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This lecture focuses on corporate strategy and I want to begin by just drawing a distinction between corporate strategy and business strategy. Corporate strategy is focused on the growth of the organization. How does an organization strategically address this challenge of perpetuating growth over time? One might begin by asking, well, why is growth so strategically important given that it's so tremendously difficult, as we'll talk about.? Why can't a firm just hunker down and simply rest on its laurels and enjoy this competitive advantage that they've perhaps already accumulated or discovered and ride that off into the sunset? In some sense, the classic view of strategy is that strategy is about finding these positions of advantage to capture those positions and then maintain them, and that therefore strategy is exactly that, it's about discovering a profit stream that it's difficult for your competitors to dislodge you from, that's got good barriers to imitation that's going to enable you, again, to just enjoy this stream of profits in perpetuity. Therefore, strategy is about finding these positions, as with those of you who are in business strategy course, we've talked about this at some length, it's about finding and discovering these positions of advantage, it's about seeing those, it's about configuring activities that support those positions of advantage. We've talked a lot about the fact that there lots and lots of different positions that one could occupy, and one's having to sort through which of those positions is particularly attractive. We've talked about what the definition of a firm with a competitive advantage. It's a firm that's able to create and capture value, that in order to do that, it's all about being unique, and that the test of that uniqueness is in some sense how easily you are replaced by competitors, or suppliers, or customers. Again, this imagery of a position. We've talked about different types of positions and tried to categorize them. That's all a summary of the inherent logic of business strategy. But the challenge is that the real goal, if you ask the head of an organization, particularly one that might be running a publicly-traded organization and ask them, what's their goal? Well, their goal is not to just find competitive advantage that's going to deliver an enduring profit stream and ride that off into the sunset, rather, the thing that they're evaluated on is their capacity to relentlessly increase the value of the enterprise. Frequently, that's measured based on the economic value of that enterprise, it could be a publicly-traded corporation and that's easily visible in their share price, in their market value, for privately held firms, it's not as easily visible, but the game is still the same, it's about increasing the value of the enterprise. If one wants to think a bit more expansively, certainly, organizations today and perhaps have always been pushed to not only think about shareholder value creation but can think more broadly about stakeholder value. But the real object of strategy is really about perpetually growing the enterprise's value, it's not just about finding a single source of value, and again, riding that off into the sunset. That exercise of perpetually increasing the value of an enterprise, albeit with some ups and downs and blips as reflected in that graphic, that that is tremendously difficult, and that there is a huge difference between this concept of competitive advantage and sustained value creation, which is really the target of strategy. How do you perpetuate profitable growth for an enterprise and thereby perpetually increase its value over time? There are lots of examples of companies that have clear competitive advantages but have for long periods of time really struggled to increase the value of the enterprise. We've mentioned most of these examples, those in the business strategy course up to this point. Walmart, very successful company, Southwest, Dell, Microsoft, Intel, but all of these companies have for a very long periods of time, more than a decade, faced periods where they have been completely unable to move the needle, that is, increase the value of their enterprise despite still occupying what you would argue is a distinctive competitive advantage in their industry. The game of strategy is about more than competitive advantage, is the fundamental takeaway. So you look at stock

price graphs of company like Southwest, you see them flatlining for a very long period of time despite an early period of remarkable increase in value, you see the same thing for Walmart. Walmart more recently has done better in part as they've found new paths to value creation in global markets as well as online that this has fueled a new period of growth in that firm's value creation. Dell computer, again, built this remarkable competitive advantage, but really struggled to increase the value of that enterprise over time. There's a wonderful related anecdote that plays out in 1997. At this point, Apple has really been struggling, Steve Jobs had been banished from Apple for the better part of a decade, and he has returned to try to re-energize and by some accounts, close down Apple or sell Apple, by others, he's going to do something magical going forward. In a big IT convention, Michael Dell was asked, "What would you do with Apple Computer?" His response was, "I'd shut it down and give the money back to shareholders." This was the height of his position of advantage and the natter or the bottom of Apple's. Of course, we know what happens from there. There's a period of just remarkable growth in Apple, Apple is the yellow bar or line there, ascending rapidly, obviously, it's done even more remarkable things over the last eight years, beyond this graph. Meanwhile, Dell flatlines in terms of its market value after this moment. I just illustrate this, again, to point out that the game of strategy is about perpetually increasing the value of an enterprise, either for shareholders or more expansively for stakeholders in a broader sense, and that concept, therefore, applies to either for profit or not for profit enterprises. That it's really about perpetually increasing the value of the enterprise. Just one final anecdote. This is a picture of Microsoft from its origins through to the present, and while the story of Microsoft over the last five years has been a story of remarkable growth really as they've figured things out again, from '98 through 2014, this is a company which flatlined in terms of its value creation. Really a very unsuccessful company during that period of time, even though during the entirety of that period of time, you would argue that it had a competitive advantage, it had a huge competitive advantage, this enduring profit stream that no one could dislodge them from, and therefore, in a business strategy sense, was highly successful, but from a corporate strategy sense, measured based on growth and value creation, completely unsuccessful. I will say that this exercise of value creation or sustaining value creation is not a simple one. There's evidence to speak to this that as soon as firms, for instance, enter the Fortune 50, that statistically, it becomes very difficult to sustain the kind of performance they saw getting into the Fortune 50. Now, some of this is just the nature of statistics. If you've done really well, you get into the Fortune 50, and then thereafter it's hard to sustain that same kind of growth. But it does visually depict just the difficulty in the years following entry into the Fortune 50, just how difficult it is to sustain that kind of growth that might have enabled you to get in there at the outset. The object of corporate strategy, as we think about it, is not there for just to develop a perpetual profit stream and ride it off into the sunset, but rather to increase profit streams over time. That will likely occur because one accumulates unique ways to introduce new value for the corporation and it's a sequence of strategies that one is able to craft and implement that drives this sustained value creation. Let me speak for a minute about the concept of value itself because it's a relatively squishy term in some sense. The way we would think about this in finance is, look, the value of an enterprise is the discounted present value of its future returns. You have learned this in finance or you perhaps will learn this at some point in the future. If that's the case, then the game is about increasing in some sense, the growth rate of this enterprise because that's going to increase its future cash flows. In increasing its future cash flows, one increases its present value. These future cash flows get discounted back to the present. Therefore, if you can change the expectations for future profits associated with an enterprise, you're going to elevate its present value. As a consequence of this, the value of an enterprise, as you watch the stock market move

in response to a given equity, it moves in often very, very discrete ways as different expectations flood into the market about the future profit stream of a particular corporation. It may be at a particular level, then there's some new information about its future profit streams, and as a consequence, there's this discrete increase or decrease in the value of that firm reflective of expectations about its future growth rate. The difficulty, of course, with this definition of the present value of an enterprise is, of course, it's very difficult to know what those future cash flows are going to be. In truth, therefore, the real value of a firm is the market's perception of those future returns discounted to the present. Those perceptions can be shaped and influenced. This concept though of expectations is critically important in thinking about the valuation of an enterprise. Let me just to drive home how this works and what it means. I want you to imagine that at the beginning of this course that you might be taking with me, I tell you that the way we're going to evaluate your performance in the class is that I am going to evaluate you based on expectations. So if you beat my expectations, you're going to do well and if you fall short of my expectations, you're going to perform poorly. Student X, student Y. I look at student X and I establish my expectations. I expect this student is going to flourish in the course and get a 95 percent, for instance, as their overall score performance in the course. I look at another student, student Y, and I say, look, this looks like it's going to be a more average and ordinary student, and my expectation is that they're going to score something on the order of a 65 in the class. Then the class proceeds over the course of the semester and the first student, student X, does quite well, but gets an 80 percent, which falls short of my expectation. The other student performs worse than the first student, but gets a 75, which in a significant way, beats my expectation. The first student I assign a C because they fail to meet my expectations even though their overall score was an 80. The other student, who got a 75, less than the first student, significantly beat my expectations and that student gets an A. Of course, she would tell me this is patently unfair, this is no way to grade the performance of students. Yet in a directly analogous way, this is precisely how we evaluate the strategic leaders of corporations. Those who head up corporations, their responsibility is not just to perform well in the sense of building out competitive advantage. It's to constantly beat the market's expectations because that's the only way one perpetually increases the value of the enterprise. You immediately from this see how difficult this game of perpetuating value creation is. You're constantly having to beat the markets baked in expectations about future growth. The game is not just about increasing growth over time, it's also about finding ways to increase that growth in ways that are already not baked in and expected of the enterprise. One story would be Microsoft continues to grow during that period in which its performance in terms of stock price flat-lines, but that growth was already baked in. What the market was awaiting was some additional unexpected growth, a new strategy that would introduce new sources of value that were not already expected by the market. One of the challenges of corporate strategy beyond the expectation issue is that, in some sense, there's a tension between building competitive advantage, defending that competitive advantage, and pursuing growth. Michael Porter, whose name we've mentioned a couple of times already in the business strategy course, says this, that, "Efforts to grow blur uniqueness, create compromises, reduce fit, and ultimately undermine competitive advantage. In fact, the growth imperative is hazardous to strategy." That is, as you attempt to build new capabilities, or leverage these capabilities in new way or pursue new opportunities, there's the danger that you're going to take your eye off the ball, take your eye off your current sources of competitive advantage and undermine that performance. Firms arguably require something more than just a position to sustain value creation. It's really what that context that we want to introduce and talk about an alternative way to think about strategy and really therefore define what corporate strategy is. Let me end this introduction to

corporate strategy with just a personal anecdote. Years ago, I was asked by one of my former students to meet with the CEO and CFO of the corporation that he happened to work for. This was a company that had been quite successful to this point. They had been an important supplier in the construction of coal-fired power plants in particular. They really had a competitive advantage in that space. But they could see that the growth prospects in that space were starting to diminish. They could see out on the horizon that they needed to find a new path to value creation while still perpetuating and sustaining this one that they had already built. Over the course of lunch, they outlined three different strategic options that they were considering. One was, well, we could take this real strength that we've developed in the US domestic market and helping to build these power plants and take that globally. Many of our customers are global. Some of them are not, but we clearly have capabilities to play in this global market that we're currently not leveraging and exploiting. The second was, look, we've got really deep relationships with these existing customers. There's a whole lot more that we could do, more value added in just servicing our existing customers and clients. They're constantly wanting to drag us into other parts of this construction process, and perhaps we could just chase and leverage those relationships that we have built. Then the third option that they were contemplating was reflecting a sense in which look, power plant construction can be relatively cyclical based on the crude oil prices or whatever it might be, environmental regulation. They contemplated, well, maybe a third alternative is that we simply diversify. Perhaps in the energy space, but we get into other types of energy-related. Perhaps renewables or with construction of facilities and equipment related to renewable energy. That might be a third alternative, strategic path to growth. Then the question to me was, well, what should we do? Of course, my responses, as all academic responses are, was about it depends. As we'll talk about here in a subsequent lecture, it depends really on what their theory of value is. But this question is the essence of corporate strategy. That it's a reflection of the fact that it's not just enough to look out and see a valuable position. But it's then given that you're in this current position, what's a sequence of other positions that we can effectively pursue and thereby create value, thereby we can uniquely position ourselves to create and capture value in that accumulating set of positions. Let me summarize. The goal of an organization is to constantly search for new value. It's not just growth that you're after because some growth is value destroying. Your trying, instead, to focus and build an organization that's effective and relentlessly sustaining profitable growth, and in discovering new sources of such growth. In that sense, you're trying to create an organization that is effective in sustaining value creation. Not just growth, but value creation. Of course, to do that through some other means than just trumpeting your corporation to Wall Street, making it sound better, but rather this really has to be something substantive that will indeed provide unexpected growing future profit streams.