

Position

Position Paper

Adaptive Strategy: Evolve to Succeed

Introduction: The Thousand Circumstances that Get in the Way of a Good Plan

Napoleon – who was well qualified to comment on matters of military strategy – once observed of warfare: “There are no hard and fast rules; everything depends on the plans of the general, the condition of the troops, the season of the year, and a thousand other circumstances, which have the effect that no one case will ever resemble another.”

Notwithstanding the many differences between warfare and business, the question arises: can you meaningfully set goals and implement strategies to achieve them when “a thousand other circumstances” stand in the way?

The answer is yes, but goal- and strategy-setting have to be undertaken as freer and more opportunistic affairs. Goals and objectives (and the strategies to accomplish them) must organically emerge from your organisation’s context and environment (both external and internal environment). An organisation’s operational, market and stakeholder context provides the parameters for strategic decision-making: setting goals and strategies independently of this will likely lead to failure and irrelevance.

Traditional rational goal-based planning makes sense when the environment is steady and growth is stable. When there is rapid change, turbulence or uncertainty (as has characterised recent times with the impact of the internet, social networking, the GFC etc.) the business environment is simply too changeable and dynamic to allow for predictable long-range planning; strategy needs to be open-ended enough so that unforeseen opportunities can be grasped as they present themselves.

Strategy for an organisation therefore needs to be understood as an adaptive, emergent, incremental, evolutionary affair. It sets a broad direction, recognising and grasping the opportunities that emerge along the way.

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At its most basic, strategy is about discerning and leveraging strengths and competencies so as to grasp new openings for profit or expansion. Understood as an adaptive and evolutionary undertaking, strategy is looser and has more leeway than traditionally understood rational goal-based approaches.

Truth be told, even in times of stability the multi-faceted nature of markets and organisational reality lend themselves to strategies that emerge out of the woodwork of a business’s context.

Emergent Strategy in Practice

Here are some examples of this emergent approach to strategy.

General Electric’s (GE’s) goal to become number 1 or number 2 in every market in which they operated when Jack Welch was CEO was backed up by a strategy of differentiation, de-commoditisation and massive investment in learning and human capital, which was a response to the globalisation of markets in the 1980s and increased Japanese competitiveness.

Honda's penetration and leadership of the US motorbike market in the late 1950s occurred not as a planned endeavour but by a series of mishaps: the larger Honda bikes (which Honda executives thought would be attractive to American buyers, in one memorable case because the handlebars "looked like the eyebrow of Buddha") broke down owing to the fact that Americans ride their bikes further and faster than Japanese. The smaller (50cc) bikes which the Honda staff had brought over to run errands attracted a lot of attention and Honda executives started to receive calls about the smaller bikes from buyers from Sears and sporting goods stores. Even then Honda was reluctant to promote the bikes for fear it would damage their image in a macho market, but they had no choice because the larger bikes had broken down. In 1960 Honda sales were \$500,000; by 1965 they were \$77 million and nearly one out of every two motorcycles sold was a Honda.

The business breakthrough that arguably dominated the second half of the twentieth century – Microsoft's licensing of the DOS operating system to IBM in 1980 – fell into Microsoft's lap. Microsoft had been programming in BASIC and it was for work on the latter that IBM visited Bill Gates and Paul Allen. The IBM executives inquired about the development of an operating system and Gates took the opportunity: seeing the growth potential for PCs he purchased an operating system from a company called Seattle Computer Products and licensed it to IBM on a royalty-free (but *non-exclusive*) basis. Microsoft was therefore free to supply all IBM's rivals and DOS became the industry standard for the burgeoning PC market.

Steve Jobs conveyed the flavour of emergent strategy in a comment to Forbes magazine in 2008 about why Apple developed iTunes. He said: "When we created the iTunes Music Store, we did that because we thought it would be great to be able to buy music electronically, not because we had plans to redefine the music industry. I mean, it just seemed like writing on the wall, that eventually all music would be distributed electronically. That seemed obvious because why have the cost? The music industry has huge returns. Why have all this [overhead] when you can just send electrons around easily?"

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Implications: What Does it all Mean for the CEO/Strategist?

First, the strategic planner's workhorse, the SWOT analysis (or SWOC: Strengths – Weaknesses – Opportunities – Challenges) can be a useful tool to use to distinguish the strategic context and the opportunities that emerge from within it. SWOC analyses are used to help businesses and organisations adapt to their environment – an aim directly aligned with the emergent and adaptive understanding of strategy.

Second, as an emergent undertaking, strategy will always be undertaken on the basis of knowledge that is partial and incomplete. As Samuel Butler said: "Life is the art of drawing sufficient conclusions from insufficient data." Because it involves the future, a strategic decision is by necessity a risk-taking decision. Quantitative analysis is important, but will only take you so far.

Third, the strategic process will play out as ongoing iterations of action, experiment and review, rather than an annual 'offsite' or 'love-in'.

Fourth, strategic opportunities are likely to be tucked away in a corner or periphery of the business's connection with the market, embedded in a customer contact, passing suggestion or slightly altered arrangement. The devil may well be in the detail, but so are the strategic opportunities which can serve as the future of the business. It therefore pays to be plugged in to the market and feed back information to management and decision-makers from customers, suppliers and front-line staff.

Finally, problems, challenges and accidents may contain the seeds of opportunity, as the case of Honda's entry into the US motorcycle market amply illustrates. To quote Napoleon again: "War is composed of nothing but accidents ... there is but one favourable moment, the great art is to seize it."

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Michael Carman Consulting assists organisations adapt to their environment and grasp emerging opportunities for revenue growth, increased market share, technological advance, process innovation, and the like. Our approach centres on pragmatic, simple and easy to understand strategy development and implementation.

For a no-obligation discussion of your needs contact Michael Carman by email (mcarman@bigpond.com) or phone 0414 383 374.