

# Maintaining Strategic Momentum: The CEO's Agenda

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How does the chief executive of a large complex organization maintain strategic momentum? This represents a great challenge when there are no obvious external threats, and no obvious reasons for having a concerted action. Floris Maljers, Charles Baden-Fuller and Frans van den Bosch explore the inherent tensions which exist between stability and change. Change is necessary to maintain success, but too much change is disastrous. The authors argue that there are several possible solutions to this paradox, including that of generating periods of intense activity followed by periods of comparative stability and incremental improvement. Using the introspection of one of the CEOs of Unilever, who held office from 1984 to 1994, the authors examine how these tensions were played out and resolved. Copyright © 1996 Elsevier Science Ltd

## Introduction

In this article we wish to examine the CEO's task of leading the large complex multinational organisation strategically. The basis for our analysis is a combination of introspection from one of the CEOs of Unilever and an appreciation of the contribution of past strategy research. Unilever is a company which employs more than 280,000 people in more than 80 countries, and is high on Fortune's 500 list (see Exhibit 1). It has been fortunate in having a sustained record of profitability for more than a decade, reflecting a combination of good fortune and hard work from all its management and workforce.

Our article touches on only one key issue, that of how to maintain momentum when there are no obvious crises and threats. As many others have pointed out, a clear internal crisis is an excellent trigger for action. The

enemy need not be within, it can be without, and environmental change can be a powerful motivator. *Hannibal ante Portas* mobilised the Romans two thousand years ago. More recently, the success of Asian companies has mobilised American and European industries. When an organisation is seriously lagging, the challenge is clear, it must move forward. There are possibilities of mobilisation from an external threat, even where there is no profits crisis. This has been most evident among firms which have experienced deregulation. In the UK, British Telecom, British Gas, and the water utilities, among others, have been undergoing major change in the face of real or threatened entry and new regulatory regimes.

We are concerned with the different, and arguably more difficult, problem, that of maintaining success when there are no obvious threats, internally or externally. Cyert and March have argued that the successful organisation has both the financial and human resources to undertake the investments needed to maintain success; in their words, there is 'slack'. Slack resources, although helpful, are not sufficient. The spur for action must also be present, and it requires something special to enlist the support of many layers of management when there is no obvious crisis, no clear enemy, and no compelling reason why the company should change dramatically. Unilever has been lucky in being able to rise to such occasions, not just once, but repeatedly.

In this article we examine the role of the chief executive (in our case three people) as leaders and stimulators of repeated changes. As Exhibit 1 shows, the changing membership of the CEO team has been evolutionary rather than revolutionary, especially when one appreciates the equality of the triumvirate. Yet, as we suggest below, the CEO team appears to have been a critical part of the change process.

**Exhibit 1**  
**Sketch of Unilever**

In 1995, net after tax, Unilever had a turnover of \$49 billion, and a net profit of \$2.3 billion before special items, giving a margin of nearly five per cent. It had four product divisions: three of which were in fast moving consumer goods – food, detergents, and personal care products. The fourth division was speciality chemicals. It employed 280,000 people, and had manufacturing operations in more than 80 countries. It was in the top 40 of the Fortune 500 by turnover and profitability.

It has an unusual governance structure. It does not use the continental system of a supervisory board, nor does it have a division of chairperson and chief executive. Rather it has several CEOs, usually three men. The table below shows how changes in the CEO structure have been evolutionary rather than revolutionary. One CEO is chairman of the Dutch holding company, one is chairman of the British company, and there is usually a 'third man' who is equal to the other two.

Year	Chairman of Unilever NV	Chairman of Unilever Plc	The 'third man'
1982	H.F. van den Hoven	D. Orr	K. Durham
1983	H.F. van den Hoven	K. Durham	F.A. Maljers
1984	F.A. Maljers	K. Durham	M. Angus
1985	F.A. Maljers	M. Angus	J.P. Erbe
1986	F.A. Maljers	M. Angus	J.P. Erbe
1987	F.A. Maljers	M. Angus	J.P. Erbe
1988	F.A. Maljers	M. Angus	J.P. Erbe
1989	F.A. Maljers	M. Angus	R.W. Archer
1990	F.A. Maljers	M. Angus	R.W. Archer
1991	F.A. Maljers	M. Angus	M. Perry
1992	F.A. Maljers	M. Perry	M. Tabaksblat
1993	F.A. Maljers	M. Perry	M. Tabaksblat
1994	F.A. Maljers/M. Tabaksblat	M. Perry	
1995	M. Tabaksblat	M. Perry	N. Fitzgerald

In any large organisation, the chief executive team has to be subtle yet firm in its use of power. Too many upheavals provoke chaos, too few may invite paralysis and decline. Getting the balance right is difficult and there are many ways to achieve this end. In Unilever, during the last decade or so, there have been periods of sharp upheaval followed by periods of comparative stability. During the upheavals, the strategy has been reassessed and a new direction forged. In the intervening years, the new strategy was bedded down by means of acquisitions and disposals, new investments, and the building of skills in people and ideas. The concept of oscillation is a key theme.

We will try to illustrate these points in the following pages. However, we must first explain why we think the environment has been benign to Unilever as a whole in the last decade, and why it has been true that mobilising the corporate body has involved more careful preparation and effort. This is not to say that in particular business units there have been no dangers nor even crises. But a crisis in a small part of the overall corporation is not a crisis for the whole.

**Unilever and its Environment**

In the early 1980s, according to many, Unilever's performance was satisfactory, but rather unexciting. As a

group, it formulated a strategy which had clear geographic ambitions maintaining its traditional, mostly European, base, and expanding mainly in the North American continent. The geographic strategy was evident in a major US acquisition made in 1978. The purchase of the National Starch and Chemicals Company did not just add a geographic dimension, it also added a new product group to Unilever's chemical's business. With the benefit of hindsight, the acquisition revealed that Unilever was less explicit about its product portfolio strategy. At that time, the portfolio was considerably more diverse than it is now. It included the United African Company, a trading company with a strong presence in West Africa, with a proud and profitable history. There were also large remnants of the vertical integration policies of the past such as carton making, printing and packaging, oil milling, advertising agencies, a market research group and a fast growing transport division.

At this time there was a weak threat to the group; organisations which were not performing well could be taken over. The RJR-Nabisco deal proved this threat was real in the food industry a few years later. However, it would be hard to argue, even with the benefit of hindsight, that this was a mobilising factor for change. In the early part of the 1980s, Unilever was profitable and cash rich. The concept of the conglomerate was still fashionable during this period. The messages of the

gurus of the day were that if you had good management, you could manage virtually anything and everything. Yet, despite the absence of threats, Unilever underwent a major change programme in 1984, which involved reshaping the enterprise's product portfolio to a slimmer, more focused core, and disposing of some 20 per cent of the company.

In the late 1980s, the general environment was more turbulent and hostile. This hostility was muted for Unilever, where the core of foods and personal care products was not suffering the same kinds of competition as car manufacturing plants, chemicals or high technology companies. More significantly, because by this time the group as a whole had a more focused look, having concentrated its portfolio into four product divisions, and because it had sold many 'peripheral' but often profitable businesses, the threat of takeover was even weaker than before. Yet, in 1988 Unilever went about another major change, that of refocusing even more sharply its product portfolio following on from the efforts of 1984.

In the early 1990s, the environment was different again. Here the turbulence was one equally balanced between opportunity and threat. The threat came from slow growth rates and changes in consumer spending patterns in the major domestic markets in Europe and North America. The opportunities were in the development of emerging markets in the former bloc of Eastern Europe, and the high rates of growth in the Asian arena. These opportunities suggested, but did not require, major adjustments. Once again, there was no obvious enemy, but even so Unilever took the opportunity to adjust its geographic strategy in 1992, and these changes are still being driven through.

In conclusion, over the last ten years, Unilever has faced no obvious crisis, yet it has initiated at the group level three major change initiatives or waves of change. To outsiders, it has been trying to ride the waves of environmental change forces, attempting to shape its environment by choices of where and how to compete. Of course, it has not always been wholly successful in this unstated aim, but even the ability to attempt to do this differentiates it from many other organisations which have operated in a mainly reactive mode.

These observations beg as many questions as they answer. For example, how did the strategy waves get formed and carried out? Was there any evidence of cumulative building between the waves? And, can we learn from the Unilever experience? It is to these issues we now turn.

### **Mobilising the Organisation in 1983**

As said earlier, in the mid-seventies, the company had formulated a strategy which had clear geographical ambitions, mainly strengthening the position in North

America, but much less explicit in stating the objectives for the product portfolio. The activities were grouped in product coordinations, which usually reported directly to a member of the Parent Board. The absence of product priorities meant that the rate of growth of a group depended to a large extent on the energy and creativity of the responsible director and his team. Or, to put it another way, there was a large bottom-up element in the way in which the activities proliferated. For the sake of completeness, we add that growth was seen as a corporate necessity.

What were the triggers which persuaded the CEO group that the strategy was inadequate, and that it would be necessary to add a product dimension to the geography? One strong argument for a review was certainly that the peripheral groups, as we will call them for the sake of convenience, in many cases showed disappointing profit performance, usually well below the 'orthodox' Unilever core groups. In addition, there was generally an uneasy feeling at the top that the understanding of the periphery was rather limited. The amount of time and effort required to control and give guidance to these businesses was more than their size and complexity necessitated. Or, to put it differently, the Head Office costs which their existence generated, was seen as disproportional to their profit contribution.

But these were not the only factors. There were also some triggers caused by capital requests. For example, one of the more successful parts of the transport group was a company called the Norfolk Line, which specialised in 'roll-on roll-off' transport between the UK and Continental Europe. In 1983, the management of this company felt it needed to invest a large sum in Chatham, England, to improve its facilities. The director responsible agreed, and the proposal was brought to the CEO group of three. In the discussion it became increasingly clear that there was no-one else in Unilever with sufficient expertise to evaluate the proposal of this subsidiary. In a group where large investment decisions are taken with great care and where a high degree of expertise is present in many fields, this created an uneasy feeling to the extent that the question was raised: 'what are we doing in transport anyway?' Looking back, it was like throwing a crystal in under-cooled water, suddenly the doubts about many of the peripheral activities solidified, and that was the starting point for a complete review of Unilever's strategic position. In due course, this resulted in a complete reformulation of the Unilever strategy, adding a clear and well defined product dimension to the geographic objectives. This became known as the 'core' strategy because it identified four core product groups: foods, detergents, personal products and chemicals.

How were these groups identified? The principle was that the top team wanted to concentrate on products and markets where Unilever had most expertise in technology, marketing, sales and customer service. Or, to put it in the words of the military strategist Clausewitz, the top decided to concentrate on those areas where the

company could set the rules, rather than those where it had to follow them. It is necessary to emphasise that at this time, in 1984, the product groups were selected in very broad terms only. Despite this obvious limitation, the move was seen to be a considerable improvement on Unilever's past, and it formed the start of later definitions of product priorities. It is also worth pointing out this idea of forming a core product strategy was rather under-developed among European companies.

Now we all know that formulating strategy is easy; as the German military commander von Moltke observed in the war of 1870, everybody with common sense can do it. It is far more difficult to implement the new strategy, certainly in a company the size of Unilever. It was clear that the new strategy would have major consequences for those managers who were not working in the newly defined core groups. As was Unilever's tradition, the first step was to communicate the new strategy to as many members of the management as possible, and obtain their support. Because this was done with great care, it turned out to be less difficult than expected. It was helped by the fact that Unilever has always had a good communications system, which had a number of facets. For important corporate decisions, there was (and still is) a tradition that the top 100 to 120 and twenty most senior people are involved. This takes the form of a meeting where proposals of the CEO are freely discussed in working groups and a plenary session. To the surprise of the CEO group, the special meeting to discuss the core-strategy ended in an overwhelming acceptance of the new concept. This demonstrated that many in the organisation were waiting for some change, or as put earlier, the water was really under-cooled, and that a large group of the top executives were all co-owners of the new strategy.

Apart from *ad hoc* meetings, there was, and still is, a regular communication flow which starts at the top. Every year in March, the CEO team addresses a group of 400 senior executives, mostly from the operating companies and explains the progress and plans of the corporation, emphasising the new elements. The senior managers who attend this event in turn have meetings in their units and give the same basic message, adapted to their audiences. In this way, the information cascades quickly from the top down to the required level. In addition, the company has a strong informal network of contacts between managers. In 1984, the acceptance of the new strategy was the more surprising as a number of aspects went against the corporate tradition. Selling companies which were part of Unilever had been done in the past, but only rarely. The same can be said for restructuring and cost cutting – it was certainly not unknown – but the examples were few and far between.

The group which felt most threatened by change was probably older middle management. The most senior people realised the need for change, the younger people saw it generally as an opportunity. However, the new direction was usually, though certainly not unanimously, well received. In addition, to many of the company's

employees it came as a shock. If one had joined Unilever, it was considered to be a lifelong tenure, almost like being a civil servant. Unilever was essentially a European company, and this sense of the employment contract was still quite common in Europe 10–15 years ago, in contrast to North America then and Europe now.

At this point it is worth emphasising that there was at the time no financial corporate crisis, not even an indication that one might come. Top management were not aware of any immediate threat of an unfriendly takeover by a raider or financial wizard. The company was profitable, had ample cash and a triple A credit rating. Second, it was clear that Unilever had a considerable amount of underperforming assets in the peripheral activities, probably one of the reasons for a relatively low rating in the stock market. When it started its disposal programme, it turned out that it could sell some of the non-core subsidiaries for very good prices, enabling investment in those areas Unilever knew well and where it could achieve high returns.

Implementing the new strategy meant more than acquiring, disposing and restructuring. It also required a concerted effort to improve the quality of the marketing and sales functions. There was also a need to strengthen research and technology. Fortunately, the speed of innovation increased notably. Company structures became slimmer, and the number of layers in the organisation were reduced. In short, the new strategy brought not only a change in focus of the company in product terms, it was accompanied by a number of efforts to improve performance in practice.

In evaluating the results of the strategy, we must be aware that the economy in the second half of the eighties grew, the business cycle was in a positive phase. However, even taking all this into account, the financial indicators used by the outside world improved very considerably. Not only did profitability and return on investment improve, but the stock exchange rating of Unilever compared to its peer group went up. Even more importantly, the company culture began to move, and viewed from the somewhat restrictive lens of one of the CEOs, the management became more enterprising, less risk averse and more creative.

### **The Second Change and a Move to Greater Corporate Entrepreneurship in 1988**

It took quite some time to implement the major elements of the 1983–4 strategy. To the outsider, it is notable that seeing the bedding down of the changes initiated in 1984 was perceived to be important and that no comparable change programme was initiated until 1988. By 1988, after the completion of the larger disposals and the purchase of some sizeable and many smaller acquisitions, the CEO group were asking themselves again, 'is the present product portfolio as defined in 1984

sufficient to give the company the growth it wanted? Are we not missing out in major markets?' Or, to put it differently, having cut off so much in the past few years, 'does the company need a new leg?' This led to a reappraisal of the strategic position, a second phase after the formulation of the core strategy. For this, the company used the code name *Starfish*, an animal which can grow a new leg after it has lost one.

The groundwork of collecting information and formulating alternatives was undertaken by Unilever's own small corporate development staff with the help of an outside consultant. It would be interesting to discuss the role of outsiders in formulating strategies, but this is outside the scope of this paper. We note here that the CEO's perspective is that Unilever has used outsiders more as extra pairs of hands than as generators of ideas. The conclusion of this phase II study was discussed in the Board and the outcome was, in hindsight, surprisingly simple.

The consensus was that Unilever's four chosen areas offered more than enough opportunities for growth. The existing strategy was reconfirmed, but there were a few new elements. First, the phase II discussions emphasised the need to give new impetus to certain elements of the earlier change and disposal programme which had not always been implemented fully, notably where nationalistic reasons were felt to make speedy action undesirable. Secondly, a few small up-and-coming areas were identified, where Unilever would invest in a modest way to see whether it would be able to enter those fields. But other than that, the existing activities offered more than enough scope.

At this point it may be interesting to summarise some of the differences between the *Starfish* approach and the 1984 phase described earlier. The first phase was entirely an initiative of the CEO and was therefore basically top-down. The CEO group had identified the problem, had developed the basic concepts, and had proposed the new strategy to the Board. It had also presented it to the management in various meetings and taken a direct interest in the implementation. This went relatively far, certainly for a corporation as decentralised as Unilever. An important matter was the precise interpretation of the core concept where many emotional and rational aspects came together. In an organisation where consultation and consensus had always been, and still were, considered the basic manner in decision-making, the relatively large top-down element was not always easily accepted. In 1988 the traditional mixture of top-down and bottom-up was partly restored. The management groups in the centre, who have profit responsibility, were more fully involved in the process. They in turn consulted the major operating companies in the other countries. Or, to put it differently, top-down and bottom-up met somewhere halfway and this made involvement and communication easier. Having said that, however, the process still had a major top-down element by Unilever's normal standard.

A second difference was that this time there was a much more focused effort to combine a product strategy with a geographical strategy. The teams identified Latin America as a priority, notably Mexico and Brazil where Unilever was virtually absent. In addition, like everyone else, the teams pointed out the opportunities in East Asia, especially South East Asia. Unilever was fortunate to have some strong positions in a number of markets. In Europe, the review concluded that it could not expect much growth in the North, where markets were saturated for most – though certainly not all – of the products. However, the company were clearly under-represented in the Mediterranean. The Berlin Wall was still standing at the time and opportunities in Eastern Europe were considered limited. In all, what was achieved was a much more sophisticated strategic matrix than it had before. To give just one example, Unilever became more convinced that it had to expand its foods business more aggressively in developing countries, where it was clearly under-represented.

A third difference was that the company began to realise that the four core areas were each composed of a number of sub-groups, and that some of these were more interesting for their future development than others. This not very revolutionary observation was hard to address. How far should one go in splitting a core group into components? On what level does it still make strategic sense and when would they reach the stage of empty definitions? To give a practical example of what the teams did, take personal care products, which they had treated as one group but which they now split between mass market products, such as toothpaste and shampoo on the one hand and prestige products on the other. That required a clear view of the mechanism of the markets and the behaviour of the consumer and the retailer. Icecream was another area, where the impulse market needs outlet control and has different economics from the take-home product. In giving the examples, it sounds easy, but this is an area in which the crux was in the detail.

Communicating the outcome of the *Starfish* project throughout the company was much easier than the earlier exercise. Many managers had been involved in the preparations and there was a generally felt need to update the existing strategy. This was an interesting development in corporate culture compared to phase I. At least, from the CEO perspective, it seemed that strategic change had become an accepted part of corporate life and that the management welcomed strategic direction.

Looking back, the implementation of the 1988 changes were generally in line with expectations. A major search for acquisition candidates in food companies in Latin America had good results and Unilever could strengthen its position in Mexico, Brazil, Chile and Argentina. Another core group where it increased its investments was detergents for industrial use, especially in Europe. However, the main success was in personal products, notably the prestige segment. Here, Unilever acquired

Elisabeth Arden, Calvin Klein Cosmetics, and some smaller companies. This made the company a major participant in a market where so far it was hardly represented. Would things have been different without such a review? This is perhaps hard to say, and certainly the CEO is likely to say that the results would not have been as good.

### Changes for a Greater Product Focus and a New Geographic Emphasis in 1992

This brings us to phase III of the strategic process of the last decade. It was initiated in 1991–92, about 4 years after the *Starfish* project. The work on phase III was started because many in the organisation, including the CEO group, perceived that the business environment had changed dramatically, and there was a need to review the strategic priority. New geopolitics, together with emerging innovations in production technology, including informatica, led to the conviction that a more explicit strategy for allocating scarce resources was required. This desire for change came from the plethora of opportunities, but it would be hard to call it a forced change. Many other large organisations saw the same environment, but did not react similarly.

We can see the forces for change if we look at the consequences of some of the new economic groupings such as the expanded European Union, and to a lesser extent, NAFTA. Events had shown that existing production structures were in a number of cases inefficient. For example, where in the past, every European country produced a full range of icecream products for the local market, the abolition of the last vestiges of the internal borders opened up interesting opportunities to improve economies by reducing the number of locations and increasingly specialising the production lines in the remaining ones. This necessitated major investments in restructuring programmes, which required a high level of managerial involvement and financial commitment. It also meant that gradually more central guidance became unavoidable. This was an important cultural change in an organisation where decentralisation had been a traditional basic organising principle.

A unique historical event, the fall of Marxism and the (partial) acceptance of a free market economy created a second set of opportunities. The opening up of the markets in Central and Eastern Europe led to an almost gold-rush struggle, when all the major international players tried to enter countries such as Poland, Hungary and the Czech Republic. Similarly, the markets of the CIS countries could not be ignored. In addition there were opportunities in China, where the possibility of establishing Western brands and quality standards tempted many consumer-goods companies to invest. In all these cases, investment decisions were, to an unusual degree, based on intuition, because the absence of reliable information made a scientific approach impossible.

In the light of all this, it was clear that the company had to establish priorities, notably in allocating scarce management. It was also obvious that many decisions had a considerable 'top-down' element, because it was impossible to have all products introduced in every new market, or to undertake all restructuring at the same time. The CEO team therefore set out and agreed strategic priorities with the full Board and took upon itself to monitor the implementation with more than normal care.

While changes in the environment led to a new approach to geographical decision-making, the product strategies were also reviewed. This meant further important refinement of the work done in phase II. Let us illustrate this with an example. In the past, beverages had been identified as one of the groups which should be emphasised within the foods division. On the basis of a further analysis, it was decided that the company should further concentrate on tea where it was already world leader. Given its competitive structure, the coffee market was not seen as a priority because the nature and power of Unilever's competitors made the opportunities less attractive and the risks seemingly greater. In contrast, within tea, it was felt that large opportunities existed, notably in promoting tea as a cold drink. This was a successful product in the US which had been recently introduced into Europe. This type of refinement of focus, based on an assessment of the available technology, and supported by a strong research and marketing programme was seen to be key to future success.

In short, although there was no crisis, nor any burning imperative, the entrepreneurial spirit of the organisation saw many new opportunities which made phase III easily implemented.

### Conclusions

It has become fashionable to suggest that organisations should be in a constant state of change. In our view, this is a fallacy. Successful change has to be anchored in stability, else it runs the danger of provoking chaos. In Gorbachev's Soviet Union, the simultaneous changes unleashed after the fall of the Berlin wall were tumultuous, and eventually uncontrolled and destructive. There were few anchor points which could be used to create stability. The upheavals have been so profound and complete that change has gone out of control. Arguably, many are worse off than they were under the Communists. Whilst this may have been necessary and inevitable in Russia after such a long period of Communist thinking, it is surely not a model for orchestrated change in a large Western firm. Inaction, however, is not possible. The readers of this journal do not need to be told that too much stability is dangerous. If organisations are to survive, they need to orchestrate change, else the world will overcome them, and they will be 'selected out'.

The three waves of change at Unilever have been remarkable, because they were energised from within, without an obvious external threat. The first wave, arguably, had been the consequence of the arrival of a new person in the CEO team, who had a new perspective. But in a large organisation, such a new perspective is not enough to trigger changes, there must be other factors which are favourable too. In our case, these were also apparent. The second and third waves of change were as remarkable, if not more remarkable than the first. They represented repeated, successful attempts to engineer upheaval in waves. The way that the organisation responded to these upheavals was typical. At the start the process was mainly top-down, but as time passed there was a greater sense of bottom-up (or more properly middle-up). In the eyes of the CEO, this suggests that over a decade the organisation was becoming significantly more entrepreneurial and receptive to new ideas. It also suggests the bridging of that difficult gap between different levels of management. For those who believe that corporate entrepreneurship is a valuable but hard-to-create asset, this case study should

give hope.

Implementation of strategy has had a deliberate element and an emergent one. On the deliberate side, there has been a significant use of acquisitions and disposals, and more recently the forming of alliances. Investments have also been planned and carried out. But to suggest that all was deliberate would be quite wrong. There was a large element of the unforeseen and 'emergent'. As in all companies, one never quite knows how things will turn out, and the unexpected often arose. Moreover, within Unilever, the emergent was encouraged. There was a strong sense of change flowing down from the top in a cascading fashion, like water down the mountain stream, gathering pace and energy as it moves.

Finally we note that the resolution of the paradox of change and stability can be achieved in many different ways. We have no evidence that the four-year cycles of change are the best, and it is certainly not the only mechanism. But we suggest that the idea may be valuable for others facing similar challenges.



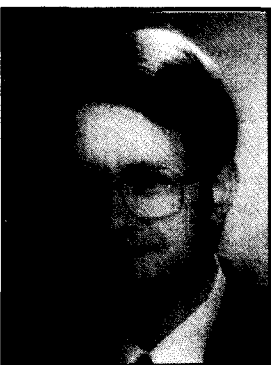
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