On Strategic Understanding

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Nick Demos

Agenda

I) Logic of Strategy

II) Strategic Leadership

III) Strategic Objective(s):

1) ***Increase Profitability***
2) ***Strategic Sustainable Competitive Advantage (SSCA)***

IV) Strategic Tools & Imperatives

V) Strategy formation / process

VI) Strategy creation

I) Logic of Strategy

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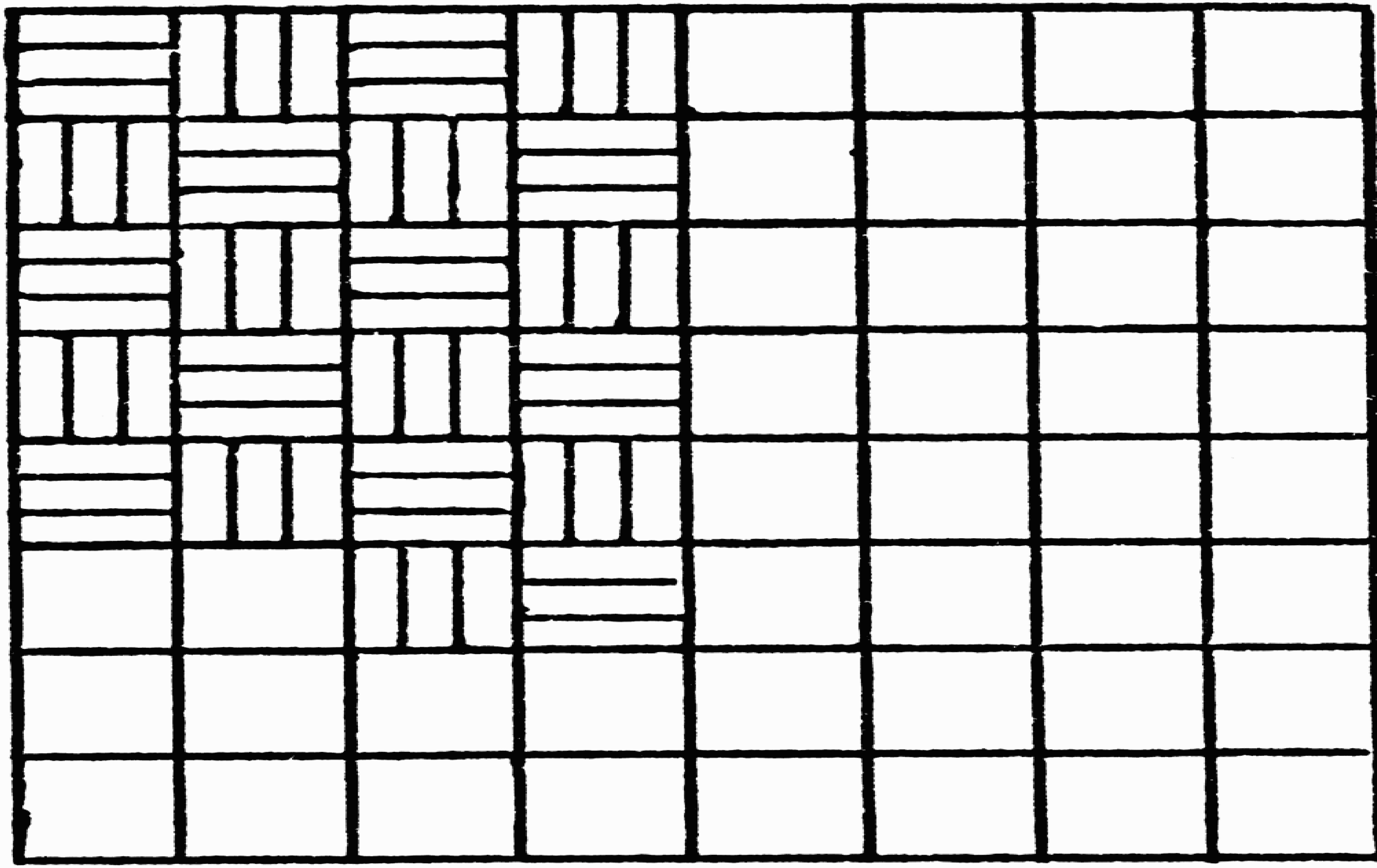
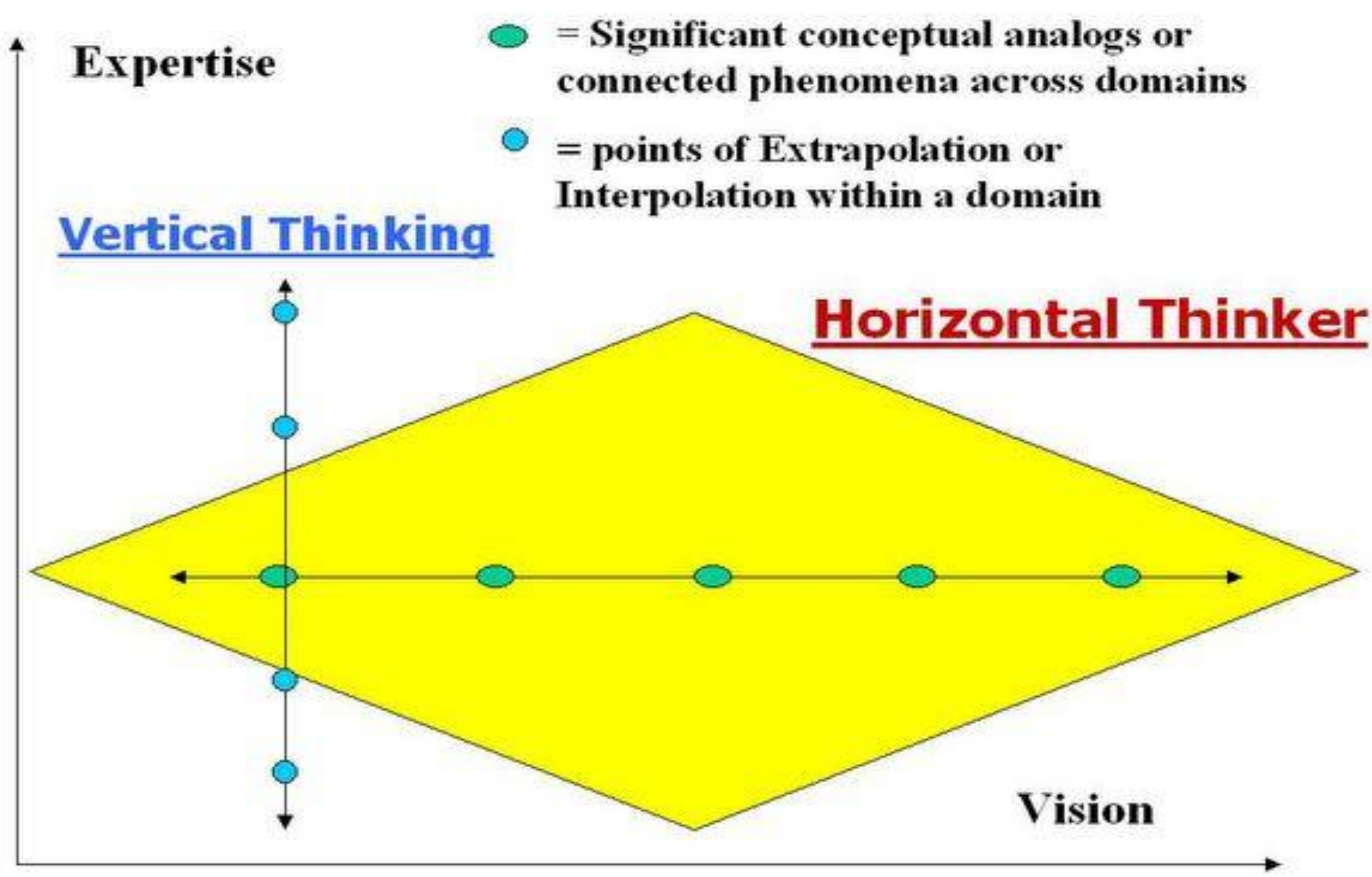
....Evolution .../ Expansion.../ Two Strategies....

Horizontal & Vertical



Linear Thinking Strategies



Benefits of Vertical Thinking to a Horizontal Thinker

What is Strategy?

- **...Process not a plan**
- **...........dynamic process**
- **...................way of reacting not an idea.**

- **Set of related actions that managers take to increase their company's performance.**

❖ **Strategy:** ***Actions that managers must take to attain the goals of the firm***

► **Chandler defines strategy as:**

- ***the determination of the basic long-term goals of an enterprise***
- ***the adoption of courses of action and***
- ***the allocation of resources necessary for carrying out these goals.***

► **Michael Porter** identifies three principles underlying business strategy:

1. Creating a unique and valuable (market) position
2. Making trade-offs by choosing "what not to do", and
3. Creating "fit" by aligning activities with one another to support the chosen strategy.

II) Strategic Leadership - Strategos

The mind: Role of Strategy Leaders – Managers

- *Pitfalls, cognitive biases and poor strategic decisions*

The Mind: Role of Strategist

The Base: Superb Military Strategists

Hammurabi (1810–1750 BC, Babylon)

Hammurabi was the first king of Babylon from the Amorite dynasty. He inherited the throne from his father, Sin-Muballit in 1792 BC. Hammurabi is popularly known for the Hammurabi Code, one of the first written sets of laws. He is now widely praised by many historians as an ancient law-giver. When the Elamites (present-day Iraq) invaded the central plains of Mesopotamia from the east, Hammurabi joined forces with Larsa and defeated them. After the defeat, he broke the alliance and invaded the cities of Lsin and Uruk which were occupied by Larsa, forming alliances with Nippur and Lagash instead. He then conquered Nippur, Lagash, and Larsa. His brilliant strategy was to block the water source to the cities until they surrendered. In addition to his brilliant fighting techniques, Hammurabi was very popular among his people. He constructed buildings and canals and introduced a system of law that was rare in his time. Throughout his reign, he constantly tried to improve the lives of ordinary people.

Ramesses II (1303–1213 BC, Egypt)

Ramesses II was the greatest and most celebrated pharaoh of ancient Egypt. Although Ramesses primarily focused on the development of the empire by building cities, temples, and monuments, he was also well known for his bravery and strategy on the battlefield. Ramesses started several campaigns to secure Egypt's borders and during his reign, his army of 100,000 men fought the Nubians and Hittites for their territories. The Battle of Kadesh was the earliest battle (1247 BC) where strategy, army formation, and the use of tactics were first noticed. Despite some technical errors on the battlefield, he is widely known for his strategic approach to battle and the sheer size of his army.

Hannibal Barca (247–183 BC, Carthage)

Hannibal was an audacious military commander who also had the advantage of superior military tactics and strategy. Hannibal's hatred of Rome was instilled in him from a young age by his father, Hamilcar, who fought against Rome in the First Punic War. Hannibal's ingenious military tactics and risk-taking behavior have earned him much admiration from historians. Hannibal was mostly known for his courageous attempt to cross the Alps with his 50,000 infantry, 9,000 cavalry, and 37 elephants which was thought to be impossible at the time. The never-ending conflict between Rome and the Carthaginians resulted in the Second Punic War, where Hannibal shows his brilliant military tactics. Despite all his efforts and great military strategies, his life mission to conquer Rome came to an end when he committed suicide to avoid falling into Roman hands.

The Base: Superb Military Strategists

Cyrus the Great (600 – 530 BC, Persia)

Cyrus the Great was a Persian leader who conquered the Medes and unified the whole of Iran under a single ruler for the first time in history. Cyrus became the first king of the Persian Empire and established one of the largest empires in the world. He expanded his territory from the western part of present-day Iran and conquered a major nomadic tribe who lived in the eastern part of Iran. He invaded the kingdoms of Lydia and Greece and conquered them along with the coast of Antonia, which gave him access to the seaports of the Mediterranean.

He issued the first human rights declaration of the ancient world which stated that all inhabitants of the empire were free to practice their own religions and social customs. He made slavery of any kind illegal and prohibited the seizure of any farmer's land or property.

Sun Tzu (544 – 496 BC, China)

Sun Tzu, Chinese military general, war strategist, and author of The Art of War, completely changed the way war was fought in ancient times. The Art of War has been studied by many military commanders, nations, and intellectuals and has remained the most important military treatise in Asia for the last 2,000 years. In the 20th century, The Art of War became influential in Europe and America in various fields such as culture, politics, business, sport, and modern warfare.

Alexander the Great (356–323 BC, Greece)

Military genius and King of Macedon, Alexander is one of the most respected military commanders of all time. After the assassination of his father, Alexander inherited the throne and the 20-year-old king continued his father's mission to expand the kingdom. He took a Greek army of 50,000 on a 12-year march with the intention of expanding his territory. He grew the kingdom from the Adriatic Sea to the Indus River in India, and from the Danube to the upper reaches of the Nile.

Chandragupta Maurya (340 – 298 BC, India)

Chandragupta was the founder of the Maurya Empire and a Kshatriya varna ruler. He reunited India into a single sub-continent. Chandragupta is usually considered the first historical emperor of India. Before Chandragupta, India was divided into small private kingdoms. He conquered all these small kingdoms and created a central government and a unified central kingdom.

The Base: Superb Military Strategists

Khalid Bin Walid (592–642 AD, Arabia)

Khalid was a follower of the prophet Muhammad (PBUH) and was one of only three military generals who have remained undefeated in battle. Under his military leadership, Arabia was united as a single political entity for the first time in history. He was the only military commander apart from Hannibal who successfully executed the pincer movement against a larger superior opponent.

Khalid played a major role in the Battle of Uhud and was instrumental in commanding the Medinan force at the Battle of Ridda after the death of Muhammad. He conquered central Arabia and subdued the Arab tribes. His fabulous tactic was to annihilate the enemy troops rather than simply defeat them. He was the architect of most of the early Muslim military doctrines.

Genghis Khan (1162 -1227, Mongolia)

Military strategists develop military strategies in order to defeat their opponents in war and battle. The greatest military strategists, have been able to win battles against superior forces with minimal losses and have often gone on to become great kings or conquerors.

Subutai (1177- 1248, Mongolia)

Subutai was Genghis Khan's greatest strategist, and many people claim without Subutai, the Mongol Empire would never have been as powerful. He directed more than twenty military campaigns, in which he conquered thirty two nations, and won sixty-five pitched battles. In these campaigns he overran or conquered more territory than any other commander in history. He is easily one of the greatest military strategists, although relatively unknown. Subutai could easily manage large disparate armies. He accomplished an amazing military feat when he defeated both the armies of Poland in Hungary within two days of each other, with armies 500 km away from each other.

Classical Strategic Brilliance

Selected 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 withou 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 b Decided"*

The 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**"*

Modern 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"

and.... American 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"

The Master Strategist … Sun Tzu

- **When people are challenged, they react in one of two ways:**
  a) They runaway – "Flight reflex" (Running away from challenges)
  b) They fight back (attack) – "Fight reflex" (getting into battles)

- **Sun Tzu advises us neither flight nor fight**

  But ride the *"magic of positioning".* Because success comes from using your position.

- **Strategically – both victory and defeat are similar. Each puts you in a new position.**

  - **<u>When you win</u>, you realize the real challenge just starts…**

  - **<u>When you fail</u>, the knowledge you gain gives you a competitive advantage and tenacity…**

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**

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

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.

III) Strategic Objective(s):

- Strategic Sustainable Competitive Advantage (SSCA)
- Increase Profitability

Strategic goals

Intermediate Strategic goal:

- **Competitive Advantage**

– *achieving advantage over rivals*

(company's profitability is greater than the average profitability)

- **Sustainable Strategic Competitive Advantage** ***(SSCA)***

– *maintain above-average profitability for several years*

Ultimate Strategic goal:

- **Profitability**
  - ***the return on the capital invested in the enterprise***
  - ***Maximize long term profits (Π)***

Profitability (Π) defined by:

Return on Sales or
Return on Equity

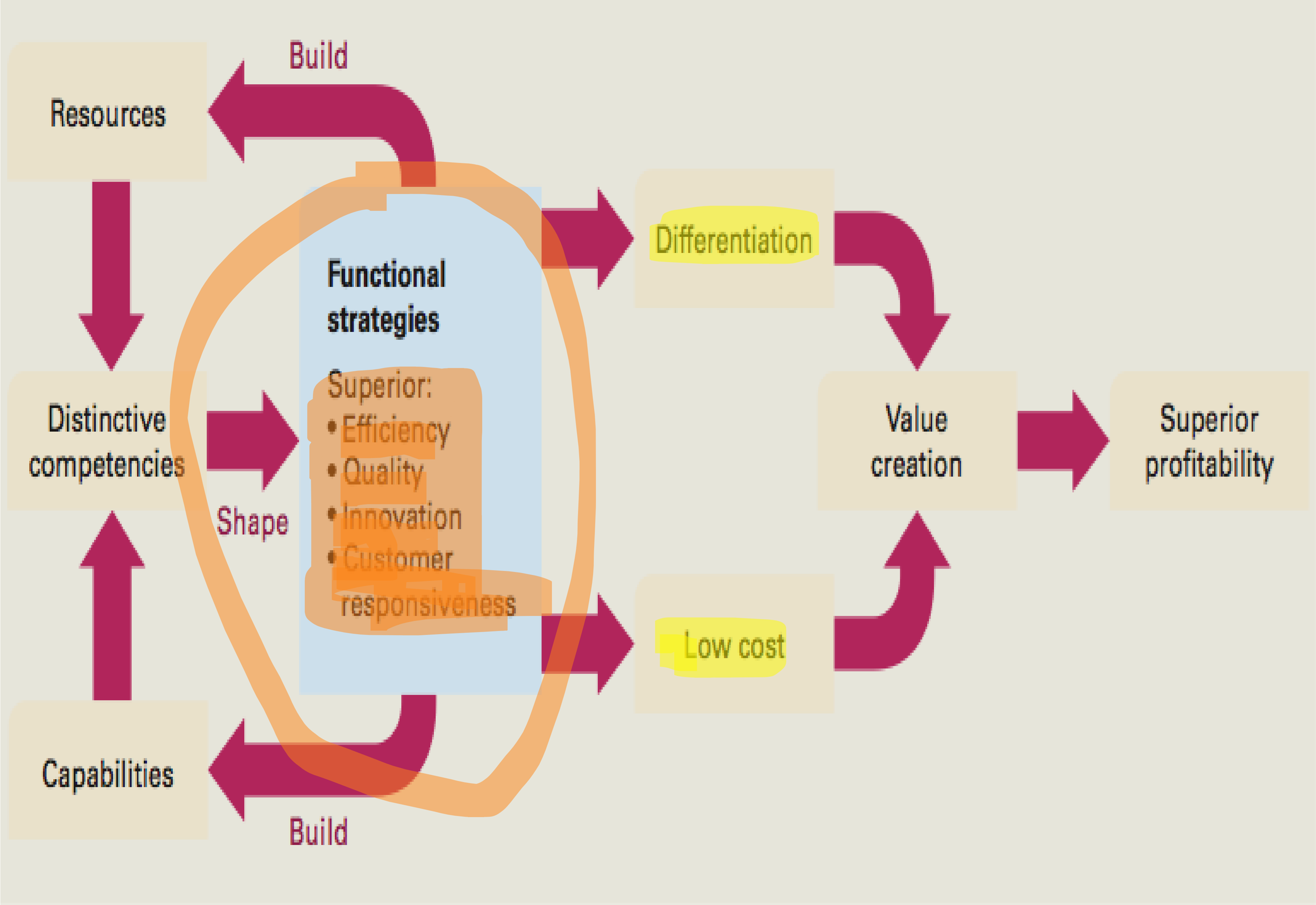
Ultimate Strategic objective

- **To increase Profitability *(Π)* and Profit growth firms can:**
  - ***Add value***
  - ***Lower costs***
  - ***Sell more in existing markets***
  - ***Increase sales by expanding internationally***

……Two Main Generic Business Strategies….

- **Strategy is concerned with**
  - ✓ **Identifying choices &**
  - ✓ **Taking actions that will:**
    - ***Lower costs of value creation and/or***
    - ***Differentiation the firm's product offering through***
      - ***Product functionality***
      - ***Superior design***
      - ***Quality***
      - ***Impeccable & Memorable service***
      - ***etc***

Indeed .... Two Generic Strategies for SSCA and Π



and they add one more …. Which is a synthesis one …

Focus	– addressing a "focused" segment of the marketplace, product form or cost management process

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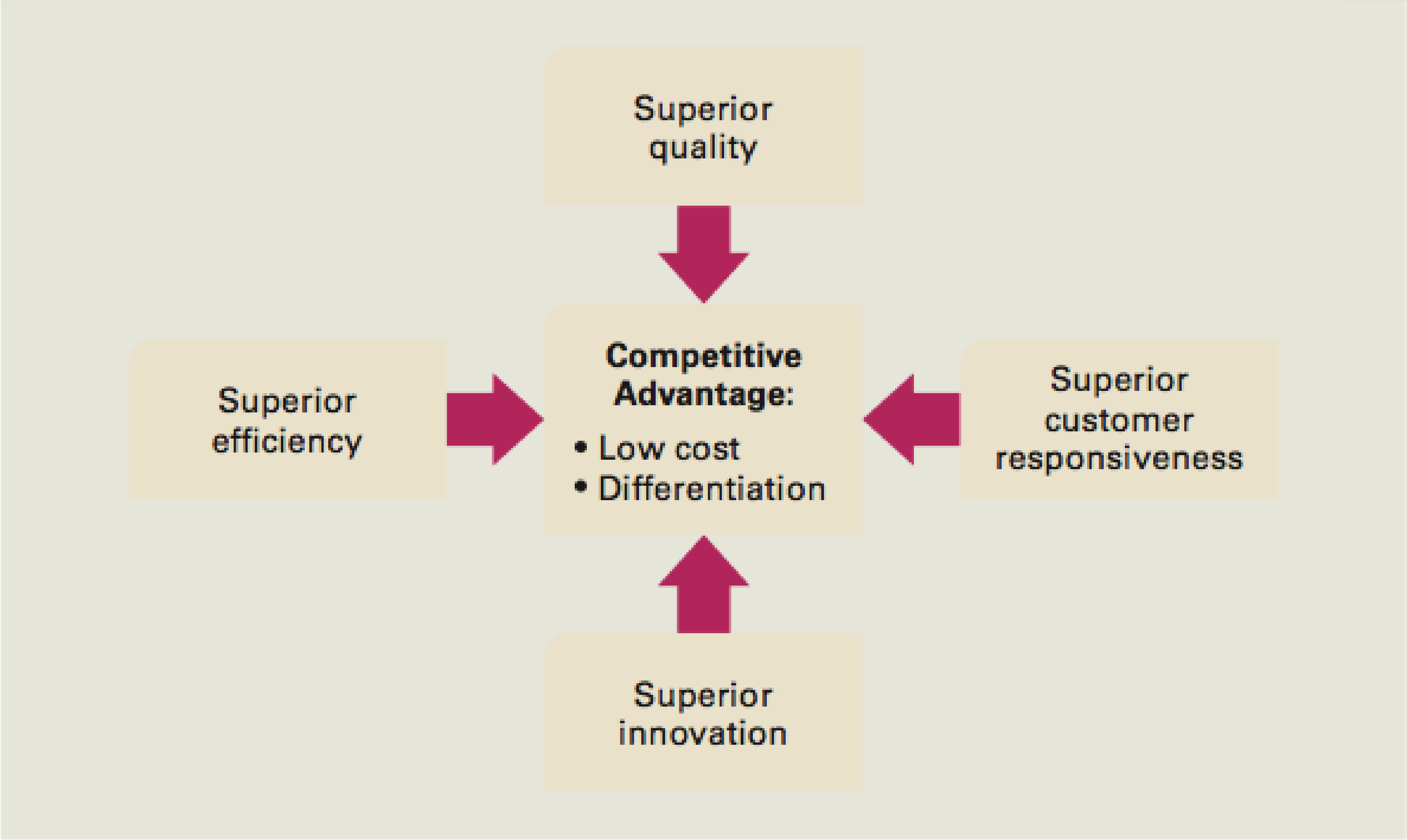
…. So many talk of …

Three Generic Business Strategies

Cost Leadership	– producing and marketing a good quality product or service at a lower cost than your competitors.
Differentiation	– creating a product or service that is perceived as being unique "throughout the industry".
Focus	– addressing a "focused" segment of the marketplace, product form or cost management process

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.
- **Profit growth** – The increase in net profit over time.

- **Shareholder value** – returns that shareholders earn from purchasing shares in a company.
- **Risk capital** – Equity capital invested with no guarantee that stockholders will recoup their cash or earn a decent return.

IV) Strategic Tools & Imperatives

Basic Strategic tools

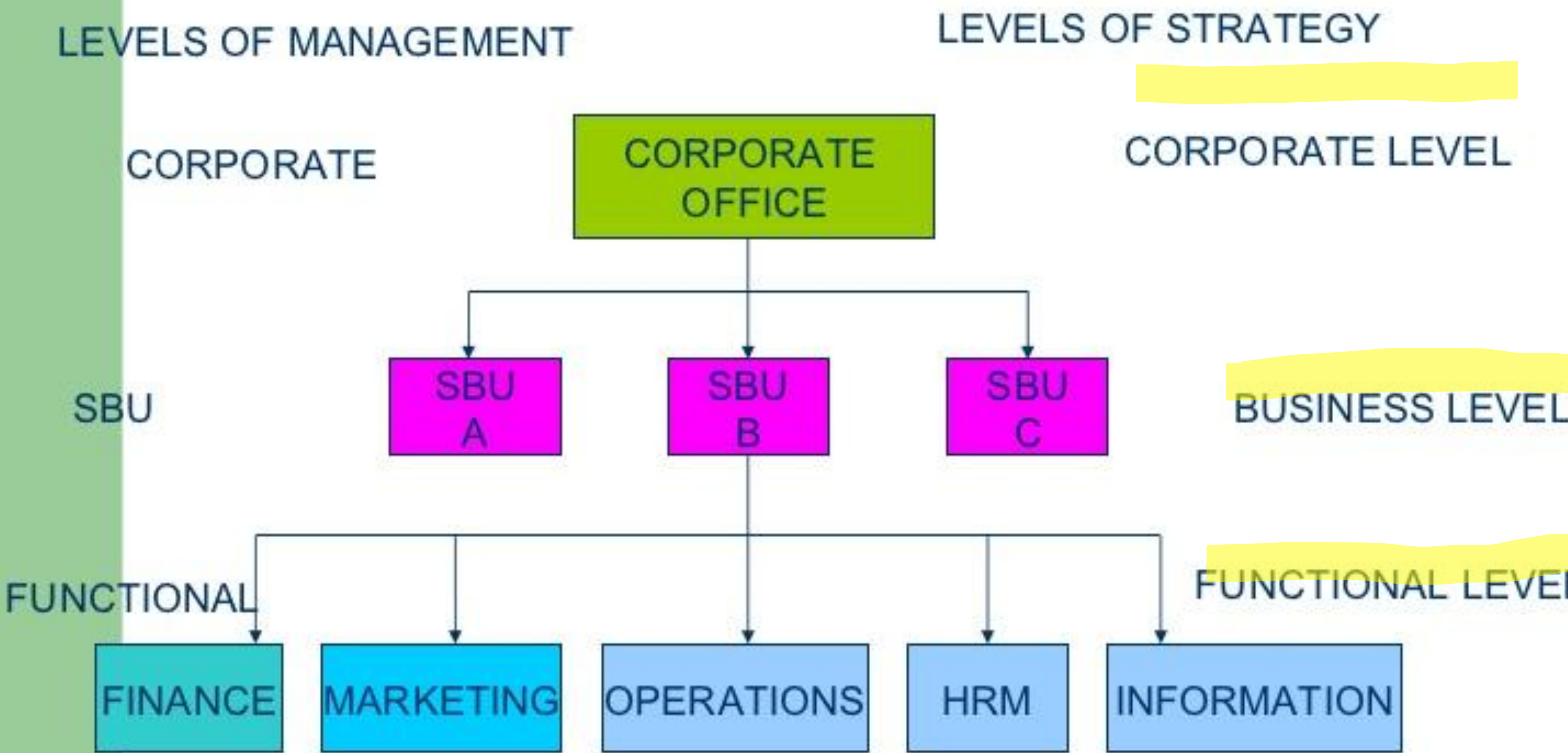
1. Strategic Leadership
– effective management of strategy-making

2. Strategy Formulation
– selecting & implementing strategies
(based on analysis of external and internal environment)

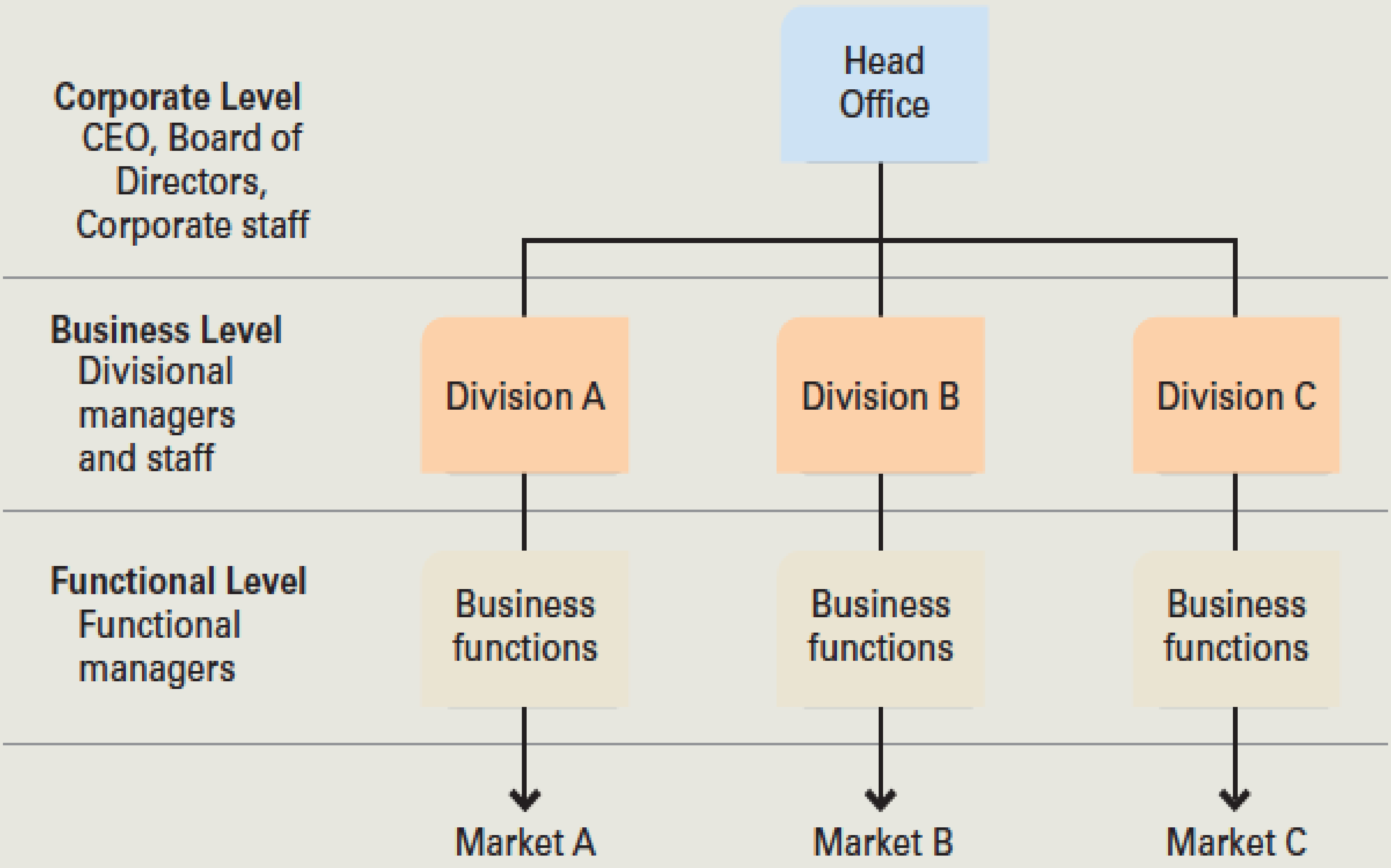
Strategic Imperative A: **Define the Business**

Strategic Imperative B: **Strategy is all**

DIFFERENT LEVELS OF STRATEGY



Strategic decisions at every level



and …Everybody is a Strategic Manager

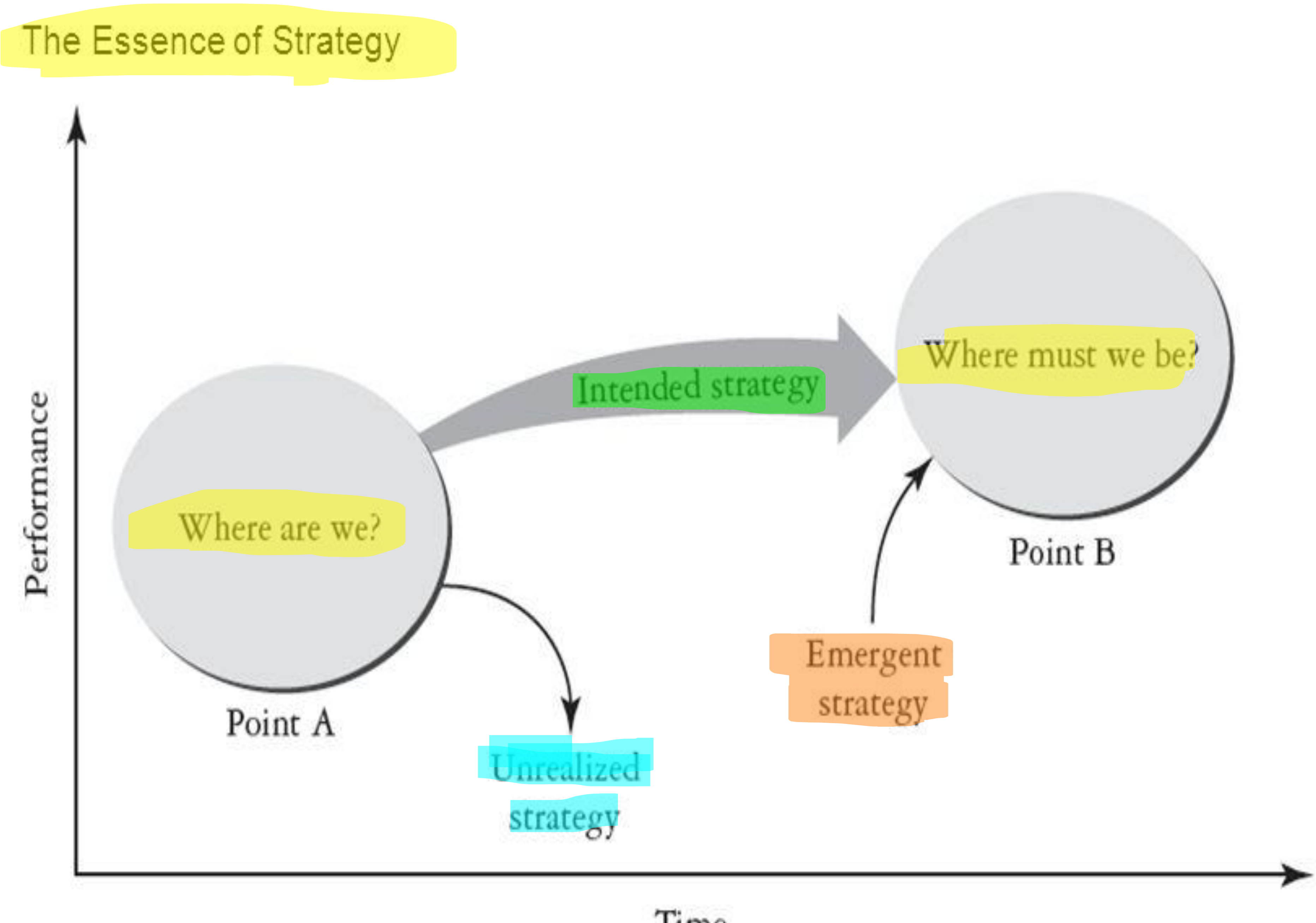
General managers

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

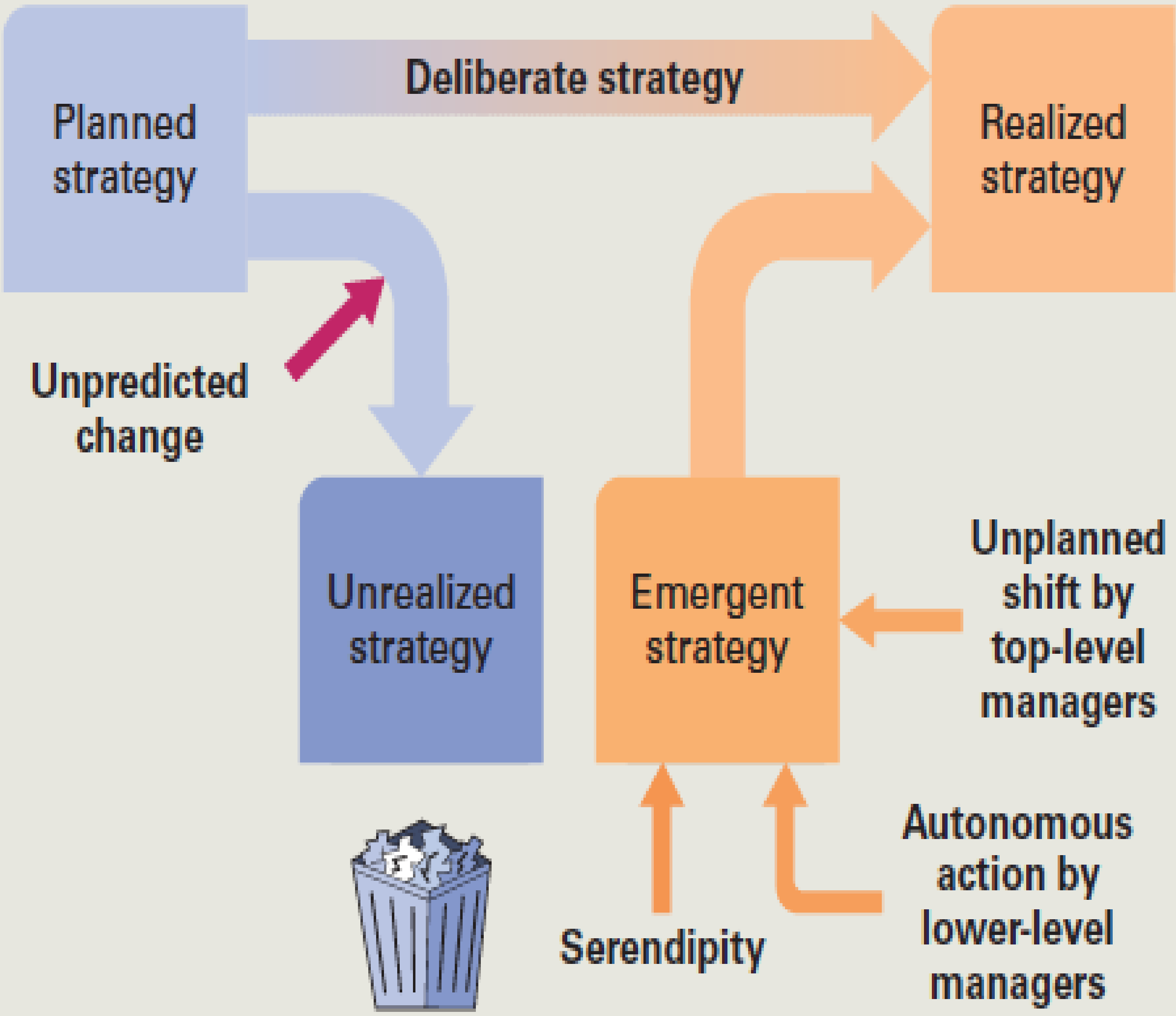
Functional managers

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

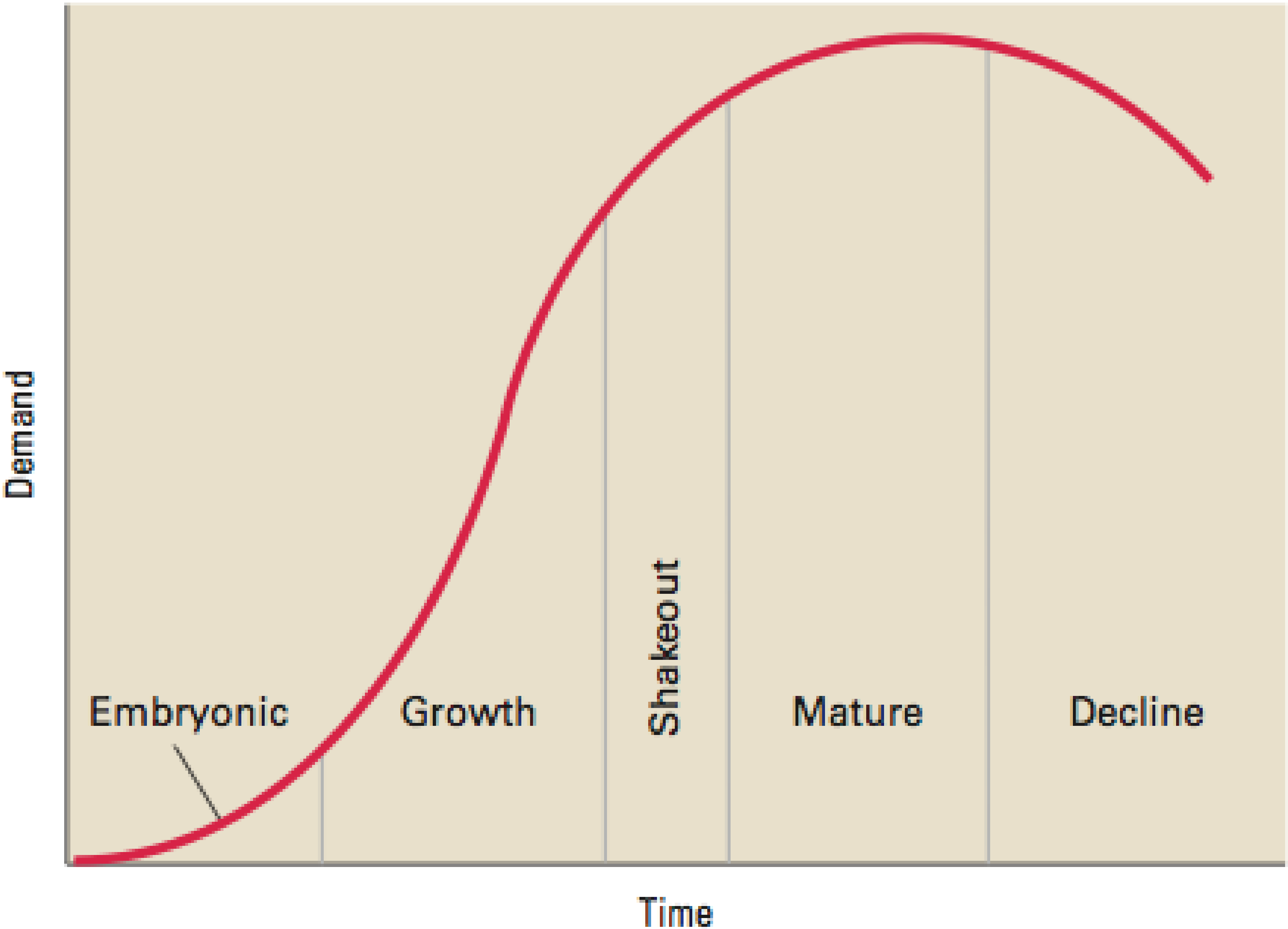
Strategic Imperative C: **Adjust …or… Die**



*Indeed…*Emergent & Deliberate Strategies



Imperative D: Strategy making along Life Cycle (LC)



Industry stages

Life Cycle based Business Strategies

Fragmented
- *Chaining*
- *Franchising*

Growth
- *Innovating*
- *Adopting*
- *Following*

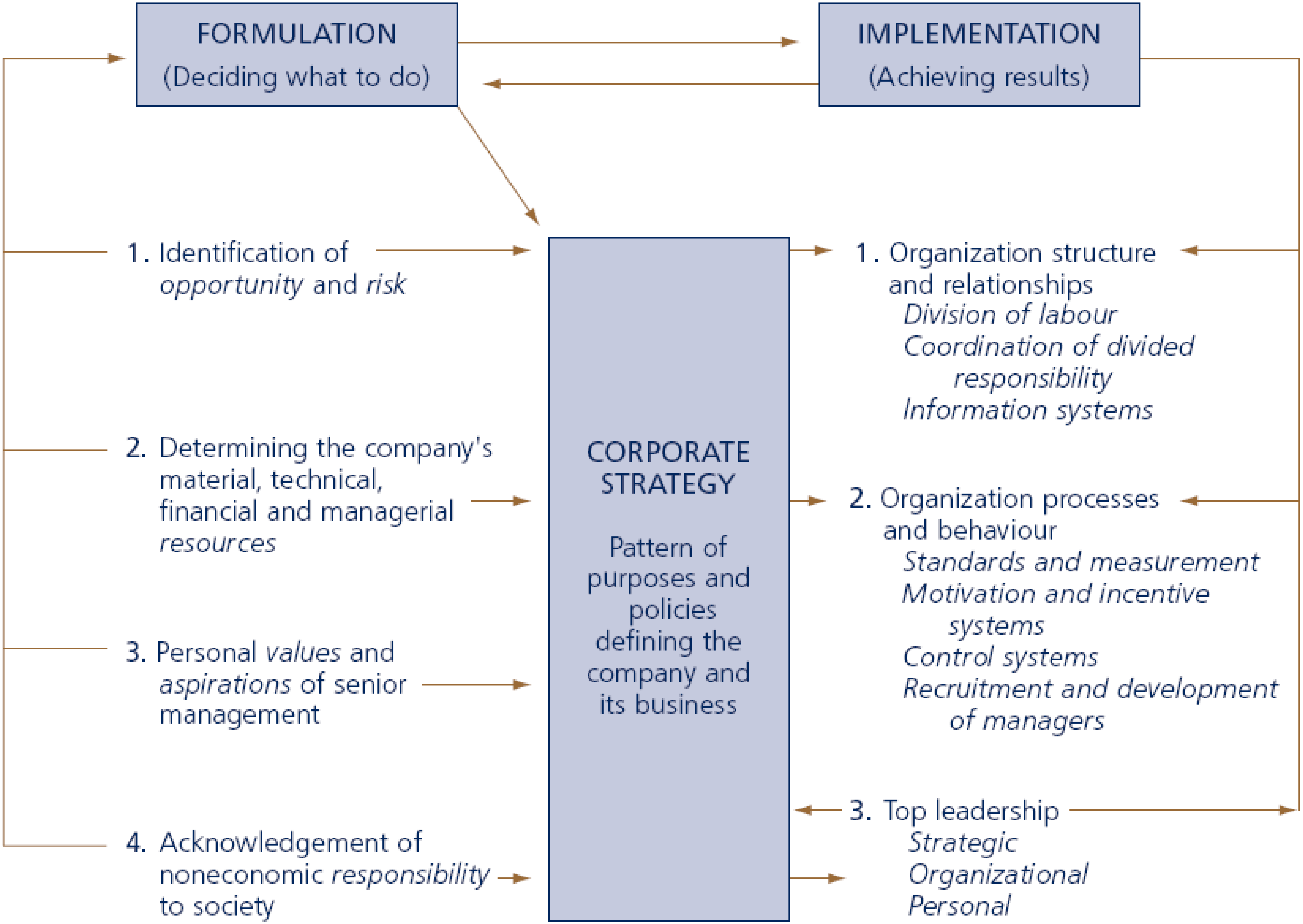
Declining
- *Leadership*
- *Niche*
- *Harvesting*
- *Divesting*

Mature
- *Deterring entry*
- *Managing rivalry*

V) Strategy formation / process

The process: Strategy making

The Process: Strategy making



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

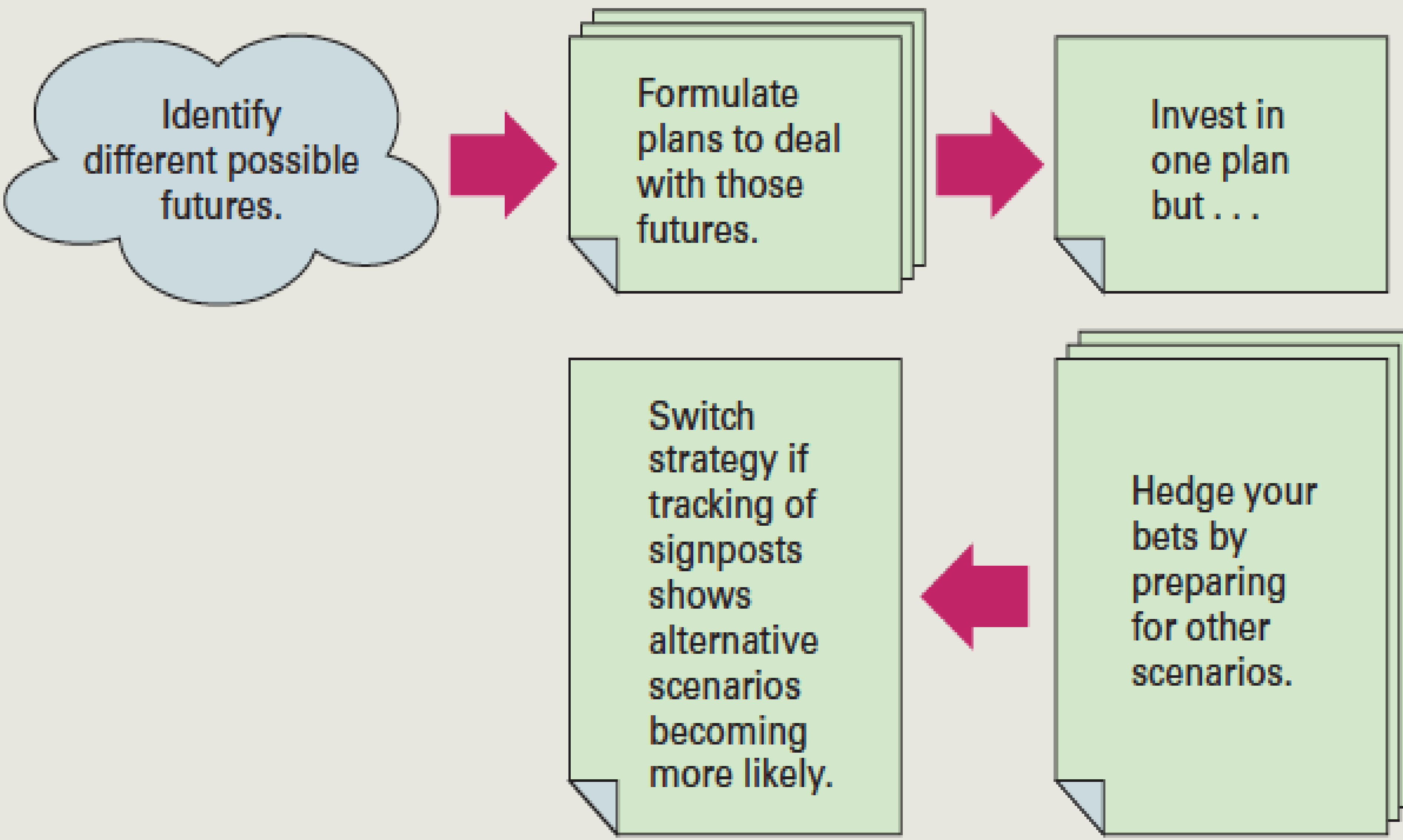
Scenario planning

- **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



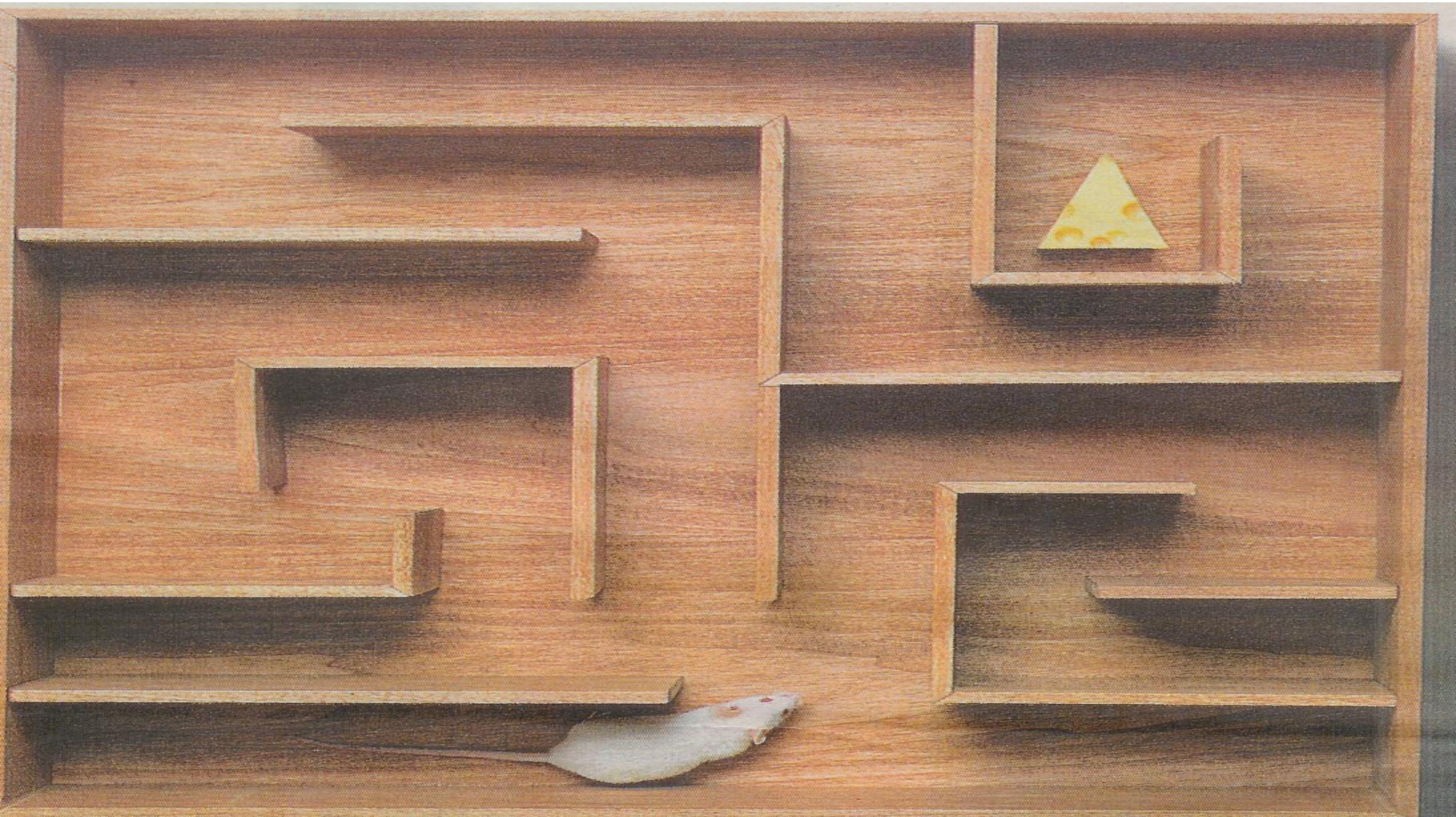
Possible reasons for bad Strategic making…

- **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

VI) Strategy Creation

Mission and Vision

- What is a vision?
- What is a mission?

Examples of Mission and Visons

Company	Home	Vision/Mission Statement[30]
Adidas	Germany	Creating the "new" by focusing on speed, cities and open source
BMW	Germany	World's leading provider of premium products and premium services for individual mobility.
Google	USA	Organize the world's information and make it universally accessible and useful.
Infosys	India	Provides best-of-breed business solutions, leveraging technology, delivered by best-in-class people.
Microsoft	USA	Help people and businesses throughout the world realize their full potential.
Pearson	England	Help people make more of their lives through learning.
Virgin Atlantic	England	Embrace the human spirit and let it fly.

Strategy Creation…

How do Executives Create Strategy?

- Industrial Organizations Outlook
- Perspective and Choice

Based on …

- Resources
- Organization
- Capabilities
- Core Competencies

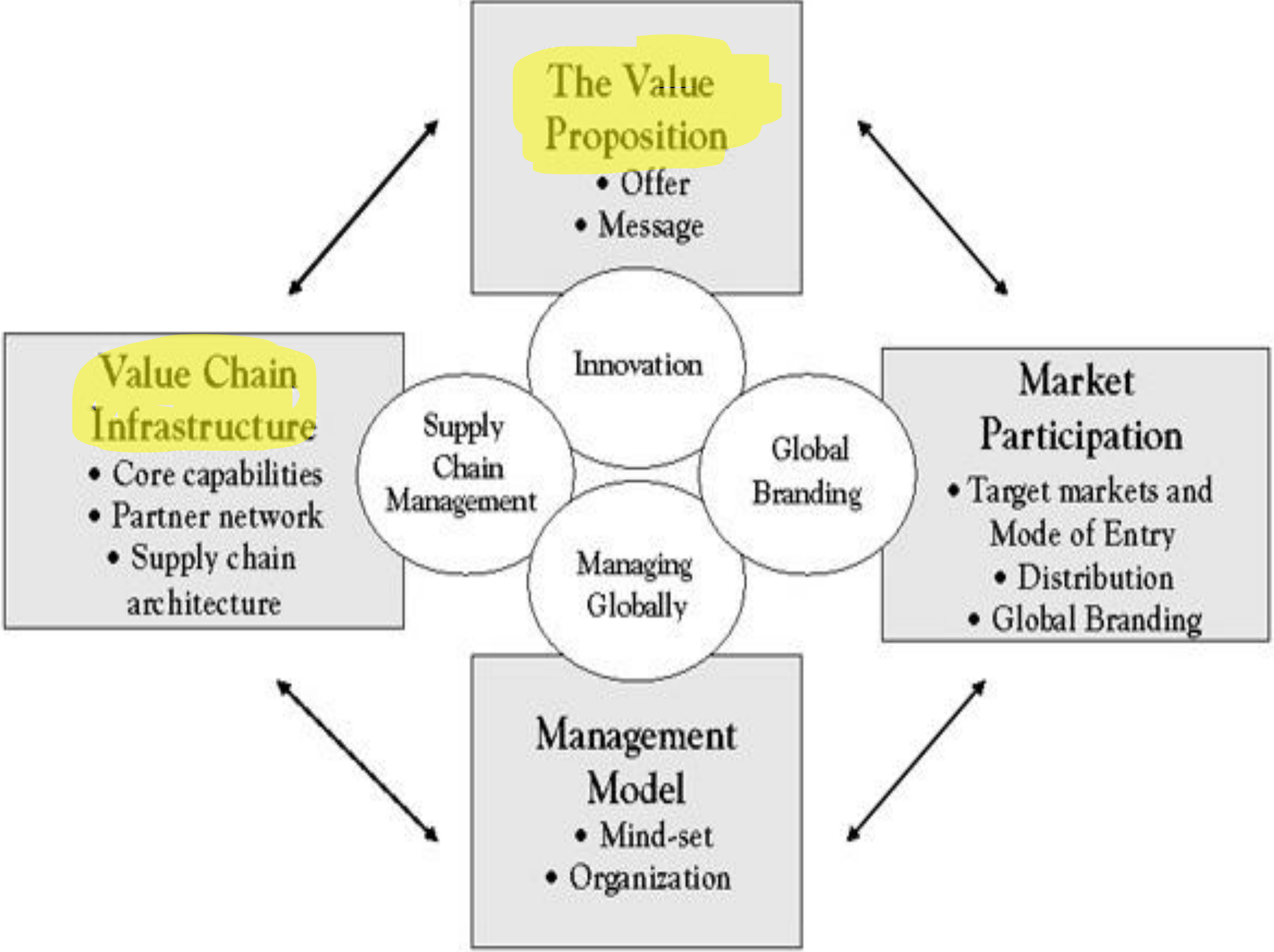
Tangible and Intangible Resources

Resources of the Firm: Specification and Profile

Type	Example
Tangible: Physical resources that are observable and measurable.	• Creditworthiness in terms of Selling Equity or Debt • Employees Skills • Property Portfolio • Retail Network • Scale of Distribution Network • Scale of Manufacturing Facilities • Scope of Service System • Sophistication of Technology Systems
Intangible: Resources that lack physical form.	• Brand Recognition • Corporate Goodwill • Decision-Making Process • Foreign Exchange Risk Management • Intellectual Property • Managerial Skills • Public Affairs Management

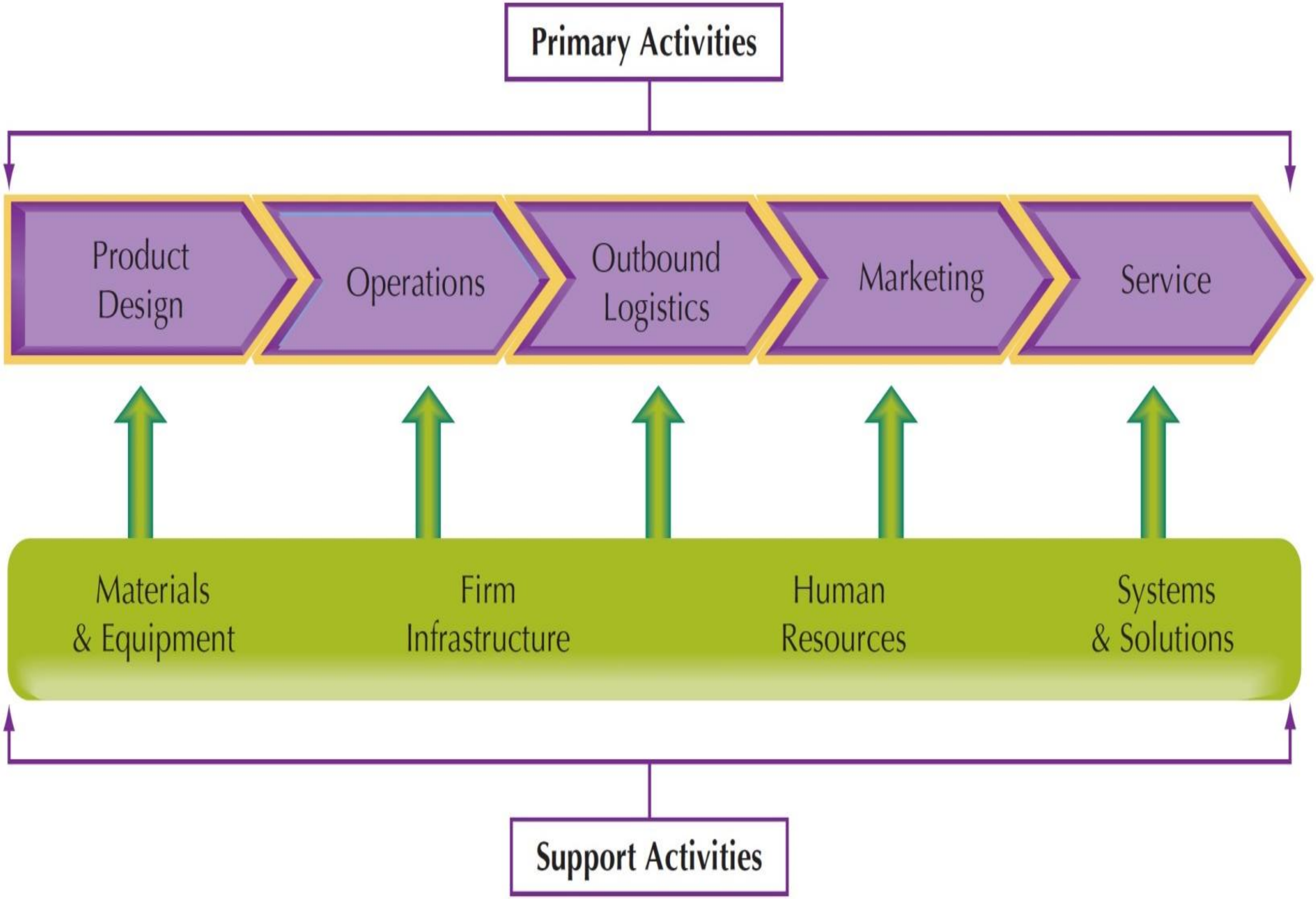
Aiming for ……… **Value Creation**

- Value
- **Cost** Leadership Strategy
- **Differentiation** Strategy
- Integrating Cost Leadership/Differentiation Strategies


The Value Proposition
• Offer
• Message
Value Chain Infrastructure
• Core capabilities
• Partner network
• Supply chain architecture
Innovation
Supply Chain Management
Global Branding
Managing Globally
Market Participation
• Target markets and Mode of Entry
• Distribution
• Global Branding
Management Model
• Mind-set
• Organization

The Value Chain

Visualizing the Value Chain



Thank You