

This book will help you contribute to the success of
your organization, foster new endeavors,
and facilitate your own success.

HOW TO THINK STRATEGICALLY

Sharpen Your Mind
Develop Your Competency
Contribute to Success

Greg Githens

Published by Maven House Press, 4 Snead Ct., Palmyra, VA 22963; 610.883.7988;
www.mavenhousepress.com; info@mavenhousepress.com

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Quotes from pp. 2, 46, 57, 61, 107, 115, 119, 121, 123, 127, 129–130, 153, 175, 212, 214, 223, and 257 from *Who Says Elephants Can't Dance?: Inside IBM's Historic Turnaround* by Louis V. Gerstner. Copyright © 2002 by Louis V. Gerstner Jr. Reprinted by permission of HarperCollins Publishers.

Library of Congress Control Number: 2018967236

Paperback ISBN: 9781938548901

E-book ISBN: 9781938548918

Printed in the United States of America.

CONTENTS

[Dedication](#)

[Figures](#)

[Acronyms](#)

[Preface](#)

[Part I: The Nature, Purpose, and Scope of Strategic Thinking](#)

[Chapter 1: Are You Strategic?](#)

[Chapter 2: Cleverness](#)

[Chapter 3: Big Ideas](#)

[Chapter 4: Twelve Microskills of Strategic Thinking](#)

[Chapter 5: Why Strategic Thinking Is Rare](#)

[Chapter 6: The Fuzzy Front End of Strategy](#)

[Chapter 7: Pockets of the Future](#)

[Chapter 8: Strategic Decisions](#)

[Chapter 9: The Spark of Insight](#)

[Part II: Personal and Interpersonal Mastery](#)

[Chapter 10: Perspective](#)

[Chapter 11: Shoulder Angels](#)

[Chapter 12: Dialogue and Deliberation](#)

[Chapter 13: Being an *Extra*-ordinary Leader](#)

[Appendix A: Volatility, Uncertainty, Complexity, and Ambiguity](#)

[Appendix B: Microskills of Strategic Thinking](#)

[Appendix C: Manifesto for Strategic Thinking](#)

[Appendix D: Landmarks on the Map of Strategic Thinking](#)

[Appendix E: Useful Terms](#)

[Appendix F: Personal Branding as a Strategic Thinker](#)

[Notes](#)

[Acknowledgements](#)

[Index](#)

[About the Author](#)

DEDICATION

For my wife, Helen, and my mother, Juanita

FIGURES

- 1-1 An example of pictorial ambiguity. Can you see the two faces?
- 1-2 Characteristics of a reasonable person.
- 1-3 An example of celebrating action over thoughtfulness.
- 2-1 A five-part template for writing strategy, originating from collective beliefs, choices, and adaptations.
- 2-2 A discontinuity may (or may not) trigger a chaotic, large-scale effect.
- 2-3 Many people tend to narrow frame and set goals.
- 3-1 The four pillars of strategic thinking.
- 3-2 Strategic thinking shares some but not all characteristics with other styles of thinking.
- 3-3 The four X-factors of strategic thinking.
- 4-1 The quest narrative archetype is one where the protagonist leaves the ordinary to enter the special world.
- 4-2 The microskill of reflection guides the progression to competence and mastery.
- 4-3 The microskills of strategic thinking. The last eight are introduced in later chapters.
- 5-1 The strategic thinking map and the operational thinking map.
- 5-2 Process strengthens operational aspirations and enhances focus on the present.
- 5-3 Find shared landmarks and use them as a bridge from the operations thinking map to the strategic thinking map.
- 6-1 A depiction of strategy from the fuzzy front end into action.
- 7-1 The three horizons.
- 7-2 The three horizons have implications for strategy.
- 7-3 The three horizons, prevalence, and strategic fit.
- 7-4 Example scenario.
- 8-1 Strategic fit for IBM as a dynamic concept.
- 8-2 A framework for strategic decisions and tactical decisions, with an example from IBM.
- 9-1 The ladder of inference, with elements of insights.

10-1 Helpful questions and concepts for developing perspective.

11-1 Two shoulder angels.

12-1 In a dyad, each person shares her perspective and discovers areas of agreement and disagreement.

ACRONYMS

CapEx – Capital Expenses

CtB – Change the Business

DICE - Drive, Insight, Chance, Emergence

H1 – Horizon 1, the near-term future

H2 – Horizon 2, the intermediate-term future

H3 – Horizon 3, the distant-term future

IBM – International Business Machines Corporation (discussed in Chapters 8, 9, and elsewhere)

OpEx – Operational Expenses

RtB – Run the Business

RWE – RWE AG is a German electric utility company (described in Chapter 11)

PoF – Pockets of the Future (in the present moment)

STF – The initials of a non-profit community organization (discussed in Chapter 10)

VUCA – Volatility, Uncertainty, Complexity, Ambiguity

PREFACE

In the case of good books, the point is not to see how many of them you can get through, but rather how many of them get through to you.

— Morton J. Adler

The Big Idea

STRATEGIC THINKING IS AN INDIVIDUAL COMPETENCY – that’s this book’s big idea. A competent individual is one who understands the situation and acts reasonably. She is sharp: she applies effort to discern relevant nuance, generate options, and uses evidence in her reasoning.* She is skeptical of conformity, orthodoxy, and predictions.

The benefits of being a competent strategic thinker are significant: you can contribute to the success of an existing organization, foster new endeavors, and empower your success. I tell entrepreneurs, “Strategic thinking will determine whether you make it through those first lean years.” I tell executives of nonprofit and charitable organizations, “Strategic thinking will determine the amount of impact and good you can do.” I tell middle managers, “Strategic thinking can get you promoted!” When you show others that you are a competent strategic thinker, they will reward you with respect and growth.

Everyone wants to be regarded as competent and would feel embarrassed if labeled incompetent. Because labeling someone as incompetent is a bit blunt and insulting, I suggest the best contrast with competency is mediocrity. A mediocre strategic thinker settles for too-narrow understandings of the situation, prefers simple problems and obvious answers, relies on instinct and intuition, is willing to accept the first reasonable answer that presents itself, and tolerates the excuse, “I’m too busy to think about that.”

Anticipating New Futures

Good individual strategic thinking is a direct and proximate cause of good strategy. Each uptick in the quality and quantity of strategic

thinkers brings benefits to the organization and its stakeholders.

Strategy is an important topic that's relevant for institutions, ventures, and enterprises of any size or mission: large and small businesses, the military, government agencies, nonprofits, churches, schools, charitable organizations, and startups.

Risk is everywhere, and I like to remind people that the Chinese character for risk is a combination of the symbols for threat and for opportunity. The future is certain to be different from today. No matter the place or time, a strategic thinker accepts the potential for disruption and the benefits of emergent opportunity.

Strategic Thinking Is Rare and Valuable

There are thousands of jobs posted on career search sites that explicitly require strategic thinking. Organizations clearly value individuals who can think strategically and want them on the front line of management as well as in the executive suite and board room.

Competent strategic thinkers are exceptions from the norm. For that reason, they are rare. One challenge of organizational development is in recognizing that prevailing culture often discourages deviation from the norm. Hence the cliché, *the nail that sticks up gets hammered down*.

You need to think strategically about how you develop and practice your strategic thinking. Many people find comfort in this statement: *No one needs to know that you're thinking strategically*. You can attend to your daily responsibilities while simultaneously researching the situation, anticipating the future, and exercising your imagination.

Meaningful Learning

To experience the joy of a book "getting through to you," you must read the book. Many people succumb to *Tsundoku*, a Japanese word describing the practice of collecting books and not reading them. A book that *gets through to you* is one that challenges and changes your worldview.

The premise of meaningful learning is that individuals come to situations with an existing baseline of knowledge. Learning occurs when the learner adds new pieces of knowledge to that baseline or when she edits or reorganizes her mental scaffold of concepts.

Here is an example. While driving a car in traffic, you have

anticipated obstacles and anticipated the intentions of other drivers. That real-world experience gives you a baseline of relevant knowledge. This book will introduce strategic thinking concepts such as sharpness, anticipation, and empathy, which some would treat as isolated abstractions. Meaningful learning is simply the task of creating relevance by connecting your baseline to the introduced concepts.

Returning to the driving example, recall your feelings when another driver cut you off or made a rude gesture. Hopefully, you kept your emotions in check and focused on your responsibility to be safe and courteous. Similarly, a strategic thinker needs to be able to sidestep anger and other mind states that can corrupt her ability to make good decisions.

Here is a short list of other real-world-concepts that have analogies in strategic thinking:

- You have experienced well-designed and poorly-designed buildings, products, and experiences.
- You've expressed skepticism about the trustworthiness of overconfident, impulsive people.
- You've established goals and worked toward goals and objectives established by others.
- You know that scientists and journalists put much effort into discovering new truths.
- You have made plans and later revised them due to changed circumstances.
- You have applied for jobs and promotions and hired and promoted others.
- You have observed and participated in games and competitions.
- You have assessed situations while making decisions.
- You've read or listened to prognostications.
- You've made bets and investments.
- You've visited museums.
- You know stories.

None of the above are *exactly* strategic thinking, but each of them provides a useful analogy to its practice.

Learning is not solely the acquisition of new knowledge but is also the expulsion of misconceptions. Often, the biggest challenge for meaningful learners is unlearning invalid rules, tools, and

assumptions. Watch for the discussion of the confusion of goal setting and strategy, as an example.

Take your time with this book. Find the personal relevance in the examples and questions. You will be rewarded with a personal competency and mastery that will benefit you in all areas of your life.

What to Anticipate

I intend this book to strike a balance between examples and application versus principles and theory. I've kept each chapter short, aimed to use familiar terms and examples, and used graphics to illustrate concepts.

The "How to" in the title of this book is not a promise of a prescriptive, step-by-step methodology. Rather, I instruct by using frameworks and examples, knowing that your application of meaningful learning will shape your use of the tools.

The book has two parts. Part I is titled "The Nature, Purpose, and Scope of Strategic Thinking." Its nine chapters establish foundational concepts and principles, supported by real-world examples.

Part II is titled "Personal and Interpersonal Mastery." Its four chapters will help you mature your perspective and talents. The issues addressed include trust in self and others, confidence, regulating your thoughts and behaviors, influencing others, high-quality conversations, and the courage of leadership.

The book contains six appendices. In each, you'll find useful supplemental information, including unified lists of key concepts like microskills and strategic thinking landmarks.

About the Author ... and His Perspective

In the spirit of applying unorthodox ideas, I write this biography in the first person. I write with the purpose of *engaging*, rather than *impressing* the reader. I hope that you can detect authenticity in this nontraditional approach.

I've had the good fortune to work, as an employee and as a consultant, for a diverse array of organizations: fast-growing entrepreneurial companies, family businesses, large businesses, government agencies, military, universities, and nonprofit community and professional organizations. I've worked with those at the top of the organization and those on the front line.

The role of an explainer and a coach has been my most-rewarding professional activity. Like other teachers, I gain great satisfaction when the student applies her learning to make a positive impact on the world.

One of the more interesting influences on my strategic thinking is my regular participation in financial markets as a trader of options (more specifically buying and selling puts and calls). Most of those trades have been profitable, but some have not. My most important lesson has been in managing my own habits of mind.

It's also customary, with book bios, to list the author's previous publications. It's a fact that I have been published before. The most important learning to offer is that good, insightful writing reflects good, insightful thinking. If you want to improve your strategic thinking, share your ideas: write more, speak in public more, and use social media.

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* I will use the pronoun *she* throughout the book as a convention when referring to the individual. Although there are mostly males in my examples, I sincerely believe that women are fully capable of achieving excellence in strategic thinking.

PART I

The Nature, Purpose, and Scope of Strategic Thinking

PART I DESCRIBES the nature, purpose, and scope of strategic thinking. You will learn that strategic thinking is not a system of subsystems but rather a loosely integrated cluster of concepts. I suggest reading the nine chapters in order, since early chapters establish principles and examples that are further developed in subsequent chapters.

Chapter 1 (Are You Strategic?) introduces ambiguity as a fundamental challenge that is usually neglected in the work to craft strategy. I introduce the strategic-thinking narrative technique and apply it to Billy Beane and the Moneyball strategy. The narrative reveals the importance of confronting the reality of a dire situation, of being curious in seeking new strategic logics, and of coordinating the organization during implementation. The chapter concludes by encouraging readers to adopt the beginner's mind.

Chapter 2 (Cleverness) shows that using adjectives like *good* or *clever* allow you to better characterize the quality of a strategy. I return to the Billy Beane Moneyball story to show that it was clever because a relatively weak organization was able to accomplish brilliant results. I introduce one of the most popular and effective tools in the book, the five-part template for writing strategy.

Chapter 3 (Big Ideas) uses the Christopher Columbus strategic-thinking narrative to reveal essential principles of competent strategic thinking. This includes a four-pillar definition of strategic thinking, the four X-factors, and six important lessons for Columbus's success with his big idea.

Chapter 4 (Twelve Microskills of Strategic Thinking) introduces a set of specific conceptual skills. As you make the microskills of strategic thinking a habit of mind, you will improve your capacity for thinking strategically. If you adopt only one thing from this book, I recommend practicing the Ben Franklin technique to highlight and

practice one microskill each week.

Chapter 5 (Why Strategic Thinking is Rare) explains that strategic thinking is rare because individuals tend to pay attention to the map of operational thinking. The prevailing culture enhances that attention. The consequence is that operational thinking tends to crowd aside strategic thinking. The path to better strategic thinking is to orient yourself toward the navigational beacons of the core challenge, the future, and insights. This chapter introduces the microskills of devalorization and contrarianism to help you distance yourself from the map of operational thinking.

Chapter 6 (The Fuzzy Front End of Strategy) introduces the strategy funnel, which is a three-phase framework. The first of the three phases is the fuzzy front end of strategy. It involves sensing and interpreting weak signals. The strategist then practices sensemaking and synthesis, resulting in a set of beliefs about the situation. The second phase is the structured back end. It's here that the strategist identifies a core challenge, the dominating ideas of strategy, and makes strategic decisions. The third phase involves programming. It is the application of resources and methods to address that core challenge. This chapter introduces the microskills of high-quality questions and abductive reasoning.

Chapter 7 (Pockets of the Future) introduces the idea that you can find weak signals in the present that have significant implications for the future. Things that we presently consider curiosities can become dominant in future systems. You will find useful the three horizons framework for describing the dynamics of qualitative change in future systems. This chapter introduces the microskill of anticipation. Strategic thinkers must be oriented toward the future and consider their anticipatory assumptions.

Both Chapter 8 (Strategic Decisions) and Chapter 9 (The Spark of Insight) feature the strategic-thinking narrative of Lou Gerstner and his time as CEO of IBM, when he led the company's turnaround and transformation. Chapter 8 explains the criteria for strategic decisions and tactical decisions, using Gerstner's decision to keep IBM together as an example of a strategic decision. The chapter also provides another example of written strategy using the five-part model similar to that provided in Chapter 2. Insights are the secret sauce of strategy, and Chapter 9 unpacks its mechanisms. The chapter introduces the microskill of reframing and suggests techniques for increasing the

quantity and quality of insights.

CHAPTER 1

Are You Strategic?

An Introduction to the Nature, Purpose, and Scope of Strategic Thinking

The most important thing is to find out what is the most important thing.

— Shunryu Suzuki

Q: What is one characteristic of strategy that is essential to understand, yet is mostly overlooked, even by expert strategists?

A: Ambiguity

THE LATIN ROOTS of the word *ambiguity* suggest wandering, uncertainty, and multiple meanings. An example of ambiguity is found in Figure 1-1, a graphic that many know as “the young lady and the old lady.” It is one of many examples of a quaint form of graphic design known as pictorial ambiguity. Some people can only see the old lady, and some can only see the young lady. (Hints: The young lady is looking away from you, and the old lady is looking downward. The young lady’s chin is the tip of the old lady’s nose.) It takes an effort to resolve ambiguity.

Another example of ambiguity is multiple definitions of words. For example, the three-letter words *run* and *set* have meanings that can only be understood by placing the words in sentences or paragraphs. The word *strategy* itself is ambiguous. Many people define its meaning in partial ways: as the opposite of a tactic, as another name for a goal, as the steps to reach a goal, as a process tied to the organization’s calendar, as a plan, as a methodology, etc.



Figure 1-1. An example of pictorial ambiguity. Can you see the two faces?

Ambiguity is inherent to strategy. From an entrepreneur's perspective, ambiguity is the source of opportunity and competitive advantage. An example is a young Steve Jobs visiting Xerox Corporation's Palo Alto lab in California. There, he was shown prototypes of the now familiar computer mouse and graphical interface. Recognizing the potential of the technology, Jobs incorporated the ideas into Apple's new line of computers.

People get signals from all directions but don't know whether to ignore them or to attach great significance to them. Is the data in the government's report on the economy a signal that a trend is starting or ending? Is a new technology going to fizzle or disrupt? Are the signals a threat, an opportunity, or both? Will the new CEO use the same approach as she used at her previous company?

Sometimes people take time from their busy lives to consider questions like those just posed. However, most people find it more

comfortable to pay attention to those things that are simple, immediate, and unambiguous. Stated differently, most individuals (managers and executives included) cope with ambiguity by neglecting it most of the time. The reason for the neglect is obvious: ambiguity mentally taxes a person. Consider your reaction to Figure 1-1. If you're like most, once you saw one of the faces, you allowed your attention to shift to something else.

Returning to the Steve Jobs example, the top Xerox executives in headquarters could have chosen to exploit these inventions but instead focused on their existing operations. They didn't see the potential. Maybe the Xerox executives only saw one of the faces in Figure 1-1, and Jobs saw both?

Volatility, uncertainty, complexity, and ambiguity (VUCA) is a common framework used to describe the indeterminant and dynamic nature of strategic situations. (You can learn more about VUCA in Appendix A.) The strategist must consider VUCA and be able to distinguish it from conventional, goal-oriented planning.

One technique for resolving ambiguity is the straightforward practice of defining terms. Accordingly, I must next explain the meanings of two essential concepts of strategic thinking, which are the words *competence* and *strategy*.

Competence

This book's big idea is that individuals are the sole practitioners of strategic thinking, and each person practices it in a way that can be judged as competent or not. *Competent individuals have the capacity and ability to understand a situation and act reasonably.* Let's unpack the three main components.

Competent individuals have the capacity and ability to understand a situation and act reasonably.

Individual capacity. Stating the obvious, individuals are unique. Each person has her life experiences, formal education, and own stylistic approach to dealing with people and situations. People vary in the degree to which they are curious, analytical, open-minded, creative, and disciplined. Strategic thinking is a habit of mind, a mental stance reflecting the individual's perspective.

Competent strategic thinking is a personal characteristic that is independent of a person's rank in an organization. This is an empowering concept where every person in the organization can develop their habits of mind and contribute in small and large ways to the organization's strategy and operations.

The obstacles to competent strategic thinking are generally twofold: the individual's natural inclinations for mental ease coupled with the smothering effects of the prevailing culture. The neglect of ambiguity is one example of mental ease. Organizational culture is a powerful force for the status quo and a restraining force for individual initiative. It takes considerable effort to overcome orthodoxy, dogma, and mediocrity. Any individual who shows herself contrary to the norms might be subject to teasing, shaming, or ostracism.

Fortunately for the promotion of strategic thinking, progressive organizations value leadership, innovation, diversity, sound judgment, collaboration, and empowerment. Unfortunately, the traditional organization-as-machine and institutional concepts retain much power in many ongoing narratives.

Understanding the situation. The jargon phrases *tunnel vision*, *lost in the weeds*, and *silo mentality* are common in most organizations, especially larger ones. Many managers are unwittingly committed to inertia, doing things the same way that they've always been done, through habits of mind reinforced by the organization's culture. People may understand their local situation but often have an incomplete understanding of the organization's place in a more extensive ecosystem of relationships.

Acting reasonably. Figure 1-2 lists some criteria useful for determining the reasonableness of actions. A reasonable person can justify her beliefs and actions. Importantly, not everyone has the same concept of reasonableness, since ambiguity can lead to different interpretations. One person may look at a situation and arrive at a conclusion that's different from that of others. If 99 percent of people see only the face of the old lady, it doesn't mean that the 1 percent who see the young lady are wrong.

For a given situation, a reasonable person would *strive* to:

- ☑ Be deliberate and not impulsive
- ☑ Consider all relevant facts and circumstances
- ☑ Identify the advantages and disadvantages of policy choices, listening to the questions and comments of stakeholders
- ☑ Not enrich herself at the expense of others or breach fiduciary or other ethical responsibilities
- ☑ Explain the rationale for their decisions and actions to another reasonable person, if requested
- ☑ Avoid mistakes such as overconfidence and magical thinking
- ☑ Show proactive rather than reactive behaviors

Figure 1-2. Characteristics of a reasonable person.

Strategy

Asking “What is strategy?” will provoke many answers among academics and practitioners.* The idea of sustainable competitive advantage, a dominating idea of for-profit organizational strategy, is of little relevance for a startup entrepreneur, a school principal, a military field commander, a county commissioner, a pastor, or a middle manager. The template-driven practices of long-range planning used in many bureaucratic institutions is a time waster for a company operating in a VUCA world of continually-emerging opportunities.

Here is the definition of *strategy* that guides our understanding of the nature, purpose, and scope of strategic thinking:

Strategy is a specialized tool used to advance the interests of the organization by managing issues that have a broad and long-term impact.

This definition of *strategy* is broadly applicable to any organization: big and small business, the military, the government, nonprofits, political campaigns. It’s appropriate for bureaucracies and for entrepreneurs. It’s relevant to explaining the actions of any organization throughout history.

The following four main ideas characterize strategy:

- The first main idea is that strategy is a specialized tool. As a specialized tool, strategy is appropriate for some situations and not for others. Strategy's primary concern is fitting the internal resources to the situation of emerging, significant opportunities and threats. The need for strategy arises from dynamic change in the external environment.
- The second main idea is the premise that all organizations (businesses, governments, nonprofits, militaries, charities, churches, schools, etc.) have interests. For example, a school's interests could include educating its students and fostering a more productive and civil community. Many businesses have obligations to shareholders but also intend to contribute to society's interests. Interests can and do change, sometimes deliberately, but sometimes they drift in a new direction on their own, unrecognized by stakeholders.

Strategy is practiced to advance the interests of the organization.

- The third main idea is that managers must confront issues in order to advance the organization's interests. The concept of an issue can include exploiting opportunities as well as mitigating threats. An essential task is to scan for weak signals and determine the need for further action. The issues may be present-moment battles, or things that loom with future significance. After the issue is identified, it's characterized, prioritized, and resolved by making decisions and applying resources.

This focus on confronting issues and advancing interests is usefully reinforced by this simple, powerful concept of strategy taught in the U.S. Army War College:

Conceptually, we define strategy as the relationship among ends, ways, and means. Ends are the objectives or goals sought. Means are the resources available to pursue the objectives. And ways or methods are how one organizes and applies the resources. Each of these components suggests a related question. What do we want to pursue (ends)? With what (means)? How (ways)?

In the next chapter, I apply these concepts of issues and interests and their relationships with ends, ways, and means and show how to write strategy.

- The fourth main idea characterizing strategy is that some organizational issues have broad and long-term impacts and other issues don't. This fourth main idea reinforces the first, that strategy is a specialized tool. The issues that are narrower in scope and more day-to-day are usually better handled through operations management, as discussed in the next paragraphs.

Run the business or change the business? I earlier wrote that strategy was a specialized tool for appropriate situations. The inappropriate situations for using strategy are ongoing operations.

A person working in operations is *operating* a system to deliver results to its customers. A person with an operational focus typically attends to short-term, narrow issues and relies on the managerial tools of goal setting, budgeting, delegation, prioritization, benchmarking, and continuous incremental improvement. Productivity, optimization, and stability are salient values.

In contrast to operations and its emphasis on "running the business," strategy focuses on "changing the business." Stated differently, operations involves working "in" the organization whereas strategy involves working "on" the organization's fit with the external environment.

Balancing action and conceptualization. You can easily find, especially in entrenched operations, people who are openly dismissive of abstract concepts such as the future, competitive fit, or insight. Jerry Rhodes observes, "There is a die-hard attitude that still survives in many managers that thinking smells of the abstract and must be the enemy of action." They are the people who buy and gift things such as the coffee mug in Figure 1-3 that boldly pronounces, "We have a strategic plan. It's called doing things." They are the same people who will say, as an excuse for narrow framing and a short-term orientation, "I'm too busy to think about anything other than what's right in front of me."



Figure 1-3. An example of celebrating action over thoughtfulness.

There are undoubtedly good reasons for valuing action, practicality, and simplicity. However, some managers are impulsive, dogmatic, stubborn, and lazy. There must be a role for thoughtfulness and nuance, and elevating these values enhances the cultural embrace of strategic thinking.

Setting the agenda. Numerous broad and long-term strategic issues originate externally to the organization. There are also issues related to the internal capabilities, resources, and aspirations of the organization. Which issues are worthy of being placed on the organization's agenda for action?

Top management has essential responsibilities for shaping the strategic agenda. One responsibility is to participate in, champion, and sponsor the search for weak signals. Ideally, all members of the organization are encouraged to be curious. With more eyes engaged in scanning the internal and external environment, the organization has available more potentially useful information for its strategy. Ideally,

each person also understands the issues and how her contributions align with strategy and with operations. When it's time to launch a new strategy, people are better able to understand the rationale for the strategy.

A second responsibility is to determine the organization's core challenge and help stakeholders understand that core challenge.

Third, top management must make the essential decisions about where to focus scarce resources. With this responsibility, top management also has a critical governance function to help guide the decentralized execution of its policy decisions.

While strategy requires a certain amount of centralization in decision making, strategic thinking is not the exclusive responsibility of a "strategic level." Anyone can think strategically, and if empowered, anyone can act strategically, too. And, as part of a virtuous loop, strategic thinking increases individual empowerment, and empowered individuals are more apt to want to think strategically.

Strategy and Strategic Thinking in Action

Good examples of strategic thinking are easy to find in popular media, history, sports, political campaigns, and elsewhere. The movie and book *Moneyball* is a story about a brilliant strategy developed by an unorthodox leader willing to challenge conventional beliefs. The movie opens with a challenge to Billy Beane, the general manager of the Oakland A's professional baseball team. The team is under new ownership, and the new owners are unwilling to continue absorbing financial losses. The owners tell Beane to reduce his payroll.[†] But he must also find a way to field a winning team.

Since some readers may not know (or care) much about the business model of American professional baseball, a little background will help to explain why Beane innovated the *Moneyball* strategy. The essence of the game is a contest between the pitcher and the batter. The pitcher throws a ball to a target with velocity and curving movement and the batter swings to hit the pitched ball. If the batter successfully makes contact and places the ball into the field of play, the defensive players attempt to execute a play to keep the batter from taking a position on the base. Each pitch, each swing of the bat, and each struck ball influence the outcome of the game.

The game has many traditions. Since the game's origination in the

19th century, scorers have constructed a set of metrics, such as runs batted in (RBI). Those indicators became part of the lore of the game and a basis for making business decisions in negotiating contracts. Management pays high salaries to players with high RBIs.

There is a significant disparity between the financial resources of each professional team. This is because some owners have more financial wealth than others, some local markets are more loyal than others, and some teams have a national following as well as a local market. A few so-called superstar players can negotiate and receive extraordinarily high salaries, many multiples better than average players. If the rich teams overpay, they seem not to care; they're rich.

Given the new owners' budget restrictions, the Oakland A's were unable to compete in the marketplace for superstar talent. Their best players obtained lucrative contracts with richer teams such as the New York Yankees or the Boston Red Sox.

Billy Beane believed that his rivals were not valuing talent correctly, and that he could exploit his better knowledge. A growing body of evidence showed that traditional indicators, such as RBI, overvalued the contribution of the hitter and undervalued luck and other factors beyond the hitter's control. His insight was that conventional indicators influenced teams to overpay their talent. In other words, the marketplace for baseball talent was inefficient. Beane wanted to exploit his rivals' ignorance (or their complacency; it's hard to tell the difference). His policy was to secure the contracts of undervalued players and deal away overvalued players.

Oakland's Moneyball strategy was effective and produced an exceptional result: over a multiple-year period, Oakland won more regular season games than any other team (except the Atlanta Braves) and reached the playoffs several years in a row. They did this with the lowest payroll in the industry.

The strategic-thinking narrative for Billy Beane and the Oakland A's organization reveals several lessons for good strategy, which are applicable to many other situations and organizations. Here are seven:

- **They recognized the reality of their situation.** Their rivals had comparatively immense resources. If the Oakland A's used conventional thinking, they would have little chance of being successful. A line from the movie captures the requirement for unconventional (strategic) thinking, "If we think like the Yankees in here [referring to a competitor and the criteria for

drafting players], we will lose to the Yankees out there [on the playing field].”

- **They found and applied insights.** Building off the hypothesis that the marketplace for baseball talent is inefficient, Oakland expanded the use of sabermetrics, the empirical analysis of in-game activity in baseball. Sabermetrics originated with a group of hobbyists who played fantasy baseball (also called Rotisserie leagues). The owners of these fantasy teams would compose teams based on actual players, and then compete based on the real players’ actual performance on the field. Sabermetrics, with 20 years of publications, was not a secret weapon. Any of Oakland’s rivals could have exploited it.

This outside-the-mainstream innovation provided specific, actionable insights that allowed Oakland to construct a new competitive logic.

- **They developed a new set of dominating ideas.** Some ideas are more important than others, and a new strategy is a configuration of elements. For Oakland, the dominating ideas included these: nontraditional statistics could model a player’s performance, the average player usually performed to his statistical average, the market for talent was inefficient in that rivals were willing to overspend for performance, and shrewd negotiation could acquire undervalued talent.

The logic of baseball offense is straightforward: the presence of a runner on base increases the likelihood of scoring runs, and the more runs scored, the more games won. Oakland’s strategic logic emphasized getting the maximum offensive productivity possible for the minimum payroll dollar. Their premise was that getting runners on base was the key to winning games. In their model for the 2002 season, they estimated that scoring 800 to 820 runs would allow them to win between 93 and 97 games. To achieve this offensive productivity, they emphasized finding and coaching players to get on base and score runs. The most straightforward means to this strategy was to find players with high on-base percentages, subject to a design constraint of payroll affordability.

A new strategy has a new dominating idea that organizes its logic.

The dominating ideas of the Moneyball strategy stand in contrast to the traditional approaches: scouts assess the talent, managers organize the players on the roster, a player's salary reflects his productivity.

The emergence of new dominating ideas implies that any given strategy may have a short shelf-life. Conditions change, causing misfit, and internal capabilities develop to yield new advantages.

- **They decided what they were going to do and, importantly, not do.** Oakland decided that they were not going to contract highly-paid superstar players and would instead apply their limited payroll to undervalued hitters. A strategy's power comes from coherent design: it's the focus on certain leverage points and the willingness to stop doing traditional activities that don't support the new strategy. A good strategy is a systematic, orchestrated, coherent effort by the entire organization.
- **They used data to suppress cognitive bias.** The prevailing system in Major League Baseball placed much power in the ability of professional scouts to judge the potential of a prospective player. Most scouts worked intuitively, many of them holding to the illusion that physical appearance is predictive of the player's ability. Oakland's strategy included a belief that empiricism was a better predictor of performance than subjective intuition.
- **They placed smart bets.** A good strategy is a bet or a series of bets. Some bets may pay off, and some may not.

Each of Oakland's unconventional trades was a bet, testing the idea that a team could measure productivity as a function of payroll expense and configure a productive offense at minimum cost. Many of those resource-configuration bets were failures, but some paid off spectacularly.

The Moneyball strategy itself was a bet that a new dominating idea could prevail. Over time, and with continuous experimentation, Oakland improved its understanding of performance and gained an advantage.

- **The strategy was novel.** The Moneyball strategy did not emerge from writing statements of mission, vision, and values. The strategy didn't originate with facilitated organizational retreats, budgeting, and SWOT* brainstorming or other so-called best

practices of strategic planning.

One lesson of this strategic-thinking narrative is the unique perspective of an individual. Billy Beane was not from an elite educational background (he skipped college to accept a professional baseball contract). His success came from sound principles: he confronted the reality of his situation, he was curious and opportunistic, he developed a unique commonsense, he looked outside of conventions for new ideas, and he leveraged his resources and his know-how.

The Moneyball story is well known. Many writers commonly use it as an example of the potential of technology: big data, data mining, and analytics. The strategic-thinking narrative is an alternative theme, which is that a good strategy's roots are with individuals who perceive the situation more accurately than others. Good strategy has its origins in the fairly prosaic activities of scanning the environment, noticing curiosities, analyzing with a skeptical eye, deliberating with others on the situation, and designing a path forward. However, it's also a matter of luck and placing yourself where you can benefit from the emergence of opportunity.

Good strategic thinkers are skeptical of conventional management wisdom, borrow external ideas and innovations, and construct new strategic logics. I regularly hear people who exalt the idea of leadership vision, and cite as examples the genius of Steve Jobs and more contemporary business leaders such as Mary Barra, Elon Musk, and Jeff Bezos. There's much to admire about these people, but they're not freaks of nature. They're not seers who predict the future, nor are they wizards who magically create it. A more accurate story is that they're reasonably intelligent people who are open to novel ideas, are opportunistic, and focus on the essential actions needed for future success.

The worlds of strategy and leadership have many tropes,[§] and it's important to be skeptical of them. Conventional thinkers prefer neat, compact stories. They like to attribute outcomes to a person's character or as a supernatural gift of vision. The hard work of analysis and reframing are much better explanations for the sources of good strategic thinking.

You'll see other examples of strategic thinkers in this book, and I encourage you to search for them in movies, books, and your own life. An individual who holds a nuanced understanding of the situation and

is willing to make tough choices about focus is more likely to craft good strategy.

How to Construct a Strategic-Thinking Narrative

The strategic-thinking narrative is a useful tool for understanding the creation of strategy as a competent response to a situation. The idea is straightforward. First, find a real-world example of organizational success or failure. Questions like this can help you identify the main elements:

- Who are the main and supporting characters?
- What is the context for the story?
- What is the core challenge they face?
- What are the tensions?
- What insights did the characters acquire?
- What decisions did they make?
- How did they experiment and adapt?

You can discover a narrative of strategy in every story of success or of failure.

Answers to these questions provide a useful deepening of understanding about the source of the strategy. For example, the Moneyball strategy did not spring into Billy Beane's mind fully formed. Billy Beane was exposed to sabermetrics ideas years earlier by his predecessor general manager at Oakland, Sandy Alderson. Going back further in time, sabermetrics approaches predated the events in the movie by at least 20 years. If Billy Beane was the father of the Moneyball strategy, Alderson was its grandfather. Bill James, who started writing about baseball statistics in the 1970s, was its great-grandfather. Like many other innovations, much time passes between the initial development of a good idea and that idea's fully realized benefits.

Are You Strategic?

Many people have been told in their performance reviews, "You need to be more strategic." With a definite tone of frustration in their voices, they ask, "What do you mean *be more strategic?*"

The phrase *be more strategic* likely was not meant to invite the person to participate in developing enterprise strategy. The speaker more likely intended it as an instruction to enlarge one's perspective, to be less absorbed in their specialized daily work, and to coordinate their efforts with the efforts of others, including sacrificing their personal efficiency to serve the broader interests of the organization.

Strategic things ought to be connected to strategy and not status.

In this sense, a person who is more strategic holds a more systematic view of the organization and its fit with the external environment. She has learned the structures and disciplines that characterize her organization and its context of stakeholders, suppliers, regulators, and the like. With this knowledge, she is able to more adroitly coordinate her activities with others.

As an adjective, the word *strategic* is often used as a decoration – for example, strategic leadership, strategic plans, strategic decisions, and strategic markets. Mostly, when people use *strategic* as an adjective, they are signaling their opinion of the importance of the noun being modified. Used this way, the adjective *strategic* is self-indulgent, and many people use it to advance their personal status within the organization.

Most organizations have too many strategic things, a cacophony of goals and aspirations in competition with each other. The indiscriminate use of the adjective *strategic* adds to the ambiguity and doesn't reduce it. Ideally, the adjective *strategic* should link to the organization's strategy, and ideally the organization's strategy should be good and not bad.

Emptying the Mind of Preconceptions

The knowledge and experience that have served you well in the past might anchor you to no-longer-relevant stories and conventions, causing you to neglect new learnings. Your intuition might make you complacent.

Adopt the ideas of Shoshin as a preferred approach to learning to think strategically. Shoshin is the Zen Buddhism concept of encouraging a beginner's mind, which is a mindset that resembles a child who is discovering something for the first time. Your beginner's

mind is enhanced when you:

- Let go of rigid distinctions of what is right and wrong
- Eliminate expectations of what will happen
- Fill yourself with curiosity to understand more deeply
- Open yourself to new possibilities
- Ask simple questions
- Are open to possibilities

To learn to think strategically is not an exercise in rote memorization. It's not stuffing your memory with a stack of facts about strategic frameworks and best practices. Instead, you cultivate an enthusiasm for the undiscovered and novel. You're optimistic that someone can find a better way of doing things, and you know that step jumps can be better than incremental improvement. Start by emptying your mind of preconceptions and recognize the presence of ambiguity.



This chapter has introduced you to several important ideas about the nature, purpose, and scope of strategic thinking. It started with the underappreciated presence of ambiguity and concluded with a call for Shoshin. Along the way, I defined several essential concepts relating to competent strategic thinking.

In the next chapter, I more closely examine ambiguity as it affects strategy, goals, and plans. I take Chapter 1's explanation of strategy as the inter-relationship of ends, ways, and means and use that to explain cleverness and to distinguish goals and plans from strategy. Finally, I examine the crafting of strategy and review a written statement of Oakland's Moneyball strategy.

* There are many schools of thought on strategy. This definition of strategy is consistent throughout the book and coherently supports a model of strategic thinking as an individual competency.

† The movie captures the essential narrative of the use of Moneyball as a strategy, although it does deviate from the book in many important ways. My paraphrasing combines the events from the movie and the book.

‡ SWOT stands for Strengths, Weaknesses, Opportunities, and Threats.

§ We use the word *trope* in the sense of a common and over-used theme or tool of

rhetoric.

CHAPTER 2

Cleverness

Strategy is a Crafted Approach of Fitting Resources to
the Nuances of a Situation

Hope is not a strategy.

— Vince Lombardi

IT'S NATURAL TO SAY, “This is a clever child,” and less natural to say, “This is a clever adult.” The word *clever* implies that a person is creatively leveraging her resources to gain an advantage over a rival. With that characterization in mind, consider these three statements:

- The Oakland A’s had a clever strategy.
- The Oakland A’s had a clever goal.
- The Oakland A’s had a clever plan.

To what extent does each statement make sense to you? For me, the first statement is perfectly sensible because Oakland’s players were undervalued by others, yet they were configured in a way that led to sustained high performance. On paper, Oakland’s team was unexceptional. But despite their apparent weakness, they generated a superior record of competitive performance.

The second statement associating cleverness with goals seems odd, maybe nonsensical. This reveals a profound obstacle to good strategy and competent strategic thinking, which is people’s tendency to confuse goals and strategy.

A strategy can be good and clever, or bad and stupid.

The third statement is subject to the ambiguity of the word *plan*, which people often use to mean a coordinated approach to the challenge. The strategic-thinking narrative of Billy Beane reveals that

he was curious about the potential of sabermetrics, skeptical of the intuitions and habits of baseball scouts, and willing to experiment to discover better methods of acquiring and using resources. Considering those elements, it's appropriate to declare that Oakland had a deliberately conceived, clever plan.

People sometimes use the word *plan* in the literal sense of a document. Many strategic plans are wish lists of the organization's goals and objectives. The authors often add graphics of favorable trends and pictures of smiling people and soaring eagles to create an illusion of achievement. Too often, they neglect the essential issues and choices for the organization.

Cleverness as the Integration of Ways, Means, and Ends

In Chapter 1, I shared the U.S. Army's definition of strategy as a relationship between ways, means, and ends. It's an excellent framework for helping people find a useful amount of rigor about what strategy is and how it works. The word *relationship* is the most important concept, because *it is the relationship between ways, means, and ends that gives strategy its power.*

A strategy has a less-powerful punch when it's disintegrated. Many managers overlook the word *relationship* and focus on one of the elements. For examples of disintegration, some will tell you that strategy is a statement of vision (they're focusing on the *ends* statement). Others will tell you that strategy consists of the steps toward the goal (they're focusing on the *ways* statement). Yet others regard strategy as a matter of budgeting resources during an annual planning cycle (they're focusing on the *means*).

Here are two examples of the incomplete view:

- **Top executives.** The typical pattern for top executives is to exchange the word *strategy* for *goals*, such as, "Our strategy is to internationalize," or "Our strategy is to cut costs," or "Our strategy is to be the industry leader." Statements like these focus on the ends of strategy and ignore the ways and means.

Many people like to include visioning and vision statements in their strategy work. Many subscribe to the value of a "visionary leader" who describes a future state. These are simple and attractive ideas because the vision can establish a direction

and motivate people to apply extra effort.

For contrast, former IBM CEO Lou Gerstner declares that, “in and of themselves, [vision statements] are useless in terms of pointing out how the institution is going to turn an aspirational goal into a reality.” He even goes so far as to criticize vision statements as “truly dangerous” because they create a comfort and confidence that’s not backed up by a commitment of resources and a logic for making progress. (Gerstner has the experience of being a CEO of several organizations. We examine his time at IBM in Chapters 9 and 10.)

I emphasized the word *how* in the preceding paragraph to stress that a strategy is hollow if it doesn’t identify the resources, commit those resources, and provide guidance for configuring those resources to pursue that strategy. Resources are finite. Managers must make difficult decisions about what the organization is going to stop doing or which opportunities it can’t afford to pursue. Strategy is more than declaring goals and setting a vision.

- **Project managers.** Managers who are assigned goals often use the word *strategy* to mean the steps (the ways) to achieve the top manager’s vision (the ends). Their goal is to determine the optimal sequence of actions to accomplish that goal.

When I hear *strategy* defined as the steps to get to a goal, I’m reminded of standing in the checkout aisle at the grocery store perusing the covers of magazines that have teaser headlines such as, “Five strategies to get a flat belly,” or “So-and so’s strategies for sinking long putts.” The articles describe techniques, tips, and hacks.

Use the word goal when you are referring to a targeted outcome. A good strategy is not a goal, nor is it the steps to reach a goal.

I prefer to use the word *programming* (and not *strategizing*) to describe the activity of combining techniques with resources for the purpose of accomplishing goals. I also find it helpful to keep this question in mind: What if the assigned goal is illegal, impossible, or poorly thought out?

It’s an unfortunate shortcut when people oversimplify to define strategy as a target (the ends), or in other cases, the steps (the ways)

Figure 2-1 provides a general template, structured to describe the organization's beliefs, choices, and adaptations. There are five numbered statements that serve as a preamble for introducing each part.

1. **The collective interests.** Oakland's interests could be stated this way (the first preamble):

Our interests, as the Oakland organization, include ... fielding a successful team and supporting our community. Our owners are important stakeholders and have established budget constraints that limit our ability to outbid our wealthier competitors for baseball talent.

It's worth noting that an organization's interests can change with the arrival of new ownership, new management, new governance, new rivals, new regulations, and changes in technology and social trends. Too, events can overtake the organization. As an example, during the time I was writing this book there were weekly controversies involving firearms rights, sexual harassment, and race relations in the United States. High-profile organizations found themselves making important choices and pronouncements clarifying their interests and policies. It was common to hear executives, as well as politicians, say, "My thinking on this matter has evolved."

Beliefs

1. Our interests, as an organization, are the following ...
2. Given our interests and circumstances, we believe ...
3. The core challenge for our organization is ...

Choices

4. Given our interests and diagnosis of the situation, we choose to ...

Adaptations

5. Given our centralized choices about the direction and focus of the organization, our decentralized execution involves ...

Figure 2-1. A five-part template for writing strategy, originating from collective beliefs, choices, and adaptations.

The identification of interests provides an opportunity to challenge assumptions about fundamental values and the organization's place in a larger network of stakeholders.

- 2. The collective beliefs about the context, situation, and issues.** The next part of writing strategy describes the context for the strategy and the group's underlying justified knowledge.

Given our interests and circumstances, we believe that:

- We are at a competitive disadvantage to our rivals.
- The talent market may be inefficient. We believe that we have advantages over rivals in evaluating talent.

The above is not a comprehensive list. Further, it isn't likely that there would be a widespread agreement with the "we believe" part of the preamble. Gaining agreement is one of the tough challenges of strategy and is a topic we'll explore in Chapter 12.

Much of the development of good strategy involves testing beliefs. More specifically, the strategist will develop a hypothesis, collect data, and evaluate the data. For the Oakland example, if the market is inefficient, then the organization's challenge is to discover methods to exploit that inefficiency.

- 3. The collective beliefs about the core challenge.** A core challenge is the biggest issue (threat or opportunity) facing the organization. It's the stimulus for undertaking the development of strategy. I state the core challenge for Oakland as follows (the third preamble):

The core challenge for our organization is ... that we are in a weak position, compared to rivals, because we are a small-market team with a constrained budget for resources. The presence of inefficiencies in the market for baseball talent provides us an opportunity to recruit affordable talent, enabling us to field a winning team.

The recognition of a core challenge is a crucial element of strategy. Since strategy is defined as a specialized tool for issues management, the crucial task for the strategist is to articulate

the specific nature of the opportunity or threat facing the organization. I explain more about the core challenge in Chapter 6.

4. **Choosing the ways to configure the means.** Strategy involves a stream of aligned, reinforcing decisions through the organization. I use the phrase *we choose* to qualify each object.

It's helpful to understand those choices regarding the previously used concept of strategy as an integration of the ways, means, and ends. I have indicated the ways and/or means in brackets to help clarify the impact of the decisions.

Here is the fourth preamble applied to Oakland:

Given our interests and diagnosis of the situation, we choose to:

- Emphasize offensive performance over defensive performance [ways].
- Emphasize a logic of high on-base percentage leading to a targeted number of runs leading to a targeted number of wins [ways].
- Recruit talent based on our forecast of their performance and their affordability [ways and means].
- Not recruit highly-paid free agents [ways and means].

I made a simplifying assumption that Oakland's goal was to win as many baseball games as possible. Accordingly, I identified the ways and means but not the ends. As you give thought to your own situation you should consider the broadest set of success criteria, including examining the ends statement.

Note that the fourth bullet point is an exclusionary statement. Limited resources (means) are a fact of life. Managers need to make choices (ways) about what to do and not do. A good strategy is one that focuses resources on the essential levers of power. A bad strategy is one that is unfocused and fails to address the real world of limited resources.

5. **State the adaptation of the organization.** The fifth preamble for writing strategy is this:

Given our centralized choices about direction and focus, our decentralized execution involves:

- Focusing research on college players rather than high school players.
- Positioning players in the lineup to maximize each player's probability of getting on base.

- Experimenting with reassigning players from one position to another in order to leverage the player's hitting prowess (for example, training a catcher to play first base.

This fifth part of the template helps us to understand that strategy involves policy choices that shape decisions made at the front lines of the organization.

In contrast to establishing and communicating goals, executives provide policy guidance in combination with resources. A good strategy recognizes that front-line managers have more expertise in some specific part of the organization. Empowered lower-level managers make better choices if they understand the interests and beliefs that frame the strategy.

Sometimes the top managers must use formal power associated with their position to compel others to act against narrower, personal interests. An example is the diminished decision-making prerogatives of Oakland's field manager.

Crafting Strategy

If *clever* is an appropriate adjective for describing how strategy functions, the word *crafted* is a good verb for characterizing the act of developing it. Picture a woodworker crafting a table or a potter crafting a vase. She balances two guiding ideas in her mind: the general shape of the goal (e.g., table or vase) and the properties of her materials. She does not exclusively fixate on the goal, nor does she exclusively focus on her materials. She imagines a combination, a fit, of the function of the object and the properties of the materials. She iterates and experiments.

It is better to say that "strategy is crafted," rather than "strategy is planned."

Billy Beane's multiyear work with the Moneyball strategy shows many parallels with the crafting analogy. The early Moneyball practices were simple. They evolved, with experimentation, into a more-refined and sophisticated strategy.

Another example of craftsmanship in strategy is the development of 3M's Post-it Notes. The story starts with a researcher, Spence Silver, who developed a substance that he called microspheres. These

microspheres had unique physical properties (they were weak adhesives). Silver's genius was in noticing the interesting properties of the microspheres and in his drive to search for a potential application. Silver persevered even when his bosses discouraged him. Success came years later when Silver's colleague Art Fry made an insightful connection that the microspheres could be coated onto paper and used as a placeholder in documents.

There are three more essential points in this strategy-as-craft analogy. First, strategy has raw materials: beliefs, bets, dominating ideas, insights, strategic resources, actions, and choices. Second, just as a vase functions as a container, strategy functions to advance the interests of the organization and manage issues. Third, strategy evolves from simple experiments to more-elaborate programs, just as techniques of craftsmanship evolve from crude to sophisticated.

The Sharpness Theorem

"The real challenge in crafting strategy," writes Henry Mintzberg, "lies in detecting the subtle discontinuities that may undermine a business in the future. And for that," he continues, "there is no technique, no program, just a sharp mind in touch with the situation." Mintzberg's idea of "a sharp mind in touch with the situation" echoes my assertion that a competent person is one who understands the situation and acts reasonably.

Let's unpack three important ideas.

A competent strategic thinker is a sharp mind in touch with the situation.

Organizations will be undermined in the future. Very few established organizations sustain their power and leadership. Evidence of undermining is easily found in business, such as the turnover of membership on the Fortune magazine list of largest corporations. Moreover, loss of relevance can also be seen in schools, churches, communities, and not-for-profit organizations that were once vibrant and are now shuttered or are making little impact.

External environments are always in flux, and leaders of these declining organizations find it easier to focus on operations (that is neglect the ambiguity of the situation) and their personal aspirations.

We can confidently predict that the future of today's successful organizations is to face significantly different conditions. We can also predict that some institutions will fail to effectively respond and will lose power and relevance.

Detecting subtle discontinuities is the *real challenge of strategy*. A discontinuity is a deviation from expectations. It's a weak signal that may (or may not) grow into a force that alters the future of an organization.

Specific discontinuities are not predictable. One may emerge at a specific time and place. Or it may not. Once a discontinuity emerges, there is no way to know whether there will be a significant impact or not. This is true whether we're considering an economic bubble, new technology, or legislation. Some individuals sense the implications of the discontinuities and some do not.

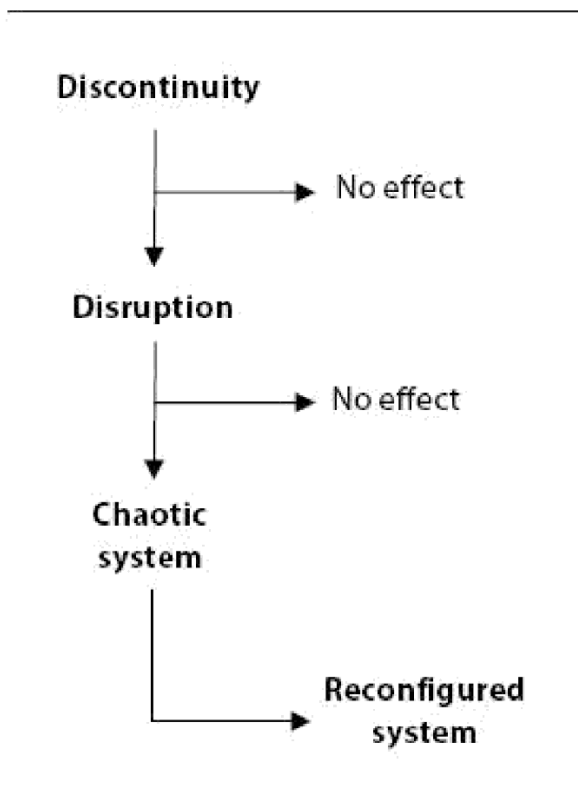


Figure 2-2. A discontinuity may (or may not) trigger a chaotic, large-scale effect.

Figure 2-2 presents a general model of the life cycle of a discontinuity. Imagine an offshore earthquake as an example of a discontinuity. The average person is unlikely to notice a subtle occurrence. Perhaps the earthquake causes a disruptive tsunami, but perhaps it has no effect. Let's assume that it causes a tsunami and that the tsunami crashes into a populated area and disrupts normal life. Chaos ensues. What new norm will appear in the reconfigured system?

Disruptions seldom destroy systems. For example, even though both World War I and World War II were devastating, new political and economic orders emerged that retained certain legacy elements of the incumbent systems and added innovations. Systems have various degrees of brittleness or resilience. When the system is disrupted, the emerging replacement can be quite different, such as when mammals became the largest land animals after the mass extinction of dinosaurs.

It's worthwhile to note that an earthquake doesn't instantly cause a tsunami, nor does a tsunami immediately cause destruction. Delays characterize any dynamic system. Further, the impacts might be severe, or the impacts might be insignificant.

Avoiding idealized best practices and methodology. Mintzberg asserts that "there is no technique and no program" for detecting discontinuities. This third part of the sharpness theorem contrasts with the preferences of many linear thinkers. It serves as a warning to strategic thinkers to avoid reflexive desires for methodology, such as using a formal set of strategic-planning templates.

The metaphor of organization-as-machine is longstanding, but it is also obsolete. There's not one best way to approach an ill-defined issue in a dynamic environment.

Best practices are not suitable for uncertain environments.

Instead, the best approach for crafting strategy is a sharp mind in touch with the situation. It echoes this book's big idea about the importance of individual competency in strategic thinking.

How Does Dullness Arise?

Oakland's Moneyball strategy was the result of a sharp mind in touch with the situation. Consider, though, that its rivals could have

independently developed and tested the hypothesis that the market was inefficient. Stated differently, why were Oakland's competitors dull, and what lessons does the answer offer?

The answer is that individual managers of Oakland's competition were subject to their own minds' predispositions for mental economy and ease. Oakland's competitors had access to the same sabermetrics methods and data. They were lax, whereas Billy Beane felt the insight borne of creative desperation.

There are at least three tendencies that foster dull strategic thinking.

People are dulled by their routines. Karl Weick and Kathleen Sutcliffe's excellent book, *Managing the Unexpected*, explains how organizational routine dulls people's ability to notice warning signs and changes in context. They explain that people operate on mental autopilot. In this condition of mindlessness, they see the familiar rather than the unfamiliar, and they categorize events with old labels. They are out of touch with their situation, yet their intuition gives them a false sense of security. They become overconfident and lax.

People build stories out of events. Most people tend to interpret their experience as a series of events. Consider this daily-life example: You see a broken window, a ball lying on the ground below it, and a group of children playing nearby. Your mind naturally tends to associate things that are proximate with each other (broken window, ball, children) and construct a plausible story: The children threw the ball that broke the window. People easily generate explanations and have confidence in those explanations. They don't need all the facts. The story can change with new information (the neighborhood has had a series of burglaries, or an earthquake recently struck the area). However, people are reluctant to alter already-developed stories.

Murphy's Law is a call for alertness, not a dour expectation of dystopia.

Event-oriented thinking (or linear thinking) reflects the mind's tendency to create simple stories of proximate causes and effects. When people pass around stories that are simple explanations of "who did what to whom" or "sales are down, so we lowered prices," they are practicing event-oriented thinking.

People, managers included, tend to react superficially to events instead of having a more subtle, nuanced understanding of systems behaviors over long periods of time. Most people remember the famous Murphy's law this way: *If it can go wrong, it will*. The source is Edward A. Murphy, an engineer tasked with improving airplane cockpits. Many people tend to see Murphy's Law in a pessimistic way.

In systems language, an airplane cockpit is a loosely-coupled system with multiple interactions between elements, such as the delay between cause and effect. It requires effort and expertise to understand complicated and non-linear systems. Murphy's law is not a dour and cynical view of the future. Ed Murphy was advising us to be alert for the early, weak signals of discontinuities that might lead to threat or might lead to opportunity. The better lesson is that when you find yourself in a complex situation, mentally process it this way: *If something can happen, sooner or later, it will*.

Aspirations drive goal setting. Goal setting is typically a form of event-oriented thinking where a person's aspirations become her most-salient mental anchors.

Imagine a typical, busy manager reviewing a forecast of the next month's revenues. She concludes, quickly and without deep thought, that the organization can do better. Her quick mental comparison of the situation and aspirations yields her goal.

Figure 2-3 illustrates how event-oriented thinking guides goal setting. The manager feels the pressure of limited time. Her mind *easily perceives* two things: her readily available data and her aspirations. The mind prefers information that is readily available and then makes the best use of it that it can. (This mental action will be explained in more detail in Chapter 11 as the *availability heuristic*.)

For contrast, strategic thinkers practice broad framing, which is the search for and consideration of additional information. This can include general economic conditions, existing and emergent competition, social trends, technology, and natural events. Sometimes those signals increase in salience and contribute to disruption. Sometimes not. Certainly, the effort to broad frame can consume too much time for people who already feel the pressures of the day-to-day. On the other hand, to neglect weak signals is to risk increased exposure to an emerging threat or miss an emerging opportunity.

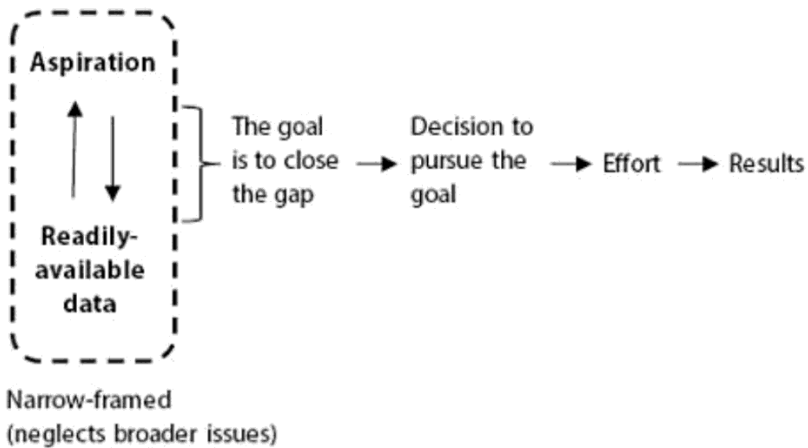


Figure 2-3. Many people tend to narrow frame and set goals.

Advice for Clarifying Goals and Strategy

A competent strategic thinker is curious and asks questions. She is alert for the mistaken substitution of goals for strategy. Here’s an example of how a more junior person could interact with a more senior person:

Top executive: “Our strategy is to launch 20 new products in the coming year.”

Project manager: “That’s a very interesting goal. What’s the thought process behind the establishment of that goal?”

The project manager’s response is subtle. She hasn’t compounded the mistake of substituting goals for strategy and has correctly recognized that a goal is another name for a target or end.

Her question avoids a confrontation over the semantics of definitions of *goal* and *strategy*. Also, it creates an opportunity for a more-productive discourse about the organization’s strategy. (Strategy-as-conversation is a topic for Chapter 12, and the courage to confront reality is a topic of Chapter 13.) That discourse might include discussing questions such as the following:

- Are the ends reasonable, given the means available?
- Given the means available to us, if we were clever, what ends

might we be able to achieve?

- What are the tradeoffs?
- How might a competitor use cleverness to gain an advantage over us?
- Have our organizational interests changed?
- What issues are we trying to address?

Rather than focusing on goal setting, a competent strategic thinker looks more broadly and deeply for meaningful signals. Strategy, as defined in Chapter 1, is a broadly applicable construct that fits government, business, and charities. The search for good strategy encourages us to answer this question: What are the potential combinations of ends, means, and ways to advance our interests?

Adjectives tell you something important about strategy. I encourage you always to have an adjective to associate with the word *strategy*. For example, use the adjective *clever* to describe a configuration of ways and means of strategy (a clever strategy) that results in a relatively weak competitor gaining the advantage.

Another example is the use of the adjective *good*, which is explained in Richard Rumelt's excellent book, *Good Strategy, Bad Strategy: The Difference and Why it Matters*. Good strategy has three distinguishing characteristics: a diagnosis of the situation, a set of essential choices (called guiding policy), and coherent action in the organization to pursue those essential choices. Good strategy is mostly the hard work of identifying and solving problems and exploiting opportunities. Rumelt explains that a bad strategy is one that's all about desired performance outcomes. Bad strategy is "a stretch goal, a budget, or a list of things you wish would happen."

Everyone wants to have a strategy that's clever or powerful or good or effective or brilliant or nuanced. Similarly, no one would be satisfied if her strategy was labeled stupid, weak, bad, ineffective, dull, or generic.

Adjectives also tell you something about strategic thinking, which is why I've chosen to associate the word *competent* with the individual strategic thinker. I encourage you to assess the individuals around you: Are they sharp minds in touch with the situation? Are they acting reasonably?

A competent strategic thinker is more likely to craft good strategy. An incompetent strategic thinker is more likely to craft bad strategy.

Strategic Thinking's Three Literacies

We would expect a literate person be able to read and write and to have a working knowledge of the use of verbs, nouns, adjectives, adverbs, and so forth. We would also expect her to be able to distinguish broader concepts, such as the difference between a book of fiction and a book of nonfiction; within those categories, a literate person could recognize a science fiction adventure from a romance novel and a history of civilization from natural history.

When addressing specialized topics, we expect a practitioner to be literate with the theory and application of her domain, such as a physician using professionally correct terms to describe the human anatomy and an accountant being able to distinguish a balance sheet from an income statement.

A competent strategic thinker is literate in three areas: strategy, judgment, and futures.

Literacy with strategy. There are thousands of articles and books published on strategy every year. Because strategy is an ambiguous concept, people pick up small pieces of good thought (the importance of planning, for example) and hold incomplete understandings of the principles of good strategy. The specialized language of strategy includes concepts such as the organization of resources, power, statements of the core challenge, and weak signals. As I've discussed, strategies are not synonymous with goals, nor are goals the steps to achieve a strategy.

Grand strategy is a term used by the military to describe the interests of a nation and its use of political, military, and economic power. The acronym VUCA originated with the U.S. military as a concept for showing the limitations of master planning and for encouraging agility.

In the for-profit business environment, the phrases *corporate strategy*, *business strategy*, and *functional strategy* have specific meanings. Corporate strategy is concerned with the question: What businesses do we want to participate in? General Electric's famous approach to its portfolios of business is an example. GE wanted to be number one or a strong number two in each of its businesses and divested its businesses that couldn't meet that criteria.

Business strategy is concerned with developing and sustaining a winning value proposition. Oakland's Moneyball strategy is an

example of a business strategy.

Functional strategy is associated with departments within the organization, examples being marketing strategy, or IT strategy. Upon closer inspection, functional strategy is typically practiced as programming. The department has a set of goals to achieve, and it is programming the implementation of its resources to meet those goals. In some cases, the department is nurturing some capability (such as a technology or a talent development program) that may bring unique competitive advantage to the business.

A literate strategic thinker will also recognize the distinctions of emergent versus deliberate strategy. Deliberate strategy is traditional, institutionalized strategic planning where management establishes a long-range vision and then directs the organization to implement actions to move toward espoused goals. Emergent strategy is entrepreneurial, flexible, and opportunity seeking.

Judgment literacy. An individual with judgment literacy is aware of the presence of cognitive biases and the possibility that individuals may make decisions that are not in their own best interests.

Daniel Kahneman was awarded the Nobel Prize for his contributions to a better understanding of decision making. Kahneman's excellent book, *Thinking Fast and Slow*, provides an excellent and detailed description of topics that are relevant to strategic thinking: perceptions, memories, and decisions. Kahneman states, in the introduction to the book, that his goal is to "improve the ability to identify and understand errors of judgment and choice, in others and eventually in ourselves, by providing a richer and more precise language to discuss them." This precise language includes the terms *fallacies*, *illusions*, and *neglects* (such as the previously described neglect of ambiguity).

People want to be systematic, rational, and deliberate in their strategizing. A fundamental task for a competent strategic thinker is to override, when appropriate, her intuitions, habits, impulses and inclinations.

Chapter 11 provides more on the role of judgment literacy and Chapter 12 describes how better conversation can help avoid mistakes in strategic judgment.

Futures literacy. One common way of anticipating the future is to rely on extrapolated trends or forecasts of a "projected future" or

“predicted future.” Another kind of future is the “preferred future,” where leaders establish some wished-for outcome. Planning is done by backcasting to envision the steps to the goal.

A strategic thinker often uses a third discovery-oriented approach. She wants to see things that she couldn’t see before. She notices weak signals and explores their implications. She wants to fully grasp the potential of the future rather than be locked into a particular view.

Futures literacy is not the ability to make better predictions. Its purpose is to examine the anticipatory assumptions that connect present-day choices to their future effects. With an increased understanding of futures concepts and tools, strategic thinkers can make more-proactive decisions and can sidestep unintended consequences.

Futures literacy is probably the least-well-known of any of the three strategic thinking literacies. Fortunately, the mainstream of strategic management thought is embracing it. You will learn more about the tools of futures literacy in Chapter 7.

Nuance Matters

The text of Oakland’s Moneyball strategy contains many words because situations are unique and the response must match it. Like the words *clever*, *powerful*, *effective*, or *good*, the word *nuanced* is also a suitable adjective for characterizing a strategy. A nuanced strategy is desirable, and a generic strategy is not.

Given knowledge of the detail of a situation, we can see that a good strategy is understandable and commonsensical. Notice that I didn’t need pretentious words or complicated graphics to describe the Moneyball strategy.

In Chapter 1, I discussed Shoshin, the beginner’s mind. The beginner’s mind is appreciative of detail. A learner with a beginner’s mind embraces nuance because it can reveal the logic of a particular good strategy.



The next chapter describes the strategic-thinking narrative for Christopher Columbus. It will help you deepen your understanding of the purpose, nature, and scope of strategic thinking. Two highlights are the four pillars and the four X-factors of strategic thinking. These

concepts provide an essential framework for defining and applying strategic thinking.

CHAPTER 3

Big Ideas

The Four Pillars of Strategic Thinking and DICE

It is always because of one person that all of the changes that matter come about. So be that one person.

— Buckminster Fuller

YOU MIGHT NOT REMEMBER much more than the rhyme *in 1492 Columbus sailed the ocean blue*, but you probably know that Christopher Columbus is one of the most significant people in the history of humankind, bringing the lands that are now called the Americas to Europe's attention. This chapter uses the Columbus strategic-thinking narrative to reveal more about the nature of strategic thinking.

Christopher Columbus was born in the Italian city-state of Genoa in 1450 or 1451. Columbus spent much of his early life on the Mediterranean Sea learning the basics of seamanship. He later ventured north and south on the “Great Ocean,” as the Atlantic was then called. He acquired the idea of finding a trade route to Asia by sailing west. He approached Portugal for sponsorship but was rejected, eventually securing three ships from Spain. In October 1492, he landed on an island in the Bahamas, believing he had reached islands off the eastern coast of Asia. He returned to Spain and secured resources to make three more trips to the west. On the second trip, his party discovered Cuba and Hispaniola. The third voyage was especially significant because he encountered the large freshwater flows of the Orinoco River in South America, signaling the presence of a continental landmass.

He held a big (transformative) idea. The fact that the Earth was round was not in dispute among educated Europeans. Columbus's big

idea of sailing west probably originated early in his sailing career.

We don't know the source of his big idea. We do know, from studying his journals, that he was curious and had an eye for details. Imagine Columbus spending hours in conversation with fellow sailors at sea or in port, trading stories of the mundane and the fantastic. Perhaps when Columbus was in the British Isles (and possibly Iceland), he may have heard stories related to centuries-earlier Viking settlements in lands to the west. Regardless, the big idea of sailing west captured Columbus's attention and organized his thinking and energy.

He held specialist knowledge. Columbus had practical, applied knowledge of sailing. His know-how included navigation, ship construction, and the operational details of sailing. Important, too, was his experience as a merchant trader. This knowledge was valuable for advancing the interests of the Spanish Crown and his other investors. His mapmaker experience supplemented his navigational expertise, giving him both a global perspective and knowledge of details. Finally, he understood political power and developed influencing skills.

Big ideas often originate in small details gathered over an extended period.

He spent significant time in an innovation hub, exposing him to emerging technological and social trends. The 30-year span from 1462 to 1492 was a time of considerable development in sailing and exploration. Innovations in design and construction of ships improved their performance on long trips over the stormy waters of the Great Ocean. With the ability for longer-range travel, merchants could open new markets and establish new trading business models.

Columbus's time in Lisbon (1477 to 1485) is crucial to the narrative. Lisbon was one of the wealthiest and most cosmopolitan cities in the world. For part of that time he worked with his brother Bartholomew in a business that produced and sold maps, keeping him attuned to emerging knowledge in geography. Imagine Columbus finding himself in energetic discussions of what lay over the western horizon. This debate would have stimulated the integration of ideas, sharpened his arguments, and subsequently built his confidence to promote the idea

to sponsors. It was in Lisbon that Columbus acquired a map made by Florentine thinker Paolo Dal Pozzo Toscanelli that showed a westward route across the Great Ocean to Asia. Columbus was inspired and carried a copy of the map with him on his voyage, a signal of its significance to him. Some scholars refer to Columbus's voyage as the Toscanelli project.

He had a valuable insight. An insight reorganizes our understanding of the situation and contributes to a strategic logic. Here is my conjecture of the events of one week. Watch for the spark of insight.

It's the year 1485. Columbus is at the mapmaking shop with his brother Bartholomew. On a Monday, the brothers complete a chart of wind patterns of the Iberian Peninsula. They talk about prevailing westerly winds, making small jokes about reasons for the wind's directions that prohibit sailors from sailing into the sunset. That conversation sparks a memory by Bartholomew of the Toscanelli map, which Christopher had inherited from his father-in-law. The next day, Bartholomew asks Christopher if he still has his copy of Toscanelli's map. He retrieves it from a box, and they have a lengthy discussion about traveling to Asia by sailing west. This conversation between the two brothers causes Christopher to recall years-earlier shipboard discussions and conjecture about lands to the west of the Great Ocean.

The next morning, Wednesday, Columbus returns to examine Toscanelli's map more closely. He notices the notation that one could get to Asia by sailing west. His thoughts are interrupted when another customer enters the shop with a request for charts showing wind patterns on the coast of western Africa. During this conversation, Columbus recalls his experiences sailing off the West African coast, where the winds blew toward the west and northwest. His customer information matches his experience that winds were out of the east.

That night Columbus awakens with the insight that will unify and integrate his history-making project. Biographer Eugene Lyon declared that it was Columbus's most important insight: the secret to a round trip to the west of the ocean sea was to "drop down south to go westward with the trade winds, and return at a higher latitude with the westerlies." The insight gave him a powerful advantage compared to the traditional notions of sailing into the westerly headwinds.

On Thursday, Christopher Columbus writes a letter to the court of King John II of Portugal, petitioning him for resources to make a voyage west.

He secured resources. I've previously explained that strategy is characterized by an interrelationship of ends, ways, and means. The means of strategy, the resources put at risk, are essential elements. Columbus had a big idea, but he needed resources. He undoubtedly found it logical to begin with a request for sponsorship from King John II of Portugal because Columbus had contacts within the Court. Columbus also smartly developed a relationship with the Spanish royalty, who eventually provided him with the resources needed for his project.

He adapted to change in the situation. Here are two examples of how adaptability contributed to Columbus's success.

Columbus had placed an initial bet on securing the sponsorship of Portugal's King John. When Portuguese explorer Bartolomeu Dias crossed the Cape of Good Hope, he established the potential for a southern trade route to the Indian Ocean, and eventually the Orient. Portugal now shifted toward leveraging Dias's accomplishment.

Columbus's initial bet on Portugal's sponsorship had failed. Wisely, he had hedged that bet by cultivating a relationship with Spain. Columbus pivoted to Ferdinand and Isabella of Spain, who were receptive when he most needed their sponsorship.

A good strategy adapts to changing information about the situation.

Columbus pivoted again on his later voyages to the New World. He began his voyages expecting to find large and sophisticated trading centers, drawing on his experience in Europe and what he had learned from those who had been to Asia. He never found those cities, so he switched tactics, approaching trade as he had experienced it in Africa, moving from small port to small port conducting smaller deals.

These elements of the Columbus strategic-thinking narrative offer many useful lessons for strategic thinking. He was trying to advance his interests (self, family, business, and political) as well as those of his patrons.

With Columbus as an example, I'll describe strategic thinking's four pillars and four X-factors.

The Four Pillars of Strategic Thinking

The narrative of Christopher Columbus gives us a better

understanding of the nature of strategic thinking. The four pillars model as shown in Figure 3-1 offers a complete definition of strategic thinking.

I'll start with Pillar IV for a commonsense reason: people remember outcomes, and often neglect the causes of those outcomes. We'll focus on the outcome that everyone wants from strategy, which is Pillar IV. We'll then work back to Pillars I, II, and III.

Pillar IV – Success in the future. Naturally, people want to be successful, and a person will define success in a multifaceted way. How do you define success? is not a trivial question. We can identify some of Columbus's criteria through his demands to the Spanish Crown: He would be knighted, appointed Admiral of the Ocean Sea, made the viceroy of any new lands, and awarded ten percent of any new wealth.

The phrase *in the future* is a landmark of strategic thinking. A competent strategic thinker seeks to understand the potential future situations and act proactively.

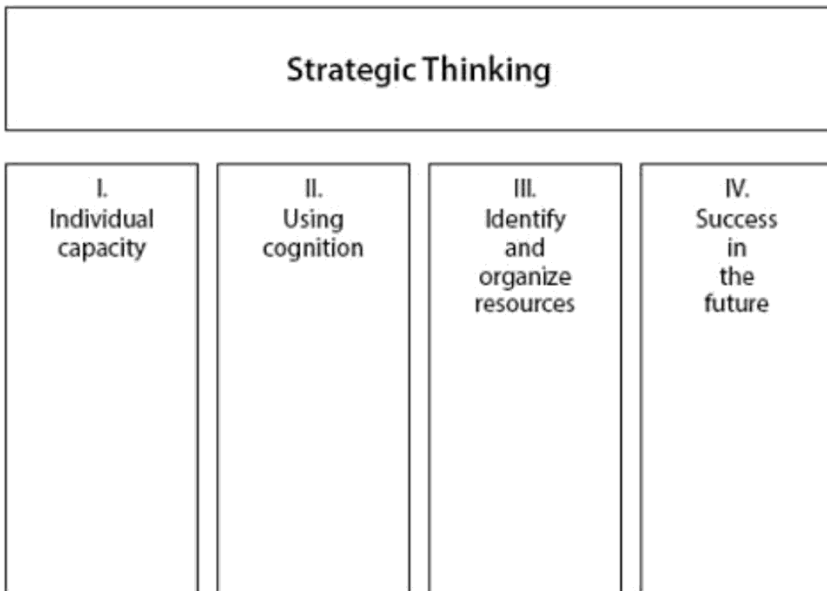


Figure 3-1. The four pillars of strategic thinking.

Pillar III – Identify and organize resources. Columbus combined his

know-how and insight with the tangible assets provided by the Spanish Crown: ships, crew, provisions, and goods for trading. He deliberately configured those assets to maximize success.

The game of chess is often used as the symbol for strategy. The movement of chess pieces is a Pillar III activity, where the strategist configures chess pieces (the strategic resources) to respond to issues and create issues for the opponent. For organizations, the strategic resources include capabilities, financial assets, intellectual property, and know-how. The player wins or loses the match (Pillar IV) based on the positioning and movement of the pieces (Pillar III) according to the mental approach (Pillar II) of the player (Pillar I).

Any move of a chess piece is deliberate. This principle is an essential tool for the strategic-thinking narrative in that one can infer reasons for a past choice by asking, *Why was this resource used this way?* Similarly, in considering a prospective configuration of resources, the why question can provide focus and logic for strategy.

Pillar II – Using cognition. Columbus’s curiosity and other habits of mind are consistent with the concept of higher-level thinking. It’s the intelligence of recognizing things, remembering things, imagining things, and applying reasoning. Reasoning includes activities such as analysis, synthesis, and imagination. In strategic thinking, cognition is explicitly the mechanism that perceives weak signals, makes sense of those signals, and makes decisions.

We all like to believe that we’re in control of our decisions and behaviors. Science has shown that much of the mind’s cognition is in the subconscious. The argument includes an observation that the human brain evolved over thousands of years in a harsh environment much different from that of present times. The brain’s cognitive functioning, in many ways, is locked into specific patterns that work well for us most of the time yet leave us vulnerable at other times. We must not overlook the presence, when crafting strategy, of the “reptile brain” that causes people to get angry, get frustrated, withdraw, and oversimplify. The modern-day result is that people, including managers, often make decisions that are not factually grounded, not logical, and not in their self-interests. The idea of a consistently rational person is no longer accepted.

The mind prefers simplicity and certainty. It is quite adept at neglecting complexity, ambiguity, and other features of the strategic situation. Managers convince themselves that they know more than

they really do, they uncritically trust conventional explanations, and they trust experts in areas where the experts are guessing. Categories and stories dominate their mental life, and then they find themselves surprised by fast-moving events.

Sometimes thinking is delusional. For example, John Nash made many original contributions to economics and game theory, resulting in him sharing a Nobel Prize in 1994. Nash also had a history of mental illness, such as believing that men who wore red ties were part of a conspiracy against him. Nash claimed that the same place in his brain that was the source of his most significant contributions to scholarship was also the source of his delusions. Insights are powerful but so is delusional thinking, and there may be a thin line between the two. Columbus wrongly insisted that the distance to Japan was about one-sixth of the actual distance. Perhaps Columbus was delusional, but maybe he was like a modern entrepreneur, Steve Jobs of Apple Computer, with a mental “reality distortion engine” that he used to influence the adoption of his ideas.

Pillar IV of strategic thinking is a focus on success in the future, and the continual change in the world around you (in general) and technology (in particular) introduces a set of challenges that will only increase the “struggle against the limitations of our intelligence.”

A competent strategic thinker doesn’t necessarily have a higher IQ than anyone else, nor is she necessarily better educated. Instead, she is more aware of what she knows and doesn’t know. She is skeptical about reliance on intuition, whether it be her own or that of others. She is resolved and determined to pursue betterment for herself and her stakeholders.

It’s tempting to conflate strategic thinking with critical thinking, creative thinking, and systems thinking. Figure 3-2 provides selected similarities and differences that will help you understand that the nature, purpose, and scope of strategic thinking are distinct. Strategic thinking is explicitly concerned with strategy, including an orientation toward the future. When appropriate, strategic thinking incorporates the other styles of thinking.

Pillar I – Individual capacity. Although Columbus needed the help of many other people, his individual experiences, insights, and effort are at the center of the story. He understood the situation, adapted to it, and formulated a reasonable approach to advance his interests and the interests of his sponsors.

The emphasis on the individual also points out an interesting challenge for organizational development. Organizational culture is the reflection of individual values and preferences. It establishes and reflects conventions, however, that can suppress the genius of the individual, leading to dullness and mediocrity.

Organizations need competent individual strategic thinkers at all levels. Everyone has the capacity to detect weak signals, to make sense of them, and to design and implement reasonable actions.

	In common with strategic thinking	Differs from strategic thinking
Critical thinking	<p>Concerned with discovering objective truth</p> <p>Accuracy</p> <p>Questions, logic</p> <p>Establishing hypotheses and experiments</p>	<p>Strategic thinking is concerned with exploring the implications of the future for potential opportunities and threats.</p> <p>Extrapolation has value limited to the short and intermediate terms.</p> <p>We can't accurately predict the long-term future. There may be no logic to it at all. Linear and deductive analyses don't find these future implications.</p>
Creative thinking	<p>Expanding boundaries</p> <p>Challenging and changing the status quo</p> <p>Encouraging cleverness and unconventionality</p> <p>Perceiving novelty, interestingness</p> <p>Self-expression, a personal statement of one's values and aesthetics</p> <p>Betterment-oriented</p> <p>Creative thinking tools such as brainstorming and analogy can be used in some elements of strategy work</p> <p>Craft and design</p>	<p>Strategic thinking is concerned with the crafting of good strategy for specific challenges in specific situations. Strategic thinking is more explicitly focused on the use of imagination in a purposeful way.</p> <p>An emphasis on creativity is helpful, but it can be distracting. Sometimes people become preoccupied with visionary dreaming and fail to face up to the challenges that their organizations face.</p>
Systems thinking	<p>Understanding the consequences (intended and unintended) of policy</p> <p>Attempting to understand, through models, the current situation and to anticipate the change of that system</p>	<p>Strategic thinking is a more qualitative approach with a focus on insights and the shapes of the future.</p> <p>Also, it's more associated with leadership as a tool for creating betterment.</p>

Figure 3-2. Strategic thinking shares some but not all characteristics with other styles of thinking.

Strategic Thinking Defined

The four pillars suggest a concise definition of strategic thinking:

Strategic thinking is the individual's capacity for – and practice of – using cognition to identify and organize factors that increase the probability of success in the future.

The four pillars also present a simple model of strategic thinking. As described in Chapter 4, the model provides a baseline for contrasting operational thinking and strategic thinking and thus gives us a useful tool to recognize what strategic thinking is and when it applies. As a learner, your challenge is to internalize this and adapt it to your own experience. How does each pillar appear in your personal strategic-thinking narrative?

The Four X-factors of Strategic Thinking

An X-factor is a variable that has a significant impact. In Figure 3-3, I show the four X-factors of strategic thinking and their approximate relationship to the four pillars. X-factors 1 and 2 affect the crafting of strategy, whereas X-factors 3 and 4 are situational characteristics. This acronym can help you remember the four X-factors: DICE.

X-factor #1 – Drive. This X-factor is associated with a person's motivation, energy, ambition, and courage. Some people have drive and will do the things that conventional people will not do: immerse themselves in the details longer, persevere on goals, and take risks. Others simply don't have the energy.

Christopher Columbus's survival of a deadly pirate attack and shipwreck in 1476 is a turning point in his narrative. Near-death experiences can provide people with a compelling sense of clarity and perspective.

In a survey of 250 CEOs of companies with revenue of \$50 million or more, management consultant Grant Thornton reported that 22 percent said that they had had an experience when they believed they would die and, of those, 61 percent said that it changed their long-term perspective on life or career. The experience led 41 percent of them to say that it made them more compassionate leaders; 16 percent

said that it made them more ambitious; 14 percent said that it made them less ambitious. Maybe Columbus shrugged off his brush with death, but maybe it profoundly affected him. Did surviving the attack enhance his ambition and grit, changing him from an ordinary, unremarkable, seafaring merchant to one with the drive to act on his big idea?

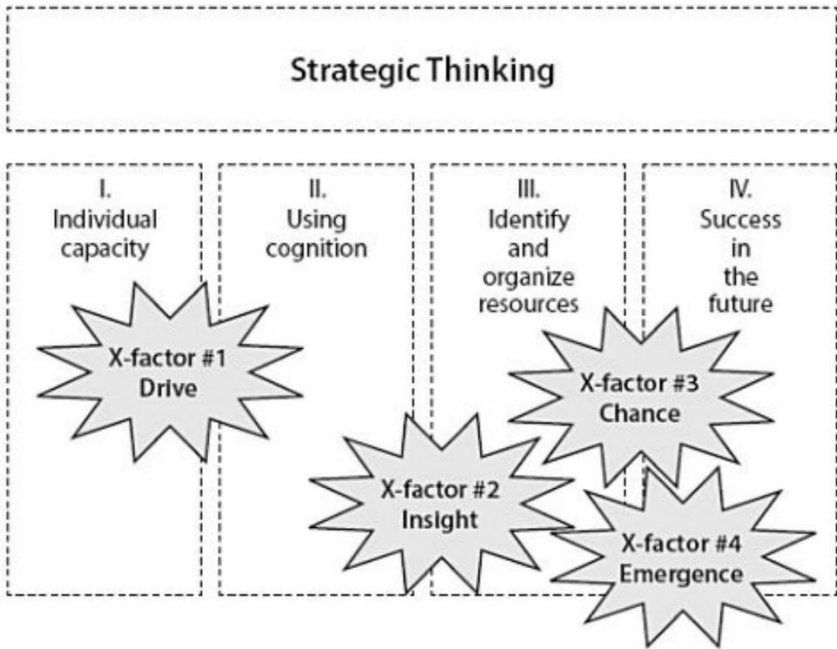


Figure 3-3. The four X-factors of strategic thinking.

X-factor #2 – Insight. Columbus noticed the pattern of the prevailing winds (east to west off the coast of Africa), which stood in contrast to the westerlies that prevailed on Portugal’s coast. This insight became the basis of his strategic logic, providing a solution to the problem of sailing west and returning.

Insights are the secret sauce of strategy.

Insights are the *secret sauce* of strategy making; they’re a proprietary kind of information that strategists use to their

advantage. As I develop a strategic-thinking narrative, I always look for insights and search for their origination. Much of the power of the Moneyball strategy comes from capturing and exploiting insights. I explain insights in more detail in Chapter 9 using the example of IBM's transformation from a product-centric to a services-centric business.

X-factor #3 – Chance. Imagine yourself in 1492 watching three small ships leave the harbor in Palos de la Frontera, Spain. You don't expect to ever see or hear from Columbus again.

Columbus earned his place in history due to a series of fortunate events, culminating in his excellent luck of bumping into a small island of the Bahamas. Other fortunate events include these: He survived a vicious pirate attack and shipwreck. He lived in the innovation hub of Lisbon. He married the daughter of a middle-class merchant with connections to the royal court. The King and Queen of Spain changed their minds about sponsoring him. Spain's possession of the Canary Islands was good luck because the winds there are especially favorable for the westward voyage, compared to Portugal's Madeira Islands and the Azores. He sailed through a dangerous stretch of water at the peak time for hurricane spawning. Had his luck been bad instead of good, another adventurer would have introduced the western hemisphere to Europe.*

The presence of chance highlights a connection between Pillar III (organization of resources) and Pillar IV (success in the future). The better approach is to configure resources with the intention of favorably tilting the odds. Success is merely a possibility and is not guaranteed.

Another confirmation of the importance of chance appears in the writing of the book *Moneyball*. Its author, Michael Lewis, originally planned to write a magazine article on the Oakland A's. During his reporting Lewis observed a contentious meeting on drafting players. He saw a richness of content that convinced him to write a book rather than a magazine article. Paul DePodesta of the A's, who was present at that meeting, recalled the meeting as atypical and one of the most drama-filled of his career. Had it been a typical meeting, Michael Lewis may not have written the book. Absent the book, Hollywood wouldn't have made the movie. Without the film, there would have been little awareness of *Moneyball* in popular and business culture. We can extend the role of luck even further back. Michael Lewis became a best-selling author because of his talent but also because of his good

luck. As a recent college graduate, he attended a dinner party. A woman struck up a conversation with him, asking about his plans. Lewis replied that he didn't know. The woman promptly introduced Lewis to her husband, an executive in a Wall Street trading firm, and told him to hire Lewis. Lewis was placed on a trading desk, where he observed a fraudulent system at work. He wrote of his experiences, and it became the bestselling book *Liar's Poker*.

One of the first questions I ask in evaluating a strategic-thinking narrative is this: "What is the role of chance in this story? Did the strategy embrace the role of randomness and chance?"

A theme emerges: history turns on small events that are random, unpredictable, and thus non-linear. The X-factor of chance reinforces this comment from Daniel Kahneman: "Luck plays a large role in every story of success; it is almost always easy to identify a small change in the story that would have turned a remarkable achievement into a mediocre outcome."

Chance plays a vital role in every strategy.

There's an interesting connection between the X-factor of chance with Pillar II of cognition. Most people tend to attribute their success to their talent. They recall their hard work, and they see that hard work as a cause of the success. That's a simple and memorable story. The story is strengthened because the same person will overlook the times that she worked hard and failed. Similarly, her mind will neglect the times that she didn't work hard but had good fortune. She remembers (easily) that hard work leads to success. It requires more mental energy to find counterexamples to the hard-work-leads-to-success narrative.

It's no secret and no surprise that managers are overconfident, and this overconfidence can be a reason for many disastrous strategies. People can easily believe themselves to be exceptional, can easily neglect the intentions of rivals, and can easily disregard chance events.

X-factor #4 – Emergence. Emergence is "the arising of novel and coherent structures, patterns, and properties during the process of self-organization in complex systems." Consider two examples of emergences associated with the opening of the Americas to Europe.

The first is the eventual discovery of new food crops such as corn, cocoa, and potatoes. These new crops offered Europeans many new nutritional possibilities. The second is the introduction of European diseases and enslavement, which profoundly changed the aboriginal societies of the New World.

You've probably heard the speculation that a tornado in North America could have been triggered by the flap of a butterfly's wing in the Amazon rain forests. That flap established a small wind current, which was further amplified by other forces. The emergence (the tornado) is the result of causes and effects. It theoretically could be modeled.

However, the occurrence of a tornado is unpredictable. Because a butterfly *might* spark the emergence of a tornado doesn't mean that a butterfly has ever caused a tornado. Moreover, it doesn't mean that a butterfly hasn't indirectly caused a tornado.

Those wing flaps are unnoticed weak signals. We can't predict the emergence of a tornado (or any other given phenomenon). A strategic thinker is ready to notice the weak signals and accept the plausibility of discontinuity and disruption.

To summarize, the four X-factors provide a guiding message for strategic thinking. You should emphasize:

- Drive instead of complacency
- Insight instead of intuition
- Chance instead of certainty
- Emergence instead of master planning

Closing Thoughts: Historical Thinking and the Future

You can identify a strategic-thinking narrative for any historical person or event and find useful lessons within that narrative. There are conventional accounts of what happened and why, but there are insights to be gathered from reexamining evidence to craft alternative narratives of cause and effect.

A strategic thinker appreciates the value of historical thinking.

This pattern is characteristic of a strategic-thinking narrative: a curious individual scans the world around her for interesting signals.

As part of the scanning, she evaluates her existing resources and emerging technology for underappreciated potential. Eventually she realizes a big idea and an insight. She experiments and organizes her resources to improve the fit of her resources to the situation.

Let's imagine that we could time-transport Christopher Columbus from the 15th century into the contemporary milieu with his X-factor of drive intact. Would he be successful? This conjecture might help us understand factors that are relevant to our situation. Context influences the answer. Moreover, it raises more questions: Would he have acquired a different knowledge of technologies that are cutting edge for our times (for example, advanced materials, mapping, management, navigation, and artificial intelligence)? What is the nature of his network with other innovators?

The four pillars and four X-factors of strategic thinking provide a useful model for speculating about individuals in situations that call for good strategy. The exercise offers a lens for identifying plausible new states of the world and actions to advance our interests. We can't predict what would happen to Columbus in the modern day, but we can identify some forces that might shape the search for opportunity.

The blue oceans of opportunity today are not the same as in Columbus's time. The technologies are different. But the Columbuses of today are just as curious, observant, and thoughtful.

I've heard people criticize Columbus for not knowing where he was going, not knowing where he was when he got there, and not knowing where he had been when he returned to Europe. From a perspective of strategy, this is unfair and ignores the roles of ambiguity and emergence.

Students of strategy should recognize that an expeditionary mindset is valuable. The world is one of complex and emergent systems that seldom bend to the elitist notion of a strong-willed visionary genius. Paul Graham, a venture capitalist, writes, "Neither Bill Gates nor Mark Zuckerberg knew at first how big their companies were going to get. All they knew was that they were onto something." We don't know when Christopher Columbus realized that he was "onto something." Although he was probably a narcissist and possibly delusional, he learned and adapted to changing situations.

The Christopher Columbus strategic-thinking narrative reinforces the importance of a sharp mind in touch with the situation. Columbus discovered an insight that any other competitor could have exploited.

He persevered and maintained his focus on gaining strategic resources.

One of the most empowering aspects of competent strategic thinking is the realization that ordinary people can do great things. Your challenge is to sense the details of your situation and craft an effective response.



The next chapter describes a major feature of this book, the microskills of strategic thinking. Microskills help to emphasize Pillar II of our strategic thinking model. I describe 12 of them and suggest a five-minute-a-day practice to improve your capacity to think strategically.

* Let's assume that there was a 50 percent chance that each of those five events was favorable for Columbus's discovery of the New World. The math shows that the probability of success was low: $0.5^5 = 0.03125$.

CHAPTER 4

Twelve Microskills of Strategic Thinking

Essential Practices That Will Enhance Your Competency

Knowledge is of no value unless you can put it into practice.

— Anton Chekhov

A PROFICIENT AUTOMOBILE DRIVER uses microskills such as accelerating, braking, changing lanes, turning, passing, and parking. Similarly, strategic thinking is a macro ability composed of several distinctive, developable microskills. Microskills of strategic thinking are a key feature of this book. They enhance the idea of Pillar II of the strategic thinking model (the use of the mind and cognition) and are helpful for crafting coherent (Pillar III) responses. The microskills apply whether one is discussing military strategy, stock market investing, or governance of a philanthropic organization. This chapter introduces you to 12 of them. There are an additional 8 described in subsequent chapters. (Appendix B provides brief definitions of all 20.)

The Microskill of Curiosity

Curiosity is perhaps the most familiar of the strategic thinking microskills and perhaps the easiest to incorporate into a busy daily routine. One tip for keeping curiosity in operation is to monitor your thinking, asking yourself this question: “Am I in learning mode?”

Many people, in their formal schooling, lose their creativity. They are given standardized tests and they habitually ask, “Is this going to be on the test?” As I discuss throughout the book, strategy involves a search for weak signals. A curious person will ask, “What’s interesting

about this object, idea, or person?”

Curiosity is a distinguishing characteristic of top executives. One observer (Adam Bryant of the *New York Times*) has interviewed over 5,000 chief executives, noting a pattern: “They tend to question everything. They want to know how things work and wonder how they can be made to work better. They’re curious about people and their back stories.”

One crucial element of strategy work is that of probing and experimenting in unfamiliar domains. You want your curiosity to take you to the point where references and experts can no longer provide you with answers. You must venture outward and discover the answers through observation and empirical testing. As we’ll discuss, your goal is not a perfect understanding of the world but instead a seizing of the unknowns and future opportunities.

Organizational culture often tends to suppress curiosity, discouraging individuals from asking profound questions. A cultural emphasis on curiosity will promote strategic thinking, and vice versa.

Here’s a tip: Find people whose points of view are the opposite of yours. Rather than try to change their minds, learn why they hold that point of view and how they arrived at it.

The Microskill of Pragmatism

Pragmatism is a person’s concern for how the world works and a desire to use that understanding to advance her interests. It reinforces the definition of *competency* provided in Chapter 1: the ability of a person to understand a situation and act reasonably.

I often rename this microskill “pragmatic curiosity” to reinforce the notion of understanding the factors that underlie current and emerging real-world problems. Pragmatism isn’t a rejection of art and theory. Pragmatists recognize that art and theory are useful rather than frivolous.

The opposite of pragmatism is quixotism or utopism. The dictionary defines *quixotism* as “impracticality in pursuit of ideas, especially those manifested by rash, lofty, and romantic ideas or extravagantly chivalrous.” A utopian is one who advocates for impossibly idealistic schemes of social perfection.

Action without thought is impulsiveness, and thought without action is procrastination.