# Strategy vs. Humanity? American Corporations May Be Facing a Momentous Paradigm Shift in the Age of Diversity, Equity and Inclusion

Mark Rennella
mark.rennella@gmail.com

The business discipline of strategy was born at Harvard Business School in the America of the 1970s, an era of disorienting economic fluctuations and sometimes naked vulnerability that was punctuated by disturbing events like the OPEC oil embargoes and the Iran hostage crisis. By the end of the decade, strategy claimed the imaginations of business executives and relegated its predecessor, marketing, to a distant second place. Marketing, whose focus was serving customer needs to grow demand, was neither tough enough nor quick enough to deal with the sudden appearance of economic and cultural monsters invading American life.[1]

Ultimately, of course, corporations had to serve customer needs one way or another, but business leaders now were much more focused on developing ways *to win* — and success ("winning") meant beating the competition, first and foremost. According to our most influential theorist on the subject, Michael Porter, firms employ strategy to "win" through exclusivity.[2]

---

[1] While strategy displaced marketing as the most influential discipline in business schools in the 1970s, marketing is not really a direct ancestor of strategy. As Michael Porter explains in an interview of 2002, there were three major influences on the development of his version of strategy. Porter brought together the strengths of the two disciplines of industrial organization and business policy (which was the closest thing to today's notion of strategy) to help develop his ideas on "five forces" and strategy. He did this because the most popular procedure to determine the strategy of a firm used by scholars of business policy in the 1970s took months or sometimes more than a year to complete. This procedure was known as SWOT ("Strengths, Weaknesses, Opportunities, and Threats"). Porter explains why he believed the SWOT methodology was inadequate: "We needed a more disciplined way to think about strategy. We needed a more rigorous approach, a systematic way to look at industries and where firms stood in their industries. The prevailing SWOT model of strengths/weaknesses/opportunities/threats was based on the idea that every case is different and that the relevant considerations are company-specific. As I was struggling to teach using the SWOT framework at HBS, I set out to add more rigor." See Nicholas Argyres and Anita M. McGahan, "An interview with Michael Porter," *Academy of Management Perspectives* 16.2 (2002): 43-52.

[2] In this article, the word "strategy," unless otherwise specified, refers to Michael Porter's description of strategy. Although there are many uses of the word "strategy" in business education, I believe it is safe to assert that Michael Porter's work on strategy has been, by far, the most influential construction of strategy in the academy as well as in business. There are, of course, other uses of the word. Some interpret it as a very general word akin to the meaning of "planning." Others have created contending versions, like "Blue Ocean Strategy." But it is Porter's work on strategy that has shaped business practices of industrialized nations in the past 40 years. Porter's version of strategy is, in general, "strategy," which is why I'm not specifying Porter's authorship repeatedly in this piece.

In other words, strategy's main focus is to enable companies "to achieve sustainable competitive advantage by carrying out unique activities in unique ways."[3]

The growth of the persuasiveness of strategy as a way to run business had to be due, at least in part, to the profound shocks felt in the American economy during the 1970s (such as the decline of the US auto industry and the rise of "stagflation"), along with the increasing fears and frustrations American consumers felt because of them. Imagine growing up as a white teenage boy in the 1960s enamored by the Beach Boys' songs about fast cars only to find out that your brand new 1973 Pontiac GTO — which was outta sight, by the way — couldn't move because foreign countries had cut off their petroleum supplies to your local gas station? In many ways, this was a metaphor for the fortunes of the American economy writ large (and encapsulated by another catchy and unintentionally prophetic tune by the Beach Boys, "No-Go Showboat").

Businesses became desperate, too. Many no longer believed in the potential strength of the American economy as a whole. In this slowly-sinking economic ship, executives often felt that they had "to kill or be killed" to survive as long as they could. To extend the metaphor, companies had to delay that slow sinking by throwing competitors overboard into the leaky lifeboats they had managed to gather in an attempt to keep their own heads above water.

And because the discipline of strategy (which has a history, by the way: a beginning, a middle, and an eventual end) remains the dominant paradigm in American business today, it has also brought along with it (like a hidden stowaway in a time machine) the fear and ruthlessness of its early progenitors. Certainly, strategy was only part of a general cultural trend and unspoken conservative intellectual consensus that focused on "bulking up" corporations at all costs (or, at least, at the expense of the general population). Another important ally to this trend included Ronald Reagan's subsequent attack on government's efforts to keep the economic playing field as level as possible, and thus increasing economic opportunities for more ordinary Americans.

One of the most salient artifacts of this move from marketing to strategy — from growing customer demand to winning in the marketplace — was an article published in 1981 by Philip Kotler, a leading academic in the field of marketing who would remain influential well into the twenty-first century.

---

[3] This is the official summary of Michael Porter's seminal article, "What is Strategy?" as it appears on its product page on the Harvard Business Education website. See, "What is Strategy?" *Higher Business Education Website*, https://hbsp.harvard.edu/product/96608-PDF-ENG?itemFindingMethod=Search+AutoSuggest, accessed October 2021. The citation for the original article is Michael Porter, "What is strategy?" *Harvard Business Review* 74.6 (1996): 61-78. While that article was published in 1996, Porter's first important teaching and work on strategy dates back to the late 1970s. See "Michael Porter: Career Timeline," *Institute for Strategy and Competitiveness, Harvard Business School*, https://www.isc.hbs.edu/about-michael-porter/biography/Pages/career-timeline.aspx, accessed October, 2021.

Kotler was a shrewd reader of the economic and cultural trends in the late 1970s and did his best to re-cast marketing as the able servant of strategy in this time of crisis. Note that this article appeared in the inaugural year of the *Journal of Business Strategy*:

> As the 1980s get under way, numerous signs point to an era of slower economic growth. Scarce resources, proliferation of technological resources across nations [i.e., new sources of competition], sharply rising costs of energy, economic slowdowns, trade barriers, political tensions, leveling off of population growth in the developed world, and other factors suggest that company prospects for prosperity and growth will become tougher in the years ahead.
>
> Companies will have to pursue their profitability at the expense of other companies, through market share gains rather than market growth gains. The scene will move from normal marketing competition to marketing warfare. Successful marketing will require devising competition-centered strategies, not just customer-centered and distribution-centered strategies.[4]

To re-phrase Kotler's point, the goal of strategy is to sustain competitive advantage for as long as possible for the purposes of growth maintained through subjugation (in one form or another) of the competition. This is done not by being cooperative or generous in the marketplace. It's done by beating the competition that must relinquish after being exposed to the pressures of another company's competitive advantage. This is profoundly un-inclusive.

* * * * * *

Fast-forward to 2021, and we can see that the cultural influences that helped to create business strategy in the 1970s have not changed dramatically, which means that strategy has not been pressured to change, either; nevertheless, strategy is currently under considerable stress at the margins that could (and should) eventually create significant challenges for its future as the reigning business paradigm.

<u>What hasn't changed</u> is that the fundamental impetus for the creation of strategy—*fear*—still looms large in American culture. To be specific, Americans from the 1970s and the 2020s still generally worry about these major issues: looming threats to national pride and identity; either losing their jobs or not being able to find one; a declining standard of living; and, most alarming for Americans, losing their freedom to choose and their autonomy.

---

[4] Philip Kotler and Ravi Singh, "Marketing Warfare in the 1980s," *The Journal of Business Strategy* 1.3 (1981): 30.

Unfortunately, Americans' answer to the general problem of fear in the last fifty years (and this differs from culture to culture) has often been to accuse one another of betraying core values (political or moral) instead of recognizing that a (if not *the*) fundamental betrayal lies in in the economic realm — namely, the fraying of human bonds between employer and employee. This increasing separation between these two groups[5] has shaken many workers' faith in a prosperous future. Milton Friedman famously kicked off this trend in the beginning of the 1970s by insisting that corporations were only answerable to their shareholders; Michael Porter ended that decade by further undermining workers' economic peace of mind with the assertion that the primary goal of a company's plans for the future (another word for "strategy") was to create and exploit a "competitive advantage" over other companies (other companies, we should note, that were filled with other people).

<u>What has changed</u> is that the economic extremes encouraged and enabled by strategy's narrowly focused goal have begun to upset the foundations of the healthy business climate that had allowed the immense growth of recent decades to occur in the first place.[6] Strategy's win-lose paradigm has swung the advantages so much in the favor of crony capitalism (the cronies having dominated the win-lose scenarios) that they are suddenly and unexpectedly among the forces recently stepping into (albeit gingerly) the market-balancing role that the American government used to fill more vigorously between the 1930s and 1970s.

But do those promoting these egalitarian and humanitarian initiatives within companies and society really understand the implications of these (potentially radical) moves? These moves are taking us towards a dramatic clash between past economic paradigms and present demands for more equitable treatment for all. Consider the following example.

There is an intriguing and largely unnoticed contradiction that very well-meaning business executives are stepping into when they strongly promote goals outlined by growing public demands to prioritize "Diversity, Equity, and Inclusion" (or "D-E-I," which is inclusive in intent) within organizations whose ultimate goal is to win at the expense of others (which is exclusive in intent). If we can imagine organizations vigorously pursuing win-win D-E-I goals and rhetoric while ignoring how they also contradict the win-lose (or "zero-sum") worldview of strategy, some interesting future conflicts start to come into view.

---

[5] The gap is social as well as monetary, with the latter aptly measured by the ever-growing distance between the salaries of average workers and the CEOs they work for during the last 40 years.

[6] For example, trust in unseen participants along a long train of relationships required to complete a transaction in a complex economy lowers costs and creates considerable efficiencies. Trust has eroded substantially within the United States and I'd venture to say that related costs have been enormous (COVID-related costs, for instance, in a climate of deep mistrust of "outside" influence).

Here's a thought experiment about some potentially destabilizing[7] impacts of D-E-I, both short-term and long-term, within and between companies that pursue competitive advantage:

**Internal Conflicts in the Short Term**

- By welcoming and including diverse people who really have a wide variety of values into a company as employees, the dominant culture of business (which includes many unspoken assumptions initially shaped by a white male culture) will be questioned and put under pressure by a variety of people who really have different backgrounds, beliefs, and aspirations.
- Creating a new culture from this unstable mixture will be full of uncertainty (for example, "what are standards of acceptable behavior?") for which there is no obvious solution.
- This cultural experimentation would take a long time and would necessarily decrease efficiency.[8] This, in turn, would clash with current short-termism and demands for constant revenue growth.

**External Conundrums in the Short Term**

- Will existing companies pull back on their strategy arsenal when they come up against fledging start-ups led and/or owned by minorities?
    - If growth took a hit for the sake of diversity, how would companies realign expectations with shareholders? Could they?
    - If diversity lost out to growth, then would leaders seem to be deeply hypocritical, further undermining trust within our society and, eventually, long-term economic stability?
- Will existing companies truly put human-centered values ahead of maintaining competitive advantage? Would they pull back on efficient supply chains and cheap energy, for instance, for the sake of sustainability, even if that might lead to a decrease in company revenues or its rate of growth?[9]

---

[7] In this phrase, the word "destabilizing" is broadly descriptive and is not used pejoratively. While following the vision of D-E-I to its conclusions would truly upset current equilibriums of thought and of economic institutions, the resulting changes, although complicated to enact, would probably ultimately be salutary. Also, I should underline that this is a thought experiment outlining probable outcomes of the thorough application of D-E-I values in a business context. It is not a prediction that the egalitarian ethos of D-E-I will emerge triumphant over strategy.

[8] I should explain here that I am not suggesting that D-E-I is necessarily "inefficient." The inefficiency lies in trying to integrate two very opposing views into business activity – exclusivity and inclusivity – simultaneously within the same organization.

[9] Profitability is still fundamentally important, of course. But it's different than "competitive advantage" and I don't believe that competitive advantage is a necessary ingredient of profitability.

In the long term, D-E-I (pursued to its logical conclusions) ultimately may challenge us to judge success by new metrics that strategy does not entail or envision. The most important metric of economic health today is the assumption that continuous growth built by sustaining competitive advantage is an imperative. However, those who are committed to the implications of D-E-I may feel quite differently. For example, perhaps happiness (along with and largely enabled by a decent standard of living) is a more important and *valuable* goal of business activity?

While adjusting to new internal and external economic relationships in a future calibrated by a "win-win" worldview will be profoundly inefficient in an economy that has been shaped by a "win-lose" worldview, that doesn't mean that these new kinds of relationships are not attainable eventually. Humans are creative. Can't we envision and create win-win economic paradigms, not just for a particular relationship between a company and its consumer but for all companies and for all consumers?[10]

**The "Vision Thing" and Our Future**

While I lament the influence of strategy on business and its subsequent impact on social cohesion and individual well-being, I make no pretention of claiming that I've either somehow "disproven" strategy in the details of its execution or shown that it doesn't have valuable tools and insights that businesses should keep using into the future. We can apply much of the genius used to conceive business strategy to understanding and helping to plan the futures of important, life-affirming organizations and institutions, like hospitals (as Michael Porter himself has notably done in recent years). What I do take issue with is the ultimate vision of business strategy (or lack thereof).

All elaborate systems, plans, and institutions begin with a premise that is the product of a human choice and belief, not of scientific or mathematical laws. Those laws are often used to support a particular premise. The United States, for instance, began with the premise that "all men are created equal." The only proof Thomas Jefferson provided for that premise in the Declaration of Independence was to say that it was a "self-evident" truth. Because many have accepted that assertion, the country has been generally (if not consistently) shaped by that premise. (It's life-affirming, egalitarian implications over the decades assured that the numbers of loyal adherents to that premise would grow over time.)

[10] For those who are asking themselves about my ultimate vision of a healthy economy for all, that is very much a work-in-progress because this is a difficult problem I'm trying to unearth. So, no, I'm not advocating as a solution (as some might be quick to conclude) a dictatorship in the name of the people often popularly known as "communism" as an alternative. I'm (only) advocating beginning a serious critique *of* and making major adjustments *to* the current state of our economy that seems to be causing more harm than good in the long term (an assertion that many will agree with).

Likewise, strategy began with its own premise — i.e., that sustaining "competitive advantage" was the ultimate goal of all business. But because competitive advantage is *not* life-affirming, many people have grown uncomfortable under its yoke, even if they've never heard the term "business strategy." D-E-I is just one of the more notable recent cultural-political movements that implicitly points to a revolutionary conclusion about the way we do business in this country: it's time to change the premise of strategy; or, perhaps it's more precise to say that it's time to change the premise of business that's been decisively shaped by strategy for more than forty years. It's also time to realize that *the goal* set out by strategy is not derived from timeless economic theorems, as it often appears to be in its sophisticated applications. It is, in fact, a choice — a choice that we can (as a society) modify or retract if we want to.

What has to happen now is that we need to sharpen our analysis of the social problems engendered by business so that these implicit but imprecise critiques of business strategy (and related business activity) gain power and efficacy through becoming explicit and focused. In other words, you have to see a problem before you can fix it. I'm arguing that the belief that competitive advantage is the ultimate goal of a corporation presents us all with a problem (i.e., an obstacle to prioritizing human needs in business) that needs to be fixed.[11]

What are the details about some possible solutions? Those are ideas for other articles.

[11] And if you're wondering if I also mean to say that the differences between D-E-I and business strategy as it's practiced today are irreconcilable, the answer is, "Yes."