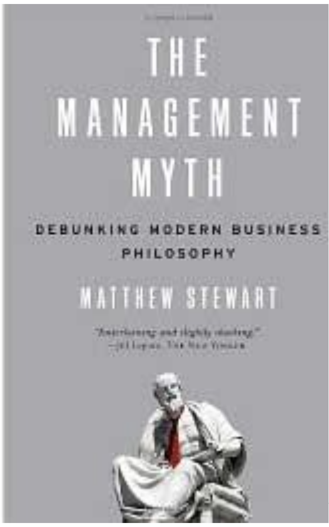
What Killed Michael Porter's Monitor Group? The One Force That Really Matters



What killed the Monitor Group, the consulting firm co-founded by the legendary business guru, Michael Porter? In November 2012, Monitor was unable to pay its bills and was forced to file for bankruptcy protection. Why didn’t the highly paid consultants of Monitor use Porter’s famous five-force analysis to save themselves?

What went wrong?

Was Monitor’s demise something that happened unexpectedly like a bolt from the blue? Well, not exactly. The death spiral has been going on for some time. In 2008, Monitor’s consulting work slowed dramatically during the financial crisis. In 2009, the firm’s partners had to advance $4.5 million to the company and pass on $20 million in bonuses. Then Monitor borrowed a further $51 million from private equity firm, Caltius Capital Management. Beginning in September 2012, the company was unable to pay monthly rent on its Cambridge, Mass., headquarters. In November 2012, Monitor also missed an interest payment to Caltius, putting the notes in default and driving the firm into bankruptcy.

Was it negligence, like the cobbler who forgot to repair his own children’s shoes? Had Monitor tried to implement Porter’s strategy and executed it poorly? Or had Monitor implemented Porter’s strategy well but the strategy didn’t work? If not, why not?

Was it missteps, such as chasing consulting revenue from the likes of the Gaddafi regime in Libya? Or had the world changed and Monitor didn’t adjust? Or was it, as others suggested, that Monitor had priced itself out of the market? Or was Monitor’s bankruptcy, as some apologists claimed, merely a clever way of selling its assets to Deloitte?

Or was it, as Peter Gorski wrote, that “even a blindfolded chimpanzee throwing darts at the Five Porter Forces framework can select a business strategy that performs as well as that prescribed by Dr. Porter and other high-paid strategy consultants?” If so, are other strategy consulting firms also doomed?

The answers to these intriguing questions are strange and troubling. We can find some of them in the work of consulting insider, Matthew Stewart, and his enlightening, but misleadingly-titled, book, *The Management Myth* (Norton, 2009).

In his book, Stewart tells how in 1969, when Michael Porter graduated from Harvard Business School and went across the river to get a PhD in Harvard's Department of Economics, he learned that excess profits were real and persistent in some companies and industries, because of barriers to competition. To the public-spirited economists, the excess profits of these comfortable low-competition situations were a problem to be solved.

Porter saw that what was a problem for the economists was, from a certain business perspective, a solution to be enthusiastically pursued. It was even a silver bullet. An El Dorado of unending above-average profits? That was exactly what executives were looking for—a veritable shortcut to fat city!

Why go through the hassle of actually designing and making better products and services, and offering steadily more value to customers and society, when the firm could simply position its business so that structural barriers ensured endless above-average profits?

Why not call this trick "the discipline of strategy"? Why not announce that a company occupying a position within a sector that is well protected by structural barriers would have a "sustainable competitive advantage"?

Why not proclaim that finding these El Dorados of unending excess profits would follow, as day follows night, by having highly paid strategy analysts doing large amounts of rigorous analysis? Which CEO would *not* want to know how to reliably generate endless excess profits? Why not set up consulting a firm that could satisfy that want?

The Aristotle of business metaphysics

Thus it was that in March/April 1979, Michael Porter published his findings in Harvard Business Review in an article entitled "How Competitive Forces Shape Strategy" and followed it up the next year with a long and unreadable book. The writings started a revolution in the strategy field. Michael Porter became to the new discipline of strategy "what Aristotle was to metaphysics".

Better still, the new-born discipline of strategy was able to present itself as "the discipline that synthesizes all of the other functional sub-disciplines of management into a meaningful whole. It defines the purpose of management and of management education."

In 1983, Porter co-founded his consulting company, the Monitor Group, that over the years generated hundreds of millions of dollars in fees from corporate clients (as well as from clients in the nonprofit sector), and also providing rich livelihoods for other large consulting firms, like McKinsey, Bain and BCG.

"Among academics," writes Joan Magretta in *Understanding Michael Porter*, "he is the most cited scholar in economics and business. At the same time, his ideas are the most widely used in practice by business and government leaders around the world. His frameworks have become the foundation of the strategy field."

No basis in fact or logic

There was just one snag. What was the intellectual basis of this now vast enterprise of locating sustainable competitive advantage? As Stewart notes, it was "lacking any foundation in fact or logic." Except where generated by government regulation, sustainable competitive advantage simply doesn't exist.

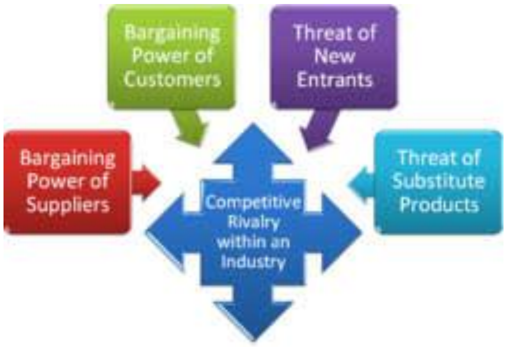
Porter might have pursued sustainable business models. Or he might have pursued ways to achieve above-average profits. But sustainable above-average profits that can be deduced from the structure of the sector? Here we are in the realm of unicorns and phlogiston. Ironically, like the search for the Holy Grail, the fact that the goal is so mysterious and elusive ironically drove executives onward to continue the quest.

Hype, spin, impenetrable prose and abstruse mathematics, along with talk of "rigorous analysis", "tough-minded decisions" and "hard choices" all combined to hide the fact that there was no evidence that sustainable competitive advantage could be created in advance by studying the structure of an industry.

Although Porter's conceptual framework could help explain excess profits in retrospect, it was almost useless in predicting them in prospect. As Stewart points out, "The strategists' theories are 100 percent accurate in hindsight. Yet, when casting their theories into the future, the strategists as a group perform abysmally. Although Porter himself wisely avoids forecasting, those who wish to avail themselves of his framework do not have the luxury of doing so. The point is not that the strategists lack clairvoyance; it's that their theories aren't really theories—they are 'just-so' stories whose only real contribution is to make sense of the past, not to predict the future."

The goal of strategy is to avoid competition?

How did all this happen? Porter began his publishing career in his March-April 1979 Harvard Business Review article, "How Competitive Forces Shape Strategy", with a very strange sentence: "The essence of strategy is coping with competition." Ignoring Peter Drucker's foundational insight of 1973 that the *only* valid purpose of a business is to create a *customer*, Porter focused strategy on how to protect businesses from other business rivals. The goal of strategy, business and business education was to find a safe haven for businesses from the destructive forces of competition.


Bargaining Power of Customers
Threat of New Entrants
Bargaining Power of Suppliers
Competitive Rivalry within an Industry
Threat of Substitute Products

By defining strategy as a matter of defeating the competition, Porter envisaged business as a zero-sum game. As he says in his 1979 HBR article, "The state of competition in an industry depends on five basic forces… The collective strength of these forces determines the ultimate profit potential of an industry." For Porter, the ultimate profit potential of an industry is a finite fixed amount: the only question is who is going to get which share of it.

Sound business is however unlike warfare or sports in that one company's success does not require its rivals to fail. Unlike competition in sports, every company can choose to invent its own game. As Joan Magretta points out, a better analogy than war or sports is the performing arts. There can be many good singers or actors—each outstanding and successful in a distinctive way. Each finds and creates an audience. The more good performers there are, the more audiences grow and the arts flourish.

What's gone wrong here was Porter's initial thought. The purpose of strategy—or business or business education—is not about coping with competition–i.e. a contest in which a winner is selected from among rivals. The purpose of business is to add value for customers and ultimately society. There is a straight line from this conceptual error at the outset of Porter's writing to the debacle of Monitor's bankruptcy. Monitor failed to add value to customers. Eventually customers realized this and stopped paying Monitor for its services. Ergo Monitor went bankrupt.

Making profits without deserving them

In the theoretical landscape that Porter invented, all strategy worthy of the name involves avoiding competition and seeking out above-average profits protected by structural barriers. Strategy is all about figuring out how to secure excess profits without having to make a better product or deliver a better service.

It is a way of making more money than the merits of the product or service would suggest, or what those plain folks uncharitable to the ways of 20th Century business might see as something akin to cheating. However for several decades, many companies were ready to set aside ethical or social concerns and pay large consulting fees trying to find the safe and highly profitable havens that Porter's theory promised.

Although Michael Porter, the human being, appears to be a well-meaning man of high personal integrity, his framework for the discipline of strategy isn't just an epistemological black hole; in its essence, it's antisocial, because it preserves excess profits, and it's bad for business, because it doesn't work. It accomplishes the unlikely feat of goading business leaders to do wrong both to their shareholders and to their fellow human beings.

It is only recently that Porter's writing has begun to include any awareness that creating safe havens for businesses with unending above average profits protected by structural barriers is not good for customers and society, with his advocacy of shared value. This recognition has come, however, without yet jettisoning any of the toxic baggage of sustainable competitive advantage.

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Is 'Shared Value' A New Mental Model For Innovation?

+ Comment now

Harvard Business Review
THE BIG IDEA
How to Fix Capitalism
By MICHAEL PORTER & MARK KRAMER

"Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist."

John Maynard Keynes

In my article earlier this week on What Is Your Mental Model of Innovation? I examined four possible mental models of innovation. One reader suggested a fifth: shared value.

The concept of "shared value" was launched with great fanfare in an article by Michael Porter and Mark Kramer in the January 2011 issue of Harvard Business Review as a way "to fix capitalism" and "to unleash a wave of innovation". In an article in December 2012, I explained Why Shared Value Can't Fix Capitalism. This resulted in an interesting exchange with Mark Kramer available here.

So let's look now at the adjacent issue: can "shared value" fix innovation? Is shared value a different mental model of innovation?

What is shared value?

"Shared value" is defined in the HBR article as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates." Shared capital focuses on "identifying and expanding the connections between societal and economic progress."

As such, I believe that it represents a welcome expansion of the corporate viewpoint beyond narrowly defined boundaries of the firm. As the article suggests, "Our field of vision has simply been too narrow."

Shared value recognizes that "societal needs, not just conventional economic needs, define markets", and so markets can be expanded if they take into account societal needs. Shared value also recognizes that "social harms or weaknesses frequently create internal costs for firms" so by examining societal impacts, a firm's costs can be reduced. Further, firms can by "using new technologies, operating methods, and management approaches–and as a result, increase their productivity and expand their markets." All those are welcome developments.

Three forms of shared value

According to the HBR article, shared value takes three forms:

1. ***Re-conceiving products and markets by seeking profit opportunities in customers who have been neglected***: It means focusing on customers who are not served by the ordinary product features, pricing, or distribution. Thus when GE creates an EKG machine that can be carried in a backpack, powered by a battery, and used in remote villages in India and Africa, they have very carefully designed new products to meet the specific needs of these new customers.
2. ***Redefining productivity in the value chain***: The new thinking reveals that the congruence between societal progress and productivity in the value chain is far greater than traditionally believed. What is good for society can also be good for business. In effect, business has missed profit opportunities that would benefit society. A firm can make money out of the environment by reducing energy costs, or by producing healthy food products. If firms focus on these additional profit opportunities, they will make a lot more money and society will be better off than it otherwise would be**.**
3. ***Enabling local cluster development***: e.g. in agriculture, shared value involves not just paying farmers more for their products (i.e. redistributing the existing economic pie) but rather improving growing techniques and strengthening the local cluster of supporting suppliers and other institutions in order to increase farmer's efficiency, yields product quality and sustainability (growing the economic pie).

What shared value doesn't do

All three forms of "shared value" are certainly welcome developments over a constricted view of a firm in which a firm is solely focused on making money for itself from its traditional customers and products, without regard to society's interests and any environmental or social damage from its activities or any regard for customers whose needs are not being met.

But what 'shared value' doesn't do is abandon any of the conventional financial analysis of evaluating investments, such as ROI or NOPV. The new profit opportunities that are uncovered by looking beyond the narrow boundaries of the firm are still exposed to the same traditional financial analysis that have systematically prevented firms from coping with disruptive innovation.

Shared value is about pursuing profit in new ways and in new areas, but it is still about pursuing profit. It hasn't yet shaken off the mental shackles that prevent traditional management from coping with disruptive innovation. It is still a form of traditional management.

The continued pursuit of profit

Thus if we listen to Clayton Christensen:

"the pursuit of profit [is] the causal mechanism … What we've done in America is to define profitability in terms of percentages. So if you can get the percentage up, it feels like we are more profitable. It causes us to do things to manipulate the percentage. I'll give you a few examples.

- There is a pernicious methodology for calculating the internal rate of return on an investment. It causes you to focus on smaller and smaller wins. Because if you ever use your money for something that doesn't pay off for years, the IRR is so crummy that people who focus on IRR focus their capital on shorter and shorter term wins.
- There's another one called RONA—rate of return on net assets. It causes you to reduce the denominator—assets—…because the fewer the assets, the higher the RONA.

"We measure profitability by these ratios. Why do we do it? The finance people have preached this almost like a gospel to the rest of us is that if you describe profitability by a ratio so that you can compare profitability in different industries. It 'neutralizes' the measures so that you can apply them across sectors to every firm."

As a result of using these financial tools, firms consistently succumb to disruptive innovation. The most frightening thing about disruptive innovation is that death doesn't come as a result of "bad" management. Instead, the disasters have occurred in industry after industry because managers were following the dictates of "good" traditional management: with a focus on pursuing profit, ratios like ROI and the like.

"Shared value" is a subset of traditional management.

In "shared value," we are still a long way from those organizations like Amazon [AMZN] or Salesforce [CRM] that have shifted their bottom line away from the pursuit of profit as the bottom line and where the entire organization is devoted to continuous innovation and finding new ways of delighting customers. These are firms where conventional financial measures such as maximizing shareholder value are subordinated to the new bottom line of delighting customers. In these organizations, profit is a result, not the goal.

As Gary Hamel has written, achieving continuous innovation "lies outside the performance envelope of today's bureaucracy-infused management practices."

In his earlier reply to me, Mark Kramer wrote that "adopting a shared value approach is a long-term journey that represents a massive shift in the thinking and practices of managers at all levels… It represents a profound change in thinking."

That may be so, but to overcome disruptive innovation, an even more profound shift in thinking is needed. "Shared value" as explained in the HBR article doesn't do anything to fundamentally change the traditional profit-pursuing management practices that systematically result in death from *disruptive* innovation. It expands the terrain in which those traditional practices operate. As a result, more *incremental* innovation that helps the financial bottom line may survive. But the management and analytical practices of traditional business that *disruptive* innovation systematically kills remain intact. Under the guise of something new, "shared value" is at heart more of the same.

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No competitive advantage is sustainable

The disastrous consequences of thinking that the purpose of strategy, business and business education is to defeat one's business rivals rather than add value to customers has of course been aggravated by the epic shift in the power of marketplace from the seller to the buyer. In the studies of the oligopolistic firms of the 1950s on which Porter founded his theory, it appeared that structural barriers to competition were widespread, impermeable and more or less permanent.

Over the following half century, the winds of globalization and the Internet blew away most of these barriers, leaving the customers in charge of the marketplace. Except for a few areas, like health and defense where government regulation offers some protection, there are no longer any safe havens for business. National barriers collapsed. Knowledge became a commodity. New technology fueled spectacular innovation. Entry into existing markets was alarmingly easy. New products and new entrants abruptly redefined industries.

The "profit potential of an industry" turned out to be, not a fixed quantity with the only question of determining who would get which share, but rather a highly elastic concept, expanding dramatically at one moment or collapsing abruptly at another, with competitors and innovations coming out of nowhere. As Clayton Christensen demonstrated in industry after industry, disruptive innovation destroyed company after company that believed in its own sustainable competitive advantage.

The only safe place

The business reality of today is that the only safe place against the raging innovation is to join it. Instead of seeing business—and strategy and business education—as a matter of figuring out how to defeat one's known rivals and protect oneself against competition through structural barriers, if a business is to survive, it must aim to add value to customers through continuous innovation and finding new ways of delighting its customers. Experimentation and innovation become an integral part of everything the organization does.

Firms like Apple [AAPL], Amazon [AMZN], Salesforce [CRM], Costco [COST], Whole Foods [WFM] and Zara [BMAD:ITX] are examples of prominent firms pursuing this approach. They have shifted the concept of the bottom line and the very purpose of the firm so that the whole organization focuses on delivering steadily more value to customers through innovation. Thus experimentation and innovation become an integral part of everything the company does. Companies with this mental model have shown a consistent ability to innovate and to disrupt their own businesses with innovation.

Thus what is striking about continuous innovation is that the approach is not only more innovative: it tends to make more money. The latter point is important to keep in mind. For all the hype about innovation, unless it ends up making more money for the firm, ultimately it isn't likely to flourish. Making money isn't the goal, but the result has to be there for sustainability.

Is continuous innovation sustainable? Firms like those I mentioned have been at it for one or more decades with extraordinary results. What's interesting is that they are consistently disrupting others, rather than being disrupted themselves. Will they survive for 50 or 100 years? Time will tell. What we do see is that they are doing a lot better than firms pursuing shareholder value or focusing merely on defeating rivals.

Monitor had no place in the emerging world

In this world, Monitor's value proposition of a supposed sustainable competitive advantage achieved by studying the numbers and the existing structure of the industry became increasingly implausible and irrelevant. Its consultants were not people with deep experience in understanding what customers might want or what is involved in actually making things or delivering services in particular industries or how to innovate and create new value.

They were part-time academics who promised to find business solutions just from studying the numbers. They had no idea how to build cars or make mobile phones or generate great software. They were numbers men looking for financial solutions to problems that required real-world answers.

The important question is not: why did Monitor go bankrupt? Rather, it is: how were they able to keep going with such an illusory product for so long? The answer is that Porter's claim of sustainable competitive advantage, based on industry structure and the numbers, had massive psychological attractions for top management.

The strategist CEO as a kind of warrior god

Porter's theory thus played to the image of the CEO as a kind of superior being. As Stewart notes, "For all the strategy pioneers, strategy achieves its most perfect embodiment in the person at the top of management: the CEO. Embedded in strategic planning are the assumptions, first, that strategy is a decision-making sport involving the selection of markets and products; second, that the decisions are responsible for all of the value creation of a firm (or at least the "excess profits," in Porter's model); and, third, that the decider is the CEO. Strategy, says Porter, speaking for all the strategists, is thus 'the ultimate act of choice.' 'The chief strategist of an organization has to be the leader— the CEO."

Strategy leads to "the division of the world of management into two classes: "top management" and "middle management." Top management takes responsibility for deciding on the mix of businesses a corporation ought to pursue and for judging the performance of business unit managers. Middle management is merely responsible for the execution of activities within specific lines of business.

The concept of strategy as it emerges defines the function of top management and distinguishes it from that of its social inferiors. That which is done at the top of an organizational structure is strategic management. Everything else is the menial task of operational management.

Two classes of management

Practitioners of strategy insist on this distinction between strategic management and lower-order operational management. Strategic (i.e. top) management is a complex, reflective, and cerebral activity that involves interpreting multidimensional matrices. Operational management, by contrast, requires merely the mechanical replication of market practices in order to match market returns. It is a form of action, suitable for capable but perhaps less intelligent types.

This picture of CEO-superdeciders helps justify their huge compensation and the congratulatory press coverage, and yet again, it also has little foundation in fact or logic. The strategy business thus lasted so long in part because it supports and advances the pretensions of the C-suite.

Porter's strategy theory is to CEOs what ancient religions were to tribal chieftains. The ceremonies are ultimately about the divine right of the rulers to rule—a kind of covert form of political theory. Stewart cites Brian Quinn that it is "like a ritual rain dance. It has no effect on the weather that follows, but those who engage in it think that it does."

The future of strategy consulting

Does strategy consulting have a future? When rightly conceived as the art of thinking through how companies can add value to customers–and ultimately society–through continuous innovation, strategy consulting has a bright future. The market is vast because most large firms are still 20th Century hierarchical bureaucracies that are focused on "the dumbest idea in the world": shareholder value. They are very weak at innovation.

Consultancies that can guide large firms to move into the world of continuous innovation in the 21st Century have a bright future. To succeed in this field, however, consultants need to know something both about innovation and about the sectors in which they operate and the customers who populate them. Merely rejiggering the financials or flattering the CEO as the master strategist is not going to get the job done. Managers and consultants are going to have to get their hands dirty understanding what happens on the front lines where work gets done and where customers experience the firm’s products and services. To prosper, everyone has to become both more creative and more down-to-earth.

What has no future is strategy conceived as defeating rivals by finding a sustainable comparative advantage simply through studying the structure of the industry and juggling the numbers.

Since Monitor had no other arrow in its strategy quiver, it was doomed from the outset. Its embarrassing debacle marked the beginning of the end of the era of business metaphysics and the exposure of the most over-valued idea on the planet: sustainable competitive advantage.

Monitor was killed by the dominant force: the customer

Eventually even attractive illusions come to an end: people see through them. Ceremonial rain dances come to be viewed for what they are. The financial crisis of 2008 was a wake-up call that reminded even entrenched firms how vulnerable they were. Today, large firms have little interest in paying large fees to strategists to find sustainable competitive advantage just from studying the numbers.

Monitor eventually learned the hardest lesson of all: strategy, business and business education are not about pursuing the chimera of sustainable competitive advantage.

Monitor wasn’t killed by any of the five forces of competitive rivalry. Ultimately what killed Monitor was the fact that its customers were no longer willing to buy what Monitor was selling. Monitor was crushed by the single dominant force in today’s marketplace: the customer.

Read the discussion that flowed from this article:

Even Monitor didn’t believe in Five-Forces analysis!

And read also:

Is shared value a new mental model for innovation?

Is delighting customers profitable?

Why Clayton Christensen worries about Apple

The dumbest idea in the world: maximizing shareholder value

The five big surprises of radical management

Even Monitor Didn't Believe In Five-Forces Analysis!

Steve Denning, *Contributor*

Among all the thousands of comments, tweets and other social media brouhaha on my article, "What Killed Michael Porter's Monitor Group?" we also learned something truly astonishing: **the Monitor Group itself didn't believe in the Five Forces analysis and hadn't used it for years.**

If only we had known! If only Monitor had told the world that! What a relief that would have been to all the MBA students who continue to be tortured by it! And all the consulting firms that continue to use the Five Forces thinking in recruitment and consulting cases! And the business journals like HBR that continue to promulgate it as embodying some kind of timeless truth!

Maybe Monitor should have marketed itself as the anti-Porter consulting firm? Maybe that could have saved it? It would certainly have been a differentiator.

Unfortunately the recognition of the lack of utility of the Five Force analysis has not yet reached business schools, many of which continue to teach it as the unquestionable gospel. Moreover, if one looks as the thousands of business cases that consulting firms use to recruit new staff from business schools, one can also observe precisely the same mindset: it is the Five Forces mindset that determines "the right answer" to the problem at hand. Harvard Business Review republished Porter's 1979 article in 2008 with only slight modifications, with the insinuation that it reflected eternal wisdom.

Hence my article responds to the urgent need to reexamine the worth of this kind of thinking, which remains pervasive, even if its provenance in Michael Porter's work is not always explicitly acknowledged.

Too much faith in gurus?

The massive outpouring in response to my article suggests that I had managed to articulate concerns that were deeply felt.

Edna Pasher wrote: "Maybe in the Monitor Group the team followed Porter with too much respect for the leader, and this did not allow for new ideas and tools to emerge… Porter has been a Guru for a long time and maybe this success blinded him and his team from openness to different emerging perspectives. This is often the danger with success – that we might lose humility and willingness to constantly check our beliefs and assumptions."

It is good to remind ourselves of Taiichi Ohno's dictum that even a wise man is wrong 30 percent of the time. And 50 percent of the things that we normal people firmly believe are just plain dead wrong. The trouble is figuring out: which of the things that I now firmly believe is false?

I believe that although the main thrust of my article that Monitor was killed by the customer, not the Five Forces, is correct, the article could be taken to imply that Monitor's main or only business was strategy. In this respect, it was incorrect. Readers have pointed out that in addition to helping Ghadafi's son with background research for his PhD thesis as part of a multi-million dollar deal to establish Ghadafi himself as a genuine intellectual, and promising on its website to generate the chimera of "sustainable competitive advantage", Monitor also had interesting things going on in innovation (Doblin) and scenario planning (GBN).

As Edna Pasher writes: "We need to co-create the future of organizations with humility. This leads to another insight emerging in this conversation – the age of management gurus seems to be over. Porter has been a Guru and many have followed him blindly and have not dared to ask what needs to change in his well branded toolbox."

Nevertheless, a brilliant PR achievement?

Charles van der Hoog wrote: "The demise of Porter Group and your article came as a welcome relief to me. It confirms my own experience with them decades ago. The two mainstay books were, frankly, wanting in depth, in my view, (I used to be an econometrist) and not being based in any real experience in markets like I was having then. But, as literally everybody considered them the highest God given gospel, I had to study them and try to make sense of it. I have also known the company in Amsterdam itself from very close quarters, even getting inside info. My conclusion was, then, that they were confidence tricksters. And, now, events have corroborated that. However, the history and runaway success of Porter and his group form a very interesting study as a Public Relations and self-promotion case. It was brilliantly done, in every aspect. I have the deepest respect for that. Obviously, there is much to be learned from that."

I agree that in one sense Monitor was a brilliant PR accomplishment–making so much money from something that "lacked any basis in fact or logic." In an ethical sense, that is hardly something to be emulated: it has not been good for society.

Nor do I think that such a PR triumph *can* be emulated. In 1979, Michael Porter just happened to be the right person with the right message at the right time. Pursuit of shareholder value ("the dumbest idea in the world") was just getting going with a vengeance. The C-suite was starting to realize that they could cash in, big time. Along comes Michael Porter with a rain dance that justifies their cashing in. Porter arrived at just the right time. Hopefully that era is now coming to an end. People are starting to see the rain dance for what it is.

Too much emphasis on innovation?

Kevin Horne also wished that I "hadn't used the word "innovation" so generally. Either it or 'Big Data' is going to win the award for 'Most Overwrought Meme of 2012.' It leads everyone to believe they too 'can just do it.' And it has already led to dozens too many 'strategy consultants hanging out 'Innovate or Die' shingles of their own…"

I agree that there is a risk of over-use of the term, "innovation". I have in other articles suggested alternative terminologies, such as "continuously providing additional value to customers or delivering it sooner" or "delighting customers" or "more perfectly performing the job that customers want done" (Christensen). Other writers have suggested still other terms, such as "enchantment" (Guy Kawasaki), "joy" (Chip Conley) and "raving fans" (Ken Blanchard).

But let's not get hung up on words. What is more important than the particular term employed is understanding the substance: that there has been an epic shift in the balance of power in the marketplace and that the customer is now the boss. Firms will only survive if they respond to customers' wants and needs in a world in which customers have choices and accurate information as to what those choices are.

It was Monitor's failure to do this that led to their bankruptcy. In some lines of business, (GBN, Doblin) Monitor appears to have been successful, but overall, it didn't generate enough customer delight to fund its various activities. We can discuss the various things that Monitor might have done differently to avoid the debacle. Deploying the Five Forces analysis isn't one of them.

Strategy a zero-sum game?

Paul Ward asked: "Nowhere do I see that Porter views a market as a fixed size and that the game is zero-sum. Reference?"

Porter wrote in his landmark HBR article in 1979, "The state of competition in an industry depends on five basic forces… The collective strength of these forces determines the ultimate profit potential of an industry." The article goes on to explain how to get a bigger slice of this profit potential by positioning the firm in part of the market where there is little competition.

One can see the consequences of this type of thinking in thousands of business cases taught in business school, which generally begin by requiring the student to establish the size of the market and the resultant "ultimate profit potential" of the relevant industry as part of the basic framework for solving the problem. The customer is usually mentioned almost as an afterthought. Details on what the customer might really want are rarely given. Discussion of how shifts in the interaction with customers might have an impact on the size of the market is not encouraged. Changing the interaction with the customer and hence the size of the market are thus rarely part of "the right answer" which is generally about getting a bigger slice of the given profit potential of the existing market, often but not always as compared to rivals.

While not all of this blinkered thinking can be blamed on Michael Porter, as the blame must be shared with the case writers, Porter's writings have certainly been influential. As Joan Magretta says that "Porter's ideas are the most widely used in practice by business and government leaders around the world. His frameworks have become the foundation of the strategy field."

Strategies that people can understand?

Richard Yeager wrote: "As we all know, there are no secret or perfect strategies and the definition of a 'good one' changes over time. Therefore, it seems that it is the organization's on-going ability to create shared clarity across and throughout the entire organizations about its formula for success that will ultimately determine the winners and losers. In other words, an average formula for success that is clearly understood and is able to be 'translated' by everyone to what they do and how they do it has a high probability of being well executed and will beat a great strategy that is unclear to the organization every time."

While I am all for clarity, I am not sure that there are many "average formulae for success" these days. As Tom Friedman pithily argues in his interesting book, That Used to Be Us, "average is over".

Monitor's demise wasn't caused by the Five Forces?

Marissa Campise wrote: "The reason monitor failed is unrelated to Porter's Five Forces."

Precisely. The Five Forces were as usual irrelevant. What killed Monitor had nothing to do with competition among rivals, or risk of new entrants or threat of substitute products or bargaining power of customers or bargaining power of customers. What killed Monitor was the fact that customers were not willing to pay sufficient for what Monitor was offering.

Monitor's main problem was operations?

A number readers wrote that Monitor was killed by poor operations. For instance: "No matter how good the strategy, a business that doesn't operate efficiently and has costs that exceed its revenue is going to die, and that's what happened."

While it is obvious that there were operational problems (e.g. do PR for the Ghadafi regime for millions), the implication of this tack is worrying: as usual, despite the debacle, the strategists in the C-suite are blameless. It's those poor benighted lower-level munchkins—the operations managers—who should be held accountable. The more cerebral, talented strategic thinkers in the C-suite who don't dirty their hands with operational matters such as making better products and services can now move on to their next triumph. Sadly, in this case, without an outsized bonus, unless of course they managed to extract it before the current troubles.

Mike Sandman agreed: “Perhaps the root of the problem was that the cerebral, talented strategic thinkers…didn't dirty their hands with operational matters.” He points out: “When a consulting firm the size of Monitor gets itself into a $51 million cash hole, it has fatal issues, both operational and strategic.”

Knowledge of competitors is important

Divya Dweep Kaur wrote: “Though I agree that dependency on one single product and lack of innovation will ultimately destroy a company. But, I don't feel that Porter's five forces is a redundant theory. in order to succeed, one important criteria is the knowledge of competitors. Knowing what they are up to, incorporating the best practices and making a strong defense. There is a lot one can learn from its competitors, the strategy lies behind the correct use of this information…”

I agree that knowledge of competitors is an important component of strategy. What is wrong is to turn it into the whole ballgame.

Thus Albi Beqiraj also wrote that the Five Forces framework was useful if used as one option among others.

Yes, it's tempting to say, well, there are many frameworks and they all have their merit, let's use them all. We might decide to do that, but if so, we should keep in mind that Porter's thinking rests on a foundation of fundamental conceptual errors. The essence of strategy, business and business education is not coping with competition. The purpose of a firm is not to make money for its shareholders. There are grains of truth in Porter's work, but the conceptual foundations on which it rests are rotten. So we should extract the grains of truth with care.

“The Five Forces helped me”

Some readers complained that in criticizing the Five Forces analysis I was trashing something that they had found useful. I am glad to hear that some people have found help from Porter's five-forces model.

It is however a bit like saying that we had success for over a thousand years in predicting the movements of the planets with the geocentric model of the universe, so why should we accept that the earth revolves around the sun?

There are ways to reinterpret Porter's theories, so that they can appear to make sense, as Joan Magretta does in her interesting book, Understanding Michael Porterr. However redefining the true meaning of “competition” as “adding value to customers” is to flout the standard definition of “competition” in any dictionary. It is also not exactly what Porter actually wrote or what is taught in his name in business schools around the world and apparently practiced by leading consulting firms.

Book Review on Understanding Michael Porter:

7 of 7 people found the following review helpful

4.0 out of 5 stars **Good summary of Porter's ideas on (mostly) business-unit strategy** February 14, 2012
By Jackal TOP 1000 REVIEWER

Michael Porter's ideas on strategic management are important. However his books Competitive Strategy: Techniques for Analyzing Industries and Competitors and Competitive Advantage: Creating and Sustaining Superior Performance are very dense (in addition to being 30 years old).

This much shorter book is written in a journalistic style and conveys Porter's basic ideas relating to business-unit strategy. It can definitely serve as a first encounter with Porter's thinking, but I would really urge readers interested in the topic to read Porter's two first books as well. Porter's thinking is largely distorted and simplified in most textbooks on strategic management, so they should be avoided. Even though Porter's books are old they are very readable and relevant. Naturally, they are not perfect. They do not talk enough about service industries, but that was not really America in the 70s. The current book has the same deficiency; not that much about service industries.

If you have some (or even a lot of) familiarity with Porter I would still recommend this book. It sometimes adds contextual information, small updates on Porter's thinking, and useful metaphors. For those of you who already have a fair amount of experience (important!) I would also recommend Good Strategy Bad Strategy: The Difference and Why It Matters.

On the negative side, this book treats Porter like God. Sometimes it would have been nice with a more critical perspective. I am not talking of the mediocre academic who blurts out some standard canned critique of Porter. Since the author has access to Porter, more penetrating questions should have been asked. For instance, what is so good with the activity map when you already have a value chain? Personally, I find the activity map totally useless. Or for instance, when core competences are described in such a narrow fashion so they become a straw man. More on the negative side is that most examples are straight out of current HBS case studies (eg Ikea, Zara). You might find this positive or you might find the author a bit lazy in using the same examples.

There are much simpler and more direct and more fruitful ways of understanding what is going on, without such intellectual contortions, particularly because the world has changed so much since Porter started putting forward this theories. In astronomy, we decided to move on. I believe that it is time to do so in business strategy.

Balance of power shift isn't universal

Brad Focht wondered whether "the balance has shifted to seller or buyer specifically – this is more industry specific and cannot be generalized."

The following phenomena affecting the shift in power from seller to buyer are universally applicable: (1) globalization (2) the internet, giving all customers immediate access to generally reliable information as to what is available and its quality and (2) social media that enables customers to communicate with each other.

The impact of these phenomena is happening at different speeds in different industries. But all industries will receive the impact in due course.

At the same time, the internet and social media are huge opportunities for businesses to connect and interact with customers. Inward-looking firms focused on tweaking their own value chain are going to have a tough time of it.

Building moats vs maintaining moats

Tren Griffen made the interesting point "You confuse the ability to identify a moat or the ability to understand the importance of a moat, with the ability to actually create a moat or maintain one. These skills are very different things. People like Ray Kroc and not Michael Porter create moats. To be an investor or professor you need not be able to create or maintain a moat. People like Warren Buffett and Charlie Munger buy barriers. Building them is tough. That an academic consultant would be unable to create or maintain a business with a sustainable competitive or manage that business is not surprising at all."

The distinction between building moats and maintaining moats is a useful one. "People like Ray Kroc and not Michael Porter create moats." Exactly. Charlie Munger and Warren Buffett understand that they are unable to create moats: so they buy them, ready-made and then seek to maintain them. The implication that durable moats can be inferred by studying the structure of the industry has turned out to be false. It may have had some plausibility in the 1950s when business was dominated by large oligopolies. It is certainly not true now that power has shifted from the seller to the buyer.

More balanced accounts of Monitor's demise?

Dee Shukla suggested that readers should seek out more balanced account of Monitor's demise, such as Nov 14 issue of The Economist.

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Economist Article on next page……….

Monitor's end

Nov 14th 2012, 10:33 by L.G. | NEW YORK

Getty Images

"MONITOR'S clients, and those seeking to advance business knowledge, consistently recognize the firm's rigorous analysis and advice and the results they produce." Though this sounds like marketing fluff, it comes from a bankruptcy filing. While it is true that Monitor, a consulting firm based in Cambridge, Massachusetts, once had a sparkling reputation, on November 7th, it declared it can no longer pay the bills and sought bankruptcy protection. Failing a higher bid at auction, Monitor will be bought by Deloitte, an enormous professional-services firm, for just $116m, a figure subject to future reductions as Monitor sorts out its finances.

Monitor had seen bright days. It was founded by six partners with close ties to Harvard in 1983. One of them, Michael Porter, is one of few who can legitimately claim the title of a legendary business guru (pictured). Over the years, Monitor was able to compete with the likes of much bigger McKinsey, the Boston Consulting Group and Bain, for top graduates, whom it offered an almost academic image and cachet.

But the recession was hard on the firm. As the economy nosedived after 2008, few companies shelled out for pure strategy consulting. Meanwhile, the top-tier firms had long since begun to push into operations as well as strategy, and so went on being hired as companies sought help getting lean. That, plus their sheer size, helped the top-tier consultants ride out the storm. Monitor was not so lucky; pure advisory consulting took years to recover, as economic uncertainty kept companies sitting on their plans (and cash) for taking over the world. (An unforced error did not help: Monitor, which had gotten into government consulting, took millions in fees from Muammar Qaddafi's Libya, to polish the country's image. The engagement ended up damaging Monitor's own.)

Tom Rodenhauser of Kennedy Information points to other firms he considers vulnerable in Monitor's middle-sized tier. AT Kearney and Booz & Company, for example, considered merging several years ago, a union that many observers thought was born of weakness. Small specialist firms have loyal clients and fewer costs. Mid-tier firms try to maintain a global footprint of offices and top-shelf brands, but cannot deliver 50 experienced consultants on short notice. Mr Rodenhauser expects more of them to be snapped up by the likes of Deloitte or PricewaterhouseCoopers, its rival for the title of the world's biggest professional-service firm.

Many of Monitor's 300-odd inactive partners are left holding an empty bag. Consultants buy into a firm with their own money when they become partners. Normally, when they leave active partnership, the firms buy back those stakes. For the past few years, though, Monitor generated too little free cash to buy these old partners out. With Monitors' assets and liabilities now roughly equal, as revealed in its bankruptcy filing, those old partners' equity stakes are now worthless.

These old partners describe a business that had lost focus. Monitor was brilliant at extending its brand to executive education, nonprofit consulting, government work and the like. But each of these units, comprising an unusually complex structure for a consulting firm of its size, carried its own costs. The whole became unwieldy and unaffordable. Add that to the outside forces hitting the firm, and it was only a matter of time.

What will the union of Deloitte and Monitor look like? Monitor's staff of 100 partners and just 1,200 total employees will be a drop in Deloitte's ocean of 200,000. Many of Monitor's strategy brain-boxes will not stay at a firm best known for accounting. But those whom Deloitte can convince to stay will strengthen Deloitte's claim that it can compete with the McKinsey-tier firms in consulting. For good or for ill, multidisciplinary behemoths like Deloitte seem to be the future of professional services.

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I agree that The Economist piece is a lively read, but in the end, are we any wiser as to why Monitor died or why it did so little in the last five years to avert the obvious impending debacle? The lack of a clear diagnosis is partly because the author appears to share the very assumptions that led to Monitor's demise. To figure out what went wrong, we need to reexamine fundamental assumptions.

To work, strategists!