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MEET THE PERSON

Competitive Advantage Revisited

Michael Porter on Strategy and Competitiveness

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Strategic management is constantly evolving as both an academic discipline and as a reflection of management practice. This article, based on a recent interview with Michael Porter, assesses his contribution to the development of the discipline in the context of the advances that have taken place since the publication of his seminal work Competitive Strategy *in 1980. The authors conclude that Porter has made major lasting contributions to strategy, increasing both its academic rigor and its accessibility to managers. The article and interview place Porter's work at the center of the development of strategic management in terms of the provision of practical analytical frameworks, transforming it into a recognized and recognizable field of academic study and management practice. This feat of transformation has not been equaled before or since, so that 25 years after his first seminal contribution, Porter's work continues to provide remarkable insights into the nature of competition and strategy.*

Keywords: *strategy; strategic management; competition; competitiveness; strategizing*

Professor Michael Porter is among the founding fathers of strategic management as a recognized academic discipline. He has provided strategy with a rigorous theoretical base but, equally as important, he has made the discipline accessible and useful to practicing managers. His contributions, as an economist, to the investigation of "competitiveness" at the level of the firm, industry, and nation over the past 30 years have been fundamental to the development of both the theory and practice of strategy and strategizing. Professor Porter has authored/coauthored/edited 17 books and more than 100 academic articles. He has acted as a consultant to many of the world's leading business organizations and governments, as well as publishing a large number of articles in the popular business press. Professor Porter is consequently regarded as one of the world's leading authorities on competitive strategy in business organizations, the competitiveness of nations and regions, and more recently, the application of competitive analysis to social and environmental aspects of business activity (Snowdon & Stonehouse, 2006).

Currently, Michael Porter is the Bishop William Lawrence University Professor at Harvard Business School and he is only the fourth faculty member from Harvard Business School to be awarded the distinction of a university professorship. In its recent assessment of the world's 50 most influential thinkers,

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Accenture's Institute for Strategic Change ranked Porter as the most influential business intellectual in the world in 2003. Porter's status as the number one business intellectual, among a cohort that includes four Economics Nobel Prize winners and leading contributors to strategic thinking such as Gary Hamel, Henry Mintzberg, K. C. Prahalad, and Robert S. Kaplan, is testament to Porter's influence on both the theory and practice of strategy.

In June 2001, Porter was established as the head of the newly founded Institute for Strategy and Competitiveness (ISC) located at Harvard Business School. The ISC focuses on the implications of competitive forces for company strategy, assessing the competitiveness of nations, regions, and cities, and investigating the effect of competitive capitalism on society and social progress. In addition, the ISC acts as a major international center for the development of management education. In the short period of its existence, it has produced a prodigious number of publications including more than 100 National Competitiveness Profiles for the World Economic Forum's annual *Global Competitiveness Report*, Regional Cluster Maps detailing the structure and competitiveness of states, regions, and cities in the United States, and an extensive database detailing Company and Industry Financial Performance for every public company in the United States.

In this article, we provide the text of an interview that we conducted with Professor Porter at the ISC in which we discuss his contribution to the development of strategic management and the analysis of competitiveness. To set the interview in context, we begin by providing a critique and discussion of Porter's work against the background of the major issues and recent debates within the discipline.

Porter's Contributions to Strategic Management

Strategy is in its adolescence as an academic discipline, with its origins dating back little beyond the 1960s (Stonehouse & Pemberton, 2002). Its roots are diverse and can be traced to several disciplines, including industrial economics, marketing, finance, psychology, the behavioral sciences, and military history and tactics. Therefore, it should be of little surprise that there is considerable debate over its key concepts and frameworks. This fragmented development is reflected in diverse views on approaches to the discipline. McKiernan (1997) identifies four approaches: the prescriptive approach (also called the deliberate or planned approach); the emergent (or learning) approach; the competitive positioning approach; and the resource, competence, and capability approach. Mintzberg, Ahlstrand, and Lampel (1998), in their *Strategy Safari*, go further, identifying 10 schools of strategy: the design school, the planning school, the positioning school, the entrepreneurial school, the cognitive school, the learning school, the power school, the cultural school, the environmental school, and the configuration school. Porter's contribution to the discipline lies predominantly within the competitive positioning and planning approaches, but his influence spreads well beyond.

Porter's work forms the centerpiece of the competitive positioning school, which represented the dominant strategy paradigm of the 1980s. Porter's first book on the subject in 1980, *Competitive Strategy*, brought the analytical rigor of microeconomics to strategy and significantly increased awareness of the subject among both academics and the business community. *Competitive Strategy* was followed by another equally influential work, *Competitive Advantage*, published in 1985. These two books marked a revolution in thinking on strategy by developing three linked concepts, namely, the "five forces," "generic strategy," and "value chain" frameworks (Porter, 1980a, 1985a). These frameworks can be regarded as the major analytical frameworks of the competitive positioning paradigm and remain at the heart of most business school strategy courses to this day. The five forces framework (Porter, 1980a) allows a firm to assess both the attractiveness (potential profitability) of its industry and its competitive position within that industry through an evaluation of the strength of the threat of new entrants to the industry; the threat of substitute products; the power of buyers or customers; the power of suppliers (to firms in the industry); and the degree and nature of rivalry among businesses in the industry. According to Porter, the potential for a firm to be profitable is negatively associated with increased competition, lower barriers to entry, a large number of substitutes, and increased bargaining power of customers and suppliers. On the basis of analysis of these forces, Porter argues that an organization can develop a generic competitive strategy of differentiation or cost leadership, capable of delivering superior performance through an appropriate configuration and coordination of its value chain activities (Porter, 1985a).

A cost leadership strategy requires a firm to become the lowest cost producer of a product or service so that above-average profits are earned even though the price charged is not above the industry average. A differentiation strategy involves creating a customer perception that a product or services is superior to that of other firms, based on brand, quality, and performance, so that a premium price can be charged to customers. A focus strategy involves the use of either a differentiation or cost leadership strategy in a narrow market segment. Porter goes on to argue that a firm must choose between a differentiation or a cost leadership strategy. To be "stuck in the middle" between the two is likely to result in failure.

The success of a generic strategy in delivering competitive advantage is dependent on ensuring that the firm's value chain successfully supports its generic strategy in adding greater value to its products and services than competitors. The value chain includes all those activities that contribute to the final value of an organization's product. Value added, or margin, is "the difference between the total value and collective cost of performing the value activities" (Porter, 1985a). Value chain analysis is Porter's technique for understanding an organization's ability to add value through its activities, and their internal and external linkages, and allows managers to identify where value is currently added in the system and where there is potential to create further value in the future by reconfiguration and improved coordination of activities.[1]

The development of the five forces, generic strategy, and value chain frameworks was fundamental to the emergence of strategy as recognized academic discipline and, as well as forming the centerpiece of the competitive positioning paradigm, also provided the major analytical tools of the planning school.

Despite the obvious value of Porter's contribution to the discipline and its practice, there have been criticisms of a number of aspects of his work. The five forces concept has been attacked on the basis that the principal unit of analysis is the industry rather than the individual firm. Porter argues that the framework makes it possible to assess the potential profitability of a particular industry, and Porter and McGahan (1997) provide some evidence to support this claim, whereas Rumelt (1991) argues that firm-specific factors are more important to the profitability of a business than industrywide factors. The framework also implies that the five forces apply equally to all firms in an industry, when in reality, the strength of the forces may differ from business to business on the basis of firm size and/or the strength of their brand name. Finally, five forces analysis can be regarded as rather static at a time when the business environment is increasingly dynamic. Despite these possible limitations, the framework is the most powerful tool available for analysis of the business environment to this day.

The generic strategy framework has been the focus of far more than criticism (Miller, 1992; Mintzberg, Quinn, & Ghoshal, 1995). There is considerable evidence that many companies consciously operate a hybrid strategy combining low cost with differentiated products or services and, rather than being stuck in the middle, they are highly successful businesses. Toyota is a prime example. Similarly, low cost, and low price, alone do not sell products and services. They must possess qualities that are perceived by customers as desirable and of value. Furthermore, Mintzberg et al. (1995) argue that price, together with image, after sales support, quality, and design, can be used as the basis of product differentiation. The resource-based school has more fundamentally questioned the view that generic strategies cannot be the basis of competitive advantage and they suggest that organizations must develop unique firm-specific core competences that will allow them to outperform competitors by doing things differently and better (Prahalad & Hamel, 1990). This uniqueness precludes general recipes for competitive advantage such as those implied in the generic strategy framework. Nevertheless, differentiation of products and services remains fundamental to the means by which organizations seek to gain competitive advantage.

It is interesting to note that whereas the generic strategy framework has been subject to significant criticism, the value chain concept has not, although Porter has been criticized for the fact that he devotes little attention to the political and social aspects of organizational behavior in his analysis (Mintzberg et al., 1995).

Porter on Global Strategies

In 1986, Porter proposed a model of global strategy based on the generic strategy framework. He argued that the generic cost leadership or differentiation strategies can be operated on a global scale as either global cost leadership or global differentiation—targeting either an entire global market or a particular global segment. Obviously, the success of such strategies will depend on the market being global. When global market conditions do not exist, a country-centered strategy can be implemented based on responsiveness to local needs.

Of much greater significance in relation to global strategy is Porter's work that advanced the concept that global competitive advantage depends on the configuration and coordination of the organization's value chain across national boundaries (Porter, 1986, 1990). In terms of configuration, organizations must decide where and in how many nations each activity in the value chain is performed. The second crucial decision involves determining how geographically dispersed international activities are to be coordinated. By making better choices than competitors over the global configuration of value-adding activities, and by coordinating those activities more effectively, organizations can achieve a competitive edge in global markets and industries.

Alternatives to Porter: Knowledge, Core Competence, and Learning

The 1990s, which were characterized by an increasingly dynamic and turbulent business environment, saw the competitive positioning school to some extent eclipsed by the emergence of the resource-based/core competence, learning, and knowledge-based schools of strategic management. Theorists argued that the dynamism of the environment required firms to form strategy continuously by developing knowledge-based competences based on continuous organizational learning. Porter's five forces framework was regarded as being too static in circumstances when industry conditions were changing so rapidly. In particular, the generic strategy concept was undermined by the performance of Japanese companies who appeared to successfully combine differentiation and low cost. Moreover, the value chain, although being a useful tool, had little to say on the organizational politics of strategizing. The knowledge, core competence, and learning schools suggested that competitive advantage arises from internally developed *core competences* or *distinctive capabilities* based on knowledge developed through organizational learning (Hamel & Prahalad, 1994; Heene & Sanchez, 1997; Nonaka, 1991; Nonaka, Toyama, & Konno, 2000; Prahalad & Hamel, 1990; Senge, 1990; Stonehouse & Pemberton, 1999; Stonehouse, Pemberton, & Barber, 2001). Research in the late 1980s and early 1990s suggested that choice of industry is not a major factor in determining business profitability, rather, the core competence of the organization is of greater importance (Baden-Fuller & Stopford, 1992). This indicates that an "inside-out" approach to strategic management is needed, based on the premise that competitive advantage depends on the behavior of the organization rather than its competitive environment. From this perspective, the focus for firms has to be on developing knowledge-based core competences through learning and then leveraging those competences in various markets. Strategy was no longer generic but essentially unique to the organization.

Although the competencies approach provides an important contribution to the development of strategy as a discipline, it is not without its own limitations. Its value lies in placing emphasis on developing the organization as a unique bundle of resources and competences. On the other hand, it provides few well-developed analytical frameworks for assisting in this process. Ironically, as McKiernan (1997) points out, it is Michael Porter who has "developed one of the most useful tools for internal resource analysis in the value chain." By doing so, Porter has made a major contribution to this approach to strategy. There is also a danger, inherent in the competencies approach to strategy, that the organization becomes too internally focused at the expense of customer focus. Research in the 1990s suggests that successful businesses must be market- and customer-driven rather than being internally and process-driven (Greenley & Oktemgil, 1996).

Porter's Response to His Critics—"What Is Strategy?"

In 1996, Porter's paper entitled "What Is Strategy?" was published in the *Harvard Business Review* (Porter, 1996b). In this paper, Porter revisited his earlier views on strategy and attempted to answer some of the criticisms of his work (see interview). The main thrust of Porter's 1996 article was to distinguish between strategy, which involves choices and trade-offs between alternatives, and "operational effectiveness," which focuses on the ideas of benchmarking, best practice, and cost minimization. Porter argues that in the late 1980s and 1990s, partly as a result of the success of Japanese companies, managers became too concerned with improving operational effectiveness and, as a result, neglected the importance of strategy. Japanese companies appeared to demonstrate that they could produce at low cost and improve quality at the same time, emphasizing operational effectiveness as opposed to strategy. Porter argued that operational effectiveness was necessary but not sufficient for the creation of competitive advantage. On the basis that Japanese companies were, at the time, very successful, Mintzberg et al. (1995) criticized Porter's view that Japanese companies would have to "learn strategy" if they were to be able to sustain competitive advantage. However, the well-documented problems encountered by the Japanese economy and Japanese companies since the early 1990s would tend to suggest that there is considerable validity in Porter's arguments (Porter & Sakakibara, 2001, 2004; Porter & Takeuchi, 1999; Porter, Takeuchi, & Sakakibara, 2000).

Porter's Contribution to Strategy

There is a temptation to view the knowledge, core competence, and learning approach as the antithesis of Porter's views. In fact, the competitive positioning school is often depicted as being an "outside-in" approach to strategy, whereas the knowledge, core competence, and learning school is regarded as being "inside-out" (McKiernan, 1997). In fact, both viewpoints are necessary in the formation of strategy by organizations. There are clear linkages between strategies, value-adding activities, core competences, and resources. Any strategy will be built on the configuration of an organization's value-adding activities, and resources form the inputs to these activities, whereas competences and core competences provide the skills and knowledge required to carry them out (Stonehouse & Pemberton, 1999; Stonehouse et al., 2001). The more that core competences can be integrated into value-adding activities, the greater will be the value added. In fact, the different approaches to strategic management should be regarded as "complementary, representing two different forms of analysis both of which must be brought to bear for improving the quality of strategic thinking and analysis" (Mintzberg et al., 1995).

In our view, Michael Porter's contribution to strategy derives essentially from his background training as an economist and should be judged as such. Evidence of the esteem in which he is held as an economist is the award by National Association of Business Economists of the Adam Smith Prize in 1997 to Porter in recognition of his outstanding contributions to the business economics profession. Certain writers have been highly critical of particular aspects of Porter's work, but many of their criticisms are ill informed and misdirected (Mintzberg et al., 1995). By choice, Porter has not attempted to describe or explain the organizational dynamics, politics, and processes of making strategy within organizations. This is not the remit of an economist, rather, it belongs to the realm of an organizational theorist or behavioral scientist. To criticize Porter's contribution to strategy on the grounds that he does not contribute to organizational theory is the same as criticizing the contribution of an orthopedic surgeon to the field of medicine on the basis that he or she has failed to contribute to the development of psychiatry. Organizational behavior is not his area of expertise nor does he claim that it is. However, Porter has made a major contribution to the understanding of the economics of competition, which is itself a fundamental building bloc to the development of strategy. When considered from this standpoint, Porter's contributions to the discipline are without equal. Porter's research papers and books have brought analytical rigor and practical frameworks to a subject that previously lacked such credentials. Consequently, strategic management is now recognized as a credible discipline in its own right.

To date, no single school within the field of strategic management provides a complete or definitive explanation of strategy and strategizing by organizations. Strategy and strategizing are by their very nature eclectic and will draw on a range of viewpoints and disciplines. It is against this context that Porter's contribution should be judged and, in our view, no other strategist can claim to have had such a significant individual effect on the discipline.

INTERVIEW[2]

From Princeton to Harvard

You began your academic life as a student of aerospace and mechanical engineering at Princeton University, graduating in 1969. What were the main reasons behind your decision to change direction and become a graduate MBA and PhD student of business at Harvard University in the period 1969-73?

I was going along quite happily at Princeton studying aerospace and engineering and doing pretty well. In fact, I had been accepted for the PhD program in engineering. Then, at the last minute, I decided that engineering would be just too limiting for me. I suddenly felt that I might end up in a design team looking at things like the rotor assembly on a helicopter. This did not connect at all with my worldview at the time and so I then briefly thought of going into medical school. However, I very quickly abandoned that idea and decided to do an MBA degree, thinking that with my technical engineering background, this would be a good combination. I imagined that I would develop a management career in a technical industry. At that point, I went to talk with Burt Malkiel, a Princeton economist specializing in finance. He taught on the one economics course that I had taken at Princeton as an undergraduate. I discussed my thoughts on studying for an MBA and Burt advised me to go to Harvard Business School.

At that point, did you intend to stay on at Harvard to complete a DBA once you had finished your MBA?

When I arrived at Harvard, I started out with the intention just to complete an MBA. But after my first year, in the summer of 1970, I ended up getting a job in Washington, D.C., in the Department of Transportation. While working there, I got drawn into a series of policy issues that were in essence about economics. That got me thinking and when I returned to Harvard for the second year of the MBA, I had a talk with Roland Christianson, who is probably the world's greatest case method teacher of all time. He taught business policy, which was the precursor of what we now call competition and strategy. He really turned me on to the idea of teaching. So, I ended up with an interest in economics and research from my work experience during the summer, but now I had also acquired a new interest in teaching. It was at this point that I decided that I wanted to stay on at university and teach. I then had another lucky break when I was deciding about doing a PhD. At Harvard Business School, there was an opportunity to do a DBA but I felt that I wanted to do something different. So, I began to look across the river to the Cambridge campus where the economists are located. There was a very small program at the time called the Business Economics PhD program. This was essentially a PhD in economics offered by the Arts and Sciences Faculty, but you could elect for business to be one of your subfields. This sounded great, even though I had not taken any graduate economics courses. I had taken some freshman economics and I also had pretty strong math from my engineering background, so I was able to survive. During the first year of the PhD program, I took a course in business policy, or strategy as we now call it, here at the Business School. In the following year, I studied industrial economics with Richard Caves and Jesse Markham at the Department of Economics.

Did many students follow that hybrid route?

No. I must have been one of the very few people who had ever done that because at the time, the Harvard Business School was very practitioner oriented, emphasizing case studies and real industries. In contrast, across the river, the emphasis among the economists was in developing theoretical models and producing journal articles. Studying the business policy and industrial economics courses back-to-back was absolutely crucial in the development of my thinking because a couple of weeks into the industrial economics course, I suddenly realized that the professors at both the Harvard Business School and the Department of Economics were talking about the same issues but they were coming from completely different perspectives. This fascinated me. While one intellectual tradition focused on case studies, treating each study separately, the other tradition focused on theory and statistical analysis. The idea of bridging these two fields led to my doctoral dissertation, which in turn ultimately led to my 1980 book on competitive strategy. Looking back, I can now see how my being in the right place at the right time, with inspiring mentors, allowed me to make the connections that led to my later work. Now, it is quite typical that students with an MBA go on to complete a PhD rather than a DBA. Thirty years ago, that was very unusual. So, I do credit a lot of my ideas to the fact that I was one of the first students to be exposed to the stimuli of following this pathway.

Who were the academics and intellectuals who most influenced your thinking during this formative period?

As I have already mentioned, Richard Caves and Roland Christianson were tremendously influential. Roland Christianson, here at Harvard Business School, never wrote many scholarly articles. However, this great man was the master of case method teaching and the fact that he became a university professor shows just how highly he was regarded. He inspired me to become a teacher in the general field of business and management strategy. Another great influence was John Linder, who was the head of the business economics program. He was a very distinguished financial economist who, had he lived, would probably have been awarded the Nobel Prize at the same time (1990) that Harry Markowitz, Merton Miller, and William Sharpe received theirs for pioneering work in the theory of financial economics. He was integral to that whole important body of work on efficient markets. Also influential was our former dean, John MacArthur. Early on in my career at Harvard, I was in the business policy group. At that time, business policy was taught by Roland Christianson, Kenneth Andrews, and Joe Bower, the Brahmins of Harvard Business School. Meanwhile, I was trying to connect business policy with the economics that I had learned across the river. Their response was that this connection did not seem right and would not lead anywhere. I will never forget my associate professor review here at Harvard Business School. At that point, I had published several papers on various aspects of industrial economics in mainstream economics journals such as the *Review of Economics and Statistics*, *American Economic Review*, *Quarterly Journal of Economics*, and *Journal of Industrial Economics* (Porter, 1974, 1976a, 1979b; Porter & Caves, 1976, 1977, 1978, 1980; Porter, Caves, & Gale, 1977; Porter, Caves, & Khalilzadeh-Shirazi, 1975). But I had also written one short course note, which was called "A Note on the Structure and Analysis of Industries." This was the very first version of the five forces idea. That note was judged by the appointments panel to be "a noble experiment that failed" (laughter). But I still got my promotion to associate professor. At that point, John MacArthur, who was associate dean, could see the internal dynamics of what was going on in the business policy group. So, he plucked me out of the MBA program and put me with the PMP program, which is our program for middle managers where there is only one person teaching each course. So, I went from team teaching with this well-established business policy group, to being on my own, a free agent interacting with people who were running businesses every day. This allowed me to cut loose from the tradition and the biases of the business policy group and it was during this period that I nailed the *Competitive Strategy* book and the body of research coming out of that (Porter, 1974, 1976a, 1979b; Porter & Caves, 1976, 1977, 1978, 1980; Porter et al., 1977; Porter et al., 1975). So, it is interesting to reflect on how ideas develop and I try to encourage the same kind of process among the new generation of academics here at Harvard.

The Role of Economic Analysis in Business School Research

You mentioned earlier how as a postgraduate student, you became exposed to the work of economists working "over the river" at Harvard's Department of Economics. Also, on your appointment to the position of university professor, Kim Clark, the dean of Harvard Business School, paid tribute to you as a "pioneer in using economic principles to solve important problems in competitiveness." How important was your economics training to your later work?

It was fundamental to my work. I see my basic discipline as economics and I see myself as an economist. There are certain economic fundamentals that influence everything else and my principle initial contribution was taking some knowledge of industrial economics and for the first time bringing that perspective into the business strategy field. Before my contributions, thinking on business strategy saw each case as different and emphasized the strengths, weaknesses, opportunities, and threats (SWOT) approach. Here, you look at each particular case and make lists without having any analytical framework or rigor. I wanted to influence thinking on business strategy by establishing a more analytical approach. What was needed was a more complete framework. Here is where the *five forces* and *value chain* framework come in (Porter, 1979a, 1980a, 1980b, 1981, 1985a, 1985b, 1985c, 1998c; Porter, Caves, & Spence, 1980; Porter, Christensen, Andrews, Bower, & Hamermesh, 1986). I wanted to think more systematically about cost and buyer value. But I also wanted to influence the way that economists look at competition and I think that the modern work of economists, taking a game theoretic approach to competition, reflects the need to look at competition in a more granular way. I remember an interesting seminar that took place at the University of Warwick 2 or 3 years after I became a professor. Joe Stiglitz, Partha Dasgupta, Steve Salop, and Mike Spence were all there pushing the discussion in the direction and methodology of economics.[3] But I wanted to speak to practitioners, so gradually over time, my output of economics articles gradually declined and the output of my more practitioner-oriented and book-length pieces rose. So, I have always tried to bridge two fields. I have taken economic theory and concepts and applied them in a productive way in more practical settings. The challenge is that you cannot just patch economics on. When I began looking at industry structure, I studied the work of

Joe Bain and others (Bain, 1968). The structure, conduct, performance framework dominated thinking in the industrial organization literature in those days and the notion of industry structure that was deep rooted in the economics literature was that structure was all about seller concentration and barriers to entry. But when I researched into real cases, it soon became clear that there was much more complexity involved with the nature of rivalry. I felt that this more complex perspective needed to be added. For example, not only are there barriers to entry, there are also barriers to exit (Porter & Caves, 1977, 1978). So, there was a lot of intellectual technology that had to be put in place to make the bridge between the thinking that was going on in business schools and the different approach adopted by economists.

When it came to the issue of competitiveness, what was it that economists were missing in their analysis?

When I came to looking at competitiveness, I found that there was virtually nothing in the economics literature that addressed the micro aspects of competitiveness. I wanted to find a *framework* that would better capture the full complexity of competition. The *Competitive Advantage of Nations* book was a 6-year effort involving research teams in 10 different countries because we had to create massive amounts of primary data (Porter, 1990). My aspiration has always been to create a two-way dialogue in order to bring from economics some analytical rigor into management thinking but also to bring to economics a deeper understanding about the nature and deeper reality of competition. This aspiration has put me in an uncomfortable position because the managerial guys think that you are being too theoretical whereas the economists think that you are being too managerial (laughter). I am stunned that my work has been so widely used in practice although it is a pleasant surprise, and I think there has been a reasonable acceptance of my ideas among economists.

Competition as a Unifying Theme

You have contributed to a wide variety of fields including strategy, competition and competitiveness, industrial economics, innovation, the economic development of nations, regions, and cities, corporate philanthropy, and environmental issues (Porter, 1991a, 1991b, 1991c, 1995, 1996a, 1996b, 2001a, 2001b, 2003a, 2003b; Porter & Kramer 1999; Porter & van der Linde, 1995a, 1995b). Your recent paper, in the Harvard Business Review, is on health care in the U.S. (Porter & Olmsted Teisberg, 2004). Is there a common theme that connects your thinking on each of these issues?

There certainly is. The core of all of my work is to establish a deep and sophisticated understanding of the nature of competition in individual markets. How do firms compete in markets? How do they develop strategies? How do they gain competitive advantage? My early body of work is directly related to these issues and focused on industry structure and competitive strategy. I wanted to create a new theory of the firm built around the idea of a value chain. Rather than seeing the firm as having a production function, I began to think of the firm in terms of a whole series of production functions that were interdependent. So, that initial core of work was really about firm level competition. I didn't even utter the word government or locational factors. Those issues were not even on the radar at that time. Then I got exposed, almost by accident, to the issue of national competitiveness. I was appointed by President Reagan to a commission investigating the competitiveness of the United States. I immediately started to scratch my head because there is no simple translation between the competitiveness of a firm and the competitiveness of an economy. Drawing analogies between the competitiveness of firms and the competitiveness of nations involves a fallacy of composition that causes tremendous confusion (Krugman, 1996).[9] So, when I started mulling this over and over in my mind, it became clear to me that in order to understand the competitiveness of nations, it would be necessary to adopt a bottom-up or microeconomic approach. My work started with the question, How do firms compete? That led me to the "cluster" and "diamond" concepts and a very granular and close-in view of the business environment (Snowdon & Stonehouse, 2006). This approach is complementary to the more traditional top-down approach to economic development, which emphasizes factors such as institutional development, trade liberalization, privatization, and macroeconomic stabilization. This same approach is evident in the recent paper that I coauthored on health care.

What are the main themes in your health care paper?

That paper is all about competition in the U.S. health care system, which has underperformed for many years. The U.S. system is predominantly private and subject to competition relative to other health care systems across the world. But there exists the following paradox. In a well-functioning market where you have effective competition, over time, costs are driven down, product and service quality should rise, the value of output increases, innovation occurs, firms that are inefficient are driven out of the market, and value-adjusted prices fall. But when we look at the U.S. health care system, we see a very different set of circumstances prevailing which should be inconceivable in a normal well-functioning competitive market. Costs are high and rising, and cannot be explained by quality improvements. There are large unexplained variations in performance and standards across geographical areas and the diffusion of best practice is slow. So, in this paper, we ask, What kind of competition have we created in the U.S. health care system that is producing these undesirable outcomes? We argue that health care competition in the U.S. is zero sum because the various participants divide value rather than increase it. The reason that I am able to think about this issue is not because I am an expert in health care but because the underlying problem is related to the nature of competition. In the same way, the work on regions and inner cities is a derivative of the work on nations (Porter, 1994, 1995, 1996b, 1998b, 1998c, 2000b, 2003a; Porter & Ketels, 2003). It turns out that you can take the same theory and apply it to nations, regions, and cities, providing you make some important conceptual adjustments. The work on philanthropy also integrates the work on company strategy and competitiveness because it asks how firms affect society and how society affects firms (Porter & Kramer, 1999). We need to rethink the issue of philanthropy from a corporate point of view, bearing in mind this wider perspective, rather than seeing philanthropy just as some sort of defensive public relations exercise aimed at gaining good will and fending off the anticorporate critics. My research on environmental issues led me to a "Porter hypothesis," which asks whether or not strict environmental regulations damage or enhance competitiveness. After the competitiveness of nations work, I was one of the first to suggest that there was no necessary trade-off between being green and competitive. Because of dynamics and a firm's ability to innovate in response to strict environmental standards, it is possible to eliminate much of the pollution in the first place (Porter & Esty, 1998). So, although my work may seem disparate, there is a coherent theme running through it. As I have matured and become exposed to more and more issues, I have tended to use the competitiveness model in new directions. One of my problems is that each of these new areas has its own literature, journals, and conferences and it is a real challenge trying to keep up with the latest research. But it is very difficult to give up a field of research when your ideas are still the object of attack and criticism (laughter). There is always a temptation to react and make another contribution.

Competitive Strategy

You are widely recognized as one of the pioneers of strategic management as a discipline and your frameworks for thinking about strategy, namely, the five forces model, the value chain, and generic strategy, have been very influential. How well do you think that these ideas have stood the test of time? Are they likely to be as relevant and influential in the 21st century as they have been during the last 25 years?

Well, I certainly think so from the feedback that I receive. I confront practice and practitioners every day and have close contact with virtually all the people in the strategic management consultancy industry. If anything, I think that those frameworks have become more important over time. That is not to say that there have not been other points of view. For example, there have been at least two nominations for a sixth force, one being the influence of government and the other complements. In both cases, I respectfully disagree. While the specifics of competition may change, the fundamentals change very little. Although both candidates for a sixth force are important phenomena, they don't have any clear monotonic relationship with profitability and so they need to be looked at in another way. I see both as being outside the five forces even if their influence feeds in through the five forces. Also, I don't think that there is any other satisfactory competing framework than the value chain for looking at the firm. That is pretty much accepted. The problem with the value chain is not so much the idea itself but the fact that in order to put the idea into practice requires looking at a lot of detail and deciding how to apply the idea to specific situations. Of course, there was an endless debate about generic strategies and the question, Can you be low cost and differentiate at the same time?

Why did you shift the emphasis of your research away from the strategy field during the late 1980s and early 1990s?

Basically, what happened was that I did all this work on strategy, culminating in the edited book, *Competition in Global Industries* (Porter, 1986), published just after *Competitive Advantage*, and I also completed the *Harvard Business Review* paper, "From Competitive Advantage to Corporate Strategy" (Porter, 1987). After that, I was drawn more and more into the competitiveness of nations issue, but at the same time, I was still running the strategy group here at Harvard Business School. So, I decided that in order to give more space to my colleagues working in the area of competitive strategy, I moved away from this field for about 6 or 7 years. During this period, the late 1980s and early 1990s, I devoted my research mainly to the competitiveness of nations. However, throughout this period, the debate continued on my earlier work. So, when I had in place a critical mass of work on national competitiveness, I returned to the strategy work and my "What Is Strategy?" paper was published in the *Harvard Business Review* (Porter, 1996b). That was really an attempt to go to the next level and put as many of these controversial issues to rest as I could. That article has led to another body of work, and some day, hopefully soon, the third book in the trilogy on strategy will be ready for publication. I have a second draft ready at the moment. I also revised the introductions to the new editions of the *Competitive Strategy* and *Competitive Advantage* books that were republished in 1998. Those new introductions also contain, in more detail, my reflections on the question you have asked.

In that 1996 paper, "What Is Strategy?," you make a clear distinction between "operational effectiveness," involving best practice and cost minimization, and "strategy," which involves trade-offs and choices. You go on to argue that in the late 1980s and 1990s, managers became too concerned with improving operational effectiveness and as a result neglected the importance of strategy. What led to this change of direction and why was it a mistake?

I think a number of forces came together. First, the initial foray into strategic planning ended up becoming very bureaucratic. Companies established strategic planning processes and went through various rituals, but after 5 or 6 years of this, a lot of companies began to conclude that this was a waste of time. So, the notion of strategic planning became somewhat discredited. I remember there was one particular issue of *Business Week* that listed ideas that were in and ideas that were out. Strategic planning was out! There seemed to be an element of fatigue setting in on the idea of strategic planning. Second, there was a growing obsession or mania concerning change. This has been around for some time. There is a perception that the world appears to be changing faster and faster and this makes strategic planning more difficult. The third important influence came from Japan. The Japanese demonstrated in a number of industries that they could produce at low cost and yet raise quality. Their success seemed to owe nothing to brilliantly thought-out strategies but was more the result of good execution at the process level, using lean production, total quality management, and supply chain concepts. The Japanese success in the 1980s was largely underpinned by being ahead of rivals in operational effectiveness. So, these three influences led companies to focus much more on the operational rather than the strategic side of business and this tendency still continues. The number one problem that I discover when I work with a company is their failure to make the distinction between operational effectiveness and having a clear strategy. Both are essential for good performance, but companies need to distinguish between them. Operational effectiveness is about performing activities better than your rivals by adopting various practices that increase the efficiency with which inputs are utilized. These practices include total quality management and benchmarking. But operational effectiveness, while necessary for superior performance, is not sufficient. What I have come to understand more recently, and this will be a major theme of my new book, is that we are never actually very clear about what strategy is. That explains the title of that 1996 paper. So many things got bundled under the notion of strategy that it lost all meaning in many organizations, and that remains true.

What are your views on Henry Mintzberg's debunking and critique of the strategic planning process?

Henry Mintzberg takes it even further (e.g., see Mintzberg, 1993, 1994a, 1994b; Mintzberg & Waters, 1985). He argues that you shouldn't think about developing a strategy ex ante. Instead, what you should do is experiment and the strategy will somehow emerge from the learning process. While Mintzberg is an interesting and provocative guy, I completely reject the premise of his argument. But it is always helpful to be challenged, to stretch our thinking, and to make our assumptions clear.

In the 1990s, the resource-competence-based approach to strategic management gained increasing acceptance (Barney, 1991; Grant, 1991). What are your views on this line of thinking and do you see this approach to be in conflict with your own or complementary to it?

At one level, it can be seen as completely complementary in the sense that in my formulation, it is important to look at the firm as a collection of activities and the value chain is a way of organizing those activities. The nature and cost of those activities give rise to competitive advantage. There is a direct line between activities, cost, price, and profitability. Resources and competences are one step back in the chain from this. Presumably, if you have a lot of competence in sales, that will allow you to conduct your sales activity more efficiently. So, the competence formulation would say that when looking at an organization's activities, it is useful to look at the balance sheet of competences and capabilities. That will be an important determinant of how effective the activity will be, which then has a direct link to competitive advantage. The problem that I find with the competence-resource-based school is its nagging imprecision. What is a competence? What is a capability? What makes a firm unique? Why is it that a firm is going to receive superior returns rather than the resource holder who could bargain up the price? I have actually written a little about these questions in my new book. In my own mind, I have come to the conclusion that the problem with the competence-resource approach is that it often comes across as vague and allows companies to make exaggerated claims about their resources and competences without validating those claims with proper analysis. For example, how will a firm become more profitable, through higher price or lower cost or some combination of the two? How can lower cost and/or higher price be achieved? How do resources and competences connect to these questions? I think the resource-based view has imploded in the sense that the more that people have investigated the underlying assumptions, the more they question this approach. Even Jay Barney might say that the only resource is the ability to change. When you get to that level, it loses its operational significance.

One article by Peter McKiernan (1997) argues that the only valid framework for use within the resource-based approach is your value chain framework.

That's interesting (laughter). In the whole field of strategy, we have been in the fragmentation era for the last 10 years. Hopefully sometime soon, we will get into an integration era. There is a broader issue among managers and managerial ideas. There seems to be a pervasive desire to simplify everything down to one variable, whether it be outsourcing or whatever else is fashionable. Unfortunately, for those who seek a simple formula, the subject of strategy is fundamentally integrated. It is about combining a lot of different choices in a consistent way. Strategy involves tradeoffs. Hard choices have to be made when formulating strategy. So, the fundamental lessons of strategy is not to do something that someone else is already doing but to position your company in such a way that it can do something unique and distinctive. That creates an intellectual tension in the field and is a big problem when you are trying to communicate with managers.

Another important debate concerns the importance of the industry vis-à-vis the firm with respect to profitability (Porter & McGahan, 1997, 1999). Have your views on this changed at all?

I believe that industry and firm are two fundamental but different pillars for thinking about strategy. If you take the goal of performance, we see large and enduring differences between and across industries in terms of their average profitability. I think that these differences can be largely explained using a five forces framework. But within given industries, we see large differences between the profitability of individual firms, and I think we need a different analytical framework to explain this. Clearly, there is an interaction effect in that the part of the way that industry structure works is giving rise to opportunities for strategy. For example, if you are in the computer software industry, the reason why software is so profitable is that firms are able to develop focus and differentiation of products. Moreover, firms can protect their unique products through patents. In contrast, if you take the airline industry, one of the main reasons why profitability is much lower here is that the industry structure is such that any choices that a particular airline makes can easily be replicated by other airlines. So, obviously, there is a bridge between an industry structure and the performance of firms in that industry. I have been working for years on the problem of how you partition profit differences across companies into the industry effect and the firm effect. Also, how much does the corporate parent influence the profitability of a firm, and how much is just random? My own gut feeling, given the empirical work that has been done, is that the industry and firm effect are probably equally important. The industry effects are probably not as dramatic, but they tend to be more enduring. It is quite unusual to see an industrial structure go through really fundamental change. You might not think that from reading the work of some authors, but in practice, there are relatively few industries that are totally transformed. The firm effects are often very large but are hard to sustain. So, if you weight the size effect and the stability of the effect, their impact is about the same. Managers should take into account both effects. This is an issue that we are still wrestling with from an academic point of view.

You have argued that in developing a strategy, an organization must start with the right goal, and for firms, the only goal should be "superior profitability." This sounds very much like the kind of advice that Adam Smith or Milton Friedman would offer when discussing how the profit motive, combined with the invisible hand of competitive market forces, leads to a desirable outcome for society as a whole (Friedman, 1962).

Yes, I do share that perspective and it also has implications for discussions of corporate philanthropy. Initially, I was blindsided about what goals companies should set themselves and how they should measure success against those goals. I tended to ignore this issue for the first 15 years of my work, taking it for granted that companies aim to maximize profitability. But the more deeply I examined companies, particularly in the 1990s, the more I began to observe a divergence in corporate practice from the profitability perspective. One alternative influence was the idea that we should measure success by shareholder value, that is, we should measure success by the appreciation of share price over some period of time. This perspective suggested that companies should pay more attention to financial markets and the forces that are affecting share price when companies are making strategic choices. Another influence was an evolution and distortion in the way that profitability is measured, particularly during the Internet era, for example, looking at profit before amortization, or the aggressive use of write-offs and restructuring charges. If a firm can raise its profitability by writing off its assets and then declare victory, then we have a problem because that disconnects profitability from true economic value. This issue of setting the right goals is one of my current major crusades, especially when I go and talk with managers. There is a brewing intellectual argument of the highest order that is going to emerge around this issue with respect to the capital markets and how the capital markets interact with the real economy. For a long time, there has been the argument that capital markets are efficient, they set good prices based on all the available information, and therefore we should take those prices seriously. Now, we find that even finance theory is beginning to recognize the importance of behavioral influences. If that is the case, then what kind of a compass are share prices as a guide to real resource allocation decisions within the firm? The intellectual ferment around the bridge between the real economy and the financial economy is going to be a very important area of research and I am encouraged by this. For the first time, some of my finance theory colleagues are starting to understand that their almost religious belief in capital market efficiency needs to be revised.

More recently, learning- and knowledge-based approaches to strategy have developed. How do you view these contributions to the development of the discipline? Have you any personal contributions to make to their future development?

The basic notion of knowledge creation within organizations is very important work. It's part of the body of learning about how firms can improve and enhance their performance over time. Right now, it would be hard to argue a direct connection between that work and strategy. The core notion of strategy is about being unique, about being different in some way to gain competitive advantage. Therefore, there is no one kind of knowledge creation or knowledge capture that is relevant because it all depends on your strategy. I see this approach as complementary. In my own work, I have not paid much attention to this literature because it is not on my immediate agenda. What I am interested in right now are questions such as, Why are there so many companies that don't seem to have a strategy? Why is it hard to avoid the pressures for best practice improvement and imitation? Because of my deep exposure to business practice, I have lately become very interested in the intersection between organization and strategy. I used to think that most strategy problems were fundamentally about bad analysis. This is typical for young people approaching the issue from a theoretical perspective. What I have come to conclude more and more is that a lot of strategy mistakes are a function of the goals that are set and self-inflicted wounds resulting from incentive structures and other internal organizational issues that stand in the way.

Do you feel that the role of strategy makers has changed in the last 25 years in terms of the issues and environment facing them, and the strategic options available to them?

It is important to say that strategy is now viewed as a central function of leaders, whereas 20 years ago, there would have been a strategic planning vice president and that person would have had a prominent role in strategy. Now, it is the general manager who tends to lead the strategy process rather than a planner. Another difference is that the development of strategy is now not as formalized in terms of detailed procedures. It is more of a process that is specific to each individual company. At one time, companies used to formulate a strategy every year. Now, it's every 2 or 3 years. In terms of the overall environment facing those engaged in strategy, there have been some dramatic changes. The key dimensions of change relate to the whole question of the boundaries of the firm, insourcing, outsourcing, partnering, and networking. These changes have forced a lot of companies to think about the question, What are we unique at? On the other hand, it has caused a lot of companies to lose sight of the fundamentals of competitive advantage. One of my maxims is that beyond a certain point, the more that you outsource, the less likely it will be that you have a competitive advantage. If you can outsource, so can everybody else, so how do you maintain your competitive advantage? Some of the structural changes that have taken place with respect to the *process* of making strategy, who does strategic planning, and how it is done, have been improvements. However, at the *content* level, a lot of what passes as strategy really amounts to improvements in best practice and addressing various weaknesses. So, in terms of content, some of the developments have been disappointing and some of the richness of strategy has been lost. Those who argue that the Internet and the IT revolution have made strategy obsolete are wrong. The Internet provides new forms of competition and in fact allows companies to establish distinctive strategic positions (Porter, 2001b).

In a world of increasingly global activity, what has been the impact on thinking strategically in both large and small companies?

It is hard to provide a simple answer to that. One of the key points that comes immediately to mind is that globalization has generally raised the intensity of competition and rivalry in a large number of industries. Second, the degree of globalization, as I would define it, in terms of true competitive overlap across markets, varies dramatically across industries. So, if you are looking at the housing construction industry, that is very much a localized industry, even though this industry exists in every country in the world. Whereas if you look at consumer electronics, this is very much a globalized industry. This tends to create a lot of confusion. The typical company perspective is to regard themselves as a global business given everything they read about and see in the news. Therefore, a common mistake that I see is that some businesses treat themselves as being global when clearly they are not. As a result, they make bad decisions and choices about their international operations. Globalization in the true sense of the word, where you have an integrated value chain across geographical and political boundaries, complicates the problem of setting strategies because there are many players involved who are sensitive to the nuances of their international operations. It does tend to create a tendency to have an overly broad product line and an overly complex way of doing business. In that sense, globalization makes it more difficult to have clarity of strategy.

How do you see the field of strategy developing over the next 10 years?

Right now, I think the trends are very positive for the following reasons. First, we had the rather disastrous experience in the latter part of the 1990s and the early years of this century when a lot of companies took a lot of decisions that turned out go badly wrong. That related to the popular view that there was a "new economy," that there were new rules of competition, and that size and scale would drive success. If the stock market wanted you to have an Internet division, then you had an Internet division. Then, we had carnage followed by restructuring and downsizing. Most companies are now much more attentive to their profitability, which, as I have already stated, is the essential goal. I see this change among the companies that I work with. There is much more of a sense that profit is the number one goal. With that anchor, your ability to compete is much better. Second, we are seeing companies going back to basics, revisiting notions such as industry structure, and asking themselves, "What is our competitive advantage?" There is a much greater interest and appetite for getting back to what I see as true strategic thinking compared to what I saw 3 or 4 years ago. At that time, everyone seemed to be interested in growth, doing things as fast as they could, and trying to get into everything with no concern for the tradeoffs involved. So, I am now optimistic that we will now have a period where companies cut back on much of the unnecessary diversification that seemed to plague everyone a few years back. But people often forget this lesson and are likely to make the same mistakes again. I am keen to get out there and put in place a better intellectual architecture because I think that companies are more receptive now to going back, rolling up their sleeves, and trying to get a better understanding of the economic fundamentals that drive their success or failure. A few years ago, you could talk strategy but nobody seemed to be listening. That has now changed.

Capitalism and Social Objectives

You have said that when working on The Competitive Advantage of Nations*, you realized that "viewing economic and social issues as separate agendas was wrong and counterproductive." A successful economy depends on having a workforce that is healthy, has incentives to do better, that is employed in a safe environment where they feel valued. As we discussed earlier, like Milton Friedman, you also stress that the key goal for businesses is "profitability." Is there not a potential conflict here between achieving social objectives and, at the same time, advocating the goal of profitability?*

I have become increasingly interested in the interaction between capitalism and society in general. One of the motivations for this work was the popular idea that there is a "third way," the notion that there is some alternative system that combines capitalism and socialism. In the case of the environment, I thought that this idea is fundamentally flawed because it assumes from the outset that there is a trade-off between ecology and the economy. I thought that we needed to revisit that assumption and make sure that the trade-off has not been artificially created by adopting the wrong policies. If environmental standards are properly designed, they will trigger innovations. Suppose you see pollution arising from some productive activity and take the view that there is a trade-off between output and the environment. Taking this approach, you are naturally led to advocate policies that require the polluting firm to install equipment that reduces the pollution. This adds cost to the production process. But, suppose you reject the trade-off view and encourage firms to rethink how they design their production processes so that less effluent is created in the first place. You often find that this approach saves money compared to the alternative. It eliminates, for example, the need to allocate resources to clean up the effluent and the need to handle hazardous materials. So, the policy implications and response will be different depending on which approach you take to environmental concerns. I was very persuaded, after I had done the work for *The Competitive Advantage of Nations*, that the idea that there was an inevitable trade-off problem was unconvincing.

How did you become interested in the question of philanthropy?

After my work on environmental issues, I became interested in the whole area of corporate philanthropy. There was the famous Milton Friedman view that companies should not be giving away their resources to charity. Given my understanding derived from the diamond and clusters framework, it became clear to me that companies are very dependent on many things in their immediate environment in order to operate effectively. So, maybe Friedman was not right on this. The paper on corporate philanthropy is really about identifying those areas in which corporate philanthropic investments actually enhance the competitive context for a company, which creates social benefits, but also helps a company to sustain its competitive advantage over time. So, I am very interested in that nexus, and what the implications are for both public policy and corporate practice. In the field of corporate philanthropy, there are two dominant reasons put forward in favor of participating in philanthropy. First, it is a way of silencing the anticorporate critics. The second reason relates to enhancing your brand name through the careful selection of the charities to whom you donate. Wrap the Olympic flag around your company and this will improve your brand image. But I question both of these reasons as viable approaches to thinking about corporate philanthropy. Those approaches do not fundamentally focus on what are the real social benefits of philanthropic behavior. If it is just about branding, then why not call it marketing since there is no financial benefit from calling it philanthropy. In the U.S., expenditure on marketing is tax deductible. If you are going to call it philanthropy, then it is important to focus on those areas where we can see resultant social benefits that have a meaningful impact on the long-term attractiveness of a location for a companies business. This is an interesting area because I began by investigating philanthropy in terms of company behavior, then jumped over to the competitiveness-location track. Now, I am interested in how those two areas intersect and how research on competitiveness impacts on what companies should do in terms of cluster building, engaging in economic development processes and philanthropic work.

Culture and Economic Performance

You have a recent interesting paper on the impact of culture entitled "Attitudes, Values, Beliefs, and the Microeconomics of Prosperity" (Porter, 2000a). The impact of culture on economic performance and business practices has always provoked great controversy (Temin, 1997). What role does culture play in the determination of economic "progress"?

I think that economic culture is very heavily derived from the incentives and reality that people face. For example, the Japanese are legendary for being very energy efficient. But that behavior has more to do with the pricing signals and strict energy efficiency standards that the Japanese face than it has to do with Japanese culture. In other words, culture reflects context. I am therefore fairy optimistic that culture can be changed because it is not inherent but learned and because culture derives from what has is rewarded in society. Therefore, changing the rules will lead to a change in culture. If you live in a society where rent seeking behavior is rewarded, then you will inevitably see such behavior becoming widespread. But this does not mean that the population of this country are inherently unproductive because of culture (Baumol, 1990, 2002).

Going back to the case of China, it seems clear that their move from being an increasingly productive society to becoming an increasingly innovative society will involve a significant cultural leap.

Yes, but you could say the same thing about Japan. I actually did a video conference yesterday with Beijing University. They are one of the affiliates that teaches my competitiveness course. I was very impressed with the questions that the students raised, so it is clear that China has immense potential.

The Role of "Business Intellectuals"

You are widely recognized as one of the world's leading "business intellectuals" in rankings that include both academics and practitioners. It is also clear that you care about how people think and how they behave. Is influencing thinking the most important role that business intellectuals fulfill?

I firmly believe that my fundamental role is to create ideas and to change the way that people think. My fundamental goal is to change the framework, to change the perspective of the way that people look at a problem. Most things in life are driven by ideas. In my case, I am not writing and addressing my work primarily to the academic community and literature. I see my main role as aiming to change practice, whether it be the practice of government officials setting economic policy or business leaders setting company strategy. This is deeply embedded in me after being here at Harvard Business School for so many years. I always felt that I had to engage in practice.

How does this philosophy work out?

Usually, the way it works is that I will do some thinking and some research, then I will go and try it out in real company or a city, region, or country. It's a kind of iterative process. I try and use any ideas that I develop. That is very important to me. I also want to speak to my fellow academics and shape the way they write and think because communication with other scholars is a very important way of disseminating ideas. But the biggest test of my work always comes when I ask myself the question, Does this idea really connect and resonate when we confront actual practice? Here at Harvard Business School, we are encouraged and rewarded for taking this approach, whereas at many other business schools, the natural focus is on publishing papers primarily for the academic community. Having said all this, I have written many such papers myself and indeed I am back writing articles for economics journals as I did at the start of my career. I have three or four in the pipeline and I love doing that work. Some of my best days are those when I feel that I have completed some work that scholars will value. But in order to achieve that, particularly given the way that I attack problems, I feel that there has to be a connection with actual practice.

Is this vision shared by your colleagues?

It is often very difficult to persuade younger members of the faculty that it is changing the world that is important rather than just communicating with fellow academics with scholarly articles. There is a tremendous pressure in U.S. academia to publish scholarly papers, and usually, it is quite difficult to break away from the existing structure of that literature and develop ideas that are orthogonal to the mainstream. This makes it more difficult to achieve true innovation.

What is your secret for developing innovative ideas?

I think real innovation in ideas requires the bridging of different disciplines. I see my work as integrative. This is what I was trying to do with my early work on strategy and competitiveness. People on the strategy side thought I had landed from Mars, and even economists thought my work was a little Martian (laughter). It is important the universities create the right structure and environment to facilitate innovative thinking. Here at Harvard, we have tried really hard to encourage innovative thinking and we are very proud of what has been achieved during the last 25 years. We have some outstanding scholars here now, such as Robert Merton, whereas before the 1980s, Harvard Business School was associated with the case study approach.

NOTES

1. In Porter's value chain framework, the activities of the organization are divided into primary and support activities. *Primary activities* (inbound logistics, operations, outbound logistics, marketing and sales, and service) are those that directly contribute to the production of the good or services and its provision to the customer. *Support activities* (firm's infrastructure, human resource management, technology development and procurement) are those that aid the primary activities but do not directly add value themselves.

2. We interviewed Professor Porter in his office at the Institute for Strategy and Competitiveness, Harvard Business School, on Thursday, May 27, 2004.

3. Michael Spence and Joseph Stiglitz were awarded the Nobel Prize in Economics in 2001 for "their analyses of markets with asymmetric information."

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