

**Lecture 5 - From Confucian Fiscal Thought to
Business: Enhanced Advantage**

**Integrating Sun Tzu's *Art of War* with Porter's
Competitive Strategy**

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Introduction



Core Idea: Fighting is a means to an end, not the end itself.



Shih 勢 —
Enhanced Energy;
Power



Porter: Operational Effectiveness and Strategic Positioning



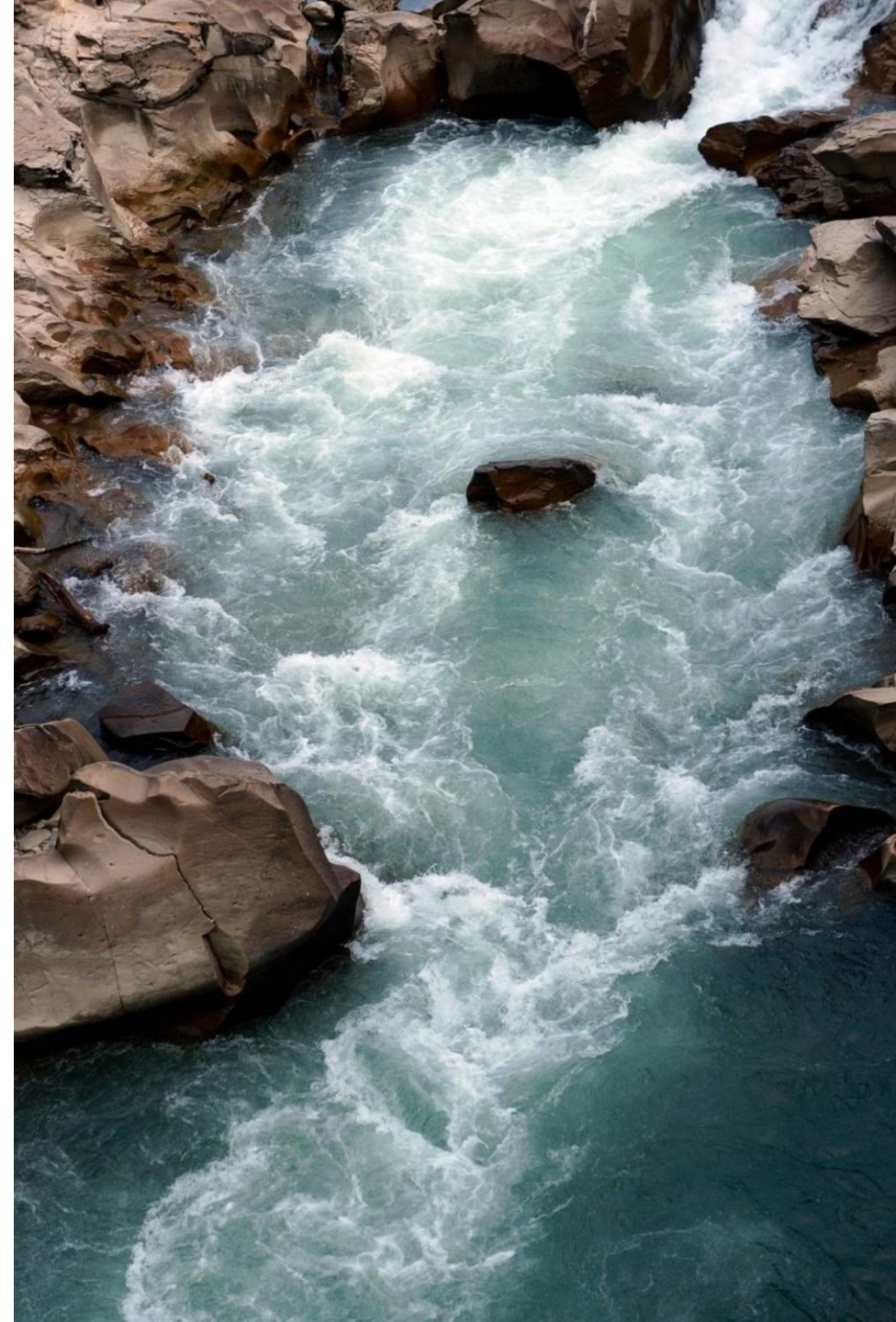
Sun Tzu's Concept of "Shih" (Enhanced Energy)

- What is "Shih"?
- The title of the chapter "Enhanced Energy" in *The Art of War*.
- Can be interpreted as "situation" or "power".
- Sun Tzu's Analogy:

“

"The onrush of pent-up water tumbling stones along" and "the momentum of a round stone, which rolls down a mountain from thousands of feet in height".

”



Sun Tzu's Concept of "Shih" (Enhanced Energy)

Shih represents a self-intensifying power that grows when used, like a snowball effect.

Example: The psychological unity and high morale of an army creates a self-reinforcing system of *Shih*, allowing a smaller army to defeat a larger one.



The Duality of "Hsing" and "Shih"

- Hsing (Tactical Disposition) 形
 - Pertains to **physical capability**.
 - Maximized by the clever arrangement and disposition of troops.
 - It is the *object* that is moving.
- Shih (Enhanced Energy) 势
 - Enhances performance by utilizing the **psychological element**.
 - It is the *movement* and revealed power of Hsing.
- Interdependence
 - Hsing is the basis of Shih. Shih is the effect of moving Hsing.
 - The creation of *Shih* depends on the general's ability to combine two other forces: **Cheng (normal/direct)** 正 and **Chi (abnormal/indirect)** 奇.

Introducing Cheng (Normal) & Chi (Abnormal)

- Philosophical Roots
 - Sun Tzu's military thinking is deeply rooted in Daoism, which explores concepts of paradoxes and counterbalances (yin and yang).
 - The theory of Cheng and Chi is a perfect example of this philosophy.

Study	Explanation	Translation (<i>Cheng</i> vs <i>Chi</i>)
Li Ch'uan	Facing the enemy is Cheng; whereas making lateral diversion is Chi.	Straight forwardness vs. Lateral diversion
Chia Lin	In presence of the enemy, your troops should be arrayed in normal fashion, but in order to secure victory abnormal maneuvers must be employed.	Normal vs. Abnormal
Mei Yao-ch'en	Chi is active, whereas Cheng is passive; passivity means waiting for an opportunity	Passive vs. Active

Introducing Cheng (Normal) & Chi (Abnormal)

Study	Explanation	Translation (<i>Cheng</i> vs <i>Chi</i>)
Ho Shih	We must cause the enemy to regard our straightforward attack as one that is secretly designed, and vice versa; thus Cheng may also be Chi, Chi may also be Cheng	Straightforward vs. Secret (unexpected)
Wei Liao Tzu	Direct warfare favors frontal attacks, whereas indirect warfare attacks from the rear.	Direct vs. Indirect
Cao Cao	Going straight out to join a battle is a direct operation; appearing on the enemy's rear is an indirect maneuver.	Direct vs. Indirect
Sawyer (2005)	"Orthodox" tactics employ troops in normal, conventional, and therefore predictable ways; "unorthodox" tactics stress flexibility, imagination, and surprise.	Orthodox vs. Unorthodox

Introducing Cheng (Normal) & Chi (Abnormal)

- Core Definition
 - **Cheng (Normal):** Refers to normal, regular, or general military methods for handling the enemy. It's the conventional, expected approach.
 - **Chi (Abnormal):** Refers to special, unusual, or irregular methods aimed at confusing the enemy. It's the unconventional, surprising approach.
- The Goal:
 - To win, one must appropriately combine Cheng and Chi to create and exploit the vital force of *Shih*.

The Dynamic Relationship of Cheng & Chi

INTERDEPENDENCY

- Sun Tzu: "Generally in a battle, one engages with the normal (Cheng) and gains victory through the abnormal (Chi)".
- This does not mean Chi is superior; it highlights their deep interdependency.
- A weak Cheng (conventional force) will weaken the effect of Chi (surprise manoeuvres).

MUTUAL INTERCHANGEABILITY

- Cheng can become Chi, and Chi can become Cheng.
- The secret lies in confusing the enemy about your true intentions.

EXAMPLE: ZHUGE LIANG'S "EMPTY FORT STRATEGY"

- Facing a much larger army, Zhuge Liang opened the town gates and calmly played music on the city wall.
- The enemy, fearing an ambush (a conventional trap), retreated.
- A *Chi* (abnormal) strategy was perceived by the enemy as a *Cheng* (normal trap) manoeuvre, showcasing their interchangeability.



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Limitless Combinations

- Sun Tzu asserted that combining Cheng and Chi can create countless variations, meaning there is no fixed principle to follow rigidly in a campaign.
- Sun Tzu's Analogies for Infinite Possibilities:
 - *"The musical notes do not exceed five, but the changes of the five musical notes can never be fully heard".*
 - *"The colors do not exceed five, but the changes of the five colors can never be completely seen".*
 - *"The flavors do not exceed five, but the changes of the five can never be completely tasted".*

Pivot to Business: Porter's OE & SP

- Michael Porter's "What is Strategy?" (1996)
 - Introduced two concepts that have shaped modern business strategy: Operational Effectiveness (OE) and Strategic Positioning (SP).
- Operational Effectiveness (OE)
 - **Definition:** Conducting activities *similar* to rivals, but doing them *more efficiently*.
 - **Focus:** Better utilization of materials, reducing defects, developing products faster.
 - **Example:** Toyota's just-in-time (JIT) production system.
- Strategic Positioning (SP)
 - **Definition:** Performing *different* activities from rivals, or performing *similar* activities in *different ways*.
 - **Focus:** Being different and delivering unique value to consumers.
 - **Example:** Tesla Motors using electricity for cars, unlike conventional fuel-based automakers.

The Limits of Operational Effectiveness

- Porter's Argument:
 - OE is **necessary** for a company to outperform rivals, but it is **not sufficient** for long-term advantage.
- Why isn't OE enough?
 - **Imitation:** Best practices are easily imitated by rivals and spread quickly throughout an industry.
 - **Convergence:** This imitation makes firms increasingly similar, leading to destructive price competition.
 - **Beneficiaries:** The ultimate long-term beneficiaries of OE are often customers and suppliers, not the firms themselves.

Integrating Sun Tzu and Porter

- The Core Connection
 - Just as **Cheng** and **Chi** are the tools for generating *Shih* in battle, **OE** and **SP** are the methods for generating competitive advantage in business.
- A direct relationship can be drawn:
 - Cheng (Normal) ↔ Operational Effectiveness (OE)
 - Chi (Abnormal) ↔ Strategic Positioning (SP)

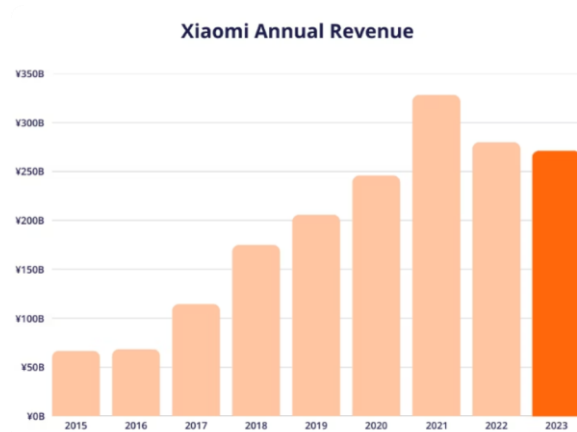
Military Strategy (Sun Tzu)	Business Strategy (Porter)	Key Characteristic
Cheng (Normal)	Operational Effectiveness (OE)	Direct confrontation/competition; performing similar activities, but better.
Chi (Abnormal)	Strategic Positioning (SP)	Irregular/unexpected maneuvers; performing different activities or similar activities differently.

Dynamic Relationships & Contrasting Views

- Dynamic Nature
 - Just as Cheng and Chi are interchangeable, an SP strategy, once widely imitated, can become OE. It loses its uniqueness.
 - Sun Tzu stresses the **combination** of Cheng and Chi for enhanced advantage.
- Porter's Preference
 - Porter argued firms should primarily secure **SP** for long-term advantage, viewing it as "true strategy".
 - He believed relying on OE leads to destructive competition.

Dynamic Relationships & Contrasting Views

- A More Integrated View
 - Firms, especially followers, can adopt OE first to build competencies, then secure SP later.
 - Firms can also pursue OE and SP **simultaneously**.
 - **Example: Xiaomi** uses SP in its online-only distribution and unique business model, while using OE to benchmark Apple's hardware at a lower cost.



Business Case: Walmart's Cost Leadership

- **The Question:** How did Walmart maintain its incredible cost advantage over such a long period?
- We will analyze Walmart's journey in three distinct stages of development.

Walmart: Stage 1 (1962 – 1992)



First Walmart store opened in Rogers, Arkansas in 1962.



- **Initial Goal:** "Offering consumers a wide selection of goods at a discounted price".
- **Strategy:**
 - Located stores in small towns with few retail options, avoiding direct competition with established retailers.
 - Benefited from lower land prices and created its own economies of scale.

Walmart: Stage 1 (1962 – 1992)

- **Analysis:**
 - Primarily an **Operational Effectiveness (OE)** strategy.
 - As a latecomer, Walmart benchmarked competitors to offer cheap goods more efficiently.
 - While the location choice avoided competition, its target customers (low-income, price-conscious) were not fundamentally different from rivals, so it wasn't a full SP strategy.

Walmart: Stage 2 (1993 – 2006)

- **Motto:** "Always low price".
- **The Twist:** During this period, only 15-20% of Walmart's items were actually priced lower than competitors.
- **Strategy:**
 - Masterfully manipulated **public perception** to maintain its low-price image.
 - Focused on satisfying customers' *core needs* by keeping prices of *key goods* extremely low.
 - Customers, satisfied with key prices and convenience, overlooked poorer service or slightly higher prices on other items.
- **Analysis:**
 - Still largely a strategy of **Operational Effectiveness (OE)**, refining processes and managing customer perception within the existing retail landscape.

Walmart: Stage 3 (2007 – Present)

- **The Shift:** Facing new pressures, Walmart evolved its strategy.
- **New Slogan (2007):** "Save Money, Live Better".



Walmart: Stage 3 (2007 – Present)

- New Initiatives:
 - **2011:** Launched an initiative for healthier food at economical prices to help reduce sodium, sugar, and trans fats.
 - **2013:** Set a goal to reduce packaging by 5%, which protected the environment and lowered business costs (purchasing, transport, waste).
- Analysis:
 - A shift from primarily OE to incorporating **Strategic Positioning (SP)**.
 - Changed its position from just a low-cost provider to a provider of **wellness**.
 - Target group shifted towards those demanding healthier goods, a "needs-based SP".

Walmart's Success: The Power of Combination

- The Key Insight:
 - While pursuing its new **SP** (wellness, healthier foods), Walmart **did not give up its OE endeavors** (e.g., reducing packaging costs).
 - Walmart's success shows that **OE and SP are complementary, not conflicting**.
- Sun Tzu's Wisdom:
 - Walmart's story is better explained by Sun Tzu's claim that enhanced advantages (*Shih*) are achieved by jointly employing **Cheng (OE)** and **Chi (SP)**.
 - This combination overcomes the disadvantage of OE (direct competition) by creating a unique, defensible position.
- A Caveat:
 - This strategy failed in some foreign markets (South Korea, Japan, Germany) where Walmart failed to offer a compelling value proposition compared to local competitors, highlighting the need to adapt the OE/SP mix to the local environment.

Conclusion & Key Takeaways

- **Sun Tzu's Core Message:** Enhanced advantage (*Shih*) is created by combining **Cheng (normal)** and **Chi (abnormal)** strategies.
- **The Business Parallel:** Competitive advantage is generated from **Operational Effectiveness (OE)** and **Strategic Positioning (SP)**.
 - **Cheng $\approx$ OE** (Direct competition)
 - **Chi $\approx$ SP** (Different activities, less direct competition)
- **The Walmart Case:** Demonstrates that a firm can start with OE and later adopt SP, using them in combination to strengthen its long-term leadership position.
- **The Big Takeaway:** True strategic advantage comes not from choosing one path, but from the **dynamic, flexible, and synergistic combination** of both conventional (Cheng/OE) and unconventional (Chi/SP) approaches.