



Worth Noting

Volume II, Issue XXIII, 18 December 2002

Worth Noting is the weekly management journal of research and conferences company L21. It is focused on management strategy issues of relevance to senior executives.

Military Strategy and Business

Business is like war – isn't it? Many of us never grow tired of listening to old business 'war stories' – the smashing victory, the painful defeat, what casualties we suffered in the takeover bid, how we might have lost a couple of corporate battles but won the overall war ... and so on.

Can war really teach us anything about how to run a business? In the US, France and Germany, and to a lesser extent the UK, many top companies are run by CEOs with significant military backgrounds. Millions of dollars in the US and UK is spent each year on talks by military experts to business leaders; time is invested in military style camps for senior executives. In Australia, this is less the case.

But there are a few CEOs around with military backgrounds. The former CEO of Manpower, Malcolm Jackman is one. He spent his early career as an officer in the Royal New Zealand Navy and openly attributes many of his strengths to a military past.

In this edition of *Worth Noting*, we examine some of the lessons corporate leaders claim to learn from war analogies and see what all the fuss is about. We look at what military matters can (and can't) teach and focus on the military figures of most relevance to business leaders.

Operational Leadership in War and Business

There is nothing as desperate and critical as war. The stakes are never higher and the overwhelming goal is to win the immediate battle, or at least, to defend against defeat. In the conduct of battle, this is the time when the leadership of Generals is most called for. In this sense, it is not surprising that the focus, discipline, sacrifice, leadership of people and common purpose required in a battle operation is seen as the ideal for how businesses should be run. It is not that these qualities matter only in military operations - it is more that they matter the most in military operations.

For someone like Jackman, the advantage of a military background was what it taught him about the process of decision-making.

In war, information is always imperfect. By the time we have perfect information, it is generally too late to act. Hence, we can never really be sure about exact troop positions and capabilities, what the weather will be like tomorrow, how well trained the enemy is ... but what we need to do is take the data we have, turn it into information, and make a decision about what we need to do, hold our nerve and then do it. In other words, we need to make clear decisions, follow through with them, and not procrastinate about it.

In business, we all know information is imperfect. If it wasn't, life would be easy. However, if we do not act on limited information, opportunities are lost. Hence, the statement that "Clarity from uncertainty is better than certainty" has particular resonance, since once we have certainty the time to act has passed.

This is also expressed in military and business circles as 'acceptable risk' in decision making. Risk is basically the absence of certainty. We mitigate or manage risk by turning good data into good information. Frequently, that is the best we can do. In a battle and in running a business, one of the worst things we can do is become completely risk averse.

The Prussian General and military strategist Von Clausewitz raves on about polarities when he talks about a well-rounded leader. For Clausewitz, the world is filled with polarities – opposites. The good leader is someone who can coolly examine the polarities of options, and then possess the courage to take a 'coup d'oeil' - take the risk – and make the final choice. Hence, Clausewitz devotes several chapters to topics such as 'Boldness' and 'Perseverance'.

This is hardly a revelation but the consequences of not making clear decisions are the most serious in military matters. In a combat situation, unclear decision making and unnecessary procrastination can literally be fatal. Hence, in a battle, firm decision-making is highlighted.

The other side of making clear decisions is communicating them. Biographies of the great military generals show that one thing they were supreme at was their skills in communicating with their troops. Unlike what many of us might think, it was not generally about making inspiring, uplifting speeches – although there is a time for that – it was about calmly and clearly telling them what had to be done. In this context the then General Eisenhower said “Most people want to be inspired some of the time, but most of the time, just want to know what they have to do.”

The big problem, of course, is that a military battle is intrinsically different to business competition. In a battle, the price of defeat is either death or capture by the enemy. In business, it is the loss of profits. Trying to lead employees to increase company profits is a different thing in kind to trying to lead soldiers to victory when the alternative is possible death. No matter how hard we try, the desperation of a battle cannot be recreated outside war.

Comparing a CEO to a General in battle is also problematic in two other ways.

First, making such direct comparisons misses out on many things that distinguish between good and bad CEOs. For instance, what makes a good CEO is largely one who does well at managing the different kinds of people they have under them who are motivated by different things in order to get them to ‘do their job’. This is where tactics such as compensation schemes (i.e., options, bonuses), processes to deal with internal disputes and employee productivity processes come in.

On the other hand, a General in battle can assume relatively strong obedience from those below them as stalling or questioning orders can literally be fatal. It is safe to assume that every rational soldier during a battle is willing the General to triumph. Camaraderie is therefore often strongest in the heat of battle and less compelling in a corporate context. Hence, it is unlikely that the ‘managerial’ style of an officer class soldier can be translated directly into the corporate environment. The rationally based pressure to follow orders in a battle where life and death is at stake cannot be compared to the pressure we face to follow orders within a manufacturing company where the worse case outcome might be a late shipment. Hence, while General Rommel’s troops had little choice but to listen to the General and fight as hard as they could in North Africa, Commonwealth Bank employees have a little bit more latitude to defy David Murray and still make it home alive by 6:30pm.

Second, the battle in war metaphor focuses on competitors leaving out a bigger factor in the equation for business success – *consumers*. Military leaders in war are lauded because they defeat an enemy. There can be no war without an enemy. Yet, if we spend most of our time as a CEO focusing on a competitor, we are likely to lose out in the long term. Understanding our customer’s needs,

differentiating between customers, fitting brand with customer-set is quite distant, even figuratively, from what Lord Nelson or Napoleon had to do.

In terms of tactics or operational matters, we have to be careful about drawing too heavily from military matters. We are not saying that war analogies in operational terms are completely irrelevant. There is the need for CEOs to have personal discipline and a sense of sacrifice; decision making and risk-taking must be clearly thought out and communicated; one must make the best out of current resources just as regiments on the field have to do; technology and logistics should be thought through properly and utilised in business just as in war. A battle, like a take-over or merger, is a massive undertaking of planning, logistics and personal leadership. It is more that while these things matter the most during a battle and war is therefore upheld as the ideal state of mind for goal realisation, the operational skill set of the General cannot be directly superimposed onto the CEO.

As an example, a CEO deals with competing interests and goals both within and outside the company much more so than a General ever will. General McArthur's sole goal was to drive the North Koreans back and thereafter defeat the Chinese. Truman's goals were not so straight forward and that is why he dismissed the General.

Strategy in War and Business

What can business strategy learn from military strategy?

Bolko von Oetinger, a student of military and business strategy and the Munich based senior VP of Boston Consulting Group is famous for his insights on business applications of Clausewitz. He insists that business is not war. As he argues, "In business you are creating value for the customer and society. But war destroys value."

We know that war and business have one thing in common – they both involve human activity with human conflict and interests at the core. War and business is therefore both muddled art because it involves uniquely human perceptions and touch, and an imperfect science since we can identify patterns of behavior but they are not set in stone.

However, when we look at strategy, von Oetinger has a different viewpoint. Military strategy can teach business strategy. Military strategy, like business strategy, is all about intelligent opponents clashing and making decisions in an uncertain environment.

A lot obviously depends on what we mean by 'strategy' – a much overused word.

Von Clausewitz defines it in military terms as the concept that links the tactical (operational) and the political or policy based. In business, we define as the most rational or feasible way of realising a business goal. What is the most rational or feasible way must obviously take into account the operational or tactical elements. It is clear that the military and the corporate are at least in the same ball park when thinking about 'strategy'.

By far, the two most frequently quoted military strategists are von Clausewitz and Sun Tzu. Below, we will look at some of their thoughts that became prominent in strategic thinking and examples of how they are relevant to business.

(a) Clausewitz

We're all heard of the great Prussian military thinker, best remembered by most for his saying: "war is a continuation of politics by other means". His true value, however, was to look closely at the art and science of modern warfare. It was his focus on trying to understand and point out timeless similarities between good military leaders that changed the search from case-by-case studies to discerning good versus bad strategy.

1. As we mentioned, Clausewitz was a great advocate of exploring polarities. Every great military leader thinks about this more or less. If there is a conventional view, consider the opposite approach. Don't try to synthesise opposing views because you risk ending up with strategic mush and subsequently indecisive action.

- Many large businesses today are focused on mergers and acquisitions. Their goal is to 'own' their industry. But while company X is trying to consolidate its market, another player may enter the industry and change the business model. Hence, we might ask: 'Do we want to spend money on the acquisition or changing the rules of the industry?' It is rarely helpful to find the middle ground with polar viewpoints.

2. Clausewitz believed strongly in the strategy of surprise and overwhelming superiority of numbers in winning a battle. This goes beyond the obvious point that we generally will win if we have superior resources. Understanding that resources are limited, Clausewitz believed that rather than water down our forces in WWI trench warfare style with wave after wave of random attacks, we should conserve our resources, let the enemy wither down their resources with random attacks, decide or identify the decisive moment, and then when the decisive moment arises gather together the greatest number of troops and overwhelm the enemy with surprise and superior numbers. The greatest modern General, – Napoleon - used this strategy to great success.

- This is a strategy worth noting when intending to launch a hostile takeover. Rather than slowly buying up a target's stocks at both high and low prices over a period of time and flagging the takeover intention, wait

until you believe the target is at its weakest and then launch an overwhelming and surprise bid with all available resources.

3. Clausewitz believed that the assembly of forces should be disciplined. Because the best strategy is to be very strong generally and at the decisive point, the basic law is to keep the forces concentrated. Hence, no portion of forces is to be separated from the main body unless called away by urgent necessity. The norm must therefore be to keep the force unified and any division of resources must be fully justified.

- The obvious business application of this strategy is the oft repeated and oft ignored strategy of sticking to the core business and only going beyond the core as an exception. Time and time again, it is peripheral ventures that bring the worst results.

4. For Clausewitz, reserve resources had only two strategic roles to play: the prolongation or renewal of combat, or for use in case of unforeseen events. In either case, reserve forces must be there to serve the grand strategy of attacking at the decisive moment. Common strategic mistakes are frequently made in this regard. The first, using reserves to prolong a battle or react to an unforeseen event that is not a decisive one; the second, placing our reserves in a situation where it would be impossible to prolong or react to surprises in a decisive battle (whether through distance, geography, unpreparedness and so on).

- How many times have we seen businesses using money to prop up or fight against take-over bids in non-core arms of the business? We all know the maxim of saving for a rainy day – the key is that the rainy day should be an important one.

(b) Sun Tzu

There is an extraordinary fascination with Sun Tzu in some business circles, with executives in the US and UK (and of course Asia) paying thousands of dollars to hear an expert extol his virtues. There are several reasons for this: 'The Art of War' is an instinctively captive title; Sun Tzu lived about 2000 years ago and there is always the hope that lost, timeless wisdom has been rediscovered; it is written at a time that is romanticized – when warriors with a code of honour and swords defended the land rather than faceless pilots dropping 'smart-bombs' or special forces completing their clandestine missions; 'The Art of War' is written in a dialogue Q&A form which gives it a compelling, simple rhetoric; and Sun Tzu was a mysterious character, described intriguingly as a 'warrior-philosopher'.

But what practical business strategies, if any, can we learn from a book written 2000 years ago? Let us see what he says.

1. For Sun Tzu, the ideal strategy is one where we win without ever having to fight. Rationality rather than wild emotion is what characterizes the great warrior and strategy should be rational. Hence, 'rational strategy' means understanding

the basis for conflict while Sun Tzu pinpoints anger and greed as the fundamental causes of defeat. For Sun Tzu, rationality implies deep or profound knowledge – to be aware of disturbances and danger before they arise. If we do so, we can avoid calamities that would otherwise arise – winning without ever having to fight.

- Sun Tzu experts advise CEOs to anticipate problems rather than react to them. The angle is that business strategy should be formed primarily to avoid future problems rather than react to current ones. The move from warrior to business strategist means that strategy should not be about ‘troubleshooting’ but avoiding future pitfalls. Strategy should also be about positioning such that competitors would not wish to take you on directly. Troubleshooters might get more glory but the energy and resources needed to fix problems could be better spent on developing core activities.

2. There are times when we cannot avoid conflict. In these situations, there are different grades of conflict. The superior militarist foils enemies’ plots; next best is to ruin their alliances; next after that is to attack their armed forces; the worse and most desperate is to besiege their cities. The latter is the most costly and should be generally avoided.

- The lesson for business strategy is that conflict should be as indirect as possible. When dealing with hostile competitors, rather than engage in a price war, change the product offering so that the competitor’s ‘price war’ strategy is foiled. Next best, target their strategic suppliers – get them on your side with lucrative exclusive contracts. After that, if we have to, seduce some of their key staff over to your side. But what we really don’t want – which is equivalent to besieging their cities – is to engage with them a price war until one business goes bust. Once again, the better strategy is to avoid this situation but if competitors turn hostile, then so be it ...

3. For Sun Tzu, the great military strategist has an intimate understanding of the psychology and mechanics of conflict and by implication knows the moves of the enemy intimately. Ideally, this ‘deep knowledge’ is used to win battles without actual conflict but in the event of conflict is needed to anticipate the enemy’s military moves and strengths. For example, Sun Tzu urges us to be prepared against an enemy whose rulers are loved and respected by the population since they are likely to be unified while enemies with rulers who are arrogant will tend to be weak and divided.

- The related business strategy is one we have heard many times: “know thy enemy.” Get as much information on them as possible – figures, accounts, management team and background, staff morale, their alliances, agreements, the nature of their investors and so on. Make sure we know the enemies’ and our own strengths and weaknesses before any conflict takes place.

In summary, for Sun Tzu, the best grand strategy is decided at the headquarters, not on the battlefield. Those who have prepared best at headquarters for victory will generally have the most 'strategic' factors on their side.

Military strategies generally look at strategy for three areas – enemy focused strategies, use of resources and logistics focused strategies, and strategies of timing and opportunity. This has a clear parallel with business strategy which can be competitor focused, resource and logistically focused and strategies associated with business opportunity and timing. Once again, the glaring omission is customer related strategies – marketing, branding, price etc. Yet, there are clear business applications to Clausewitz and Sun Tzu.

Sceptics might say that what military strategists say is so vague that there is still a long way to go before we have any real, executable business knowledge. True, but that is what strategy does – gives us a framework to fill in the details with operational and tactical information. A good 'strategy' is always one that is consistent with operational capabilities and broader policy but is neither the same as operational capability or broader policy.

In military and business fields, the great strategies employed and put forward by the great strategists and thinkers are simple – that is the beauty of it – but require enormous discipline and insight to implement. It is also not surprising and worth noting that 'business strategy' as a field took hold after WWII where the exploits of people such as Rommel and Eisenhower became more closely analysed for explicitly business purposes. From this, there was renewed interest in Clausewitz and Sun Tzu first and foremost, but also business interest in the wars between Greeks and Spartans, Ancient Roman military strategies, and the strategies of Alexander the Great, Frederick the Great, Lord Nelson, Napoleon and so on.

Finally, business strategists have also taken an interest in the opposite of great military strategies – great military blunders – for instructive purposes. There is probably no greater compliment to the perceived importance of military strategy to business strategy than that.