

The Handy Guide to the Gurus of Management

Episode 12 - Michael Porter

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Michael Porter

No list of management gurus would be complete without the subject of my talk today - Michael Porter - a man who's been called the world's most famous business academic. It is possible, however, that Michael himself might not be too pleased to be called a guru. A serious academic is what he is - recently made a University Professor by Harvard University, the highest and rarest distinction that the university has to offer. Michael Porter is only the fourth member of the Harvard Business School ever to be so honoured in all of its 94 years.

The Economist magazine once said of him "His work is academic to a fault. Mr. Porter is about as likely to produce a blockbuster full of anecdotes and boosterish catchphrases as he is to deliver a lecture dressed in bra and stockings." Influence not popularity is what Michael Porter wants. He never, for instance, allows his books to be published in paperback, and his lectures are unashamedly serious in both tone and content.

And influential he certainly is. His 1980 book Competitive Strategy, written in his early thirties, is now in its 53rd. printing and has been translated into seventeen languages. It changed the way Chief Executive Officers thought about their firms and their industries and is still the bible of choice for any strategically-minded manager. This was followed ten years later by another big book, The Competitive Advantage of Nations, in which he applied his ideas to whole economies. As a result of these two major works, as well as his numerous articles, Michael Porter has advised governments around the world not to mention many of the world's largest companies. He was also a founder of Monitor, a highly successful consultancy firm which provides another outlet for his ideas.

Michael recently looked back over his career and described it like this - "My first area of interest examines how firms compete in industries and gain competitive advantage. The next focuses on locations and why some states, cities or nations can be more competitive than others, and the third looks at how you can apply competitive advantage to social problems." He has, in other words, steadily widened his focus while still sticking to the core elements of his analysis.

Older now, at 54, with his blond hair a little greyer, he is still passionate. "The study of competition," he says, "has preoccupied me for two decades. I have sought to capture the complexity of what actually happens in companies and industries in a way that advances theory and brings that theory to life for practitioners." In saying that he fits perfectly my definition of a management guru, someone who captures the essence of what is going on out there, analyses it and makes his or her ideas available to a wider audience.

So what, you will want to know, are these influential ideas? Porter suggested that there were just three generic strategies for managers to choose from if they wanted to gain competitive advantage, something that he believed was the underlying purpose of every business. You could make things as cheaply as possible and become the lowest cost producer in a market. Alternatively you could offer something special or different which would allow you to command a premium price. Or, thirdly, you could choose to be what he called a focussed producer, looking to dominate in a niche market, so that others would find it too difficult to challenge you.

To help you choose which generic strategy to adopt, Porter says you need to decide which of five types of industry you are in - is it fragmented or emerging, is it mature or declining, and is it global? Then, he says, you need to examine the five forces of competition. They are:-

The threat of substitute products;
The threat of new entrants;
The bargaining power of suppliers and
The bargaining power of buyers ;
And, finally, the state of rivalry among existing companies.

Yes, I admit that three generic strategies, five forces of competition and five types of industry sound a bit complicated but in the books Porter shows how you to do it, with examples. It all added up to a neat Do-It-Yourself strategy guide which managers loved.

I do have one quarrel with that first big book. In its 500 pages it is easy to miss the one reference to the management of the people - it occupies only two paragraphs.

To anyone who has just joined us, this is the BBC World Service and I am Charles Handy. We're discussing the work of Michael Porter, the latest member of the Handy Guide to the Gurus of Management.

Having seen his definition of strategy adopted by every business that mattered, Porter moved on to greater things, namely the strategy of nations. Sixteen years later, however, he felt the need to come back to the defence of business strategy. What was the point, some were saying, of trying to plot your road ahead when the map was being redrawn every few months? Porter disagreed.

Companies are going down the path of mutually destructive competition, he argued, because they don't distinguish between operational effectiveness and strategy. "It is arrogant" Porter says, "to think that you can do the same things as your competitors and do them better for long." "The essence of strategy" Porter argued, in an important article in the Harvard Business Review, "is not doing something better than your competitors but doing something different - choosing a unique and reliable position that is rooted in systems of activity that are

difficult for others to match." Do things in ways that are hard for other companies to copy.

Porter, in short, seemed to have decided that of his three generic strategies, the one that worked best in the long run was the second on his list, finding something unique to offer, although he's at pains to emphasise that operational effectiveness is also essential for success. That all sounds simple and obvious, but it isn't. For one thing, it means making choices. You can't seize every opportunity that comes along if it doesn't fit what you have decided is your unique position.

And finding that unique position isn't always obvious either although Porter does try to offer some clues and examples. But in the end, says Porter, it comes down to creativity and insight - and, yes, strong leadership, the willingness to make hard choices and to take a stand against the conventional wisdom of the industry. When everything has been said, you will note, even Porter's superbly rational analysis depends on people.

Meanwhile, in the eighties, Porter had been asked to serve on President Reagan's Commission on Industrial Competitiveness and, as a result, had moved his attention from the problems of

competition in business to the issues of competing nations. The outcome was another big and important book, *The Competitive Advantage of Nations*, published in 1990. Interestingly, in this book, Porter is much more pragmatic and very critical of general prescriptions and management fads such as just-in time delivery. What works in one country, he warns, fails miserably in another. Globalisation, it seems, does not mean that everything is the same everywhere. National differences still matter.

That doesn't stop Porter producing another list - lists seem to be the one thing all the gurus have in common - but perhaps without the lists we would never remember any of their wisdom. There are four factors, Porter suggested, in what he called a diamond, four factors that help to make a nation competitive although the overriding one was this - "Tough domestic rivalry breeds international success." The other factors were the country's resources, its infrastructure, including, crucially, the educational quality of its workforce, and, less obviously, something he termed the 'cluster phenomenon.' It hardly needed a Presidential Committee to work out his first three factors but the last, the cluster, is intriguing.

A cluster is a critical mass, in one geographical space, of similar businesses, all supported by their specialist suppliers and services that are tied to that industry. The most obvious examples are Hollywood's film industry and Silicon Valley, but Porter has also pinpointed many others as the Californian Wine cluster for instance, or the Italian leather cluster and its fashion shoe cluster. He actually identified over thirty separate clusters in Portugal, ranging from cork stoppers to tourism. Just as, in the old days, you would find all the gold merchants in one street and all the potters in another, so, even in these days of sophisticated communications and globalisation, it can pay to work physically alongside your competitors.

For one thing, it means, as it always used to do, that buyers need make only one trip. More importantly, it allows firms to collaborate and compete at the same time, to collaborate in their dealings with governments, for instance, or with local authorities, but also to pool their resources in order to commission some basic research. Even in their virtual world many Hi-Tech clusters grow out of links with local universities, notably the cluster on Route 128 around Boston in the 1970's which sprung from MIT's research. Sited together firms are also more likely to attract good recruits, who know that they can change employers without changing homes. You can stay small, in other words, and still

have the advantage of being big. That's one reason why most shopping malls in the world have a high proportion of Italian Family names on the store fronts - they're global businesses now but still small.

Clusters have always existed, but it needed someone with Michael Porter's perception to identify their importance. It also needed someone who could speak with his authority to get people to listen and take notice.

In recent years Porter has applied his rigorous thinking to the revival of the inner city, maintaining that creating wealth there is more likely to succeed than merely redistributing the wealth from elsewhere. He is arguably the most widely involved of all our gurus and the most influential. Michael is sometimes criticized for his willingness to boil down his ideas into sets of bullet points with mostly unmemorable titles, but without those bullet points few might be able to grapple with his complex ideas. The fact that his books have been so influential is a tribute to his powers of logic and analysis.

In my next and final talk we'll meet a double act, Fons Trompenaars and Charles Hampden-Taylor, an Anglo-Dutch

partnership who've devoted the last twenty years to understanding those national - and cultural - differences that Porter pointed to.