Zenger, Todd – Beyond Competitive Advantage

Harvard Business Review Press, 2016 [Business] Grade ★★★

In his corporate strategy book *Beyond Competitive Advantage* the University of Utah business professor Todd Zenger, specialized in so called organizational design, presents a framework for companies on how to create shareholder value. The thesis is that companies too often use faulty or outdated structures to guide them in this pursuit and they should instead formulate and follow something the author calls a Corporate Theory of Value Creation. Although I don't fully agree with all the preconditions that Zenger sets up the solutions he proposes are still largely correct.

The book is structured in three parts and seven chapters. Part one spanning the first 100 pages introduces and describes the author's Corporate Theory and why it is needed. The other parts and the remaining 80 pages are mainly concerned with how companies – with their Corporate Theory at hand – should through organizational design, strategic focus, asset allocation, investment choices, acquisitions and divestments etc. link together the assets of a company, in a broad sense, to create value. *"The leader's task in a dynamic design is to identify and select the proper sequence of programs, initiatives or structures."*

However, to take one step back, Zenger starts by claiming that companies are too stuck in an antiquated view of strategy as formulated by Michael Porter in his classic *Competitive Advantage* - hence, the name of this book. What we are moving beyond is not the need to have competitive advantages as such but an old formulation of what corporate strategy to use. Porter's approach to strategy is that a company should position itself in a valuable market niche where it through some means can have a competitive advantage and then work to fortify its moats in this market segment.

Now, the purpose of a corporation is to create shareholder value and in Zenger's view this positioning type of strategy framework is too static to be able to create the continuous growth in value that shareholders demand. Instead the company should take a more adaptive and fluid trial-and-error approach. But without a beacon to guide these trials they risk becoming a value destroying random walk. Enter the author's Corporate Theory of Value Creation defined as *"a logic that managers repeatedly use to identify from among a vast array of possible asset, activity, and resource combinations those complementary bundles that are likely to be value crating for the firm."*

The theory that must be unique for the specific company can for example relate to an advantage in solving a set of customer problems, in exploiting a set of assets, a privileged position in gaining synergies from M&A etc. The observant reader could object that this doesn't sound much different from the means that Porter would list in gaining a competitive advantage and they would be correct in this. However, Zenger's Corporate Theory must also give a view on future development, on synergies between corporate activities and an insight on which assets that fit the company and by all this function as a tool to take the company forward into the future. It is a type of fact-based belief on how the company can create value that over time will help the management prioritize.

I agree on the need of a beacon and the book is not bad but it is quite lightweight, a tad ivory tower academic and there is a lot I don't agree with. First, I don't think companies are at all as trapped in Porter's models that Zenger portrays. Secondly, while I agree on the corporate purpose of creating shareholder value it is a fundamental mistake to equalize this with the current share price. Further, the author advocates a corporate design oscillating between centralization and decentralization to over time optimize the combination of efficiency and innovation. I think there is an obvious risk that a firm by this never gets the compounding momentum that is needed for large-scale success.

The author in my view gives the right prescription but I don't fully agree with all of the analysis done beforehand.

Mats Larsson, November 4 2018