

# COMBAT- Hardened strategy

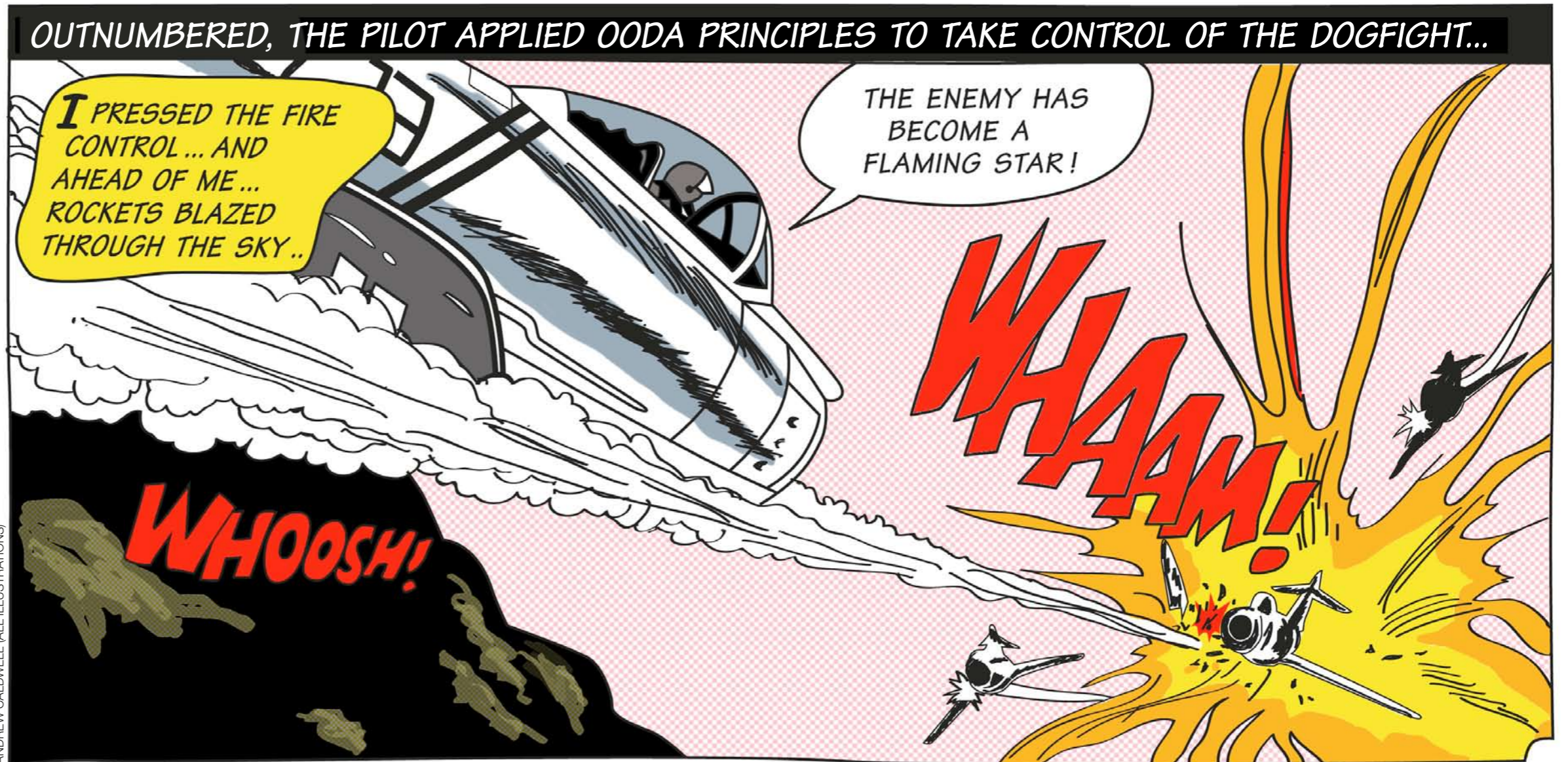
## Doing the OODA Loop

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► The military can teach family firms a thing or two about survival

LENGTH: 9 min (2364 words)

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THERE is a great urgency these days for family businesses to develop and retain strategic processes, capabilities and orientations that are entrepreneurial in nature. Acting entrepreneurially is not about sporadic engagement—it needs to be a regular and systematic part of a firm’s behaviour. OODA is a simplifying framework that can be applied when engaging in entrepreneurial strategy. Derived from the study of aerial combat, it is founded on the concept of agility and the ability to rapidly change one’s orientation in response to what is happening in a world of ambiguity and uncertainty. Here we briefly describe OODA and outline guiding principles that help address some of the challenges facing entrepreneurial family businesses.



**FAMILY FIRMS** are critical to the economic well-being of most, if not all, Western nations, and in New Zealand they comprise upward of 75 per cent of all businesses.

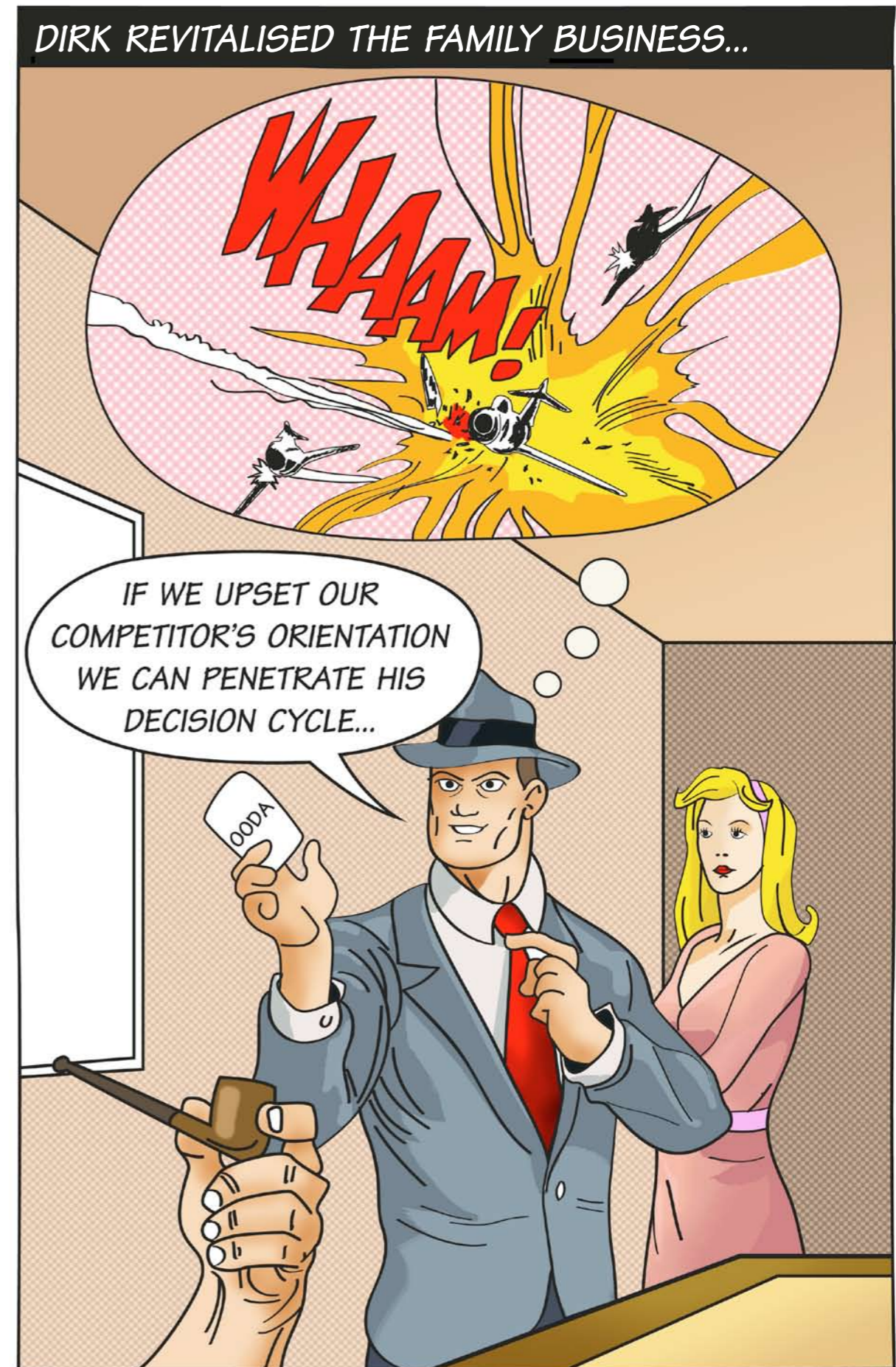
Small and medium-sized enterprises (SMEs) also play an important role in economies the world over, providing significant levels of employment, output and contribution to GDP. Organisational studies have been slow to pay attention to either of these business forms. Yet, as significant economic contributors, both SMEs and family businesses warrant further in-depth attention and research. This conclusion holds as true for the area of strategy as for many other important organisational issues and themes. Regardless of size and ownership structure, good strategic thinking and decision-making are critical. However, family-owned businesses often devote little formal management attention or resources to strategic issues.

### Enduring Family Businesses

ONE OF the key distinguishing characteristics of family businesses is the value they place on longevity. Entrepreneurial families aim to pass the business on to succeeding generations and they are known for being committed owners, supplying “patient capital” to build a lasting family legacy. It is not surprising, therefore, that they survive longer, on average, than non-family firms. However, longevity in today’s competitive environment is not an insignificant challenge: global crises and ongoing uncertainty, together with intense competition and rapid technological change all amplify the need for organisations to be entrepreneurial in order to survive and prosper. The crucial question is how family businesses can simultaneously maintain their much-valued and competitively advantageous long-term orientation while simultaneously being entrepreneurial, adept and nimble in rapidly changing and complex operating environments.

Family firms face an urgent need to develop and retain strategic processes, capabilities and orientations that are entrepreneurial in nature. This requires an entrepreneurial mindset and faster reactions to complex situations. Additionally, research has shown the benefits that quick decision-making can have on family firms’ competitive advantage. Acting entrepreneurially is not about sporadic engagement; rather it needs to be a regular and systematic part of a firm’s behaviour. Therefore, tools, techniques, and methods that encourage

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faster, more effective decisions within an entrepreneurial strategic framework are of value to SME family firms.

Exploring the intersection of entrepreneurial family businesses and strategy presents an interesting challenge and an opportunity. While there has been a great deal of research into family businesses, including their similarities to and differences from non-family businesses, and the manner in which they are managed and run, the strategic management of family firms has largely been overlooked. However, rather than assume that strategy and strategic thinking as it has been understood in large corporate and public sector organisations automatically applies to entrepreneurial SME family businesses, we suggest that different tools, frameworks and heuristics, such as OODA, may need to be considered.

### OODA as entrepreneurial strategy

AS AN organising framework or heuristic, the OODA loop addresses three fundamental challenges inherent in entrepreneurial family-owned SMEs: the need to reconcile the wants and desires of both the family and the business; the need for family businesses to be opportunity focused and innovative to stay relevant and prosperous in ever-changing global conditions; and the need for such businesses to be true to purpose while also being adaptive to change and able to act with necessary speed and agility.

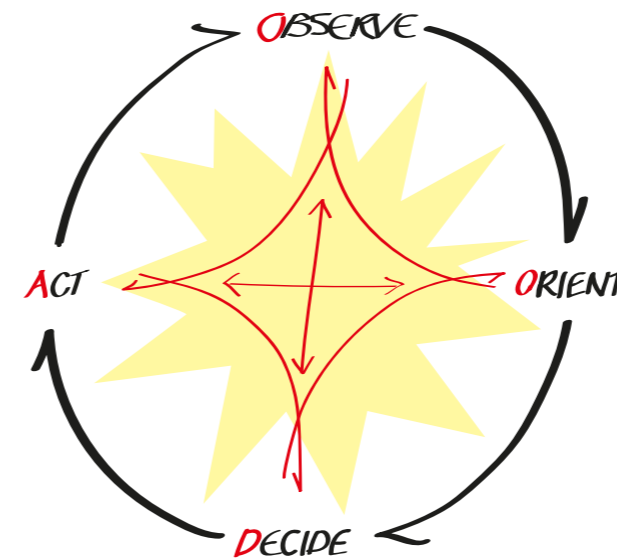
Colonel John Boyd of the United States Air Force originally proposed what has become known as the “OODA loop” in a military context, drawing on the combat experience of fighter pilots to theorise about the links between cognitive processes and action. However, it has subsequently been proposed as a useful strategic tool for business, and its

fit with the nature and characteristics of family businesses has been explored.

Our aim is to use this framework to develop a more disciplined entrepreneurial mindset in those family firms whose size and stage of expansion lead them to act opportunistically and entrepreneurially. The OODA (Observe-Orient-Decide-Act) loop offers an interactive, non sequential process that allows flexibility in making critical decisions in unpredictable, constantly changing environments. It addresses both the development of strategy and the operational implementation of that strategy. As a framework it offers both a useful heuristic tool for entrepreneurs and a useful way of thinking about strategy, entrepreneurial action and the decision-making process.

According to Boyd, the timing of action is often more important than its magnitude, since a time-based approach can overcome significant disadvantages in size and technology. This idea, developed in a war context, has been imported into the business world, first by Boyd and then by business analysts, researchers and advisors. Using speed and agility to combat size, resource and technological disadvantages has significant potential for family-owned SMEs.

By identifying time as an often scarce resource, Boyd argued that agility and the timing of important strategic moves may indeed be a competitive advantage, even when there is an apparent size or technology disadvantage. Simply put, the OODA cycle operates in a competitive business environment as follows: decision makers gather information in the Observe phase, they filter this information through the Orient phase and then make Decisions (hypotheses) and take Action. The cycle is repeated continuously as the organisation works to execute rapid OODA loops.



Chet Richards, a close associate and long-time collaborator of Boyd, recontextualised the strategy for business in his 2004 book *Certain to Win*, with Boyd commenting on and correcting every draft of the book until his death in 1997. In *Certain to Win* Richards presents a detailed discussion on creating a cultural climate for success and on the place of the OODA loop in that success. He argues that while agility and competitive advantage can be achieved through the execution of fast, flexible OODA loops, decision-making will not succeed unless there is an organisational climate for operational success.

According to Richards, this organisational climate builds on Boyd’s understanding of strategy and a more comprehensive appreciation of the Orientation phase of the OODA cycle. Successful strategy, says Boyd, gives us the ability to survive on our own terms in a chaotic, confusing and uncertain world. Strategy serves to harmonise the efforts of people within an organisation and it emerges as a result of changing intentions that are focused on some aim or purpose. Winning in business—surviving on our own terms—requires this aim or purpose to provide a unifying vision that motivates people within the organisation as well as attracting and keeping customers. Thus the first task of strategy is to define and win agreement on what such a purpose might be. For family businesses, as previously mentioned, this unifying vision may well be linked to sustaining the family business legacy across multiple generations.

Once an organisation forms a clear view of its aim or purpose, it must cultivate an organisational culture or climate that will enable the business to execute fast, flexible OODA loops which serve that purpose. Boyd argues that such a climate can be found through the key attributes of *Blitzkrieg* (the German concept of fast-moving warfare). The four attributes are: *Fingerspitzengefühl*—intuitive feel; *Einheit*—mutual trust, unity and cohesion; *Auftragstaktik*—the contract of leadership; and *Schwerpunkt*—any concept that provides focus and direction to the operation.

According to Richards, Boyd often stressed a hierarchy of importance: “People, ideas, hardware—in





that order!”. Each individual in an organisation is encouraged to develop their intuitive knowledge and competence; this “fingertip feel” is understood as “experience in action” and is the product of self education and a learning culture. Rather than draw solely on slower, analytical, explicit decision-making processes, Boyd insisted that we should “emphasise implicit over explicit” to help us shape and adapt to rapidly changing circumstances. Boyd used the phrase “implicit guidance and control” in the OODA loops to acknowledge the importance of this aspect of the decision-making process. Mutual trust, unity and cohesion then underpin the way individuals work with each other in a competitive organisational culture. Mutual trust is the internal harmony that turns a group of people into a team; it encourages implicit communication and supports initiative. The third aspect is the contract of leadership: a mutually agreed understanding of what needs to be achieved at the relevant levels of the organisation. If a task needs to be completed, those carrying out the task

agree with management what needs to be achieved and are given the freedom—within agreed constraints—to achieve the task. A manager does not prescribe how to accomplish a task—delegation is a vital part of the organisational culture, but micromanagement is not. This, albeit informal, contractual arrangement between management and staff must also adhere to aspects of the previous principles: intuitive feel, initiative and mutual trust. For family businesses, having explicit clarity of purpose, along with leadership and management role clarity, allows both family and non-family members the possibility of strategic success.

The remaining aspect of organisational culture is *Schwerpunkt*—focus and direction. It is the actionable component of the overall aim or purpose of the organisation and identifies what is to be done to achieve this aim or purpose. We may think that the overall aim or purpose—the unifying vision of the business discussed above—is the *Schwerpunkt*. But this is not the case. The *Schwerpunkt* must give real and actionable guid-

ance in situations where there are no formal directives; it must also contribute to an outward focus towards the customer. This overarching purpose, for family businesses, is often sustained and deeply valued across many generations.

As previously mentioned, the OODA loop centres on the “big O” of orient; the single most important part of the cycle is the orientation phase and the implicit guidance and control that this phase exercises on the decision-making cycle. *Fast Company* magazine’s deputy editor Keith Hammonds suggests that it is helpful to think of the loop as “an interactive web with orientation at the core.” Metaphorically speaking, orientation is the compass that sets the focus and direction of the decision-making cycle; it is constantly being aligned to what is observed in the external environment and filtered through the various components that inform our orientation. Orientation provides us with an implicit repertoire of psychological skills. Cultural traditions, genetic heritage and previous experience help us interpret a situation; when combined with analysis and synthesis we draw on new information coming to us through the observe phase. It then guides the decisions made and action taken, which provide further feedback. Of course, this may involve shifting our “compass” if what we observe does not match our orientation. A business should look constantly for mismatches because in any misalignment between a business’s original understanding of the environment and a changed reality lie opportunities to seize competitive advantage. This

OODA	DESCRIPTION	POSSIBLE TOOLS & FRAMEWORKS	PROMPT QUESTIONS
<b>OBSERVE</b>	360° observation of the external environment.	SWOT, PESTE, CAGE, Porter’s Five forces.	–What is happening in the global and local context of your business? –Where are your “blind spots”?
<b>ORIENT</b>	Internal articulation of the purpose and culture of the family business: the way we do things around here and why.	–Written and shared articulation of core values. –Vision and/or mission statement.	–What are the anchoring values of your organisation? –Why does this family business exist?
<b>DECIDE</b>	How to win today and tomorrow.	–Decision making matrices. –Decision trees. –Goal setting : e.g. SMART goals.	–What is your competitive advantage? –What is your core competency? –What is your business model?
<b>ACT</b>	Execution—make it happen	–Feedback/ accountability loops. –Metrics. –Benchmarking.	–What needs to happen: • by when? • by whom? • with what resources? –Accountability: is it happening? If not, why not?

FIGURE 1: OODA implementation tools and frameworks

KEY

**SWOT:** Strengths, Weaknesses, Opportunities, Threats

**PESTE** analysis: Political, Economic, Social, Technological and Environmental

**PORTER’S FIVE FORCES**

- Threat of new entrants
- Threat of substitute products or services
- Bargaining power of customers (buyers)
- Bargaining power of suppliers
- Intensity of competitive rivalry

**CAGE distance framework:**

- Cultural Distance
- Administrative Distance
- Geographic Distance
- Economic Distance





## Challenging dominant logic

IT IS important to bear in mind the “dominant logic” of a company which, in the words of Indiana University researchers Donald Kuratko and David Audretsch: “attempts to capture the prevailing mindset, and... drives the overall focus of the systems and routines”. While dominant logic is a natural organising principle, there is a risk that without questioning or periodic review it will cease to be valuable in driving the business forward. As family owned small and medium-sized businesses grow, they need to be more disciplined across a variety of dimensions including strategic thinking and decision making (and, naturally, in the execution and review of such decisions). OODA challenges the dominant logic.

The OODA framework does not require extensive resourcing in order to apply it quickly and effectively in the development of entrepreneurial strategy. Yet it is capable of incorporating the dynamics of family businesses—and such dynamics are certainly likely to impact on both strategy process and outcome. The OODA loop enables three critical challenges for entrepreneurial family-owned SMEs to be addressed:

- Orientation allows the desire of both family and business for clarity of purpose, values, and mental perspectives to be met and reconciled.
- Observation addresses the need, in complex and changing environments, for SME family businesses to be opportunity-focused.
- The processes within the decision and action components of the OODA loop allows necessary action to be taken with both speed and agility.

is where opportunity recognition and entrepreneurial behaviour is important. And, at the same time as an organisation is executing fast and flexible OODA loops, it should also be working to operate inside a competitor’s OODA loop to outthink and outmanoeuvre rivals.

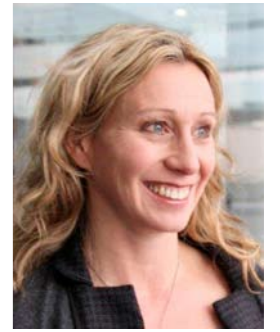
As stated above, entrepreneurial family-owned SMEs can benefit from embracing a strategic management perspective. However, it must be a perspective that resonates with the day-to-day reality of the entrepreneurial owner manager who is the key decision-maker in these organisations. We suggest that the OODA loop, and the cultural principles that surround it, provide one potential framework that small and medium-sized entrepreneurial family businesses can draw on.

IN CONCLUSION, we suggest that the six guiding principles listed below might usefully form a framework for SME family businesses to develop entrepreneurial strategy:

1. As part of their overall strategic imperative, family-owned businesses should aim to be sustainable across generations.
2. To thrive across generations, they need to be skilled in identifying entrepreneurial opportunities.
3. They must develop a strategic capability to ensure that identified entrepreneurial opportunities lead to competitive advantage.
4. Given the inherent uncertainty and complexity of today’s business environment, quick decision-making and fast reaction time can be a critical part of building competitive advantage.
5. Strategic frameworks that encourage faster, more effective decision-making should be valued.
6. OODA is a strategic decision-making and action-oriented framework able to facilitate fast, effective decisions that align with the dominant logic, maintain family values and are sustainable across generations. ■

## KEY TAKE-OUTS

- Family firms urgently need to develop and retain strategic processes, capabilities and orientations that are entrepreneurial in nature.
- The OODA framework enables faster, more effective decisions within an entrepreneurial strategic framework.
- Acting entrepreneurially is not about sporadic engagement; it must be a regular and systematic part of a firm’s behaviour.



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