Has anything changed in strategic thinking since Porter?

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Abstract
Strategy has not always been a part of the normal business vocabulary. In the 1920’s Harvard Business School taught ‘business policy’ to their business students. The contents were similar to strategic management, but the word ‘strategy’ appeared in the business vocabulary as late as in the 1960’s. The great strategy guru, Michael Porter from Harvard Business School, authored several famous books about competitive strategy and contributed to the theory and tools for strategic management in the 1980’s. These strategic management principles are known to every MBA student like their pockets. Many also apply those principles to solve today’s strategic management problems in their companies. However, today’s business environment has become more turbulent and less predictable than before. Are the old rules still valid, or should we change our approach to strategic thinking?

Has anything really changed in strategic thinking since Porter? Let’s try to understand this question by going 2500 years back in time and then having a look at today’s realities.

The importance of strategic thinking in the changing world
Strategic thinking itself is quite an old art and goes back in time at least 2500 years to the time of the famous Chinese thinker Sun Tzu, who was kind of strategy consultant for the emperor. At that time, strategy was about being successful in the battlefield. Surprisingly, some principles do not differ so much from the strategic management practices of the 20th century. In the 1980’s, Porter focused especially on competition and the creation of sustainable competitive advantage.
However, today’s business environment is quite different from Porter’s time, because it is less predictable than it used to be. Today’s business environment has become more turbulent and less predictable than before. Due to globalization and digitalization, changes happen fast and the effects can be seen almost in real time all over the world. Furthermore, the changes tend to be more dramatic than before. Traditionally successful companies and even industries can disappear almost overnight. Of course, some industries survive better than others, e.g. changes in forest industry are not as fast and dramatic as in ICT. However, it is important to realize that many industries are not like they used to be.

Due to e.g. digital convergence, traditional borders between the industries are blurring and the value is moving to the intersections of industries. For example telephone, television and computer are not separate devices or services anymore. Competitive advantages are not the same either, and certainly not sustainable. New players disrupt old businesses and those may emerge out of the blue. Usually those new players do not even aim at destroying other people’s businesses, but still they do. One example is Netflix, which destroyed the traditional video rental business by introducing their service at the intersection of digital movies, fast communications and effective computing technologies.

**Understanding unpredictable environments**

Strategy creation in turbulent and unpredictable environment should not follow the same rules as what organizations are used to, and what is taught in traditional strategy books. However, many organizations create their strategies as if the environment was stable and predictable. After completing a thorough analysis, they might find out that the world has changed and they have lost their competitive advantage. Instead of trying to achieve ‘sustainable competitive advantage’, which most strategy books declare as the ultimate goal of competitive strategy, they should rather understand that advantages are more transient in nature. In turbulent environment, organizations should learn to manage the portfolio of temporary advantages. That is more easily said than done, and has proven to be difficult in practice.

One way to stay alert in the fast changing environment is to focus more on the customers and try to understand their needs. Decision power has shifted to customers and therefore the key question is: how to become more sensitive to changing customer needs. This may mean
dramatic changes in traditional strategy creation processes. The wisdom does not necessarily reside any more in top management and rigorous analysis of past behavior. More important is the real-time information found at the customer interface.

Creating strategies in unpredictable environments

Often traditional strategy creation processes do not create any new, but only support the status quo. To achieve something new, the process should be more ‘scientific’. That would mean creation of new hypothesis and testing them. For example, by using this kind of approach, Procter & Gamble succeeded in repositioning their Oil of Olay to compete with high end cosmetic products. That kind of approach requires some fundamental shifts in the mindset of the manager, as described in a recent HBR article. First, managers should avoid asking “What should we do?” and instead ask “What might we do?”. Second, managers should stop asking “What do I believe in?” and ask “What would I have to believe in?”. Third, managers should move away from asking “What is the right answer?” and concentrate instead on “What are the right questions?”.

Another interesting approach to provoke new kind of strategic thinking is Delta model. It is a rather new strategy framework that places the customer at the center of management. The philosophy of Delta model moves strategic thinking from war to love, i.e. from competition to customer centricity. In this approach, organizations first choose how they serve the customers. It may happen by offering the best product, the best customer solution or system lock-in. The goal is customer bonding rather than beating the competition. Delta model extends Porter’s thinking on competitive advantage and offers more options. This framework offers also an alternative to balanced scorecard as it links strategy with execution by three adaptive processes, which are operational effectiveness, customer targeting and innovation.

Conclusion: understand your customers!

Many things have remained the same after Porter and even Sun Tzu, but there have also been significant changes. In today’s globalized, digitized and turbulent business environment,
the strategists should understand how predictable or unpredictable their own business environment is, and create strategies accordingly. Last but not the least, it is essential to understand the importance and influence of the customers, who are the true decision makers in the marketplace.

**BIBLIOGRAPHY**


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