remains, and is somewhat unavoidable. It also leads to the common delineation between corporate strategy, what businesses a corporation should be in, and business strategy, how an individual business achieves its objectives. In perhaps too many companies, this distinction is not well understood or enforced, which adds to the tension. Good fences make for good neighbors, or, stay in your swim lane. Finally, one of the more amusing narratives from the experience with the matrix is that if you ran a business that was labelled as a "dog" you may not have appreciated that. There is a warning here for all strategists, be careful how you label your 2x2s ☺ On a slightly more serious note, according to Kiechel, one thing BCG did get wrong, was to assume the best way to handle a "dog" was to starve it of cash. They did not see the LBO upside that was to come. Others would see this upside.

Bain & Company

The second great lord was Bill Bain, founder of Bain & Company. If the call to action for strategy is to be different, Bain nailed that. Instead of BCG's one-off engagements, conferences, and retail marketing where ideas were shared publicly, Bain wanted strategies to be "distinctive, proprietary, even secret". Bain & Company went in the direction of long-running, deep engagements, with only one competitor in a market. Strategy in action.

Concurrent with long duration and deep engagements was the ability to focus on strategy implementation. In the words of Bain partner, Steve Shaubert "We wanted to get strategy down to the level where somebody with a wrench in his hands could do something about it." *Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World (p. 86). Harvard Business Review*

Press. Kindle Edition. Hence, we here that old saw, once again, “A goal without a plan is just a wish” and we see Bain here attacking the strategy to execution gap with an army of people, over a long period of time (presumably long enough to see results, but ideally forever), with the promise that the end result will be proprietary to the company they are serving. Bain placed itself ahead of the competition in tackling implementation. As Kiechel puts it “Bain was taking the concepts from the early stages of the strategy revolution and figuring out how to turn them into behavior.” Anyone who has ever been involved in change knows that the killer problem is changing behavior, and this is what Bain was targeting. In contrast, BCG was already, according to Kiechel, moving forward to look for the next killer construct. In this observation, a criticism of BCG might be implied. We would rather say there is a place in strategy for people who have wicked smart insights about business, and there is a place for people in strategy who drive it down to implementation. It is not an either / or, it is an and. Both of these capabilities fit within the spectrum of strategy work.

In return for a commitment to a long-term relationship, Bain not only offered clients a deep and proprietary engagement within a given set of competitors, Bain also improved on the experience-curve idea that BCG had first introduced. “We recognized that your costs don’t automatically decline with the experience curve,” says Schaubert. “You have to manage them down.” *Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World (p. 86). Harvard Business Review Press. Kindle Edition.* Even in its reframing, the experience-curve still looms large as one of the great conceptual ideas of Strategy. Even if you did not fully embrace it, you could perhaps also not ignore it.

Bain focused not on reports or studies, but on a strategy and results, results that could eventually be seen in the stock price. They did this with a relentless focus on what is referred to as the three C’s: costs, customers, and competitors. In Bain’s case, especially costs.

McKinsey

The emergence of BCG & Bain was a shot across the bow to the other principal player in this story, McKinsey. With the ascension of Fred Gluck to CEO, a new focus on data analysis emerged, and ultimately on the “Evolution of Strategy Management”. As every strategy professional has experienced, the annual strategic planning process is a mixed bag of results. Often the strategic planning process devolves into no more than a budgeting exercise, let us do the same thing as we did last year, but perhaps a little more or a little less of it depending on how business is going. What Kiechel argues is that what you won’t find in most strategic plans is a serious take on the three C’s: costs, customers, and competitors. What Gluck observed was that equally important to planning was ‘strategic thinking (“creative, entrepreneurial insights”) and opportunistic decision making (an “effective response to unexpected opportunities and problems”), with all three sources rooted in “market understanding, competitive analysis,” and a grasp of “major environmental trends.’ *Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World (p. 107). Harvard Business Review Press. Kindle Edition.* We imagine grizzly strategy veterans nodding their heads in agreement as they read Gluck’s perspective, after all, the best planning in the world is of no value, if what you are planning is a bridge to nowhere. A key responsibility of strategy is to shape how resources are allocated, and to ensure that they are allocated in a way that makes a meaningful difference; to ensure they are allocated in a way that drives change; to ensure they are allocated in a way that results in the company being relevant. The difference between strategy and strategy planning, as well as the insights on how to make each effective, are big and important ideas, that have real impact on the long-term performance of a company.

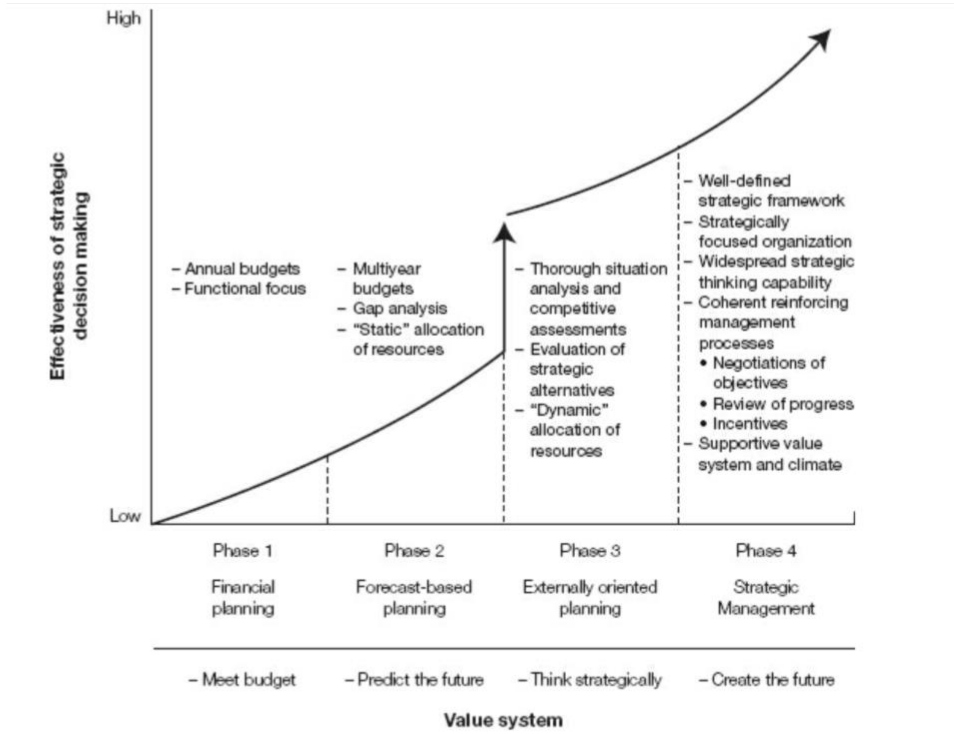

Figure 1. McKinsey's Strategic Management. Source: Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World (p. 108). Harvard Business Review Press. Kindle Edition.

In McKinsey's view of Strategic Management, as then presented, strategic planning and management are in one process, there is a planning framework that is a) well/widely understood and b) is tied to organizational change. In the latter, Kiechel says, we see an area that McKinsey has long focused on, which is organization. If business is how things get done, then organization is how business organizes to get things done. We observe, that when you consider business model in a holistic way, organization is a necessary, and important consideration. We agree with McKinsey that organization is an important focus, and not just reorging to do something new because the old is not working, but making small or large changes, as needed, to align with strategy, planning, and execution effectiveness. McKinsey's take on strategic management, as well as other initiatives including intensive internal training in the areas of concepts, techniques, tools, and practitioners, helped McKinsey claw back ground they had lost to BCG/Bain, and emerge as a leader, if not the leader, in strategy work. McKinsey continued to balance its work across strategy, operations, and organization. Kiechel says of the McKinsey culture "The notion, to be commended to any company dependent on the bright minds of its people—which by the middle of the twenty-first century, will be every company—is that an idea or insight should be judged on its content, not on the seniority of its source, or lack thereof." This value was not only implicit in the approach to strategy management that McKinsey developed for its clients, but perhaps the aspect of its culture that allowed it to change and move in new directions.

Search for Excellence

At the Office of Management and Budget, Tom Peters, future McKinsey alum, became “completely and hopelessly fascinated by complex organizations. I watched people being vilified by bureaucracies.” Those familiar with the later work from Peters will know that central to his view of the world, is the role of people in the success of companies. “Strategy and structure, Bennett and Peters quickly concluded, weren’t by themselves nearly sufficient to explain what goes into making a company effective.” *Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World (p. 142-143). Harvard Business Review Press. Kindle Edition.*

In the book “Search of Excellence”, co-authored with Bob Waterman, the defining qualities of exemplary companies were listed as: “bias for action; closeness to the customer; autonomy and entrepreneurship; productivity through people; a hands-on, value-driven emphasis; stick-to-the-knitting persistence; simple form, lean staff; and simultaneous loose-tight properties.” and the ideas in the book were based on a framework called the seven S’s: skills, staff, style, systems, structure, shared values, and strategy.
Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World (p. 144). Harvard Business Review Press. Kindle Edition.

“Search of Excellence” was a runaway populist success, but it did not successfully lodge in the corporate mind, criticized for its lack of quantitative rigor, among other things. But the idea, that employees are central to innovation, service, and other aspects of success, is a theme, that strategy was returning to in 2010 when Kiechel published “Lords of Strategy”.

Michael Porter

We should not of course have a conversation about the Lords of Strategy, without talking about the impact of academia, and in particular, someone who might well be the most famous business professor of all time: Michael Porter. When Porter was doing his PhD studies, he did a course called Industrial Organization that would influence him greatly, and lead to one of the most famous frameworks in all of strategy and business, the five forces framework. “Industrial organization (IO) economics is a world of models that depict the effect of forces, at the highest level all purposed at explaining why competition exists in certain industries but not in others, and hence why some industries are more profitable… The overarching conclusions of the IO economists—and a sense of just how high up they lodged in the stratosphere of abstraction—are sometimes summed up as the SCP schema, shorthand for structure, conduct, and performance. Every industry has to cope with different conditions of supply and demand, and from this tussle emerges an industry structure—so many buyers, big and small, so many sellers. Structure in turn shapes the conduct of the players and the choices they make and can make, which in turn determines their performance, not just their profitability but also, as Pankaj Ghemawat points out, their efficiency and innovativeness. IO’s stock in trade is concepts like barriers to entry and seller concentration.” *Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World (p. 124). Harvard Business Review Press. Kindle Edition.*

Leveraging the concepts of IO which focused on why some industries are highly competitive and others are not, Porter set about researching how industry structure may create opportunities for competitive advantage. While IO had been dominated by thinking on seller concentration and barriers to entry, Porter expanded that view to the now famous five forces: the bargaining power of buyers, the bargaining power of suppliers, the threat of new entrants, the treat of substitute offerings, and centrally, the competitiveness between firms. In his 1980 book, Competitive Strategy, Porter noted that the essence of competitive strategy is relating a company to its environment, with the key factors being the industry it was in, and the structure of that industry. Porter's insights not only bought strategy back to a focus on industry structure, but also to the dynamics of competition.

The book, Competitive Strategy, contained other gems as well, but especially the last chapter written by Porter, chapter 2, where he felt the need to say something about positioning. In this chapter he articulated three strategies a company could choose, by leading in: low-cost, product differentiation, or market specialization. In picking one, Porter stressed the need for companies to stick to one, and not straddle multiple / get stuck in the middle. The different positioning a company can have is an enormously important and often discussed subject among strategists.

Another important theme in Porter's work is that strategy is about choice. It is not uncommon to hear strategists today say that strategy is not just about what you ARE going to do, but also about what you ARE NOT going to do.

Porter also made another significant contribution, the value chain, which would become increasingly important over time, including when strategists started to shift their focus from cost-based advantage to differentiation. The value chain provided a way to describe what a company does, in greater detail.

We think today about Porter's Competitive Strategy book like some economists think about Adam Smith's Wealth of Nations. Porter not only bought some scholarly credibility to the field of strategy, he published a "sum-it-all-up" book, which the other lords had not, and whether you had complaint or not about the book, it was hard to talk about strategy without at least referencing it; it was the first book of its kind.

The Second Phase

While strategy detractors had been rebuffed by the 1980's, pointed jokes and archetypes had emerged. There is the famous joke about the consultant who steals your watch and tells you the time. Then there was the "seagull" model of consulting, the consultant who flew out from Boston, did a couple of laps around your head, dropped a strategy on you, and left. In the latter can be seen one of the perennial challenges of strategy everywhere – where does the job end, and how to turn strategy into implementation / execution. Companies like BCG would react to that by developing longer engagement models and partnering with clients in different ways, for example having clients build up their analytical/data collection skills while BCG framed the discussion.

Strategists were also starting to find examples of industries where low cost was no guarantee of competitive advantage. This gave rise to increased thinking around differentiation. Porter defined differentiation in the following way: "A firm differentiates itself from its competitors when it provides something unique that is valuable to buyers beyond simply offering a low price." *Kiechel, Walter. Lords of Strategy: The Secret Intellectual History of the New Corporate World (p. 198). Harvard Business Review Press. Kindle Edition.* Porter also observed that better than normal performance required advantage to be sustainable, an idea that people like Pankaj Ghemawat would explore, including research that lead to the conclusion that advantage was for most companies short-lived. With the idea that advantage was eroding quicker under fiercening capitalism, came the idea that the useful life of strategy was also declining. Adding to these dynamics were increasing pressure to increase stock price as the demand for growth was being driven by changes in the finance/investment industries, broadening participation in 401K plans (yes, you and I want growth), and other forces.

This pressure to increase stock prices would give rise to the emerging purpose of a company, and the emerging purpose of strategy: increasing shareholder value (where as previously the answer might have been creating competitive advantage). While there are loudening voices against shareholder capitalism, with the shareholder the predominant stakeholder, it is the model that has taken root in capitalism. The principal argument for shareholder capitalism is that shareholders own companies.

The poor share market performance from 1972-1982 had not given much incentive to focus on shareholder value. But in the run up that occurred after 1982 and has occurred since (with some notable glitches), those with an eye for making money realized there was money to be made in owning shares, owning companies, and even restructuring companies. There were also other forces in play. Debt was once taboo from a business perspective, and strategies had to be funded out of the cash from existing businesses. The creation of "junk" bonds led to the increasing use of debt for strategic purposes.

With these changes came leveraged buyout (LBO) and later private equity (PE). Now, strategic "options" included a new range of value creating (or destroying) activities. When it became clear in 1985 how much money Macy's CEO was going to make taking Macy's private, management teams took notice, some of them started exploring it themselves, and the momentum accelerated. Of course, what management teams found over time is that they were not always kept around after the transaction was completed; after all, who was responsible in the first place for the poor performance of the company?

The 1990's and beyond would see concepts emerge such as capabilities, core competencies, and strategic intent. A growing sense of successive technology waves also cast a focus on innovation. Refined thinking on strategy also occurred, including Porter's observation that operational effectiveness is doing the same things as your competitors, but better, whereas strategy is choosing to do different things, and to continuing to make the tradeoffs necessary in going down that path. The poster-child for the strategic alignment / fit that would come from making those tradeoffs came to be Southwest Airlines, every strategist's favorite example of how a company's value chain can be aligned to its strategy / positioning.

Some of the ideas of this era fell aside because they were too soft/not-quantifiable or simply too hard. Take for example the idea of capabilities, which BCG struggled with because it involved changing behavior, which is hard.

The book finishes with a discussion of the renewed interest by strategy in organization and people.

Conclusion

"Lords of Strategy" is a 300+ page exploration of the major ideas and players in the strategy revolution that has occurred since the 1960s. For strategists, it provides a great perspective on the evolution of important ideas and how the focus of strategy has changed over time, in response to changing business conditions, which is a takeaway all leaders should embrace. Strategists will find many of the subjects familiar: cost curves, customers/markets, competitors, process, position, industry structure, capabilities, competencies, and strategic intent. The book successfully paints the picture of a discipline that has evolved significantly since the 1960s, yet still has some ground to cover in areas like people / entrepreneurship.

