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# THE CEO, STRATEGY, AND SHAREHOLDER VALUE

Making the Choices That Maximize  
Company Performance

PETER KONTES



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Maximize Company Performance*

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*To my sons, Chris and Alex, who tolerate with reasonable grace  
the distracted curiosity and tedious work habits of their father,  
and without whom there could never be enough joy  
to offset the more mundane demands of life.*





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# Preface

THE DECISION TO WRITE this book was stimulated by a conversation with the CEO of one of the world's most admired companies in which he expressed his concern that "we are not very good at strategic planning." This statement struck me as remarkable because his company is the largest and, by nearly any measure, the most successful in its industry. The company has a history of formulating and executing very profitable strategies, with a record of tremendous innovation and bold competitive initiatives, and the company's shareholders have enjoyed spectacular increases in the value of their investment. Thus, even if it were true in a formal sense that the company was "not very good at strategic planning," that did not seem to have been much of a handicap.

The CEO understood this. What he was saying, I think, was that after delivering exceptional results for several decades, the company's embedded beliefs and practices were beginning to show signs of diminishing effectiveness. It was time to begin challenging some of the old precepts, to consider new ways of doing business, and to bring fresh thinking into the organization—all without destroying what was still good and effective from the old paradigm. This would be a tremendous task for any company, and his sense of urgency was no doubt justified. But this was not a task that could be addressed through the strategic planning process, which is at best a useful analytical exercise. The real task was to determine whether and how the company needed to change its approach to *strategic management*—to reexamine how the biggest choices affecting the company's future performance would need to be made.

This book presents a strategic management framework that has been developed through my consulting experience and my teaching at the Yale School of Management. It contains concepts and ideas that are new and some that are well known. My goal is to show how these ideas fit together into a pragmatic framework that can help CEOs lead their companies to significantly higher levels of performance.

A few words on the scope and timing of the book follow.

## SCOPE

As with any book on management, there is a balance to be struck between the breadth and depth with which subjects are treated. The framework I wanted to present here is necessarily broad, focusing much more on the “what” than on the “how” of strategic management. It is about the responsibilities of the CEO and business unit leaders, defining the most important choices they are responsible for making, elaborating on those choices, and laying out general recommendations for addressing them. Some specifics pertaining to measurement and analytical techniques are included in the endnotes and appendices, but I have deliberately kept these to a minimum to avoid digressing into long and, for most readers, mind-numbing explications of various finance, accounting, and strategic methodologies.

The book is written from the perspective of a large, public, multibusiness company, with almost all examples and cases drawn from U.S. and European companies many readers will recognize. This perspective simply reflects my own experience in management consulting, as nearly all of my clients have been companies fitting this profile. However, I believe the principles and practices put forward here are equally valid for smaller companies and private companies, though their implementation might have to be modified to suit a more entrepreneurial environment.

## TIMING

The book was written during 2009 and 2010, tumultuous times for the U.S. and world economies. Many companies have, of necessity, been focusing on their immediate survival and shorter-term liquidity issues. Reducing head counts, rationalizing product portfolios, consolidating production facilities, selling assets, deferring investments, and finding financing have been top priorities. Also during this time, at least in the United States, there has been massive government intervention in many of our most important industries including housing, banking, insurance, health care, automobiles, and energy, resulting in what may be permanent but as yet not fully predictable changes to the economics of these and related sectors.

So this was perhaps not the best time to be writing about long-term strategic management.

One very practical problem in writing a book during this time has been the rapidly changing situation at many companies I had intended to use as case

examples. Some, like the Saturn division of General Motors, and as a practical matter General Motors itself, either ceased to exist or were so completely changed as to no longer serve my original purpose. Others, like the NBC/Universal unit of General Electric, became involved in ownership changes. There were many of these moving targets to contend with, and some no doubt will have changed yet again by the time the book is published and read. I have tried to select cases that will still resonate with readers in the coming years, but recognize that some may fade from relevancy sooner than I hoped.

In early 2010, the question remains as to whether CEOs are ready to turn their energies back to the longer-term strategic choices about which this book has been written, and on that score I am optimistic. As bad as the Great Recession has been, there are already signs that businesses are beginning to stabilize and start growing again. So long as the smothering and wasteful influences of state control can be minimized, the world's economies will resume their upward path of increasing wealth for all people. With that happy future in mind, I hope this book can play a role in improving the strategic management practices at many companies.