STRATEGIC THINKING

A COMPREHENSIVE GUIDE

FREDERICK BETZ

Emerald

STRATEGIC THINKING

A Comprehensive Guide

This page intentionally left blank

STRATEGIC THINKING

A Comprehensive Guide

BY

FREDERICK BETZ

Portland State University, USA

Emerald

United Kingdom – North America – Japan
India – Malaysia – China

Emerald Group Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2016

Reprints and permissions service
Contact: permissions@emeraldinsight.com

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN: 978-1-78560-467-6 (Print)
ISBN: 978-1-78560-466-9 (Online)

Contents

This page intentionally left blank

Preface

Leadership and strategy are intricately connected, because one of the primary responsibilities of leaders is to formulate strategy; and in an organization, only the leader has the power to implement change, strategic change. Thus, strategic thinking is a necessary and fundamental cognitive ability of a leader — or should be so.

Strategic thinking is about (1) imagining a future world and (2) taking a sequence of short-term tactical actions to achieve it. It requires both an idealism (to imagine a better world) and a realism (to acquire the resources, skills, and organization to get there). However, most organizations focus and encourage only short-term thinking for their employees and leave long-term strategy to the executives. And many books on strategy assume this is appropriate and do not question the practice. But there is a serious error about "realism," in a view of only "top-down" strategy. No high-level executive in any organization, at any time, in any place, is ever fully knowledgeable about the details of operations — activities on the ground, the current reality in the trenches. This is because the executive level is far above the actual operations of production/sales and so can be "out-of-touch" with the operational. In climbing their careers to the top of organizational power, executives probably knew the past realities quite well. It is their grasp of current reality which can be in question. This is what strategy is for — to distinguish past reality from current reality and to prepare for future reality.

Thus for realistic strategy, there is a need for good "top-down" and "bottom-up" communication — between the executives at the top-management level and the technical personnel at the bottom-operations level. When organizational communication is only top-down (due to the overwhelming power-of-the-boss), then in such an organization, high-level strategy can become only "wishful thinking" by the CEO — a wishing that can actually impose harmful management pressure on operations. Harmful pressure has resulted in terrible examples of organizational ineffectiveness, loss of competitiveness, and even fraud.

Unfortunately, there are many historical examples of this. Cases of contemporary financial failure and fraud abound in the modern world — all due to unreal strategy at the top. Some of these were: the Libor Fraud of 2011, the Eurodollar Crisis of 2010−2014, the Global Financial Collapse of 2007−2008, the Bankruptcy of Enron and the Demise of Arthur Anderson in 2001. In each case, high-level officials in government and business were unrealistic about strategy — allowing dishonesty of trading in Barclays, funding excessive sovereign borrowing in European Union countries by EU banks, securitization of fraudulent mortgage derivative products, and the off-book speculative investments by a company. In each of these cases, there was a serious failure of strategic thinking by top business and government officials. The wishful strategic thinking by bank executives in the Libor case was that Libor was an honest index. The wishful strategic thinking by government officials in the Eurodollar Crisis was that government debt could forever finance government services without taxes. The wishful strategic thinking in the Global Financial Crisis was the financial markets are "perfect" (self-regulating). The wishful strategic thinking in the Bankruptcy of Enron and the failure of Anderson was that accounting need not be fully transparent. A purpose of proper strategic thinking is to eliminate "wishful-thinking" from strategic thinking.

Yet there are splendid examples of strategic thinking that has been extraordinarily successful, such as: IBM in its early days, Xerox in its early days; the resurrection of the Japanese economy and SONY, Honda, Toyota in Japan; the building of the South Korean economy and Samsung, Hyundai, Posco in Korea.

What is the type of thinking which leads to long-term success and survival, not just a big payoff in the short term? This is "strategic thinking." Strategic thinking is necessary at every level of an organization, and not just at the top. We use actual histories of business successes or failures to illustrate theoretical concepts in strategic thinking.

These concepts are summarized in each chapter.

Theoretical Principles of Strategy

1.1 All actions are directed toward the future; and intelligent action is most likely to succeed.

1.2 Correct vision is necessary to survive discontinuities.

1.3 Technology strategy is a basic component of competitive strategy.

1.4 Strategy is cognitively more synthetic (intuition); while planning is more analytic (thinking).

1.5 Intuition is primarily based upon experience.

1.6 The 'way' of experience is perception, preparation, and commitment.

1.7 Strategic wisdom is expressed in the form of 'precepts'.

2.1 Strategy is implemented in a sequence of tactics leading toward the mission.

2.2 Entrepreneurial strategy is proper for the launching of new businesses.

2.3 Technology progress is a major source of entrepreneurial opportunity

3.1 While entrepreneurial management is necessary to starting a new business, professional management is necessary to grow the business competitively.

3.2 Tactical milestones are steps in achieving a long-term strategy.

4.1 Strategic change is periodically necessary to survive and prosper.

4.2 Strategy divides into content (strategic issues) and into process (strategic planning).

4.3 Strategic perspective divides into top-down perspective (executive perspective) and bottom-up perspective (operational perspective).

4.4 The strategy process requires formulation of the 'big picture' as a strategic scenario and the 'operations picture' as a strategic business model.

5.1 The four factors of product success are: performance, innovation, market focus, competitive pricing.

5.2 Six kinds of strategic business models can be constructed from the combination of the factors of capital, profit, sales, resources.

5.3 Strategic business models are implemented by the technique of a strategic policy matrix.

6.1 There are 'opportunity costs' to keep any business competitive, even businesses in the portfolio of diversified firms.

6.2 Integrity and trust between a holding company and its portfolio of businesses is essential to the strategic survival of the holding company.

7.1 Scenarios depict the trends for opportunities or threats.

7.2 The accuracy of forecasts depends upon the stability of underlying structure.

8.1 Structure and function in a society can be partitioned into four societal systems: economic systems, political systems, cultural systems, and technology systems.

8.2 Changes in the structure and functioning of any of the systems will impact the functioning of the other systems.

8.3 The 'big picture' of change in a society can be depicted as changes in the four systems of a society.

9.1 The strategic business model of a holding company focuses upon the financial markets; whereas the strategic business model of a portfolio company focuses upon customer markets.

9.2 Short-term executive greed can doom the long-term future of a company, when executives lack integrity.

10.1 The successful implementation of a plan is as important as good planning.

10.2 Leadership in implementing a good plan requires access to proper technology, sufficient capital, market entry, competitive operations, and management integrity

The book is aimed at the general trade market of business books, but it is also appropriate for MBA classes on strategy and strategic planning. There are many books on strategy; but many focus mostly upon the process of formulating strategy, the strategic process. This book balances the emphasis on "process" in strategy and with that of "content" in strategic thinking. The content in strategic thinking requires vision, competence, and integrity.

1

Strategic Vision

Introduction

Strategic thinking is about trying to anticipate and bring about a "desirable future" – a vision for a future.

To realize that vision, a decision to act must be made; and the logic of an action, decision can be formulated as a "means" of action toward an "end" of action. A primary responsibility of leadership strategy is to make decisions about the future (strategy) and to implement present action (tactics). This concept of "strategic thinking" as action toward a future is based upon a philosophy of action; and in that philosophy, there are three postulates.

1. All action is directed to a future.
2. For action, there are two futures – immediate and distant.
3. Intelligent action is more likely to be productive than unintelligent action.

As shown in Figure 1.1, modern decision theory sketches out the postulate of all action being directed toward a future.

First, a decision orients an action in the present toward a future outcome. An action can be analyzed into means and ends of the action. The means chosen for action are the "tactics" of the action. The ends, toward which the means are directed, are of "value" to the actor. The "vision" that had been imagined as a valuable end

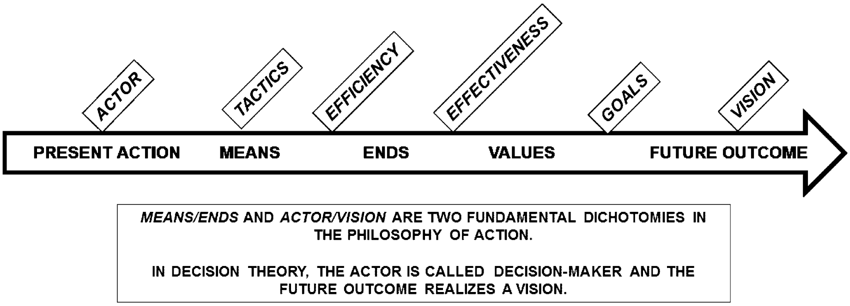

Figure 1.1: Decision Theory.

occurring in the future. "Efficiency" is a measure of the likelihood (or resources consumed) of a means attaining an end. "Effectiveness" is how valuable an end is to the actor. The "goals" are measures of the attainment of the envisioned outcome for a given value.

Postulate 2 expresses the possibility that the vision of a desired future might not be attained in a single action but as a subsequent result of a series of actions. A long-term "outcome" may need to be attained as a sequence of actions, each action being a tactic of the actor (decision-maker). Strategy threads a sequence of tactics together for present actions in the short-term sequence to attain a future in the long term.

The third postulate relates knowledge to action. Intelligent action is more likely to be productive than unintelligent action. Unintelligent action can arise from being uninformed, incompetent, foolish, irresponsible, corrupt, immoral, etc. The more a decision-maker knows about a choice of means and ends and values and goals, the more likely the actor is to be successful in the future. The more honest and responsible a decision-maker, the more likely others may follow and implement decisions. In the modern world, science and technology provide the knowledge for action, and management and power provide motivation and the capability of action. Leadership is expected (by its followers) to formulate "intelligent" action in an organization; and for this, strategic vision is a basic responsibility of leadership.

Strategic change cannot occur without top leadership having a vision and commitment to change. The relationship of leadership to strategic vision is thus basic:

1. Strategic vision is the fundamental responsibility of leadership, since only top management has the authority to make major changes in operating organizations.
2. Strategic change is only periodically necessary; but to be effective such change must be envisioned, anticipated, and planned.
3. Sources for strategic vision are either external in the environments of the organization or internal as opportunities developed within the organization.

For example, back in the year 2000, "Worth" magazine interviewed successful chief executive officers (CEOs) and noted their concern for the importance of visionary leadership.

Koici Nishimura of Solectron said:

> When you are leading a company, you have to figure out, conceptually, what you are trying to do. Once you have decide that, and you think its okay, the second thing you have to figure out is: What tactics are you going to use? … You continually have to ask: Are the assumptions I made still good? My job is to continually reassess the assumptions or the foundation that the company is built on.
>
> —Worth (2000)

Raymond Gimartin of Merck said:

> You need to have a vision that is the anchor point for what you're doing … There needs to be some form of overarching statement that makes sense and on which the ECO stakes his or her job.
>
> —Worth (2000)