The Disney Recipe

by Todd Zenger | 9:00 AM May 28, 2013

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In a recent interview, Jeffrey Katzenberg described his first day at Disney as the newly appointed head of The Walt Disney Studios. The equally new Disney CEO, Michael Eisner, gave him a simple, unambiguous mandate: fix animation at Disney.

Although a veteran in the film business, Katzenberg had no experience with animation and little appetite for it. Disney long-timers, however, informed him that Walt Disney had left extensive notes and audio recordings concerning his experiences making animation, which were stored in the Disney archives.

Looking through these records, he discovered that Walt had effectively "left the recipe for making a Disney animated movie." Katzenberg proceeded to apply this recipe with remarkable success, adding on the way some extra ingredients of his own.

Walt Disney, however, left another, arguably even more valuable, recipe for his company. This was a strategic recipe or what I call a corporate theory of sustained growth. This corporate theory is largely captured in the adjacent drawing also from the Disney archives, published in 1957. It depicts a central film asset that in very precise ways infuses value into and is in turn supported by an array of related entertainment assets.

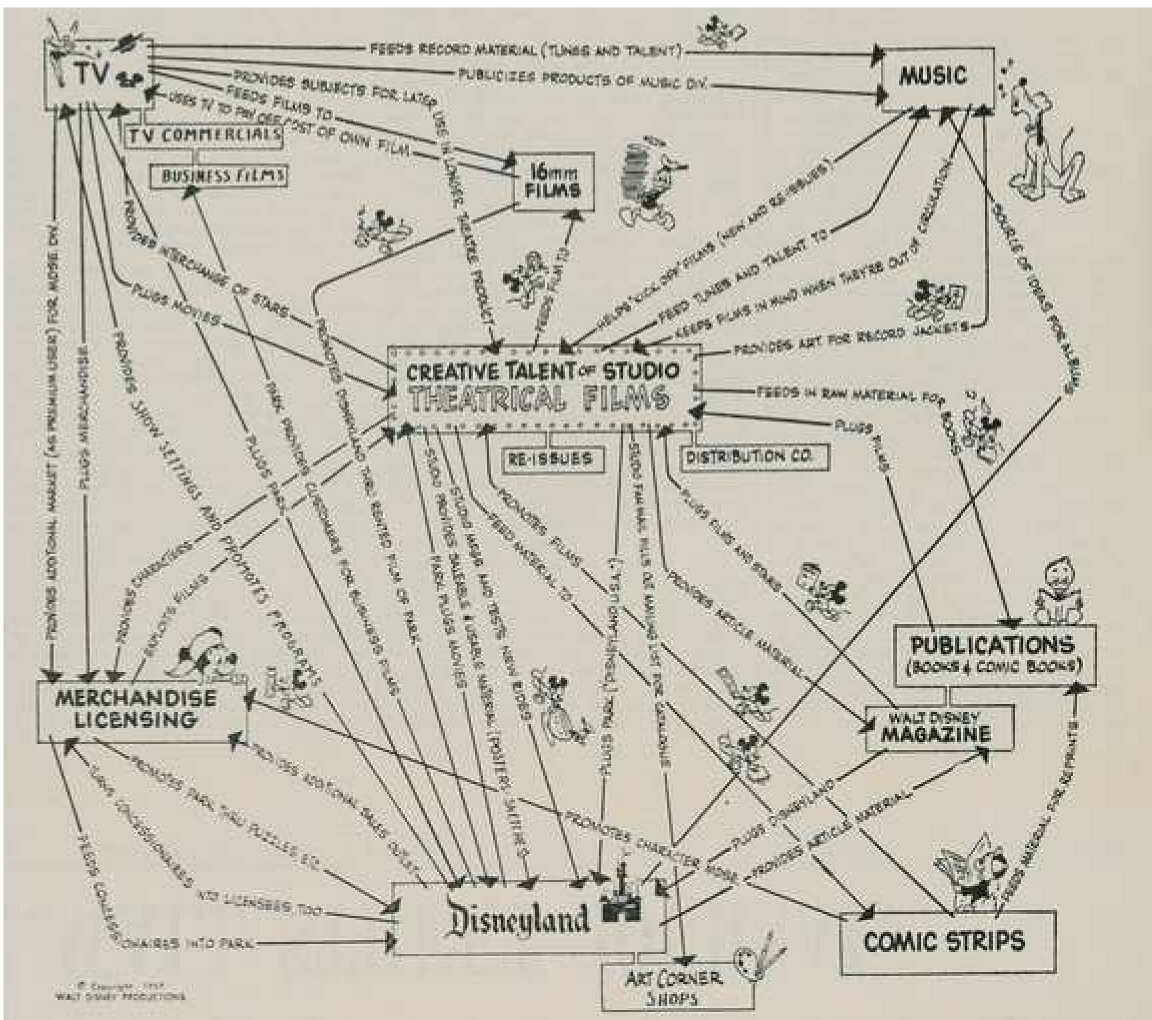

Illustration: @1957 Disney

The map has, of course, evolved over the ensuing years as additional assets have accumulated (in fact, there are evolving depictions of this Disney synergy map in the archives). While drawing such a map today would require more boxes and more arrows, (and perhaps an independent web of interconnected assets surrounding the ESPN franchise), the fundamental patterns and the underlying insight and intuition would remain quite consistent. The strategic vision that Walt long ago composed has revealed a succession of strategic possibilities that have fueled a remarkable record of value creating growth.

Effective corporate theories like this provide managers with vision to navigate the surrounding strategic terrain over an extended period of time. They provide a conceptual tool and filter — one that can be repeatedly used to select, acquire, and assemble complementary bundles of assets, activities, and resources from the abundance available.

As I explain in my HBR article, *What Is the Theory of Your Firm*, the vision provided by a good theory has three distinct components. First, there is foresight about an industry's evolution, including relevant technological change or evolving consumer preferences. Second, there is insight about the distinctive and valuable assets and resources of the firm. Finally, there is cross-sight — the ability to identify adjacent assets uniquely valuable to your firm or assets with value that others are simply unable to perceive.

Such vision is critical as a firm seeks to acquire assets in highly competitive markets, where the key is not merely recognizing synergy with available assets. Many firms may also possess synergy with the assets you target. Instead, the key is either recognizing synergy unique to your firm — synergy unavailable to others — or recognizing value that while available to others, they simply cannot see. Only firms that possess such vision can participate in markets for assets and predictably generate value post acquisition.

Vision-providing corporate theories need not be as visually compelling as Disney's synergy map. Many corporate theories are perhaps better captured in words. In the academic world, the most powerful theories are at once elegant and parsimonious. They explain vast terrain using but a few short symbols or words — offering compelling predictions about how the world operates. The hallmark of an effective corporate theory is one that simply and succinctly captures how the relevant strategic terrain will react and respond as the firm takes strategic actions. It must point to a succession of strategic actions that are value creating for the firm.

Does your firm currently possess a corporate theory that reveals foresight, insight and cross-sight to guide your growth? Does it provide you with clear predictions about the relevant future of your industry (or related industries)? Does it provide you with a clear understanding of what is truly distinctive and unique about your organization? Does it reveal uniquely valuable assets and opportunities? If not, it may be time to set about composing your own corporate theory of value creating growth.

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