

White Paper

Tactical and Strategic Reasoning

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The conceptual basis for the Hogan Business Reasoning Inventory is the distinction between tactical and strategic reasoning. On the one hand, this distinction is related to the distinction, in the psychometric study of intelligence, between rule using and rule finding; on the other hand, it is a dramatic feature of real world decision making. Tactical reasoning concerns solving problems as they are given; strategic reasoning concerns redefining the problems.

The first example of this distinction that I know of concerns the legend of Alexander the Great and the riddle of the Gordian Knot. In the 4th century, BC, Phrygia was a province of the Persian Empire. Alexander entered Phrygia determined to conquer Persia. In the palace of the kings of Phrygia at Giordium there was a cart or chariot with an intricate knot on its shaft—the legendary Gordian Knot. An oracle had prophesized that he who could untie the Gordian Knot would become the King of Asia. Alexander spent the winter of 333 BC in Giordion; while there, he attempted to untie the knot; after picking at it for a bit, he took his sword and cut it in half. He then went on to become the King of Asia.

A recent example of the distinction between tactical and strategic reasoning comes from the 3M Corporation in St Paul, Minnesota. Founded in 1902 to manufacture and market sandpaper products, in 1925 the company began to “diversify” into a continuously expanding line of tape products. In the 1940s, 3M started producing a variety of consumer products including magnetic sound recording tape and cleaning pads. In 1980, 3M introduced Post-it Notes, a huge new product. In the 1990s the company expanded into pharmaceuticals, inkjet printers, and cell phones, and outside observers wondered if 3M had lost its focus.

In 2001, W. James McNerney, Jr. was recruited from General Electric to be Chairman and CEO. McNerney, a Harvard MBA who had also worked at McKinsey and Proctor and Gamble before joining 3M, began applying standard GE methods, which he described as focusing on 3M’s “Operational Excellence” and which involved streamlining processes and products and cutting costs (a pure example of tactical reasoning). There are three points to note about these methods. First, streamlining and cost containment restored some badly needed focus to 3M’s efforts. Second, the process yielded results—between 2001 and 2005 the stock increased from \$50.00 to \$80.00 per share. And third, insiders soon began to worry that the focus was short sighted—for example, McNerney reduced spending for research and development and shut down the legendary 3M Abrasives Laboratory which was central to many of 3M’s products and technology—and that the company was on its way to going out of business, even as the stock went up.

In 2005, the Boeing Corporation, racked by a series of nasty ethics scandals, recruited McNerney to be Chairman and CEO, with a mandate to clean up the obviously corrupt corporate culture. That is where he is today, and where the stock price is rising. Meanwhile, the 3M board recruited George W. Buckley to be the new Chairman and CEO. Buckley is British, with a B.Sc. and a Ph. D. in Electrical Engineering. He had been President of Central Services at the British Railway Board, worked at Emerson Electric, and was CEO of Brunswick from 1997 to 2005, when he moved to 3M. Buckley quickly revised many of McNerney's policies—for example, he reopened the Abrasives Laboratory and began investing in research and development. Most critically, however, he shut down 3M's traditional Minnesota manufacturing facilities, noting that two-thirds of their sales came from their international subsidiaries, and started plants near the customers to shorten supply chains. The stock went from \$80.00 in 2005 to \$95.00 per share in late 2007. Consistent with the rest of the U.S. economy, it is now back in the \$80.00 range; nonetheless, 3M insiders report a sense that the company is showing undeniable signs of regeneration.

People as talented as McNerney and Buckley can switch from tactical to strategic reasoning depending on the problems they face. To call someone a tactical thinker is a judgment based on that person's performance over a significant period of time. However, during his tenure at 3M, McNerney was primarily a tactical thinker who focused on cutting costs, refining existing processes, and driving short term profits. In contrast, Buckley is primarily a strategic thinker who is trying to position 3M for the long term. The difference between tactical and strategic thinking is not a difference in IQ; the difference is a matter of preferred cognitive style. There are times when one style is more appropriate than the other, but the most adaptive problem solver is a person who can do both.