



The **Invisible Hand** of your STRATEGY FRAMEWORK

Dr Norman Chorn

WHAT'S THIS ABOUT?

When Adam Smith wrote his book *The Wealth of Nations* in 1776¹, he coined the term “invisible hand” to describe the invisible forces that cause markets to move towards an equilibrium of supply and demand. It has become a basic tenet of economics, and describes one of the underlying assumptions of the free market.

In other words, when policy makers choose a free market as their preferred system of resource allocation, they make the underlying assumption that this “invisible hand” will guide the market towards a state of equilibrium².

Similarly, any tool or framework used in the development of strategy has a series of underlying assumptions - often invisible to the users. And these tools can shape the outcome of the exercise, irrespective of the intentions of the organisation!

So, my contention is that we need to become aware of these underlying assumptions, and ensure that the framework and tool we choose suits our overall intentions and the prevailing environmental conditions. Otherwise, our strategy may well produce a series of unintended consequences and fail to achieve our intended goals.

¹ *An Inquiry into the Nature and Causes of The Wealth of Nations*, A Smith, W Strahan, London, 1776

² My example here should not be taken as an acceptance or rejection of the free market principle. I refer to this purely as an illustration of the “invisible hand”

STRATEGY AND UNDERLYING ASSUMPTIONS

Strategy is a learning process - rather like a game of chess. Each time you or any other player makes a move, the chess board changes and you have to rethink your approach. So, its about diagnosing the situation from a systems perspective, forming an overall philosophy about how to deal with the challenge, and then planning a coherent sequence of actions to put your philosophy into practice.

Each time you diagnose the situation and form your approach, you do so by using an explicit or implicit framework / tool to guide your thinking. These frameworks and tools are generally underpinned by two sets of assumptions about:

- the intention or purpose behind the strategy
- the prevailing environmental conditions.

Simply put, these assumptions can be summarised as follows:

Purpose of the strategy	<p>① • Improve profitability and overall organisational effectiveness</p> <p>② • Disrupt the market • Reposition the business • Regain competitive advantage</p> <p>③ • Future proof the organisation • Adapt to a changing and unknown future</p>	<ul style="list-style-type: none"> • Improve efficiency, margins and the way the organisation meets customer requirements • Change the way the organisation creates value and goes to market. Usually used when market is 'crowded' and the organisation seeks to differentiate itself from the commodity offerings in the market • Respond to a changing market with several variables affecting its future state. A high level of uncertainty about the shape and demands of the future market
Environmental conditions	<p>① • Relative stability and certainty</p> <p>② • Known changes on the horizon</p> <p>③ • High levels of uncertainty • A range of futures</p>	<ul style="list-style-type: none"> • The market is stable or growing at a steady rate • Established competitors and known customer requirements • There are known changes occurring in the form of a new entrant or changes in legislation • An impending change in inputs, technology or customer requirements • Multiple changes expected due to a wide range of variables shifting in unknown ways • The uncertainty is likely to produce a wide range of alternative futures - very difficult to predict the nature of the change

We can use these two sets of assumptions to assist in choosing the right framework or tool for your strategy.

SELECTING THE APPROPRIATE STRATEGY FRAMEWORK

The matrix below suggests a series of approaches that fit the different assumptions about your intentions and environmental conditions:

	Relative stability and certainty	Known changes on horizon	Uncertain future Range of futures
Improve profitability	<ul style="list-style-type: none"> • SWOT analysis • Experience curves 	<ul style="list-style-type: none"> • Biz model innovation • Options valuation 	
Disrupt Reposition Regain comp edge	<ul style="list-style-type: none"> • Ansoff matrix • Biz model innovation • ICA - Porter's 5 forces 	<ul style="list-style-type: none"> • Ansoff matrix • ICA - Porter's 5 forces • Biz model innovation • Blue Ocean strategy 	
Future proof Adapt		<ul style="list-style-type: none"> • Blue Ocean strategy • Scenario planning 	<ul style="list-style-type: none"> • Scenario planning

We have assessed eight popular approaches for developing insights and forming strategy. Each has been analysed in terms of their underlying assumptions and applicability for your purpose, as well as the prevailing market and environmental conditions.

The key takeout from this analysis? Check the overarching reason and purpose behind your strategy exercise, and ensure that the approach you are using suits this purpose as well as the prevailing conditions in the market.

See the appendix for a more detailed description of the different framework and tools for the development of strategy.



Dr Norman Chorn is a strategist and organisation development practitioner with the BrainLink Group. He uses principles of neuroscience to address the challenges of developing strategy in a complex and uncertain environment. His particular areas of focus are strategy in conditions of uncertainty; organisational and cultural alignment; and strategic leadership.

[Subscribe to our regular articles](#)

No spam guaranteed



Appendix: Eight popular strategy frameworks

Framework	How it works	Conditions suited for
SWOT analysis	An assessment of the organisations strengths, weaknesses, opportunities and threats. Useful to determine possible initiatives to protect the business from threats, exploit new opportunities and improve overall effectiveness	SWOT analysis is applicable mainly in stable and relatively certain environments. It has limitations in a changing or volatile environment. It is also difficult to use the lists produced by SWOT to determine the appropriate actions and the relative priority of different initiatives
Experience curves	An analysis of the organisation's costs relative to the volume or overall level of activity. It allows an organisation to predict and plan the requisite level of volume or activity to optimise profitability / costs. Based on the assumptions of "spreading overheads" and "learning effects"	Useful in relatively stable and certain environments where economies of scale can be achieved. In general, the approach is better suited to a manufacturing context where a relatively standardised product is produced. Not so helpful in service or knowledge-based businesses where the objective is to understand customer needs and deliver a relatively customised solution
Ansoff matrix	An exploration of growth opportunities and initiatives required for growth in existing vs new markets, using existing vs new products. It allows the user to define the major growth opportunities that exist through market penetration, new market development, new product development, and diversification	The model is useful to identify and categorise different approaches for growth. It may be used where the market is stable or when we understand the emerging changes in the market. While the categorisation is useful, it says little about how to pursue these different growth options
Industry and competitor analysis (Porter's 5 forces)	The ICA is a significant contribution to strategic analysis. It analyses the relative influence of industry rivalry, buyers, suppliers, barriers to entry and substitutes to overall industry profitability. It also suggests the different responses available to competitors in an existing industry	The model offers powerful 'generic' insights and strategic options to players within a well defined and relatively stable industry. While some potential for disruption is included, the latter is defined quite narrowly. It is not well suited for rapidly changing and uncertain environments, such as those affected by new technologies or changing customer preferences
Options valuation	This is a cost-benefit tool that is used to approximate the value added of a particular initiative or strategy	The approach is useful where the market is relatively stable and where a series of clear strategic options can be identified and assessed. It is generally used in conjunction with other frameworks that suggest alternative strategies
Business model innovation	This is a comprehensive assessment of some 9 elements that comprise an organisation's business model. The assessment is enabled by a well-laid out "business model canvass" that allows users to define and explore each of the 9 elements. By exploring and altering these elements, the business model can be innovated to reposition the business and create new sources of competitive advantage	The framework is very effective for exploring new ways to gain or regain competitive advantage and disrupt existing industries. It can be used in both stable and changing markets where we understand the trends and drivers of change in these markets. It is also useful for exploring ways to streamline your business model and to enhance your value proposition in a highly competitive market. However, it is of less value in conditions of high uncertainty and continuous change due to the assumption of relatively stable industry structure
Blue ocean strategy	This framework is based on the assumption that competing against existing competitors produces commodity-type outcomes and drives profits down. Instead, it advocates searching for "blue water" opportunities through the creation of new markets. The framework offers a range of strategic questions and frames to explore how new markets and business models can be created. It is particularly effective when used with the business model canvas	This is an attractive model to encourage new ways of thinking and creating competitive advantage. Similar to business model innovation (business model canvas), it is dependant on a good understanding of the current and evolving market. - and of less use when facing high uncertainty and continuous change. Moreover, it is a tool to enhance competitive advantage and reposition the business. These factors assume an existing industry structure, or one that is evolving through well recognised trends and drivers
Scenario planning	The base assumption of this approach is that the inherent uncertainty and instability in the market means we cannot predict the future. Scenario planning understands that this uncertainty results in the organisation facing a range of alternative futures. Instead of predicting future conditions and then developing a strategy to fit, scenario planning is focused on developing the requisite capabilities to cope with these alternative futures. It is an approach to future proof the business and enhance overall organisational resilience	Scenario planning is effective in conditions of uncertainty and high rates of change. The process allows the user to consider a range of diverse futures as a consequence of the interaction of multiple variables in the environment. It is essentially a risk mitigation approach that allows organisations to make a series of "no regret" bets in the early stages of the planning and then to fine-tune their approach as future conditions become clearer. It benefits from the possibility of wide participation and the inclusion of diverse views. The latter promotes creativity and innovative thinking. However, it is a more lengthy process than most other planning approaches because of the need to include diverse perspectives