



From General to Strategic

THE GENERAL MANAGEMENT FOCUS

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Fifty years ago, strategic management was known as general management. What are the reasons behind this name change? And more importantly, what are its implications?

"THE FIELD OF MANAGEMENT RECEIVED A COPERNICAN CHANGE IN 1980, WITH THE PUBLICATION OF THE BOOK 'COMPETITIVE STRATEGY' BY PROF. MICHAEL E. PORTER."

One of the goals of IESE's mission is to provide a general management view of business. At times it is argued that this goal should pervade the teaching of all the disciplines covered at IESE. Without entering into this debate, it is clear that the Department of Strategic Management plays a crucial role in IESE's mission. This article aims to summarize the evolution of this department since its creation in 1958.

GENERAL MANAGEMENT

The department has had several monikers: General Management, Business Policy, General Management again, and finally Strategic Management. These changes are not accidental. They reflect various professors' different approaches over the years.

The department was created in 1958 under the name of General Management at the explicit wish of IESE's first dean, Prof. Antonio Valero. Back then, it was envisioned as an area of synthesis for the second half of the PADE program (the first management program taught in 1958) that aimed to integrate all the different functional areas (marketing, finances, production, control) from the standpoint of putting people at the heart of the organization.

BUSINESS POLICY

The department was then renamed Business Policy in 1964, coinciding with the launch of the MBA program. The main reason for adopting this new term was that the department was also called Business Policy at **Harvard Business School (HBS)**.

An explanation of why **HBS** adopted this expression would require another article. Suffice it to say that the original discipline was called Administrative Practices and that at some point in the 1950s it branched off into two different disciplines, Business Policy and Organizational Behavior, according to whether the professors preferred to stress the business or human aspects.

Dean Antonio Valero adopted the Spanish translation of Business Policy without hesitation, and this department came to be called the Department of Business Policy, which developed its own distinctive conceptual schema – summarized in the work by Profs. Valero and Lucas (*Política de Empresa: El Gobierno de la Empresa de Negocios [Business Policy: The Governance of the Business Enterprise]*), the seventh edition of which was published in 2007.

This schema owes a certain intellectual debt to Kenneth Andrews, yet it has its own distinctive features. The Valero-Lucas approach has given rise to its own school of thought which boasts quite a few followers. At IESE, for example,

we have Luis M. Calleja, Senior Lecturer in the department. Another outstanding disciple is Dean Antonio García de Castro of the **Instituto San Telmo**. All told, around 15 professors all over the world follow this school of thought.

COMPETITIVE STRATEGY

The field of General Management experienced a Copernican change in 1980, with the publication of the book *Competitive Strategy* by Prof. Michael E. Porter. Skillfully combining the concepts of industrial economics with the best tradition of strategic formulation following the perspective of C. Roland Christensen, Kenneth Andrews and others, Porter developed a conceptual framework that conferred academic legitimacy on the literature of business strategy.

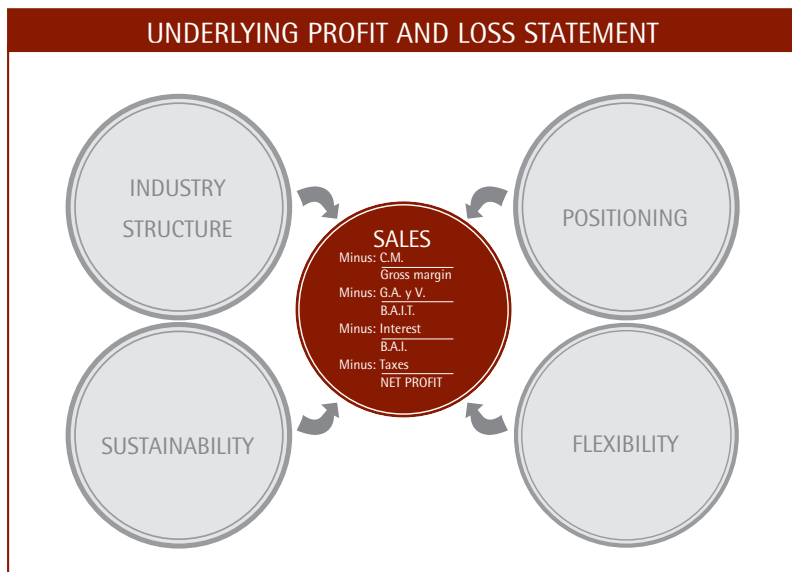
There was no dearth of criticism of the position, which was quite biased towards the influence of the industry in which the company was competing – which was viewed as a sort of “black box”. Porter himself rose to respond to this attack by publishing *Competitive Advantage* in 1984, a book in which he developed the concept of the value chain and its cost drivers. Thus emerged strategic cost analysis – based on which Robert Kaplan later created the ABC (Activity-Based Costing) system.

Prof. Pankaj Ghemawat complemented Porter's schema with an in-depth study of the notion of sustainability in his book, *Commitment*. Later, Adam Brandenburger helped us to grasp that complementors are also a force worth taking into account, and that a company's position depends not just on costs, but also on its customers' willingness to pay.

In the programs I am responsible for in the General Management course (primarily the PADE and PDGs at the Madrid campus), I try to synthesize these concepts into what I call the Underlying Profit and Loss Statement. This is understood as a company's potential to achieve higher and more sustainable results. See Graph 1, which will be familiar to students I have had the pleasure of teaching in my General Management course.

STRATEGIC INTENT AND BLUE OCEANS

Two prominent scholars and critics of Porter are C.K. Prahalad and Gary Hamel, who stress what they call “strategic intent,” which might more accurately be considered “corporate vision”. In short, their goal is to recognize that a strategy should appeal not just to the minds of the people at the top but also the hearts of their subordinates. With this in mind, a good strategy must propose values for which the people making up the organization are willing to go beyond what they consider a fair retribution for their salary at the end of the month.



Two other high-profile members of the anti-Porter trend are Profs. W. Chan Kim and Renée Mauborgne of **INSEAD**. In their book *Blue Ocean Strategy* they issue a call for thinking more about transforming the industry than about understanding it. They also introduce the "strategic canvas" technique – which I called the "value proposition" – and whose usefulness has been demonstrated for positioning analyses on both benefits for customers and the relative distance from competitors in terms of cost.

GLOBALIZATION AND CORPORATE STRATEGY

One phenomenon that has not escaped the scrutiny of scholars is the increasing globalization of the markets. In my opinion, the recent book *Redefining Global Strategy* by Prof. Ghemawat on the issue is a major contribution to the field. His AAA concept (Adaptation-Aggregation-Arbitrage) captures the essence of the most important knowledge for a world of semi-globalization – to use one of Ghemawat's favorite terms.

Likewise, the concept of strategy is not limited to business or a competitive dimension. In my courses, I tend to ask students how many of them consider themselves to be part of a group of companies. In the general management programs taught in Madrid, around three quarters tend to raise their hands. This requires us to pay attention to corporate strategy, meaning the way corporations choose the entire set of companies they want to be involved in, and especially, how they manage the interactions among these businesses for the whole to be greater than the sum of its parts. In other words, they create synergies.

In recent years, Prof. Herman Daems has often been a visiting professor at IESE. To my mind, he is one of the most outstanding scholars on this subject, especially taking into account the particularities of corporations in the European Union, which do not always follow the same patterns as those in the United States.

GENERAL MANAGEMENT

During the 1993-94 academic year, the name Business Policy was changed back to General Management – in some ways, a return to the department's historical roots.

Simultaneously, there were significant new advances in the field of formulating strategy. Jan Rivkin, of **HBS**, stressed that

besides having external and internal consistency, strategy should also have a dynamic one (a fit with the future environment). He thus applied the notion of transforming the sector that Kim and Mauborgne had made the core of their approach. In recent years, Profs. Ramón Casadesús-Masanell of **HBS** and Joan E. Ricart of IESE have rigorously formalized the concept of "business models," understood as; (i) a set of choices and (ii) the set of consequences derived from these choices. Casadesús-Masanell's second year elective MBA class on "Competing on Business Models" has two groups of 90 students and a waiting list.

STRATEGIC MANAGEMENT

It is unquestionable that in the past 30 years, the tool box for formulating competitive and corporate strategies has grown considerably. This has led the most junior members of the department to call for a name change, replacing General Management with Strategic Management. The change was implemented at the start of the 2007-08 academic year after a majority vote by the members of the department. I expressed my opposition to the proposal due to the reductionism involved in limiting the job of the general manager to formulating and implementing the company's strategy. The day-to-day job of going from knowledge to knowledge in action remains a crucial element for the person at the top. Yet once again, as my dear friend Josep M. Rosanas — the coordinator of this issue of the *IESE Alumni Magazine* — tends to remind me, I remain an indefatigable fighter of losing battles.

EPILOGUE

It is not easy to summarize in just a couple of pages the 50 years of collective learning that the professors in the Department of Strategic Management have accumulated. Just like any process of its kind, we have gotten sidetracked, and we have had our ups and down. Sometimes we've gotten it right; other times we haven't. But we have never lost sight of the fact that our discipline has the vast responsibility to convey a core element of IESE's mission, which is to communicate the experiences and responsibilities involved in the position of General Manager in an organization.