

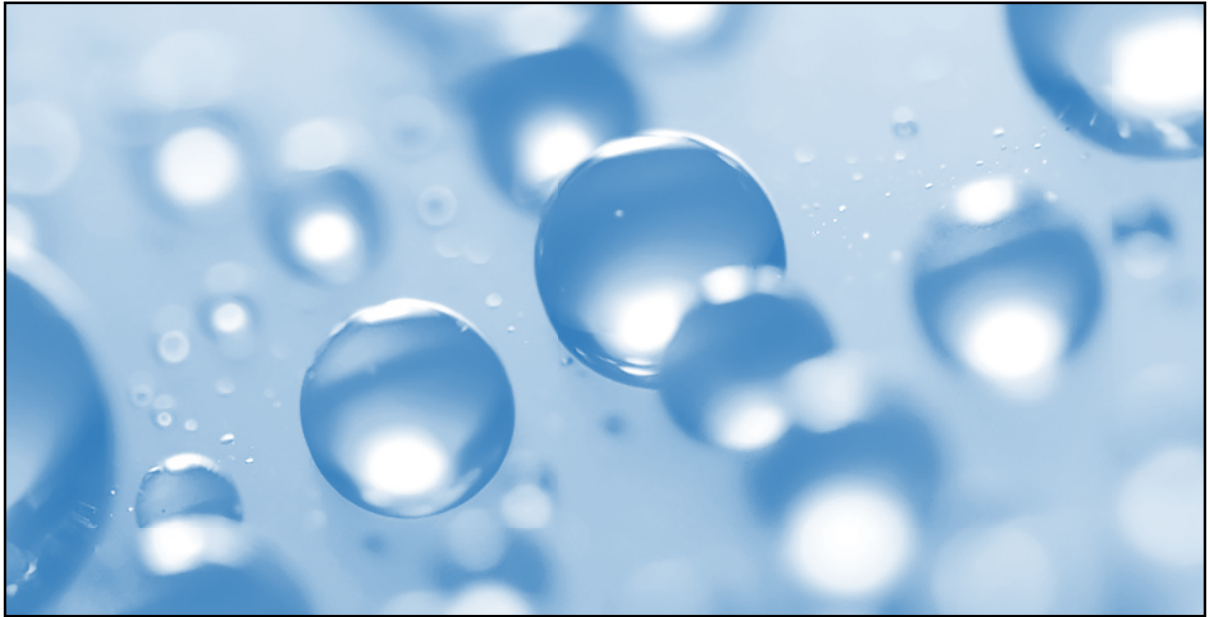
ROBERT M. GRANT

Contemporary Strategy Analysis

Tenth Edition

WILEY

CONTEMPORARY
STRATEGY
ANALYSIS



**CONTEMPORARY
STRATEGY
ANALYSIS**

TENTH EDITION

ROBERT M. GRANT

WILEY

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To Liam, Ava, Finn, Evie, Max, Lucy, and Bobby

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Robert M. Grant is Professor of Strategic Management at Bocconi University, Milan, Italy and a Visiting Professor at Cass Business School, London. He was born in Bristol, England and has taught at Georgetown University, London Business School, University of British Columbia, California Polytechnic, UCLA, Insead, and University of South Africa. His business experience includes making tires (Firestone) and meat pies (Kraft Foods) and strategy consulting at American Express, Eni, BP, and other companies.

PREFACE TO TENTH EDITION

Contemporary Strategy Analysis equips managers and students of management with the concepts and frameworks needed to make better strategic decisions. My goal is a strategy text that reflects the dynamism and intellectual rigor of this fast-developing field of management and takes account of the strategy issues that companies face today.

Contemporary Strategy Analysis endeavors to be both rigorous and relevant. While embodying the latest thinking in the strategy field, it aims to be accessible to students from different backgrounds and with varying levels of experience. I achieve this accessibility by combining clarity of exposition, concentration on the fundamentals of value creation, and an emphasis on practicality.

This tenth edition maintains the book's focus on the essential tasks of strategy: identifying the sources of superior business performance and formulating and implementing a strategy that exploits these sources of superior performance. At the same time, the content of the book has been revised to reflect recent developments in the business environment and in strategy research.

Distinctive features of the tenth edition include:

- More explicit guidance on how to apply the tools of strategy to analyze strategic situations and develop strategy recommendations. See, in particular: “Applying Strategy Analysis” in Chapter 1, “Putting Performance Analysis into Practice” in Chapter 2, “Using Industry Analysis to Develop Strategy” in Chapter 3, and “Developing Strategy Implications” [from the analysis of resources and capabilities] in Chapter 5.
- Increased emphasis on strategy making under conditions of technological change—especially in digital markets where strategy analysis must take account of complements, network externalities, platform-based competition, and the application of innovative business models to complex business ecosystems (see Chapters 4, 8, and 9).
- Integration of stakeholder interests and corporate social responsibility within a view of the firm as an institution for creating value (Chapter 2).
- An updated approach to strategy implementation. While maintaining an integrated approach to strategy formulation and strategy implementation, Chapters 6, 8, and 13 offers a systematic approach to strategy execution that the role of organizational capabilities and capability development in guiding resource allocation, and the design of organizational structures and management systems.

My thanks to my editorial and production team at Wiley, especially to Lise Johnson, Judy Howarth, and S. Indirakumari; and to Mary Fogarty and Nitish Mohan for their

assistance. This tenth edition of *Contemporary Strategy Analysis* has benefitted hugely from feedback and suggestions from users—both instructors and students. I thank you and look forward to continuing my engagement with you. Please feel free to contact me at grant@unibocconi.com.

Robert M. Grant

I

INTRODUCTION

1 The Concept of Strategy

1 The Concept of Strategy

Strategy is the great work of the organization. In situations of life or death, it is the Tao of survival or extinction. Its study cannot be neglected.

—SUN TZU, *THE ART OF WAR*

To shoot a great score you need a clever strategy.

—RORY MCILROY, *GOLF MONTHLY*, MAY 19, 2011

Everybody has a plan until they get punched in the mouth.

—MIKE TYSON, FORMER WORLD HEAVYWEIGHT BOXING CHAMPION

OUTLINE

- ◆ **Introduction and Objectives**
- ◆ **The Role of Strategy in Success**
- ◆ **The Basic Framework for Strategy Analysis**
 - Strategic Fit
- ◆ **A Brief History of Business Strategy**
 - Origins and Military Antecedents
 - From Corporate Planning to Strategic Management
- ◆ **Strategy Today**
 - What Is Strategy?
 - Why Do Firms Need Strategy?
 - Where Do We Find Strategy?
- Corporate and Business Strategy
- Describing Strategy
- ◆ **How Is Strategy Made? The Strategy Process**
 - Design versus Emergence
 - Applying Strategy Analysis
- ◆ **Strategic Management of Not-For-Profit Organizations**
- ◆ **Summary**
- ◆ **Self-Study Questions**
- ◆ **Notes**

Introduction and Objectives

Strategy is about achieving success. This chapter explains what strategy is and why it is important to success, for both organizations and individuals. We will distinguish strategy from planning. Strategy is not a detailed plan or program of instructions; it is a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization.

The principal task of this chapter will be to introduce the basic framework for strategy analysis that underlies this book. This framework comprises two components of strategy analysis: analysis of the external environment of the firm (mainly industry analysis) and analysis of the internal environment (primarily analysis of the firm's resources and capabilities). We shall then examine what strategy is, how it has developed over time, how to describe the strategy of a business enterprise, and how organizations go about making strategy.

By the time you have completed this chapter, you will be able to:

- ◆ Appreciate the contribution that strategy can make to successful performance and recognize the essential components of an effective strategy.
- ◆ Comprehend the basic framework of strategy analysis that underlies this book.
- ◆ Recognize how strategic management has evolved over the past 60 years.
- ◆ Identify and describe the strategy of a business enterprise.
- ◆ Understand how strategy is made within organizations.
- ◆ Recognize the distinctive features of strategic management among not-for-profit organizations.

Since the purpose of strategy is to help us to win, we start by looking at the role of strategy in success.

The Role of Strategy in Success

Strategy Capsules 1.1 and 1.2 describe the careers of two individuals, Queen Elizabeth II and Lady Gaga, who have been outstandingly successful in leading their organizations. Although these two remarkable women operate within vastly different arenas, can their success be attributed to any common factors?

For neither of them can success be attributed to overwhelmingly superior resources. For all of Queen Elizabeth's formal status as head of state, she has very little real power and, in most respects, is a servant of the democratically elected British government. Lady Gaga is clearly a creative and capable entertainer, but few would claim that she entered the music business with outstanding talents as a vocalist, musician, or songwriter.

Nor can their success be attributed either exclusively or primarily to luck. Both have experienced difficulties and setbacks at different stages of their careers. Central to their success, however, has been their ability to respond to events—whether positive or negative—with flexibility and clarity of direction.

My contention is that, common to both the 60-year successful reign of Queen Elizabeth II and the short but stellar career of Lady Gaga, is the presence of a soundly formulated and effectively implemented strategy. While these strategies did not exist as explicit plans, for both Queen Elizabeth and Lady Gaga we can discern a consistency of direction based upon clear goals and an ability to bend circumstances toward their desired outcomes.

Elizabeth Windsor's strategy as queen of the UK and the Commonwealth countries is apparent in the relationship she has created between herself and her people. As queen she is figurehead for the nation, an embodiment of its stability and continuity, a symbol of British family and cultural life, and an exemplar of service and professional dedication.

Lady Gaga's remarkable success during 2008–18 reflects a career strategy that uses music as a gateway to celebrity status, which she has built by combining the generic tools of star creation—shock value, fashion leadership, and media presence—with a uniquely differentiated image that has captured the attention and loyalty of teenagers and young adults throughout the world.

What do these two examples tell us about the characteristics of a strategy that are conducive to success? In both stories, four common factors stand out (Figure 1.1):

- *Goals that are consistent and long term:* Both Queen Elizabeth and Lady Gaga display a focused commitment to career goals that they have pursued steadfastly.
- *Profound understanding of the competitive environment:* The ways in which both Elizabeth II and Lady Gaga define their roles and pursue their careers reveal a deep and insightful appreciation of the external environments in which they operate. Queen Elizabeth has been alert both to the changing political environment in which the monarchy is situated and to the mood and needs of the British people. Lady Gaga's business model and strategic positioning show a keen awareness of the changing economics of the music business, the marketing potential of social networking, and the needs of Generation Y.
- *Objective appraisal of resources:* Both Queen Elizabeth and Lady Gaga have been adept at recognizing and deploying the resources at their disposal, and also building those resources—for the Queen, this has included her family, the royal household, and the recipients of royal patronage; for Lady Gaga, it comprises the creative talents of her Haus of Gaga.
- *Effective implementation:* Without effective implementation, the best-laid strategies are of little use. Critical to the success of Queen Elizabeth and Lady Gaga has been their effectiveness coordinating and leading “ecosystems” of supportive individuals and organizations.

These observations about the role of strategy in success can be made in relation to most fields of human endeavor. Whether we look at warfare, chess, politics, sport, or business, the success of individuals and organizations is seldom the outcome of a

STRATEGY CAPSULE 1.1

Queen Elizabeth II and the House of Windsor

By late 2018, Elizabeth Windsor had been queen for 66 years—longer than any of her predecessors.

At her birth on April 21, 1926, 45 other countries were hereditary monarchies. By 2018, the forces of democracy, modernity, and reform had reduced these to 26—mostly small autocracies such as Bahrain, Qatar, Oman, Kuwait, Bhutan, and Lesotho. Monarchies had also survived in Denmark, Sweden, Norway, the Netherlands, and Belgium, but these royal families had lost most of their wealth and privileges.

By contrast, the British royal family retains considerable wealth—the Queen’s personal net worth is about \$500 million—not including the \$10 billion worth of palaces and other real estate owned by the nation but used by her and her family. Queen Elizabeth’s formal status is head of state of the UK and 15 other Commonwealth countries (including Canada and Australia), head of the Church of England, and head of the British armed forces. Yet none of these positions confers any decision-making power—her influence comes from the informal role she has established for

herself. According to her website, she “has a less formal role as Head of Nation” where she “acts as a focus for national identity, unity and pride; gives a sense of stability and continuity; officially recognises success and excellence; and supports the ideal of voluntary service” (www.royal.gov.uk).

How has Queen Elizabeth been able to retain not just the formal position of the monarchy but also its status, influence, and wealth despite so many challenges? These include wrenching social and political changes and the trials of leading such a famously dysfunctional family—including the failed marriages of most of her children and the controversy that surrounded the life and death of her daughter-in-law, Diana, Princess of Wales.

At the heart of Elizabeth’s sustaining of the British monarchy has been her single-minded devotion to what she regards as her duties to the monarchy and to the nation. In cultivating her role as leader of her nation, she has preserved her political neutrality—even when she has disagreed with her prime ministers (notably with

purely random process. Nor is superiority in initial endowments of skills and resources typically the determining factor. Strategies that build on these four elements almost always play an influential role.

Look at the “high achievers” in any competitive area. Whether we review the world’s political leaders, the CEOs of the Fortune 500, or our own circles of friends and acquaintances, those who have achieved outstanding success in their careers are seldom those who possessed the greatest innate abilities. Success has gone to those who managed their careers most effectively, typically by combining these four strategic factors. They are goal focused; their career goals have taken primacy over the multitude of life’s other goals—friendship, love, leisure, knowledge, spiritual fulfillment—which the majority of us spend most of our lives juggling and reconciling. They know the environments within which they play and tend to be fast learners in terms of recognizing the paths to advancement. They know themselves well in terms of both strengths and weaknesses. Finally, they implement

Margaret Thatcher's "socially divisive" policies and Tony Blair's sending troops to Iraq and Afghanistan).

Through her outreach activities she promotes British influence, British culture, and British values within the wider world. She has made multiple visits to each of the 54 Commonwealth nations, including 27 to Canada and 16 to Australia.

The growing unacceptability of hereditary privilege and the traditional British class system has required her to reposition the royal family from being the leader of the ruling class to embodying the nation as a whole. To make her and her family more inclusive and less socially stereotyped she has cultivated involvement with popular culture, with ordinary people engaged in social service and charitable work, and she has endorsed the marriage of her grandsons William and Harry—the first members of the royal family to marry outside the ranks of the aristocracy.

Elizabeth has been adept at exploiting new media for communicating both with her subjects and with a wider global audience: initially through television, more recently using the web, Twitter, and Facebook. Her press and public relations staff comprises top professionals who report to her private secretary.

While respecting tradition and protocol, she adapts in the face of pressing circumstances. The death of her daughter-in-law, Diana, created difficult tensions between her responsibilities as mother and grandmother and her need to show leadership to a grieving nation. In responding to this crisis she recognized the need to depart from established traditions.

Elizabeth has made effective use of the resources available to her—especially the underlying desire of the British people for continuity and their inherent distrust of their political leaders. By positioning herself above the political fray and emphasizing her lineage—including the prominent public roles of her mother and her children and grandchildren—she reinforces the legitimacy of herself, her family, and the institution they represent. She has also exploited her powers of patronage, using her formal position to cultivate informal relationships with both political and cultural leaders.

The success of Elizabeth's 66-year reign is indicated by the popular support for her personally and for the institution of the monarchy. Outside of Northern Ireland and Quebec, republicanism is weak throughout the British Commonwealth.

their career strategies with commitment, consistency, and determination. As the management guru Peter Drucker observed: "we must learn how to be the CEO of our own career."¹

There is a downside, however. Focusing on a single goal may lead to outstanding success but may be matched by dismal failure in other areas of life. Many people who have reached the pinnacles of their careers have led lives scarred by poor relationships with friends and families and stunted personal development. These include Howard Hughes and Jean Paul Getty in business, Richard Nixon and Joseph Stalin in politics, Elvis Presley and Marilyn Monroe in entertainment, Tiger Woods and Boris Becker in sport, and Bobby Fischer in chess. For most of us, personal fulfillment is likely to require broad-based rather than narrowly focused goals.²

These same ingredients of successful strategies—clear goals, understanding the competitive environment, resource appraisal, and effective implementation—form the key components of our analysis of business strategy.

STRATEGY CAPSULE 1.2

Lady Gaga and the Haus of Gaga

Stefani Joanne Angelina Germanotta, better known as Lady Gaga, is one of the most successful popular entertainers of the 21st century. Since her first album, *The Fame*, in 2008, all four of her albums have topped the Billboard charts; she has also topped *Forbes Celebrity 100* list, and generated \$560 million in ticket sales from her five concert tours between 2009 and 2017.

Since dropping out of NYU's Tisch School of the Arts in 2005, Germanotta has shown total commitment to advancing her musical career, first as a songwriter, and then developing her Lady Gaga persona.

Gaga's music is a catchy mix of pop and dance, well suited to dance clubs and radio airplay. It features good melodies, Gaga's capable vocals, and her reflections on society and life, but it is hardly exceptional or innovative: music critic Simon Reynolds described it as: "ruthlessly catchy, naughties pop glazed with Auto-Tune and undergirded with R&B-ish beats."

However, music is only one element in the Lady Gaga phenomenon—her achievement is not so much as a singer or songwriter as in establishing a persona which transcends pop music. Like David Bowie and Madonna before her, Lady Gaga is famous for being Lady Gaga. To do this she has created a multimedia, multifaceted offering that comprises multiple components including music, visual appearance, newsworthy events, a distinctive attitude and personality, and a set of values with which fans can identify.

Key among these is visual impact and theatricality. Her hit records are promoted by visually stunning music videos that have won Grammy awards and broken records for numbers of YouTube downloads. Most striking of all has been Lady Gaga's dress and overall appearance, which have set new standards in eccentricity, innovation, and impact. Individual outfits—her plastic bubble dress, meat dress, and "decapitated-corpse dress"—together with weird hair-dos, extravagant hats, and extreme footwear—are as well-known as her hit songs. The range of visual images she projects means that her every appearance creates a buzz of anticipation.

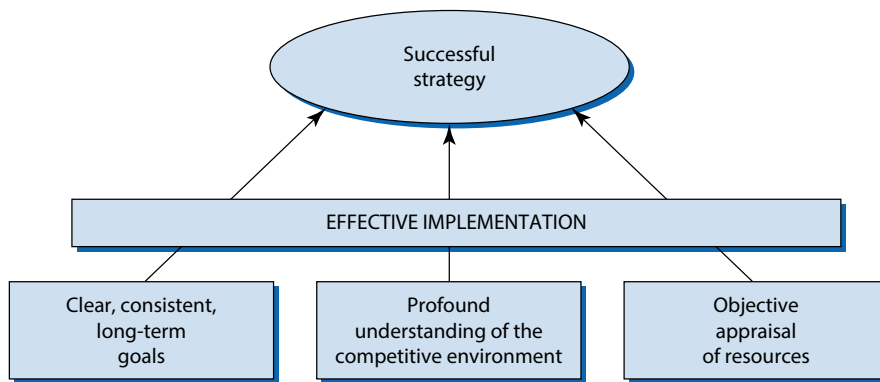
Lady Gaga has developed a business model adapted to the post-digital world of entertainment. Like Web 2.0 pioneers such as Facebook and Twitter, Gaga has followed the model: first build market presence, and then think about monetizing that presence. By 2012, her YouTube views, Facebook likes, and Twitter followers had made her the "most popular living musician online." Her networking with fans includes Gagaville, an interactive game developed by Zynga, and The Backplane, a music-based social network.

Her emphasis on visual imagery takes account of the means through which media popularity is converted into revenues. While music royalties are important, concerts are her primary revenue source. Other revenue sources—endorsements, product placement in videos and concerts, merchandizing deals, and media appearances—also link closely with her visual presence.

A distinctive feature of Gaga's market positioning is her relationship with her fans. The devotion of her fans—her "Little Monsters"—is based less on their desire to emulate her look as upon empathy with her values and attitudes: Gaga's images are social statements of non-conformity rather than fashion statements. In communicating her experiences of alienation and bullying at school and her values of individuality, sexual freedom, and acceptance of differences, she has built a global fan base of unusual loyalty and commitment. The sense of belonging is reinforced by gestures and symbols such as the "Monster Claw" greeting and the "Manifesto of Little Monsters." As "Mother Monster," Gaga is spokesperson and guru for this community.

Lady Gaga's showmanship and theatricality are supported by The Haus of Gaga, a creative workshop modeled on Andy Warhol's "Factory." It comprises a creative director who coordinates a team of choreographers, fashion designers, hair stylists, photographers, set designers, songwriters, musicians, and marketing professionals.

Sources: M. Sala, "The Strategy of Lady Gaga," BSc thesis Bocconi University, Milan, June 2011; <http://www.biography.com/people/lady-gaga-481598>, accessed August 24, 2017.

FIGURE 1.1 Common elements in successful strategies

The Basic Framework for Strategy Analysis

Figure 1.2 shows the basic framework for strategy analysis that we shall use throughout the book. The four elements of a successful strategy shown in Figure 1.1 are recast into two groups—the firm and the industry environment—with strategy forming a link between the two. The firm embodies three of these elements: goals and values (“simple, consistent, long-term goals”), resources and capabilities (“objective appraisal of resources”), and structure and systems (“effective implementation”). The industry environment embodies the fourth (“profound understanding of the competitive environment”) and is defined by the firm’s relationships with competitors, customers, and suppliers.

This view of strategy as a link between the firm and its industry environment has close similarities with the widely used **SWOT framework**. However, as I explain in Strategy Capsule 1.3, a two-way classification of internal and external forces is superior to the four-way SWOT framework.

The task of business strategy, then, is to determine how the firm will deploy its resources within its environment and so satisfy its long-term goals and how it will organize itself to implement that strategy.

FIGURE 1.2 The basic framework: Strategy as a link between the firm and its environment

STRATEGY CAPSULE 1.3

What's Wrong with SWOT?

Distinguishing between the external and the internal environment of the firm is common to most approaches to strategy analysis. The best-known and most widely used of these is the “SWOT” framework, which classifies the various influences on a firm’s strategy into four categories: Strengths, Weaknesses, Opportunities, and Threats. The first two—strengths and weaknesses—relate to the internal environment of the firm, primarily its resources and capabilities; the last two—opportunities and threats—relate to the external environment.

Which is better, a two-way distinction between internal and external influences or the four-way SWOT taxonomy? The key issue is whether it is sensible and worthwhile to classify internal factors into strengths and weaknesses and external factors into opportunities and threats. In practice, these distinctions are problematic.

Was Zlatan Ibrahimovic a strength or a weakness for Manchester United? As the team’s top scorer during the 2016–17 season and ranking among the world’s top-10 players, he was a strength. But as a player whose best

days were behind him and whose dominant presence intimidated his younger team-mates, he was a weakness.

Is global warming a threat or an opportunity for the world’s automobile producers? By encouraging higher taxes on motor fuels and restrictions on car use, it is a threat. By encouraging consumers to switch to fuel-efficient and electric cars, it offers an opportunity for new sales.

The lesson here is that classifying external factors into opportunities and threats, and internal factors into strengths and weaknesses, is arbitrary. What is important is to carefully identify the external and internal forces that impact the firm, and then analyze their implications.

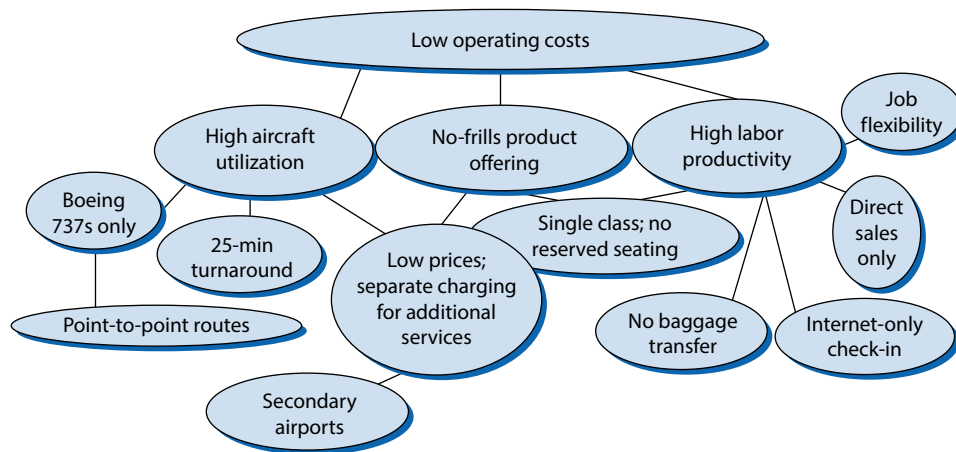
In this book, I will follow a simple two-way classification of internal and external factors and avoid any premature categorization into strengths or weaknesses, and opportunities or threats.

Note: For more on SWOT see: T. Hill and R. Westbrook, “SWOT Analysis: It’s Time for a Product Recall,” *Long Range Planning*, 30 (February 1997): 46–52; and M. Venzin, “SWOT Analysis: Such a Waste of Time?” (February 2015) <http://ideas.sdbocconi.it/strategy/archives/3405>.

Strategic Fit

Fundamental to this view of strategy as a link between the firm and its external environment is the notion of **strategic fit**. This refers to the consistency of a firm’s strategy, first, with the firm’s external environment and, second, with its internal environment, especially with its goals and values and resources and capabilities. A major reason for companies’ decline and failure is a strategy that lacks consistency with either the internal or the external environment. The woes of the Italian airline, Alitalia, may be attributed to a strategy that failed to respond to competition from budget airlines such as Ryanair and EasyJet. Other companies struggle to align their strategies to their internal resources and capabilities. A critical issue for Nintendo will be whether it possesses the financial and technological resources to continue to compete head-to-head with Sony and Microsoft in the market for video game consoles.

The concept of strategic fit also relates to the internal consistency among the different elements of a firm’s strategy. An effective strategy is one in which all the decisions and actions that make up the strategy are aligned with one another to create a consistent strategic position and direction of development. This notion of internal fit is central to Michael Porter’s conceptualization of the firm as an **activity system**. Porter

FIGURE 1.3 Ryanair's activity system

states that “Strategy is the creation of a unique and differentiated position involving a different set of activities.”³ The key is how these activities fit together to form a consistent, mutually reinforcing system. Ryanair’s strategic position is as Europe’s lowest-cost airline providing no-frills flights to budget-conscious travelers. This is achieved by a set of activities that fit together to support that positioning (Figure 1.3).

The concept of strategic fit is one component of a set of ideas known as **contingency theory**. Contingency theory postulates that there is no single best way of organizing or managing. The best way to design, manage, and lead an organization depends upon circumstances—in particular, the characteristics of that organization’s environment.⁴

A Brief History of Business Strategy

Origins and Military Antecedents

Enterprises need business strategies for much the same reason that armies need military strategies—to give direction and purpose, to deploy resources in the most effective manner, and to coordinate the decisions made by different individuals. Many of the concepts and theories of business strategy have their antecedents in military strategy. The term *strategy* derives from the Greek word *strategia*, meaning “generalship.” However, the concept of strategy predates the Greeks: Sun Tzu’s classic, *The Art of War*, from about 500 BC is regarded as the first treatise on strategy.⁵

Military strategy and business strategy share a number of common concepts and principles, the most basic being the distinction between strategy and tactics. Strategy is the overall plan for deploying resources to establish a favorable position; a tactic is a scheme for a specific action. Whereas tactics are concerned with the maneuvers necessary to win battles, strategy is concerned with winning the war. Strategic decisions, whether in military or business spheres, share three common characteristics:

- They are important.
- They involve a significant commitment of resources.
- They are not easily reversible.

Many of the principles of military strategy have been applied to business situations. These include the relative strengths of offensive and defensive strategies; the merits of outflanking over frontal assault; the roles of graduated responses to aggressive initiatives; the benefits of surprise; and the benefits of deception, envelopment, escalation, and attrition.⁶ At the same time, there are major differences between business competition and military conflict. The objective of war is (usually) to defeat the enemy. The purpose of business rivalry is seldom so aggressive: most business enterprises seek to coexist with their rivals rather than to destroy them.

Despite parallels between military and business strategy, we lack a general theory of strategy. The publication of Von Neumann and Morgenstern's *Theory of Games* in 1944 gave rise to the hope that a general theory of competitive behavior would emerge. Since then, **game theory** has revolutionized the study of competitive interaction, not just in business but in politics, military studies, and international relations as well. Yet, as we shall see in Chapter 4, game theory has achieved only limited success as a broadly applicable general theory of strategy.⁷

From Corporate Planning to Strategic Management

The evolution of business strategy has been driven more by the practical needs of business than by the development of theory. During the 1950s and 1960s, senior executives experienced increasing difficulty in coordinating decisions and maintaining control in companies that were growing in size and complexity. While new techniques of discounted cash flow analysis allowed more rational choices over individual investment projects, firms lacked systematic approaches to their long-term development. **Corporate planning** (also known as *long-term planning*) was developed during the late-1950s to serve this purpose. Macroeconomic forecasts provided the foundation for the new corporate planning. The typical format was a five-year corporate planning document that set goals and objectives, forecasted key economic trends (including market demand, the company's market share, revenue, costs, and margins), established priorities for different products and business areas of the firm, and allocated capital expenditures. The new techniques of corporate planning proved particularly useful for guiding the diversification strategies that many large companies pursued during the 1960s.⁸ By the mid-1960s, most large US and European companies had set up corporate planning departments. Strategy Capsule 1.4 provides an example of this formalized corporate planning.

By the early 1980s, confidence in corporate planning had been severely shaken. Not only did diversification fail to deliver the anticipated synergies, but the oil shocks of 1974 and 1979 ushered in a new era of macroeconomic instability, while Western companies came under increasing pressure from Japanese, Korean, and Southeast Asian competitors. Companies could no longer plan their investments and actions five years ahead—they couldn't forecast that far.

The result was a shift in emphasis from planning a company's growth path to positioning the company so that it could best exploit available opportunities for profit. This transition from corporate planning to what became called *strategic management* involved a focus on competition as the central characteristic of the business environment and on performance maximization as the primary goal of strategy.

This emphasis on strategy as a quest for performance directed attention to the sources of profitability. At the end of the 1970s, Michael Porter pioneered the application of industrial organization economics to analyzing the profit potential of different