On Business Strategy

Strategy formation / process

a) The mind: Role of Strategy Leaders – Managers

- *Pitfalls, cognitive biases and poor strategic decisions*

b) The objective: Competitive advantage

c) The process: Strategy making

Dr. Nicholas Aristotle Demos

a) The Mind: Role of Strategist

Strategic Brilliance

Greek practitioners

Pericles

“Instead of looking on discussion as a stumbling block in the way of action, we think it an indispensable preliminary to any wise action at all”

Alexander the Great

“Decisions can only be made when the circumstances arise”

Thucydides

“Men who are capable of real action first make their plans and then go forward without hesitation while their enemies have still not made up their minds”

Belisarius

“For not by numbers of men, nor by measure of body, but by valour of soul is war to be Decided”

Chinese guru

Sun Tzu

"The expert in battle seeks his victory from strategic advantage and does not demand it from his men"

"Strategy without tactics is the slowest route to victory.
Tactics without strategy is the noise before defeat"

Military Strategists

German mastermind

Carl von Clausewitz

"We repeat again: strength of character does not consist solely in having powerful feelings, but in maintaining one's balance in spite of them.
Even with the violence of emotion, judgment and principle must still function like a ship's compass, which records the slightest variations however rough the sea"

"If the leader is filled with high ambition and if he pursues his aims with audacity and strength of will, he will reach them in spite of all obstacles"

English thinkers

Liddell Hart

"The predominance of moral factors in all military decisions. On them constantly turns the issue of war and battle. In the history of war they form the more constant factors, changing only in degree, whereas the physical factors are different in almost every war and every military situation"

"To ensure attaining an objective, one should have alternate objectives. An attack that converges on one point should threaten and be able to diverge against another. Only by this flexibility of aim can strategy be attuned to the uncertainty of war"

Business Strategists

Henry Ford

"There is one rule for the industrialist and that is: make the best quality of goods possible at the lowest cost possible, paying the highest wages possible"

Bill Hewlett

"Show competitors what you are doing. They will learn soon enough anyway. Just don't tell them what you are thinking"

Jack Welch

"If you don't have a competitive advantage, don't compete"

Jeff Bezos

"There are two ways to extend a business. Take inventory of what you're good at and extend out from your skills. Or determine what your customers need and work backward, even if it requires learning new skills"

Michael Porter

"The essence of strategy is choosing what not to do"

Al Ries & Jack Trout

"If you are shooting for second place, your strategy is determined by the leader"

Basic traits of ….Strategic Leaders

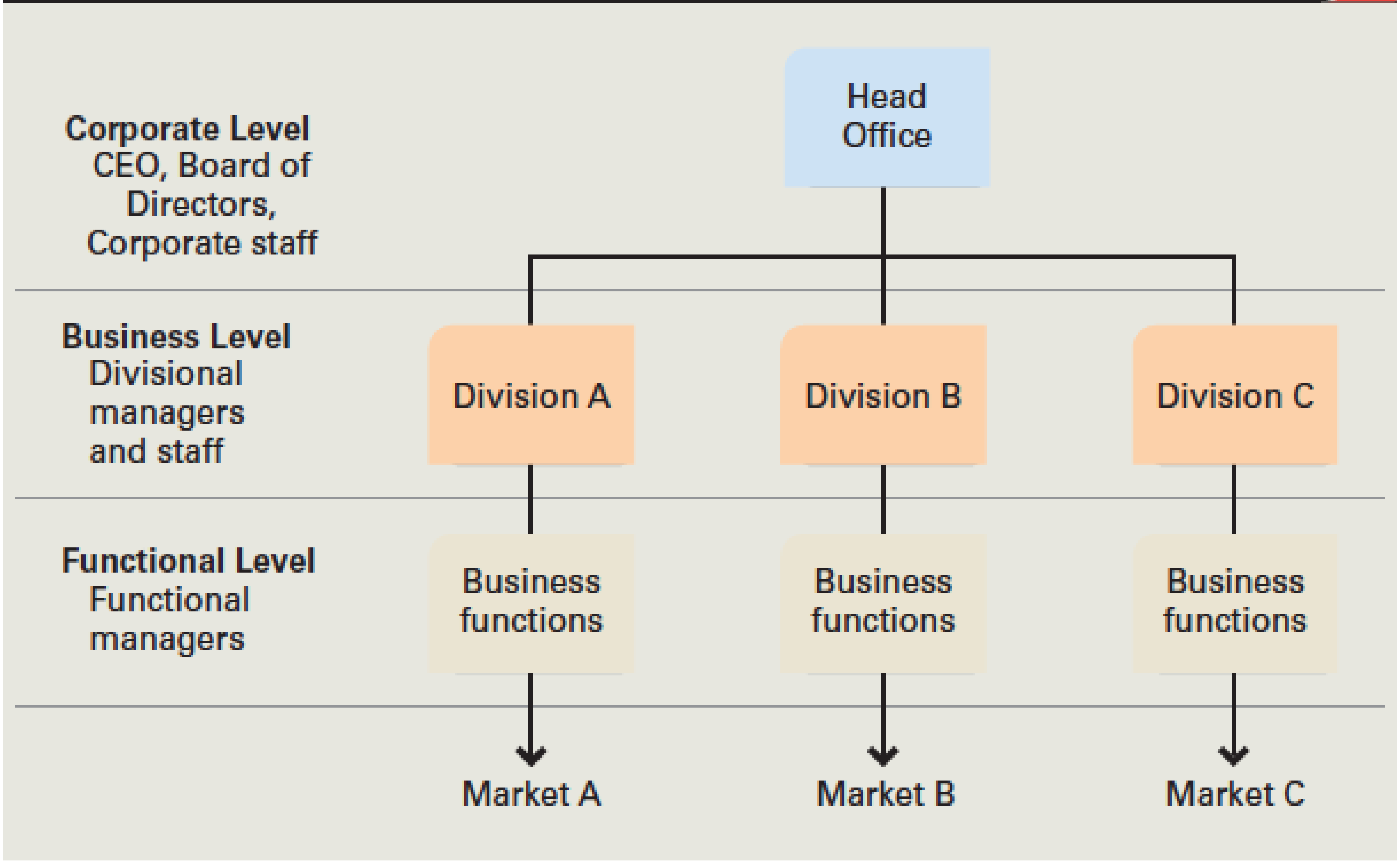
- **Vision**, eloquence, and consistency
- **Emotional intelligence**
  - Self-awareness, self-regulation, and motivation
  - Empathy and social skills
- **Commitment**

- **Being well informed - Intel**
- Articulation of a business model – Com

- Willingness to delegate and empower
- Astute use of power

Strategic decisions at every level

Figure 1.3 Levels of Strategic Management



Everybody is a Strategic Manager

General managers

- Responsible for company's overall performance or for one of its major self-contained subunits or divisions.

Functional managers

- Responsible for supervising a particular function, task, activity, or operation.

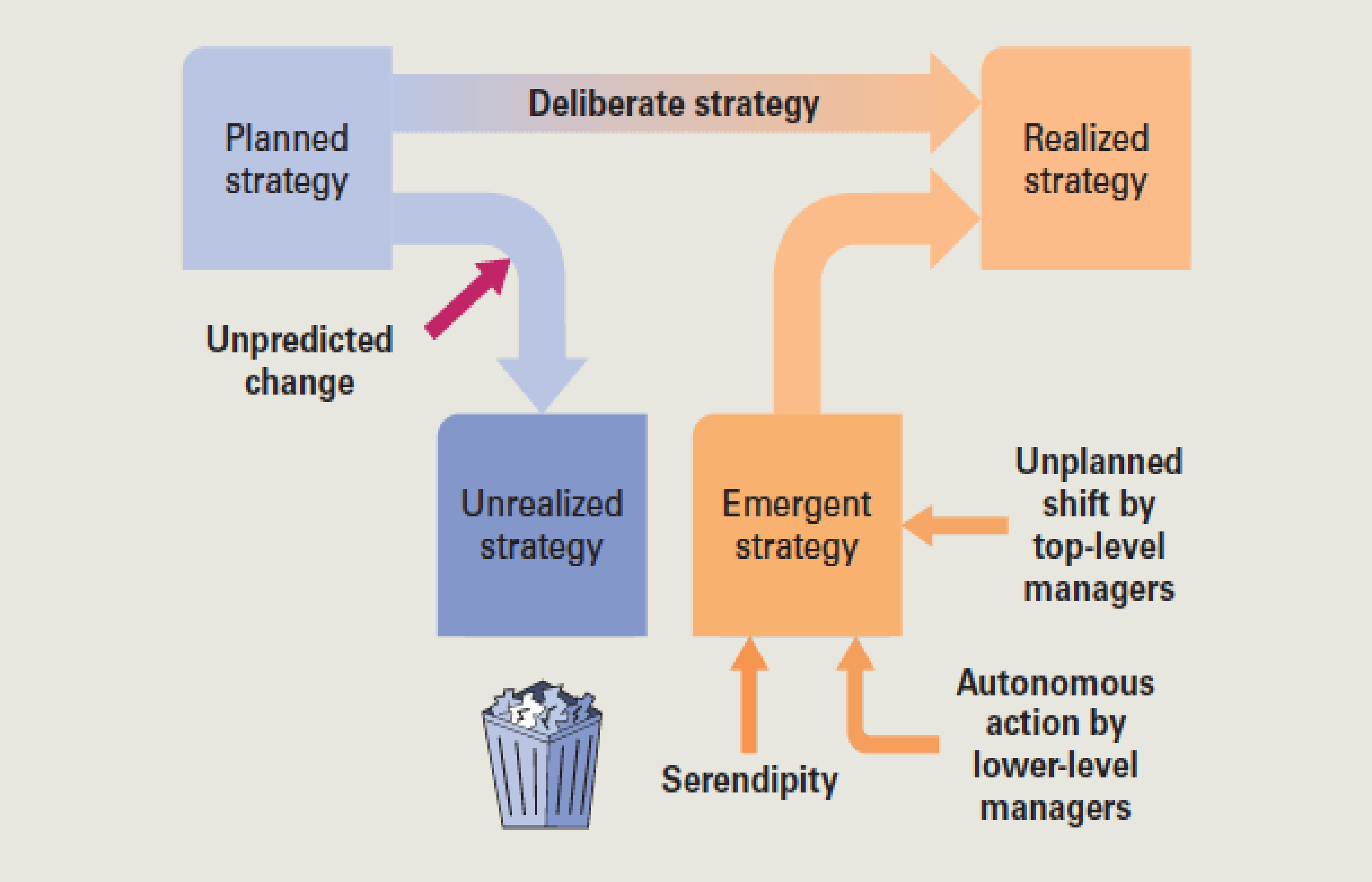
Strategist's Decision-Making stumbling blocks

Unintended consequences
(or unanticipated consequences or unforeseen consequences)
are outcomes not foreseen and intended
by a careful plan and a purposeful action

Possible causes of unintended consequences:

- Complexity
- Perverse Incentives
- Human stupidity
- Self deception
- Cognitive issues
- Emotional biases

Figure 1.6 Emergent and Deliberate Strategies



Source: Adapted from H. Mintzberg and A. McGugh, Administrative Science Quarterly 30:2 (June 1985).

Strategist's mind issues

Robert K. Merton listed five possible causes of Unintended or unanticipated consequences:

1. Ignorance or incomplete analysis making impossible to anticipate everything
2. Errors in analysis – habits/patterns that worked in the past but not now
3. Immediate interests - overriding long-term interests
4. Basic values - may require or prohibit certain actions
5. Self-defeating prophesy - fear of some consequence which drives people to find solutions before the problem occurs

Empirically, Strategist's mind is affected by…

- **Cognitive decline & biases, even sickness,…**

….that might lead to poor strategic decisions

Cognitive issues

Cognitive biases

- Systematic errors in human decision making.
  - Arise from the way people process information.

Prior hypothesis bias

- Decisions are made based on prior beliefs, even when evidence proves that those beliefs are wrong.

Escalating commitment

- Decision makers, having committed significant resources to a project, commit even more, despite receiving feedback that the project is failing.

Reasoning analogy

- Use of simple analogies to make sense out of a complex problem.

Cognitive biases

Representativeness

- Tendency to generalize from a small sample or a single vivid anecdote.
  - Violates the statistical law of large numbers.

Illusion of control

- Tendency to overestimate one's ability to control events.
  - General or top managers are more prone to this.

Availability error

- Arises from our predisposition to estimate the probability of an outcome based on how easy it is to imagine it.

How to overcome these issues? Can we?

Some techniques for Improving Decision Making

Devil's advocacy

- A member of a decision-making team identifies all the considerations that might make a proposal unacceptable.
  - Possible perils of recommended courses of action are brought into light.

Dialectic inquiry

- Generation of a plan and a counter-plan that reflect plausible but conflicting courses of action.
  - Promotes strategic thinking.

Outside view

- Identification of past successful or failed strategic initiatives to determine if they will work for the current project.

Other solutions…

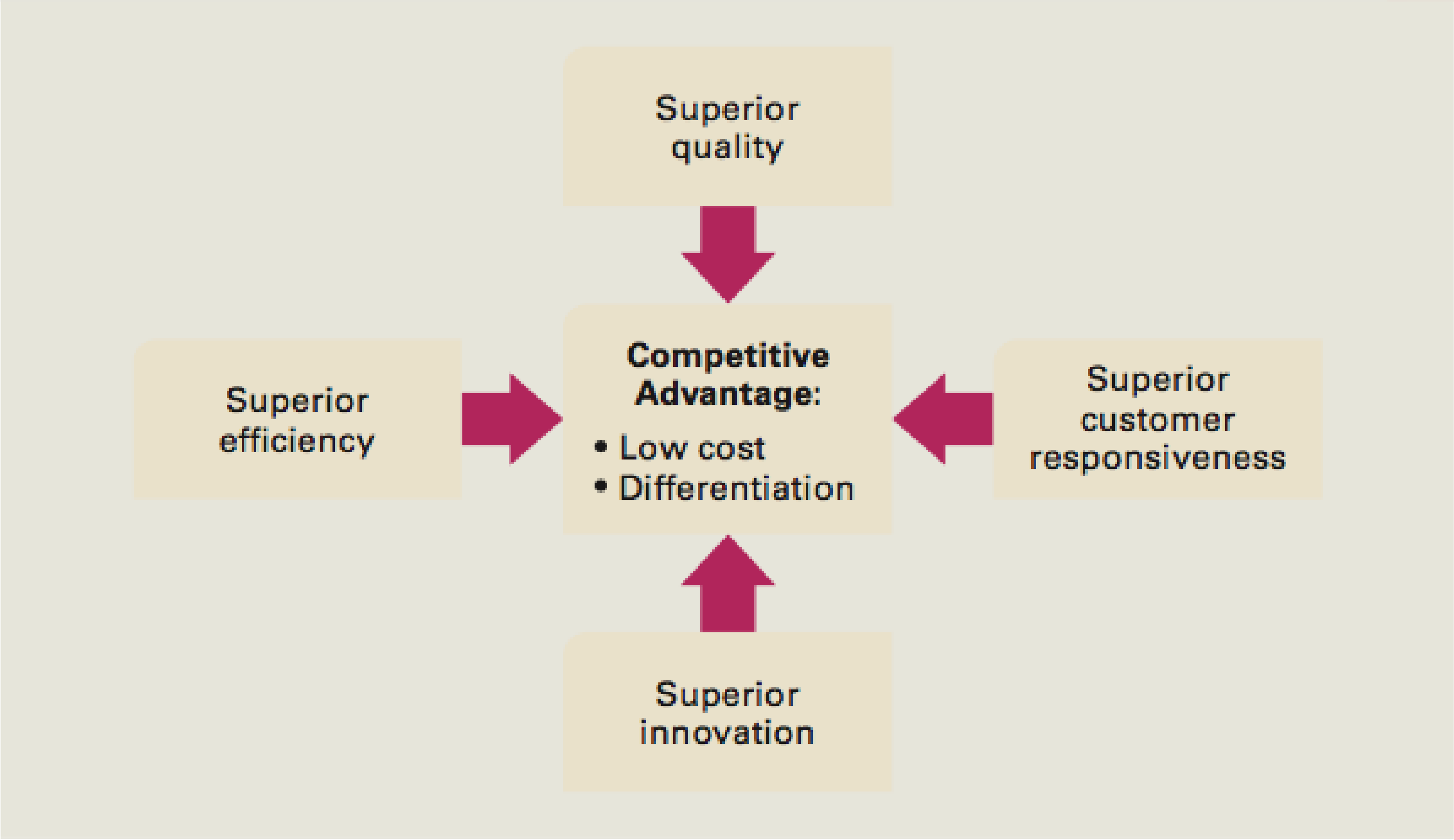
- Holistic approach by:
  - Bundling strategies to achieve competitive advantage.

- Detailed approach by:
  - Selecting, acquiring, and keeping customers.
  - Defining and differentiating product offerings.
  - Creating value for its customers.
  - Producing and delivering to specialty markets.
  - Lowering costs and aiming for more efficiency.
  - Achieving and sustaining high profitability and growth.

b) The Objective: Competitive Advantage

Competitive Advantage
(Efficiency, Quality, Innovation, Responsiveness)

Figure 3.6 Building Blocks of Competitive Advantage



Everything for ….

- **Competitive advantage** – The achieved advantage over rivals when a company's profitability is greater than the average profitability of firms in its industry.
- **Sustained competitive advantage** – A company's strategies enable it to maintain above-average profitability for a number of years.
- **Profitability** – the return a company makes on the capital invested in the enterprise.
- **Shareholder value** – returns that shareholders earn from purchasing shares in a company.
- **Profit growth** – The increase in net profit over time.
- **Risk capital** – Equity capital invested with no guarantee that stockholders will recoup their cash or earn a decent return.

Figure 4.1 The Roots of Competitive Advantage

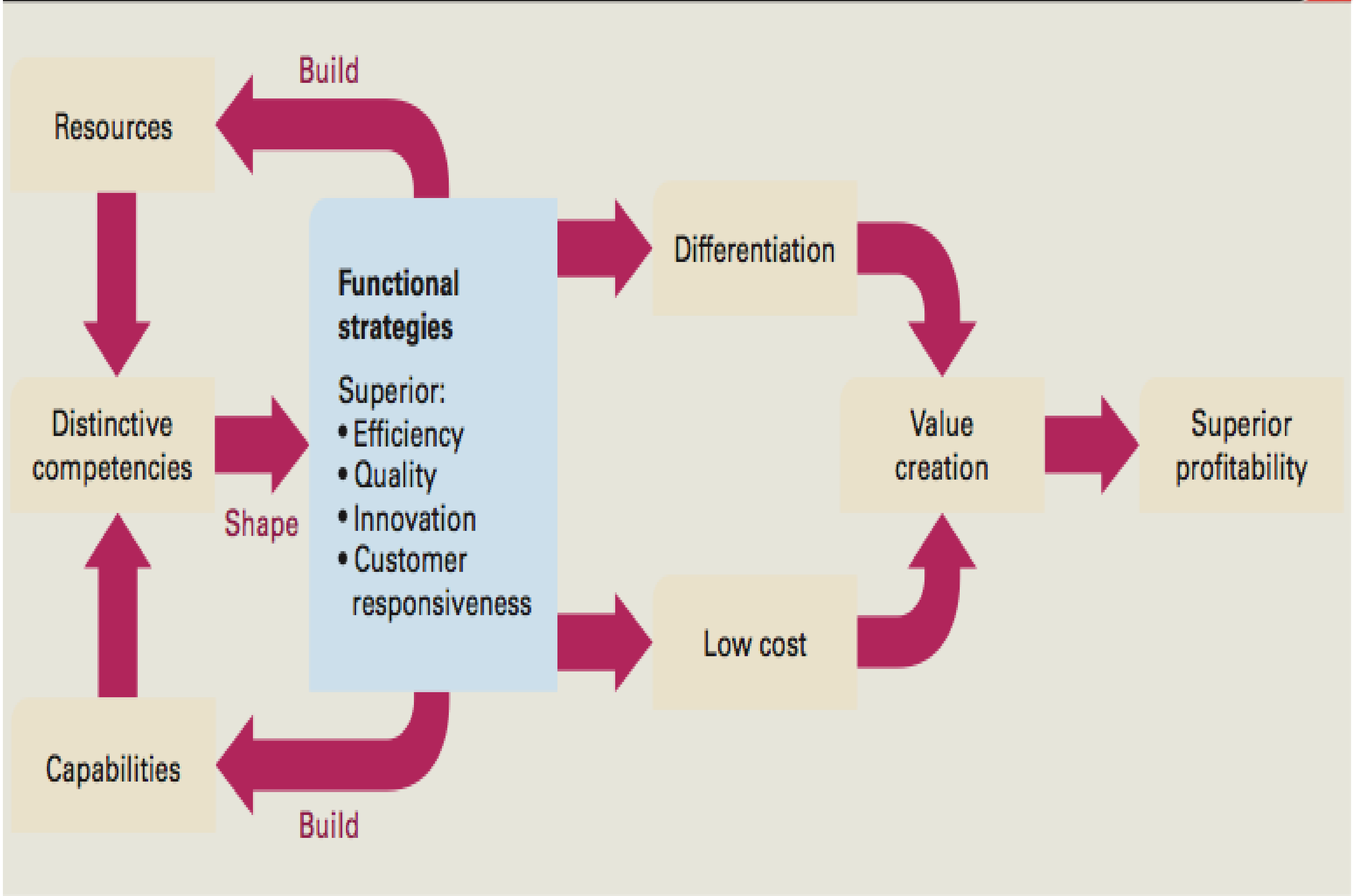
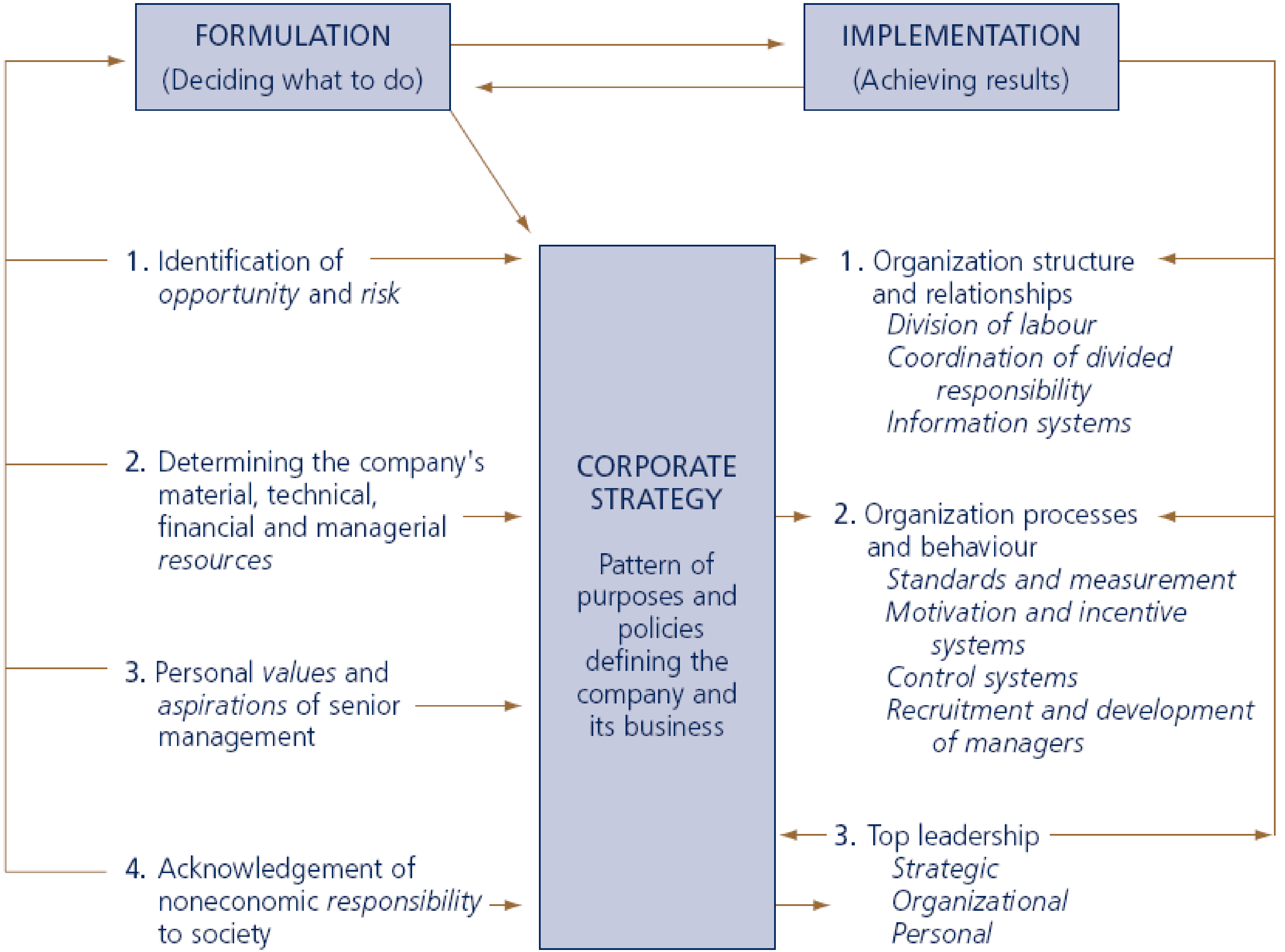


Figure 1.5 Defining the Business

c) The Process: Strategy making


FORMULATION
(Deciding what to do)
IMPLEMENTATION
(Achieving results)
1. Identification of opportunity and risk
2. Determining the company's material, technical, financial and managerial resources
3. Personal values and aspirations of senior management
4. Acknowledgement of noneconomic responsibility to society
CORPORATE STRATEGY
Pattern of purposes and policies defining the company and its business
1. Organization structure and relationships
Division of labour
Coordination of divided responsibility
Information systems
2. Organization processes and behaviour
Standards and measurement
Motivation and incentive systems
Control systems
Recruitment and development of managers
3. Top leadership
Strategic
Organizational
Personal

Strategy Formulation

Pillars	◆ Values, Philosophy ◆ Vision, Mission, Objectives
Analysis, Examination, Research	■ Internal Analysis, Factors, Variables ♦ *Ethics* ♦ *Organizational issues* ■ External Analysis, Factors, Variables ♦ *Technology* ♦ *Global environment*
Strategies, Options, Choice, Judgement	► Functional ► Business ► Corporate

Steps in a formal strategic planning process

Competitive advantage

Implement strategies

Select strategies that:

- build on the organization's strengths and correct it's weaknesses
- are consistent with the organization's mission and goals
- are congruent and constitute a viable business model

Analyze external & internal environment

Select the corporate mission and goals

Imperative: External & Internal Analysis

- **Internal analysis**
  - **Evaluates resources, capabilities, and competencies**
  - **Identifies the company's strengths and weaknesses**

- **External analysis**
  - **Identifies strategic opportunities and threats**
  - **Examines:**
    - **Industry environment** ***(in which the company operates)***
    - **Country or National macro-environment** ***(regulation, etc.)***
    - **Global environment**
    - **Technology**

SWOT analysis

- **Compares**
  - strengths, weaknesses, opportunities, and threats
- **Identifies strategies** to:
  - exploit external opportunities
  - build on and protect company strengths
  - eradicate weaknesses and counter threats
- **Endorses** a company-specific business model to:
  - To align, fit, or match a company’s resources and capabilities to the demands of its environment

SWOT strategies

➢ Functional-level strategies

- Improve effectiveness of operations within a company

➢ Business-level strategies

- Protects the business's overall competitive theme
  - Positioning to gain additional competitive advantages
  - Expanding into different industry settings

➢ Global strategies

- Determines global competitive advantage
- Adopts strategies to expand globally

➢ Corporate-level strategies

- Determines the businesses a company should be in to maximize profitability and profit growth
- Figures out how to gain a competitive edge

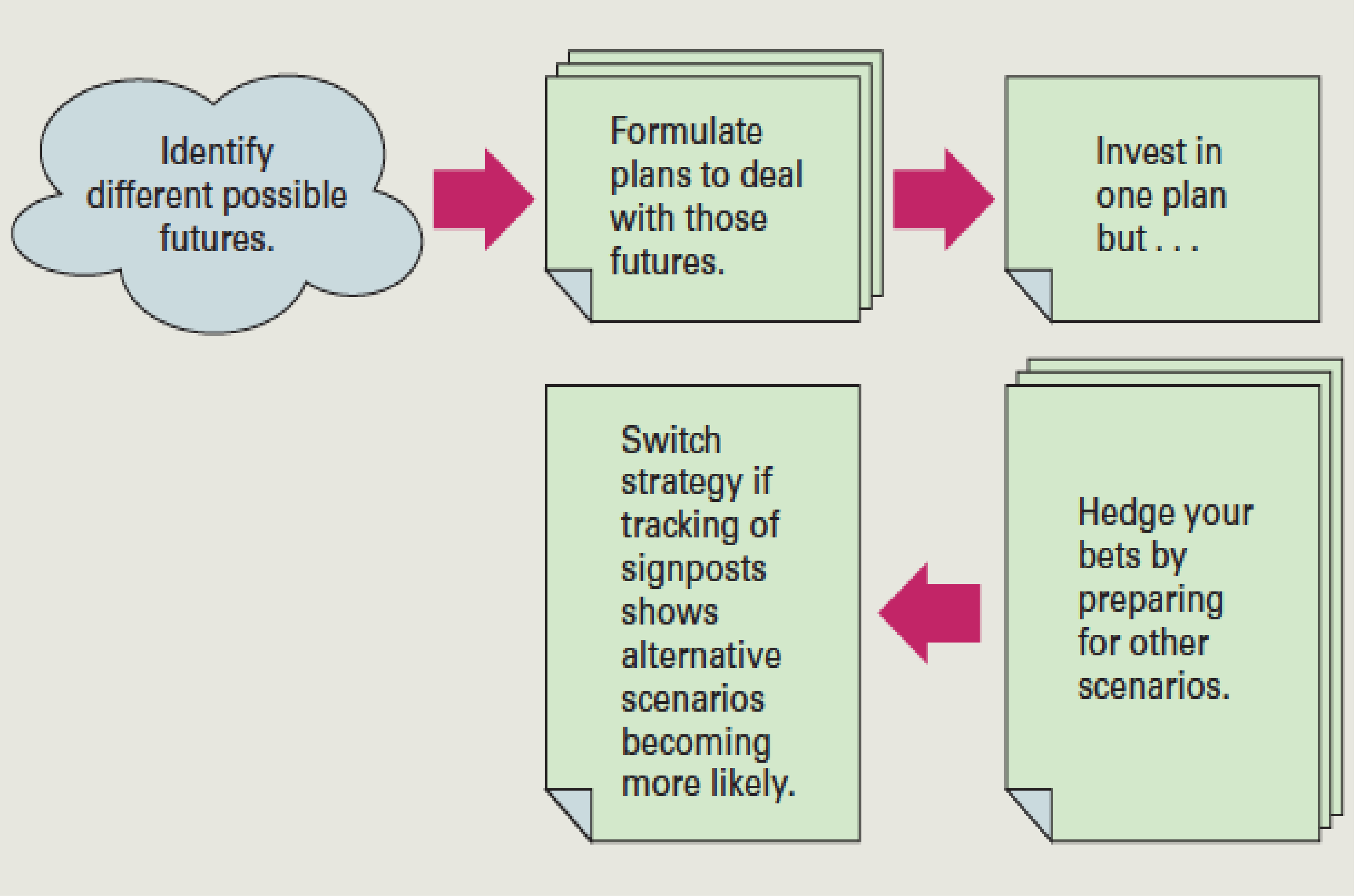
Scenario planning

- **Formulates** plans that are based on
  - "what-if" scenarios about the future
- **Encourages** managers to:
  - think outside the box and be more flexible
  - anticipate probable scenarios

Ivory tower planning

- Recognizes that successful strategic planning encompasses managers at all levels of the corporation

Figure 1.7 Scenario Planning



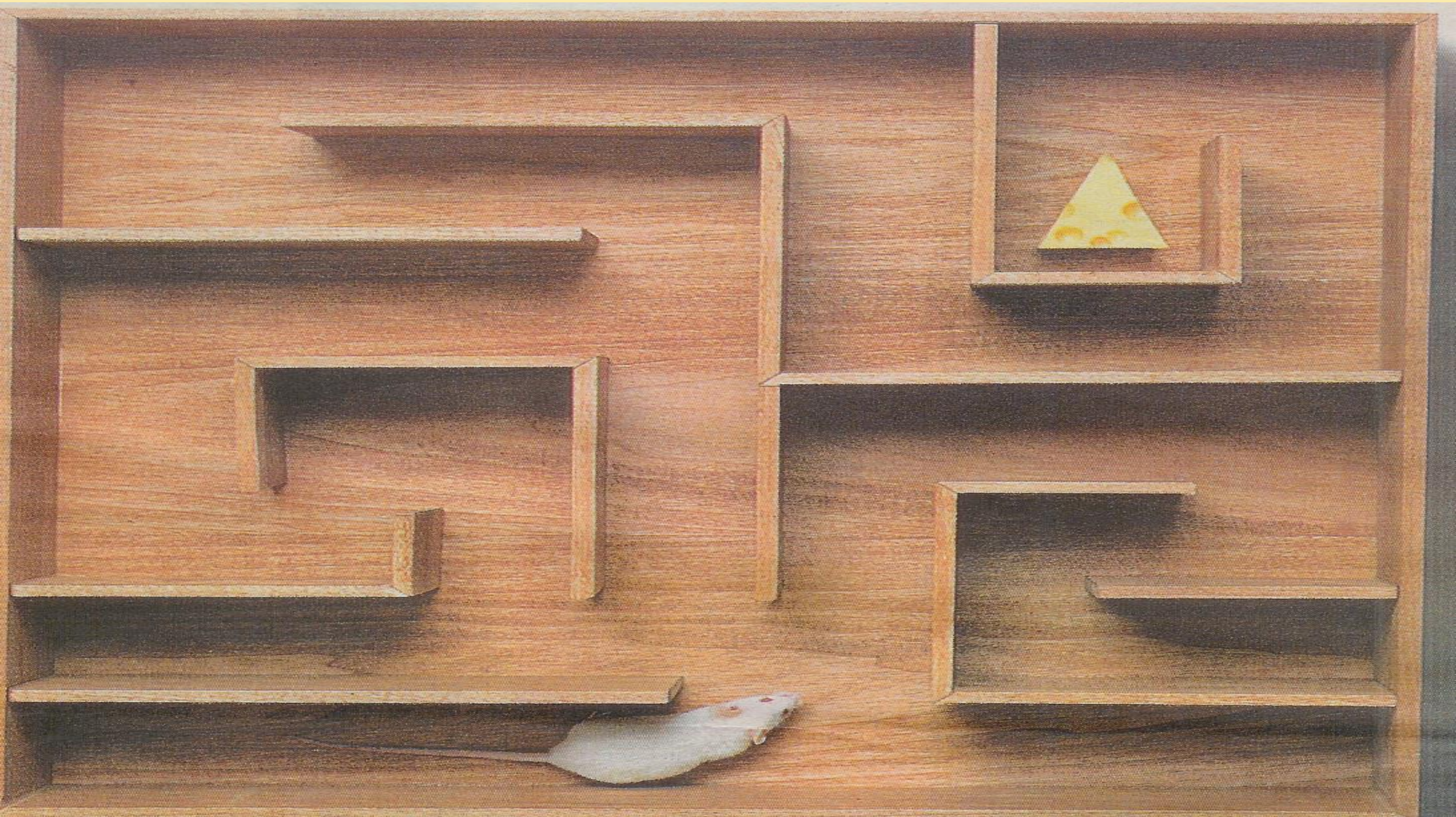
Possible reasons for bad Strategic making…

- **Inertia**
  - Difficult to adapt to changing competitive conditions.
  - Power struggles and hierarchical resistance make change difficult.
- **Prior strategic commitments**
  - Limit a company's ability to imitate rivals.
  - Cause competitive disadvantage.
- **The Icarus paradox**
  - Companies become very specialized and myopic.
  - Lose sight of market realities.

Failure reasons…

➢ The Cheese trap

- Companies being hooked on fixed ideas…



Steps to avoid failure….

Focus on the building blocks of competitive advantage

Institute continuous improvement and learning

Track best industrial practice and use benchmarking

Overcome inertia and pusillanimity

Pray for "good" luck