

BEYOND STRATEGY

THE IMPACT OF NEXT
GENERATION COMPANIES

MICHAEL MOESGAARD ANDERSEN **AND**
FLEMMING POULFELT

ROUTLEDGE 

Beyond Strategy

Why is it that some companies turn out to be more successful when doing the opposite of what is prescribed in many of the current books on management and strategy?

Interestingly, many of the companies depicted as very successful companies in the standard literature end up not faring well over time—probably because they somehow end up in a dangerous autopilot mode. What this suggests is that the conventional literature isn't telling us the whole story. Even if companies have temporarily developed from an ugly duckling to a white swan, the popular recipes for success may be clipping such companies' wings.

Conversely, companies adhering to disruptive business models are seen to be more agile and to possess a higher degree of actionability. Such next generation companies are labeled black swans. They thrive because they are bold and embrace the great unknowns of tomorrow with open minds and eyes. At the same time, they are able to take advantage of incumbents' fears, risk-aversion, and blindness to what's coming. *Beyond Strategy* delves into the inner workings of such black swans as Apple, Aravind, Emirates, Huawei, Natura, Ryanair, and Tata and addresses the rise and fall of Nokia. The authors provide explosive evidence of black swan companies working against the norms to enter uncharted waters, determined not to adhere to the best practice of others, but rather to create a genuine next generation practice.

Next generation companies and their underlying philosophies are here to stay—are you?

Both authors work coherently within the space of ABC—Academia, Business, and Consulting.

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The co-authors of this book also wrote the successful title *Return on Strategy*, published by Routledge in 2010.

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The Impact of Next Generation
Companies

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Foreword

For some years now we have been dealing with strategy issues from an ABC perspective—in *academic* research, in *business* execution, and as consultants. Yet, when we look at the literature and practice, the gap between research and theory on one side and business practice on the other has widened considerably over recent years. This led us to raise a fundamental question:

How is it that a growing number of companies are enjoying huge success despite doing the opposite of what is advised in the literature on management and strategy?

Examples are springing up at an accelerating rate too. The world's largest international airline basing itself in a desert with hardly any inhabitants let alone much business. Another toying with free flights and inviting negative publicity as a means of free marketing. A computer company achieving unprecedented levels of innovation and market disruption by deliberately building organizational silos. An eye-care specialist performing millions of surgeries for free without government subsidies. Companies instructing staff to behave as packs of wolves. An emerging-market business turning around bankrupt iconic brands from the developed West into huge profitability by applying models more usually geared to developing countries. Another emerging-market business taking on and winning in the highly competitive beauty industry with unprecedented cost structures and a reverse angle on 'beauty.'

Some of these companies' identities may be immediately identifiable. Others will come as a surprise. All will be explored in detail throughout this book.

It seems counterintuitive that companies turn out to be more successful when doing the *opposite* of what is prescribed in conventional theory. What it suggests is that conventional strategy isn't telling us the whole story, or that it may be clipping companies' wings.

With this in mind, we set out on a journey to help close the gap between theory (A) and practice (B and C), seeking both to identify defects of the conventional paradigm and to propose an emerging new paradigm—one that might better equip us to understand and explain these high-profile exceptions to the standard theory and practice. As we soon found, this means going *beyond* strategy as it is understood today.

Our first objective was to examine a number of non-conformist companies in depth, to try to establish common patterns—common traits and behaviors which might explain their degree of success given that each appears to have delivered this *as a result of* tearing up the recipes of the conventional cookbook. If we tried to analyze these businesses in the context of traditional strategy thinking, each would appear as an outlier—a blip on an otherwise pretty chart. Our view is very different—we have chosen to focus on these differences, because we believe it is what makes these companies special—and as successful as they are. To this end we have changed the terminology, preferring to think of such organizations as ‘black swans’ rather than outliers. An outlier is in some cases defined as companies gaining traction with an annual growth of 5%.¹ Our black swans (we will explain the metaphor in Chapter 1) are more exciting than that. They are beautiful, different, rebellious—and their presence makes an enormous splash, leaving complacent onlookers and rivals rocked by the turbulence they create.

Our work in trying to close the gap between conventional thinking on strategy, and a new emerging school of thought, has not been easy. Like the black swans we have studied, we have broken with traditional thinking. But we have had to tread carefully. To label past and present thinkers as ‘old school’ is to dismiss the good work that has been done on strategy to this point. Our approach is to look for what may have been missing in these approaches, and to look towards an emerging paradigm which allows for other drivers of success. Rather than talking about failed theories we have given them credit for giving rise to many attractive *white* swans—companies that developed successfully enough in their time by fulfilling their destiny as plotted by the textbooks.

We owe a huge debt of thanks to everyone who helped us in this sometimes arduous pursuit. From the academic world our heartfelt thanks go to the many reviewers who provided valuable comments to the crafting of the book. Moreover, discussions with our colleagues within Strategic Management Society and CBS were extremely helpful and beneficial. In addition we want to thank Professor Rickie Moore, EM Lyon, and Professor Kurt Motamedi, Pepperdine University, for their valuable comments in the early stages of the project.

Christina Berg Johansen, Ph.D., and now Assistant Professor undertook research responsibilities in 2012, in particular regarding a literature review of books and articles on disruption and regarding some of the black swan case companies. Sue Tabbitt did a great editing job and, like Helle Moesgaard Andersen, applied an

eagle eye in polishing the final manuscript. We also owe thanks to Jette Sørensen who diligently orchestrated the administrative and secretarial tasks for us.

Special thanks go to the publisher John Szilagyi and Sharon Golan at Routledge. During John's tenure we had very constructive support in the endeavor of transforming our ideas and experiences into a book, and peer reviews from twelve professors from the wider professional academia within management and strategy. Moreover, we thank Sharon Golan for taking charge of the final stretch and for initiating the marketing of the book and the ideas behind it.

Other special thanks go to our families as they have constantly provided us with a lot of support and encouragement throughout. Without their acceptance of the many days and hours spent behind the desk and the computer the project would never have been finalized.

We also offer many thanks to business individuals with whom we have had stimulating interviews and conversations. Some also volunteered to help test and refine the metrics reproduced in Appendix 1 and 2 respectively.

Finally, we are grateful to the black swan companies whose numbers are multiplying all the time. In a world of constant change, black swans possess an unprecedented agility to adapt to new surroundings. They thrive because they are bold and embrace the great unknowns of tomorrow with outstretched wings. At the same time, they are able to take advantage of competitors' fears, risk-aversion, and blindness to what's coming.

By highlighting what these companies do differently, how and why, we hope we have uncovered something that will make for interesting reading for researchers, businesspeople, and consultants alike. Or to put it differently—for everyone who wishes to gain a greater awareness of and appreciation for the as yet great unknown; for everyone open to moving *beyond* strategy.

Michael Moesgaard Andersen and Flemming Poulfelt
Copenhagen, April 29, 2014

NOTE

- 1 McGrath, Rita Gunther (2013), *The End of Competitive Advantage*, Harvard Business Press, Boston, see p. 15f, where an outlier is defined as a publicly traded company with a market capitalization of over USD 1 billion at the end of 2009, having grown revenue or net income by at least 5% every year for the preceding five years. None of our 'black swans' appear in the part of the sample which she outlines, as our black swans do not meet her criteria. One of several differences is that most of our black swans are not publicly traded companies—maybe therefore better able to take the market by surprise?! See also Sydney Finkelstein et al. (2007), *Breakout Strategy: Meeting the challenge of double-digit growth*, McGraw Hill, New York, where other than stock-listed companies are included in the sample, and where the focus on put on double-digit growth.

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Introduction

Can You Predict the Unexpected?

The famous fairytale author H.C. Andersen wrote in *The Ugly Duckling*:¹

Then he felt quite ashamed, and hid his head under his wing; for he did not know what to do, he was so happy, and yet not at all proud. He had been persecuted and despised for his ugliness, and now he heard them say he was the most beautiful of all the birds.

How often is this same philosophy applied to business strategy—the idea that a company can only fulfill its true potential once it goes through a predestined process and achieves the accepted embodiment of beauty and success?

Conventional strategy is so often about crafting a quick and sustainable fix based on known best practices—one that expeditiously converts the ugly duckling into a white swan. It is about conducting diligent and rational work to create an entity (a ‘white swan’ company) that conforms to known criteria, giving it the best chance of achievement. But is this really the best path to success, especially in today’s dynamic business environment?

The renowned philosopher Karl Popper once advised that researchers should look not only for the obvious. Continuing with the swan metaphor, it is generally observed (certainly in the Western hemisphere) that such birds are white. On the basis of this experience, many people would confidently conclude that there are only white swans, forming a common body of knowledge that is accepted by the majority.

The human mind is geared towards dealing with phenomena and things we know we know. Once we ‘know’ something, this determines what we see. If we believe that there are only white swans, we tend to affirm this knowledge by only looking for and mentally registering white swans. We do not consider the possibility that there may also be black swans, for example. They are outside

our experience and therefore our mindset, so we do not seek them out. If or when black swans enter our consciousness, perhaps because we catch a glimpse of one when travelling abroad, our reaction is one of surprise—causing us to question our previously held assumptions.

We have drawn on this white/black swan metaphor in our research into business strategy, and the way that companies act strategically, which will be discussed in this book. Our contention is that conventional strategy, which aims to create ‘white swan companies’ (those that follow known models) rather than ‘black swan companies’ (which buck the trend), needs to be challenged.

The mainstream of existing literature on strategy focuses predominantly on the white swan, or the accepted contributors to success, so we will present our own research within this context. But, more importantly, we will expand on our research into *black* swan companies, and discuss its relevance today—in the context of an emerging ‘new strategy’ paradigm and the need for *new* principles, models, and tools, so that companies are presented with means of measurement for successful transformation.

Our instinct as human beings is primarily towards rational planning. We are programmed to think that if we work diligently, performing thorough analyses, conducting a phased and well-structured strategy program, and basing our activities on best practice and existing knowledge, we are maximizing our chances of success. Within the field of management and strategy, we can see the evidence of this ‘recipe for success’ approach—in that the overwhelming majority of existing literature resembles a cookbook with specific ingredients and steps to follow.

Yet these formulae don’t—and can’t—guarantee long-term success, because they do not cater for the unknown.

Our research suggests that, while ‘proven’ recipes may have helped some companies achieve some degree of success in the past and in the present, they are less effective in ensuring sustained long-term performance—as can be seen when companies are tracked over a longer time frame. In keeping with this, while conventional strategy literature is able to retrospectively address why some companies have emerged as a success (i.e. as white swans), it has been less useful in determining why some of these businesses—which once looked so strong and healthy—have later lost their sheen.

Why is it that many white swans regress, digress, or disappear having followed a ‘good’ recipe? And how come others—the black swans, which have not followed tried-and-tested business approaches—have managed to achieve a very high return on their strategy?

The ‘cookbook’ strategy literature does not provide a satisfactory answer to such questions. The phenomenon is comprehensively documented in our book, *Return on Strategy*TM. There we highlighted findings of the potential for a *higher* Return on Strategy if companies do not adhere to prescribed (recipe-for-success)

strategies, but instead leave room for the X factor—‘the unknown’ or ‘the unexpected.’

Interestingly, many of the companies depicted as very successful companies in the cookbook literature end up not faring well over time—probably because they are blindly following a formula based on past success. This puts many companies in a dangerous autopilot mode; they become arrogant and complacent, and they lose their edge, which is essential to competitiveness. Conversely, companies that do not conform and which remain open to new models are seen to be more agile, and to possess a higher degree of responsiveness, than companies confined to a rigid template.

Inspired by these findings, we have focused subsequent research on the fortunes of companies that have rejected the cookbook approach to business strategy. After analyzing a number of sample companies, we found clear ‘black swan’ characteristics—evidence that these companies break the mold. In our eagerness to learn more about what these companies do differently, we asked them a couple of questions, to determine:

- What characterizes black swans and what differentiates them from white swans and other companies?
- Whether existing literature on management and strategy is able to predict the emergence of black swans?

Generally, our research has shown that there is a considerable amount of ‘reverse thinking’ present in and around black swan companies. Prevailing strategies indicate that such companies tend to subscribe to disruptive strategies and act radically differently, with a very short time to market.

Numerous other characteristics can be attached to black swan companies and our research shows that the conventional paradigm is generally insufficient to deal with such companies. Rather, we are watching a new paradigm emerge based on various types of disruption, unprecedented thinking that outperforms conventional rational behavior, and deliberate ways to distort market mechanisms.

In short, black swans deliver the unexpected with disruptive implications.

Both management and research are far too often focused on rigorous explanations of the homogeneous, while overlooking extreme heterogeneity, such as outliers. Generally, black swans are outliers. In most cases outliers are dismissed from research where focus has been on the homogeneous average and regression to the mean. Outliers have therefore been disregarded in order “to keep the graph nicely scaled”, or to “counter the bias introduced by potential outliers,” as described in research.²

Naturally, taking outliers into account implicates a development towards increased heterogeneity and therefore an increase in uncertainty and risk. This prompts a related question: *Can you predict the unexpected?*