What drives a company’s success?

Highlights of survey findings
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This report was originally published by Booz & Company in 2013.
A Strategy& survey shows that companies find it harder to understand their own strengths than to understand their customers. By knowing themselves well and leveraging their distinctive strengths to build a clear identity, companies can outperform their peers. But many companies aren’t basing their strategies on this insight, the study finds. In fact, companies have widely divergent views on how to develop strategy, despite evidence that a capabilities-driven approach delivers the best returns.

We find that a capabilities-driven approach to value creation leads to higher returns, on average, than other ways of doing strategy. Capabilities-driven companies owe their success to having a truly distinctive way of providing value, a powerful set of capabilities, and coherence between their strategy and their capabilities. By contrast, companies that compete on the basis of economies of scale, lucrative assets, or diversification fare less well.

We also see that companies with a clear identity — standing for something unique and consistent over time — tend to perform better than others. But how do they develop that identity? Again, a capabilities-driven approach is the answer.

Finally, the survey shows why many companies find pursuing this kind of success so hard. Their approach to strategy gets in the way: They do strategy at the margins — with a short-term perspective and too many initiatives — instead of pursuing a strategy that promotes long-term success. Contrary to common belief, most companies’ problem with strategy is not insufficient understanding of the market, but rather insufficient knowledge of and reliance on their own distinctive strengths.

Companies that embrace the challenge of building and leveraging this self-knowledge are on their way to creating greater value.

“Many companies focus too much on the outside when developing their strategy, and don’t combine that market-back perspective with a clear view of what their organization is great at doing. In this survey, as in all the research we’ve done on the topic of value creation, we see that essential advantage lies within. A few differentiating capabilities drive a company’s identity and success.”

— Cesare Mainardi, chief executive officer, Strategy&

The 10 companies with the clearest identity*

Apple
BMW
Caterpillar
Coca-Cola
Honda
LVMH
Royal Dutch Shell
Toyota
Volkswagen
Walmart

* Identified by survey participants from a list containing the 15 largest public companies (by market capitalization) across regions in each of seven industries.
Key findings of the survey

Our findings provide critical insights into what drives success, the importance of a clear identity, and the top issues in strategic development.

What drives success?

The survey found that there is no dominant strategy or school of strategy. We asked survey participants to rate the importance of seven drivers of success, and their responses were surprisingly mixed. Economies of scale were rated as the most important driver of success, followed closely by powerful capabilities and lucrative assets.

For the best-performing companies, success — measured in terms of three-year growth of total shareholder return (TSR) — is attributable to what we call a capabilities-driven approach to strategy. These companies' drivers of success most often include three distinct elements: a truly distinctive way of providing value, powerful capabilities, and coherence between the two.

Companies that owe their success to more asset-driven factors (economies of scale, lucrative assets, or diversification) have measurably lower performance.

Does identity matter?

Companies considered to have a clear identity — standing for something unique and consistent over time — have superior three-year TSR growth compared with companies that lack a clear identity.

In addition to promoting overall success, the three elements of a capabilities-driven strategy also drive a company’s strong identity, according to respondents.

Building a strong identity is very hard to do. The most challenging aspect is defining the identity and determining precisely how the company is going to add value for its customers.

What’s wrong with strategy development?

We asked respondents to rank the most problematic issues companies face in developing strategy. “Having too many strategic initiatives” was ranked as the biggest problem by more respondents (29 percent) than any other issue.

That was closely followed by “focusing too much on short-term performance improvement and too little on what will create long-term success” (27 percent of respondents).

Contrary to common belief, insufficient market focus is not the biggest problem — only 7 percent of respondents consider “ignoring external market forces” to be the most problematic issue.

Overall, only about one out of three respondents (36 percent) indicated that the top leaders of their companies were effective at both strategy development and execution, although both dimensions strongly correlate with company performance.
Key finding: Companies have widely divergent views about how to chase success

Exhibit 1
The world’s largest companies have divergent views on what drives success

What are the most important drivers of success of the world’s 105 largest companies?

<table>
<thead>
<tr>
<th>Driver</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has truly distinctive way of providing value</td>
<td>1.2</td>
</tr>
<tr>
<td>Is very coherent—everything the company does points in the same direction. Products and services perfectly fit together and support its value proposition</td>
<td>1.4</td>
</tr>
<tr>
<td>Has powerful capabilities—can do some things better than anyone else</td>
<td>1.8</td>
</tr>
<tr>
<td>Is a large company and benefits from economies of scale</td>
<td>2.0</td>
</tr>
<tr>
<td>Controls some especially lucrative assets (e.g., resources, facilities, brands)</td>
<td>1.6</td>
</tr>
<tr>
<td>Is very diversified—is able to compete by taking different approaches in many different categories and markets</td>
<td>1.2</td>
</tr>
<tr>
<td>Is an agile, fast-moving innovator that stays one step ahead of challenges</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Note: To determine a company’s score for each of the seven predefined drivers, we allocated three points to the driver selected as most important, two points to the second most important, and one point to the third most important. We then normalized the scores so that the sum for the seven drivers equals 10. To enable a comparison across companies, scores for each driver were averaged over all companies.

Source: “What Drives a Company’s Success” survey; Strategy& analysis
• We asked survey participants to identify the most important drivers of success for the three companies they know best among the 15 largest in their industry. We found that no approach is clearly dominant.

• Pursuing economies of scale was perceived to be the most important success driver (score of 2.0), followed by powerful capabilities (1.8) and lucrative assets (1.6).

“The application of strategy to the business context is new — just about 50 years old. But in those 50 years we’ve seen countless theories, frameworks, and books being developed. The challenge now is that many companies pursue multiple theories of value creation at the same time.”

— Paul Leinwand, partner, Strategy&
Survey respondents’ perceptions of Apple and Microsoft help to illustrate the differences in how companies approach strategy. Respondents draw a very clear — and very distinct — picture of each company’s strategy.

**Exhibit 2**
Comparing drivers of success for Apple and Microsoft

<table>
<thead>
<tr>
<th>Source of Success</th>
<th>Apple (N=248)</th>
<th>Microsoft (N=154)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distinctive way of providing value</td>
<td>75%</td>
<td>22%</td>
</tr>
<tr>
<td>Coherence</td>
<td>63%</td>
<td>32%</td>
</tr>
<tr>
<td>Powerful capabilities</td>
<td>50%</td>
<td>56%</td>
</tr>
<tr>
<td>Economies of scale</td>
<td>10%</td>
<td>62%</td>
</tr>
<tr>
<td>Lucrative assets</td>
<td>27%</td>
<td>62%</td>
</tr>
<tr>
<td>Diversification</td>
<td>6%</td>
<td>34%</td>
</tr>
<tr>
<td>Agility</td>
<td>52%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: “What Drives a Company’s Success” survey; Strategy& analysis
• Apple’s success is perceived to be primarily based on its distinctive way of providing value and the coherence between its strategy and its capabilities.

• Microsoft’s success is perceived to be primarily based on its scale and lucrative assets.
Exhibit 3
Apple and Microsoft are perceived to have different strategic approaches

Percentage of respondents indicating where on the scale the company’s approach lies

<table>
<thead>
<tr>
<th></th>
<th>Apple (N=246)</th>
<th></th>
<th>Microsoft (N=153)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value proposition</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tailored value propositions to various customer segments</td>
<td>15%</td>
<td>13%</td>
<td>21%</td>
<td>51%</td>
</tr>
<tr>
<td>Clear value proposition to specific customer segment</td>
<td></td>
<td></td>
<td>61%</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Capabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OK at everything</td>
<td>7%</td>
<td>6%</td>
<td>21%</td>
<td>66%</td>
</tr>
<tr>
<td>Great at a few</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Priorities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adapting swiftly</td>
<td>24%</td>
<td>16%</td>
<td>23%</td>
<td>38%</td>
</tr>
<tr>
<td>Lasting</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Growth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In new areas</td>
<td>45%</td>
<td>22%</td>
<td>15%</td>
<td>18%</td>
</tr>
<tr>
<td>Doubling down on current business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Percentages may not total 100 due to rounding.

Source: “What Drives a Company’s Success” survey; Strategy& analysis
• Apple is seen as having a much more focused approach to strategy. Respondents regard it as using a clear value proposition to target a specific customer segment and focusing on a few capabilities in which it achieves excellence.

• Microsoft, on the other hand, is seen as following a more balanced approach. Respondents regard it as tailoring value propositions to various customer segments and being good across many capabilities rather than focusing on excellence in a few.
Key finding: Companies competing with a capabilities-driven approach are more successful

Exhibit 4
Companies' performance depends on their sources of success

Three-year TSR growth rate for companies depending on whether they compete in a capabilities-driven way

- Below average: 12.7%
- Above average: 14.5%

Three-year TSR growth rate for companies depending on whether they compete on assets, scale, and diversification

- Below average: 15.7%
- Above average: 11.4%

Importance of capabilities-driven success drivers

Importance of assets, scale, and diversification as success drivers

Note: N=1,924 responses relating to 57 companies. Analysis includes only those companies for which five or more respondents commented. TSR means total shareholder return.

Source: “What Drives a Company’s Success” survey; Strategy& analysis
• Although each of the seven success drivers listed in Exhibit 1 is used by a significant percentage of companies, they have very different impacts on companies’ success.

• The more a company’s success is perceived to be capabilities-driven — based on a clear way to play, powerful capabilities, and coherence — the more successful the company tends to be (as measured by TSR growth over three years). Companies that are seen as most consistently following such a capabilities-driven approach include Apple, Caterpillar, Honda, PetroChina, SAP, Standard Chartered, Toyota, and Volkswagen.

• Companies that are seen as competing on the basis of assets, scale, and, diversification have significantly lower TSR growth, on average, than companies that follow a capabilities-driven approach.

“Our findings are very much in line with our beliefs about capabilities. Successful companies choose a differentiating way of creating value for customers, build a bespoke system of capabilities that supports this way to play, and focus their activities on those areas that benefit from their unique strengths.”

— Cesare Mainardi, chief executive officer, Strategy&

“We have ample evidence that differentiation through capabilities leads to sustainable advantage. In fact, given the competitive intensity in today’s business environment, companies need more than just one or two great products to win in the long term — differentiation through capabilities is quickly becoming the only path to sustainable value creation in most industries. Coherent companies, in every industry we’ve studied, outperform their less coherent competitors.”

— Paul Leinwand, partner, Strategy&
**Key finding: Companies with clear identities enjoy stronger performance**

*Exhibit 5*
Companies with clear identities enjoy stronger performance

Clarity of identity

Three-year TSR growth rate for companies depending on the clarity of their identity

- Below average: 12.1%
- Above average: 15.2%

Note: N=1,924 responses relating to 57 companies. Analysis includes only those companies for which five or more respondents commented. TSR means total shareholder return.

Source: “What Drives a Company’s Success” survey; Strategy& analysis
We asked survey participants to tell us how clear an identity the various companies in their industry have — that is, how clearly those companies are perceived to stand for something unique and consistent over time.

Their responses helped to demonstrate that a clear identity correlates with performance—the stronger the identity, the higher the company’s three-year TSR growth. The effect is significant: Companies whose identity is perceived to be clearer than the average have a three-year TSR growth that is more than 3 percentage points higher than that of their peers.


Exhibit 6

The clarity of a company’s identity depends on its sources of success

Clarity of companies’ identity depending on whether they compete in a capabilities-driven way

Clarity of identity

Very clear 4.0

3.5

3.0

2.5

2.0

1.5

Very unclear 1.0

Low

High

Importance of capabilities-driven success drivers

Clarity of companies’ identity depending on whether they compete on assets, scale, and diversification

Clarity of identity

Very clear 4.0

3.5

3.0

2.5

2.0

1.5

Very unclear 1.0

Low

High

Importance of assets, scale, and diversification as success drivers

Note: N=1,924 responses relating to 57 companies. Analysis includes only those companies for which five or more respondents commented.

Source: “What Drives a Company’s Success” survey; Strategy& analysis
• Companies with a clear identity compete based on the same three capabilities-related factors that drive success in general: a truly distinctive way of providing value, powerful capabilities, and coherence.

• Companies that base their success on assets, scale, and diversification are perceived to have a weaker identity.
Key finding: Strategists’ biggest problems are having too many disconnected initiatives and not focusing on what will create long-term success

Exhibit 7
Too many initiatives and a short-term focus are the biggest issues for strategy development

Which of the following strategic issues do you think are the three most problematic ones?

Share of respondents

<table>
<thead>
<tr>
<th>Issue</th>
<th>Most problematic</th>
<th>2nd most problematic</th>
<th>3rd most problematic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Having too many strategic initiatives that are disconnected</td>
<td>68%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Focusing too much on short-term performance improvement and too little on what will create long-term success</td>
<td>65%</td>
<td>22%</td>
<td>16%</td>
</tr>
<tr>
<td>Not considering whether the company can execute strategy</td>
<td>57%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Trying to be like others rather than creating a differentiated identity for the company</td>
<td>48%</td>
<td>11%</td>
<td>7%</td>
</tr>
<tr>
<td>Ignoring external market forces</td>
<td>34%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Focusing too much on the long term without determining how to reach that future state</td>
<td>20%</td>
<td>6%</td>
<td>4%</td>
</tr>
</tbody>
</table>

(N=739 survey participants)

Note: Sums may not total the percentages shown due to rounding.

Source: “What Drives a Company’s Success” survey; Strategy& analysis
• Two issues emerged as the most problematic when we asked survey respondents to rate the significance of strategic issues: having too many strategic initiatives that are disconnected and focusing too much on short-term performance. In other words, companies aren’t addressing the fundamental questions of strategy that will allow them to create long-term success.

• Contrary to common belief, insufficient market focus does not appear to be the problem — only 7 percent of respondents consider “ignoring external market forces” to be the most significant issue.

• Overall, only about one third of respondents (36 percent) indicated that their leaders were effective at both answering the fundamental questions about strategy and keeping their company on track in execution.

“Companies rarely fail simply because they don’t understand the market, but many struggle because they don’t understand and leverage what is great about themselves.”

— Paul Leinwand, partner, Strategy&

“Most companies do strategy at the margins — they look forward from their current messy and incoherent states and pursue the same trends as anyone else in the industry. This set of incremental steps ultimately leads nowhere, because many companies are all chasing after the same small set of opportunities. What companies need to do is real strategy — they need to think bigger and more long-term, working toward a differentiated position that fits their capabilities.”

— Cesare Mainardi, chief executive officer, Strategy&
About the survey

Strategy& developed this survey to better understand what drives the success of the world’s largest companies. The survey assessed the relationship between companies’ approach to value creation and their performance, and studied the role that a company’s identity plays in its success.

We conducted a Web-based survey between February and August 2013 and invited readers of HBR.org and recipients of strategy+business enews and Strategy& Foresight to participate; 720 executives (including 192 at the C-suite level) completed the survey. Participants were asked to select up to three public companies within their industry (from a list of the 15 largest in each of seven industries) and comment on what drives success for those companies as well as their own company; to identify the main challenges companies face in strategy development; and to assess the role that a strong identity plays in promoting a company’s success.

To determine a company’s score for each of seven predefined success drivers, we allocated three points to the driver selected as most important, two points to the second most important, and one point to the third most important. We then normalized the scores so that the sum for the seven drivers equals 10. To enable a comparison across companies, scores for each driver were averaged over all companies.

Based on the survey responses and the company’s performance (as measured by three-year TSR growth from January 2010 to January 2013), we established a link between companies’ success drivers and their actual success.

Learn more about Strategy&’s full body of work on how companies build their essential advantage through capabilities-driven strategy at strategyand.pwc.com/CDS.
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