

# How strategists lead

**Cynthia A. Montgomery**

A Harvard Business School professor reflects on what she has learned from senior executives about the unique value that strategic leaders can bring to their companies.

**Seven years ago**, I changed the focus of my strategy teaching at the Harvard Business School. After instructing MBAs for most of the previous quarter-century, I began teaching the accomplished executives and entrepreneurs who participate in Harvard's flagship programs for business owners and leaders.

Shifting the center of my teaching to executive education changed the way I teach and write about strategy. I've been struck by how often executives, even experienced ones, get tripped up: they become so interested in the potential of new ventures, for example, that they underestimate harsh competitive realities or overlook how inter-related strategy and execution are. I've also learned, in conversations between class sessions (as well as in my work as a board director and corporate adviser) about the limits of analysis, the importance of being ready to reinvent a business, and the ongoing responsibility of leading strategy.

All of this learning speaks to the role of the strategist—as a meaning maker for companies, as a voice of reason, and as an operator. The richness of these roles, and their deep interconnections, underscore the fact that strategy is much more than a detached analytical exercise. Analysis has merit, to be sure, but it will never make strategy the vibrant core that animates everything a company is and does.

## The strategist as meaning maker

I've taken to asking executives to list three words that come to mind when they hear the word *strategy*. Collectively, they have produced 109 words, frequently giving top billing to *plan*, *direction*, and *competitive advantage*. In more than 2,000 responses, only 2 had anything to do with people: one said *leadership*, another *visionary*. No one has ever mentioned *strategist*.

Downplaying the link between a leader and a strategy, or failing to recognize it at all, is a dangerous oversight that I tried to start remedying in a *Harvard Business Review* article four years ago and in my new book, *The Strategist*, whose thinking this article extends.<sup>1</sup> After all, defining what an organization will be, and why and to whom that will matter, is at the heart of a leader's role. Those who hope to sustain a strategic perspective must be ready to confront this basic challenge. It is perhaps easiest to see in single-business companies serving well-defined markets and building business models suited to particular competitive contexts. I know from experience, though, that the challenge is equally relevant at the top of diversified multinationals.

What is it, after all, that makes the whole of a company greater than the sum of its parts—and how do its systems and processes add value to the businesses within the fold? Nobel laureate Ronald Coase posed the problem this way: “The question which arises is whether it is possible to study the forces which determine the size of the firm. Why does the entrepreneur not organize one less transaction or one more?”<sup>2</sup> These are largely the same questions: are the extra layers what justifies the existence of this complex firm? If so, why can't the market take care of such transactions on its own? If there's more to a company's story, what is it, *really*?

In the last three decades, as strategy has moved to become a science, we have allowed these fundamental questions to slip away. We need to bring them back. It is the leader—the strategist as meaning maker—who must make the vital choices that determine a company's very identity, who says, “*This* is our purpose, not *that*. *This* is who we will

<sup>1</sup>For more, see Cynthia Montgomery, *The Strategist: Be the Leader Your Business Needs*, New York, NY: HarperCollins, 2012; and “Putting leadership back into strategy,” *Harvard Business Review*, January 2008, Volume 86, Number 1, pp. 54–60.

<sup>2</sup>R. H. Coase, “The nature of the firm,” *Economica*, 1937, Volume 4, Number 16, pp. 386–405.

be. *This* is why our customers and clients will prefer a world with us rather than without us.” Others, inside and outside a company, will contribute in meaningful ways, but in the end it is the leader who bears responsibility for the choices that are made and indeed for the fact that choices are made at all.

## **The strategist as voice of reason**

Bold, visionary leaders who have the confidence to take their companies in exciting new directions are widely admired—and confidence is a key part of strategy and leadership. But confidence can balloon into overconfidence, which seems to come naturally to many successful entrepreneurs and senior managers who see themselves as action-oriented problem solvers.<sup>3</sup>

I see overconfidence in senior executives in class when I ask them to weigh the pros and cons of entering the furniture-manufacturing business. Over the years, a number of highly regarded, well-run companies—including Beatrice Foods, Burlington Industries, Champion, Consolidated Foods, General Housewares, Gulf + Western, Intermark, Ludlow, Masco, Mead, and Scott Paper—have tried to find fortune in the business, which traditionally has been characterized by high transportation costs, low productivity, eroding prices, slow growth, and low returns. It’s also been highly fragmented. In the mid-1980s, for example, more than 2,500 manufacturers competed, with 80 percent of sales coming from the biggest 400 of them. Substitutes abound, and there is a lot of competition for the customer’s dollar. Competitors quickly knock off innovations and new designs, and the industry is riddled with inefficiencies, extreme product variety, and long lead times that frustrate customers. Consumer research shows that many adults can’t name a single furniture brand. The industry does little advertising.

By at least a two-to-one margin, the senior executives in my classes typically are energized, not intimidated, by these challenges. Most argue, in effect, that where there’s challenge there’s opportunity. If it were an easy business, they say, someone else would already have

<sup>3</sup>For more on managerial overconfidence, see John T. Horn, Dan Lovallo, and S. Patrick Viguerie, “Beating the odds in market entry,” [mckinseyquarterly.com](http://mckinseyquarterly.com), November 2005; as well as Dan Lovallo and Olivier Sibony, “The case for behavioral strategy,” [mckinseyquarterly.com](http://mckinseyquarterly.com), March 2010, and “Distortions and deceptions in strategic decisions,” [mckinseyquarterly.com](http://mckinseyquarterly.com), February 2006.

seized the opportunity; this is a chance to bring money, sophistication, and discipline to a fragmented, unsophisticated, and chaotic industry. As the list above shows, my students are far from alone: with great expectations and high hopes of success, a number of well-managed companies over the years have jumped in with the intention of reshaping the industry through the infusion of professional management.

All those companies, though, have since left the business—providing an important reminder that the competitive forces at work in your industry determine some (and perhaps much) of your company’s performance. These competitive forces are beyond the control of most individual companies and their managers. They’re what you inherit, a reality you have to deal with. It’s not that a company can never change them, but in most cases that’s very difficult to do. The strategist must understand such forces, how they affect the playing field where competition takes place, and the likelihood that his or her plan has what it takes to flourish in those circumstances. Crucial, of course, is having a difference *that matters in the industry*. In furniture—an industry ruled more by fashion than function—it’s extremely challenging to uncover an advantage strong enough to counter the gravitational pull of the industry’s unattractive competitive forces. IKEA did it, but not by disregarding industry forces; rather, the company created a new niche for itself and brought a new economic model to the furniture industry.

A leader must serve as a voice of reason when a bold strategy to reshape an industry’s forces actually reflects indifference to them. Time and again, I’ve seen division heads, group heads, and even chief executives dutifully acknowledge competitive forces, make a few high-level comments, and then quickly move on to lay out their plans—without ever squarely confronting the implications of the forces they’ve just noted. Strategic planning has become more of a “check the box” exercise than a brutally frank and open confrontation of the facts.

## **The strategist as operator**

A great strategy, in short, is not a dream or a lofty idea, but rather the bridge between the economics of a market, the ideas at the core of a business, and action. To be sound, that bridge must rest on a foundation of clarity and realism, and it also needs a real operating

sensibility. Every year, early in the term, someone in class always wants to engage the group in a discussion about what's more important: strategy or execution. In my view, this is a false dichotomy and a wrongheaded debate that the students themselves have to resolve, and I let them have a go at it.

I always bring that discussion up again at the end of the course, when we talk about Domenico De Sole's tenure at Italian fashion eminence Gucci Group.<sup>4</sup> De Sole, a tax attorney, was tapped for the company's top job in 1995, following years of plummeting sales and mounting losses in the aftermath of unbridled licensing that had plastered Gucci's name and distinctive red-and-green logo on everything from sneakers to packs of playing cards to whiskey—in fact, on 22,000 different products—making Gucci a “cheapened and over-exposed brand.”

De Sole started by summoning every Gucci manager worldwide to a meeting in Florence. Instead of telling managers what he thought Gucci should be, De Sole asked them to look closely at the business and tell him what was selling and what wasn't. He wanted to tackle the question “not by philosophy, but by data”—bringing strategy in line with experience rather than relying on intuition. The data were eye opening. Some of Gucci's greatest recent successes had come from its few trendier, seasonal fashion items, and the traditional customer—the woman who cherished style, not fashion, and who wanted a classic item she would buy once and keep for a lifetime—had not come back to Gucci.

De Sole and his team, especially lead designer Tom Ford, weighed the evidence and concluded that they would follow the data and position the company in the upper middle of the designer market: luxury aimed at the masses. To complement its leather goods, Ford designed original, trendy—and, above all, exciting—ready-to-wear clothing each year, not as the company's mainstay, but as its draw. The increased focus on fashion would help the world forget all those counterfeit bags and the Gucci toilet paper. It would propel the company toward a new brand identity, generating the kind of excitement that would bring new customers into Gucci stores, where they would also buy high-margin handbags and accessories. To support the new fashion and brand strategies, De Sole and his team doubled advertising spending,

<sup>4</sup>For more detail on the Gucci case, see Mary Kwak and David Yoffie, “Gucci Group N.V. (A),” Harvard Business Publishing, Boston, May 10, 2001.

modernized stores, and upgraded customer support. Unseen but no less important to the strategy's success was Gucci's supply chain. De Sole personally drove the back roads of Tuscany to pick the best 25 suppliers, and the company provided them with financial and technical support while simultaneously boosting the efficiency of its logistics. Costs fell and flexibility rose.

In effect, everything De Sole and Ford did—in design, product lineup, pricing, marketing, distribution, manufacturing, and logistics, not to mention organizational culture and management—was tightly coordinated, internally consistent, and interlocking. This was a system of resources and activities that worked together and reinforced each other, all aimed at producing products that were fashion forward, high quality, and good value.

It is easy to see the beauty of such a system of value creation once it's constructed, but constructing it isn't often an easy or a beautiful process. The decisions embedded in such systems are often gutsy choices. For every moving part in the Gucci universe, De Sole faced a strictly binary decision: either it advanced the cause of fashion-forwardness, high quality, and good value—or it did not and was rebuilt. Strategists call such choices identity-conferring commitments. They are central to what an organization is or wants to be and reflect what it stands for.

When I ask executives at the end of this class, “Where does strategy end and execution begin?” there isn't a clear answer—and that's as it should be. What could be more desirable than a well-conceived strategy that flows without a ripple into execution? Yet I know from working with thousands of organizations just how rare it is to find a carefully honed system that really delivers. You and every leader of a company must ask yourself whether you have one—and if you don't, take the responsibility to build it. The only way a company will deliver on its promises, in short, is if its strategists can think like operators.

## **A never-ending task**

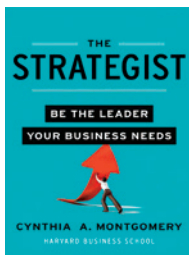
Achieving and maintaining strategic momentum is a challenge that confronts an organization and its leader every day of their entwined existence. It's a challenge that involves multiple choices over time—and, on occasion, one or two big choices. Very rare is the leader who

will not, at some point in his or her career, have to overhaul a company's strategy in perhaps dramatic ways. Sometimes, facing that inevitability brings moments of epiphany: "eureka" flashes of insight that ignite dazzling new ways of thinking about an enterprise, its purpose, its potential. I have witnessed some of these moments as managers reconceptualized what their organizations do and are capable of doing. These episodes are inspiring—and can become catalytic.

At other times, facing an overhaul can be wrenching, particularly if a company has a set of complex businesses that need to be taken apart or a purpose that has run its course. More than one CEO—men and women coming to grips with what their organizations are and what they want them to become—has described this challenge as an intense personal struggle, often the toughest thing they've done.

Yet those same people often say that the experience was one of the most rewarding of their whole lives. It can be profoundly liberating as a kind of corporate rebirth or creation. One CEO described his own experience: "I love our business, our people, the challenges, the fact that other people get deep benefits from what we sell," he said. "Even so, in the coming years I can see that we will need to go in a new direction, and that will mean selling off parts of the business. The market has gotten too competitive, and we don't make the margins we used to." He winced as he admitted this. Then he lowered his voice and added something surprising. "At a fundamental level, though, it's changes like this that keep us fresh and keep me going. While it can be painful when it happens, in the long run I wouldn't want to lead a company that didn't reinvent itself." ◉

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Elements of this article were adapted from Cynthia Montgomery's *The Strategist: Be the Leader Your Business Needs* (New York, NY: HarperCollins, 2012).