Strategic Decision Making

A major problem that many companies make is failing to ask strategic questions and therein also lies the biggest mistake they will ever make every time they do so. In the book "Understanding Michael Porter" by Joan Magretta 2011 – HBR Press the author interviews the famous Harvard University Professor, Michael Porter, who asserts that the "granddaddy of all mistakes" is confusing sales and marketing plans or operational effectiveness ("OE") plans with overall corporate strategy. Why? Simply because trying to "be the best" by definition presumes you are providing the same goods or services as your competitors which ultimately results in what he considers a "race to the bottom." Strategy links your demand and supply side to create a sustainable competitive advantage. "Strategy is about the whole enterprise, not the individual pieces" as Porter explains. There is no one path to success, just many interrelated activities that make your company unique. The author cites many examples such as IKEA, Starbucks, Apple, etc. All these companies practice the concept of overall company strategy, not just marketing strategy, not just OE strategy. Porter calls it a framework, not as linear as an economic model and not as specific as a case study. Once you decide what your unique value proposition is, then you need to communicate and ultimately achieve alignment with your internal organization and your outside team.

So when do you do it? Each year the management of a company gets together to have an annual meeting to decide the strategy for that year. Each year has its own challenges and opportunities. If all that these meetings produce is budgeting and growth rate projections, then Porter says all you have achieved is a business model, but you have done no debate and decision making on your competitive strategy. Your competitive advantage is already known by your customers - that is why they picked you or not. Your failure to leverage it will ultimately result in your competitors using it against you. It's that simple. So sit down with your trusted advisors who can facilitate a dialogue to help you create a framework for your company strategy.

Perhaps you have not identified "what is your corporate edge"? Every company is different. Every sector is different. Many of our clients come to us knowing they have a problem, but they don't know how to frame the problem. We offer precise problem-solving tools and an objective look at your needs. We provide a collaborative non-zero design theory of doing business, rather than a competitive zero-sum approach. We work with you to write the vision and back it up with your goals and objectives.

Most companies go through about five stages. They are: (i) start-up, (ii) turnaround, (iii) accelerated growth, (iv) transformative change, and (v) exit strategy. Each stage presents a different set of challenges and opportunities but transformative change is a major stage that needs further explanation. To assist you at this key stage we have identified three phases to transformative change that we have set forth as follows:

1. Identify The Problem
2. Create Your Strategy
3. Make Good Decisions

Phase I: Identify The Problem

In his book, "Know What you Don't Know", the author, Michael Roberto, quotes the noted psychiatrist, Theodore Rubin, who stated, "The problem is not that there are problems. The problem is expecting otherwise and thinking that having problems is a problem." So what does he mean by this statement? The answer is that successful business leaders don't wait for the big problems to materialize – they actively seek out problems that others do not see or want to see. They realize that if you wait for problems to find you, then you have not managed your risk properly because you should have found the problem first. Here are 4 questions we think you need to ask yourself to get started.

1. How do you become a problem-finder? The answer is simply that successful business leaders first recognize that what they do not know is the greatest area of risk that they need to focus on - so they spend a great deal of time learning what that is in their particular industry by research and from others.
2. Where do you find these unknown problems? Andy Grove of Intel, quoted by Roberto, uses the following metaphor to describe his model when he states: "Think of it this way: when spring rain comes, snow melts at the periphery, because that is where it is most exposed." Simply put, problem finding is about looking at the periphery of your company, where you will find the first signs of change, either positive or negative. (e.g., practical drift, normalizing deviation, etc.)
3. Why is it important to find problems first? Solving problems is like being the first responder to an emergency situation. As the old adage goes, "a firemen has basically two tools, an axe and a water hose." So what do you think your house will look like AFTER a big fire? Easier and better to avoid the fire BEFORE it starts, and deploy many more tools to do so. Business leaders need to be constantly searching at the periphery for problems that are not yet problems.
4. When do you start? RIGHT NOW! The answer, as many of us were taught in school, is often found right in the question. Great questions beget great answers. So start asking great strategic questions! Don't be the person who says "if I had only seen it coming I could have avoided it." If you are, then you may be the problem.

Phase II: Create Your Strategy

The question that Cynthia Montgomery poses at the beginning of her Harvard University Entrepreneur, Owner, & President Program ("EOP") for business owners and senior executives is simply, "Are you a strategist"? Why? Her mission is to take her class of executives and show them, through the many case studies she has written about in her book "The Strategist – Be The Leader Your Business Needs", how to create a sustainable strategy for your company. So what is a strategist and why become one? These are the next two questions that you must ask to determine whether you will ultimately be successful?

The author states that your first job as head of a company is to "understand them and how they affect the playing field where competition takes place." The biggest risk of believing in the myth of the "super manager" is that super managers "tend to focus on what they can control and ignore what they cannot control." Put another way, the Nobel Laureate Daniel Kahneman, in his book "Thinking Fast and Slow" may have called this the "inside view" - the tendency to ignore outside data to engage in independent decision-making. Super managers simply don't know what they don't know, or choose to ignore fierce competitive outside forces as not being as important as their management capabilities to overcome them.

So how do you become a strategist? Most companies know that you must first begin with creating a company's "purpose." The purpose of a company is basically "why it exists, the unique value it brings to the world, what sets it apart from other companies, and why and to whom it matters"? But how do you "own" your strategy? The time honored way the author espouses is what she calls the "strategy wheel" which consists of your "systems" such as Products and Target Markets, Marketing and Service, Sales and Distribution, Manufacturing, Procurement, Human Resources, Information Systems, R&D, and Finance. Each system needs to be impacted by the center of the wheel - your core purpose.

In my view, strategy consists of your core purpose, then strategic planning and followed by congruent execution. At least once a year a company's board of directors or LLC managers/members meet to look back at what happened over the past year, and then look forward to how it wants to operate the company next year. Too often it is a mechanical exercise that involves reviewing the financial statements and tax considerations but not much else beyond asking how the company can save money. Perhaps a good way to avoid this mechanical approach is to first ask yourself, are you the company strategist as mentioned above? If so, then ask what is the company strategy? Not sure, then perhaps you need to get started right now and create one.

Phase III: Make Good Decisions

So far you have hopefully asked the right questions and created the best strategy for your company. Now it's time to make key business decisions to execute your strategy. The famous psychologist Carl Jung once said that "enlightenment is not imagining figures of light but making the darkness conscious." So how can business people do that? Every business decision is based on a model of projected facts and circumstances and then ultimately a strategy to resolve the matter. But to execute on a great strategy requires a great decision-making model. Simply stated, decision models are designed to create a structure of thinking and dialogue so that you are better prepared to foster a sustainable competitive strategy. Have you ever heard of the expression "that's a solution in search of a problem" or "we're climbing the right ladder but up the wrong wall"? These expressions come about because too often the decision-making model is not known, much less ever discussed. So a critical decision making tool is replaced sometimes with a superficial approach such as the "traditional" approach of "that is the way we have always done it" to the "different" approach of "its new and improved" - and every construct in between. Yet, looking back, it's the decision-making itself that sets the course for either the ensuing success or a disastrous result (i.e., think Titanic). So what are some of these key decision constructs? Some helpful decision-making constructs are the following:

- Johari - window
- Flow
- Black Swan
- In-On Construct
- System 1 & 2 Thinking
- Mechanism Design Theory
- Systems Thinking
- De Bono 6 Hat

So if you don't know, don't use, or don't KNOW HOW to use these various constructs, then you are perhaps accepting more risk by not taking advantage of some key tools that will allow you to make better decisions. "So what" you may say? Have you ever said to yourself, "What happened"? The more tools you have at your disposal, the better chance you have to make an intelligent decision before something goes wrong. As Carl Jung would perhaps say, decision-making requires one to first shine the light on the darkness of the way you think.