Strategy . . . or Anti-Strategy

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Version 12/17/15

1 Introduction

In these notes we consider three possible definitions of business strategy. None of these definitions is unarguable. Indeed, holding to a fixed definition of strategy would go against the kind of self-questioning that is often said to be part of the strategic mindset.[1]

2 Strategy as Consistency

This notion begins by picturing a business enterprise as a **system of functions** (manufacturing, marketing, finance, human resources, . . .). The classic picture used is the so-called Strategy Wheel.[2] See Figure 1.

Figure 1

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Business strategy, under this view, recognizes the interdependencies among these functions, and that this means that if each function operates independently, there is no reason to believe that this will lead to the best possible performance of the enterprise as a whole. To see this point concretely, think about maximizing a function of several variables. Except in special cases, the overall ("global") maximum of the function cannot be found by maximizing each variable separately. The definition of business strategy to which we are then led is that it is the activity of bringing about **consistency** among the various parts of an organization, so that the best overall performance is indeed obtained.[3] We are all familiar with classic examples of inconsistency, such as when sales is targeting one customer segment while R&D is working with another segment in mind.

In sum, we can say that under this view, business strategy is literally the **global** rather than the **local** view of an organization.

3 Strategy as a Plan

A different notion of business strategy comes from the field of game theory. The field began by studying games such as chess and poker, and the mathematics developed in this way has been applied over time to study all kinds of interactions among individual people, organizations, nations, animals, genes, computers, and other entities. The field can be said to have begun in earnest with a 1928 paper titled "On the Theory of Games of Strategy," written by mathematician John von Neumann.[4] The paper defines a strategy for a player in a game as a **complete plan of action** for that player.

A good way to visualize the game-theoretic definition of a strategy is via a game tree. Figure 2 depicts the beginning of the game tree for tic-tac-toe.[5] A strategy for the first player (for this part of the tree) selects one of the three possible moves. A strategy for the second player (again, for this part of the tree) specifies, for each of the three moves that the first player might make, which move (out of two, five, and five choices, respectively) the second player will make.

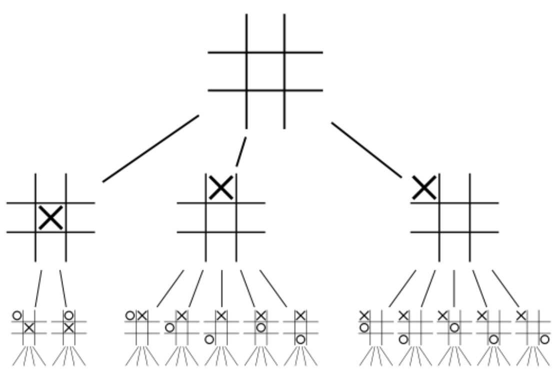

Figure 2

Beyond parlor games, a strategy, under the game-theoretic view, is similarly a plan that consists, in general, both of intended moves by the player in question and of intended reactions by the player to moves made by other players. In an organizational context, moves by other players could be:

- moves by other organizations and entities (competitors, suppliers, buyers, etc.)

- moves external to the game as defined (technological, political, etc.)

A consolidation among suppliers would be an example of the first kind of contingency. Technological change has, of course, created numerous contingencies of the second kind, and there are many classic case studies of when organizations have made better or worse or no plans to respond. (No plan can be viewed as the null response.)

In sum, we can say that the game-theoretic definition of strategy is intended to promote **forward thinking**, even if it is infeasible to consider or even imagine all contingencies.

4 Strategy as a Guide

For the third notion of strategy, we return to the notion of consistency from the first definition of strategy, but add to it by thinking about moves as in the second definition. As in the first definition, the focus is largely within an organization, although we can also think about consistency among customers, suppliers, and complementors to the organization in question.[6]

Under the third definition, which is due to Eric Van den Steen,[7] a strategy is a **guiding decision** or (small) set of decisions within the organization. Van den Steen proposes some criteria for what makes a particular such decision more or less strategic. It is more strategic:

- the more uncertainty there is, before the decision maker picks a choice, as to which choice the decision maker will pick

- the less uncertainty there is, after the decision maker picks a choice, as to which are the best choices for the other players in the organization

Of course, to complete this definition, we have to say what is meant by a "best" choice for another player in the organization, and this is where the notion of consistency comes back in. The idea is that once the guiding choice is set, it becomes clear or, at least, clearer what the other choices should be to maximize the overall performance of the organization. These choices are then the desired ones by the other players.

Notice that "maximize" here is relative to the guiding choice. It is entirely possible that the strategist makes a choice which, once combined with the resulting choices by the other players in the organization, leads to a best overall performance that is poor — for example, relative to competitors. In this case, the organization has a strategy under Van den Steen's definition, but a bad one! So, we should think of the two criteria above as sufficient for testing for strategic content, but only necessary for testing for good strategic content.

Van den Steen gives some examples of **statements of action** to which we can apply his two tests. As statements that are unlikely to have strategic value he suggests: (i) the organization will be the preferred service provider; (ii) the organization will maximize shareholder value. These statements, he argues, fail both of his tests. They are largely predictable in advance, and they offer little clarity on what specific actions should subsequently be taken. By contrast, a statement about a change of customer focus for an organization could be much more strategic by going against existing beliefs and, perhaps, implying quite specific actions to be taken.

We can draw a 2×2 matrix to help us classify statements of action according to how they affect the two types of uncertainty laid out above. See Figure 3.[8]

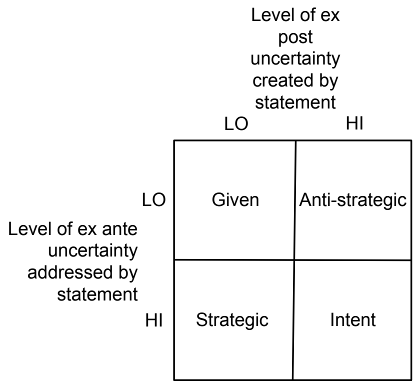

Figure 3

There are additional provisos, as Van den Steen notes, in assessing how strategic a particular decision is judged to be. The candidate strategic decision should exhibit **interdependence** with a meaningful number of other decisions in the organization. (Otherwise, few other decision makers will see a reduction in uncertainty concerning their best choices.) Also, the decision should exhibit meaningful **persistence**.[9] The reason for this is straightforward. If the guiding choice can be quickly undone, then other players may, ex post, find they have made the wrong choices. Moreover, to the extent that this is anticipated, the guiding choice may be ignored ex ante. Of course, persistence does not mean being oblivious to a need to change the guiding choice as circumstances change. Evidently, there is a delicate balance here.

Exercises:

- Find an example of a statement by a business or other leader that purports to be strategic, and which you think is indeed strategic. Justify your view.
- Find an example of a statement by a business or other leader that purports to be strategic, but which you think is not strategic. Justify your view.

Notes

[1]See, e.g., Brandenburger, A., and B. Nalebuff, "Review of *Only the Paranoid Survive*, by Andrew Grove, New York: Currency/Doubleday, 1996," in *Harvard Business Review*, November-December 1996, 168-175.

[2]See Porter, M., *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, The Free Press, 1980, pp.xv-xvi, and the references there.

[3]See Learned, E., C.R. Christensen, K. Andrews, and W. Guth, *Business Policy: Text and Cases*, Irwin, 1965.

[4]von Neumann, J., "Zur Theorie der Gesellschaftsspiele," *Mathematische Annalen*, 100, 1928, 295-320. English translation by Bargman, S., "On the Theory of Games of Strategy," In Tucker, A., and R.D. Luce (eds.), *Contributions to the Theory of Games*, Volume IV, Princeton University Press, 1955, 13-42.

[5]Image from en.wikipedia.org/wiki/Game_tree.

[6]For the definition of "complementor," see Brandenburger, A., and B. Nalebuff, *Co-opetition*, Doubleday, 1996.

[7]Van den Steen, E., "A Formal Theory of Strategy," 2013, at www.hbs.edu/faculty/Pages/profile.aspx?facId=301858.

[8]The use of the label "given" to describe a choice that has concrete implications but is predictable comes from a lecture I once heard Michael Porter give.

[9]Commitment to a choice — because decision makers stake their reputations, say, or for other reasons — is one source of persistence. See Ghemawat, P., *Commitment: The Dynamic of Strategy*, The Free Press, 1991.