

Theodore Levitt
1960

Marketing Myopia

Thomas C. Schelling
1971

The Strategy of Conflict

Strategy and Games

- The term “strategy” is taken from the *theory of games*, which distinguishes games of skill, games of chance, and games of strategy.
- *Games of strategy* are those in which the best course of action for each player depends on what the other players do.
- The term is intended to focus on the interdependencies of the adversaries' decisions and on their expectations about each other's behavior.

The Strategy of Conflict

- To study the *strategy of conflict* is to take the view that most conflict situations are essentially *bargaining* situations.
- These are situations in which the ability of one participant to gain his ends is dependent to an important degree on the choices or decisions that the other participant will make.
- The bargaining may be explicit, as in the ordinary haggling in the market, or it may be tacit, as when one occupies strategic territory.

Bargaining

- Bargaining power has been described as the power to fool and bluff, e.g.,
 - The ability to set the best price for yourself and fool the other man into thinking this was your maximum offer.
- Fooling means deceiving about the facts.
 - A buyer might lie about his income or funds.
- Bluffing is purely tactical.
 - Deceiving the other person about one's real intentions (see example on next slide).

Bluffing Example

- Suppose two people know “everything” about each other, so there is no chance of lying about the facts.
- A potential buyer may say that, while the product is clearly worth up to twenty, he is firmly resolved to pay no more than sixteen.
- The seller believes the buyer and sells for sixteen, and the bluff worked.
- But was it really a bluff? Or did the buyer firmly resolve not to go higher than sixteen?
 - We cannot know unless the seller rejected the buyer's offer of sixteen, but in this example we don't know.

Tacit Bargaining

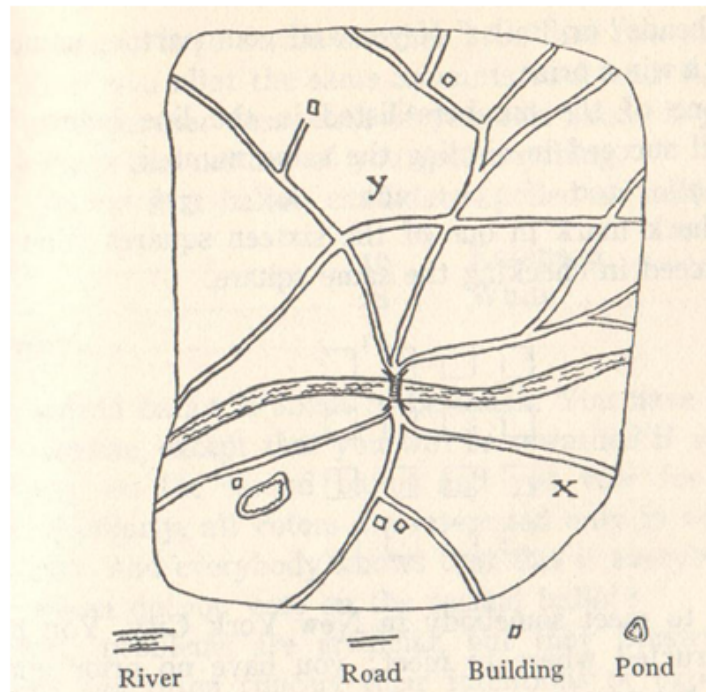
- The study of tacit bargaining – bargaining in which communication is incomplete or impossible – assumes importance, for example, in connection with competition or judicial maneuvers.
- The problem is to develop a *modus vivendi* * when one or both parties either cannot or will not negotiate explicitly or trust the other with any agreement explicitly reached.

* An arrangement which allows people with different attitudes to live or work together.

Tacit Coordination with Common Interests

- Consider this example:
 - Two people parachute unexpectedly into the area shown on the next slide.
 - They become separated on the way to the ground, and neither knows where the other has landed nor are they able to communicate.
 - They know that each of them has a map.
- They need to get together quickly to be rescued.
 - Where should they go to meet the other person?

The Parachute Example



Tacit Bargaining with Divergent Interests

- Consider these two examples (no communication allowed):
 - A and B are to choose “heads” or “tails.”* If both choose heads, A gets \$3 and B gets \$2. If they both choose tails, A gets \$2 and B gets \$3. If they choose differently, neither gets anything. You are A, which do you choose – heads or tails?
 - You and two others are given a letter – either A, B, or C. On a piece of paper, you are to write these letters in any order. If the order is the same on all three papers, you get prized totaling \$6, with the one who has the first letter on all three lists getting \$3, the one with the second letter getting \$2, and the one with the third letter getting \$1. Your letter is C. Which order of letters do you write on the paper?

* Do not speak; write your choices on a piece of paper and then show each other what was written.

Games of Coordination

- The coordination game probably lies behind the stability of institutions and traditions and perhaps the phenomenon of leadership itself.
- For example, among the possible sets of rules that might govern a situation, tradition points to a particular set that everyone can expect everyone else to be conscious of as a conspicuous candidate for adoption.
 - Example: What clothing to wear to a party?

Games of Coordination

The Intellectual Process

- It should be emphasized that coordination is not a matter of guessing what the “average man” will do.
- One is trying to guess what the other will guess that one’s self will guess the other is going to guess and so on *ad infinitum*.
- See the game on the next slide.

Games of Coordination

The Intellectual Process – An example

- Consider the game of “name a positive number.”*
- If everyone picks the same number, all will share a large monetary prize.
- If even only one person chooses a different number from the rest, then no one will get anything.
- What number do you pick?

* Once again do not speak; write your choices on a piece of paper and then show each other what was written.

Mixed-Motive Games

- The “mixed-motive game” is another way of saying a “bargaining game,” but focuses on tacit bargaining.
- “Mixed-motive” refers not, of course, to an individual’s lack of clarity about his own preferences but rather to the ambivalence* of his relation to the other player.
- It is the mixture of mutual dependence and conflict, of cooperation and competition.

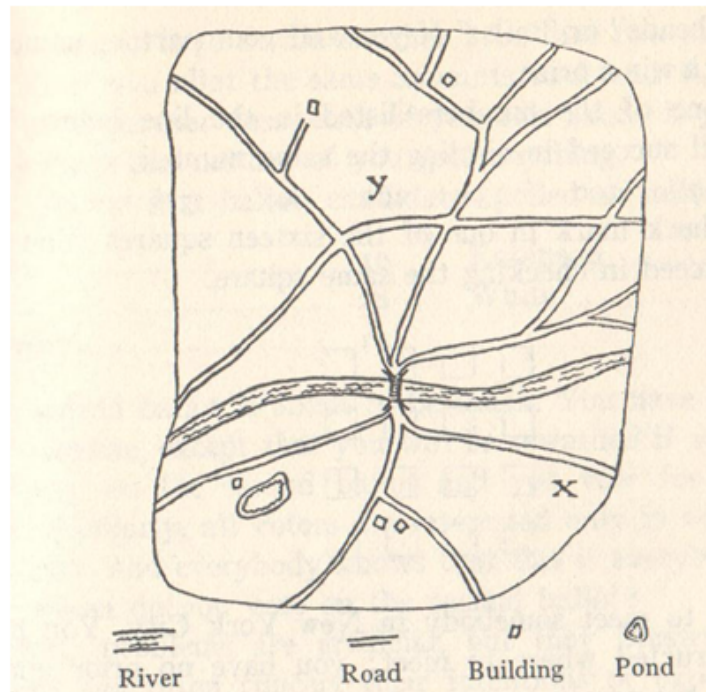
* Simultaneous and contradictory attitudes or feelings (such as both attraction and repulsion) to a person.

Mixed-Motive Games

An Example

- Two opposing forces are at the points marked X and Y on the familiar map (next slide).
- The commander of each forces wishes to occupy as much of the area as he can and knows that the other commander does too.
- But each commander wishes to avoid an armed clash and knows the other does too.
- You are the commander at point Y. Write an order to your troops telling them which line to advance to and to go no further.
 - If your line overlaps the other commander's, there will be an unwanted clash.
 - If both commanders leave an unoccupied space, the situation is unstable and it is likely that further movement will be made into the unoccupied space, which will result in an unwanted clash.

The Opposing Forces Example



Explicit Communication

- The introduction of uninhibited speech may not greatly alter the character of the game, even though the particular outcome may be different.
 - The dependence of the two players conveying their intentions to each other and perceiving the intentions of each other, of behaving in predictable patterns and acquiescing to rules and limits, is much the same as before.
- The outcome is determined by the expectations that each player forms of how the other will play.

Sun Tzu
~500 B.C.

The Art of War

Background

- Sun Tzu wrote *The Art of War* around 500 B.C.
- While its subject is war, the book is often used to discuss strategy in general.
- Prior to the establishment of schools of business, most teaching of management was done in military schools.
 - The military dealt with strategy, planning, organization, logistics, training and discipline, and other aspects of managing large groups of people.
- Other businesses were primarily small and built by training in apprenticeships.

Laying Plans

- The art of war is governed by five factors:
 - The moral law
 - Heaven
 - Earth
 - The commander
 - Method and discipline
- The Moral Law causes people to be in complete accord with their ruler, so that they follow him regardless of their lives, undismayed by any danger.

Laying Plans (cont'd)

- Heaven signifies night and day, cold and heat, times and seasons.
- Earth comprises distances, great and small; danger and security; open ground and narrow passes; the chances of life and death.
- The Commander stands for the virtues of wisdom, sincerely, benevolence, courage and strictness.
- Method and Discipline are the marshalling of the army in its proper subdivisions, the graduations of rank among the officers, the maintenance of supply for the army, and the control of expenditures.

The Conduct of War

- All warfare is based on deception, hence:
 - When able to attack, we must seem unable;
 - When using our forces, we must seem inactive;
 - When we are near, we must make the enemy believe that we are far away; and
 - When far away, we must make him believe we are near.

The Conduct of War (cont'd)

- Hold out baits to entice the enemy.
 - Feign disorder and then crush him;
 - If he is secure at all points, be prepared for him.
 - If he has superior strength, evade him.
 - If your opponent is of choleric temper, seek to irritate him.
 - Pretend to be weak, that he may grow arrogant.
 - If he is taking his ease, give him no rest.
 - If his forces are united, separate them.
 - Attack him where he is unprepared, appear where you are not expected.

The Importance of Spies

- What enables the wise leader to strike and conquer, and achieve things beyond the reach of ordinary men, is foreknowledge.
- Knowledge of the enemy's dispositions can only be obtained from other men, hence the use of spies.
- Spies are a most important element in war, because on them depends an army's knowledge of the enemy and its ability to move.