Process and Strategy

The business process movement has many parents, but none has been more influential than Michael E. Porter, the Harvard Business School professor who has given us the ideas that dominate today's thinking about strategy and the role of processes in achieving competitive advantage. It was Porter who introduced the idea of a Value Chain in his 1985 book, *Competitive Advantage*, and who focused his readers on the idea that competition designed to simply achieve efficiency was a zero sum game. The only way to achieve competitive advantage, according to Porter, was by selecting a superior strategy and then tailoring one's entire value chain to implement that strategy. Competitors, Porter argued, would always try to copy your innovations and "best practices." What they couldn't easily copy was a well integrated Value Chain in which every activity fit together to achieve a well thought out strategy. As Porter explained; "The essence of strategy is choosing to perform activities differently than rivals do."

For awhile, in the late Eighties and early Nineties, Porter focused on international issues and how nations achieved competitive advantage, but in 1996, he wrote another general article on corporate strategy titled "What is Strategy?" that appeared in the Nov-Dec 1996 issue of *Harvard Business Review*, and it is still worth close study today. In addition to laying out his basic arguments against simple minded operational efficiency and in favor of strategic positioning and the importance of integrated processes, Porter threw in the idea that strategists ought to create maps of activity systems to "show how a company's strategic position is contained in a set of tailored activities designed to deliver it."

Porter suggested that strategists create network diagrams that show how a limited set of high-level strategic themes, and the activities associated with those themes, fit together to support a strategic position.

Porter provided several examples and we've chosen one to illustrate this idea. In the early Nineties, the executives at Southwest Airlines decided on a strategy that emphasized their being the dependable, low cost airline. Figure 1 illustrates the Activity-System map Porter provided for Southwest Airlines. The themes are in the rectangles and a set of activities are shown in circles. To charge low prices, Southwest limited service. They only operated from secondary airports and didn't assign seats or check baggage through to subsequent flights. They didn't serve meals and attendants cleaned the planes between flights. By limiting service they were able to avoid activities that took time at
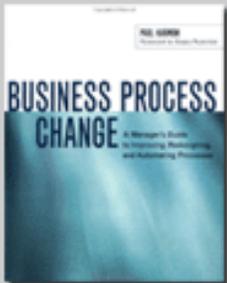
check-in and were able to achieve faster turn around and more frequent departures. Thus, Southwest averaged more flights, with the same aircraft, between set locations, than their rivals. By standardizing on a single aircraft they were also able to minimize maintenance costs and reduce training costs for maintenance crews.

Porter argued that too many companies talked strategy, but didn't follow through on the implications of their strategy. They didn't make the hard choices required to actually implement a specific strategy, and hence, they didn't create the highly integrated business processes that were very hard for rivals to duplicate. When companies do make the hard choices, as Southwest did, they find that the themes reinforce one another and the activities fit together to optimize the strategic position.
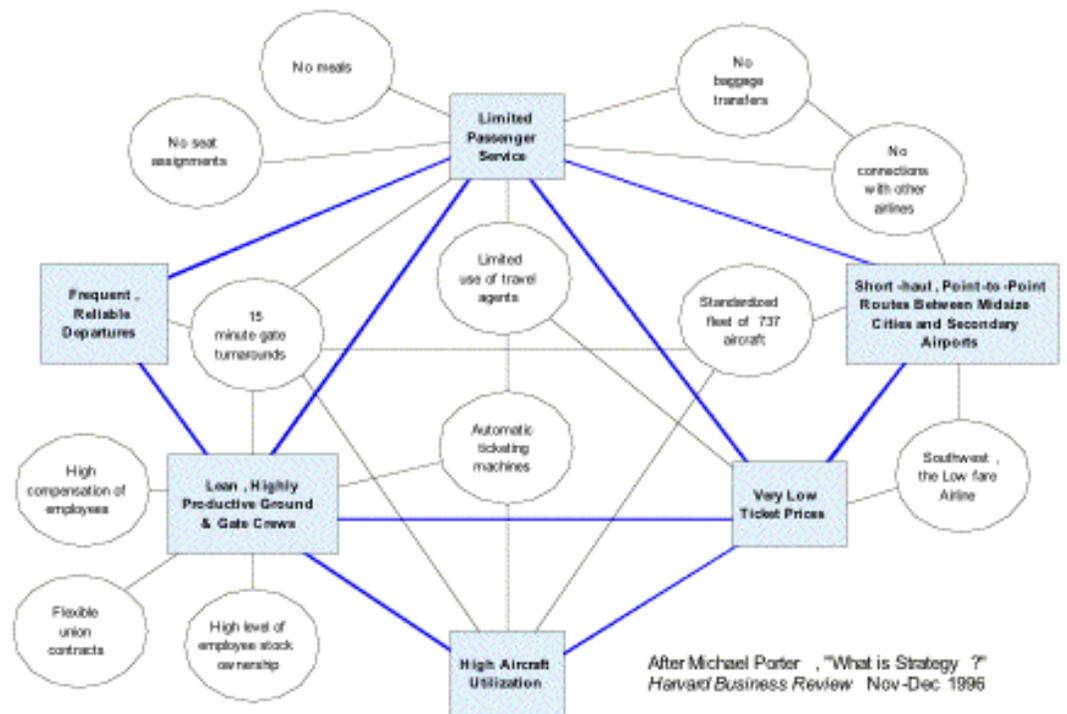

Figure 1. A Strategy Themes-Activity Network.

We've read lots of discussions of how business processes ought to support corporate strategies, and we certainly agree. Those who manage processes have an obligation to work to assure that their process outcomes achieve corporate goals. Companies should work hard to align their process measures with corporate performance measures and to eliminate subprocesses that are counter to corporate goals. Different theorists have proposed different ways of aligning process activities and outcomes to goals. Most, however, have assumed that executives simply announced goals and that process people then worked to create processes that would implement their executive's goals.

Porter suggests something subtler. He suggests that smart senior executives think in terms of processes. In effect, one strategic goal of the organization should be to create value chains and processes that

are unique and that fit together to give the organization a clear competitive advantage that is difficult for rivals to duplicate. He doesn't suggest that senior executives should get into the design or redesign of specific business processes, but he does suggest that they think of the themes that will be required to implement their strategies, which are ultimately defined by products and customers, and think about the hard choices that will need to be made to assure that the themes and key processes will fit together and be mutually reinforcing.

This isn't an approach that many companies have taken. However, a process manager can use this concept to, in effect, "reverse engineer" a company's strategy. What are your value chains? What products do your value chains deliver to what customers? What is your positioning? What value propositions does your organization present to your customers when you advertise your products? Now, develop an ideal Strategy Themes-Activity Network to define your company's strategic positioning. Then, compare it with your actual themes and activities. Do your major themes reinforce each other, or do they conflict? Think of a set of well-known activities that characterize one of your major processes. Do they support the themes that support your company's strategic positioning?

This exercise has led more than one process manager to an "Ah Ha! Moment" and led to some insights into why certain activities always seem to be in conflict with each other.

As Porter argues, creating a strategy is hard work. It requires thought and then it requires the discipline to follow-through with the implications of a given strategic position. If it is done correctly, however, it creates business processes that are unique and well integrated and that lead to successes that are difficult for rivals to duplicate.

The alternative is for everyone to try to use the same best practices, keep copying each other's innovations, and keep lowering profit margins until everyone faces bankruptcy. Given the alternative, senior management really ought to think about how strategy and process can work together to generate competitive advantage.

Till next time,
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