

THINKING STRATEGICALLY

The Competitive Edge in Business, Politics and Everyday Life

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MAIN IDEA

Strategic business skills build on and strengthen the competitive advantage of basic business skills.

In any business field, there are generally a number of competitors who have roughly equivalent technical and commercial products or services. The companies which prosper do so because of better strategic skills - that is, they take those basic skills and apply them more effectively than do their competitors.

Strategic business thinking concentrates on maximising commercial opportunities, outthinking rivals, forging strong bonds of cooperation and coordination when it is in your own best interests, and even deciding which business fields not to enter. These decisions are all made on the basis of a thorough understanding of strategic interaction and sound strategic thinking.

1. WHAT IS STRATEGIC THINKING?

Strategic thinking is the art of out performing a competitor while knowing that competitor is trying to do the same thing to you.

Corporations must base business operations on sound strategic thinking or they risk losing business to any competitors using a better strategy.

2. THE FOUR RULES OF STRATEGIC THINKING

The four rules of strategic thinking provide a systematic and efficient strategic framework around which effective business decisions may be made.

Strategic Thinking Rule #1

Look forward to where any early decisions will lead, and use this information to reason backwards and determine your best present choice.

Strategic Thinking Rule #2

A dominant strategy is one that out performs all other strategies regardless of any rival's decisions. If you have a dominant strategy available, use it. If your rival has a dominant strategy, anticipate he will use it, and choose your best possible response accordingly.

Strategic Thinking Rule #3

A dominated strategy is one that is uniformly worse for the side playing it than another of its strategies. All dominated strategies should be successively eliminated until a unique solution is found, or until the game is simplified and more manageable.

Strategic Thinking Rule #4

Once all dominant strategies have been applied and all dominated strategies eliminated, the game should then stabilize at an equilibrium - a pair of strategies in which each player's action is the best response to the opposition's actions.

3. STRATEGIC THINKING IN ACTION

1. Price Fixing Cartels

The formation of cartels in an attempt to fix prices are a commercial example of trying to establish a dominant strategy in the face of competition.

2. Strategic Moves

Strategic moves are designed to alter the beliefs and actions of a competitor in a way that favours you and not your competitors. The distinguishing feature is that you purposefully limit your options, and thereby change your competitor's perceptions and influence his decision.

3. Credible Commitments

Credibility, in a strategic sense, is essential if you hope to influence another competing party by making threats or promises, by carrying out unconditional moves or by direct responses to their strategic moves.

4. Unpredictability

Unpredictability deals with what to expect when both sides are trying to outsmart the other. Being able to anticipate and respond to unpredictability is a significant strategic advantage.

5. Brinkmanship

Brinkmanship is the skill of deliberately creating and manipulating the risk of a mutually bad outcome in order to encourage the other party to compromise. The heart and soul of brinkmanship is the deliberate creation of risk which is sufficiently painful to an opponent so as to encourage him to eliminate that risk by agreeing to your request.

6. Cooperation & Coordination

The free market doesn't always get everything right. Sometimes, history can exert an undue influence on future choices. And, a lot of what matters in life takes place outside the strictly economic marketplace, and there does not exist an accurate way to factor in these elements.

4. STRATEGIC BUSINESS THINKING

The essence of business activity is to create and capture value. Companies deliberately employ a business strategy which is designed to maximize their value-creating activities.

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Main Idea

Strategic thinking is the art of out performing a competitor while knowing that competitor is trying to do the same thing to you.

Corporations must base business operations on sound strategic thinking or they risk losing business to any competitors using a better strategy. The same need for sound strategic behaviour also applies in politics, sports and everyday life (including raising children).

Supporting Ideas

In any competitive situation, two types of skills are brought to bear:

1. Basic performance skills. In sports, these skills are the mastery of the basic actions of the game. In a business environment, basic skills are brought to bear in producing any product or service which is offered for sale. Basic skills are found in every company competing in the same business field.
2. Strategic skills - deciding how best to apply the basic skills taking into account the actions of competitors and all other factors.

Strategic thinking starts with the basic skills and considers how to use them to maximum advantage taking into account the skill levels and actions of all competitors.

Example:

A team coach knows how well his team passes and runs. He also has a fair idea of the skill level of the opposition. He must then make a strategic decision as to whether to pass or run on each play.

Strategic behaviour is a constant stream of decisions made against a dynamic background of active participants each making decisions. The result is that an interaction occurs between all the parties

Businesses use strategic thinking to gain the maximum possible financial benefits from their unique competitive advantages. Politicians use the same strategies to seek election and implement their promises once in office. Sports coaches try to use strategy to deliver game winning performances against another team of equal technical competence.

Strategic behaviour is based on the reasons behind choosing one option over another, and takes into account the actions of others, the nature of the competitive battlefield, resources and so forth. The branch of academic social science which studies strategic decision making is called game theory.

Game theory was originally developed by a mathematician at Princeton University, John von Neumann in the early 1940s. Neumann's pioneering work was generally based around zero-sum situations - that is, pure conflict competitions (like a sports match) where one team wins everything and the other wins nothing.

Although the word game is used to describe the strategic situations under study, this is just terminology which has been adopted for the sake of convenience. Game theory applies to all strategic situations, and has gained an increasing amount of popularity among business thinkers.

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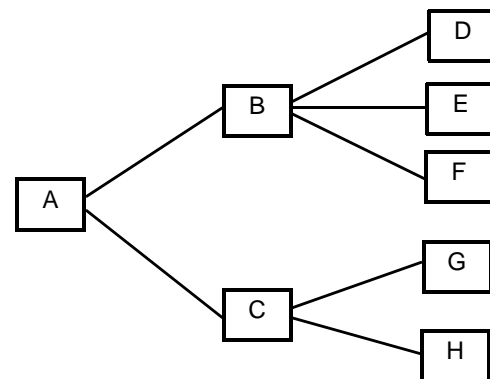
Supporting Ideas

Strategic Thinking Rule #1

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To assist with clarifying thinking on choices that are available at any given time, a game tree can be developed. The game tree illustrates the choices that are available at every point at which a decision can be made. By drawing a game tree, the player can more clearly anticipate the ultimate conclusion of a number of intermediate decisions made along the path of a game or a negotiation.

A game tree may look like:



At decision A, B and C are the choices. At decision B, D, E and F are options. Similarly, at decision C, G and H are options.

In most situations, the game tree becomes more complex due to the fact that most games have two or more players. Therefore, at various decision points, it will be the turn of different players to make choices.

The game tree concept enables a player to determine what is the best strategy, and to try to move the game along the path of that strategy. By looking forward to the ultimate outcome and then reasoning backwards to make a current decision, the player tries to move the game along the path of that optimum strategy.

In a complex business negotiation, the game tree will of necessity be equally complex. The best decisions are generally made from a combination of backward reasoning combined with the use of judgment and real-world experience to value intermediate positions that can be taken.

In addition to using the game tree to look for the best available strategy, it may also be useful in the preliminary stages when the rules of negotiation are being agreed. For example, the outcome of any negotiation is directly influenced by the social and legal conventions within which each player makes a move. In addition, the result if no outcome is reached between the parties will also influence the game tree.

In some situations, the key time for strategic maneuvering is while the ground rules are being decided.

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