



Strategic Renaissance

New Thinking and Innovative Tools to Create Great Corporate Strategies
by Evan Matthew Dudik
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Take-Aways

- Corporate strategy today uses thinking similar to that which supports astrology – offering lots of examples to support an untested theory.
- For effective strategizing, use scientific thinking and methodology.
- The test of a theory’s greatness is its falsifiability.
- A business strategy is essentially a theory that needs testing.
- Test your business strategy by making an “if-then” statement – “if” this action happens, “then” these are the expected results.
- Make your strategic hypotheses about something crucial to your company.
- The most important strategy guideline is “The Hammer and Pivot,” which generals have used successfully throughout military history.
- The Pivot represents the fundamental, dependable aspects of your business. Shift resources to your Hammer when you put your strategic hypothesis into effect.
- Instead of seeking a sustainable competitive advantage, think about creating and exploiting opportunity.

Rating (10 is best)

Overall	Applicability	Innovation	Style
8	8	9	7

Review

Strategic Renaissance

Evan Matthew Dudik says businesses do not select their strategies based on scientific thinking, but on anecdotal evidence. This trend has contributed to the explosion of new and changing ideas about what businesses should do. The resulting churn of activity is reflected in the many different approaches that books and consultants advocate. Dudik calls for a return to building and testing theories scientifically, arguing that no one-size-fits-all business strategy exists. Instead, managers should create and test hypotheses to determine an effective approach. Dudik also suggests applying effective warfare strategies and tactics to business. Overall, this is a fairly innovative, refreshing take on developing strategies, although presumably market research is set up to do some of this testing. Paradoxically, Dudik's battlefield analogy seems like one more use of anecdotal evidence to bolster a theory. Generally, however, *getAbstract.com* recommends this thoughtful, helpful book, noting that its primary strength lies in explaining the use of scientific methodology to test business presumptions.

Abstract

Corporate Stargazing

Most corporate strategy today is based on a thought process similar to that used by devotees who defend astrology by citing occasions in which someone's horoscope came true. You cannot prove a theory by using examples. You can prove a theory using scientific testing.

Today, business books (about 2,000 are published each year) and corporate consultants make a great deal of money proposing success strategies that come and go like so many fad diets. Some of these strategies do have valid points to make. Many of them include accepted general concepts, such as promoting excellence or focusing on the customer.

But proponents of these strategies rarely confirm the merit of their tactics with empirical evidence. A list of successful companies that use a particular strategy does not prove the effectiveness of a strategy, just as a list of accurate horoscopes doesn't validate astrology. Reverse engineering of any specific company's success is a similarly flawed analysis, since it too relies on argument by example.

In addition, a close examination of the proof that advocates offer for many of these corporate strategies reveals other weaknesses. Elements are grouped without being sorted according to established criteria. As a result, evidence to support the effectiveness of any particular business theory is jumbled. Generalizations, testimonials, theories and confirmations of past predictions are all lumped together and given equal weight, though none of them represent solid scientific thinking.

The sellers of these strategies do not like to hear criticisms of their methods, just as leaders in the Middle Ages didn't want to hear from Giordano Bruno or Galileo, who disagreed with contemporary thinking. In the end, Bruno was burned at the stake, while Galileo survived only by recanting his theory that the Earth circled the Sun.

"Most proposed corporate strategies flunk the 'if-then' test. They're goals or missions, but they don't say why the company should be or will be successful if they're followed."

"Astrology is not proved by a catalog of examples, and a business strategy is not proved by a list of successful companies."

“Strategic writing has involved collection after collection of examples without end, seizing on successful companies, reverse-engineering their success and pronouncing the results the strategies for the 1970s, the 1980s, the 1990s, or, for that matter, all time. Is there a better way?”

“Like the astrologers, we find confirmation of past predictions everywhere in the historical record.”

“The time is ripe for corporate strategy, like science at the time of the Galileo, to break out of the chains and dogmas of its own Middle Ages. Like the Renaissance itself, it is time for corporate strategy to reach back into the richness of human history and reach out to the habits, logic and values of science.”

“A theory’s power and greatness lie in its ability to specify what observations or consequences would make it false.”

The Need for a Scientific Methodology

You can use scientific thinking and methodology to correct errors in assessing strategies. No theory or hypothesis can be proven to a point that can’t be contested. A theory’s power comes from its ability to specify what observations or consequences would make it false. In other words, this is a theory’s falsifiability. Thus, to test the quality of a business strategy theory, you need “great explanatory power” and “great specificity” about which real-world observations would show the theory to be false.

Strategize for your company in this light. Create a hypothetical business strategy. Make a prediction or create a theory about what your markets, customers and competitors will do in the future. Ask yourself how that would change in response to various actions you might take. In other words, your business strategy is a hypothesis. It is an “if-then” statement in which the “if” clause sets out the conditions and the “then” clause sets out the precise expected results. The more precisely you can state the conditions and the results, the more testable and “falsifiable” your strategy will be.

For example, Wal-Mart could test its theory about the effect that lowering prices would have on its inventory by selecting a dozen stores, lowering prices slightly in each, and testing customer reactions. In fact, Wal-Mart used this approach in 1998 when it announced that it planned to build giant experimental grocery stores to test its discount retailing concept in the grocery marketplace. The way to use this approach is to make your own strategic theory precise, definite and falsifiable. Set out the conditions and consequences you expect and explain how you want to test this theory. Then, if your experience contradicts your expectation, you have learned something you can use to improve your theory, and thus improve your strategy.

Creating a Successful Strategy

Besides creating your strategy as a falsifiable hypothesis, recognize that a great strategy is also “an act of creation.” Thus, only you can set the guidelines for designing or choosing the elements of strategy you will use. No cookbook offers exact prescriptions. Approach outlining a hypothesis as a creative act that transcends just working with a mass of observations or volume of data. Shaping this hypothesis is like any great discovery that depends on insight. The result you are seeking is a successful synthesis of disparate ideas, which are combined and changed to create something new.

To come up with a good strategic premise for your company, consider a variety of factors, including the position your company has in its industry, its size, whether it is regional or global, and whether it is a start-up or a long-term competitor. You cannot simply take or adapt another company’s successful business premise because the factors leading to success are so different. However, you can follow these four guidelines that apply to the process of creating a good strategy based on your company’s individual situation:

1. The hypothesis – Make your strategic hypothesis about something that is vital, crucial, and central to your company. Otherwise, you are wasting your time. You can use various tools to generate a hypothesis, such as focus groups and data collection. Then, test the hypothesis, using various research strategies and analyze the results to determine the best strategic direction. Ask yourself a series of questions, starting with: “If this strategy were implemented, would it be vital to the company?” To test this, also ask, “What would be more vital to the company?” Ask three or four times until you focus in on what is most important for your company.

“What is a business strategy? It should be nothing more than a prediction about what markets, customers, and competition will do in the future, and how that will change depending on the action you take. That is, a strategy is a hypothesis.”

“If you accept the idea that a robust strategy is a falsifiable hypothesis, you will have taken the quantum leap that moves a tough-minded company’s thinking ahead of the pack.”

“In science, even the simplest hypothesis is a creative act. The great discoveries are acts of synthesis in which disparate ideas are combined and transformed to create something surprising and new.”

“If you insist on recasting your company’s strategy as an ‘if-then’ statement, you open the door to fruitful strategic dialogue. That’s because the ‘if-then’ statement breaks down the strategy into digestible pieces.”

2. The strategy – Create your strategy as a conditional if-then statement. The “if” sets the conditions for the expected result. The “then” sets out the results you expect or hope to achieve. Unfortunately, most proposed corporate strategies don’t pass this test, since they just state goals or missions, but don’t explain why the company will succeed if it follows these goals or missions.
3. Where to focus, where to defend – Determining where your company’s “Pivot” and “Hammer” reside can help you create a stronger strategy. The metaphor comes from military history, wherein the hammer is the place where you concentrate your efforts during a battle, while the pivot is the place where you play defense and hold the line, so you can focus your resources on the hammer. For instance, when Coca-Cola sought to move into the bottled water market with the launch of Dasani water, its pivot was its soft drink product line. Concentrate more resources into your hammer, since it is usually easier to defend a position than attack one, as it is easier and less expensive to keep an existing customer than to get a new one. In the business context, think of the hammer as “the central force of your main effort,” such as when you strive to overcome competitors, capture customers and build markets. You can use the hammer and pivot as an engine of growth that embodies your strategic hypothesis.
4. Use complementarity – Complementarity occurs in a good painting, where all of the elements complement each other and support the image’s focus of attention or main theme. For example, Costco used a variety of complementary design principles in crafting its low-cost warehouse strategy. The stores were laid out to support the strategy of buying low and selling in bulk. The chain used its stark warehouse look to emphasize that customers would never pay retail.

Hammer and Pivot

The most important strategy guideline is the hammer and the pivot. In a military sense, Philip of Macedon used this approach in about 338 B.C. when he tried to conquer and unify the Greek city-states. In your corporate wars, make sure you have a solid pivot – those aspects of your current business that you depend on to stay strong while you shift resources to create the new conditions set out in your strategic hypothesis. The new conditions could be a fresh business unit or a brand name launch, but make sure the new strategy doesn’t undermine the reliability of your pivot. Taking your pivot for granted will undermine your business. Carefully identify your assets. The survival of your company depends on your ability to protect your pivot.

With your pivot secured, work on crafting your hammer. This includes the “hammerhead,” where you focus the force of your company’s strategy, and the “handle,” which supports the hammerhead and provides leverage. Your hammer includes all the resources and functions that provide force for the hammerhead. In the music industry, for example, the hammer has been fielding talent scouts and the hammerhead has been the money spent on publicity. Now, the digital revolution is attacking that hammerhead, since artists can bypass record company publicity and appeal directly to consumers. The handle is procedural back up, such as the attorneys who provide legal resources for marketing and manufacturing.

Strategically, you can apply your hammer directly against another company’s hammer, which would happen, for example, if Merck expanded its sales force to match Lilly’s. In some cases, you might use your hammer to attack the opposition’s pivot, for instance, if you moved in on a competitor who had spread its resources too thin. You have to

“The Hammer is the central focus of your main effort. It’s where you create or exploit an advantage. It’s what you use to overcome competition, capture customers, and build markets. The Hammer is the engine of growth. And it is the embodiment of the strategic hypothesis on which your company’s hopes, dreams and plans depend.”

“Many of the differences used in the past to erect sustainable advantages are disappearing due to technology, transportation, communication, and the globalization of culture.”

decide whether to use a market-centric or competition-centric approach in deploying your hammer and pivot. Use the market approach when you are developing new products and pioneering a new market, and the competition-centric approach to attack competitors directly.

Opportunity from Advantage

Generally, finding a sustainable competitive advantage (SCA) is no longer possible. The boundaries that once made product and market entry so difficult have eased, making it very difficult to maintain this advantage. Even if you enter a market with such an advantage, competitors can appear from anywhere in the world to attack your advantage.

Some SCAs are based on natural competitive advantages, and some are created. Natural “asymmetries” that lead to competitive differences can result from geography or pre-existing market segments. If you own patents or trade secrets, you may have a function-based asymmetry. Other function-based advantages might include a new product design, excellent sales and service, good customer relationships or low manufacturing costs. Many forces can undermine your advantage, including improvements in technology, transportation, communication and the rise of a global culture. Even patent protections or proprietary technology may not help, because technology can become obsolete or irrelevant quickly.

Think about creating and exploiting opportunities. Act quickly to do so by participating in a cycle of activity. The first phase is opportunity creation and discovery, where you create a series of strategic hypothesis, test them, modify them to make them more precise and pick the likely winners. The next step is opportunity recognition, breakthrough and exploitation, where you invest in the opportunity. Opportunity consolidation comes next and lets you reap the rewards of your proven strategy. Finally you shift into the dismantling and recycling stage, and you move onto something new.

About The Author

Evan Matthew Dudik is the president of Evan M. Dudik & Associates, a consulting firm in Vancouver, Washington. He was a company president, a McKinsey and Co. consultant and a lobbyist. His articles on corporate strategy have appeared in *The Wall Street Journal* and *The Journal of Business Strategy*. He received his M.B.A. from Harvard Business School and his Ph.D. from the University of Texas.

Buzz-Words

Falsifiable hypothesis / **Hammer** / **Hammerhead** / **Handle** / **If-then clause** / **Opportunity creation and exploitation** / **Pivot** / **Scientific methodology** / **Sustainable competitive advantage (SCA)**