



# Book Business Strategy

## A Guide to Effective Decision-Making

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Profile Books, 2003

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### Recommendation

In this book, Jeremy Kourdi and the *Economist* survey the material you might cover in an M.B.A. course on corporate strategy. The book's 13 chapters are grouped into two parts. The first section, “The forces at work,” illustrates the factors working on your business that affect its ability to function, grow and compete. The second part, “Making it happen: concepts and tools for strategic decision-making,” shows you how to use various analytical tools to help your company. The range of topics is broad, so the text is concise of necessity. The downside is that the treatment of each topic is not particularly deep, though it is solid. If this alerts you to a subject of particular interest, you may have to seek greater depth and innovation elsewhere. Still, the information here will help you think about your processes and methods. *BooksInShort* says you can rely on this accurate and well-organized compendium.

### Take-Aways

- Understand your competitive environment. Then, use any strategic management theory that suits your situation.
- Most bad decisions can be traced back to a sloppy decision-making process.
- Plotting scenarios can help you prepare for forces that may affect your company’s future.
- Michael Porter’s five-forces tool and SWOT analysis are popular because they work.
- Learn more about what your company knows and where the knowledge resides.
- Study your customers. Give them what they want before they want it.
- Business ratios give you the best analysis of trends affecting your market.
- People you involve in the decision-making process will be more committed to the decision.
- Lead your workforce the way you would want to be led.
- Leadership is a lot about who you truly are.

### Summary

#### Simple But Not Simplistic

Just as it is impossible to describe all of a river’s currents and eddies, it is very difficult for you to assess all the forces acting on your business. Many of these forces appear contradictory or paradoxical. Globalization is an important force, but so is awareness of local culture. For example, think of DaimlerChrysler’s German versus American internal conflicts. Government regulation is another force that may get in your way and distort your market, but it can also help keep competition fair. Technology is becoming a force in instant mass marketing, but you must still customize it. People need to be treated as individuals, even though you are selling to them on a global scale.

“It is not simply what we know that matters, but how we react to what we do not know.”

Be sure you understand your competitive advantage and recheck your thinking often. Examine your human resources policies to see if they are helping you compete for the right workforce. Rethink your corporate bureaucracy and how you can make it more flexible. Do you fully understand your intellectual capital? What are you doing to use it to full advantage? How do you know what your customers truly want from you?

“Even when things are going well, you have to be absolutely dedicated to decreasing costs...It is something you have to do all the time and everywhere” [–  
*Jean-Cyril Spinetta of Air France*]

Experts have developed many approaches to management over the past century, beginning with Henri Fayol’s definition of the activities involved in general management in 1910. Frederick W. Taylor’s *The Principles of Scientific Management*, published in 1911, had a tremendous influence on leaders such as Henry Ford. Many of these management theories encourage executives to take on numerous roles: planner, role player, visionary transformer, self-organizer and turnaround strategist. To be effective, apply the combination of strategies that best fits your situation.

“The success or failure of a decision frequently depends on the delegation process.”

Make sure your decision-making process is well defined, especially as your organization increases in size and scope. What can you improve today? Be especially careful about your financial planning. Don’t follow fads that will weaken your financial position today with the hope of making any losses back later. These disastrous bets often come up empty. Use technology, but use it wisely and for specific purposes. Gather the data that will best benefit your process and methods of decision making, and make sure what you gather is reliable. This information is expensive to collect, so learn to use it in multiple ways.

## Check Your Information

Most of your company’s mistakes probably stemmed from a faulty decision-making process. As a general rule, always check decisions for commonplace errors. Don’t fixate on the first bit of information you receive; the last piece of information might be correct while the first might be wrong. Do not try to maintain the status quo: Current conditions are not a pointer to the future. You might be in a market that is changing drastically, and if you don’t change with it, your competitors will beat you out of existence.

“The art of strategic decision making lies in both how we react to what we do not know and how we react to clearly defined situations.”

Help your team see all the evidence. If you give weight and attention only to evidence that confirms and supports your preferences, you can miss a potentially better outcome. Avoid being trapped by the past: The actions you took then have no relevance to your decision-making process now. Do not become emotionally attached to an investment, especially if it becomes clear that you are throwing good money after bad. Similarly, don’t pass up a great opportunity simply because it would mean throwing out an unwise investment. Weigh all the factors.

## Making Good Decisions

Any executive job sometimes demands quick decision making. In some situations, an imperfect decision now is immeasurably better than a perfect decision made too late. Some situations are too complex and difficult to analyze for rapid action, but don’t make this call too quickly. Decisions involving creative judgments can be the most difficult to analyze in a “just the facts” scenario. To make effective business decisions, follow this simple six-step process:

1. Clearly understand the issues – Understand not only your apparent choices, but also their context.
2. Define the issues – Consider the implications of the decision you are making.
3. Specify the decision – Actually putting your decisions into words makes it more concrete and points out inconsistencies in your thinking.
4. Make the decision – Now that you have a solid foundation, this will be a much easier step.
5. Implement the decision – Put it into action.
6. Monitor the effects of the decision – If you still made a bad choice, admit it quickly. If it is a serious mistake, abandon it before it does any damage.

## What Makes People Tick

Business decisions always have people-oriented components. Try to understand what makes your staff tick. In recent decades, many new decision-making models, such as “Reversal Theory” and other supplemental support tools, have become available. If you ignore them, you leave yourself vulnerable to competitors that use them. So learn about them and test them. Make sure that you know how to motivate your workforce, and that they understand their boundaries. This requires a balancing act, but that is what you are paid to do.

## Creating a Scenario

No one can control or predict the future, but your job as a manager is to be ready for whatever arrives. One method of helping your organization prepare for the future is to get everyone involved in a process known as “scenario thinking.” Use this process by considering various scenarios that let you look at the forces you think will shape your company’s future. Weigh their impact on your organization. The specific outcome of these scenarios will be much less important than gaining some understanding of the factors that may influence your business.

“When cash-management issues are not central to strategic decisions, the door to disaster is wide open.”

Once you select a relevant future scenario that you can work through to evaluate your organization’s future, create a timeline back from that scenario to the present. Try to understand the implications this scenario has for your organization. As you work through a range of scenarios, you may see some common themes. Find the best way to give your company enough flexibility to meet any of these possible outcomes. Push beyond organizational inertia and reach for some real creativity. A word of warning: Do not confuse working up scenarios with forecasting or use them as a substitute for planning. Scenario thinking is a more general tool, not a commitment to a specific future course. It helps everyone think about your organization’s preparedness and its particular capabilities.

“Understanding customers, market developments and technology leads to customer-focused decisions and these, in turn, provide the most certain route to profitability.”

The general idea of business is growth, which takes five general paths:

1. Growth from within – Organic growth is the usual course of action.
2. Mergers and acquisitions – Taking over a company or merging involves important due-diligence issues. Be alert for the problems provoked by merging corporate cultures.
3. Nonmerger acquisitions – These include partnerships and joint operating agreements. Although the cultural issues are somewhat less intense, contract and performance factors may be more important.
4. Diversification – Developing new product lines or opening new markets can invite attacks from more established competitors and spread your resources very thin.
5. Retrenchment – Dumping noncore product lines or getting out of certain unproductive markets can help you focus on improving the most profitable parts of your business.

“Ideas are no respecters of status or salary...Excellent ideas can be found in unexpected places: junior members of staff, competitors, other industries or historical legend.”

Never forget the financial aspects of growth. Your backers are an important resource. If they lose faith in your future, the lack of cash will kill your plans no matter how much you believe in them.

## Strategic Approaches

Stay on top of your competitive situation. Don't allow your rivals to make a move against you, and never miss a chance to gain ground on them. All products have a natural lifespan. Be aware of where your products are in their life cycles, and make plans for freshening them or creating something new. Be aware of how pricing shifts in your markets and know where you fit into that food chain. Keep an eye on those seemingly insignificant, pesky upstarts. They may get something right.

“Good leadership and good decision making go hand in hand.”

To understand how your company measures up for the purposes of shaping your business strategy, track these issues:

- Investigate the many tools available to you for analyzing these issues – Michael Porter's five-forces analysis assesses those factors close to your company that affect its ability to serve your customers and make a profit. The five forces are: 1) rivalry within your industry; 2) barriers to entry; 3) threat of substitution, 4) the power of suppliers; and 5) the power of customers. The ubiquitous SWOT analysis (strengths, weaknesses, opportunities, threats) is another popular tool. Study these analytical devices so you can use them thoughtfully.
- Pay attention to your customers – You are in business to provide your customers with your goods and services. So, keep their needs and desires at the front of everything you do. Ensure that good customer information flows through your organization and that your team understands its importance. Examine your current view of how your market is segmented to make certain your thinking matches current reality.
- Keep your customer in mind as you design products – Who will buy it? How will they buy it? Where and how often will they buy it? How will they use it? Remember that customer segments move. Are you using all available data about your customers? Could extra information help you understand them better? Do you know how customers use your Web site?
- What does your company know? – The objective information your company possesses, and its ability to understand and interpret that information is vital to your competitive success. Too often companies do not know what they know, or where that information and knowledge resides. Consider performing an audit to evaluate this critical competitive asset. Find ways to increase the quantity and quality of your information and knowledge. How do you maintain and protect it? Are you collecting the right stuff? Are you paying to collect useless, irrelevant information? How does your information flow match and support your organization?
- Which ratios measure your business best? – Most companies focus on certain key ratios to spot trends in their performance. Determine which ratios give you the best feedback, not which are the easiest or the most familiar. Most organizations work hard to control and mitigate all risk. However, it may be well worth taking risk in matters that can help you grow and push past your competitors.
- Which issues require decisions? – Do you have a process for setting your prices? Do you understand the price elasticity of your products, that is how much demand increases or decreases if you change their prices? Can you use it to compete? What barriers are keeping you out of a choice market? Do you support your sales team with every resource available? What more can you do to help them drive more profitable revenue? How are you using the Internet? What brands do you have or which can you develop? Are you getting full value from your brands? Can you do a more effective job in positioning your products? Are you measuring and managing customer loyalty?

## Leading the Way

Certain simple rules for leadership will help keep you on the right path. Involve others in making decisions: You will get a better range of ideas and they will feel more committed to the outcome. Be honest and ethical. Know the precedents created by previous decisions in your company, and be consistent and supportive of your people. Nothing builds confidence like effectiveness in action, so have a method to your madness. Deal with bad news right away without wasting time on recriminations. Be positive in everything you do and say, and – if possible – do it all with a sense of humor. Finally, lead others as you would want to be led yourself.

## About the Author

**Jeremy Kourdi** is a freelance writer who has written 10 business books and many articles. He writes for *The Economist*, and has worked with major corporations, professional associations, business schools and publishers.

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