The Strategy Paradox – ROHNER ALEXANDER

What Strategy classes teach you

While my Studies abroad my class and I were introduced to 2 modules about strategy ("Strategy", and "Advanced Strategy"). Interesting courses which led us to view organizations through a new lens on how they are structured and eventual weaknesses they may behold. For those who haven't attended such lectures, they revolve around concepts such as "PESTEL", "Portner 5 Forces (+ Blue ocean model)", Strategic vision-mission-purpose e.c.t.

Why this may lead to be biases

Maybe due to my education in psychology or general observation I am intuitively aware of some cognitive bias we all fall into as individuals. In this particular circumstance I observed that many students fell into or a hindsight bias (where people believe that past events were more predictable) and/or a outcome bias (the tendency to judge a decision by its eventual outcome instead of based on the quality of the decision at the time it was made). Knowing this I was eager to find a book which gave me an edge against such biases and therefore explaining the real reasons why strong companies (ex. Sony) made some strategic errors. Where they really incompetent? What mistakes did they make? Could those errors be prevented?

Main take-away principles

"The Strategy paradox" is a strongly researched book written by Michael E. Raynor (who is an director at Deloitte Services LP and happens to be an Harvard alumni and fellow colleague of guru Clayton M. Christensen). Divided in two parts this book is formatted by illustrating his arguments with cases followed by some suggested best practices. As previously done I wish to sum the mains points he comes across. For sake of this post length and topic it will cover chapter 1-6 (the solutions for the paradox are found in chapters 7-11)

Chapter 1 – What is the Strategy paradox ?

The same behaviors and actions that lead to great success also lead to great failures. It reminds of me of financial returns as there is an fundamental correlation between risk/return for any investment decision. He therefore argues that avoiding greatness might be the price for an continued organizational existence. He states that by his observation managing uncertainly is often neglected stating that it should fall into the hands of senior management. I enjoyed his comment that organizational adaptability is only viable when the pace of the organization is equivalent to its environment.

Chapter 2 – The Best-Laid Plans (Sony Case Study)

Sony was known to be great at strategic planning but failed with the Betamax and Minidisc. Why? Not because they there was poor planning and execution but because of it! Wrong unforeseeable assumptions about the future which led to an environment that didn't correspond to the DNA of Sony led to their peril. Sony was a higher quality brand and therefore created products of that caliber. They believed that people put an higher value on quality than capacity (Matsushita) leading to create great products of high quality over cheaper manufacturing. Furthermore the believed that their analysis for the competitive environment was on their side (many new technologies fragmenting the market ex. Videodisc technology). But they failed why? Because they didn't correctly predict (how could they?) if 1) people would have preferred quality or low prices and 2) if rented movies would have become more successful than time shifting television. But as a virus, cheap manufacturing cost and a 2nd boom of the video-market surprised everyone reshaping the landscape forever Sony didn't have a chance. Matsushita only emerged victorious not by great planning by having the right product at the right time!

Chapter 3 – Who Dares Wins…Or Loses

Following Chapter 1 Raynor further develops his notion that success awaits only if the choices you make today will be valued tomorrow. He explains that after an analysis of 2'300 businesses it was observed that the more a strategy was pure the more it was correlated to its profitability. But was is a "pure strategy" ? To understand it you need to understand what is a production possibility frontier (PPF). Basically strategic purity is choosing a strategy on a distinct position within the PPF. As an example a firm cannot drive its costs down while simultaneously incorporating leading-edge components. But as alluring it might seem to pursue such strategy, pure strategic firms do indeed achieve more but we only see the returns of the ones that have survived therefore leading to what we can consider an "success bias". These strategies also requires implementation that are not easily accessible to every organization such as long-term commitments. Most companies therefore will stick-in-the-middle making a trade-off between risk and return. Reducing risk but equally valuing growth over profitability.

Chapter 4 – The Limits Of Adaptability

In this chapter the author explains that recent studies reveal that firms are less likely today to maintain a profitable position of market dominance than at any other time in the past 30 years. He uses his research to illustrate that the classical strategic notion of "emergent strategy" is only of limited use for the world of today. Adaptability is therefore a viable but limited response and only useful when a slow change pace is present. We can divide changes into two categories, rapid and slow. When rapid changes occurs he concludes that due to the speed being so great it is usually too late for any viable adaptation. In addition to rapid changes in the environment very slow changes also create problems as often they prove impossible to notice and therefore adapt. He uses the Greenland Norse civilization as an example as their people managed to adapt to each incremental change they faced without changing the fundamental structure which lead to their failure.Therefore as quoted; "Adaptability only works when the organization can match its pace of change of that of the environment"

Chapter 5 – The limits of forecasting

Forecasting is unfortunately so difficult as a art/science that most forecasting track records are usually poor (especially the longer the range). To determine the accuracy of a forecast we must compare our forecast of the future *with the future* and not the future present. There is no future to be discovered but a mass of probabilities that narrow down as time carries us towards it. We cannot observe the true probability of future events as we don't have insight into the underlying structure of repeated observations of similar events to determine them. Therefore anything in between 0 or 1 say nothing about the probability-predicted forecast. He argues that randomness and free will are the elements that make predicting accurately nearly impossible to reach as people's reactions are notoriously difficult to predict.

Chapter 6 – 11

Chapter 6-11 are proposed solutions and insights on how to deal with the uncertainty described above. As I'm more interested by the limits of formal strategy than proposed solutions I will not summarize his ideas but will state that he revolves reorganizing the organizational structure so it can scope more effectively with that uncertainty. Notably by the insertion of options, flexibility, leverage and preparation.

Conclusion

As from my observation of companies it is fascinating to see them as potential living organisms that need constant checks and tools to scope with the world around them. As human organizations you quickly observe similarities with cells and biological systems as somewhat similar mechanisms underlay them both. It makes you wonder how much of "luck" is really involved with thriving corporations today.