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Strategic Narratives and Competitive Advantage: Do Winners Speak Differently?
STRATEGIC NARRATIVES AND COMPETITIVE ADVANTAGE
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Acknowledgements

Pursuing a doctorate somewhat later in my career than the norm involved a less direct path toward my goal. My commitments to my consulting practice and family, having three children along the way, stretched the journey to nearly ten years. But it also afforded me time to connect with a global group of collaborators, supporters, and guides to depend on.

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Abstract

Concepts, models, or theories that end up shaping practices, whether those practices fall in the domains of science, technology, social movements, or business, always emerge through a change in language use. First, communities begin to talk differently, incorporating new vocabularies (Rorty, 1989), in their narratives. Whether the community’s new narratives respond to perceived anomalies or failures of the existing ones (Kuhn, 1962) or actually reveal inadequacies by addressing previously unrecognized practices (Fleck, 1979; Rorty, 1989) is less important here than the very phenomena that they introduce differences.

Then, if the new language proves to be useful, for example, because it helps the community solve a problem or create a possibility that existing narratives do not, the new narrative will begin circulating more broadly throughout the community. If other communities learn of the usefulness of these new narratives, and find them sufficiently persuasive, they may be compelled to test, modify, and eventually adopt them. Of primary importance is the idea that a new concept or narrative perceived as useful is more likely to be adopted.

We can expect that business concepts emerge through a similar pattern. Concepts such as “competitive advantage,” “disruption,” and the “resource based view,” now broadly known and accepted, were each at some point first introduced by a community. This community experimented with the concepts they introduced and found them useful. The concept “competitive advantage,” for example, helped researchers better explain why some firm’s outperformed others and helped practitioners more clearly understand what choices to make to improve the profit and growth prospects of their firms. The benefits of using these terms compelled other communities to consider, apply, and eventually adopt them as well. Were these terms not viewed as useful, they would not likely have been adopted.

This thesis attempts to observe and anticipate new business concepts that may be emerging. It does so by seeking to observe a community of business practitioners that are using different language and appear to be more successful than a similar community of practitioners that are have not yet begun using this different language as extensively. It argues that if the community that is adopting new types of narratives is perceived as being more successful, their success will
attract the attention of other communities who may then seek to adopt the same narratives.

Specifically, this thesis compares the narratives used by a set of firms that are considered to be performing well (called Winners) with those of set of less-successful peers (called Losers). It does so with the aim of addressing two questions:

- How do the strategic narratives that circulate within “winning” companies and their leaders differ from those circulating within “losing” companies and their leaders?
- Given the answer to the first question: what new business strategy concepts are likely to emerge in the business community at large?

I expected to observe “winning” companies shifting their language, abandoning an older set of narratives for newer ones. However the analysis indicates a more interesting dynamic: “winning” companies adopt the same core narratives as their “losing” peers with equal frequency yet they go beyond these. Both “winners” and “losers” seem to pursue economies of scale, customer captivity, best practices, and securing preferential access to resources with similar vigor. But “winners” seem to go further, applying three additional narratives in their pursuits of competitive advantage. They speak of coordinating what is uncoordinated, adopting what this thesis calls “exchanging the role of guest for that of host,” and “forcing a two-front battle” more frequently than their “loser” peers.

Since these “winning” companies are likely perceived as being more successful, the unique narratives they use are more likely to be emulated and adopted. Understanding in what ways winners speak differently, therefore, gives us a glimpse into the possible future evolution of business concepts.
SAMMANFATTNING


I fallen det nya språket visar sig vara funktionellt genom att det tex. hjälper gruppen lösa problem som de existerande narrativerna inte förmår göra, kommer de nya narrativen och begreppen att tas i bruk mera allmänt. Användningen sprider sig sedan successivt. Det vita här är att begrepp och narrativ som upplevs som funktionella har en större sannolikhet att tas i bruk.


Denna avhandling studerar existerande och potentiellt nya begrepp. I avhandlingen studeras företag i samma bransch som använder olika begrepp för att beskriva sin framgång och verksamhet. Det förefaller finnas en skillnad mellan användningen av begrepp mellan framgångsrika och mindre framgångsrika företag. Om en grupp eller bransch är mera framgångsrik kommer användningen av begrepp och narrativ att sprida sig till andra grupper och branscher.

I avhandlingen jämförs de narrativ som används av en grupp framgångsrika företag (vinnare) med motsvarande mindre framgångsrika företag (förlorare) i samma bransch. Avhandlingen söker svar på två forskningsfrågor:
• På vilket sätt skiljer sig strategiska narrativ som används av vinnande företag och företagsledning från förlorande företag och företagsledning?
• Vilken typ av nya begrepp kan sannolikt uppstå och spridas i branschen eller företagsgruppen?

Jag förväntade mig att skulle kunna se att vinnande företag tar i bruk nya begrepp och narrativ och lämnar upphör att använda de äldre. Analysen visar en intressantare dynamik. Vinnande företag tar i bruk samma kärnnarrativ som de förlorande företagen när de beskriver hur de skapar konkurrensfördelar. Men de vinnande företagen använder en större mängd begrepp och narrativ. Båda grupperna försöker skapa ekonomiska skalfördelar, knyta kunderna till sig, best practice och försöker säkra resurstillgången. De vinnande företagen använder oftare dessutom uttryck som “koordinera det som inte är koordinerat”, och två beskrivningar som i denna avhandling beskrivs som “exchanging the role of guest for that of host”, “forcing a two-front battle”.
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1. Introduction

1.1 Research Question

Twelve years ago, I came across the translation of an ancient Chinese text called The 36 Stratagems (I will introduce this text in greater detail in Section 3.1 “Core Narrative Analysis Tool: The 36 Stratagems”). It struck me as surprising that the 36 stratagems cataloged in this text had been almost exclusively applied to military strategy and had never been, to my knowledge, formally applied in business strategy. I initially viewed these stratagems simply as interesting aphorisms that offered entertaining viewpoints on, or explanations of, competitive behavior. However, I soon began collecting stories of competitive interactions in business and classifying them in the same manner as the text. Over the course of collecting roughly 500 such business case stories, my appreciation of the ancient Chinese stratagems has only continued to grow. This process of linking present-day business strategies to The 36 Stratagems also led me to start paying closer attention to how my consulting clients and other executives describe their business strategies.

My effort sought not to show that the Chinese stratagems could produce strategies, but that they could serve as alternative explanations for the strategic rationales that companies and executives give for why their strategic choices produced the results they did. I found that categorizing a client’s description of their strategy as a specific stratagem (usually without the client knowing this was happening) helped me to then relate their description to those given in other business cases that I had previously associated with the stratagem. Sharing related business cases by saying, for example, “This sounds like what Barnes & Noble did when they introduced the book super-store concept …”, helped clients to think through with greater detail how their own strategies might evolve.

This practice led me to notice that when business leaders described their strategies, they did so both in the effort to explain what worked or did not work with the strategy, as well as make an argument for why the strategy would succeed. The latter description—a predictive explanation in which a company or executive attempts to convince others (e.g., investors, employees, board members, management, and strategic partners) why their strategy will succeed—plays an important role in a company’s success. For example, how a company shapes investors’ expectations of a firm’s future earnings has been shown to be
the most significant influence on investors’ stock purchase decisions (Nagy & Obenberger, 1994), even more significant than a firm’s historical growth rate (Beaver & Morse 1978; Goedhart, Koller, & Wessels, 2005). Additionally, how a company shapes its social reputation has been shown to influence a company’s stock price performance (Rouso & Fouts, 1997; Sánchez & Sotorrío, 2007). Therefore, the ability of a company to shape key stakeholder expectations is arguably more important in the short-term than their fundamental performance.

I applied insights drawn from the above efforts in my consulting practice to help clients conceive of and think through possible strategies that they might not have considered before as part of their strategic planning process, as well as craft ways to explain their strategies more effectively to key stakeholders. To make The 36 Stratagems of more practical use to managers, I sought to identify which might be of greater use in different types of strategic situations. For example, one would expect that stratagems relevant to a company seeking to grow rapidly might be different than those relevant to a company seeking to maintain and defend its current size or to improve employee engagement. Similarly, stratagems relevant to large companies might be different than those most relevant to smaller companies.

I therefore began studying the public statements of companies with diverse strategies and classifying their descriptions according to The 36 Stratagems. I was not aware of it at the time, but this practice was a form of narrative analysis (see Section 2.4.4: “Narrative analysis”). As I continued to collect and categorize the narratives told by companies, it occurred to me that there was a potentially important variable missing from them (beyond statements such as being large or small, which define a generic strategic situation) that might influence which type of narrative a company is likely to cite. It occurred to me that the narratives the companies used might depend not just on their situation but also to the era in which they were devised. That is, one would reasonably expect that prevailing narratives (or explanations) of one time period would change and be different in the next. The strategic narratives most prevalent thirty years ago may be significantly different than those of today.

As this thesis details (see Section 2.2 “How strategic concepts may evolve”), several theories from multiple disciplines support this expectation. In general, these theories argue that new concepts are introduced when a group of people conclude that current concepts are inadequate. If these concepts are deemed to be useful in some way they may become widely adopted within a discipline, either supporting existing concepts or replacing them.

I found the implications of this logic to be intriguing, as it suggests that, in the earlier stages of a new concept emerging, we can expect to observe two communities in relation: one that adopts the new concept and another that has
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not. If the first group (the adopters) are perceived to be more successful at solving certain kinds of problems or realizing certain kinds of possibilities, then this may be an indicator that the new concept will eventually be widely adopted (i.e., because observers, aspiring to have the adopters’ success, will likely adopt their concepts).

This suggests that if one could compare two groups of companies, one with companies that are considered to be more successful and another with companies considered to be less successful, in terms of how they speak about their business strategies, we may be able to get a glimpse of new concepts that are emerging. Such a comparison might give us some foresight into how business strategy concepts change over time.

Therefore, this thesis attempts to observe this phenomenon in establishing two sets of companies (see Section 3.2 “Key concepts: winner and loser”) and conducting narrative analysis (see Section 2.4.4 “Narrative analysis”) to address the following two-part research question:

How do the strategic narratives that circulate within “winning” companies and their leaders differ from those circulating within “losing” companies and their leaders?

Given the answer to the first question: what new business strategy concepts are likely to emerge in the business community at large?

1.2 Epistemological Approach

In my twenty years of training and practice as a management consultant I have had many occasions of using quantitative arguments, which tend to be associated with a positivistic approach to research. I have no problems with using such evidence in my consulting work. This, however, does not bring me into the positivist camp. To me, quantitative research does not establish irrefutable truths and generalizations, but plausible arguments for making informed decisions. To me, quantitative accounts are always embedded in the narratives of decision makers and as such subject of negotiations.

For similar reasons, I am not afraid of making comparisons as positivists, post-positivists, even qualitative researchers do. I have learned from strong critics of logical positivisms, such as by Karl Popper (1974), Thomas Kuhn (1962), A. H. Schoenfeld (1990, 1992, and 1994) whom I cite in this thesis. But the medium of my inquiry is language – not in the Saussurian tradition (de Saussure 1916) which conceptualizes language as an abstract-objectivist system.
Introduction


This thesis takes no stance on whether it is post-positivist, radical constructivist, social constructivist, and the various conceptions of truths and reality they imply. Rather, I subscribe to the sociological “Thomas Theorem” (Thomas and Thomas, 1928), which asserts that narratives that are believed to be true have real consequences when acted upon. It suggest that a comparative study of the business strategies that companies enact could provide us access to the reality they may bring forth, whether this reality pertains to how they organize themselves, act, and transform their world to the better or to the worse.

My orientation is influenced to a great extent by my father, Professor Klaus Krippendorff, whom one might characterize as a social constructivist, though he would likely resist such categorization, or any. I have over the past ten years read and discussed with him his work and those of philosophers he considers important. While my topic leads me to use the vocabulary of the business community, which often sounds positivist, I certainly assume an epistemology that emphasizes the narrative evolution of reality, not objectivist generalizations.
2. Analyzing How Strategic Concepts Emerge

2.1 Strategic Thinking: A Review

In this section, I attempt to outline how concepts of modern corporate competitive advantage have evolved over time. If we consider each prevailing concept as a place to look for success or competitive advantage, we will see that over time our attention shifts, for example, from understanding business cycles to achieving economies of scale to securing access to resources to understanding customer needs. New concepts are introduced. Some are adopted, some rejected, and some marginalized. Some build on and contribute to prior concepts, while some replace them.

Various researchers have attempted to classify strategy literature (Schendel & Hofer, 1979; Fahey & Christensen, 1986; Huff & Reger, 1987; Mintzberg, 1990; McKiernan, 1997; Montgomery, 1988). My goal in outlining how concepts of strategy may have evolved is not to evaluate or add to such efforts, but rather to provide a reasonably rich timeline of the prevailing strategic concepts so that, later in this thesis, I can attempt to map these concepts to a catalog of strategic concepts drawn from an earlier and non-business domain with the hope of learning something about how concepts are evolving today.

The term “strategy” derives from the Greek word, *strategia*, meaning “generalship,” which in turn stems from roots meaning “army” and “lead.” The Greek verb *stratego* means roughly “to plan the destruction of one’s enemies through effective use of resources” (Bracker, 1980). While this source might suggest that “strategy” stems from a purely military concept, it was, as of the 6th century B.C., applied equally to the political domain. In the 6th century B.C., “stratego” was the formal title given to a politician designated as responsible for raising citizens for military service and maintaining military infrastructure.

However, scholars generally believe that the concept of strategy, if not the term, originated with *The Art of War*, a text ostensibly written by Sun Tzu, a Chinese general, around 500 B.C. (Huynh, 2009; Grant, 2010). While some scholars have challenged whether *The Art of War* applies to business strategy (McCormick, 2001), modern practitioners continue to apply Sun Tzu’s concepts to modern strategy, particularly in the area of game theory (Dixit & Nalebuff, 1991; Dixit & Nalebuff, 2008; Niou & Ordenshok, 1994). More generally, principles of military strategy have influenced business strategy, including
maneuver warfare, the benefits of surprise and deception, focus, and moral force (Chen & Hambrick, 1995; Clemons & Santamaria, 2002; Evered, 1983).

At the close of World War I, in the early 1920s, business academics and practitioners focused on applying strategy to the challenge of managing business cycles to create a more stable business environment (Mitchell, 1922; Stone, Schluter, & Stewart, 1922). This challenge fell naturally into the hands of economists and policy makers, since the primary concern was managing the cycles of employment, interest rates, growth of gross national product (GNP), and other macro-factors.

By the mid-1950s, strategic planning had become a short-term budgeting exercise, but it was soon challenged to extend its reach further into the future. The economic environments in which firms competed had grown more stable (Terborgh, 1957), making room for the introduction of “long-range business planning” (Ewing, 1956; Payne, 1957).

At this time, some of the earliest modern strategy theorists to directly link concepts of strategy to business did so by proposing a theory of games (Von Neumann & Morgenstern, 1947). This opened the door to a branch of strategy that would grow popular over the next two decades, applying concepts of game theory to business and politics (see, for example, Borch, 1962; Dixit & Nalebuff, 1991; Dixit & Nalebuff, 2008; Kuhn & McDonald, 1950; Niou & Ordeshook, 1994; Tucker, 1950). The term “co-opetition,” introduced by Brandenburger and Nalebuff (1997), was broadly adopted by strategy practitioners as a term to reference this branch of strategy otherwise known as game theory.

Firms began establishing formal planning functions (Stewart, 1958). This movement helped to formalize the strategic planning function and encouraged the application of scientific approaches to business planning with a goal of establishing management as a science (Mintzberg, 1971). Pressure grew on leadership to think formally and scientifically about what their company’s strategies should be. Drucker drew attention to this by proposing that the role of top management should be to answer the questions: “What is our business and what should it be?” (Drucker, 1954, p. 77). Selznick concisely proposed the fundamentals of this approach by stating, “Leadership sets goals, but in doing so takes account of the conditions that have already determined what the organization can do and to some extent what it must do” (Selznick, 1957, pp. 62). Strategy involved considering internal factors (e.g., competencies, ambitions) and external requirements (e.g., what the organization must achieve to survive) and then, based on these, defining the organization’s mission. This theme of strategy being informed by external and internal factors shaped how practitioners and theorists defined strategy. Chandler proposed a possible definition of strategy as “the determination of the basic long-term goals and
objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals” (Chandler, 1962, p. 13).

Combining Drucker’s concept of strategy (i.e., that strategy defines what business a company is and should be in) and Chandler’s internal-external distinction, Andrews proposed strategy to be “the pattern of major objectives, purposes or goals … stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be” (Andrews, 1965, p. 28). He simultaneously introduced the concept of a SWOT (strengths, weaknesses, opportunities, and threats) analysis (Andrews, 1965, p. 181), which was broadly adopted by strategy practitioners and still today broadly influences the strategy design practices of corporations. Mintzberg argued that Andrew’s framework formed the basis of what he called the design school of strategy (Mintzberg, 1990).

Factors such as the acceleration of the rate of change within firms and the acceleration of the application of science and technology to management processes encouraged strategists to put a premium on the ability to understand external factors (Ansoff, 1969). Ansoff’s work proposed that an organization should manage four components in defining their strategies: the market scope of its products, a growth trajectory incorporating the changes the firm anticipates in its current product-market position, the firm’s competitive advantage, and synergy (O’Shannassy, 1999). Ansoff’s proposition, according to Mintzberg (1990), set the basis for the planning school of strategy.

The planning school of strategy grew popular throughout the 1970s. It advocated that companies win by conducting thorough market analyses and competitor analyses, analyzing alternative strategies, and setting up dynamic resource allocation strategies (Gluck et al., 1980). Numerous analytical frameworks were introduced by management consultants and broadly adopted by practitioners including the Boston Consulting Group’s (BCG’s) “Experience Curve” (Henderson, 1973) which helped companies anticipate future cost and speed advantages and BCG’s “Portfolio Matrix” which helped companies categorize business units into “stars,” “problem children,” “cows,” and “dogs” and manage each classification differently (Henderson, 1968). Numerous consulting firms, including Arthur D. Little and McKinsey & Company, introduced similar frameworks to help firms analyze the fit between their strategies and markets.

Several changes in the business environment over the late 1970s and early 1980s raised the question of whether strategic planning was merely an effective long-term exercise or could become a science. Macroeconomic instability grew, exacerbated by the oil shocks of 1974 and 1979 (Barsky & Kilian, 2004).
Analyzing How Strategic Concepts Emerge

Competition by companies from Japan and Southeast Asia grew (Dertouzos et al., 1989; Momaya et al., 2006). Growing competitiveness and market instability threw into question the long-term planning approaches that had dominated from the 1960s. Attention shifted away from strategic planning to strategic management; the dialogue focused on how to place a company in the right market and against the right set of competitors (Gavetti et al., 2005; Siggelkow, 2002). Bracker proposed that

“strategic management entails the analysis of internal and external environments of a firm to maximize the utilization of resources in relation to objectives.... The major importance of strategic management is that it gives organizations a framework for developing abilities for anticipating and coping with change. It also helps to develop the ability to deal with uncertain futures by defining a procedure for accomplishing goals” (Bracker, 1980, p. 221).

The strategic management perspective leads to a focus on how a firm adapts its behavior to its environment (Chaffee, 1985; Hambrick, 1982) and suggests that firms should adopt different archetypes of strategy formulations according to their unique environments (Miller & Friesen, 1978). That a firm should pursue a “strategic fit” with its environment became a core concept of accepted models of strategy formulation (Andrews, 1971; Hofer & Schendel, 1978; Zajac, Kraatz, & Bresser, 2000), and it was established that a good “strategic fit” had positive consequences for the performance of the firm (Ginsberg & Venkatraman, 1985; Miles & Snow, 1994). This point of view also encourages the “planner” to define a strategy in terms of the firm’s patterns of behavior, rather than as its strategic plan (Mintzberg, 1978). Effective planning, it was proposed, should not impose rigid actions to be executed, but should rather define organizational boundaries, stimulate entrepreneurial thinking, and establish a value system that reinforces the commitment managers have to their organization’s strategy (Gluck et al., 1980).

If the challenge of strategy is to align a firm’s behavior with its environment (or industry), then selecting the right industry in which to compete becomes of prime importance. Researchers therefore shifted their attention toward understanding the characteristics of a firm’s business environment, in order to assess the potential for a firm to create a competitive advantage in that industry. Michael Porter pioneered this approach, leading strategists to look for conditions like barriers to entry and buyer/supplier bargaining power (1980) and to dissect the role of market share and the experience curve on how profits
pooled between the firms in an industry (Boston Consulting Group, 1978). Porter’s work expands the scope and number of factors that strategists should consider when conducting what might otherwise have been a long-term strategic planning exercise. Following Porter’s contribution, the strategists began to consider factors such as the bargaining power of buyers, barriers to entry (which determine the risk of new entrants), alternative products, supplier bargaining power, and competitive rivalry.

Michael Porter’s theory that firms can choose between two generic strategies, cost or differentiation, is one of the most influential frameworks for the study of corporate strategy. Soon after Porter published his work, scholars recognized it as the dominant competitive strategy paradigm (Hill, 1988; Murray, 1988). They have relied on his concept to study the relationship of a firm’s strategy to other functions, such as:

- Information technology (Schuler & Jackson, 1989),
- Manufacturing (Kotha & Orne, 1989),
- Logistics (McGinnis & Kohn, 1988),
- Industrial engineering (Petersen, 1992),
- Environmental scanning (Jennings & Lumpkin, 1992),
- Planning processes (Powell, 1994),
- Management selection (Govindarajan, 1989; Sheibar, 1986), and
- Managerial biases (Nystrom, 1994).

Some have attempted to expand or add to Porter’s schema of generic strategies (Miller, 1986; Mintzberg, 1988), yet Porter’s scheme continues to be the dominant one laid out in most contemporary textbooks (Bourgeois, 1996; Pearce & Robinson, 1994; Thompson & Strickland, 1995).

Porter’s other contributions to the field of business strategy include the value chain framework (Porter, 1985) and the diamond model of competitive advantage (Porter, 1990). But, perhaps Porter’s most significant contribution to the evolving discourse of strategy was his introduction of the term “competitive advantage,” which he argued “grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm’s cost of creating it” (Porter, 1985, p. xxii). This proposition and its subsequent adoption triggered a long dialogue among strategy theorists about the definition of competitive advantage and its sources. It effectively placed “competitive advantage” at the center of strategy, though some have criticized Porter for narrowing the focus on strategy (Mintzberg, 1990; Bartlett & Ghoshal, 1991). Mintzberg pointed to Porter’s work as the beginning of the positioning school of strategy.
In the 1990s, focus shifted from understanding the external environment to the resource-based view (RBV), examining sources of advantage inside a firm (Barney, 1991; Grant, 1991; Penrose, 1959; Peteraf, 1993; Prahalad & Hamel, 1990; Nelson, 1991; Schumpeter, 1934; Wernerfelt, 1984). The general view had been that a firm’s objectives should include creating a sustainable competitive advantage by intelligently choosing their market. The RBV contributed considerably to the pursuit of competitive advantage by adding to the industry-fit view an effective internal analysis of the firm’s tangible elements (e.g., assets) and intangible elements (e.g., core competencies) in order to enable a firm to do things that “other firms are unable to duplicate” (Barney, 1991, p. 102). The firm can accomplish this objective if it identifies and takes advantage of its valuable, rare, inimitable, and non-substitutable (VRIN) resources (Barney, 1991; Collis & Montgomery, 1995; Conner & Prahalad, 1996; Nelson, 1991; Peteraf, 1993; Wernerfelt, 1984, 1995). Hunt and Morgan (1995) further categorized a firm’s resources with the potential to create competitive advantage: financial, physical, legal, human, organizational, informational, and relational. Prahalad and Hamel (1990) suggested that firms combine superior skills and resources to create core competencies. Day and Wensley (1988) explored how firms use superior skills and resources to achieve an advantage.

It is useful to analyze a firm’s competitive advantage by looking at the resource side, rather than the product side. The analogies of barriers to entry and market share are helpful to highlight strategic options that are available from taking the resource perspective (Wernerfelt, 1984; Peteraf, 1993). The resource perspective helps us understand the extent, pace, and geographical aspects of a firm’s multinational expansion by analyzing how the firm seeks out knowledge-based and property-based resources (Tseng, Tansuhaj, Hallagan, & McCollough, 2007). One study also suggested that limited resources can drive increased innovation (Katila & Shane, 2005). The resource-driven analysis allows for drawing a close analogy with nature and a Darwinian competition for resources, expanding the focus of the search for strategic advantage from the local business environment to include other competitors as well (Henderson, 1989).

The search for economies of scale led researchers toward another, related, source of advantage: economies of “scope” described by Panzar and Willing (1981): “There are economies of scope where it is less costly to combine two or more product lines in one firm than to produce them separately” (p. 268). The economies of scope concept emerged from taking a resource view of the firm; the intuitive logic behind the concept comes from the idea that sharable inputs exist such as shared production capacity, equipment, human capital, and primary resources. The resource view also leads to the conclusion that, by viewing a firm as a collection of resources which can be shared, we may be able to predict the
rate and direction of a firm’s growth (Rubin, 1973) and the entrepreneurial behavior of creating resources “out of nothing” when necessary (Baker & Nelson, 2005).

The resourced-based view shifted the dialogue of corporate strategy because it places the corporation as a central player in its own strategy. A pure industry-fit perspective can encourage firms to pursue similar markets with similar strategies by suggesting markets to be either attractive or unattractive. RBV suggested the truth is more complex, that the beauty of an industry lies in the eye of the firm contemplating it. Expanding strategic analysis from external attractiveness toward internal resources and capabilities led to a more complex view: each combination of external and internal factors combines to identify a unique strategic approach as best and suggests that firms must adjust as either the external or the internal factors change (Rindova & Fombrun, 1999). This view led firms to explore how they are different from their competitors and encouraged them, therefore, to design strategies that were different as well. It no longer seemed logical to conclude whether a market was attractive without also answering the question: to whom? In the mid-1990s Michael Porter addressed the need to consider a corporation’s uniqueness when he proposed: “Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value” (Porter, 1996, p. 64).

The search for unique internal sources of advantage floated from tangible assets and economies of scale toward intangible core competencies, activities, and behaviors which in turn led to an exploration of culture. An early concept that illustrated this exploration of internal sources of advantage and the role of culture in strategy was the “7S” (Pascale & Athos, 1981) which became widely adopted among consultants and managers and proposed a firm should seek alignment between seven factors: strategy, structure (or organization), systems, staff, style, skills, and shared values (or culture). There was an apparent growing sense that culture may play an important role in creating a competitive advantage (Wilson, 1994; Bonn & Christodolou, 1996). The individual—his actions and decisions—were beginning to be considered as mattering more in shaping a company’s strategy which led many experts to turn their attention from strategic management to strategic thinking, as Stacey (1993) proposed:

…that although the procedures and analytical techniques of modern strategic management may not be of much direct practical use, they do create a framework for strategic thinking and, it is assumed, managers who think strategically are bound to act more effectively in dealing with the future. (p. 18)
A firm’s success, it became viewed, depended at least in part on how well managers made decisions regarding what frameworks, policies, and procedures to apply and when to ignore them. One of the earliest practitioners to emphasize the importance of strategic thinking was Ohmae, who proposed that a company’s strategy evolved from the mental approach its managers adopted. His “3C” model, which proposed managers should consider factors related to the customer, competitor, and company when setting strategy, became influential among consultants and managers (Ohmae, 1982). Advocates of the strategic thinking view have suggested that strategy is an intuitive and creative art (Gavetti et al., 2005; Graetz, 2002; Peters & Waterman, 1982; Mintzberg, 1994) in contrast to a rational, analytic, convergent science (Porter, 1980; Porter, 1985; Andrews, 1965; Ansoff, 1965).

Another path of inquiry pushed culture into a more central role shaping strategy: the pursuit of temporary rather than sustainable advantages. Throughout the 1990s, the central goal of a company’s strategy seemed to be the achievement of a “sustainable competitive advantage” (SCA) (Oliver, 1997; Powell, 1992; Rindova & Fombrun, 1999), even while theoreticians struggled to reach consensus on how to define the concept (Cockburn, Henderson, & Stern, 2000; Powell, 2001). In the early 2000s, the pursuit of sustainable (or “permanent”) competitive advantage was put increasingly into question, particularly in an environment of rapid technological change, where a firm could create more wealth by focusing on moving faster than the competition (i.e., identify new opportunities and organizing effectively to pursue them faster than the competition) than focusing on hindering the competition (e.g., by raising a competitor’s costs, keeping rivals off-balance, and excluding new entrants) (Teece, Pisano, & Shuen, 1997). Christensen pointed out that a firm that does the right things, that protects and leverages its sources of sustainable competitive advantage, often make itself vulnerable to attack by “disruptive” companies and technologies (Christensen, 1997). He coined this dynamic “disruptive innovation.”

Researchers concluded that the resource-based view “reaches a boundary condition in high-velocity markets” (Eisenhardt & Martin, 2000, p. 1105). Under the conditions of high-velocity markets, firms would expect a reduced duration of resource-based advantages. Additionally, the planning process for building a resource advantage becomes excessively costly in fast-moving environments.

This is not to say that resources no longer provided advantages, but rather that, in dynamic environments, competitive advantages emerged from a firm’s decision about which resources to use and how the firm uses those changes. Studies have shown, for example, that strategic fit and resource competition contribute positively to firm performance in dynamic environments (Zajac et al.,
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2000). However, many of the studies of how firms use resources to build competitive advantage were developed for stable, not dynamic, environments (Smith & Grimm, 1987).

To adapt to radical environmental change, firms must know when to initiate radical organizational change and still be able to survive such changes (Haveman, 1992; Kelly & Amburgey, 1991). At that point, a firm’s culture starts to play a central role. Studies have shown a link to a sustainable competitive advantage if the firm’s culture has the attributes required to modify its own culture when necessary (Barney, 1986). When competitors start duplicating the firm’s successes more quickly, a common characteristic of dynamic markets, culture becomes increasingly important because sustaining a firm’s advantage depends on its ability to continue evolving faster than the competition. A “shared belief system” makes coordinating activity possible by providing a common framework for noticing stimuli, interpreting them, and coordinating appropriate action (Gilbert, 1989; Kelly, 1955).

Because the dynamic view of strategy considered change that was accelerating, experts adopted the term “hypercompetition” (D’Aveni’s, 1994) to suggest that successful firms’ organizational form, function, and competitive advantage continually and rapidly evolve (Rindova & Kotha, 2001). This view built on Schumpeter’s (1939) concepts of creative destruction and business cycles and argued that both are accelerating across many industries.

Sustaining competitive advantage, then, comes not from maintaining one source of sustainable advantage, but rather by creating over time a sequence of shorter-term advantages (Wiggins & Reufl, 2005). It requires building an advantage more quickly than the competition (as the dynamic strategy approach suggests), while also eroding the advantages held by rivals (D’Aveni, 1994; Christensen, 1997). Hypercompetition thrusts forward culture and the cognitive aspects of competitive advantage. It implies that success in rapidly-changing markets depends in part on a firm’s having the ability and habit of seeing and pursuing emerging opportunities more quickly than the firm’s competitors. This opens the door to an important new form of inquiry because a firm’s ability to sustain this outperformance depends on their managers’ ability to process and make sense from stimuli in compressed time periods (Bogner & Barr, 2000). Specifically, cognitive frameworks influence what stimuli the managers notice, how they interpret what they notice, and what actions the managers should consider and take (Galambos et al., 1986). The shift in focus toward strategy in fast-moving environments drives the origin of competitive advantages out of the board-room into the hands of managers and onto the shop floor. A firm’s ability to sustain an advantage is based on the organization’s ability to change, rather than to repeat a previously successful formula.
Researchers are increasingly exploring Mintzberg’s (1978) view that a company’s strategy emerges through the actions and decisions of a company’s people, not formulated once per year during planning sessions attended by a few top leaders. Many now believe the study of strategy over the past several decades adopted an unbalanced view, considering it exclusively a top-down management process (Shrivastava, 1986) in which individual behavior is almost entirely absent (Jarzabkowski & Spree, 2009). The focus of strategy as a fixed plan or process is shifting toward the view that strategy is what a firm and its multiple actors do, leading to a burgeoning interest in the study of “Strategy as Practice” (Jarzabkowski & Spree, 2009). Under this view, strategy is defined “as a situated, socially accomplished activity” (Jarzabkowski et al., 2007, p. 7). A company’s strategy is viewed as being influenced by individuals and groups of individuals both from inside and from outside the corporation (e.g., consultants, gurus, trade unions, media, regulators) (Whittington et al., 2003; Whittington, 2006a).

Jarzabkowski and Spree (2009) categorized existing Strategy as Practice research along two dimensions. First, they considered the level of praxis studied: micro (e.g., how specific decisions are made), meso (e.g., the organizational, business-unit, or other sub-organization level), and macro (e.g., the institutional, industry, or market level). Second, they considered the type of practitioner studied: the individual actor within the organization (e.g., Sally the CEO or John the human resource manager), the aggregate actor within the organization (e.g., the human resource department or the launch team for ABC product), and the extra-organizational aggregate actor (e.g., a specific environmentalist group, regulator, or a chamber of industry and commerce). Research in this field has often focused on “strategic champions,” individuals who reach beyond their formal organizational responsibilities to shape strategy (Mantere, 2005). Some of the findings from this Strategy as Practice view most directly relevant to this thesis are that executive teams that make decisions faster use more information, not less, and generate more, not fewer, alternatives than slower-deciding executive teams (Eisenhardt, 1989). Another study found that practicing strategists depend on the use of analogies, or metaphors, as a managerial reasoning approach more often than scholarly analyses of strategy would suggest (Giovanni, Levinthal, & Rivkin, 2005).

2.2 How Strategy Concepts May Evolve

Many have undertaken to explain the mechanics by which concepts emerge within various fields, such as mathematics (Ouvrier-Buffet, 2006; Schoenfeld, 1992; Tall, 2004), the social sciences (Bryant, 2007; Charmaz, 2000; Glaser &
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Strauss, 1967; Glaser, 2002), natural sciences (Kuhn, 1962; Nelson et al., 1976), and business strategy (Carlile & Christensen 2005; Gilbert & Christensen, 2005; Hambrick & Chen 2008; Pfeffer, 1993), among others. This study does not attempt to advance the models suggested in these works, nor does it have an opinion as to their validity. Instead, this study will take the position that if such models have been found to be useful in explaining how concepts emerge, they may also be of similar use in the effort to describe how the strategic concepts discussed above may have evolved and may be evolving. This study will draw on three models of concept emergence: the evolution of social movements, the evolution of theories, and the evolution of methods and other concepts in mathematics.

2.2.1 Concept Emergence and Social Movements

Hambrick and Chen (2008) suggested that new academic fields can be viewed as social movements. While the social movements that social movement theorists typically study—movements such as the French Revolution, the American Revolution, the Polish Constitutional movement of 1791, the British abolitionist movement, or the Russian Revolution of 1905—are generally rebellious in nature, requiring change of the prevailing order (Tilly, 1978; Oberschaill, 1973), new academic fields also act as legitimacy-seeking movements because, to become a field, the academic establishment must accept the field through, for example, the acceptance of papers from the aspiring field in conferences, the granting of tenure to members of the field by major universities, and the allowing of members of the field to supervise graduate students (Hagstrom, 1965; Hambrick & Chen, 2008; Kuhn, 1970; Stinchcombe, 1994). The concepts outlined above did not all become fields, of course. But, even without achieving such an accomplishment, each concept exerted significant influence on the domain of business strategy. The “hypercompetition” and the “disruptive innovation” concepts, for example, significantly contributed to and shaped our understanding of business strategy without becoming stand-alone fields.

What is of particular help to us is understanding what social movement theory might tell us about how concepts evolve, or do not, along the path toward being accepted as a field. Social movement theory suggests that this path begins when an informal community gathers around a concept, theory, type of problem, idea, methodology, or technology. Members of this community share papers, cite each other, and attempt to engage communities outside of their own in their dialogue (Kuhn, 1970). This community is first attracted by the observation of anomalies not adequately explained by existing concepts, theories, or
methodologies (Merton, 1973). For this community to advance their movement toward becoming a field, they must (a) have a common interest (Davis & Thompson, 1994) in a long-term shared agenda (a community with a short-term or temporary agenda need not pursue creating a field to achieve its goals) and (b) must believe it cannot achieve its agenda while remaining an informal community (Hambrick & Chen, 2008). To successfully advance their agenda, this community must be able to mobilize support and resources. Mobilization can be described as “the process by which a group secures collective control over the resources needed for collective action” (Jenkins, 1983, p. 532). Hambrick and Chen (2008) have also suggested that differentiation enhances the likelihood of success for a community aspiring to create a new field. If the community does not attack existing fields but differentiates itself and focuses on a problem or anomaly that existing fields are inadequate to address, it will have a greater likelihood of success.

Social movement theory helps us to understand the process through which new fields can emerge and what factors enhance the probability of informal communities succeeding in building acceptance and creating new fields. However, the usefulness of social movement theory to this study extends yet further. Many of the concepts outlined above failed to become fields or disciplines, yet still proved highly influential in shaping the corporate strategy discourse. Social movement theory helps us understand some of the factors that determine how influential concepts may become as they work their way along the path from conception to acceptance.

Before we apply the relevant elements of social movement theory to this thesis, it helps to marry these with another approach to understanding the dynamics through which concepts evolve: theory evolution. Together, these approaches will provide a helpful model for understanding how concepts evolve.

2.2.2 Concept Emergence and Theory Evolution

Various scholars (e.g., Kuhn, 1962; Campbell & Stanley, 1963; Glaser & Strauss, 1967; Yin, 1984) have sought to advance our understanding of the process by which groups of scholars build reliable theories. Carlile and Christensen (2005) synthesized these works into a three-step model.

Step 1: Observation
The process begins with researchers carefully collecting observations about a phenomenon in the form of words and numbers. They measure and take notes. This data becomes the raw material upon which a new theory is based. It is within these observations that the researcher notices and records the anomalies
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(Gilbert & Christensen, 2005) that attract the attention of the foundational informal community with the potential to initiate the formation of a new social movement. What attracts the researchers’ attention is the possibility that the observations may not be adequately explained by existing theories (Merton, 1973).

During this step, researchers often introduce (or create) new constructs that “help us understand and visualize what the phenomena are, and how they operate” (Carlile & Christensen, 2005, p. 3). Examples of such constructs include economic terms such as “utility” or “transaction costs,” abstractions which enable the community of researchers forming around the phenomena to label and discuss the phenomena. These constructs are not necessarily theories (or fields). They may be building blocks with which new theories are constructed.

Step 2: Classification
After the phenomena have been observed, recorded, and better understood with the help of constructs, the researcher or informal community may enter the second stage and categorize the observations into schemes that facilitate the efforts to understand the phenomena. In this paper, for example, I will later classify companies into public v. private entities and into Winners v. Losers. These categories can be considered frameworks or typologies that attempt to organize the observations into a simpler, more useful form.

Step 3: Association (or Defining Relationships)
In the third phase, researchers seek to understand the relationships between category-defined attributes and their observations. They may, for example, seek to measure the relationship between the categories public v. private company and company financial performance (as defined by certain measurable phenomena like revenue growth, profit margins, or balance sheet ratios). They use tools such as regression analysis to assess the strength of such relationships. This thesis, for example, will take the categories of Winner and Loser and seek to measure the relationship of these to the types of word patterns companies use to describe their strategies.

Post-step 3 activity
These three steps lead to a new or improved theory arrived at through induction. Researches can “test” this theory through a deductive process by using the theory to predict observable phenomena and assess how well the new or improved theory predicts phenomena. If the “test” is successful at predicting phenomena, the researchers increase their confidence that the new or improve theory holds. If
the “test” is not successful, the researchers may revisit their theory, adjust it, and test the revised theory, or they may abandon their effort.

A new theory, once validated to a level deemed acceptable with the foundation researchers (or an initial informal community as social movement theory suggests), then comes into interaction with other theories. Views on how this interaction evolves diverge widely and likely depend on how disruptive the theory is to existing accepted theories. To simplify the possible paths a new theory may take, let us generalize that a new theory either integrates into or competes with existing accepted theories. In the first case, in which a theory integrates into existing accepted theory, the theory would fit into the prevailing body of accepted theories by, for example, improving an existing theory or helping us understand observations that current theories do not adequately address. Along this “integration” path, it seems reasonable to expect that the principles of social movement theory, as sketched above, would apply in shaping the theory’s evolution. In the second case, in which the theory is inconsistent with or otherwise challenges existing theories, the theory will enter into the domain of Popper (1971, 1974) and Kuhn (1962) who proposed that the dynamic in which theories compete with each other characterizes scientific progress.

In his book “The Structure of Scientific Revolutions,” Kuhn (1962) suggested that the traditional concept of science developing linearly with a theory being introduced and rejected or adopted by the prevailing body of theories did not adequately describe the pattern of scientific evolution. He proposed instead that science develops through periodic revolutions and outlined three phases through which science evolves:

1. A pre-scientific phase in which several incompatible and incomplete theories compete with each other for acceptance.
2. A normal science phase characterized by one theory, or a set of theories (which he termed a “paradigm”), winning the acceptance of the scientific community. During this phase, a scientist’s job is to expand, detail, elaborate, and further justify the accepted paradigm.
3. A period of revolution science is ushered in when the scientific community observes a new phenomenon that the current paradigm cannot adequately explain and someone proposes an alternative theory or a redefinition of the current theory. The new theory competes with existing theories and may replace the existing theory and introduce a new paradigm that then informs a subsequent normal science phase during which the new theory and, potentially, paradigm are further explored and expanded upon.
This thesis is not interested in discussing the validity of Kuhn’s concept. Rather, I lay it out here because it has been adopted to some extent by a variety of disciplines, including medicine, technology, (Rogers, 2003), economics (Cook, 2003; Smitka, 2003), software engineering (Wernick & Hall, 2004), and leadership, where, for example, Pisapia (Pisapia et al., 2005) suggests that successful leaders demonstrate an ability to shift paradigms (i.e., to be able to “reframe”) with greater agility than less-successful leaders.

2.2.3 Method and Concept Emergence in Mathematics

Several mathematics theoreticians (e.g., Lakatos, 1961; Ouvrier-Buffet, 2006; Schoenfeld, 1985, 1987, 1990; Tall, 2004) have looked into how concepts, including methods, definitions, procedures, hypotheses, and theories, develop. This area of exploration can complement the approaches of social theory and theory formation summarized above. Its contributors follow the formal process by which new mathematical definitions emerge as analogous to concept development. Lakatos (1961) proposed, “A definitional procedure is a procedure of concept formation” (p. 54), and he went on to consider both the social and technical factors that shape the process of concept evolution. Shoenfeld (1990) proposed a four-step process through which mathematical theories and methods are constructed and adopted:

1. Anomalies are noticed in the real world of observable phenomena;
2. Aspects of the real world are represented in a formal representational system (the theory);
3. Manipulations are performed within the formal system, and the theory is adjusted; and
4. The results of the manipulations of the formal system, or the adjusted or new theory, are translated into the real world to see if they can better predict real-world phenomena.

This model shares interesting parallels with those suggested above for social evolution and for theory evolution. What is of particular usefulness toward the purpose of this thesis in the study of mathematical concept evolution, and the reason it is included in the study, is the attention theorists have put on the role of names and words in the process of concept evolution.

Several theorists (e.g., Ouvrier-Buffet, 2006; Rorty, 1989; Schoenfeld, 1990) have likened concepts to technologies. New technologies influence the types of problems we can solve, solutions we find, and cultures we develop. The invention of the scratch plough, for example, made it possible for humans to
develop agriculturally-based communities. These communities developed cultural norms that differed noticeably from hunter-gatherer communities. Ultimately, as agriculture was broadly adopted, it transformed human society. Schoenfeld (1994) proposed that mathematical concepts can be viewed as “intellectual technologies” that work similarly to shape how communities approach problems and what kinds of solutions they see:

A similar case can be made regarding intellectual technologies—namely that there is a dialectical relationship between the character of a research community and the methods it employs. On one hand, the set of available methods provides constraints and opportunities: it suggests which problems can be addressed fruitfully, and which are likely to be awkward or difficult. On the other hand, the choice of methods—Which of the many methods potentially available are used with great frequency? Which are under serious development, and which are largely ignored?—often serves as a good indicator of the perspectives and values of the community. In many ways, then, the evolution of research methods in mathematics education (and more generally, in the social and cognitive sciences) is deeply reflective of the evolution of the field.

2.2.4 Common Agreements in the Process of Concept Emergence

Each of the three approaches to the study of concept evolution—social movement theory, theory evolution, and mathematical concept emergence—approach the general problem of explaining how concepts may emerge and become part of the accepted system (of fields, theories, paradigms, etc.) with different perspectives and vocabulary. One could say, for example, that social movement theory is more interested in the actors in the process: the one making the observation, the characteristics of the community that proposes the new field, and the individuals who accept or reject the field. Theory evolution and mathematical concept emergence, meanwhile, focus more heavily on what the actors of the process do—they observe, create “constructs,” propose new theories, test these theories, etc.—substantially ignoring the characteristics of the actors who do these things.

Nonetheless, or perhaps precisely because of these differences in approaches, the three share notable parallels, common sign-posts in their processes, that may offer a useful composite model for us to describe how the concepts outlined above may have emerged. We can draw at least four common agreements among the three approaches:
1. The process through which a concept emerges likely begins with the perception that current concepts are inadequate (e.g., to explain anomalies or to solve certain problems). They may be responding to perceived anomalies or failures of the existing concepts (Kuhn, 1962) or reveal inadequacies by addressing previously unrecognized practices (Fleck, 1979; Rorty, 1989). Both studies of mathematical concept emergence and of theory evolution speak to an individual or group noticing that observable phenomena are not adequately addressed by existing theories or models. Social movement theory contends that an informal group is more likely to become accepted as a field if it seeks to solve a problem that existing fields cannot adequately address.

2. New words, naming new concepts, are introduced. In theory evolution, researchers introduce new “constructs” that will form the building block of a new theory. In mathematical concept emergence, mathematicians may introduce new “intellectual technologies” (Schoenfeld, 1994) or “language tools” (Rorty, 1989) that facilitate solving the problem. These new words, and the concepts they name, begin to define the community behind the new concept, theory, or potential field, as, per social movement theory, the informal community begins distinguishing itself.

3. The concept and, potentially, the theory or field created through the use of the concept are tested and adjusted. In theory evolution, a new or revised theory is proposed and then tested for its predictive value. In mathematical concept emergence, the formal system, once manipulations have been performed, is translated into the real world for testing. In both cases, where the new or revised concept/theory adequately improves prediction or does not adequately fit observation, adjustments are made. Per social movement theory, we can reasonably assume that this testing and adjustment are taking place during the steps in which the informal community shares papers and attempts to engage other communities in dialogue.

4. The new concept/theory interacts with existing concepts/theories and is rejected by, is incorporated into, or replaces existing concepts/theories. While mathematical concept emergence and theory evolution address the social aspects of the process with less emphasis than social movement theory, all three suggest that the new concept/theory will ultimately fit existing, accepted concepts/theories. This fit can be achieved when the new concept/theory (a) supports and does not challenge existing concepts/theories or (b) successfully replaces existing concepts/theories. The new concept/theory, failing to fit or replace existing, accepted concepts/theories, may alternatively be rejected.
2.2.5 Case Example: The Emergence of the BCG “Portfolio Matrix

To help illustrate how the key concept emergence steps synthesized above can offer a credible explanation of how business strategy concepts emerge, I briefly outline here how one business strategy concept evolved: the BCG Portfolio Matrix. In choosing this concept rather than others cited above, I did not conduct a systematic selection process. My objective here is simply to illustrate how this model may help explain concept emergence. As such, I chose a concept with rich enough historical documentation that we would have material with which to map its evolution.

The BCG Portfolio Matrix also offers another attribute that I felt would make it a helpful illustration of the types of business strategy concepts I will explore later in this thesis. One element of studying the emergence of business concepts that differs from the study of the emergence of concepts in other scientific fields is the significant role that practitioners play in this emergence. If we were to apply this model to the emergence of a new mathematical or physics concept, we would likely see that, because there are relatively fewer non-academic mathematical practitioners or physics practitioners than there are business practitioners (such as managers), we can expect practitioners to play a less significant role in the emergence and eventual acceptance of a new mathematical or physics concept. Albert Einstein’s relativity concept, for example, needed to be accepted by physicists alone. By contrast, business strategy concepts emerge through a process in which both practitioners and researchers or academics play significant roles. We can find some business strategy concepts that are introduced by researchers and then tested and adopted (or rejected) by practitioners. We can find business strategy concepts that are first introduced by practitioners and then tested and adopted (or rejected) by academic researchers. If looked into the emergence of business strategy concepts more deeply, we should not be surprised to find that the process often might be characterized as a dialogue between practitioners and academic researchers. I chose the BCG Portfolio Matrix as my case study because, as we will see shortly, it illustrates nicely this interplay between practitioners and academic researchers.

Observing anomalies/inadequacies

Since its first publication in the Boston Consulting Group’s (BCG) Perspectives essay in 1968 titled “Product Portfolio” (Henderson, 1968), the BCG “Portfolio Matrix” has become a widely recognized and applied strategic framework. The model originated out of the conclusion of BCG consultants that standard metrics, such as profit and return on investment, applied for the performance evaluation of mature businesses did not enable managers to adequately evaluate
growth businesses (Boston Consulting Group, 1968). Between 1966 and 1967, two BCG consultants, Alan Zakon and Sandy Moose, were hired to conduct a study for the Mead Corporation, an Ohio-based enterprise then mainly focused on the paper business. The consultants concluded that, for Mead to remain primarily in its core paper business, it would need investments greater than the company’s earnings. The consultants concluded, therefore, that the company should begin diversifying into high-growth businesses and that the entry into new businesses should be funded by the profit of the core paper business, even though this would mean limiting the financial resources available to the core paper business. Convincing management of their logic would require that management view their company as a portfolio of businesses, a perspective traditional metrics and strategic models did not naturally support (Brown, 1984).

Introduction of new words or concepts
Zakon and other BCG consultants had been working on a model that he intended to help introduce the portfolio concept. Initially, the terms considered for the model were drawn from those of banking products and included “savings account,” “bond,” and “mortgage.” Kent Aldershof, one of the consultants exploring the framework in the mid-1960s, proposed that there were only three types of investments: the savings account “where you put money in the bank, it compounded, you get nothing back along the way, but at the end you took more money out than you put in”; the bond, where “you buy it, it gives you cash flow annually, and at the end of the maturity period you get your money back”; and the third, the mortgage, where, for the holder, “you’re getting a return on your investment, plus you’re getting your money back, but at the end of the period it’s worth nothing.” A fourth category named “wildcat” was later added when Zakon stated, “I couldn’t imagine how to deal with three” (Kiechel III, 2010). The four categories—savings, bond, mortgage, and wildcat—were placed into a two-by-two matrix.

Concept is tested and adjusted
The two-by-two matrix proved useful in helping BCG consultants explain their proposal to Mead management and, more generally, in helping managers understand and make investment choices between portfolios of businesses. Later the terms were translated into metaphors that appeared to resonate more readily with managers: “stars,” “question marks,” “cash cows,” and “pets.” The resulting model is what is now termed the “BCG Portfolio Matrix.”
Concept fits, replaces, or is rejected

Until this point, we might say BCG itself served the function of the “informal community” described in social movement theory, though the consulting firm enjoyed several advantages over the “informal community” you might expect to see converge around a concept. Because BCG was a formal organization, it already had in place the key characteristics that correspond with successful “informal communities.” Its members already had strong working relationships and shared a long-term agenda (i.e., the success of the consulting firm). They also were able to mobilize an impressive battery of resources behind their concept including control over the consulting firm’s publication, Perspectives, which was launched in 1964 and had a circulation approximately equal to that of BusinessWeek, BCG’s business conferences which took place biannually in five countries around the world and were attended by business executives paying $1,500 per person entry, and the far-reaching personal network of BCG’s founder, Bruce Henderson, which afforded him close relationships with academics within and outside of his alma mater Harvard (Kiechel III, 2010).

Over the 1970s and into the 1980s, large corporations diversified, making the BCG Portfolio Matrix an important management tool. By the early 1980s, the BCG Portfolio Matrix concept was being endorsed by organizations like General Electric, Mead, and Olin and had “struck the minds of many corporate executives” (Haseslagh, 1982). Naylor and Gattis (1976) noted, “Top management has become increasingly aware that the old ways of ‘muddling through’ are not adequate to meet the complex problems facing corporations in the future. The need for a more systematic approach for evaluating the consequences of alternative managerial policies … on the future of the corporation has become self-evident.” The potential of the product portfolio approach was endorsed through the emulation of other leading consulting firms such as McKinsey & Company and Arthur D. Little. In the 1970s, McKinsey & Company developed the GE–McKinsey Matrix, a framework based on a 3x3 matrix of industry attractiveness and business unit strength which McKinsey & Company developed to help General Electric prioritize its investments in its numerous business units (McKinsey Quarterly, 2008). Similarly, in the late 1970s, Arthur D. Little’s consulting firm developed the ADL Matrix, a 5x4 framework to help companies generate strategies for various combinations of competitive position and industry maturity.

The academic community did not adopt the BCG Portfolio Matrix as quickly as practitioners. Critics argued that market share does not always correlate with low costs, profitability, or competitive superiority, as the BCG Portfolio Matrix would suggest, and further argued that companies could find additional funding from outside the company, for instance by utilizing more
heavily the assistance of multinational banks (Wündisch, 1973). Critics cited examples of low-share, low-growth businesses that, when taken under new management, became profitable in articles with titles such as “No Bad Dogs” (Kiechel III, 2010). However, the academic community was eventually persuaded at least to incorporate portfolio theory as an element of business strategy. In an attempt to measure the extent to which the portfolio has been embraced by academic researchers, I conducted a search on the academic database JStor, selecting journals under the categories “Business,” “Management,” and/or “Economics” and counting the number of articles that contained both the terms “portfolio planning” and “strategy.” I measured the number of articles that contained both of these terms across three time periods: (a) between 1968 and 1969, (b) between 1970 and 1979, and (c) between 1980 and 1989. I then divided the number of articles found containing the above terms by the number of years in the period to calculate the average number of articles published per year. I found that the average number of articles published per year that contained both “portfolio planning” and “strategy” were:

- 50 articles between 1968 and 1969,
- 100 articles between 1970 and 1979, and

The trend indicates either an acceptance of the portfolio concept or at least an interest and a willingness to engage in a dialogue about it. In 1979, almost ten years after the BCG “Portfolio Matrix” was initially published, Phillipe Haspeslagh, an associate professor at the INSEAD business school in France, conducted a survey backed by the Harvard Business Review. The goal was to determine how widespread the use of portfolio schema like the growth-share matrix had become in the strategic planning of major companies. The survey showed that portfolio planning was becoming a popular method for managing the diversity of businesses within large organizations. Based on the 345 corporate responses, the author concluded, “On the basis of my survey, I estimate that, as of 1979, 36% of the Fortune ‘1000’ and 45% of the Fortune ‘500’ industrial companies had introduced the approach to some extent. Each year during the last five years, another 25 to 30 organizations have joined the ranks” (Haspeslagh, 1982).

2.2.6 Conclusion

My aim in this section was to outline a possible framework for studying the evolution of new concepts, particularly business strategy concepts, in order to
suggest why it may be valuable to conduct the analysis of this thesis. I laid out some of the common elements of social movement theory, theory evolution, and mathematical concept evolution and then illustrated how these common elements may help us construct a useful outline for how a business concept such as the BCG Portfolio Matrix evolved. The four steps suggested here are:

1. A community perceived potential value in introducing new concepts.;
2. Members of this community begin introducing new concepts (or “intellectual technologies” or “constructs” or “language tools”); whether this is in response to perceived anomalies or failures of the existing ones (e.g., Kuhn, 1962) or because they want to address previously unrecognized practices (Fleck, 1979; Rorty, 1989) is less important here than the very phenomena that they introduce new language;
3. If these concepts prove sufficiently persuasive people are compelled to test and modify them as either enhancing existing models or potentially replacing; and
4. The new concept, model, or theory (i) fits into existing, accepted concepts, models, or theories, (ii) replaces them, or (iii) is rejected.

This model suggests that the emergence of a new concept should be accompanied by the introduction of new words. Before a new concept is adopted, it will pass through step 2 of the model. We should be able to observe a community that adopts new and successful vocabularies and another community that has not. In the case of the types of concepts this thesis addresses, those of business strategy, we can expect to see that managers, once they believe the new narratives to be true, begin acting upon the new vocabulary (see Thomas and Thomas, 1928). The new language then has real consequences. They change firm behavior, which one can expect would thereby change a company’s performance.

I will now focus on step 2 of this model, the introduction of new concepts.

### 2.3 The Role of New Words in Concept Emergence

The theories related to concept evolution summarized above place the introduction of new words toward the early end of the process. New words are introduced and may be rejected, but may alternatively be considered, played with, found useful, and come to shape the strategy discourse in the form of a new concept, theory, or even paradigm. For example, Richard Norman (2001, pp. 20–21) suggested that a change in the prevalence of new words introduced and adopted in business in the early 1970s shifted the perspective by which companies approached their markets:
the notion of the ‘market’, consisting of anonymous mass, was being replaced by the notion of the ‘customers’. Customers had faces, they became individuals. Instead of talking about ‘market’, we speak of a ‘customer base’. Market share is no longer (only) calculated in terms of number of customers but in terms of share of the business of each individual customer. ... All this represents a radical shift of strategy and business model archetype compared to the industrial paradigm.

New words, or even shifts in the pattern of word use, may serve as leading indicators of new theories, models, or paradigms to come. Could observing new word patterns, then, give us some insights into how views on strategy may be changing?

To explore this question, it would help to better understand how new words operate in guiding the evolution of concepts, theories, and paradigms. In this section, I briefly summarize some key concepts drawn from researchers who have looked into this role of new words.

2.3.1 Words and Descriptions as “Truth Making”

Rorty (1989) built on Wittgenstein’s (1961) challenge to the modernist notion of language by characterizing two kinds of philosophies on science. One views science as discovering the truth, as describing a real world that is “out there” and observable. In this perspective, science advances by better describing an objective reality. The second views science as “making truth” rather than describing. Rorty (1989) noted, “On this [second] view, great scientists invent descriptions of the world which are useful for purposes of predicting and controlling what happens, just as poets and political thinkers invent other descriptions of it for other purposes. But there is no sense in which any of these descriptions is an accurate representation of the way the world is in itself” (p. 4). Mary Hesse (1980), promoting this view, suggested we think of scientific revolutions as “metaphoric redescriptions” of the natural world rather than more accurate descriptions of nature’s intrinsic character. Knowledge, indeed, can be said to exist only in the collective dialogue through which communities (of scientists but also of other kinds) agree on what is “truth” (Anderson, 1997).

Because new concepts, once adopted by a community, can influence what is observed and can influence behavior (Thomas and Thomas, 1928), they can in a more literal sense become the “truth.” They may become self-fulfilling (Watzlawick, 1984). As Wachterhauser (1986) wrote, “Changes in the world necessitate changes in language, and changes in language affect what we are able to grasp about the world.”
2.3.2 Words as Tools

According to the constructionist view, scientific descriptions do not describe an objective reality. They are not adopted because of their “truthfulness”, but because of their usefulness. New words (or “language tools” or “constructs” or “intellectual technologies”) replace older ones when they are deemed more useful, just as any new tool replaces a predecessor for tasks for which it is deemed more useful. As Rorty (1989) suggested, this process is much like the discarding of the lever once the pulley was invented, or the discarding of gesso and tempera after one learns how to properly stretch canvas. New words equip us with tools for doing things that we could not have done before they were introduced.

2.3.3 Choosing Useful Vocabularies

Sometimes new words can come in the form of single concepts (or terms or language tools). Sometimes build on each other and evolve into larger groups, or systems of words. These might be considered vocabularies. Just as someone fluent in the vocabulary of French and the vocabulary of German would likely choose their vocabulary based on the usefulness of the vocabulary to the situation (e.g., speaking French in France is more useful in getting what you want than speaking German) and not from a belief that one vocabulary is an innately more accurate description of the world, we can choose our vocabulary based on its usefulness in achieving our goals. As Rorty (1989) argued, we may choose Newton’s vocabulary over Aristotle’s because it helps us better predict and shape the physical world, but this does not mean that Newton’s vocabulary is a true (or truer) description of the physical world. The terms Newton introduced do not actually exist in the physical world. The physical world does not speak at all. In France, we use the French word for “cup” not because it more accurately describes the innate character of a cup but because it is the more useful language tool for the occasion.

2.3.4 Traps and the Need for New (Different) Vocabulary

Later in this thesis, I will suggest that, to study the business strategy concepts outlined above and observed as prevalent today, it would be valuable to use a vocabulary different from what we typically apply to business and business strategy. The rationale for this assertion is that sometimes it is not possible to understand a system by using the vocabulary of that system. Stolzenberg (1984) called such a situation a “trap” and characterized it as “a closed system of
attitudes, beliefs, and habits of thought for which one can give an objective demonstration that certain of the beliefs are incorrect and that certain of the attitudes and habits of thought prevent this from being recognized” (p. 260).

I will briefly summarize the concept here and then suggest its relevance to this thesis. We all are susceptible to adopting certain givens—beliefs and assumptions that we do not tend to question, attitudes, habits of thought, and other social and psychological phenomena—that influence how we formulate a question, approach its answer, and judge possible answers. We arrive at these givens through a process of “acceptance.” This happens when, for example, we observe occurrences repeatedly and, over time, stop questioning them. The sun first rises in the east, and it is morning. After observing this a few thousand times, we stop questioning whether the sun rising means it is morning. We are not conscious of this process of “acceptance”; “in fact, from the standpoint of the ‘performer,’ there is no such act” (Stolzenberg, 1989, p. 262). We may become aware of the fact that we have accepted that the sun’s rising means it is morning only if we are asked to question whether it really is the morning.

When we solve problems, we bring to the problem a number of such accepted beliefs that we are unaware that we have accepted and have stopped questioning. When I cite an authority in this thesis, for example, I am doing so with the hope that you will accept that element of my narrative because you have come to accept the authority. If you were to read and question each source I cite here, your reading of this thesis would grow into an overly-burdensome effort. Our accepted beliefs, attitudes, and habits of thought are unavoidable and, indeed, necessary for us to function. It is inefficient, perhaps impossible, for us to rethink and question everything. When we are presented with a new belief and asked to accept it, we conduct some kind of proof. This proof involves testing whether it fits observable phenomena (as the models for concept development outlined above suggest), but the proof also often involves testing its compatibility with our existing accepted beliefs. If the new proposed belief fits observation and our currently accepted beliefs, we may also accept the new belief.

These beliefs build on each other, interrelate, and form a “belief system” and lead us to “the desire for a system, a worldview, that can be maintained and one will want to maintain” (Rorty, 1984, p. 269). The desire to maintain such a worldview creates the risk that we will seek to protect this belief system. The belief system becomes what Rorty called a “self-justifying” or “irrefutable” belief system. The consideration and judgment of new concepts are performed from inside this belief system; as a result, such concepts are accepted when they reinforce the belief system. This process creates the risk of a “trap.” Rorty (1984) noted that once a concept “is accepted and incorporated into the system it cannot be shown to be incorrect in terms of the system itself.” In other words, if
the concept is deemed consistent with and incorporated into the vocabulary and beliefs of the system, it is less likely that the system’s vocabulary and beliefs may reveal the concept to be false.

It seems reasonable to say that the field of business strategy is a belief system. It is composed of concepts and theories that we incorporated into the system because they fit with and contributed to the system. A researcher working within business strategy participates in a community of other researchers and practitioners with which he shares a common vocabulary and likely shares a common worldview. All of these characteristics are helpful in advancing our understanding of business strategy, yet they also increase the risk of traps emerging.

Since a trap, as defined, cannot be identified from within the system, identifying that one is in a trap requires an outside observer. This outside observer uses a different vocabulary and/or a different belief system to approach the belief that has since become a trap, he is more likely to correctly notice the inconsistency with his system and thereby more likely to see the trap.

2.3.5 Summary

I have argued that the introduction of new words or shifts in word use may serve as “leading indicators” of new concepts, theories, and/or paradigms. As such, it could be useful to understand the role new words and patterns of words may play in shaping the discourse. A review of key relevant thought on the subject suggests that we can view words not as describing the truth but, for several reasons, as making the truth. It can play a role similar to that of a tool, which helps us solve new problems or solve old problems more effectively.

New words or patterns of word use need not be limited to specific terms, but can also include alternative vocabularies from which we can choose the ones best suited for our purposes. Often, choosing vocabularies based on different systems is valuable, particularly because we tend to fall into “traps”—incorrect or unhelpful beliefs that we cannot distinguish as such from inside the system and vocabulary in which we operate. Words and concepts introduced from different vocabularies, which are based in different belief systems, can help us distinguish when we are in a trap and extricate ourselves.

With this thesis, I will attempt to observe shifts in the use of word patterns in the area of business strategy. The hope is that we may be able to observe indications of new words and word patterns being introduced that are shaping the “truths” explored in business strategy. To help mitigate the risk of falling into
“traps,” we will apply a vocabulary different from that of the business strategy field.

2.4 Considering “Concepts” to be Narratives

Until this point, I have used a fairly broad term “concepts” when discussing the ideas outlined above. I have proposed that concepts are introduced and evolve to have varying levels of impact on business strategy, ranging from being rejected, to becoming accepted concepts, new theories, new fields, or new paradigms. I would now like to suggest that what I have been calling “concepts” could be equally well termed “strategic narratives” and that doing so would offer some advantages over studying them as concepts.

2.4.1 A Definition of Strategic Narratives

To open my proposal that we consider the “concepts” outlined above to be “strategic narratives,” I will first define “strategic narrative.” I draw on three areas that have found it useful to study “strategic narratives” in some detail.

Narrative analysis is related to a broader approach called content analysis which originated as a quantitative analysis of newspapers in the early 1900s and developed through the 1940s into a sophisticated tool for analyzing mass media (at that time, the process was sometimes referred to as “Propaganda Analysis”). Content analysis has become a technique used widely across numerous disciplines to divide text, images, and symbolic matter systematically into categories, following rules of coding (Krippendorff, 2004; Stemler, 2001).

Military theorists began studying what they term as “strategic narratives” about two decades ago (Freedman, 2006; Vlahos, 2009). Experts have defined strategic narratives as “compelling storylines which can explain events convincingly and from which inferences can be drawn” (Freedman, 2006) or, alternatively, “an interlocking framework of ‘truths’” that explains how a conflict came to be, where it is going, and how it should be argued and described (Vlahos, 2009).

To further inform my definition of a “strategic narrative,” I will additionally draw from management studies. Narratives, as will be outlined in the next section, Section 2.4.2 “Reframing strategic concepts as strategic narratives,” have been quite broadly applied to advancing our understanding of management. “Strategic narratives,” which I will define as a subset or particular type of narratives, are explicitly mentioned within the study of scenario planning. In general, students of scenario planning define a scenario as a kind of
narrative that plays a descriptive rather than a prescriptive role, helping managers imagine a possible future state of the environment as a starting point for designing a strategy to prepare for the potential future state, by developing narratives that describe a range of possible futures (i.e., scenarios) in which their firm will need to compete (Brown, 1968; Lempert et al., 2006; Schoemaker, 1993). In such applications, narratives are used to describe external factors over which the firm exerts no control. Such external factors often include exchange rates, economic growth rates, changes in the broad regulatory policy, and socio-demographic shifts. One might say a scenario is a narrative in which the corporation creating the narrative plays no role, or at least in which it has no influence. The study of scenario planning, then, gives us our clearest definition of a strategic narrative by using the term “strategic narrative” to define what a scenario is not. A strategic narrative is a narrative in which the corporation does play a role and has influence. Van der Heijden (2005) defined a “strategic narrative” as:

> a causal story, linking an action option with a goal (“if I do this, then this will happen, which will lead to that, and so on until I achieve my objective of A”). It can be seen as one pathway through the web of a person’s option map. (p. 114)

This application of narratives exclusively to external factors is consistent with the studies of scenario planning scholars (Huss, 1988; Linneman & Klein, 1985; Wack, 1985a; Wack, 1985; Schoemaker, 1993). Therefore, we unexpectedly arrive at the clearest definition of a “strategic narrative” in the management studies context, not from scholars who want to understand what a “strategic narrative” is, but from those who want to clarify what their topic of interest—a scenario—is not.

Drawing from these two definitions of a strategic narrative—“an interlocking framework of ‘truths’” from military science and “a causal story, linking an action option with a goal” from business strategy—this thesis defines a strategic narrative as a composite of both definitions: a story, or a sequence of events, that communicates why strategic actions chosen will result in the successful realization of a goal.

### 2.4.2 Reframing Strategic Concepts as Strategic Narratives

To illustrate how the strategic concepts outlined in Section 2.1 “Strategic Thinking: A Review” can reasonably fit this definition, consider three of the concepts introduced. “Resource based competition” might reasonably be
translated into a narrative such as: a company gains control of a critical resource, resulting in its competitors being unable to access this resource or requiring that competitors access the resource at a higher price; as a result, the company that enjoys control over the resource gains a relative advantage. The “strategic fit” concept could be said to evoke a narrative such as: a firm assesses a market better than its peers (e.g., by using Porter’s industry attractiveness framework) and so makes a smart decision as to which industry it competes in, while its competitors makes a less optimal decision; as a result, the first firm wins.

In smaller and/or more centralized organizations, one would expect narratives to play a larger role in shaping business strategy. Narratives influence individual behavior, as illustrated in some detail in Section 2.4.3.4, “Strategic narratives and expertise and expert performance,” so when a company’s strategy is influenced more heavily by one or a few individuals, narratives naturally play a more central role. This is the case in entrepreneurial firms, where “expert scripts”—sequences of events that entrepreneurs develop through experience—guide an entrepreneur in processing information and making decisions (Mitchell et al., 2009). The “hypercompetition” concept could reasonably be interpreted to evoke a narrative in which one company is able to react quickly to market changes, pursuing a temporary advantage rather than waiting to find a sustainable advantage; meanwhile, a competitor responds more slowly, so the first company wins.

Each of the strategic concepts outlined in Section 2.1 “Strategic Thinking: A Review” imply, at a general level, that companies that adopt the particular concept are more likely to succeed than a company that does not. As such, each concept evokes a sequence of events (e.g., one company adopts, another does not, resulting in the adopting company winning), so each concept could be reasonably reframed a “strategic narrative” as defined in Section 2.4.1 “A definition of strategic narratives” above.

2.4.3 The Application of Narratives and Strategic Narratives to Business Strategy

In this section, I propose that considering strategic concepts to be “strategic narratives” is worthwhile because this definition builds on a rich body of work applying narratives to business studies. Specifically, I will outline four domains in which narratives and, where relevant, strategic narratives have proven to be particularly valuable in advancing our understanding of strategy, management, and organization: military strategy, organizational behavior, business strategy, and expertise and expert performance.
2.4.3.1 Strategic Narratives in Military Strategy

I have previously mentioned the role strategic narratives have played in military strategy with the goal of arriving at a definition of the term “strategic narrative.” In this section, I build on that discussion with the aim of helping to illustrate why military theorists have found narratives to be helpful tools. I start with military strategy because researchers investigating this domain have generally approached their goal of understanding strategic narratives with greater urgency than in other areas.

As the nature of modern warfare shifts to decentralized networks away from organizations with centralized command and control, strategic narratives become increasingly important military tools because they influence the level of support within which a military must operate. Militaries find it easier to gain support (e.g., financial, moral, and otherwise) when the citizenry it serves is sympathetic. This challenge of managing social support for military action has attracted considerable interest among military theoreticians, and a prevailing conclusion is that narratives play an essential role in shaping support from key stakeholders and, therefore, in influencing the likely success of a military strategy (Porter & Mykleby, 2011; Culkin, 2013).

The strategic narrative of the September 11, 2001 (9/11) attacks on the Twin Towers in New York offers a useful, modern example of the relevance of strategic narratives from a military perspective. In 2003, 75% of Americans polled supported the US response to the 9/11 attacks—its offensive against Iraq (USA Today/Gallup Poll, March 2003). Four years later, in April 2007, 58% of participants of the same poll felt that the US attack on Iraq had been a mistake (USA Today/Gallup Poll, April 2007). Many military experts find strategic narratives, or the discussion of historic events, to be a useful tool in explaining this shift. Some have argued that the attack was used as a narrative tool to shape public opinion and gather support for the United States government’s military intentions. Soon after the 9/11 attacks, Americans overwhelmingly supported the US offensive against Iraq. As information entered the national discourse that was inconsistent with the narrative that supported an attack on Iraq, however, support for the US offensive shifted away. Osama bin Laden, the man considered to be behind the 9/11 attacks, was not in Iraq, for example, and reports that Iraq was building weapons of mass destruction were increasingly put into question. Understanding the narrative that the public holds for 9/11 is central to understanding the shift in support, as this excerpt illustrates (note that this illustration equates “narrative” to “story”):

The point of this discourse is that the attacks of September 11th form part of a narrative—or a story—for the American public that shall exist
in some form forever. While the public regarded the attacks as a defining [event]—and a break somehow from the past, the elements of the story making up the September 11th attacks are slowly being pried apart and reconstituted by a variety of different “communities,” including intelligence professionals, academics and the news media. Each of these communities struggles to determine when the story of September 11th actually began. (Casebeer & Russell, 2005, p. 1)

Strategic narratives have garnered increased interest among military experts in recent decades, but their role as a military tool to mold the psychology of soldiers, and thereby influence outcomes, was recognized long before. Carl von Clausewitz pointed to their importance in the early nineteenth century, writing, “They direct the enquiry exclusively toward physical quantities whereas all military action is intertwined with psychological forces and affects” (von Clausewitz, 1873, p. 136). Since then, many military theorists have indicated a link among narratives, morale, and success (Boyd, 1976; Vlahos, 2009).

From the beginning of recorded history, strategic narratives have been recognized as a critical element of conflict because the prevailing narrative communicates who will win the war. People naturally prefer to support the winner, as Niccolo Machiavelli eloquently advocated in the early sixteenth century:

…because if the two powerful neighbors of yours come to blows, either they are such that, one of them winning, you have to fear the winner, or not. In whichever of these two cases, it will always be more useful to you to come out openly and make a good war; because in the first case, if you do not come out, you will always be the prey of whoever wins, with the pleasure and satisfaction of the vanquished, and you have neither reason nor anything that might defend you or that might give you shelter. Because he who wins does not want suspect friends who did not help him in adversity; he who loses does not shelter you, because you did not want to rescue his fortune with arms in hand. (Machiavelli, 1997, p. 83)

History is littered with examples of strategic narratives playing significant roles in determining the outcomes of military conflicts. In 1453, for example, Sultan Mehmed II, leader of the Ottoman Empire, held Constantinople under siege. The battle seemed to have fallen into a stalemate, until a critical turning point in Mehmed’s favor occurred: after nearly six weeks of battle, the moon rose in an eclipse over Constantinople. This occurrence was interpreted to prophecy
the fall of the city, the capital of the Byzantine Empire, and so, indeed, it came to pass (Runciman, 1990).

In conclusion, from a military perspective, strategic narratives have long been studied as important influences in the outcomes of military efforts through their influence on the psychology and motivation of soldiers. In the last decade, interest in strategic narratives has accelerated as their role in determining the nature and level of support from stakeholders has become more necessary for military success.

2.4.3.2 Strategic Narratives and Organizational Behavior

Researchers have found that narratives are a useful tool for understanding organizations and, more specifically, the role organizations may have in shaping a company’s strategy (Boje, 1991; Boje, 2001; Czarniawska-Joerges, 1996; Czarniawska, 1997a; Czarniawska & Gagliardi, 2003; Gabriel, 2000; Gabriel, 2004; Hardy, Lawrence, & Phillips, 1998; Hatch, 1994; Humphreys & Brown, 2002; O’Connor, 1995; Roe, 1994; Rappaport, 1993; Søderberg, 2006; Weick, Sutcliffe, & Obstfeld, 2005). We see some indication of narratives playing an indirect role in influencing strategy through their shaping of culture and identity in ways that guide behavior. One theory from such studies that is of particular relevance to this thesis is that, while values have a meaningful impact on an organization’s culture, strategic narratives may play an equally important (and arguably more important) role. This theory is directly relevant to competitive advantage because, if strategic narratives impact culture, they impact behavior and hold the potential to create a differentiation in behavior between firms.

Ulf Hannerz (1969) pointed out that even cultures with similar values and aspirations have been shown to remain profoundly different in the way they organize their patterns of behavior. People in well-off communities and those in poor ghettos, for example, share equivalent desires for financial security and family, yet the strategies and behaviors they follow to pursue these shared values can differ dramatically.

An alternative view is that behavior is shaped by a culturally-held “playbook” of habits or strategies of action. As Ann Swindler (1986) offered in her breakthrough article on organization and culture, “Culture in Action: Symbols and Strategies”:

Students of culture keep looking for cultural values that will explain what is distinctive about the behavior of groups or societies, and neglect other distinctively cultural phenomena which offer greater promise of explaining patterns of action. These factors are better
described as culturally-shaped skills, habits, and styles than as values of preferences. (p. 275)

In this view of culture being driven by a repertoire or playbook of action strategies, rather than by fixed values, one study has proposed that culture does not unify action in pursuit of a common set of goals, but rather allows for various actions people may take to achieve various goals (Hannerz, 1969). That view defines strategy not as a consciously conceived plan, but rather as a “general way of organizing action to achieve a variety of goals” (Swindler, 1986, p. 277), proposing that, in order to achieve goals, people turn to culturally-embedded, subconscious habits or worldviews (Geertz, 1968).

Narratives may play a role in shaping a company’s strategy also through board members whose expertise, captured in the form of strategic narratives or “expert scripts,” can influence a firm’s acquisition and other key corporate decisions (McDonald et al., 2008). A key insight from the study of narratives and organizational behavior, then, is that, if gaining an advantage requires differing behaviors, and different sets of culturally-imbedded strategic narratives shape behavior, then culturally-embedded narratives influence a firm’s competitive advantage. Though this thesis does not depend on showing a linkage between narratives and firm behavior, ideas from the study of narratives in organizational behavior do point to the possibility that such a link may exist: narratives influence actions which define strategy.

2.4.3.3 Strategic Narratives and Business Strategy

Narratives have similarly been found useful in advancing our understanding of business strategy. For example, many researchers have studied the usefulness, particularly in large organizations, of narratives for building awareness, understanding, and support for the new strategy (Barry & Elmes, 1997; Ireland & Hitt, 1997; Heracleous & Barrett, 2001; Vaara, 2002; Deighton et al., 1989). Research indicates that viewing the strategy process as a narrative development process itself and adopting that view involves the organization in a way that helps them understand, recall, and make sense of the strategy (Quinn, 1992). Corporations that have redesigned their strategic planning processes with this view in mind have found that doing so helps build support for the strategy and improve recall among the employees (Shaw, Brown, & Bromiley, 1998), 3M being a commonly cited example. Strategy as a narrative can be a more helpful metaphor for the strategic planning process than prior metaphors such as strategy-as-architect (Andrews, 1971) or strategy-as-craft (Mintzberg, 1987) because the strategy-as-narrative metaphor captures the collaborative and recursive nature of the strategy process (Barry & Elmes, 1997). Further
underscoring the role narratives play in strategy execution, narratives have proven to be valuable in helping the owner of a strategy (e.g., an entrepreneur) win outside support by building legitimacy among investors, competitors, and customers for the strategy, thereby opening access to new capital and market opportunities (Lounsbury & Glynn, 2001; Aldrich & Kenworry, 1999).

To summarize, the study of narratives in business strategy points to idea that the development and communication of a strategy could be likened to the process of creating a narrative and that doing so may help build understanding and support of that strategy. This direction of exploration is similar to the direction of the study of narratives in military strategy in that both seek to understand the role narratives play in building support for the strategy.

2.4.3.4 Strategic Narratives and Expertise and Expert Performance

In the field of expertise and expert performance, narratives have long played a central role. Researchers in this field study experts from across a broad swath of domains—dancers, musicians, artists, athletes, and most frequently chess players. Researchers like de Groot (1978), for example, have subjects verbalize their thought processes as they contemplate making a move while playing chess to analyze the sequences of moves chess players explored and to measure the number of moves they considered and the depth with which they studied their options. By contrasting chess experts with novices (as well as experts and novices across other domains), researchers have found that expertise has less to do with innate capability than with the expert’s ability to “circumvent basic limits on working memory capacity and sequential processing” (Ericsson & Charness, 1994, p. 725) and that narratives play an important role in this circumvention.

Experts retrieve information from long-term memory and store it in short-term working memory differently than novices do (Lord & Maher, 1990). The experts are able to implement more complex strategies by applying a “chunking” process. While a novice might think about moving a specific piece to a specific space on the chess board, his expert opponent is thinking about applying higher-order formation—the “Lasker-Bauer combination,” for example (Feltovich et al., 2006). This chunking process allows experts to hold a larger number of piece-position combinations effectively in short-term working memory because each combination is composed of multiple pieces. These chunks appear to be more like narratives than patterns because they involve sequences of moves, one following another.

A broadly accepted view of short-term memory clarifies why narratives are critical to this chunking process. The Baddeley model of short-term memory proposes that short-term memory is composed of four systems:
Analyzing How Strategic Concepts Emerge

a. a phonological loop, which deals with sounds and phonological information;
b. a visuospatial sketchpad, which holds and allows us to manipulate visual information;
c. an episodic buffer, which links units of visual, spatial, and phonological information with time sequencing into single units; and
d. a central executive, which coordinates the three other systems (Baddeley, 2000).

The episodic buffer places narratives as critical supporting structures for explaining an expert’s ability to identify a winning move more rapidly and accurately. When an expert calls forth a narrative—sequence of moves he has seen before—he or she is able to think through the likely outcome of that sequence more quickly than a novice, who must think through each move as a separate event. The expert can thereby process more potential moves than a novice can in the time allowed.

The studies of expertise and expert performance, then, place narratives at the center of the ability to devise a superior strategy. Narratives direct our attention, help us hold more information (larger “chunks”) in working memory, and help us access long-term memory. In other words, narratives help us deal with the core cognitive barriers that stand between novices and experts (Ericsson & Charness, 1994; Schultetus & Charness, 1999).

2.4.3.5 Conclusions

The four perspectives summarized here support the view that narratives and strategic narratives specifically have proved useful in advancing our understanding of strategy, management, and organization. From military science, we see that narratives guide who soldiers and employees believe will win, how they will win, and what actions they must take to win. Organizational studies lead us to appreciate that strategic narratives can create a unique set of behaviors and thereby engineer differentiation, which is essential to competitive advantage. From business strategy, we see narratives helping us advance our understanding in how groups create strategy and communicate it to build buy-in. Finally, the study of expertise and expert performance shows us the influence that strategic narratives can have over our ability to see winning moves. Considering the strategic concepts outlined in Section 2.1 “Strategic Thinking: A Review” as strategic narratives, then, may allow us to contribute to and build on these rich bodies of work.
2.4.4 Narrative Analysis

I proposed so far that we might consider strategic “concepts” to be “strategic narratives” and that this would be consistent with and hopefully build on a rich base of related research across military strategy, organizational behavior, business strategy, and expertise and expert performance. An additional benefit is that it opens up to us the possibility of applying an established methodology, narrative analysis, that can help us observe, classify, and draw useful conclusions from their study. The “strategic narratives” outlined in Section 2.1 “Strategic Thinking: A Review”, then, become useful material for helping us understand how word patterns may be shifting in the business strategy field and so potentially offer some foresight into what new theories, fields, and paradigms may be on the horizon. In this section, I summarize what narrative analysis is, how it has been applied, and why it may be useful within the context of this thesis.

Content analysis originated as a quantitative analysis of newspapers in the early 1900s and developed through the 1940s into a sophisticated tool for analyzing mass media (at that time, the process was sometimes referred to as “Propaganda Analysis”). Content analysis has become a technique used widely across numerous disciplines to divide text, images, and symbolic matter systematically into categories, following rules of coding (Krippendorff, 2004; Stemler, 2001).

Since 1958, when Vladimir Propp’s *Morphology of the Folktale* was first translated into French and English, the application of narrative analysis has stretched far beyond its origins in literary theory. Its suggestion that a text or narrative can become an insightful subject of study itself, rather than a tool for studying the text’s author or the environment in which it was created, has found relevance in an expanding breadth of fields including history, anthropology and folklore, psychology, sociolinguistics, sociology, law, medicine, nursing, occupational therapy, and social work (Riessman, 2001).

In the field of business studies, narrative analysis has been most enthusiastically embraced by those studying organization and culture. It has become a popular approach for understanding and explaining the dynamics of organizations (Boje, 1991; Boje, 2001; Czarniawska, 1995; Czarniawska, 1997b; Czarniawska & Gagliardi, 2003; Gabriel, 2000; Gabriel, 2004; Hardy, Lawrence, & Phillips, 1998; Hatch, 1994; Humphreys & Brown, 2002; O’Connor, 1995; Rappaport, 1993; Roe, 1994; Søderberg, 2006; Weick, Sutcliffe, & Obstfeld, 2005). Narrative analysis has contributed important new perspectives and insights. For example, it leads us to appreciate the roles narratives play in developing group identity and memory (Norrick, 1997; Rowe, Wertsch, & Kosyaeva, 2002;
Analyzing How Strategic Concepts Emerge

Wertsch, 2009). Different research results have contrasted the traditional logical form of knowing with a narrative knowing (Bruner, 1986; Bruner, 1990) and have led us to consider that such narrative knowing comes about through a process of organizing our experiences into a schema, for which a narrative is a natural vessel (Czarniawska, 1997b).

Disagreements persist about what a narrative is. Some scholars cite as a requisite that the narrative has a narrative subject or lead actor, a goal or outcome that the subject seeks to achieve, and a set of forces that enable or impede the subject attaining the desired goal (Fiol, 1989; Martin, Jennings, & Jennings, 2007; Watson, 1989). While others debate whether these three elements are necessary, most scholars agree that a temporal sequencing of events, or plot, is a necessary component of a narrative (Barry & Elmes, 1997; Czarniawska, 1997b; Gabriel, 2004; Glaser, 1984; Labov, 1997; Leddo & Abelson, 1986; Read, 1987; Riessman, 1993). Most scholars agree that a narrative should include an actor who is the primary agent in the narrative (Fiol, 1989; Martin, Jennings, & Jennings, 2007; Watson, 1989).

Narratives, or “scripts” as some researchers call them, also shape the reality their narratives create (Bruner, 1991) and can give us a view into how their narrators see the world; they help us understand a narrator’s “picture of the universe” (Benjamin Lee Whorf as quoted in Carroll, 1956, p. 214). They help us predict how efficiently people process information and thereby how likely they are, for example, to be successful in launching a new venture (Mitchell et al., 2009; Glaser, 1984; Read, 1987). They can help us understand what options the narrators see and which options they prefer. An entrepreneur’s past success has been shown to not only enhance his ability to comprehend and process information (Abbott & Black, 1986; Glaser, 1984; Mitchell et al., 2009), but also to correlate with his ability to acquire resources, such as investment and staff, and thereby his chances at success in future business endeavors (Gompers, Kovner, Lerner, & Scharfstein, 2008). That said, the study of narratives has been oriented more often to the past than the future. A narrative’s plot, for example, is typically analyzed toward understanding how the narrative explains “what happened next” (Hytti, 2003).

Researchers use a variety of methods to gather the material with which to conduct a narrative analysis. First-hand interviews are one of the primary methods (Söderberg, 2006) because they can help the researcher adjust for certain biases. In analyzing narratives, it is important to consider for whom the narrative is being related. In addition to a plot, most narratives also have a teller and a listener (Czarniawska, 1995). The narrative then depends in part on who the listener is, and in what context the narrative is being relayed. The implication of this to some researchers is that, in collecting narratives, one must seek to
diminish the influence of the listener and context as much as possible in order to isolate what the speaker of the narrative intends. For example, as detailed in Section 2.3.4 “Traps and the need for a new (different) vocabulary,” the vocabulary the listener uses to categorize or otherwise analyze the narrative he or she receives limits the types of narratives he or she recognizes or the meanings he or she associates to the narrative. As another example, consider that the way someone relays a narrative at work may differ significantly from how he or she relays the same narrative at home or in a court. The narrator’s tone, body language, and choice of words may differ. He or she may even leave out or add entire elements of the narrative. Performing first-hand interviews in the field rather than studying edited documents is one means to help account for such effects (Czarniawska, 1997b), but studying narratives spoken or written with a specific audience in mind can also provide important information about the narrative’s production (Hytti, 2003).

It is not feasible to conduct first-hand interviews to extract the material for analyzing most of the concepts or “strategic narratives” outlined in Section 2.1 “Strategic Thinking: A Review” because it is not clear who one should interview for “strategic narratives” that are now broadly adopted. In the rare case that we might identify such a person, it is likely that that person is no longer living. Still, there is substantial precedence for analyzing data extracted without first-hand interviews, particularly in the areas of business and management where researchers have analyzed formal corporate documents, public media, and internet message boards for linguistic clues that help us understand corporate management and performance (Antweiler & Frank, 2004; Bowman, 1984; Das & Chen, 2007; Demers & Vega, 2010; Henry & Leone, 2009; Li, 2006; Li, 2008; Li, 2010; Loughran et al., 2009; Tetlock et al., 2008). Such methods have proven useful in helping us better understand a company’s ability to raise capital and manage investor sentiment (Martens et al., 2007) and interaction with the business media (Core et al., 2008; Davis et al., 2007; Tetlock, 2007). Such analyses seek to quantify data drawn from text information, rather than interviews, and make such data more easily relatable to numerical financial data, thereby approaching a more holistic analysis of a corporation.

Some studies extract information manually, with researchers reading and coding text by hand. Others automate the process with computer programs—such as General Inquirer (GI) or Linguistic Inquiry and Word Count (LIWC)—that count word frequencies following a defined dictionary (Davis et al., 2007; Kothari et al., 2008; Pennebaker et al., 2007; Tetlock, 2007). Manual extraction allows researchers to extract and classify meanings that are difficult to program into an automated system when, for example, a word can take on multiple meanings depending on its context and placement. The output of manual
approaches, however, can be influenced by the prejudices and predispositions of the researcher, if not properly structured. While automated approaches remove some potential researcher bias, their ability to dissect nuances of meaning are limited.

For this study I initially attempted to apply both approaches—manual and automated—but ultimately found that manual extraction offered the most valuable insights. I attempted to deal with the potential researcher bias exposed by manual extraction by having two people (me and a research assistant) independently code the material. We contrasted our results, found relatively few instances of disagreement, discussed these differences, and then agreed on the proper coding.

### 2.4.5 Summary

In this section, I have proposed that it is reasonable to considering the “concepts” outlined in Section 2.1 “Strategic Thinking: A Review” to be “strategic narratives” and that doing so offers several benefits. This allows us to relate our exploration of concept emergence to, and to hopefully meaningfully contribute to, a rich body of research related to narratives and strategic narratives, particularly in the areas of organization and business strategy. More importantly, by viewing “concepts” as “strategic narratives,” we are able to apply a narrative analysis to our observations of these “strategic narratives” with the aim to extract useful insights from the exercise.
3. Foundational Elements of the Research

Having laid out the proposition that we might learn something from applying a narrative analysis methodology to the study of concept emergence in the area of business strategy, in this section, I will now describe how this thesis will approach the opportunity. I present my research question, the core narrative analysis tool I applied in order to address this question, and offer a high level overview of my approach.

3.1 Core Narrative Analysis Tool: The 36 Stratagems

To conduct the analyses proposed by this thesis and research question involves observing the narratives told by corporations and their leaders and coding these using some kind of catalog or schema. We need, therefore, to define a catalog or schema. Several approaches to finding or developing such a catalog or schema are available to us, including developing a dictionary of strategic narratives specifically for this thesis and searching for a catalog that may already have been used for a similar purpose.

One challenge in developing a catalog or schema for coding is that if we use the vocabulary of business strategy we raise the risk of falling into a “trap,” as defined in Section 2.3.4 “Traps and the need for new (different) vocabulary.” The coding effort could lead a researcher to try to fit a newly introduced narrative into categories defined by past strategic narratives and thereby bias the coder away from recognizing that a new narrative has been introduced. It is therefore helpful for the catalog to be rooted in a vocabulary outside of that of business strategy. It would also be important to feel comfortable that the catalog was sufficiently broad to enable the coder to recognize new narratives when they are introduced. For these two reasons—because the vocabulary is rooted outside that of business strategy and because I believe the catalog to be sufficiently broad—and because of my familiarity with the catalog, I chose to use the set of strategic narratives I came across 12 years ago and have been working with since (see Section 1.1 “Research Question”). This catalog is a historic Chinese set of narratives called *The 36 Stratagems* (Hou & Luh, 1998; Krippendorff, 2003; von Senger, 2000; Verstappen, 1999; Xuanming, 1992). Over the remainder of this section, I will provide a brief, relevant background on *The 36 Stratagems*. 
The 36 Stratagems was developed during China’s Warring States Period (475–221 B.C.). While the precise history and author of the text remains unknown, many experts believe that it was written sometime between 500 and 1500 A.D. and that it references Chinese military and political stories from as early as 1000 B.C. The text is a product of oral myth-building. It catalogs, in thirty-six narratives, the patterns of military and political stories that were passed down through about twenty generations. Many of these stories live on today as myths that parents tell their children, and even continue to inspire books and popular cinematic dramas such as the 84-episode television series, “A Romance of Three Kingdoms” (see http://www.abc-chinese.com/vc00thre.html for an English-language description). Produced by China Central Television, this series depicts the narrative of three states, Wei, Zhao, and Chi. In this narrative, Zhao is under imminent attack from Wei and appeals to a neighboring state, Chi, for help. Chi agrees to help, but rather than moving its army to reinforce Zhao, Chi leaves its ally undefended while it attacks Wei’s home state. Wei’s forces, already en route to attack Zhao, hear news of Chi’s aggression and return home to protect their families and home. However, they arrive home too late and find Chi has already captured their capital. This complicated plot is synthesized by The 36 Stratagems into a short title, “Besiege Wei to Rescue Zhao.” Each of the stratagems cataloged in The 36 Stratagems represents a strategic plot sometimes of considerable complexity, captured in a short metaphorical title phrase. For a Western analog to one of the stratagems, consider the relatively broadly-known strategic plot synthesized by the phrase, “The Trojan Horse.” This strategic narrative is at once a complicated series of moves and counter-moves, a well-known historical account that continues to inspire movies and books today, and a strategic narrative applicable to modern business. One could say that The 36 Stratagems condenses and catalogs a rich set of historical accounts or strategic narratives; these narratives were told, re-told, added to, subtracted from, and distilled over the course of 1,500 to 2,500 years.

The natural process that led to the writing of The 36 Stratagems resembles the effort one might undertake to create a catalog of any set of narratives or for a content analysis exercise. Stories were told. When stories were found to be similar to others stories, they were combined or grouped together. As these stories were passed down further, non-critical elements were removed. This combination and distilling process is similar to the one commonly used by mythologists to analyze myths (Ferro-Luzzi, 1983; Harwood, 1976; Lévi-Straus, 1969). “By looking for common patterns and schema by stories, mythologists seek to identify isomorphic groupings of myths that help the researcher categorize and compare narratives across communities” (Carroll, 1978; Fiske, 1972; Lévi-Straus, 1969).
As Lévi-Straus explained, the approach “takes us beyond the study of individual myths to the consideration of certain guiding patterns situated along a single axis.” Each of the 36 stratagems can serve as such a guiding pattern or a generic plot. This pattern or generic plot can then be used as a schema with which to classify stories or myths from other time periods and cultures. Lévi-Straus (1969) illustrated this point with his explanation: “At each point on the axis where there is such a pattern or schema we then draw, as it were, a vertical line representing another axis established by the same operation but carried out this time not by means of apparently different myths originating from a single community, but by myths that present certain analogies with the first, although they derive from neighboring communities” (p. 2). In other words, if we can abstract from one myth a pattern or generic plot, we may then recognize this same pattern or generic plot in a different myth. If we do this long enough, we may see some patterns or generic plots repeated across many different myths and a set of common patterns or generic plots emerge that are frequently found across many myths. This is not unlike the process that Vaara (2002) employed when studying the narratives managers use during post-merger periods to identify four types of discourse: “rationalistic,” “cultural,” “role-bound,” and “individualistic.” Porter (1980) similarly concluded that there existed three generic strategies—market segmentation, differentiation, and cost leadership—of which, he argued, all other strategies were subsets.

The 36 Stratagems does this work for us. By allowing oral tradition to synthesize stories into a catalog of distinct generic plots, it provides us with a schema with which to categorize other stories we may come across. The result of this process in a concise set of 36 phrases, each of which alludes to a strategic narrative. Each phrase is followed by a brief description to clarify its intended meaning. Most descriptions reference a historical illustration, usually of military or political nature. These historical stories are not included in the original text of The 36 Stratagems, but are mentioned in numerous books that seek to explain the text. These historical stories serve to point out, through their common elements, the distinguishing episodic pattern (or plot) that defines the stratagem. This plot is an essential component of a narrative. These stories usually illustrate three other components considered by some researchers to be essential to narratives: a narrative subject, a goal or outcome that the subject seeks to achieve, and a set of forces enabling or impeding the subject from attaining the desired goal (Fiol, 1989; Martens, Jennings, & Jennings, 2007; Watson, 1989).

This thesis does do not argue that the catalog represented by The 36 Stratagems is necessarily complete; instead, I suggest that it offers, if nothing more, an advanced starting point and one that originates from outside of business vocabulary. It offers a useful tool with which one might conduct the
narrative analysis (see Section 2.4.4 “Narrative Analysis”) proposed in this thesis. To help illustrate the potential useful of *The 36 Stratagems* as a narrative analysis tool, I studied each of the 36 narratives composing the text and pulled out the common plot elements to define a temporal sequencing of events (a generic plot) for each stratagem. I then looked at certain key modern business strategy concepts and sought to translate these into a plausible narrative plot. Finally, I attempted to classify the plot of the modern concept to the generic plot of a stratagem. Figure 1 illustrates how one might take the plot pulled from a case used to illustrate a modern business strategy concept and fit it into a historical case used to illustrate one of the 36 stratagems to assess to what extent the plots match.

Figure 1: Linking two cases with a common generic plot

This exploration indicated that many modern business concepts fit reasonably closely a generic plot of *The 36 Stratagems*. For example, Stratagem 10, “Remove the firewood from under the pot,” advises that, if a pot is boiling and we want it stop, rather than burning our hands trying to remove the pot from its heat source, we might instead remove the heat source from the pot. Many of the historical narratives used to illustrate this stratagem allude to cases in which one army wins a battle by attacking or otherwise restricting its enemy’s supply line. This stratagem follows a plot that one might reasonably outline as such: (1) rather than engage your adversary head-on, you attack his source of power, (2) this weakens your adversary or hinders his ability to attack, and (3) you defeat your weakened adversary. This plot can reasonably be said to be
equivalent to, or at least closely related to, a well-developed view of modern competitive advantage, the “resource-based view.”

Such possible linkages between the stratagems and key business strategy concepts are noted in Table 1. These are presented not to be considered part of the research that underpins this thesis nor to argue that the narratives captured in The 36 Stratagems are equivalent to modern strategy concepts, but rather to simply illustrate that the text can serve as a useful tool for categorizing modern business strategy concepts. After extracting a plausible set of generic plot elements, I picked several of the key strategy concepts outlined in Section 2.1 “Strategic Thinking: a Review” and sought to match each concept with a generic plot from The 36 Stratagems.
Table 1: *The 36 Stratagems* as Narrative Categorization Schema (pages 49 to 58)

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<th>Generic Plot Elements</th>
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| 1 | To catch something, first let it go | Press the enemy force too hard, and they will strike back fiercely. Let them go, and their morale will sink. Follow them closely, but do not push them too hard. Tire them and sap their morale. Then you will be able to capture them without shedding blood. In short, a careful delay in attack will help bring victory. | • You “capture” your enemy  
• Though you are able, you do not kill your enemy  
• By letting him go, you can either (a) convince him to voluntarily succumb or (b) catch him later with less effort | • Fast-follower (Geroski & Markides, 2005) |
| 2 | Exchange a brick for a jade | Use bait to lure the enemy and take him in. | • You give your adversary something on which you place relatively little value  
• In exchange, your adversary gives you something you value much more | • Supplier bargaining power (Porter, 1980)  
• Buyer bargaining power (Porter, 1980) |
| 3 | Invite your enemy onto the roof, then remove the ladder | Expose your weak points deliberately to entice the enemy to penetrate your line, and then surround him by cutting off his exit. | • You entice your adversary to enter your area of control  
• You cut off your adversary’s and your soldiers’ escape routes  
• This motivates your soldiers and disadvantages your adversary | |
| 4 | Lure the tiger down from the mountain | Use unfavorable natural conditions to trap the enemy in a difficult position. Use deception to lure him out. In an offensive that involves great risk, lure the enemy to come out against you. | • Your adversary is in a stronghold  
• You lure your adversary out of this stronghold  
• You either (a) attack on open ground or (b) attack the stronghold | • Strategic fit (Andrews, 1971; Hofer & Schendel, 1978; Zajac, Kraatz, & Bresser, 2000) |
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| 5 | Befriend the distant enemy to attack one nearby | It is more advantageous to conquer nearby enemies, because of geographical reasons, than those far away. So ally yourself temporarily with your distant enemies in spite of political differences. | - You ally with a distant enemy  
- You attack a nearby enemy | • Coopetition  
(Brandenburger and Nalebuff, 1997) |
| 6 | Kill with a borrowed knife | Your enemy’s situation is clear, but your ally’s stand is uncertain. At this time, induce your ally to attack your enemy in order to preserve your strength. In dialectic terms, another man’s loss is your gain. | - You induce a third party to attack your enemy  
- You take no direct action  
- You influence your adversary with a third party | |
| 7 | Besiege Wei to rescue Zhao | It is wiser to launch an attack against the enemy force when they are dispersed than to fight them when they are concentrated. He who strikes first fails, and he who strikes late prevails. | - You are in direct conflict with an adversary  
- Your ally defends you by attacking your adversary  
- Your adversary disengages from its conflict with you to defend itself  
- Your adversary must now fight on two fronts (this multiplies your chances of success) | • Economies of scope  
(Panzar & Willing, 1981) |
<p>| 8 | The stratagem of sowing discord | Use the enemy’s spies to work for you, and you will win without any loss inflicted on your side. | - You induce your adversary’s agent to work in your favor, and use this agent to topple a critical relationship on which your adversary depends | |</p>
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| Trouble the water to catch the fish | When the enemy falls into internal chaos, exploit his weakened position and lack of direction to win him over to your side. This is as natural as people going to bed at the end of the day. | • You create confusion around your adversary  
• This blinds your adversary and hinders his ability to understand your intentions or see your approach | • Resource-based View (RBV) (Barney, 1991; Wernerfelt, 1984, 1984; Collis & Montgomery, 1995; Conner & Prahalad, 1996; Nelson, 1991; Peteraf, 1993; Wernerfelt, 1984, 1995) |
| Remove the firewood from under the pot | When confronted with a powerful enemy, do not fight them head-on, but try to find their weakest spot to initiate their collapse. This is the weak overcoming the strong. | • Rather than engage your adversary head-on, you attack his source of power  
• This weakens your adversary or hinders his ability to attack  
• You defeat your weakened adversary | • Supplier bargaining power (Porter, 1980)  
• Buyer bargaining power (Porter, 1980) |
| Shut the door to capture the thief | When dealing with a small, weak enemy, surround and destroy him. If you let him retreat, you will be at a disadvantage in pursuing him. | • You encounter a moment when your opponent is weak, divided, or dispersed  
• You capitalize on this moment by surrounding your enemy, preventing escape, but avoiding direct attacks | • |
| Replace the beams with rotten timbers | Make the allied forces change their battle formation frequently so that their main strength will be taken away. When they collapse by themselves, go and swallow them up. This is like pulling back the wheels of a chariot to control its direction. | • Your adversary’s advantage is built on key support structures  
• You attack these structures  
• By breaking his key support structures, your adversary’s integrity falters; then you take him | • |
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|13 | The stratagem of the beautiful woman | When faced with a formidable enemy, try to subdue their leader. When dealing with an able and resourceful commander, exploit his indulgence of sensual pleasures in order to weaken his fighting spirit. When the commander becomes inept, his soldiers will demoralize, and their combat power will be greatly weakened. This stratagem takes advantage of the enemy’s weakness for the sake of self-protection. | • Your adversary has a weakness or need  
• You bait your adversary by feeding this weakness or need  
• This encourages your adversary to act in a way counter to his benefit  
• You take advantage of his misstep                                                                                                                                                                                                     | • Hypercompetition (D’Aveni, 1994) |
|14 | Beat the grass to startle the snake   | Any suspicion about the enemy’s circumstances must be investigated. Before any military action, be sure to ascertain the enemy’s situation; repeated reconnaissance is an effective way to discover the hidden enemy.                                                                                                  | • You are unsure of your enemy’s strength or strategy  
• You launch a small-scale or indirect attack on your adversary  
• Your adversary reveals his strength or strategy by his response to your feint  
• You plan your real attack with this new knowledge                                                                                                                                                                                      | • Hypercompetition (D’Aveni, 1994) |
|15 | Loot a burning house                 | When the enemy falls into severe crisis, exploit his adversity and attack by direct confrontation. This is the strong defeating the weak.                                                                                                                                                                                                                                         | • Trouble strikes  
• Your adversary freezes or retreats  
• You capitalize on your adversary’s inaction or retreat by building power                                                                                                                                                                              | • Hypercompetition (D’Aveni, 1994) |
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| 16 Sometimes running away is the best strategy   | To avoid combat with a powerful enemy, the whole army should retreat and wait for the right time to advance again. This is not inconsistent with normal military principles.                                              | • You face a powerful adversary  
• You retreat  
• You exert your preserved power somewhere else or at some other time                                                                                                           | • Strategic fit (Andrews, 1971; Hofer & Schendel, 1978; Zajac, Kraatz, & Bresser, 2000)                                                                                 |
| 17 Seize the opportunity to lead the sheep away   | Exploit any minor lapses on the enemy side, and seize every advantage to your side. Any negligence on the enemy must be turned into a benefit for you.                                                                   | • Your adversary fails to act (e.g., because he is distracted)  
• You take advantage of this “deer in the headlights” moment to advance  
• By the time your adversary realizes his mistake, you have already taken the advantage                           | • Disruption (Christensen, 1997)                                                                                                                                                                                                  |
| 18 Feign madness but keep your balance           | At times, it is better to pretend to be foolish and do nothing than to brag about yourself and act recklessly. Be composed and plot secretly, like thunder clouds hiding themselves during winter only to bolt out when the time is right. | • Your adversary is powerful, and/or you are weak  
• You appear mad or incapable in order to avoid being perceived as a threat  
• When your adversary puts down his guard, you take him                                                                                                               |                                                                                                                                                                           |
| 19 Watch the fire on the other shore             | When a serious conflict breaks out within the enemy alliance, wait quietly for the chaos to build. Once its internal conflict intensifies, the alliance will bring destruction upon itself. As for you, observe closely and make preparations for any advantage that may come from it. | • Your adversary is engaged in internal conflict or in conflict with his allies  
• Your attack might unify your adversary (and his allies)  
• You refrain from acting  
• Allowed to continue, the conflict damages your adversary                                                                                                          | • Strategic fit (Andrews, 1971; Hofer & Schendel, 1978; Zajac, Kraatz, & Bresser, 2000)                                                                             
|                                                  |                                                                                                                                                                                                                       |                                                                                                                                                                           | • Competitive rivalry (Porter, 1980)                                                                                                                                 |

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</table>
| 20 | Let the plum tree wither in place of the peach | When loss is inevitable, sacrifice part for the benefit of the whole. | • You cannot win on all fronts  
• You allow your adversary a victory on one front  
• You preserve, even strengthen, another front  
• With this preserved front, you defeat your adversary | • Strategic fit (Andrews, 1971; Hofer & Schendel, 1978; Zajac, Kraatz, & Bresser, 2000) |
| 21 | The stratagem of the open city gates | In spite of the inferiority of your force, deliberately make your defensive line defenseless in order to confuse the enemy. In situations when the enemies are many and you are few, this tactic seems all the more intriguing. | • Your adversary is attacking or preparing to do so  
• You reveal your strength or weakness  
• Your adversary calls off his attack because he fears your strength or no longer considers you a threat (i.e., he views you as weak) |   |
| 22 | Await the exhausted enemy at your ease | Those who arrive on the battlefield early will have the time to be rested as they wait for the enemy. Those who arrive late rush into battle when they are already exhausted. The one who is skilled in warfare forces the enemy to encounter hardship in coming to him while he waits in ease. | • You predict the battleground will shift  
• You set up a defensible position on the new battleground  
• You wait for your adversary  
• When your adversary arrives, you use your superior position to defeat him | • Business Cycles (Mitchell, 1922; Stone, Schluter, & Stewart, 1922)  
• Long-range strategic planning (Ewing, 1956; Payne, 1957)  
• First-mover advantage |
| 23 | Exchange the role of guest for that of host | Whenever there is a chance, enter into the decision-making body of your ally and extend your influence skillfully, step by step. Eventually, put it under your control. | • Your adversary accepts you as unthreatening  
• You incrementally build power over your adversary  
• You take control | • Buyer bargaining power (Porter, 1980)  
• Supplier bargaining power (Porter, 1980) |
<table>
<thead>
<tr>
<th>Original Name</th>
<th>Original Description</th>
<th>Generic Plot Elements</th>
<th>Modern Strategy Concept</th>
</tr>
</thead>
</table>
| Borrow the road to conquer Gao | When a small state, located between two big states, is being threatened by the enemy state, you should immediately send troops to rescue it, thereby expanding your sphere of influence. Mere talk cannot win the trust of a state in a difficult position. | • You share a common objective or enemy with another  
• You form an alliance to achieve this objective  
• You then take your ally |  
|
| Shed your skin like the golden cicada | Make your front array appear as if you are still holding your position so that the allied force will not suspect your intention and the enemy troops will not dare to attack rashly. Then withdraw your main forces secretly. | • You establish a façade  
• Your adversary focuses on your façade, confusing it for the real action  
• You move the real action somewhere else | Profit Pools (Gadiesh & Gilbert, 1998)  
|
| The stratagem of injuring yourself | People rarely inflict injuries on themselves, so when they get injured, it is usually genuine. Exploit this naïveté to make the enemy believe your words, then sow discord within enemy ranks. In this case, one takes advantage of the enemy’s weakness and makes the enemy look as if he were a naive child, easily taken. | • Your adversary’s suspicion hinders your success  
• You injure yourself either (a) to win your adversary’s trust or (b) to avoid appearing to be a threat  
• Your adversary accepts you or lets down his guard  
• You take advantage of this opening by attacking your adversary | Judo Strategy (Yoffie & Kwak, 2001)  
|
| Borrow a corpse for the soul’s return | The powerful is beyond exploitation, but the weak needs help. Exploit and manipulate the weak, for they need you more than you need them. | • You adopt something forgotten/abandoned (a model, idea, or technology)  
• Because your adversaries have abandoned it, only you use this thing  
• You convert this uniqueness into power |  
<p>|</p>
<table>
<thead>
<tr>
<th>Original Name</th>
<th>Original Description</th>
<th>Generic Plot Elements</th>
<th>Modern Strategy Concept</th>
</tr>
</thead>
</table>
| 28 Point at the mulberry but curse the locust | When the powerful wants to rule over the weak, he will sound a warning. One's uncompromising stand will often win loyalty, and one's resolute action, respect. | - You want to influence your adversary’s behavior  
- Rather than attack your adversary directly, you focus your attention on a different target  
- This action sends a covert message to your adversary that displays your power and communicates your intention  
- Your adversary, appreciating your power and intention, alters his behavior |  |
| 29 Clamor in the east; attack to the west | When the enemy command is in confusion, it will be unprepared for contingencies. The situation is like flood waters rising higher and higher: likely to burst the dam at any moment. When the enemy loses internal control, take the chance and destroy him. | - You feign an attack  
- Your adversary responds to this false attack  
- In responding to this attack, your enemy is exposed to your true attack  
- You launch your true attack and defeat your adversary |  |
| 30 Openly repair the walkway, secretly march to Chen Cang | To pin down the enemy, expose part of your action deliberately, so that you can make a surprise attack somewhere else. | - You focus your adversary, or let your adversary focus, on a direct, orthodox attack  
- You launch an indirect, unorthodox attack, surprising your adversary  
- You take the advantage |  |
<table>
<thead>
<tr>
<th>Original Name</th>
<th>Original Description</th>
<th>Generic Plot Elements</th>
<th>Modern Strategy Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>31   Fool the emperor and cross the sea</td>
<td>The perception of perfect preparation leads to relaxed vigilance. Familiar sights lead to slackened suspicion. Therefore, secret machinations are better concealed in the open than in the dark, and extreme public exposure often contains extreme secrecy.</td>
<td>- Your adversary is vigilant  &lt;br&gt; - You take actions that appear normal (i.e., that appear to be everyday actions)  &lt;br&gt; - Your adversary fixes his attention on this façade of normalcy. He does not see your true attack or intention  &lt;br&gt; - You take your adversary</td>
<td></td>
</tr>
<tr>
<td>32   Create something out of nothing</td>
<td>Design a counterfeit front to put the enemy off guard. When the trick works, the front is changed into something real so that the enemy will be thrown into a state of double confusion. In short, deceptive appearances often conceal forthcoming danger.</td>
<td>- Your direct attack (i.e., one using existing players) is ineffective  &lt;br&gt; - You create a new player/entity  &lt;br&gt; - This player/entity catches your adversary off guard  &lt;br&gt; - You or the new player/entity take your adversary</td>
<td></td>
</tr>
<tr>
<td>33   Hide a dagger behind a smile</td>
<td>One way or another, make your enemies trust you and thereby slacken their vigilance. Meanwhile, plot secretly, making preparations for your future action to ensure its success.</td>
<td>- A direct attack would generate resistance in your adversary  &lt;br&gt; - You choose an approach that is, or appears to be, friendly  &lt;br&gt; - Your adversary lets down his defenses and welcomes this approach  &lt;br&gt; - You take your adversary with a secondary or hidden attack</td>
<td></td>
</tr>
<tr>
<td>Original Name</td>
<td>Original Description</td>
<td>Modern Strategy Concept</td>
<td></td>
</tr>
<tr>
<td>---------------</td>
<td>----------------------</td>
<td>------------------------</td>
<td></td>
</tr>
</tbody>
</table>
| Deck the tree with bogus blossoms | Use deceptive appearances to make your troop formation look more powerful than it is. When wild geese soar high above, the grandness of their formation is greatly enhanced by the display of their outstretched wings. | - You are too weak to attack your adversary alone  
- You coordinate individual elements within your environment  
- Coordinated, these parts become a much stronger whole  
- You are now strong enough to defeat your adversary |
| To catch the bandits, capture their leader | Capture their chief, and the enemy will collapse. His situation will be as desperate as a sea dragon fighting on land. | - You face a persistent adversary  
- You identify your adversary's leader or leaders  
- You aim your attack on this leader or these leaders  
- Your adversary's leadership falls and brings down your adversary's organization with it |
| The stratagem of linking stratagems | Rather than execute one strategy, you execute multiple (simultaneously or in succession) if one strategy is not effective, the next one is. If the next one is not effective, the following one will be | - Rather than execute one strategy, you execute multiple (simultaneously or in succession)  
- Your adversary is eventually overwhelmed or caught in an impossible situation and falls |

Foundational Elements of the Research
In conclusion, what this section suggests is that *The 36 Stratagems* could be a useful categorization tool for conducting narrative analysis on modern business concepts because (a) it originates from a vocabulary that is different from that of modern business strategy, (b) it was developed using a process similar to what one might use to develop a categorization tool, and (c) it works reasonably well as a categorization tool to the extent that it seems to represent many key business strategy concepts.

### 3.2 Key Concepts: Winner and Loser

I attempted to observe emerging strategic narratives as early as practical during their possible emergence in order explore the two-part research question (see Section 1.1 “Research Question”):

How do the strategic narratives that circulate within “winning” companies and their leaders differ from those circulating within “losing” companies and their leaders?

Given the answer to the first question: what new business strategy concepts are likely to emerge in the business community at large?

As Section 2.2 “How Strategy Concepts May Evolve” suggests, we can expect that new strategic narratives are more likely to be adopted if they are perceived to be more useful than other strategic narratives. In other words, the narratives a successful firm uses are more likely to be noticed, considered, and emulated than the narratives of a firm perceived as being less successful. For this reason, I chose to structure my analysis as contrasting the strategic narratives evoked by companies that others would likely consider to be more successful with the strategic narratives evoked by similar companies that one could reasonably consider to be relatively less successful. Such an analysis requires that we define a measure of success with which we can classify one set of companies as Winners and another set as Losers.

No consensus exists to dictate how one should define a firm’s success, nor should we expect to find one; the definition of success depends on the analyst’s objectives. The metrics for defining success generally fall into three categories:

Subjective measures. Depending on the researcher’s objective, subjective or reputational factors may be most relevant. In their 1994 book *Build to Last*, Jim Collins and Jerry Porras identified a set of companies for analysis based on a set of subjective factors. They
specifically looked at companies that were premier institutions in their industries, were widely admired by knowledgeable business people, made an “indelible imprint” on the world, had multiple generations of chief executives, had been through multiple product (or service) life cycles, and were founded before 1950 and had remained in business for long period of time (Collins & Porras, 1994).

Stock performance measures. In Jim Collin’s second book, Good to Great, he and his research team chose subject firms based exclusively on one measure: cumulative stock returns relative to the general market (Collins, 2001). Studies that have found stock-price or enterprise value to be useful measures of firm performance generally, as Jim Collins did, use long-term measures (e.g., stock returns over more than ten years) (Hendricks & Singhal, 2001).

Fundamental performance measures. A handful of fundamental business performance metrics predominate strategy literature, including profitability relative to major competitors, return on investment, relative productivity, changes in market share, changes in profitability, net cash flow, and annual sales (Fabling & Grimes, 2007; Spanos & Lioukas, 2001; White, Conant, & Echambadi, 2003; Wiggins & Ruefli, 2002).

I chose to adopt a definition focused on fundamental performance define a Winner as a company that, over a five-year period, has produced significantly faster revenue growth and generated significantly higher profit margins than a comparable company of similar size—the Loser. Fundamental performance statistics about companies are typically presented in one-year, five-year, and ten-year increments. Commonly used stock analysis tools such as Bloomberg and Google Finance offer investors these evaluation options. I felt that one-year measures were unlikely to be perceived by analysts, managers, and researchers as sufficient to indicate whether a firm is outperforming its peers in a sustainable way. Likewise, I felt ten-year measures were too long to measure the appearance of new narratives. As Section 2.1 “Strategic thinking: a review” shows, new business strategy concepts, particularly post-1960, often emerge more rapidly than every decade. Five-year measures seemed a reasonable in-between timeframe to study.

This first part of this definition (revenue growth) aligns with the definition of high-growth firms commonly adopted in entrepreneurship studies (Davidsson et al., 2006; Brännback et al., 2009). I included a profitability margin because a higher margin indicates a firm’s ability to charge higher prices or achieve superior cost levels and so is an indicator of that firm’s relative competitive
advantage (McKinsey & Company, Koller, Goedhart, & Wessels, 2010). Indeed, recent studies on the relationship between revenue growth and profitability conclude that highly profitable firms are more likely to achieve financial success than high growth firms (Brännback et al., 2009; Davidsson et al., 2009; Steffens et al., 2009), even though belief in the opposite—that high growth firms have a greater chance of achieving financial success—persists among venture capitalists and other investors (Brännback, Carsurd, & Kiviluoto, 2010). I excluded stock-price performance measures because stock price is driven by a multitude of factors unrelated to the firm’s fundamental performance, including psychological factors, earnings surprises, dividend action, mergers, new exchange listings, merger announcements, and initial public offerings, and so is loosely correlated with performance, at best (DeBondt & Thaler, 1995; Fama, 1998; Fama & French, 1988; Kahneman & Riepe, 1998; Malkiel, 2003; Shiller, 2000). As such, including stock-price, by introducing a multitude of factors unrelated to a firm’s strategy, might put into question whether companies classified as Winners would be perceived as successful and worthy of emulation by managers and researchers.

This definition ignores many other factors that one could justifiably argue should not be ignored, such as a company’s stock-price performance, shareholder value creation (Ramezani, Soenen, & Jung, 2002), economic value added (Bacidore, Boquist, Milburn, & Thakor, 1997), ability to engage its people, impact on society, or impact on the environment (Carroll, 1979; Godfrey, 2005). One might equally argue that the five-year time span is too long or too short (Baylis & Bhirud, 1973; Campbell & Shiller, 1998). For practical reasons, however, and because revenue growth and the earnings before interest, taxes, depreciation, and amortization margin are two fundamental factors often considered by investors when assessing a company (Lie & Lie, 2002; Collins & Porras, 1994), I decided to focus on these. Another limitation of the design for this analysis is that it considers exclusively publically-traded firms, excluding private enterprises which compose the predominant share of the world’s firms. However, the lack of reliable and consistent financial information for private firms precluded me from considering them.

So, for purposes of this study, a Winner was defined as a company that had, over the course of the five years ending in August 2010, achieved a significantly higher average annual growth rate in revenue (cumulative average growth rate over five years, named for the purposes of this analysis “5YCAAGR”) and a significantly higher average margin of earnings before interest, taxes, depreciation, and amortization (EBITDA) over the same five years (for the purposes of this study, this five-year average EBITDA margin was named “5YEBITDA”) than a close peer (that peer being in the same industry and of a
similar size in terms of total annual revenue). A Loser is a company of similar size to a Winner (in terms of total annual revenue) that operates in the same industry, but has grown more slowly and less profitably over the same five-year period. The difference in performance between a Winner and a Loser was considered to be significant when one of the two metrics of the Winner’s performance was 165% or more of the Loser’s performance for that metric. This level of over-performance was chosen because a) it is sufficiently high to reasonably conclude which firm is the Winner of the pair and b) because beyond this level the analysis made it difficult to find pairs of companies of sufficiently similar sizes and business models (in other words, when I tried a target above 165%, I was not able to identify sufficient pairs of companies that exhibited this level of disproportionate growth and were also made up of companies of similar sizes and business models). See Section 5.1, titled “Process by which we assembled findings” for a more detailed explanation.
4. Research Process

From Section 2.2 “How Strategy Concepts May Evolve,” we would expect to see new strategic narratives emerge where communities find existing concepts are in some way inadequate or suboptimal. We would expect that a strategic narrative that is eventually adopted at some level (e.g., as a new concept, theory, or field) to begin when its community applies the new strategic narrative, finds it useful, improves it through tests and trial, and then others adopt the new narrative.

As stated in Section 1.1, “Research Question,” this thesis is guided by the two-part research question: How do the strategic narratives that circulate within “winning” companies and their leaders differ from those circulating within “losing” companies and their leaders? Given the answer to the first question: what new business strategy concepts are likely to emerge in the business community at large?

To explore this question, I took a pair of companies—a Winner and a Loser—and performed a narrative analysis, a particular form of content analysis (Krippendorff, K. 1994), of each company’s explanations of their sources of competitive advantage and how they plan to maintain these advantages (see Section 2.4.4. “Content analysis” for more background). This study involved analyzing the public statements of public companies. I wanted to compare the narratives told by two types of companies, Winners and Losers, already defined in Section 3.2 “Key Concept: Winner and Loser”, and summarized again briefly here:

- Winners were defined as companies that had, over the course of the five years ending in August 2010, achieved a significantly higher average annual growth rate in revenue (cumulative average growth rate over five years, named for the purposes of this analysis, “5YAGGR”) than their peers and a significantly higher average margin of earnings before interest, taxes, depreciation, and amortization over the same five years (5YEBITDA) than their peers.
- Losers were defined as close peers to the Winners (meaning that each operated in a Winner’s industry with a total market capitalization closest to that of the Winner’s market capitalization) who had significantly underperformed on these two fundamental metrics (5YAGGR and 5YEBITDA) relative to the Winner over the same five-year period.
Losers were considered to have significantly underperformed on one of the two metrics if the Winner’s performance was 165% or higher than the Loser’s results for that metric. This level of over-performance was chosen because it is sufficiently high to reasonably conclude which firm is the Winner of the pair and because beyond this level the analysis made it difficult to find pairs of companies of sufficiently similar sizes and business models. For example, over the five-year period, Consolidated Graphics (CGX) had a 10.9% RCAGR, while its peer, Vistaprint (VPRT), produced a 54.4% RCAGR. Since $54.4 \%/10.9\% = 539\%$, which exceeds the threshold of 165%, VPRT is defined as significantly outperforming CGX in terms of 5YCAGR. Using the same test, VPRT’s 5YEBITDA of 19.05% is also significantly higher than CGX’s 0.59%. Since VPRT significantly outperformed CGX in terms of revenue growth (5YCAGR) and profit margin (5YEBITDA), the analysis designates VPRT as the Winner and CGX as the Loser.

As the details of my process will show, I also filtered out companies that did not show signs of having produced a significant track record (e.g., they were too young or too small), that did not have a reasonably close-for-comparison peer (e.g., peers were too large and diversified to offer a fair comparison), or that were in industries that had experienced extraordinary performance fluctuations in the most recent five years due to macro-economic factors (e.g., I removed oil and gas companies, as their relative performance was obscured by historically volatile crude oil prices). I also preferred to include companies for which I had more information (e.g., I had transcripts of interviews for several public companies and so tried to include these companies where possible).

To define the Winners and Losers I used in this thesis, I followed the steps outlined below:

1. Using Google’s stock filter, I searched for publicly-traded companies that met three criteria: (a) they had current market capitalizations valued between US$2 billion and US$10 billion, (b) their 5YEBITDA was 10% or higher, and (c) they produced 5YCAGR of 15% or more. This screen delivered 198 companies.

2. I removed from this list companies that operated in industries that had experienced abnormal macro-economic market conditions in the last five years, specifically the real estate, financial services, and oil and gas industries. This removed 97 companies from the list, leaving 101 companies. See Appendix C.

3. I then looked for close comparables for each company by identifying the two companies that (a) are classified as competing in the same industry
segment by Google Finance and (b) are the first and second closest to the target company in terms of market capitalization.

4. For each comparable company, I looked up its 5YEBITDA and 5YCAGR.

5. I compared the 5YEBITDA and 5YCAGR of each comparable company to the target company, noting instances in which the target company outperformed the comparable company by 165% or more. This level of overperformance was chosen because it is sufficiently high to reasonably conclude which firm is the Winner of the pair and because beyond this level the analysis made it difficult to find pairs of companies of sufficiently similar sizes and business models.

6. I removed instances in which a clear Winner and Loser could not be established. Specifically, every target company that did not outperform at least one comparable company by 165% or more on both measures (5YEBITDA and 5YCAGR) was deemed to not be a clear Winner and was removed from the list. This process removed 87 companies, leaving 14 for the final study.

7. I added to this list two companies that did not pass the first filter originally because they were too small, but for which I had considerable data and for which it could be established that they had outperformed a close comparable company by 165% or more on both measures. This resulted in 16 total companies for analysis. The complete list of companies analyzed, and their comparable companies, is provided in Tables 2 and 3, below.
<table>
<thead>
<tr>
<th>CNUM (Company Number)</th>
<th>CoName (Company Name)</th>
<th>Symbol</th>
<th>5YEBITDA</th>
<th>5YCAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>6a</td>
<td>Illumina, Inc.</td>
<td>ILMN</td>
<td>82.86</td>
<td>25.82</td>
</tr>
<tr>
<td>12a</td>
<td>Hansen Natural Corporation</td>
<td>HANS</td>
<td>56.43</td>
<td>19.27</td>
</tr>
<tr>
<td>13a</td>
<td>Vistaprint NV</td>
<td>VPRT</td>
<td>54.40</td>
<td>19.05</td>
</tr>
<tr>
<td>34a</td>
<td>Green Mountain Coffee Roasters Inc.</td>
<td>GMCR</td>
<td>42.34</td>
<td>14.82</td>
</tr>
<tr>
<td>56a</td>
<td>Concur Technologies, Inc.</td>
<td>CNQR</td>
<td>34.36</td>
<td>25.03</td>
</tr>
<tr>
<td>65a</td>
<td>Community Health Systems</td>
<td>CYH</td>
<td>32.28</td>
<td>13.53</td>
</tr>
<tr>
<td>83a</td>
<td>Urban Outfitters, Inc.</td>
<td>URBN</td>
<td>27.32</td>
<td>20.10</td>
</tr>
<tr>
<td>95a</td>
<td>WMS Industries Inc.</td>
<td>WMS</td>
<td>25.14</td>
<td>31.68</td>
</tr>
<tr>
<td>173a</td>
<td>Priceline.com Incorporated</td>
<td>PCLN</td>
<td>16.89</td>
<td>20.04</td>
</tr>
<tr>
<td>198a</td>
<td>inVentiv Health</td>
<td>VTIV</td>
<td>66.90</td>
<td>12.49</td>
</tr>
<tr>
<td>199a</td>
<td>Blue Nile</td>
<td>NILE</td>
<td>12.29</td>
<td>7.27</td>
</tr>
<tr>
<td>200a</td>
<td>Research in Motion</td>
<td>RIMM</td>
<td>61.75</td>
<td>28.74</td>
</tr>
<tr>
<td>201a</td>
<td>Apple</td>
<td>AAPL</td>
<td>36.17</td>
<td>29.76</td>
</tr>
<tr>
<td>202a</td>
<td>AT&amp;T</td>
<td>T</td>
<td>24.74</td>
<td>33.92</td>
</tr>
<tr>
<td>203a</td>
<td>Oracle</td>
<td>ORCL</td>
<td>17.85</td>
<td>40.04</td>
</tr>
<tr>
<td>204a</td>
<td>Aflac</td>
<td>AFL</td>
<td>6.57</td>
<td>33.00</td>
</tr>
</tbody>
</table>
## Table 3: List of Public Companies Analyzed as Losers

<table>
<thead>
<tr>
<th>CNUM (Company Number)</th>
<th>CoName (Company Name)</th>
<th>Symbol</th>
<th>5YEBITDA</th>
<th>5YCAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>6b</td>
<td>Beckman Coulter, Inc.</td>
<td>BEC</td>
<td>7.17</td>
<td>16.81</td>
</tr>
<tr>
<td>12b</td>
<td>Dr. Pepper Snapple Group</td>
<td>DPS</td>
<td>12.53</td>
<td>21.65</td>
</tr>
<tr>
<td>13b</td>
<td>Consolidated Graphics, Inc.</td>
<td>CGX</td>
<td>10.09</td>
<td>0.59</td>
</tr>
<tr>
<td>34b</td>
<td>Caribou Coffee Company</td>
<td>CBOU</td>
<td>10.34</td>
<td>7.48</td>
</tr>
<tr>
<td>56b</td>
<td>Ariba, Inc.</td>
<td>ARBA</td>
<td>6.64</td>
<td>8.70</td>
</tr>
<tr>
<td>65b</td>
<td>Universal Health Services, Inc.</td>
<td>UHS</td>
<td>8.17</td>
<td>13.49</td>
</tr>
<tr>
<td>83b</td>
<td>American Eagle Outfitters</td>
<td>AEO</td>
<td>15.80</td>
<td>11.55</td>
</tr>
<tr>
<td>95b</td>
<td>International Gaming Technologies</td>
<td>IGT</td>
<td>(3.54)</td>
<td>26.86</td>
</tr>
<tr>
<td>173b</td>
<td>Expedia, Inc.</td>
<td>EXPE</td>
<td>4.65</td>
<td>(80.47)</td>
</tr>
<tr>
<td>198b</td>
<td>PDI</td>
<td>PDII</td>
<td>(24.49)</td>
<td>(20.95)</td>
</tr>
<tr>
<td>199b</td>
<td>Tiffany’s</td>
<td>TIF</td>
<td>4.21</td>
<td>22.59</td>
</tr>
<tr>
<td>200b</td>
<td>Nokia</td>
<td>NOK</td>
<td>6.89</td>
<td>9.86</td>
</tr>
<tr>
<td>201b</td>
<td>Microsoft</td>
<td>MSFT</td>
<td>9.45</td>
<td>44.51</td>
</tr>
<tr>
<td>202b</td>
<td>Sprint</td>
<td>S</td>
<td>8.31</td>
<td>17.63</td>
</tr>
<tr>
<td>203b</td>
<td>SAP</td>
<td>SAP</td>
<td>7.27</td>
<td>30.71</td>
</tr>
<tr>
<td>204b</td>
<td>UNUM</td>
<td>UNM</td>
<td>(0.39)</td>
<td>21.40</td>
</tr>
</tbody>
</table>
Research Process

A research assistant and I then independently coded the most recent annual reports filed with the US Securities and Exchange Commission using The 36 Stratagems as our narrative schema. We followed a simple process of analyzing the contents of the annual reports. We followed five steps to analyze the content of the companies chosen for this study:

1. We identified the text to be analyzed. We retrieved the most recent annual reports submitted to the US Securities and Exchange Commission.

2. We agreed on our coding schema. We reviewed the list of The 36 Stratagems and the generic plots as provided in Table 1. We added to this list two other types of strategic narratives that were not directly accounted for in The 36 Stratagems. The two that we added were “economies of scale” and “best practices.” We included these because they are often considered to be fundamental sources of competitive advantage (see, for example, Greenwald & Kahn, 2005) and, unable to find a reasonably close representation of these concepts in The 36 Stratagems, we risked excluded from our analysis if we did not explicitly add them to our coding schema. The two additional narratives we coded were:

   - Economies of scale: We agreed that whenever we noted a reference to scale economies, we would note that in the column of this name.
   - Best practices: We agreed that whenever we noted a reference to best practices, we would score the reference in the column with this title.

3. We highlighted in each company’s annual report phrases in which the company argued, explicitly or implicitly, that it had or would be able to establish an advantage over its competition. Then we classified each phrase into one of the 36 stratagems by asking, “What plot line does this statement imply, and which generic plot provided by The 36 Stratagems does the company’s plot match?” For example, Illumina (ILMN) stated in their 2010 annual report:

   Our goal is to make our Genome Analyzer, BeadArray and BeadXpress platforms the industry standards for products and services addressing the genetic analysis markets. We plan to achieve this by seeking new and complementary technologies through strategic acquisitions and other investments; .... (Illumina 2010 10-K filing)

   This argument implies that, by adding “complementary” technologies, the company will be able to sell complementary technologies to existing clients, and/or sell existing technologies to clients with new
complementary technologies, thereby forcing the competition to either match a multiple solution offering or be left with a less-complete set of offerings. This plot most closely matches Stratagem 7, in which the subject opens a two-front battle, thereby putting the adversary into a weaker and/or defensive position. This stratagem is roughly equivalent to the modern business concept “economy of scope.” We each independently coded this phrase as fitting with Stratagem 7.

To illustrate how Stratagem 7 matches the strategic narratives of other companies, consider an excerpt from Vistaprint’s annual report:

Although we expect to maintain our primary focus on the small business market, we believe that our customer support, sales and design services, and low costs are differentiating factors that make purchasing from us an attractive alternative for individual consumers. We intend to add new products and services targeted at the consumer market (Vistaprint 10-K annual report filed Aug 29, 2008).

Again, this narrative implies that Vistaprint will leverage a set of capabilities (e.g., customer support, sales and design services) and apply these capabilities to a new market (i.e., individual consumers).

4. After completing an analysis of each Winner and Loser, the research assistant and I compared our results, discussed points of disagreement, and reached a final coding for each company. This process resulted in classifying 376 narratives (227 from Winners and 149 from Losers). We had 22 points of disagreement, implying a significant inter-rater reliability (with a correlation coefficient of 95.6%). The detailed results of this analysis, including the phrases identified as claiming a competitive advantage categorized by the narrative theme (or stratagem) with which they match, are provided in Appendix B. Tables 4a-d and Tables 5a and 5b summarize the stratagems cited by Winners and Losers.
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Total: 9  25
The results of the research process detailed in this section suggest several interesting conclusions. In the next two sections, Section 5, “Findings,” and Section 6, “Summary and Conclusions,” I address what I believe to be the more meaningful observations and consider their implications.
5. Findings

The results of the narrative analyses detailed above, in which I categorized narratives cited by 16 Winners and 16 Losers, reveal several interesting points of difference. In this section, I highlight what I believe to be some of the more interesting observations and their potential reasons and implications. In the next section, I will discuss potential areas of future research to build on and strengthen the findings of this thesis.

5.1 Winners Cite More Narratives

Perhaps the most interesting observation of the analysis is that Winners appear to cite significantly more narratives than losers. As Tables 5(a) and 5(b) show, collectively, the 16 Winners analyzed cite 227 narratives, while the 16 Losers cite 149. While both groups’ citations converge around a few core narratives, Winners also cite a greater diversity of narratives.

What this observation may point to is that successful companies may be more willing to experiment than less successful ones. This willingness to explore or pursue more strategies could be driven by resources: companies that are more profitable may have a greater capacity to fund new strategies or take risks. There may also be a psychological factor at play in which firms that feel they are struggling become more risk-averse.

Inverting the correlation, supposing that the citation of more narratives drives superior performance rather than more narratives being the result of superior performance, opens another intriguing possibility. Could it be that a willingness to test new strategies and pursue new sources of competitive advantage is supportive of faster growth, as some research suggests (Day, 2013)? It seems reasonable to expect that, if a firm experiments with a greater number and diversity of strategies, it can hope to create a greater probability of finding strategies that will eventually prove effective.

The causality question—whether more strategies generate more success or more success leads to more strategies—lies beyond the scope of this thesis. However, what the observations do support is the idea that there may be some correlation. They support a view of successful firms confidently exploring new sources of competitive advantage and less successful ones behaving within more restricted boundaries.
### Findings

Table 5(a): Frequency with which Winners and Losers Cite Narratives

W = "Winners"

L = "Losers"

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* Number of citations of narrative divided by total narratives cited
Table 5(b): Frequency with which Winners and Losers Cite Narratives (Cont.)

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Total 227 149 100% 100%

* Number of citations of narrative divided by total narratives cited

5.2 Winners Embrace Best Practices but Look Beyond

Winning and Losing firms cite best practices nearly as often (Winners cite best practices 22 times and Losers 25). However, when we consider frequency, the percentage of the narrative citations that best practices compose, we see a notable difference. 10% of the narratives cited by Winners are related to best practices, while 17% of narratives cited by Losers are. This finding, that on a frequency basis Winners depend less heavily on best practices, is consistent with the concept of sustainable competitive advantage proposed by Michael Porter (1985) and his contemporaries who emphasize that advantage comes from taking a unique path and making unique choices, not from adopting the paths and choices of competitors. One would expect to see that Winners have achieved
success because they are better attuned to their own unique approaches, while Losers would orient themselves more toward simulating the practices of those they perceive to be more successful. One might say that Winners more often set best practices and Losers assimilate them.

However, in absolute terms, the difference between Winners and Losers seems insignificant (Winners cite best practices 22 times and Losers 25). This supports the view that Winners place the same importance on best practices as Losers. They may put equal effort into seeking out, adopting, and maintaining best practices. Winners differ in that they go beyond this. They seek out additional sources of differentiation to add to their base of best practices.

Speculating on this finding a bit further, we might conclude that highly profitable, fast-growing companies appear to avoid overconfidence risk, in which success compels an organization to stop looking outside for ideas. Instead, Winners, despite their relative success, continue to seek out and adopt best practices.

5.3 Winners Pursue “Traditional” Sources of Advantage as Aggressively as Losers

When my research assistant and I structured these analyses, we expected to find that Winners focus less on what we considered “traditional” sources of competitive advantage, such as competition for resources (Stratagem 10, “Remove the firewood from under the pot” or the resource-based view), seeking customer captivity (Stratagem 11, “Shut the door to capture the thief”), building economies of scale (narrative 37, which was added to the coding schema as mentioned in Section 3.1: Core Narrative Analysis Tool), and the first mover advantage (Stratagem 22, “Await the exhausted enemy at your ease”). Porter (1985) helped to popularize such concepts in the 1980s, introducing terms such as “barriers to entry” and “switching costs.” However, the popular media often suggests that such tactics are being replaced by newer approaches. Microsoft, for example, it is often said, has relied on its control of PC operating systems to create an unfair advantage over software competitors by raising the relative cost of users to use non-Microsoft programs. The firm’s control over the operating system is eroding. A similar rationale is often proposed for the fall of Blackberry (formerly RIM), which depended on captive chief technology officers (CTOs) to ensure its device and service sales. This advantage disappeared when companies were forced to introduce “bring your own device” policies and the CTO lost his decision-making power. In both cases, the popular story suggests that Apple,
offering devices people wanted rather than technology people were forced to accept, removed the effectiveness of the “customer captivity” principle.

Similar popular stories exist that argue that economies of scale and resource-based completion are being replaced by newer and often perceived “nicer” strategies. Therefore, we expected to find some indication that such “traditional” approaches were declining in popularity. Instead, our findings support the opposite.

- Winners cite competition for resources (Stratagem 10) twice as often as Losers: 44 times v. 21. Even in percentage terms, Winners cite this strategy more frequently (19% v. 14%).
- Winners cite customer captivity (Stratagem 11) nearly twice as often Losers: 71 times v. 38. In percentage terms, they cite this strategy slightly more frequently (31% v. 26%)
- Winners cite economies of scale (narrative 37) more often than Losers (13 times v. 9). In percentage terms, Winners and Losers cite economies of scale at an identical rate (6%).
- Winners and Loser each cite the first mover advantage (Stratagem 22, “Move early to the next battleground”) 30 times, which means that Winners use the narrative 13% of the time and Losers 20%.

Thus, these three well-knows, “traditional” sources of competitive advantage—access to resources, customer captivity, economies of scale, and first mover advantage—remain important to Winners as they are to Losers as well. Indeed, in some cases, Winners evoke these “traditional” sources of advantage even more frequently than Losers. The difference is, as shown in Section 5.1, Winners build upon such sources of advantage and seek out additional, new sources.

### 5.4 Two New Strategic Narratives may be Emerging

The findings above suggest that Winners spend an equal or greater amount of time speaking of sources of advantage that Losers cite, yet Winners cite more narratives and a greater diversity of narratives. This means that Winners appear to be exploring narratives beyond those that Losers limit their focus to. It is these narratives that have the potential to give us new insight into which new strategy concepts may be emerging. These are the ones that Winners appear to adopt and Losers do not because, as Section 2.2, “How Strategic Concepts May Emerge”, proposes, these are the narratives that enjoy a great chance of eventually being broadly adopted. Table 5 shows them to be as follows:
Findings

- Stratagem 23: “Exchange the role of guest for that of host,” which Winners cite 10 times and Losers 2.
- Stratagem 34: “Deck the dead tree with bogus blossoms,” which Winners cite 12 times and Losers 2.

I will now briefly suggest possible reasons and implications we might draw from observing the prevalence of these narratives among Winners. In my consulting work, I call the first of these two narratives “Enter as a guest and become a host.” The narratives speaks of the principle that, when one approaches a customer or supplier as a “guest” without requiring them to make a significant initial investment in entering into a relationship, one can more easily convince them to engage. One can convince customers to make their first purchase, for example, or convince suppliers to commit to their first delivery. Common illustrations of this stratagem are Gillette razors on the customer side and Wal-Mart on the supplier side. Gillette sells a razor at an artificially low margin to have customers make a commitment to Gillette platform. Then, they sell replacement razors at a higher margin. Gillette thereby moves from a guest position toward a host position with their customers. Often termed the “razorblade strategy,” this approach is one strategic rationale for why game console makers sell consoles for low margins or even at a loss or why airlines run loyalty programs. On the supplier side, Wal-Mart has a reputation for paying new suppliers high prices to fulfill small orders initially. The company supposedly then increases the volume of its orders over time. When Wal-Mart represents a large share of the supplier’s business, they have gained bargaining power and start demanding lower prices. Again, Wal-Mart moves from a guest position toward a host position.

One possible reason for the relative prevalence of this narrative among Winners is the growth in popularity of the “freemium” model, in which companies give away free services to capture customers with plans to monetize those relationships in the future but without a clear business model for the monetization. Facebook is one well-known example of this approach. Skype, which offers free phone service, is another.

A second possible reason for the relatively higher usage of this narrative by winners is the shift in many industries toward membership or rental pricing models. Adobe, for example, is a maker of high-end and expensive design software, including Photoshop® and InDesign®. The company in recent years has undergone a shift in its business model from selling software for a high, one-time fee to a monthly subscription model. The rationale for such a shift is that, at the lower price, one can attract segments of buyers for whom the high price was a barrier. When those users come to depend on Adobe software, they become

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more willing to pay for premium versions and buy new software programs. The broad shift toward “cloud computing” or software as a service (SaaS) from traditional software licensing is an expression of the growing popularity of an approach such as “exchanging the role of guest for that of a host.” It seems natural that, if this approach is growing, those who embrace it earlier are more likely to perform like Winners.

The second narrative cited more frequently by Winners than Losers is “Deck the dead tree with bogus blossoms,” which can be translated into modern business vocabulary as “coordinate the uncoordinated.” It suggests that strategic power is created when one can coordinate elements that were previously not coordinated. There are a great number of anecdotal cases suggesting that this strategic principle is growing in importance. Wikipedia, for example, pushed Microsoft out of the encyclopedia business by coordinating independent experts. The growing popularity of crowdfunding, crowdsourcing, and “open innovation” all relate to the idea of coordinating that which was previously uncoordinated. It seems reasonable to think that, if this trend is long lasting, firms that embrace this strategic principle will find ways to create competitive advantages that are unavailable to those who resist adopting the principle.

5.5 Summary of Findings

The analyses presented here attempts to provide some insight into how successful companies and their leaders conceptualize the creation of competitive advantage. The results support several possible conclusions:

1. Winners are willing to explore more sources of competitive advantage than losers. We see this in the fact that they cite more strategic narratives. They may do this because their success gives them more resources and confidence to explore than those who are not performing well. Alternatively, their willingness to explore more and a greater diversity of narratives may be a cause of their success.

2. Winners embrace best practices, citing best practices nearly as often as Losers, but they appear to go beyond these practices, exploring new ways to differentiate themselves. They do not let their success turn them inward and instead remain open to finding and implementing best practices from others.

3. Winners continue to pursue “traditional” sources of competitive advantage as aggressively as Losers. These include seeking preferred access to
Findings

key resources, securing customer captivity, building economies of scale, and creating first mover advantages.

4. However, beyond these, Winners are more actively exploring two additional sources of advantage: exchanging the role of a guest for that of host and coordinating what is uncoordinated.
6. Summary and Conclusion

Having laid out the key findings of the study, I now explore the theoretical contributions to the relevant bodies of literature and suggest areas for further research.

6.1 Theoretical Contribution

Laying out the core concepts of modern business strategy, as I attempted to do in Section 2.1, “Strategic Thinking: A Review,” illustrates that prevailing perspectives on strategy often evolve through cause-and-effect chains of concept introductions building upon other concepts and succeed or failing at gaining adoption. Often, new narratives can open doors and invite new concepts into the conversations and inform action otherwise impossible to imagine. Consider, for example, the emergence of the resource-based view (RBV) in the 1990s, when attention shifted from the topic of industry attractiveness (an external view) toward understanding sources of advantage inside the firm (Barney, 1991; Grant, 1991; Nelson, 1991; Penrose, 1959; Prahalad & Hamel, 1990; Schumpeter, 1934). The evolution of the RBV led researchers to appreciate the power of economies of scale. That appreciation, in turn, drew attention to the importance of a strategic narrative introduced ten years earlier, labeled “economies of scope,” which points out that a firm can create an advantage when it is less costly to produce two product lines together than to produce each product line independently (Panzar & Willing, 1981). Ironically, the economies-of-scope strategy tends to point companies toward expanding their product lines and market breadth, steps that the predecessor strategy, with its focus on industry attractiveness, would discourage more often than not.

The final strategic concept that I mention in Section 2.1 is strategy as practice. I believe that the introduction of this perspective, in which strategy is viewed not as something a company talks about but as something that is performed, enacted, and shared, allows to assert a strong relationship between strategic talk and strategic actions, mediated by commitment and enthusiasm, represents one of the more significant leaps in the evolution of strategic thought. This point of view looks at the people, practices, and tools that determine how strategy is created, understood, and turned into actions. It allows us to study narrative strategies not regarding their truth values but as language tools that
may or may not make a difference in the lives of firms and for their employees. It allows us to step out of the debate on which concepts are right or wrong and into a conversation on which concepts have appeal, encourage adoption, and are given a chance to show their usefulness.

It is to this frame, strategy as practice, that I believe this thesis contributes. I am proposing that strategic concepts are language tools that, when used by people, may shape their practices and thereby shape strategy. It is my hope that this analysis will give us some indication of what kinds of useful insights might be available to us by further exploring peoples’ use of language tools to solve problems and seek competitive advantages.

The key issue to be emphasized here is that language is not merely spoken and written, but as Wittgenstein’s (1958) language games and Searle’s (1969) speech acts suggest, the narratives companies tell about their strategy shape their behavior, which should influence their performance. This thesis may not be as conclusive as one wishes, but it could show that Winning firms talk and act differently than Losing firms.

The view of language playing a creative, rather than exclusively descriptive, role is well accepted in several domains. This thesis focuses on narratives and draws on four domains in particular: military science, organizational studies, business strategy, and expertise and expert performance. What we may notice from how narratives are used in these four domains is that in all but the business strategy domain, narratives are seen as playing role in how people behave and thereby influence the system. In organizational studies, for example, we see that strategic narratives can establish a unique set of behaviors that shape culture. In military science, we see that narratives can encourage a soldier’s conviction and shape his patterns of behavior. In expertise and expert performance, we see that narratives can enable a player to see winning moves.

However, in the area of business strategy, narratives have been studied more heavily as playing a descriptive role, not exerting direct influence. They have been shown to be a vehicle to create meaning for employees and an understanding of the strategy, for example. Narrative analysis in business strategy has focused more on the role that narratives play in aligning the organization to a strategy that has already been created and less on shaping the design of that strategy.

My hope is that this thesis might help show that narratives not only create meaning but also do things; they shape behavior, guiding the options that people see and the types of problems they can solve.

As to where within the strategy as practice field of research this thesis contributes, I believe it most directly contributes in two areas: proposing
strategic narratives to be “tools” and applying narratives at the aggregate actor level. I briefly explain each point of contribution here.

Strategy as practice suggests that strategy can be viewed as “as a situated, socially accomplished activity” (Jarzabkowski et al., 2007, p. 7), as an ongoing activity that is influenced by the people doing strategy, the practices they adopt in doing this strategy, and the tools they use. This thesis proposes that while the “tools” that one might most readily think to study include ones we can see, such as dashboards, reports, memo formats, and frameworks. However, we should add to the tools we study the strategic narratives people use when strategizing because such narratives are “language tools” that can play a significant influence on actions and thereby on strategy. They influence what types of problems people notice, which they seek to solve, and what solutions they see and pursue.

Adopting the framework proposed by Jarzabkowski and Spree (2009), such narratives can be studied at any of three levels of practitioner: the individual actor within the organization (e.g., the CEO), the aggregate actor within the organization (e.g., a functional department), and the extra-organizational aggregate actor (e.g., a special interest group, regulator). This thesis has applied narratives at the aggregate actor level, observing the narratives used by the organization to communicate its strategy to shareholders. Applying narratives at this level has limitations and offers opportunities for further research (see Section 6.2), however I hope that it will provide new insight into what the language tools used at the aggregate actor level can tell us about how strategy emerges.

6.2 Suggestions for Further Research

This thesis opens numerous areas of further research that lie beyond its current scope. In this section I describe five areas that I consider most important to consider.

Exploring new sources of advantage
I have used the 36 Stratagems as a categorizing tool to measure the frequency with which companies cite certain strategic concepts and have shown that many of the stratagems related directly to most important strategic concepts outlines in Section 2.1, “Strategic Thinking: a Review.” However, as many as 20 of the 36 Stratagems are still not represented by the major corporate strategy concepts adopted by the business strategy field.

While an analysis of these remaining 20 stratagems is beyond the scope of this thesis, a search for an explanation for the relative absence of the use of these
stratagems point toward some interesting potential conclusions. Of these 20 stratagems, six can be related to strategy concepts that have attracted relatively less attention because they are often viewed as tactical. Stratagem 30, “Openly repair the walkway; secretly march to Chen Cang,” for example, suggests finding an alternative path to a goal when one’s competitors are focused on the orthodox path and can be said to broadly fit innovations in distribution, such as Dell’s introduction of a direct-selling strategy. Stratagem 32, “Create something out of nothing,” can be associated with the concepts of creating new categories, occasions, and customers. These concepts have attracted relatively limited attention in strategy literature, perhaps because they are viewed as fairly straightforward tactics.

The growing prevalence of social technology and its use in marketing strategy is closely related to Stratagem 34, “Deck the dead tree with bogus blossoms,” or using more modern terminology, “Coordinate the uncoordinated.” This stratagem points out that one can create strategic power by coordinating things as, for example, many social-media solutions enable users to do.

Eight of the remaining stratagems deal with influencing an opponent by influencing its leaders or management. Stratagem 8 (“the stratagem of sowing discord”), for example, speaks to creating discord within an opponent’s organization, and Stratagem 13 (“the stratagem of the beautiful woman”) speaks to finding a critical need or weakness in the opponent and using it to influence them to act against their own interest. Each of these stratagems take the view that one firm can influence another firm’s strategy by influenced its people. While strategy as practice research has focused most heavily on how the practices of people inside a firm affect that firm’s strategy and, to a lesser extent, how external stakeholders such as regulators and interest groups affect a firm’s strategy, the stratagems highlighted in this paragraph lead us to a potentially rich area of further exploration through asking the following question: how do firms shape their competitors’ strategies by influencing their people? This question opens many interesting areas to unravel.

**Exploring two emerging sources of advantage**

By focusing on narratives rather than numerical indices, this thesis suggests several currently ongoing shifts in perspectives on business strategies. One relates to how companies create options for new business practices. The speed with which the business environments are changing in virtually all branches of production, commerce and government, due largely to computer uses for routine work, networked high speed commerce, and the globalization of markets calls upon companies to continuously explore new advantages. Managers can no longer stick with previously successful strategies. They always need to look for
new approaches. Although this thesis did not investigate strategic business narratives over time, it seems safe to say that today’s Winners view business competition differently and unlike Losers tend to do. While both may draw on the same fundamental sources of strategic advantage, such as economies of scale and access to resources, current findings suggest that Winners more extensively rely on at least two newer strategies: coordinating the uncoordinated and exchanging the role of guest for that of host. It would be interesting to investigate these two emerging narratives for the openings they provide for other narratives to emerge, the advantages they provide, and ascertain whether they evolve into independent practices or are adopted into existing ones.

Expand observations
This thesis analyzed 32 firms and approximately 96 documents and offered several interesting observations. It was surprising to find that the diversity of strategies used (Winners cited 17 different narratives and Losers 13) did not significantly distinguish the two kinds of firms. They differed significantly, however, in the absolute frequencies of using narrative strategies. Although the 32 firms studied here were selected to represent a broad spectrum of companies, my findings could be strengthened significantly, qualified, if not be disproven by collecting more observations, including of past documents that could more clearly establish whether the shifts I noted are born out in fact. Additionally, more observations would allow us to see whether the shifts observed here are occurring across communities. For example, are investors’ perspectives shifting in ways similar to or in response to how CEOs represent their firms? Are the suppliers, distributors, and other partners of these Winners changing how they view the sources of competitive advantage? Do the findings apply across industries, or do some industries evolve differently, more quickly, and into new forms?

Comparing what managers say and do in private with what they say in public
This thesis was based on a narrative analysis of public statements made by comparable companies. Such statements are usually written, composed and edited with great care and approved by whoever has a stake in the issues discussed. They are also addressed to and shaped by the perceived need to satisfy particular audiences with known interests in these companies, their shareholders. Strategic communications like these are constrained by the perceptions of their authors. They may not accurately represent how managers speak about the strategies they pursue inside their companies, how they act on what they said under the watchful eye of critics or friends, and what they say inside their company may not be what they would say in a personal interview,
that is, informally and spontaneously. Although private opinions are perhaps less consequential than public pronouncements, it would certainly be fascinating to observe how managers articulate their strategies in less formal settings, perhaps by recording team meetings or conversations about strategy with fellow executives, or in personal interviews. Would we find significant differences between personal views and public personas and how these differences would play out when publically articulated strategies are actually pursued?

Moreover, the public statements of a strategic nature by CEOs, managers, and board members, which are shaped likely by the networks of writers and committee members that approve these statements, are most likely ineffective when not translatable into the behaviors of employees. Strategic narratives need to compel employees to act in an aligned fashion. This thesis raises an important set of questions concerning how strategic narratives are fuelling or constraining the behavior of a firm’s employees who actually carry the burden of a company at the front line. Employees talk, exchange narratives of their firm’s problems and future. Studying the path through which strategic narrative emerge, from top to bottom or the other way around, from outside a company or in, how they get hold of the imaginations of executives and workers, will enrich our understanding of how strategic narratives actually work, what properties they need to have to be appealing, exiting, and motivating.

**Exploring the implications of and reasons for Winners citing more narratives**

One conclusion of this thesis that might warrant further exploration is that Winning companies generally cite more strategic narratives than their Losing peers. Can this conclusion be strengthened with a larger sample of texts and additional observations, and if so, what are the reasons for this finding? An intriguing explanation to be explored further is that once successful firms may grow satisfied with the advantages they have exploited and therefore see no need to expand their search for new opportunities. Over-performance may not persist and success dissipates. Another explanation to consider is that Losers lack the capacity to manage and execute as many simultaneous strategies as Winners do. In either case, if one could measure the variety of strategic narratives that a company cites and see this number decline, could that be a leading indicator of a pending decline in advantage and performance? Which way does causality drive: do more narratives generate more success, or does more success allow managers to explore more narratives? At the time that I conducted this analysis, for example, Nokia was classified as a Winner, having produced five years of superior performance. Today, incorporating in the firm’s recent poor performance, the firm might fit into the other column. It would be interesting to track the number of narratives Nokia cites over time to see if some conclusion
can be derived as to whether a decline in narratives cited might foretell a pending decline in competitiveness.

6.3 Managerial Contribution

For a business manager or practitioner, the findings of this thesis hold two interesting implications and future areas of study for consideration.

6.3.1 Rethinking the Relative Importance of “Traditional” Sources of Advantage

This thesis suggests that Winning companies aggressively pursue what we might consider “traditional” sources of competitive advantage, such as pursuing preferential access to resources, building economies of scale, achieving customer captivity, and adopting best practices. As firms become more successful, these four sources remain important, but their relative importance may change.

One may note from Table 5 that “economies of scale” (narrative 37 in Table 5) is of equal relative importance to Winners and Losers. Both cite this narrative 6% of the time. Therefore, we could say that Winners continue to invest an equal proportion of their strategizing effort on “economies of scale,” so managers should do so as well, regardless of whether they consider their firms Winners or Losers.

However, in the case of pursuing preferred access to resources (narrative 10 in Table 5) and customer captivity (narrative 11 in Table 5), we actually see Winners speaking more frequently of pursuing such advantages. Winners cite access to resources 19% of the time versus 14% for Losers, and they cite customer captivity slightly more frequently, 31% of the time versus 26%. This suggests that managers who want to place their firms in the Winner category, rather than the Loser category, should consider focusing more heavily on these two advantages. Perhaps the prioritization of these two advantages are what will most differentiate Winners from Losers.

The contrast between best practices (narrative 38 in Table 5) and the first-mover advantage (narrative 22 in Table 5) suggests that these “traditional” sources are less likely differentiators and rather prerequisites for success. They are things that Winners pursue as often as Losers but not more frequently.

Considering best practices, we might say that there are two ways to succeed: by adopting what works for others and by finding new ways. It is reasonable to expect that companies who start outperforming their peers are less eagerly looking to adopt ideas that work for others and more likely to embrace
Summary and Conclusion

ways that make them different, outstanding, visibly successful, defined by best practices. Success leads to failure when one believes one’s approach to be the best and so turns away from novel ideas regardless of whether they come from inside or outside one’s firm. What this thesis shows is that Winners avoid this outcome. They cite best practices less often than Losers (referring to best practices 10% of the time versus 17% for Losers), but the two remain equal in absolute frequency with Winners talking about best practices 22 times versus 25 times for Losers. This thesis suggests that successful managers should look elsewhere as well.

It is as if Winners adopt a “match and build on” approach. They match the best-practice efforts of Losers and then build on them by pursuing other sources of advantage, such as seeking more ways to capture customers and resources. The implication for managers might be to be aware of this “match and build” approach to best practices as their companies become more successful. This entire section is premised on a “best practices” approach in that I am suggesting that managers should consider adopting the narrative practices that differentiate Winners from Losers.

The same approach appears to be in play with regard to the first-mover advantage (narrative 22 in Table 5), which Winners cite less frequently (13% versus 20%) but just as often in absolute terms (30 times each for Winners and Losers). The implication seems to be that managers should consider a “match and build on” approach with regard to pursuing first-mover advantage. This might involve ensuring that, as people generate strategy, they spend time thinking about future scenarios, considering factors such as technological trends, socio-demographic shifts, and sector growth rates, seeking to identify and adapt more quickly in preparation for the future.

6.3.2 Exploring the Application of Three New Strategic Narratives

This study suggests that Winners build on traditional sources of advantage but pursue two additional narratives more often than Losers do: coordinating the uncoordinated (narrative 34 in Table 5), exchanging the role of a guest for that of a host (narrative 23 in Table 5), and forcing a two-front battle (narrative 7), which is roughly equivalent to the “economies of scope” concept.

Embracing these strategic narratives captures an interesting and distinct competitive mindset and imparts new types of capabilities. For example, companies that embrace Stratagem 34, “Coordinate the uncoordinated,” would need to become good community builders. They likely need to claim a mission or purpose that inspires communities to support them, and they may need to be able to motivate collaboration without the usual incentives of salary and benefits.
The growing prevalence of this strategic narrative could lead companies toward adopting a more socially responsible stance, a trend we are seeing broadly (Hague, 2011).

The ability to embrace Stratagem 7, “Force a two-front battle” or economies of scope is enhanced by a willingness to stretch outside standard industry lines. This requires a firm to assess carefully the risk of stepping too far beyond their industry-specific knowledge while leveraging competencies that are meaningful to create advantages in other sectors. One intriguing implication of the relative prevalence of this narrative among Winners (Winners cite this narrative 9 times, while Losers cite it 3 times) is that Winners perhaps less often define themselves by their industry and instead more often on capabilities they can stretch into new industries. Apple, for example, is known for concentrating its R&D spending on a limited number of products, yet the company spans the software, hardware, and music industries. In 2010, for example, Microsoft, which competes almost exclusively in software, was granted 3,094 patents, while Apple was granted just 563 (Source: IFI Claims Patent Service), yet Apple’s enterprise value exceeds Microsoft’s. These facts are consistent with the view that Apple is a relatively focused company but that its focus is not shaped by the industry in which it was born. Amazon.com is expanding aggressively into providing Web services to small businesses, and some analyst accounts project this business eventually to rival its core Internet retailing business. This expansion makes more sense when one does not assign Amazon.com’s advantages to knowing its industry (online retailing) but rather on its experience running cloud-based e-commerce assets (servers, payments, content management, etc.).

Stratagem 23, “Exchange the role of guest for that of host,” implies taking a long-term perspective by exhibiting greater willingness to forgo near-term profits for longer-term advantage. Winners seem able to maintain a long-term outlook despite the shortening of product lifecycles and the acceleration of market change that many experts believe we are experiencing. As mentioned in Section 5.4, Adobe’s shift away from charging for one-time licenses toward charging lower, monthly subscription fees, is one example of this narrative at work. The lower monthly subscription makes it easier for new customers to begin using Adobe’s software. Over time, as customers come to become more familiar with the software, have more people trained in it, and have more of their graphical assets in Adobe formats, Adobe moves from a “guest” position toward that of a “host.”
6.4 Critical Remarks and Limitations of the Study

While this study points to some meaningful insights, several improvements could have been—and still can be—made to enhance the number and significance of its findings. As already alluded to in Section 6.2, “Suggestions for Further Research,” the study was based on an examination of 16 pairs of companies (32 in total). This necessarily limits the strength of conviction with which one can draw suggestions from the observations. The narrative “force a two-front battle” (narrative 7 in Table 5), for example, is cited nine times by Winners and three times by Losers. While it does seem that Winners cite this narrative three times more often than Losers, I would feel more comfortable if we had more citations to observe. Increasing the number of pairs of companies studied would allow us to feel more confident about its findings.

This study was also limited to publicly traded companies, with the majority based in the United States. It likely suffers, therefore, from a bias toward larger American companies. Expanding the analysis to include private companies and more companies from other regions of the world would allow us to reach broader conclusions about the differences between Winners and Losers.

The text that was analyzed in this study was written by companies for investors. We drew on the public statements of firms published for investors. Such documents undergo careful editing and, being written primarily for one specific type of stakeholder, may not accurately represent how the people within the firms talk about strategy. It would be interesting to expand the types of material that this thesis studied to include material created inside firms for internal or non-financial stakeholders. Such an improvement would require considerable effort, such as the conducting of first-hand interviews with managers in each company, but could offer valuable insights and depth.

One might also choose to define Winner and Loser differently than I have done here. Depending on what one seeks to measure or how one views success and depending on what information is available (e.g., additional factors about companies that one could incorporate into determining the perceived success of a company), one could change and/or enhance the determination of a company as a Winner or Loser. Factors that might also be considered include the effect on society and employee engagement. Surely other measurable factors are worthy of inclusion in this definition, including the happiness of the company’s workforce and the company’s effect on society and the environment. Even how one defines profitability or revenue growth offers room for debate. Choosing different definitions (e.g., five-year average revenue growth versus that of two years or ten years or pre-tax or after-tax profit margin) could affect the conclusions of this thesis.
Appendix A: Results of Public Company Coding

Listed below are excerpts pulled from the public documents and the code assigned to each relevant excerpt. This is provided to illustrate my coding process.

Illumina, Inc.

7 Besiege Wei to rescue Zhao
Our goal is to make our Genome Analyzer, BeadArray and BeadXpress platforms the industry standards for products and services addressing the genetic analysis markets. We plan to achieve this by:

• seeking new and complementary technologies through strategic acquisitions and other investments

10 Remove the firewood from under the pot
“[our strategy focuses] on seeking new and complementary technologies through strategic acquisitions and other investments.”... “On January 26, 2007, we completed the acquisition of Solexa, Inc. (Solexa) for 26.2 million shares of our common stock. As a result of that acquisition, we develop and commercialize sequencing technologies used to perform a range of analyses, including whole genome re-sequencing, gene expression analysis and small RNA analysis.

We believe we are the only company with genome-scale technology for sequencing, genotyping and gene expression, the three cornerstones of modern genetic analysis.”...

“Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets.”...

“We have an extensive patent portfolio, including, as of February 1, 2009, ownership of, or exclusive licenses to, 135 issued U.S. patents and 168 pending U.S. patent applications.”

95
We are party to various exclusive and non-exclusive license agreements and other arrangements with third parties, which grant us rights to use key aspects of our array and sequencing technologies, assay methods, chemical detection methods, reagent kits and scanning equipment.

14 Beat the grass to startle the snake
“[our strategy focuses] on expanding our technologies into multiple product lines, applications and market segments”...“Using our proprietary technologies, our products give our customers the ability to analyze the genome at any level of complexity from whole genome sequencing to low multiplex assays. This enables us to serve a number of markets, including research, agriculture, forensics, pharmaceuticals and molecular diagnostics.”

22 Await the exhausted enemy at your ease
“[Our strategy focuses] on emerging high-growth markets.”

“In 2009, we expect to enter the market for molecular diagnostics. The molecular diagnostic market is currently estimated at nearly $3 billion with the potential to grow to over $5 billion by 2012.”

We have made substantial investments in research and development since our inception. We have assembled a team of skilled engineers and scientists who are specialists in biology, chemistry, informatics, instrumentation, optical systems, software, manufacturing and other related areas required to complete the development of our products.

Our current technologies serve three primary markets. We have assembled a team of skilled engineers and scientists who are specialists in biology, chemistry, informatics, instrumentation, optical systems, software, manufacturing and other related areas required to complete the development of our products.

38 Economies of Scale
Our projects range in size from a few hundred samples to over 10,000 samples. Our current capacity peak is 450 million genotypes per day.

40 Best Practices
Our goal is to make our Genome Analyzer, BeadArray and BeadXpress platforms the industry standards for products and services addressing the genetic analysis markets. We plan to achieve this by:

- strengthening our technological leadership.
Hansen Natural Corporation

10 Remove the firewood from under the pot
We continually endeavor to develop back-up sources of supply for certain of our flavors and concentrates as well as to negotiate arrangements with suppliers which would enable us to obtain access to certain concentrates or flavor formulas in certain circumstances. We have been partially successful in these endeavors.

We presently have approximately 750 registered trademarks and pending applications in various countries worldwide.

22 Await the exhausted enemy at your ease
We have historically developed and successfully introduced new products, flavors and packaging for our products and intend to continue developing and introducing additional new beverages and flavors.

34 Deck the tree with bogus blossoms
In connection with the development of new products and flavors, independent suppliers bear a large portion of the expense of product development, thereby enabling us to develop new products and flavors at a relatively low cost.

Where appropriate, we partner with retailers to assist our marketing efforts. For example, while we retain responsibility for the marketing of the Juice Slam* line of children’s multi-vitamin juice drinks, Costco has undertaken partial responsibility for the marketing of the Juice Blast* line.
Appendix A: Results of Public Company Coding

Vistaprint NV

7 besiege wei to rescue Zhao
Although we expect to maintain our primary focus on the small business market, we believe that our customer support, sales and design services, and low costs are differentiating factors that make purchasing from us an attractive alternative for individual consumers. We intend to add new products and services targeted at the consumer market...

10 remove the firewood from under the pot
We have developed a direct-to-customer solution using proprietary Internet-based software technologies to standardize, automate and integrate the design and production process, from concept through finished product shipment and service delivery.

In addition, we have developed proprietary production methods to improve our efficiency and the quality of our products.

We hold 25 United States patents, 4 patents in other countries and have more than 50 patent applications pending in the United States and other countries.

11 shut the door to capture the thief
Customers can use our proprietary design software to easily create and order full-color, personalized, professional-looking marketing products and services, without any prior design training or experience.

Customers have access to over 70,000 graphic designs, design templates, photographs and illustrations as well as logo design services and content suggestions.

We are also able to automatically match and adapt graphic content from one product format to another, which allows us to generate and display complementary products and services.

We sell custom designed and manufactured products and services in quantities that are appropriate for small businesses, which can often be as few as a single unit.

Customers who want us to perform some or all of the design work can contact our design service representatives, who will provide custom designs.
Our easy to use on-line tools and design software allow customers to create their own marketing products.

English and German-speaking customers can also call our creative services toll-free telephone numbers and purchase design and copyright services from our trained graphic designers and copywriters.

We plan to continue to expand and enhance our product and service offerings in order to provide a greater selection to our existing customers and to attract customers seeking different products and services.

Split Run Testing technology assigns our website visitors to test and control groups. Depending on the test group to which a visitor is assigned, he or she can be shown slightly different versions of our website. This technology permits us to evaluate changes to our websites on a relatively small but still statistically significant test group prior to general release. We then use analytics software to correlate the changes on the site with the visitor’s browsing and purchasing behavior and to compare our profitability for a given pair of test and control groups. Our testing engine allows us to run hundreds of these tests simultaneously on our websites, reducing the time to take an idea from concept to full deployment and allowing us to quickly identify and roll-out the most promising and profitable ideas and promotions to maximize our customer value proposition.

We are committed to providing high levels of customer service and support.

We believe that the strength of our solution gives us the opportunity not only to capture an increasing share of the existing printing needs in our targeted markets, but also to address marketing services demand.

We believe our customers currently spend only a small portion of their annual budget for marketing products and services with us. By expanding the scope of our services and by improving the quality and selection of our products and services along with the customer experience, we intend to increase the amount of money our customers spend with us each year.

We compete on the basis of...convenience,...customer and design services, ease of use, and production and delivery speed.

22 Await the exhausted enemy at your ease
We believe that we have significant opportunity to expand our revenue both in the countries we currently service and in additional countries worldwide. In
addition, we intend to further extend our geographic and international scope by continuing to introduce localized websites in different countries and languages and by offering graphic design content specific to local markets.

We believe that technological innovation and the investment we have made in our technology development efforts have been among the principal drivers of our success to date.

24 Borrow the road to conquer Gao

We have entered into a variety of strategic partnerships that facilitate access to customers that we would not be able to reach through direct marketing channels. In April 2009, we announced a multi-year strategic alliance with FedEx Office, whereby FedEx customers will be able to design, order and print customized products either online or in any of 1,600 FedEx Office Print & Ship Centers in the United States.

30 Openly repair the walkway, secretly march to Chen Cang

We believe that the small business market has been underserved by expensive traditional marketing alternatives.

34 Deck the tree with bogus blossoms

While we offer a broad selection of designs and formats, we seek to reduce manufacturing complexity and costs by using limited characteristics that can be reconfigured and combined. This reduces our costs versus comparable marketing products and services produced using traditional methods. This approach has allowed us to successfully penetrate the large, fragmented and geographically dispersed small business and consumer markets.

We also believe there is a significant advantage to combining the Internet’s ability to reach these highly fragmented markets with an integrated design and production process that can rapidly deliver sophisticated, high quality marketing products and services.

38 Economies of Scale

...we believe that the economies of scale provided by our large print order volumes and integrated design and production facilities will enable us to profitably grow our consumer business.
40 Best Practices

Our long-term goal is to continue to grow profitably and become the leading online provider of small business marketing solutions.

It is our intention to offer high quality design, production and marketing services at low price points and in doing so, offer our customers an attractive value proposition.
Green Mountain Coffee Roasters Inc.

10 Remove the firewood from under the pot

Our patented single-cup brewing technology...provides coffee and tea drinkers with the benefits of convenience.

The Keurig gourmet single-cup system is based on three fundamental elements:

- Patented and proprietary K-Cup® portion packs, which contain precisely portioned amounts of gourmet coffees, cocoa and teas in a sealed, low oxygen environment to ensure freshness.
- Specially designed proprietary high-speed packaging lines that manufacture K-Cups at the coffee roasters’ facilities using freshly-roasted and ground coffee (or tea or cocoa).

The Company holds 33 U.S. and 73 international patents covering a range of its portion pack, packaging line and brewing technology innovations.

Our patented single-cup brewing technology, embodied in a premium quality machine, provides coffee and tea drinkers with the benefits of convenience, variety and great taste. Single-cup systems are designed to provide consumers consistent taste, convenience and speed with no mess or coffee waste.

In March 2009, we completed the acquisition of the Tully’s® Coffee brand and certain assets of its wholesale business. Tully’s wholesale business division distributes handcrafted coffees and related products via office coffee services, food service distributors, and over 5,000 supermarkets located primarily in the western states. The geographic region encompassed by the Tully’s brand creates an advantaged opportunity for the Company to accelerate growth in the west coast region by capitalizing on Tully’s brand recognition and the loyalty of their customer base. On November 13, 2009, we acquired Timothy’s World Coffee® brand and wholesale business. Headquartered in Toronto, Canada, Timothy’s is a premium coffee company that produces specialty coffee, tea and other beverages predominantly in K-Cup portion packs. The acquisition of Timothy’s will enable geographic expansion with a Canadian brand platform that includes manufacturing and distribution synergies. In addition, we have submitted a proposal to acquire Diedrich Coffee, Inc. which, if successful, we believe would enable us to more effectively reach consumers in the southern California region and take advantage of manufacturing and distribution synergies in that region.
11 Shut the door to capture the thief

[We] are committed to ensuring that our customers have an outstanding coffee experience. We buy some of the highest-quality Arabica beans available from the world’s coffee-producing regions and use a roasting process designed to optimize each coffee’s individual taste and aroma.

Through K-Cups, we offer the industry’s widest selection of gourmet branded coffees and teas in a proprietary single-cup format. Consumers can choose from over a dozen gourmet brands and over 200 varieties of coffees and teas.

...we utilize our multi-channel distribution network of wholesale, retail and consumer direct to make our coffee and single-cup Keurig ® brewers widely and easily available to both AH and AFH consumers.

Distribution facilities are designed to be located within a two-hour radius of most customers to expedite delivery.

Consumer direct provides us the opportunity to effectively...[build] one-on-one relationships, and [have] direct correspondence with consumers, all of which gives us the ability to illuminate the Company’s points of difference.

SCBU publishes catalogs and maintains a website to market and sell over 200 coffee varieties, coffee-related equipment and accessories, gift assortments, hand-crafted items from coffee-source countries and Vermont, and gourmet food items covering a wide range of price points.

We encourage customers to become members of our “Café EXPRESS” service, a continuity program with customized standing orders for automatic re-shipment.

We believe that our ability to provide a convenient and broad network of outlets from which to purchase our products is an important factor in our ability to compete. Through our multi-channel distribution network of wholesale, retail and consumer direct operations, with particular emphasis for SCBU on brand trial through K-Cups, we believe we differentiate ourselves from many of our larger competitors, who specialize in only one primary channel of distribution.

We compete primarily by providing ... easy access to our products, superior customer service and a comprehensive approach to customer relationship management.
Appendix A: Results of Public Company Coding

33 Hide a dagger behind a smile
...we are focused on partnering with other gourmet coffee roasters and tea packers with strong national/regional brands to create additional K-Cup products that will help create consumer demand for the Keurig® single-cup brewing system.

40 Best Practices
Our Company’s objective is to be a leader in the coffee business by selling high-quality, premium coffee and innovative coffee brewing systems that consistently provide a superior coffee experience.

The Company seeks to create customers for life.

We are focused on building our brands and profitably growing our business. We believe we can continue to grow sales by increasing customer awareness in existing regions, expanding into new geographic regions, expanding sales in high-growth industry segments such as single-cup coffee and tea, and selectively pursuing other opportunities, including strategic acquisitions.

…our constant innovation and focus on quality, all directed to delivering a consistently superior cup of coffee, differentiates us among competitors in the single-cup coffeemaker industry.
Concur Technologies, Inc.

7 Besiege Wei to rescue Zhao

We may also acquire companies with complementary products and technologies that we believe will enhance our suite of services.

10 Remove the firewood from under the pot
In July 2008, we entered into a strategic alliance with American Express Travel Related Services Company, Inc., which we refer to as American Express, in order to expand our market presence and broaden our distribution capacity. Through this alliance, we will exclusively promote American Express's Corporate Cards to our clients and American Express will exclusively promote Concur® Expense to its corporate clients and prospects worldwide.

Our indirect distribution channels consist of strategic relationships with a number of reseller and referral partners, which include more than 100 leading companies such as American Express...ADP, Inc., a subsidiary of Automatic Data Processing, Inc., a global payroll solutions and computing services provider; BCD Travel, a leading corporate travel management company; and other travel management companies.

Our success depends, in part, upon our proprietary technology, processes, trade secrets and other proprietary information, and our ability to protect this information from unauthorized disclosure and use.

11 Shut the door to capture the thief
Our solutions are designed to accommodate a wide range of customer business needs, technical requirements and budget objectives for businesses of all sizes worldwide. To that end, we offer flexible solutions that range from highly-configurable to standardized.

We believe Concur Travel & Expense is the most effective solution available for providing a single seamless process for managing travel procurement and expense reporting within a business.
Concur Travel & Expense also leverages our global Concur® Connect platform, the global program that connects suppliers from around the world to over $35 billion of spending driven by our more than 9,000 clients.

We provide value-added services that leverage our integrated travel procurement and expense reporting platform to benefit our customers. Our primary value-added services are: [Concur® Pay, Concur® Audit, Concur® Intelligence, Concur® Meeting, Smart Expense™, Concur® Connect].

We offer consulting services in connection with deployment of our solutions to assist customers in maximizing their return on investment.

We provide customer support through our Client Support Services program. The program offers telephone and Internet support, including online case entry and review, access to technical information documents and technical tips.

We compete principally on the basis of ...customer service.

22 Await the exhausted enemy at your ease
We intend to continue to develop and deliver new solutions and features that enhance or expand the value of our current offerings to our customers.

23 Exchange the role of guest for that of host
We offer a variety of flexible training programs designed to assist customers transitioning to our products and services. These programs are tailored to particular user groups, such as administrators, help desk personnel or trainers.

34 Deck the tree with bogus blossoms
Extend Relationships With Strategic Third Parties. We believe that working closely with strategic third parties, including travel management vendors, corporate charge card providers, payroll processors, consulting firms, travel suppliers and others, can accelerate the adoption of our solutions among a larger customer base. We focus on enabling our partners to realize new economic opportunities through the integration and distribution of our solutions. We intend to expand our network of distribution partners and increase the value that our solutions provide throughout the corporate travel, expense and vendor payment processes.
38 Economies of Scale
...our on-demand services enable companies to access and consume technology similarly to the way they consume other goods and services: customers access the services they need in a cost effective and scalable manner.

40 Best Practices
Leveraging industry best practices and our direct experience, our consulting staff meets with customers prior to deployment to review existing business processes and information technology infrastructure and provides advice on ways to improve these processes.

Our objective is to be the leading global provider of Employee Spend Management solutions.
Community Health Systems

7 Besiege Wei to rescue Zhao
Our initiatives to increase revenue include: ...expanding the breadth of services offered at our hospitals through targeted capital expenditures to support the addition of more complex services, including orthopedics, cardiovascular services, and urology...

11 Shut the door to capture the thief
We seek to increase revenue at our facilities by providing a broader range of services in a more attractive care setting, as well as by supporting and recruiting physicians. We identify the healthcare needs of the community by analyzing demographic data and patient referral trends.

The steps we take to increase patient flow in our emergency rooms include...improving service and reducing waiting times, as well as publicizing our emergency room capabilities in the local community.

One component of upgrading our emergency rooms is the implementation of specialized computer software programs designed to assist physicians in making diagnoses and determining treatments. The software ... enables our nurses to provide more consistent patient care and provides clear instructions to patients at time of discharge to help them better understand their treatments.

All hospitals conduct patient, physician, and staff satisfaction surveys to help identify methods of improving the quality of care.

20 Let the plum tree wither in place of the peach
We believe that smaller populations support less direct competition for hospital-based services.

22 Await the exhausted enemy at your ease
Our strategy has also included growth by acquisition. We target hospitals in growing, non-urban and select urban healthcare markets for acquisition because of their favorable demographic and economic trends and competitive conditions.

40 Best Practices
We work to identify and communicate best practices and monitor these improvements throughout the Company.
Appendix A: Results of Public Company Coding

The [Case and Resource Management] program focuses on developing and implementing standards for operational best practices; and using on-site clinical facilitators to train and educate care practitioners on identified best practices,

We share information among our hospital management to implement best practices and assist in complying with regulatory requirements.
Urban Outfitters, Inc.

11 Shut the door to capture the thief
Our retail stores compete on the basis of, among other things,...the level of customer service offered ...

23 Exchange the role of guest for that of host
Our core strategy is to provide unified store environments that establish emotional bonds with the customer.

Our stores accommodate our customers’ propensity not only to shop, but also to congregate with their peers.

Every element of the environment is tailored to the aesthetic preferences of our target customers.

In our stores, merchandise is integrated into a variety of creative vignettes and displays designed to offer our customers an entire look at a distinct lifestyle. This dynamic visual merchandising and display technique provides the connection among the store design, the merchandise and the customer.

Essential components of the ambience of each store may include playing music that appeals to our target customers, using unique signage and employing a staff that understands and identifies with the target customer.

We also believe that highly visible store locations, creative store design, broad merchandise selection and visual presentation are key enticements for customers to enter and explore our stores and buy merchandise. Consequently, we rely on these factors, as well as the brand recognition created by our direct marketing activities, to draw customers into our stores, rather than on traditional forms of advertising such as print, radio and television media.

Anthropologie considers it important to create an individualized and tailored store shopping experience for each customer. By providing an inviting and pleasant shopping atmosphere and an attentive sales staff, including, in many stores, in-store customer care managers, we strive to create a sense of community in our Anthropologie stores that encourages our target customers to linger and spend time exploring our stores and product offerings.
WMS Industries Inc.

10 Remove the firewood from under the pot

We ...acquire...intellectual property and advanced technologies that we believe enable innovative and appealing games which, coupled with a focused product portfolio management plan, allows us to expand our offering of differentiated products to casino operators.

During fiscal 2007, we began introducing new product lines ...that utilized our ...internally developed portfolio of intellectual properties and technologies.

Our ability to compete successfully in this market is based, in large part, upon our ability to:....identify and develop or obtain rights to commercially marketable intellectual properties...

We are authorized to conduct business in over 100 international gaming jurisdictions.

11 Shut the door to capture the thief

Our games typically integrate secondary bonus rounds as additions to the primary game to create a game-within-a-game for more exciting and interactive play. If players attain certain winning combinations on the primary game, they move on to play a secondary game for a chance at winning additional bonuses without additional wagering.

Demand for our products is also driven by: ...Our reputation, reliability and after-sales service support.

We place substantial emphasis on our Player Driven Innovation process that incorporates player feedback and market research into our development process in order to create game content and gaming experiences that appeal to casino patrons.

Our ability to compete successfully in this market is based, in large part, upon our ability to:

➢ generate brand recognition;

20 Let the plum tree wither in place of the peach

A key element of our success has been to limit the number of units of each game theme installed in each casino. The result is that due to the popularity of the
games, with a limited supply, the performance of the games has remained high for a longer period.

We have also removed participation gaming machines from lower performing casinos and placed them in higher performing casinos to enhance our return on investment.

22 Await the exhausted enemy at your ease

Game platforms and the related computer systems are constantly updated and revised to keep pace with the ever-increasing complexity of modern game play requirements.

We expect technology to continue to be a significant element that drives demand, along with the emphasis by casinos for the types of gaming products that deliver higher net win per gaming machine. We believe that server-enabled networked gaming (“NG”) will be the next significant technology development in the gaming machine industry.

Strategies One and Two: Leverage Our Product Development Expertise to Introduce Innovative New Games and Expand Our Product Sales Offerings to:

1) Increase our Ship Share in the United States and Canada and
2) Expand and Grow Our International Business: During the past six years, we have enhanced our product development efforts by adding key management, design personnel and software engineers to our product development group.

In the December 2008 quarter we began the global launch of our new gaming machine, Bluebird2, which contains advanced technologies that enable this gaming machine to support gaming as it exists today and in the server-enabled networked gaming world.

Our ability to compete successfully in this market is based, in large part, upon our ability to: ...

➢ create an expanding and constantly refreshed portfolio of games;
➢ adapt our products for use with new technologies;
➢ implement product innovation and reliability.

38 Economies of Scale

We also expect to benefit from raw material sourcing initiatives and from an expanded volume of business, which should result in greater volume discounts of
raw material component parts from our suppliers and enable us to spread our manufacturing overhead cost over a larger number of units thereby reducing cost per unit.

40 Best Practices
We seek to develop games and gaming machines that offer high entertainment value to casino patrons and generate greater revenues for casinos and other gaming machine operators than the games and gaming machines offered by our competitors.

We strive to develop highly entertaining games that incorporate engaging game play, themes, intellectual properties and advanced technologies, exciting winning combinations, advanced graphics, and digital music and sound effects.
Priceline.com Incorporated

7 Besiege Wei to rescue Zhao
In addition, from time to time we explore strategic transactions and acquisitions that, among other things, allow us to provide our services to new markets.

10 Remove the firewood from under the pot
Proprietary Seller Networks. 7 We have assembled proprietary networks of industry leading sellers that represent high quality brands. By establishing attractive networks of seller participants with reputations for quality, scale and national presence, we believe that we foster increased participation by both buyers and sellers.

...we have renewed or entered into new agreements with several of our major airline and hotel suppliers, which we believe improved our access to a better selection of travel alternatives and pricing.

We currently hold twenty issued United States patents.

11 Shut the door to capture the thief
Internationally, we offer our customers hotel room reservations in over 75 countries and 27 languages.

... services are made available over the Internet through websites that we own or control, and are provided by major travel suppliers, including more than 70,000 hotel properties worldwide.

We work with over 60,000 chain-owned and independently owned hotels offering hotel reservations on various websites and in multiple languages.

As part of our evolution to a “one-stop-shopping” website, we have added thousands of pages of content to allow customers to research destinations and hotel properties before booking a reservation.

22 Await the exhausted enemy at your ease
Because of what we believe to be superior growth rate opportunities associated with international online travel, we intend to continue to invest resources to increase the share of our revenues represented by international consumers and capitalize on international travel demand. We intend to use Agoda, the online hotel distributor with operations in Singapore and Thailand, which we acquired
in 2007, to further develop our operations throughout Asia, where Internet penetration and e-commerce adoption are growing at a substantially greater pace than in the United States over the last several years.

36 The stratagem of linking stratagems
We believe that the combination of our retail price-disclosed model and our Name Your Own Price® model allows us to provide a broad array of options to value-conscious travelers, while providing us with diverse streams of revenue.

38 Economies of Scale
Our business is supported by a systems platform, which was designed with an emphasis on scalability, performance and reliability.

40 Best Practices
Our principal goal is to be the leading worldwide online hotel reservation service.

Our strategy is to continue to participate broadly in online travel growth by expanding our service offerings and markets.
inVentiv Health

7 Besiege Wei to rescue Zhao
We have developed sustained relationships with large, mid-tier, emerging pharmaceutical and biotechnology clients that provide us with recurring revenue streams and cross-selling opportunities.

We consider the breadth of our client portfolio ... to be an important competitive advantage.

10 Remove the firewood from under the pot
We believe that our expertise in identifying potential acquisition targets, assessing their importance to our operational and growth objectives, performing due diligence and completing the acquisition of appropriate businesses and effectively integrating them with our existing operations is a competitive advantage.

Our focus on building a comprehensive suite of best-in-class service providers with strong marketplace awareness has been a key strategy in our acquisitions. A few examples of our strong brand names in their respective marketplaces include Smith Hanley, GSW Worldwide, Palio, Chandler Chicco, Chamberlain, Ignite, Adheris and AWAC.

We maintain and operate a number of proprietary software programs and systems for marketing development and data gathering.

11 Shut the door to capture the thief
We are also engaged in a continuous process of expanding and refining our service offerings, and pursuing cross-servicing opportunities within and across our business segments, in order to respond more flexibly to the market and address broader revenue opportunities with existing and new clients.

We support a broad range of clinical development, communications and commercialization activities that are critical to our customers’ ability to complete the development of new drug products and medical devices and successfully commercialize them.

Our ability to perform services and add value at every part of the product life cycle enhances our ability to develop new business opportunities and form long-lasting relationships with clients.
We are one of the largest providers of services to the pharmaceutical and life sciences industry in the U.S. and offer among the broadest range of services. These are important factors to our clients and potential clients, many of whom prefer to work with organizations that can provide a comprehensive suite of complementary services and have a proven track record of execution.

14 Beat the grass to startle the snake
We therefore target a broad spectrum of companies within the pharmaceutical industry in seeking to develop business opportunities.

22 Await the exhausted enemy at your ease
We invest in technology and have developed and deployed cutting-edge marketing and sales force automation tools.

23 Exchange the role of guest for that of host
Our client base of over 350 pharmaceutical and biotechnology clients is broad and diversified, and with many of these clients we have maintained long-term relationships that help us in continuing to win new business.
Blue Nile

10 Remove the firewood from under the pot

While we may selectively acquire diamond inventory that we believe will be attractive to our customers, our supply solution enables us to purchase only those diamonds that our customers have ordered. We typically enter into multi-year agreements with diamond suppliers that provide for certain diamonds to be offered online to consumers exclusively through the Blue Nile websites.

We have developed an efficient online cost structure and a unique supply solution that eliminates traditional layers of diamond wholesalers and brokers, which generally allow us to purchase most of our product offerings at lower prices by avoiding mark-ups imposed by those intermediaries.

Our exclusive diamond supplier relationships allow us to display suppliers’ diamond inventories on the Blue Nile websites for sale to consumers without holding the diamonds in our inventory until the products are ordered by customers.

We purchase polished diamonds from several dozen suppliers, most of whom have long-standing relationships with us. We typically enter into multi-year agreements with diamond suppliers that provide for certain diamonds to be offered online to consumers exclusively through the Blue Nile websites. Our diamond supply agreements have expiration dates ranging from 2010 to 2014.

Our technology systems use a combination of proprietary, licensed and open-source technologies.

11 Shut the door to capture the thief

We have an obsessive focus on the customer. We believe that maintaining high overall customer satisfaction is critical to our ongoing efforts to elevate the Blue Nile brand and to increase our net sales and net income.

We specialize in the customization of diamond jewelry with our “Build Your Own” feature that offers customers the ability to customize diamond rings, pendants and earrings.

Our comprehensive websites and expertly trained customer service representatives (“diamond and jewelry consultants”) improve the traditional purchasing experience by providing education and detailed product information.
that enable our customers to objectively compare diamonds and fine jewelry products, and make informed decisions.

Our websites feature an interactive search functionality that allows our customers to quickly find the products that meet their needs from our broad selection of diamonds and fine jewelry.

The Blue Nile customer experience is designed to empower our customers with knowledge and confidence as they evaluate, select and purchase diamonds and fine jewelry.

A key element of our business strategy is our ability to provide a high level of customer service and support. We augment our online information resources with knowledgeable, highly trained support staff through our call centers to give customers confidence in their purchases. Our diamond and jewelry consultants are trained to provide guidance on all steps in the process of buying diamonds and fine jewelry, including, among other things, the process for selecting an appropriate item, the purchase of that item, financing and payment alternatives, and shipping services. Our commitment to customers is reflected in both high service levels that are provided by our extensively trained diamond and jewelry consultants, as well as in our guarantees and policies.

We typically offer a return policy of 30 days.

22 Await the exhausted enemy at your ease
By innovating in the areas of website functionality, product visualization, and customer features, we intend to further enhance customer satisfaction.

We have and will continue to selectively pursue opportunities in international markets in which we can leverage our existing infrastructure and compelling value proposition. We are pursuing these opportunities based on each market’s consumer spending on jewelry, adoption rate of online purchasing and competitive landscape, among other factors.

30 Openly repair the walkway, secretly march to Chen Cang
As an online retailer, we also do not incur most of the operating costs associated with physical retail stores, including occupancy costs and related overhead. As a result, while our gross profit margins are lower than those typically maintained by traditional diamond and fine jewelry retailers, we are able to realize relatively higher operating income as a percentage of net sales. In the year ended January 3,
2010, we had a 21.6% gross profit margin, as compared to what we believe to be gross profit margins of up to 50% or more by some traditional retailers.

34 Deck the tree with bogus blossoms
Our websites showcase tens of thousands of independently certified diamonds and styles of fine jewelry, including rings, wedding bands, earrings, necklaces, pendants, bracelets and watches.

40 Best Practices
Our goal is to provide an unrivaled customer experience such that we become our customers’ jeweler for life.

Our objective is to maximize our revenue and profitability and increase market share both domestically and internationally by offering exceptional value to our customers through a high quality customer experience that leverages supply chain efficiencies and an efficient cost structure.
Research in Motion

2 Exchange a brick for a jade

...BlackBerry® Messenger (BBM™), have been instrumental in driving RIM’s international growth. BBM use increased five-fold during fiscal 2010 and we believe this growth is a strong indicator of the potential for key applications to drive even greater adoption and loyalty to the BlackBerry platform.

10 Remove the firewood from under the pot

We continue to invest in the integration of our global supply chain by developing relationships with key suppliers to support future product requirements and achieve greater forecast accuracy through improved demand management. In support of this supply chain integration and growth, RIM is investing in a leading edge IT systems infrastructure and global information management system, driving a world class supply chain engine to achieve the highest possible levels of customer satisfaction.

11 Shut the door to capture the thief

RIM is focused on delivering rich user experiences to our customers...

Both enterprises and consumers recognize our strength as a world class platform for all kinds of communications – instant messaging, social networking, e-mail, texting, multimedia and more.

The tight integration of leading edge hardware, purpose built software and the BlackBerry infrastructure has generated one of the most robust and secure solutions on the market.

The value of the BlackBerry brand also increased substantially during fiscal 2010. Last year we were pleased to have been included on the Millward Brown Top 100 Most Powerful Brands list.

Research and development efforts in fiscal 2010 remained focused on developing world class products and services that deliver a unique mobile experience for our customers.

...continue to enhance the user experience by launching a new Webkit-based browser and new user interface for BlackBerry smartphones, and by growing the number of applications and services available for the BlackBerry platform;
Providing exceptional support for the growing number of BlackBerry subscribers is an important competitive advantage for RIM and its partners. Our customer support efforts in fiscal 2010 continued to focus on scalability, ease-of-use, efficiency and cost-effectiveness.

...aggressively targeting small and medium sized business with BlackBerry Enterprise Server Express;

The BlackBerry platform remains the corporate standard for enterprise mobility. In recognition of its leadership in the enterprise market in fiscal 2010, BlackBerry® Enterprise Server version 5.0 received the Global Mobile Award for the “Best Mobile Enterprise Product or Service” at GSMA’s Mobile World Congress and was also the first mobile platform to receive the Common Criteria EAL4+ Security Certification.

We are committed to maintaining our leadership in this market and continue to strengthen the BlackBerry platform through enhanced integration of value added services such as BlackBerry® Mobile Voice System (mobilizes PBX systems and brings office phone features to BlackBerry smartphones), Chalk Pushcast Software (for corporate podcasting) and enterprise social networking and collaboration tools. We also recently launched BlackBerry® Enterprise Server Express to further extend our market opportunity by providing companies of all sizes with a cost-effective solution that supports mobile connectivity for employees without compromising security or manageability.

Early in fiscal 2010, RIM launched BlackBerry App World™ and we are pleased to report that the developer community is thriving. RIM continues to provide developers with robust tools, technologies and business services to assist them in creating and marketing even more powerful and useful applications. Related initiatives in 2010 included the second annual BlackBerry Developer Conference, the introduction of the BlackBerry Academic Program and a variety of new development tools, such as BlackBerry® Theme Studio, BlackBerry Widgets, and new payment and advertising tools and services to help developers monetize their applications.

Our customer support efforts in fiscal 2010 continued to focus on scalability...
40 Best Practices
We focused on efficiency right from the start.
So efficiency is in our DNA.
3 Invite your enemy onto the roof, then remove the ladder

Throughout its history, the Company has focused on the use of technology in education and has been committed to delivering tools to help educators teach and students learn. The Company believes effective integration of technology into classroom instruction can result in higher levels of student achievement, especially when used to support collaboration, information access, and the expression and representation of student thoughts and ideas. The Company has designed a range of products and services to address the needs of education customers, which includes one-to-one (“1:1”) learning. A 1:1 learning solution typically consists of a networked environment that includes a portable computer for every student and teacher. In addition, the Company supports mobile learning and real-time distribution and accessibility of education related materials through iTunes U, which allows students and teachers to share and distribute educational media directly through their computers and mobile communication devices.

10 Remove the firewood from under the pot

The Company’s business strategy leverages its unique ability to design and develop its own operating system, hardware, application software, and services to provide its customers new products and solutions with superior ease-of-use, seamless integration, and innovative industrial design.

The Company has signed multi-year agreements with various cellular network carriers authorizing them to distribute and provide cellular network services for iPhones. These agreements are generally not exclusive with a specific carrier, except in the U.S., Germany, Spain, Ireland, and certain other countries.

...the Company has entered into certain agreements for the supply of key components...

The Company may expand the range of its product offerings and intellectual property through licensing and acquisition of third-party business and technology.

The Company currently holds rights to patents and copyrights relating to certain aspects of its computer systems, iPhone and iPod devices, peripherals, software and services.
Appendix A: Results of Public Company Coding

11 Shut the door to capture the thief
The Company’s strategy also includes expanding its distribution network to effectively reach more of its targeted customers and provide them with a high-quality sales and post-sales support experience.

The Company believes a high-quality buying experience with knowledgeable salespersons who can convey the value of the Company’s products and services greatly enhances its ability to attract and retain customers. The Company sells many of its products and resells certain third-party products in most of its major markets directly to consumers and businesses through its retail and online stores.

The Company has also invested in programs to enhance reseller sales, including the Apple Sales Consultant Program, which places Apple employees and contractors at selected third-party reseller locations, and the Apple Premium Reseller Program, through which independently run businesses focus on the Apple platform and provide a high level of customer service and product expertise. The Company believes providing direct contact with its targeted customers is an efficient way to demonstrate the advantages of its products over those of its competitors.

At the end of fiscal 2009, the Company had opened a total of 273 retail stores, including 217 stores in the U.S. and 56 stores internationally.

The Company also sells its hardware and software products to customers in enterprise, government and creative markets in each of its geographic segments. These markets are also important to many third-party developers who provide Mac-compatible hardware and software solutions. Customers in these markets utilize the Company’s products because of their high-powered computing performance and expansion capabilities, networking functionality, and seamless integration with complementary products.

22 Await the exhausted enemy at your ease
The Company believes continual investment in research and development is critical to the development and enhancement of innovative products and technologies.

In addition to evolving its personal computers and related solutions, the Company continues to capitalize on the convergence of the personal computer, mobile communications and digital consumer electronics by creating and refining innovations, such as iPhone, iPod and the iTunes Store.
Appendix A: Results of Public Company Coding

The Company believes it currently retains a competitive advantage by offering superior innovation and integration of the entire solution including the hardware (personal computer, iPhone and iPod), software (iTunes), and distribution of digital content and applications (iTunes Store, iTunes Wi-Fi Music Store and App Store).

Because the personal computer, mobile communication and consumer electronics industries are characterized by rapid technological advances, the Company’s ability to compete successfully is heavily dependent upon its ability to ensure a continual and timely flow of competitive products, services and technologies to the marketplace. The Company continues to develop new products and technologies and to enhance existing products in the areas of computer hardware and peripherals, mobile communication devices, consumer electronics products, system software, applications software, networking and communications software and solutions, and Internet services and solutions.

34 Deck the tree with bogus blossoms

The Company desires to support a community for the development of third-party products that complement the Company’s offerings through its developer programs. The Company offers various third-party software applications and hardware accessories for Mac® computers, iPhones and iPods through its retail and online stores, as well as software applications for the iPhone and iPod touch platforms through its App Store™.
Appendix A: Results of Public Company Coding

AT&T

10 Remove the firewood from under the pot
With the expansion of our company through acquisitions and the resulting ownership consolidation of AT&T Mobility, and with continuing advances in technology, we plan to offer new services that combine our traditional wireline and wireless services...

11 Shut the door to capture the thief
…we plan to offer new services that combine our traditional wireline and wireless services, thereby making our customers’ lives more convenient and productive...

Our voice service is generally offered on a contract basis for one- or two-year periods

22 Await the exhausted enemy at your ease
…we plan to offer new services that combine our traditional wireline and wireless services, thereby ...fostering competition and further innovation in the communications and entertainment industry.

As the communications industry continues to move toward internet-based technologies that are capable of blending traditional wireline and wireless services, we plan to offer services that take advantage of these new and more sophisticated technologies. In particular, we intend to continue to focus on deploying our AT&T U-verse high-speed broadband and video services and on developing internet protocol-based services that allow customers to unite their home or business wireline services with their wireless service.

23 Exchange the role of guest for that of host
As the wireless industry continues to mature, we believe that future wireless growth will become increasingly dependent on our ability to offer integrated handsets and other innovative devices such as netbooks and eReaders and innovative services that will encourage existing customers to upgrade their services and will attract customers from other providers as well as our ability to minimize turnover of our existing customer base (customer churn). We intend to accomplish these goals by continuing to expand our network coverage, improve our network quality and offer a broad array of products and services,
including exclusive devices such as Apple iPhone, Wi-Fi enabled devices and free mobile-to-mobile calling among our wireless customers.

We continue to upgrade our network and coordinate with equipment manufacturers and applications developers in order to further capitalize on the continued growth in the demand for wireless data services.

38 Economies of Scale
As of December 31, 2009, we served 85.1 million customers and were a leading provider of mobile wireless voice and data communications services in the U.S.
Oracle

7 Besiege Wei to rescue Zhao
Our database and middleware software offerings are designed to provide a cost-effective, high-performance platform for running and managing business applications for small and mid-size businesses, as well as large, global enterprises.

10 Remove the firewood from under the pot
As a result of our acquisition of Sun Microsystems, Inc. (Sun) in January 2010, we are also a leading provider of hardware products and services.

We also believe that an active acquisition program is an important element of our corporate strategy as it strengthens our competitive position, expands our customer base, provides greater scale to accelerate innovation.... In recent years, we have invested billions of dollars to acquire a number of companies, products, services and technologies.

We also purchase or license intellectual property rights in certain circumstances.

11 Shut the door to capture the thief
The standard end user software license agreement for our products generally provides for an initial fee to use the software product in perpetuity based on a maximum number of processors, named users or other metrics.

Our software solutions are designed to help customers reduce the cost and complexity of their information technology (or IT) infrastructures by delivering solutions via a standards-based, or “open”, integrated architecture, which allows our software products to work in customer environments that may include Oracle or non-Oracle hardware or software components.

We seek to protect and enhance our customers’ current investments in Oracle software by offering proactive and personalized support services, including our Lifetime Support policy, and unspecified product enhancements and upgrades.

22 Await the exhausted enemy at your ease
We believe our internal, or organic, growth and continued innovation with respect to our software, hardware and services businesses are the foundation of our long-term strategic plan. In fiscal 2010, 2009 and 2008 we invested $3.3 billion, $2.8 billion and $2.7 billion, respectively, in research and development to
enhance our existing portfolio of products and services and to develop new products, features and services.

34 Deck the tree with bogus blossoms
Oracle JDeveloper is an integrated software environment that is designed to facilitate rapid development of a variety of different types of applications using Oracle Fusion Middleware and popular open source technologies. Oracle JDeveloper provides support for developing Java applications; web services, composite SOA applications and business processes; rich user interfaces using AJAX/DHTML and Flash technologies; and websites using popular scripting languages. Oracle JDeveloper also provides comprehensive application lifecycle management facilities including modeling, building, debugging, unit testing, profiling, and optimizing applications and is integrated with the Oracle Application Development Framework, which provides a declarative framework for building business applications, and popular open source tools including Eclipse and NetBeans.

38 Economies of Scale
We offer customers scalable... hardware solutions.

We also believe that an active acquisition program is an important element of our corporate strategy as it ...provides greater scale to accelerate innovation.

We are the world’s largest enterprise software company.

40 Best Practices
We seek to be an industry leader in each of the specific product categories in which we compete and to expand into new and emerging markets.
Furthering our initiatives in the broker arena, we acquired CAIC in the fourth quarter of 2009. This acquisition equips us with a platform for offering attractive voluntary group insurance products that are well-suited for distribution by insurance brokers at the worksite.

In 1974, Aflac was granted an operating license to sell life insurance in Japan, making Aflac the second non-Japanese life insurance company to gain direct access to the Japanese insurance market. Aflac has had substantial success selling cancer policies in Japan, with 14 million cancer policies in force as of December 31, 2009.

We have sold our products to employees of banks since our entry into Japan in 1974. However, December 2007 marked the first time it was permissible for banks to sell supplemental health insurance products to their customers. By the end of 2009, we had agreements with 353 banks to sell our products.

Insurance brokers have been a historically underleveraged sales channel for Aflac, and we believe we can establish relationships that will complement, not compete with, our traditional distribution system. We have assembled a management team experienced in broker sales, and we are supporting this initiative with streamlined products, targeted broker specific advertising campaigns, customized enrollment technology, and competitive compensation. Additionally, a new level of management was introduced in 2009 to deliver this initiative. Over 100 broker development coordinators have been hired to be single points of contact for brokers across the country. Broker development coordinators are responsible for building relationships with new brokers as well as strengthening relationships with our current brokers. These coordinators are assisted by a team of certified case managers whose role is to coordinate and manage the account enrollments for brokers.

As of December 31, 2009, Aflac Japan was represented by more than 19,600 sales agencies, with more than 110,500 licensed sales associates employed by those agencies at such date. We believe that new agencies will continue to be attracted
to Aflac Japan’s high commissions, superior products, customer service and strong brand image.

Our U.S. sales force comprises sales associates who are independent contractors licensed to sell accident and health insurance.

38 Economies of Scale
We believe AFLAC is the world’s leading writer of individually issued policies marketed at worksites.

We continue to diversify our product offerings in both Japan and the United States.

During the past several years, we have enhanced and increased the size of our distribution system. We recruited more than 28,400 new sales associates in 2009. At December 31, 2009, Aflac was represented by more than 75,300 licensed sales associates, a 1.2% increase over 2008.

40 Best Practices
Our business depends in large part on our technology systems for interacting with employers, policyholders and sales associates, and our business strategy involves providing customers with easy-to-use products to meet their needs.
Beckman Coulter, Inc.

10 Remove the firewood from under the pot

Patents and other proprietary rights are essential to our business. We rely on trademarks, copyrights, trade secrets, know-how and confidentiality agreements to develop, maintain and strengthen our competitive position. We own a number of patents and trademarks throughout the world and have also entered into license arrangements relating to various third-party patents and technologies.

We currently maintain a worldwide patent portfolio of approximately 2,443 active patents and pending applications for patents, which includes 659 active U.S. patents, 163 applications for U.S. patents and the balance being patents and pending applications on selected products or technologies in markets outside the United States.

11 Shut the door to capture the thief

We believe the Beckman and Coulter names have become two of the most valuable brand names in biomedical testing. With the leading market share in the United States, we are the recognized leader in total laboratory automation. We are building on our industry-leading ability to help customers simplify, automate and innovate their processes. Our unparalleled knowledge of customers’ laboratory processes supports our expansion of automation and work cells, growing our installed base of instruments.

Our breadth of product offering and “building block” designs provide laboratories with broad-based testing capability that is highly configurable and flexible. We offer a world class menu of more than 600 clinical diagnostics tests, capable of meeting nearly 100% of hospital-based routine laboratory testing needs.

Our development capabilities across chemical, biological, hardware and software disciplines enable a prolific flow of new systems to meet customer requirements for simplifying, automating and innovating laboratory testing.

We consider our reputation for service responsiveness and our sales and service network within our market segments to be important competitive assets.
Appendix A: Results of Public Company Coding

22 Await the exhausted enemy at your ease
Our first mover approach has enabled us to be the first to provide islands of automation, the first to develop an integrated centrifuge and the first with refrigerated post-analytical storage.

From a geographic perspective, we are expanding resources in developing markets, including China and India, which we believe will improve our opportunities for long-term growth.

40 Best Practices
Our strategic initiatives for 2009 focus on key growth drivers, quality and operating excellence.
10 Remove the firewood from under the pot

We have built our business over the last 25 years through a series of strategic acquisitions. In the 1980’s through the mid-1990’s, we began building on our then existing Schweppes business by adding brands such as Mott’s, Canada Dry and A&W and a license for Sunkist. We also acquired the Peñafiel business in Mexico.... the integration of acquisitions into our Bottling Group has created the opportunity to improve our manufacturing, warehousing and distribution operations

We believe our brand ownership, bottling and distribution are more integrated than the United States operations of our principal competitors and that this differentiation provides us with a competitive advantage. Our integrated business model strengthens our route-to-market. Our integrated business model also provides opportunities for net sales and profit growth through the alignment of the economic interests of our brand ownership and our bottling and distribution businesses. For example, we can focus on maximizing profitability for our company as a whole rather than focusing on profitability generated from either the sale of concentrates or the bottling and distribution of our products. Additionally, our integrated business model enables us to be more flexible and responsive to the changing needs of our large retail customers by coordinating sales, service, distribution, promotions and product launches and allows us to more fully leverage our scale and reduce costs by creating greater geographic manufacturing and distribution coverage.

With third party bottlers, we continue to deliver programs that maintain priority for our brands in their systems.

11 Shut the door to capture the thief

We have some of the most recognized beverage brands in North America, with significant consumer awareness levels and long histories that evoke strong emotional connections with consumers.

Many of our brands enjoy high levels of consumer awareness, preference and loyalty rooted in their rich heritage, which drive their market positions. We are the #1 flavored CSD company in the United States. Our largest brand, Dr Pepper, is the #2 flavored CSD in the United States.
Our brands have enjoyed long-standing relationships with many of our top customers. We sell our products to a wide range of customers, from bottlers and distributors to national retailers, large foodservice and convenience store customers. We have strong relationships with some of the largest bottlers and distributors, including those affiliated with Coca-Cola and PepsiCo, some of the largest and most important retailers, including Wal-Mart, Safeway, Kroger and Target, some of the largest food service customers, including McDonald’s, Yum! Brands and Burger King, and convenience store customers, including 7-Eleven.

14 Beat the grass to startle the snake
The strength of our key brands has allowed us to launch innovations and brand extensions such as Dr Pepper Cherry, 7UP Cherry Antioxidant, Canada Dry Green Tea Ginger Ale, Mott’s for Tots and Snapple value teas.

22 Await the exhausted enemy at your ease
Our marketing strategy is to grow our brands through continuously providing new solutions to meet consumers’ changing preferences and needs. We identify these preferences and needs and develop innovative solutions to address the opportunities. Solutions include new and reformulated products, improved packaging design, pricing and enhanced availability.

Focus on opportunities in high growth and high margin categories. We are focused on driving growth in our business in selected profitable and emerging categories. These categories include ready-to-drink teas, energy drinks and other beverages. We also intend to capitalize on opportunities in these categories through brand extensions, new product launches and selective acquisitions of brands and distribution rights.

38 Economies of Scale
Our portfolio of strong brands, operational scale and experience across beverage segments has enabled us to maintain strong relationships with our customers.
11 Shut the door to capture the thief
We believe that our broad range of printing capabilities and services, along with our ability to use our leading geographic footprint to serve customers on local, regional and national levels, gives us a competitive advantage over smaller, local printing companies.

Capitalizing on our national presence and wide range of capabilities…

22 Await the exhausted enemy at your ease
Furthermore, our strong financial position enables us to invest in newer, more efficient technology and equipment and to make strategic acquisitions, which expands our industry-leading position in terms of locations, capabilities, and services.

...continuing to invest in new equipment and technology that enables us to provide increasingly higher levels of service and a broader range of capabilities.

38 Economies of Scale
Because of our size and extensive geographic footprint, we leverage our economies of scale to purchase supplies and equipment used in the printing process and for newer, more efficient equipment.

...our printing businesses are supported by the management expertise, purchasing power, technology investments, including infrastructure and support, national sales and marketing and other operating advantages that exist because they are part of a large national organization.

40 Best Practices
Participants in our Leadership Development Program follow a curriculum that provides them with...sales and best practices training on the nature of commercial printing using offset lithography manufacturing processes requires a substantial amount of interaction with customers, including personal sales calls, reviews of color proofs and “press checks” (customer approval of printed materials during the printing process).

Our overall business strategy is to be the market leader in the commercial printing industry by combining the customer service and responsiveness of well-managed, local printing businesses with the competitive advantages provided by a large national organization.
Caribou Coffee Company

7 Besiege Wei to rescue Zhao
We intend to continue strategically expanding our coffeehouse locations predominately in our existing markets. We believe that we have strong brand awareness and loyalty in markets where we operate coffeehouses. As we increase the density of coffeehouses within these markets we will be able to drive higher customer awareness, loyalty and comparable coffeehouse sales.

10 Remove the firewood from under the pot
Our ability to differentiate the Caribou Coffee brand from those of our competitors depends, in part, on the strength and enforcement of our trademarks. We must constantly protect against any infringement by competitors.

23 Exchange the role of guest for that of host
We opened our first franchised coffeehouse in 2004 and as of January 3, 2010, we have expanded the number of franchised coffeehouses and licensed kiosks to 121 with 71 of the franchised coffeehouses in international markets. We intend to continue to franchise and license Caribou Coffee branded coffeehouses and kiosks both domestically and internationally, where we believe there are significant opportunities to grow our business with qualified, multi-unit franchise development and licensing partners.

Our coffeehouses aspire to be the community place loved by our guests as we strive to provide them with an extraordinary experience that makes their day better. We deliver our guest experience with our unique blend of expertise, fun and authentic human connection in a comfortable and welcoming coffeehouse environment. We believe we provide a unique experience for our customers through the combination of our high-quality products, distinctive coffeehouse environment and customer service.

24 Borrow the road to conquer Gao
... we sell our blended coffees and license our brand to Keurig, Inc. for sale and use in its K-Cup single serve line of business.
40 Best Practices

We source the highest-quality coffees in the world and our skilled roast masters personally oversee the craft roasting of every single batch to bring out the best in every bean.

Our retail growth objective is to profitably build a leading premium coffeehouse brand.
Ariba, Inc.

10 Remove the firewood from under the pot
We depend on our ability to develop and maintain the proprietary aspects of our technology. To protect our proprietary technology, we rely primarily on a combination of contractual provisions, confidentiality procedures, trade secrets, and patent, copyright and trademark laws.

11 Shut the door to capture the thief
We offer a comprehensive series of classes to provide the knowledge and skills to successfully deploy, use and maintain our products and solutions through Ariba University. Ariba University delivers Institute for Supply Management (“ISM”) training and change management services to customers and partners. Through a comprehensive offering of traditional classroom delivery at an Ariba campus, client on-site delivery, web-based training and consulting services, Ariba Education Services provide the knowledge and skills required to successfully deploy, use and maintain the Ariba product line.

As such, we deliver an integrated portfolio of enterprise-class software, global services, expertise, and a global supplier network to help companies accelerate adoption and drive performance improvements and competitive advantage. Our solutions allow enterprises to take a step-by-step approach with products and services that work together to address six key areas of spend management: [Ariba Spend Analysis Solutions], [Ariba Sourcing Solutions], [Ariba Contract Management Solutions], [Ariba Procurement and Expense Solutions], [Ariba Invoice and Payment Solutions], [Ariba Supplier Management Solutions].

Ariba has over 700 global consultants, including more than 400 category experts that assist our customers in sourcing strategy, supplier identification and assessment, negotiation and project execution, and supplier management across more than 500 spend categories. These experts are stationed around the globe...

Ariba Spend Management solutions also integrate with and leverage the Ariba Supplier Network. The Ariba Supplier Network is a scalable Internet infrastructure that connects buying organizations with their suppliers to exchange product and service information as well as a broad range of business documents, such as purchase orders and invoices. Over 200,000 registered suppliers of a wide array of goods and services are connected to the Ariba Supplier Network.
We believe the principal competitive factors considered with respect to, and the relative competitive standing of, our spend management software solutions are:

- Quality of customer support;

22 Await the exhausted enemy at your ease

If we are unable to develop new products or enhancements to existing products or corrections on a timely and cost-effective basis, particularly on-demand versions of our products, or if these new products or enhancements do not have the features or quality measures to make them successful in the marketplace, our business will be harmed.

38 Economies of Scale

Ariba Spend Management solutions also integrate with and leverage the Ariba Supplier Network. The Ariba Supplier Network is a scalable Internet infrastructure that connects buying organizations with their suppliers to exchange product and service information as well as a broad range of business documents, such as purchase orders and invoices. Over 200,000 registered suppliers of a wide array of goods and services are connected to the Ariba Supplier Network.

We believe the principal competitive factors considered with respect to, and the relative competitive standing of, our spend management software solutions are:

- Performance, security, scalability, flexibility and reliability of the software;

40 Best Practices

Our mission is to transform the way companies of all sizes, industries, and geographies operate by delivering software, service, and network solutions that enable them to holistically source, contract, procure, pay, manage, and analyze their spend and supplier relationships.
Universal Health Services, Inc.

10 Remove the firewood from under the pot
Acquisition of Additional Hospitals. We selectively seek opportunities to expand our base of operations by acquiring, constructing or leasing additional hospital facilities.

22 Await the exhausted enemy at your ease
In addition, we will continue to emphasize innovation in our response to the rapid changes in regulatory trends and market conditions ...

40 Best Practices
Our mission and objective is to provide superior healthcare services that patients recommend to families and friends, physicians prefer for their patients, purchasers select for their clients, employees are proud of, and investors seek for long-term results. To achieve this, we have a commitment to:

- service excellence
- continuous improvement in measurable ways
- employee development
- ethical and fair treatment
- teamwork
- compassion
- innovation in service delivery
American Eagle Outfitters

7 Besiege Wei to rescue Zhao
Gaining market share in key categories, such as graphic tees and fleece is a primary focus within the AE brand. In addition, we will build upon our number one position in denim.

11 Shut the door to capture the thief
We offer our retail customers a hassle-free return policy.

38 Economies of Scale
The expansion of our Kansas distribution center in Fiscal 2007 enabled us to bring fulfillment services for AEO Direct in-house. The second phase of this expansion was completed in Fiscal 2008 to enhance operating efficiency and support our future growth.

40 Best Practices
Delivering value, variety and versatility to our customers remains a top priority.

All of our merchandise suppliers receive a vendor compliance manual that describes our quality standards and shipping instructions.

Our Vendor Code of Conduct (the “Code”), which is based on universally-accepted human rights principles, sets forth our expectations for suppliers.

We maintain an extensive factory inspection program to monitor compliance with our Code.
International Gaming Technologies

10 Remove the firewood from under the pot
During the last five years, we completed a number of small business acquisitions, including Cyberview in fiscal 2008 and WagerWorks in fiscal 2005, which provided additional opportunities to expand the distribution of our content across new channels and mediums. Strategic investments over the last five years included: CLS to participate in the development of gaming products for the China lottery market; WDG for access to a portfolio of gaming application concepts; and DigiDeal to expedite access to electronic table games markets.

We believe IGT has competitive advantage resulting from ... an extensive collection of intellectual properties.

11 Shut the door to capture the thief
We [are]...endeavoring to create products with superior functionality and features, using innovative architecture and technologies, resulting in a high degree of customer acceptance and player preference.

We also strive to maintain an edge in our quality of support and efficient product implementation.

Further, the breadth of our gaming products and diversity of our innovative game library contribute to our competitive advantage.

Our historically high levels of customer service and support, extensive and well-established infrastructure of sales and manufacturing, worldwide recognition, and geographic diversity are competitive assets.

We believe our reputation for consistently delivering and supporting quality products will encourage operators to select our products and enable us to maintain our market position.

22 Await the exhausted enemy at your ease
We believe IGT has competitive advantage resulting from ...financial strength to aggressively invest in R&D.

40 Best Practices
IGT is committed to providing quality gaming products at competitive prices.
Expedia, Inc.

10 Remove the firewood from under the pot

We seek to build and maintain long-term, strategic relationships with travel suppliers and global distribution system (“GDS”) partners. An important component of the success of our business depends on our ability to maintain our existing, as well as build new, relationships with travel suppliers and GDS partners.

We strive to deliver value to our travel suppliers through a wide range of innovative, targeted merchandising and promotional strategies designed to increase their revenue, while simultaneously reducing their marketing transaction and customer service costs.

In addition, we have developed proprietary, supplier-oriented technology that streamlines the interaction between some of our websites and hotel central reservation systems, making it easier and more cost-effective for hotels to manage reservations made through our brands.

We regard our intellectual property rights, including our patents, service marks, trademarks, domain names, copyrights, trade secrets and other intellectual property, as critical to our success.

11 Shut the door to capture the thief

Our brands provide a wide selection of travel products and services, from simple, discounted travel to more complex, luxury travel. Our travel offerings primarily consist of airline flights, hotel stays, car rentals, destination services, cruises and package travel, which encompasses multiple travel products.

We offer a comprehensive array of innovative travel products and services to our travelers.

We provide 24-hour-a-day, seven-day-a-week traveler support by telephone or via e-mail. We have made significant investments in our call center technologies in 2008 and 2009 and have plans to continue these investments going forward.

We have developed innovative technology to power our global travel marketplace. For example, our Best Fare Search technology essentially deconstructs segment feeds in the United States from GDS partners for air flight searches and recommends the best way to re-assemble multi-leg itineraries so that they are less expensive and more flexible for the traveler.
Appendix A: Results of Public Company Coding

We differentiate our brands from our competitors primarily based on ...traveler service.

14 Beat the grass to startle the snake
We seek to appeal to the broadest possible range of travelers, suppliers and advertisers through our collection of industry-leading brands. We target several different demographics, from the value-conscious traveler through our Hotwire brand to luxury travelers seeking a high-touch, customized vacation package through our Classic Vacations brand.

We believe our flagship Expedia brand appeals to the broadest range of travelers, with our extensive product offering ranging from single item bookings of discounted product to dynamic bundling of higher-end travel package.

22 Await the exhausted enemy at your ease
Expedia has an established tradition of technology innovation, from Expedia.com's inception as a division of Microsoft to our introduction of more recent innovations such as Expedia's introduction of its “Expedia Easy Manage” program, offering smaller properties in secondary and tertiary markets in Europe and Asia Pacific through an agency model hotel program, Media Solutions' introduction of rich media display ads called StorePoint Expandables, TripAdvisor’s launch of its Family Vacation Critic, which offers reviews of kid-friendly and parent-tested hotels, resorts, attractions and destinations to help parents select the best family vacation, and FlipKey’s launch of self-service listings for vacation property owners to merchandise their offerings.

In expanding our global reach, we leverage significant investments in technology, operations, brand building, supplier relationships and other initiatives that we have made since the launch of Expedia.com in 1996.

We intend to continue investing in and growing our international points of sale. We anticipate launching points of sale in additional countries where we find large travel markets and rapid growth of online commerce. Future launches may occur under any of our brands, or through acquisition of third-party brands, as in the case of eLong, Venere, Kuxun and Egencia.

We intend to continue innovating on behalf of our travelers, suppliers and advertisers with particular focus on improving the traveler experience, supplier integration and presentation, platform improvements, search engine marketing and search engine optimization.
24 Borrow the road to conquer Gao

The Expedia.com and hotels.com-branded websites receive bookings from consumers who have clicked-through to the respective websites through links posted on affiliate partner websites. We have agreements with thousands of third-party affiliate partners, including a number of leading travel companies, pursuant to which we pay a commission for bookings originated from their websites.

38 Economies of Scale

Our scale of operations enhances the value of technology innovations we introduce on behalf of our travelers and suppliers.

40 Best Practices

We are committed to providing travelers, travel suppliers and advertisers the world over with the best set of resources to serve their travel needs by leveraging Expedia’s critical assets — our brand portfolio, technology and content innovation, global reach and breadth of product offering.
Appendix A: Results of Public Company Coding

PDI

10 Remove the firewood from under the pot
At each step of the marketing model, we can offer proven research techniques, proprietary methodologies and customized study designs to address specific product needs.

11 Shut the door to capture the thief
We compete on the basis of such factors as ... ability to respond to specific customer needs...

40 Best Practices
With a focus on best-in-class quality and cost effectiveness, we have intensified our focus on strengthening all aspects of our core outsourced promotional services business.

...our focus is to flawlessly execute our customers’ programs in order to consistently deliver their desired results.
Tiffany’s

6 Kill with a borrowed knife
Management believes that consumers associate the Brand with ... distinctive and high-quality packaging materials (most significantly, the TIFFANY & CO. blue box);

10 Remove the firewood from under the pot
Gemstones and precious metals used in making Tiffany’s jewelry are purchased from a variety of sources. Most purchases are from suppliers with which Tiffany enjoys long-standing relationships.

11 Shut the door to capture the thief
Management believes that consumers associate the Brand with high-quality gemstone jewelry, particularly diamond jewelry; excellent customer service; an elegant store and online environment; upscale store locations; “classic” product positioning; distinctive and high-quality packaging materials (most significantly, the TIFFANY & CO. blue box); and sophisticated style and romance.

Tiffany competes on the basis of its reputation for high-quality products, brand recognition, customer service and distinctive value-priced merchandise and does not engage in price promotional advertising.

Other jewelers and retailers compete primarily through advertised price promotion, which has increased due to challenging economic conditions and decreased consumer demand.

22 Await the exhausted enemy at your ease
Management regularly evaluates potential markets for new TIFFANY & CO. stores with a view to the demographics of the area to be served, consumer demand and the proximity of other luxury…
Nokia

9 Trouble the water to catch the fish
An equally important focus for us is the successful combination of the hardware, software and services elements to create a rich user experience that positively differentiates us from our competitors.

10 Remove the firewood from under the pot
However, over the past few years we have increased our investment in services, including acquiring a number of companies with specific technology assets and expertise.

Over the past few years we have increased our research and development in services and supporting software and have made a number of strategic acquisitions, like Trolltech, to bring us the knowledge and technology that we believe we need to compete effectively in the design, development and deployment of our services.

We have built our IPR portfolio since the early 1990s, investing approximately EUR 40 billion cumulatively in research and development, and we now own approximately 11 000 patent families. As a leading innovator in the wireless space, we have built what we believe to be one of the strongest and broadest patent portfolios in the industry, extending across all major cellular and mobile communications standards, data applications, user interface features and functions and many other areas.

22 Await the exhausted enemy at your ease
Nokia is a pioneer in advancing mobile technology to enrich people’s lives and helping to drive sustainability. Today, Nokia is integrating its devices with innovative services through Ovi, our Internet services brand, including music, navigation, media and messaging.

Nokia’s NAVTEQ is a leader in comprehensive digital mapping and navigation services, while Nokia Siemens Networks provides equipment, services and solutions for communications networks globally.

To create additional value for users of our Series 30 and Series 40-based mobile phones, we also offer a range of services that can be accessed with them. One such service is Nokia Life Tools, which enables consumers to access timely and relevant agricultural information, as well as education and entertainment
services, without requiring the use of GPRS or Internet connectivity. During 2009, we launched the service in India and Indonesia, and we plan to introduce the service to additional emerging markets during 2010.

Nokia has also developed Ovi Mail, a free email service designed especially for users in emerging markets with Internet-enabled devices. The service can be set up and accessed without ever needing a PC. Ovi Mail launched in late 2008, and by March 2010 more than 6 million accounts had been activated.

During 2009, Nokia introduced Nokia Money, a new mobile financial service. The service is targeted to be rolled out gradually to selected markets in 2010 and will be operated in cooperation with Obopay, a leading developer of mobile payment solutions, in which Nokia has invested. Through the service, people will be able to use their mobile device to manage their personal finances, pay for products or services, as well as add credit to their mobile account. In February 2010, Nokia commenced a commercial pilot in Pune, one of the largest metropolitan areas in India, in partnership with YES BANK.

Devices & Services’ research and development (R&D) expenses amounted to EUR 3.0 billion in 2009. At the end of the year, Devices & Services employed 17,196 people in R&D.

33 Hide a dagger behind a smile
At Devices & Services, we endeavor to take a human approach to designing mobile devices, services and software. Using the customer feedback, information on consumer usage patterns and other consumer data collected by us, we are focusing on creating designs that consumers will want and love to use. This ethos is central to our design work and brand.

At the heart of our design approach is people—we are focusing our efforts on designing products and services and their combinations that are delightful and exciting to use.... Based in China, Europe and the United States, our multi-disciplinary design team comprising more than 300 people includes psychologists, researchers, anthropologists, user experience experts and technology specialists representing over 30 different nationalities.

34 Deck the tree with bogus blossoms
By deploying different software platforms, Nokia is able to address a wide range of market segments, price points and user groups in virtually every geography worldwide, which we would not be able to do if we limited ourselves to deploying one software platform on our mobile devices.
A key part of our software strategy consists of cross-platform development technologies, or layers of software, such as Qt and Web Runtime, that run across different software platforms. Such technologies enable developers to create applications for a variety of software platforms in the mobile market.

For application developers and content providers, we made available the Ovi SDK (software development kit), the Ovi Maps Player API (application programming interface) and Ovi Navigation API, enabling the creation of sophisticated applications for the web as well as the Symbian and Maemo platforms. Ovi developer tools are a key area of focus as we continue to expand our services offering for consumers and create opportunities for developers and content providers.

38 Economies of Scale

Nokia believes it has a number of competitive strengths, notably in its... scale...
Microsoft

3 Invite your enemy onto the roof, then remove the ladder
Our operating system products compete effectively by delivering ... compatibility with a broad range of hardware and software applications, and the largest support network for any operating system.

7 Besiege Wei to rescue Zhao
The Internet advertising industry has grown significantly over the past several years, and we anticipate that this trend will continue long-term. Competitors are aggressively developing Internet offerings that seek to provide more effective ways of connecting advertisers with audiences through enhanced functionality in information services such as Internet search, improvements in communication services, and improved advertising infrastructure and support services. We believe our search engine, Bing, helps users make faster, more informed decisions by providing more relevant search results, expanded search services, and a broader selection of content.

11 Shut the door to capture the thief
We offer a broad range of consulting services and provide product support services that assist customers in developing, deploying, and managing Microsoft server and desktop solutions.

We also provide training and certification to developers and information technology professionals about our Server and Tools, Microsoft Business Division, and Client platform products.

Approximately 50% of Server and Tools revenue comes from multi-year licensing agreements.

Revenue is also generated through subscriptions.

22 Await the exhausted enemy at your ease
We also conduct research and develop advanced technologies for future software products and services. We believe that delivering breakthrough innovation and high-value solutions through our integrated software platform is the key to meeting our customers’ needs and to our future growth.

We will continue to introduce new products and services that are aimed at attracting additional users through improvements in the user online experience.
We believe that we can compete effectively across the breadth of our Internet services by providing users with software innovation in the form of information and communication services.

We compete primarily on the basis of product innovation....

Innovation is the foundation for Microsoft’s success. Our model for growth is based on our ability to initiate and embrace disruptive technology trends, to enter new markets, both in terms of geographies and product areas, and to drive broad adoption of the products and services we develop and market. We maintain our long-term commitment to research and development across a wide spectrum of technologies, tools, and platforms spanning communication and collaboration; information access and organization; entertainment; business and e-commerce; advertising; and devices.

38 Economies of Scale
To support the growth of our advertising business, we also are investing in improving the scale of our advertising platform.

40 Best Practices
Our focus is to build on this foundation through ongoing innovation in our integrated software platforms; by delivering compelling value propositions to customers; by responding effectively to customer and partner needs; and by continuing to emphasize the importance of product excellence, business efficacy, and accountability.
Sprint

2 Exchange a brick for a jade
We generally sell these devices at prices below our cost in response to competition, to attract new subscribers and as retention inducements for existing subscribers.

…we may offer higher cost devices at greater discounts than our competitors, with the expectation that the loss incurred on the device will be offset by future service revenue.

9 Trouble the water to catch the fish
We and our competitors continue to offer more service plans that combine voice and data offerings, plans that allow users to add additional mobile devices to their plans at attractive rates, plans with a higher number of bundled minutes included in the fixed monthly charge for the plan, plans that offer the ability to share minutes among a group of related subscribers, or combinations of these features.

22 Await the exhausted enemy at your ease
Through our mobile virtual network operator (MVNO) relationship with Clearwire, we are also the first and only nationwide wireless carrier to offer 4G services.
SAP

3 Invite your enemy onto the roof, then remove the ladder
In our traditional core business, we seek to win a greater share of our existing customers’ IT budget.

Collaborating with customers and partners remains one of our core policies.

10 Remove the firewood from under the pot
Focused acquisitions: With targeted strategic and “fill-in” acquisitions that add to our broad solution offerings, we gain specific technologies and capabilities to meet the needs of our customers.

We rely on a combination of the protections provided by applicable statutory and common law rights, including trade secret, copyright, patent, and trademark laws, license and non-disclosure agreements, and technical measures to establish and protect our proprietary rights in our products.

11 Shut the door to capture the thief
Solutions to address the needs of business users remain a central element of our strategy for growth.

To support customers’ increasingly complex solution landscapes and their respective needs, SAP offers several support packages.

To share knowledge and influence SAP development efforts, our customers have established user groups in regions around the world. The two largest are the Americas’ SAP Users’ Group (ASUG), with more than 75,000 members, and the German-Speaking SAP User Group (DSAG), which has around 30,000 members in German-speaking countries. In 2007, SAP initiated a program that encouraged all of these groups to share their expertise and recommended practices with the wider user-group community.

Traditionally, our sales model has been to charge a one-time, up front license fee for a perpetual license to our software (without any rights to future products) which is typically installed at the customer site.

22 Await the exhausted enemy at your ease
To encourage continuous co-innovation, collaboration, and ongoing improvement in a wide range of products, services, and business processes, we
foster various communities of innovation — interactive networks of developers, customers, and partners that come together to collaborate on a variety of topics.

…together with leading universities, partners, and customers, we cultivate new IT trends and technologies on a global scale.

Through its exploration of various business areas and based on the findings of its research projects, SAP Research is able to identify potential “next big things” — maximum impact, next-generation technologies and applications.

We started the Global Business Incubator in 2008 as the successor to SAP Inspire. This program, based in Palo Alto, California, in the United States, and Walldorf, Germany, focuses on creating innovative new businesses for SAP.

24 Borrow the road to conquer Gao
We now have 21 global services partners, more than 1,200 service partners worldwide, and 34 global technology partners, and the SAP solution extension offerings continue to grow.

40 Best Practices
To succeed, we strive to build from our established leading position in the business software market and accelerate business and IT innovation for firms and industries.

We must continuously improve our portfolio of products if we wish to maintain and build on our current leading position as a vendor of business software.
UNUM

9 Trouble the water to catch the fish
We offer group, individual, and voluntary benefits either as stand alone products or combined with other coverages to provide comprehensive benefits solutions for employers of all sizes.

11 Shut the door to capture the thief
As one of the leading providers of employee benefits in the U.S. and the U.K., we offer a broad portfolio of products and services to meet the diverse and rapidly changing needs of employers and their employees.

33 Hide a dagger behind a smile
…we are committed to operating with integrity and being accountable for our actions.

40 Best Practices
We believe our sound and consistent business practices, strong internal compliance program, and comprehensive risk management strategy ensure that we operate efficiently and identify and address potential areas of risk from all corners of our business.
Appendix B: Companies Considered for the Study

Presented below are the companies considered for inclusion in this study along with relevant data used to determine whether each company qualified as a Winner or Loser.” These are presented in order of the Company Number.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ticker</th>
<th>Market Capitalization</th>
<th>EBITDA Margin (%)</th>
<th>5 Yr Revenue Growth (%)</th>
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</table>
### Appendix B: Companies Considered for the Study

<table>
<thead>
<tr>
<th>#</th>
<th>Company Name</th>
<th>Ticker</th>
<th>Market Cap</th>
<th>P/E Ratio</th>
<th>Price ($)</th>
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References


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