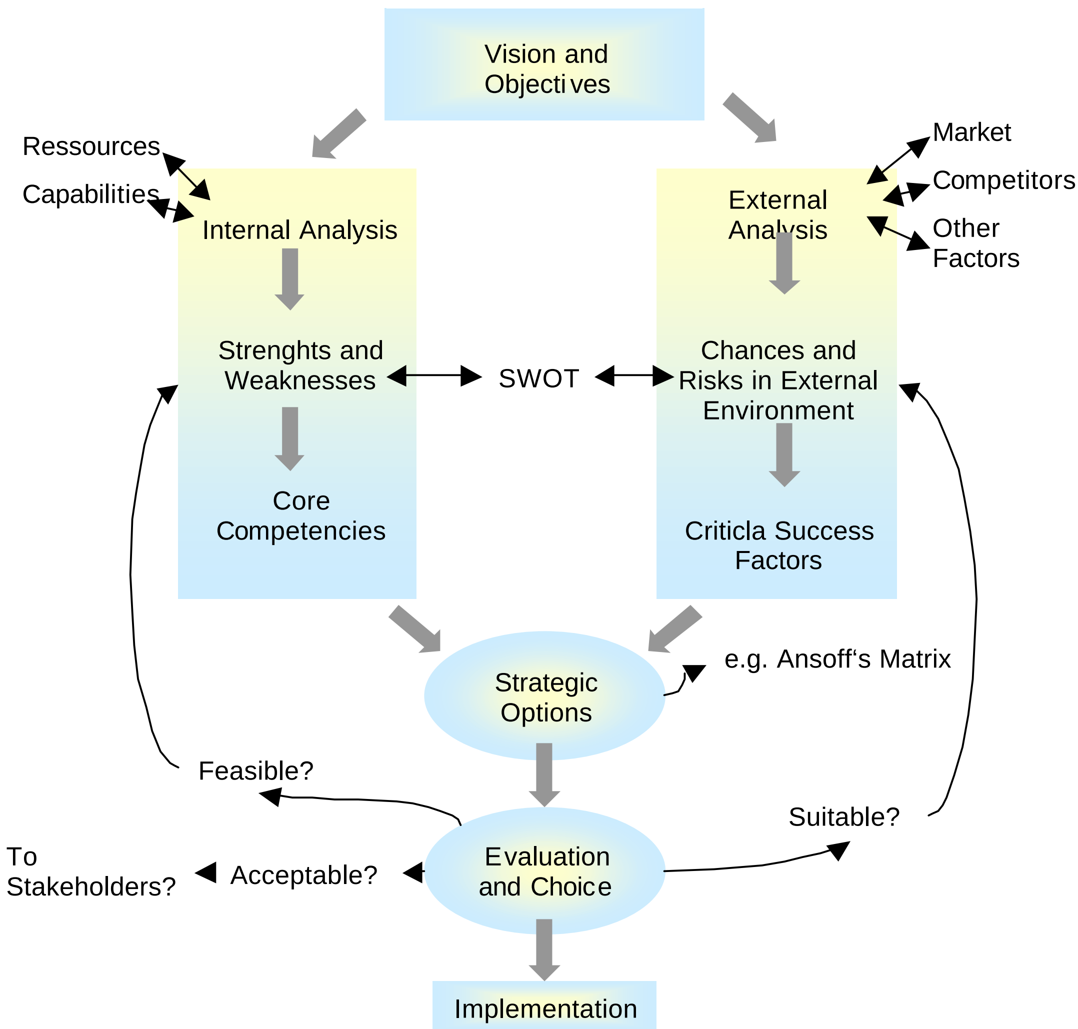
Strategy in Turbulent Times

Management theory and practice widely accept today that businesses operate in a more and more complex, dynamic, less predictable environment. This new situation requires managers to develop new ways of thinking and acting. Nevertheless, many managers still follow the old approach of strategic positioning and strategic planning. This basic model proved to be very worthwhile for decades and has become the dominant pattern of strategic thinking. However, the dynamic developments in recent years taught many businesses that this approach has its limits.
Basing on the weaknesses of traditional strategic planning, this article discusses new approaches in management. They direct companies towards more flexibility and more strategic innovativeness; but they do not present ready-to-use solutions though. Rather they are intended to provide ideas for new thinking and acting as a starting point to give all processes in the organization a new strategic direction.

1 Traditional Strategic Planning and its Limitations

Traditionally, strategic processes all follow similar patterns:



derived from Mintzberg: Strategy Safari.

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This model assumes an understandable and predictable future. Although external analysis includes some thinking about possible future developments, these are mainly based on an extrapolation of the present.
Traditional strategy schools of thought see strategies as a means for achieving competitive advantages in a stable environment by exploiting competences and resources.

In recent times, there are hardly any markets left that show such stable and predictable conditions. Digitalization, deregulation and globalization have changed whole industry structures. The results are discontinuous, turbulent developments with high uncertainty for planning.

One example is the breakdown of boarders between industries – companies extend their competences to totally new businesses and markets. Thus it is not enough for organizations any more to watch their direct and known competitors; they have to evaluate other players who might enter their market as well. Progress in information technology has increased the risk of aggressive start-ups entering established markers with revolutionary business models.

Moreover, traditional boarders between organizations are blurring. Horizontal and vertical integration and disintegration, virtual organizations, networks of companies and independent contractors are gaining importance.

In this dynamic environment, it is nearly impossible to make meaningful predictions for future developments that could serve as a basis for external analysis. The traditional strategy process is difficult to employ under these conditions. It is too focused so that it cannot enable companies to adjust to unexpected developments. This, however, is more important than ever before, since successful organizations do not react to changes; they act and thus are part of the changes.

2 New Fields for Strategists

Today it is no longer enough to derive strategies from an analysis of external and internal environment and choice of a best-fit strategy. Strategists now have to look at chaos theory, complexity and game theory.

Complexity and Chaos Theory assume non-linear relationships. That means there are not only simple cause-and-effect relationships, but also complex non-linear effects. According to the so-called butterfly-effect, smallest changes can result in enormous effects. Complex systems function on the principle of positive feedback; positive situations reinforce themselves (File formats like pdf become commonly accepted standards for information exchange. The more people use it the more valuable becomes the standard and thus even more people use it.). Relationships between market players become closer and more diverse. Thus, they mutually push themselves to new developments. Another characteristic of complex systems is that periods of relative stability change with periods of dramatic change.

In such situations, organizations need stable systems that enable them to deliver their products and services in the here and now; and, at the same time, they need a certain degree of instability and adaptability in themselves. Only this will allow them to take necessary actions early enough when the next changes come up.

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Game Theory analyses the reactions of players in certain situations. It tries to give advice on how to choose the right game and the right game strategy. In particular, it looks at the interactions of players and mutual reactions in situations with complete and incomplete information.

For managers, game theory can provide advice on possible actions and reactions of all players that interact with the organization, e.g. suppliers, customers, manufacturers of complementary products or substitutes. According to the rules of game theory, players do not solely look at strategies and tactics *against* each other. They also look out for tactics to work *with* each other or to form coalitions.

3 New Approaches to Strategy

As explained above, traditional positioning of an organization in a known or expected environment does not lead to long-term success any longer. Now the point is to gain advantages from instant exploitation of unexpected windows of opportunities.

Due to the speed of change, organizations need **much quicker processes for decision making**. Moreover, a successful development in a constantly changing environment requires breaking **traditional rules,** business models and ways of thinking.

In a MCI/Gallup survey of 550 US American CEOs, 38% said that industry newcomers - not traditional competitors - had taken the best advantage of change over the past ten years. When asked how the newcomers had succeeded, fully 62% of those polled said they had profoundly changed the rules of the game. Only 31% thought the newcomers had won through better execution.

Found in: Killer Strategies that Make Shareholders Rich
By G. Hamel

Thus, strategic innovativeness becomes a major success factor for businesses. G. Hamel defines **strategy-innovation** as *the ability to reinvent the basis of competition within existing industries and to invent entirely new industries*. He sees this as the next fundamental competitive advantage for companies around the world. In an increasingly non-linear world, only non-linear strategies will create substantial new wealth.

This re-invention of industries and business models goes far beyond the shift to web-based operations. Rather it is about the creation of new bundles of products and/or services or the re-structuring of value chains. Most of these changes cannot be initiated on the basis of traditional competitive thinking. They require new partnerships with industry outsiders or even competitors.

Hamel points out that organizations that want to re-invent themselves and the rules of the game need diversity in opinions, impressions, experiences; they need conversations that cross the boundaries of function, technology, hierarchy, business, and geography; new perspectives and the commitment of all their people. Only a corporate culture with all these characteristics will release the necessary creativity to exploit unexpected opportunities and to react to changes flexibly.

This approach implies that it is no longer the most important task to develop the perfect strategy. The point is, however, to develop a strategy that moves the company into the right direction. This strategy gets adjusted and put in concrete terms by experimentation.

Hamels thoughts about diversity, creativity and ability to experiment correspond with the insights from complexity theory. They say that those corporations can best react to major changes that are not perfectly aligned to their environment. According to Ian Turner this includes:

- Increase the channels of communication to promote informal and spontaneous self-organization - people coming together because they are motivated to find new ways of doing things, not because their department has detailed them to attend a particular committee.
- Tolerate parallel developments. In a world where the future is inherently unknowable and everything is to play for, sticking too closely to the knitting can be disastrous.
- Reduce anxiety. Since change is threatening and likely to induce anxiety and defensive behavior, fear needs to be reduced by offering realistic terms: for example, continued employment in return for total flexibility.
- Have redundant resources. They are necessary to develop new strategies by experimentation independently from day-to-day business.

The need for quick decision-making in dynamic times has already been discussed. Nevertheless, by their nature, quick decisions base on less information and are more prone to risk and failure than traditional strategic decisions.

The consultancy Bain & Company has conducted a research with 375 corporations in the early nineties. They analyzed the patterns of behavior of companies that managed to survive turbulences in a stronger position than they had before. Bain identified the following elements of successful management:

- Strengthening of the core business – by strengthening of the market position, by focusing on economies of scale and by optimization of cost structures.
- Development of contingency plans for unexpected events – early development of alternative strategies for worst-case scenarios.
- Definition of objectives, priorities and values – a strong alignment to corporate values and priorities makes decision-making easier, since these values can serve as a model even if there is not enough information.

Kathleen M. Eisenhardt and Donald N. Sull pick up these ideas in similar thoughts. They suggest a **strategy of simple rules**: organizations determine a small number of important strategic processes and develop simple rules for decision-making regarding these processes. Such key processes could be for example innovation, acquisitions, or product development. Simple rules for these processes could determine timeframes, boarders of responsibility, activities etc.

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Examples:

Type	Purpose	Example
How-to rules	They spell out key features of how a process is executed – “What makes our process unique?”	Akami’s rules for the customer service process: staff must consist of technical gurus, every question must be answered on the first call or e-mail, and R&D staff must rotate through customer service
Boundary rules	They focus managers’ on which opportunities can be pursued and which are outside the pale.	Cisco’s early acquisition rule: companies to be acquired must have no more than 75 employees, 75% of whom are engineers
Priority rules	They help managers tank the accepted opportunities.	Intel’s rule for allocating manufacturing capacity: allocation is based on a product’s gross margin
Timing rules	They synchronize managers with the pace of emerging opportunities and other parts of the company.	Nortel’s rules for product development: project teams must know when a product has to be delivered to the leading customer to win, and product development time must be less than 18 months
Exit rules	They help managers decide when to pull out of yesterday’s opportunities.	Oticon’s rule for pulling the plug on projects in development: if a key team member – manager or not – chooses to leave the project for another within the company, the project is killed

Source: Kathleen M. Eisenhardt, Donald N. Sull „Strategy as simple rules“

Within these rules, decision makers are free to follow opportunities and to initiate new projects. Thus it is possible to react to opportunities in a flexible, however disciplined way that meets the overall corporate objectives. Such simple rules provide sufficient structure to distinguish promising opportunities from less promising ones; but they do not limit the freedom to make decisions more than necessary.

4 Conclusion

All these approaches have in common that they try to enable organizations to realize upcoming opportunities and to take strategic decisions with long-term implications within short timeframes. Decision makers face the new situation that they have to take decisions quickly, despite their importance and despite the incomplete information. The overriding corporate objectives that are documented in visions and mission statements, gain more and more importance in such situations. Corporate objectives are one of the very few constant elements left for the organization. Thus they become the guidelines against which alternative options are assessed.
Not only have the timeframes for decision-making changed; traditional patterns of thinking about decisions have become widely useless. In times of blurring boundaries between industries and organizations it takes a lot of openness for strategic options that were left out of consideration until now.

The new strategy processes described require managers, decision makers, and stakeholders to re-learn the way they think about strategy. It is possible to implement the new approaches described successfully only if the whole organization accepts them. Therefore, the communication of these new approaches has to adapt the generally accepted corporate values and objectives and to use their terminology.

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