Every few weeks Professor John Kay hosted a seminar for the team of researchers and academics he’d assembled at London Business School’s Centre for Business Strategy in the late 1980s. The group included Evan Davis and Stephanie Flanders who both went on to become Economics Editors for the BBC; Matthew Bishop, the US Business Editor for The Economist; and Jonathan Haskel and Stefan Szymanski who both became Professors.

Usually the group would look at a set text about management and business strategy and apply economic thinking to it to see what insights that brought, and how it challenged the theory. There would also be visiting speakers such as the American Professor of Economics Mancur Olson and Arie de Geus, the Dutch business theorist who headed Shell’s Strategic Planning Group and is quoted as saying: “The ability to learn faster than your competitors may be the only sustainable competitive advantage.”

**Intellectual hub**

Bishop remembers his time as a research officer at the Centre as a tremendous learning experience. “There was a group of us together having these big debates,” he says. “John had great pulling power and we had heavyweight thinkers coming through. We all felt economics had something to contribute to the major business and public policy issues. And our ambition was to become significant to the debates that were going on.”

The Centre was originally set up in 1982 with funding from David, now Lord, Sainsbury and Sainsbury was part of the advisory group who would react to the Centre's ideas and areas of research. Others in the advisory group included Romano Prodi, who became Prime Minister of Italy, and Richard Lambert who became Editor of the Financial Times.

**A new foundation for business strategy**

Kay thought business strategy, which had developed as a subject in the 1960s with very little economic content, was too flaky and woolly and lacked a rigorous foundation. He held up Harvard Professor Michael Porter’s 1980 book *Competitive Strategy* as the first step in the right direction. But he wanted to go further: “I thought there were more modern economics being developed that were better adapted to industry than Porter used.”

Kay set his researchers to work finding out new ways of illuminating business problems. One of his favourite techniques was to examine companies’ financial accounts, which he thought economists overlooked as a source of data. That lay behind Szymanski’s research into English football teams, for example, as a way of explaining why some companies perform better than others. (link to 1989 How to win at football)

And a lot of the group’s findings came together in Kay’s 1993 book *Foundations of Corporate Success*.

**Forward thinking**

“We made the School a serious place for microeconomics,” says Kay, who had set out to complement the strong reputation the School had in finance and also in macroeconomics through its economic forecasting model. He also brought in serious economists like the late American Professor Paul Geroski.

Bishop thinks Kay’s emphasis on a multi-disciplinary approach involving psychologists, economists and management theorists, was quite radical at the time, and points to the subsequent rise of behavioural economics as a sign that the Centre was on the right track. He also thinks Kay was ahead of the curve in thinking there was more to business than shareholder value.

Szymanski agrees and says that economics has broadly speaking won most of the arguments about the way we think about business. “Within business schools in the US and most of the world, most strategy departments are driven by economists and data,” he says. “The idea that we can scientifically investigate the way things work appeals to people, particularly after the financial crisis. And statistical methods are more popular than ever.”

**The British model of privatisation**

Another strand of the Centre’s work was in applying microeconomics to the public policy issue of privatisation and regulation, which was a major priority in the UK at the time and continues to be. In 1988, Bishop and Kay published a pamphlet called *Does Privatisation Work?* which was the first empirical study of privatisation. It examined the accounts of recently privatised companies such as British Telecom and British Gas to see how they were performing, in an attempt to bring academic insights to an issue that tended to be looked at ideologically rather than empirically. The emphasis of the School’s academics was to urge the creation of competitive markets rather than just selling off companies as they were.

The Centre’s privatisation work caught the attention of British politicians such as Nigel Lawson and John Redwood who...
came to discuss the ideas. And there was a huge amount of interest from around the world in the British approach. The Centre gave advice to the World Bank and the Organisation for Economic Co-operation and Development. Bishop remembers speaking at a World Bank conference in Washington, DC, shortly after the fall of the Berlin Wall, which discussed the role that privatisation and deregulation should play in the former Communist economies. It was attended by Václav Klaus who went on to become President of the Czech Republic. In 1990, a group from China visited the Centre also wanting to talk about privatisation.

**Engaging with the real world**

Kay’s other passion was communicating these serious economic ideas to a wider audience. He set up the School’s *Business Strategy Review* and brought in Chris Smallwood, who’d been Economics Editor of *The Sunday Times*, to advise on how to change the debate around business and business policy. He also inspired a group of serious young economists into thinking that PhDs and academic careers weren’t everything.

“A whole bunch of us were inspired by John to go into journalism,” says Bishop who left the Centre to join *The Economist* in 1991. “And Evan (Davis) in particular has had an enormous impact. At the BBC he really lifted the quality of economic conversation. You could see the Chancellor coming on to be interviewed by him and being nervous that Evan would know more about the economy than he did.”

Kay left the Centre for Business Strategy in 1991 to pursue his own consulting business but continued to teach business strategy and analysis of industry and competition at the School until 1996. He has a long-running column in the *Financial Times* explaining the insights of economics, and in 2012 was chairman of an influential government inquiry into UK equity markets and long-term decision making.

*John Kay was Professor of Economics at London Business School and Director of the Centre for Business Strategy from 1986 to 1991.*

*The Centre was started in 1982 by the late John Stopford, Emeritus Professor of International Business, with academics such as Andrew Campbell and Michael Goold, who both left in 1987 to set up the Ashridge Strategic Management Centre, and Charles Hampden-Turner.*