

Fortune 1 Perspective: Emergent Strategy

Introduction

Don't waste time planning – Act! This is the reverse of what traditional schools of strategic planning tell you. Strategic planning, after all, is just that – Planning.

My favorite aide memoir to plan goes something like: *The great thing about not planning is you have no idea when you are about to fail, and thereby eliminate all the uncomfortable feelings that come with impending doom.*

Most executives would agree planning is paramount to success. However, strategic planning is too often seen as the end product in and of itself, but as the strategic plan sits on the desk, it is an academic exercise and nothing more. A company must emphasize action first, not planning, because effective strategy emerges from doing things not planning things. The human inputs and outputs are the primary success drivers of strategy, both in terms of strategy definition and the implementation of it. The daily work of a company is far better than any research or market investigation in defining what will help a company grow and increase profits.

In traditional strategic management, we begin with Strategic Insight, Vision, Strategy Creation, and Action Plans. These four areas and the accompanying tools of strategic planning are used to crank out what is hopefully an insightful analysis of where the company is, where it needs to go, and how to get there. However, my premise is:

“Insight,” “vision,” “strategy,” and “action plans,” and the accompany tools of strategy are purely the outputs. Anyone, a consultant, a manager, or an assistant, with a day’s overview of strategic planning, can spit out believable strategy. However, the most critical variable is actual DOing the plan.

A company's strategy is better driven by doing things, because success comes from the brains, work ethic, and mindset of the people running a company, not from a professionally printed vision, strategy, and action plans. The people formulating and executing strategy are the keys to success not the strategy itself.

Despite my focus on action, my perspective should not be misinterpreted as complete abandonment of traditional planning and design. Indeed, *planning* things at the senior management level can be an essential and an effective undertaking, however ultimately it is the *doing* that counts; Substance over form.

The Intent Of Strategy

The intent of strategy is to efficiently invest a firm's resources to increase return on investment. The primary resources for profit generation are:

- Financial capital
- Human capital

Other forms of assets such as patents, land rights, partnerships, brand equity, and so on are products of either financial or human capital. So we can simplify the too often complicated picture of a company's assets, by thinking in terms of money and people. It is the CEO's job is to allocate the best people and the right amount of money to the best opportunities.

Today, there are six strategic imperatives that every company must plan and manage:

- Customer focus
- Talent
- Cost
- Innovation
- Increasing Sales; Expansion
- Technology

These six areas are at the heart of strategic planning. How will you sell; What will you deliver to your customer; Who is going to do this; And how you will differentiate your company, and realize the highest return on investment possible?

Customer Focus. Customer focus used to be a matter of good customer service, and for awhile was a distinct area of competitive advantage. However, its value, at least in the U.S. marketplace, as a competitive advantage has eroded considerably. Customer service has become more a price of entry than anything else.

Customer focus has evolved to include seamless systems for ordering, scheduling, goods receiving, and billing. EDI, and now the internet are essentially mandatory throughout most supply chains. Even beyond this, customers are driving suppliers toward integrated supply chain management, where the supplier is an integral business partner with a financial and emotional stake in the final product. Suppliers are expected to take responsibility for driving the process toward the customer's desired outcome, not simply delivering a product or service. Suppliers must thoroughly understand both their customers and, in turn, their own suppliers; their respective needs, and where solutions and improvements can be implemented to improve the whole chain of supply. A close, friendly relationship is not good enough. Successful suppliers must have knowledge both frontward and backward of the entire supply chain.

Talent. The human-side of the equation is still the key driver of productivity and business results. People are the biggest variable to getting anything done, and the single best predictor of overall excellence is a company's ability to attract, motivate, and retain talented people. Strong and loyal talent is a rare and expensive asset, and despite the current recession, globalization and economic expansion are intersecting with a generational labor shortage that will wreak havoc with companies' growth plans for the next 15-20 years. The long-term trend is simple: There are not enough qualified people to fill the needs of businesses. As generations Y and Z move into the labor market, and as global expansion continues the labor shortage will grow, and hence the strategic need for talent will be a critical barrier to companies' success.

Knowledge management is another area that business strategy authors devote a significant amount of time to, however for the purposes of this article we view knowledge management as a product of talent, technology and innovation. Indeed, the following discussion centers on knowledge management, although knowledge is viewed as a stream of information that can be tapped into. Knowledge is best viewed as a sub-asset of your human capital, and a company's approach to technology and innovation can be great enhancements for knowledge management and the flow of ideas.

Cost. Cash flow and profits are key deliverables of every area of the company. Unfortunately, operating costs are beginning to reach parity across whole industries. After two decades of restructuring and re-engineering, cost is not the strategic advantage it once was. In many companies the low hanging fruit has been harvested, and efforts in cost cutting are reaching diminishing returns. Competing on cost structure

is still possible in some industries and for some companies, but this is also becoming a fleeting source of competitive advantage.

Arguing over budget plans is too often just a corporate exercise in compromise. Too often the budgeting process in companies drives everyone to focus on the lowest common denominator, as opposed to focusing on reaching productivity goals and increasing return on investment. Typically speaking, cost and innovation are at the opposite ends of the strategy scale. Companies who are low cost producers are rarely the innovators of the industry, and the innovators by their very nature carry a higher risk profile and cost basis, but the best run innovators far exceed low cost producers in terms of returns.

Following from this, strategies and subsequent budgets should not be set in terms of lowering costs, but in terms of increasing return on investment. This helps to drive the idea of managing financial capital more in terms of overall company and profit development. It is not a simple question of decreasing costs, but instead a combination of betting, hedging, and timing. Strategize not on costs, but on overall economic value added (EVA) – the return on investment earned in excess of cost of capital.

Innovation. In terms of strategy, a company should remain paranoid. Someone, somewhere has a better idea. You need to grab that idea or out innovate it. However, most companies do not like to drive innovation and creativity because it is difficult to control, and innovation threatens those who have done well under the existing system. As a result, although it is often stated from the top echelons with such platitudes as: “innovation is key to the future success of this company,” innovation is rarely supported by the two most critical groups responsible for its success. Executives are not prepared to give up control, and employees are not prepared to take chances.

Two of the most common hurdles limiting innovation are:

- Scarcity of trained, creative people
- Internal organizational issues

Strategy must support the development of ideas and the flow of these ideas. Companies must pull from these ideas and devote the best people and the right amount of capital to the most promising opportunities to move the company forward.

Innovation not only creates market advantages for companies, innovation is a catalyst and has follow-on effects such as improved business methods and financial performance. This is only achieved when companies make innovation a focal point in the organization, where success is measured, in part, by their level of innovation. New and better ideas move businesses to the front of the pack in terms of profits, revenue growth, customer service, and employee skills sets.

Expansion. Increasing sales is critical to productivity and company survival. This means getting more share of what each customer spends, but it also means expanding into new customer markets and new geographic markets.

International expansion is no longer a strategy, it is a business imperative. The idea that you do not need to be global company to be successful is an extremely limited viewpoint, which invites your competition to eventually run you over. You can view sales in terms of a rag – squeezing out every last little bit from each customer, but ultimately you reach diminishing returns; or you can view the world as your market of almost unlimited possibilities.

Partnering, another critical element of expansion especially for smaller companies, is an important component of increasing sales and expanding internationally. Partnering increases a company's leverage and funds a company with increased human and financial capital and is an important strategic component for any growing company.

For many companies international expansion is not only about finding new customers, but is critical to finding low cost suppliers. Strategic reasons for expanding internationally include:

- Increasing sales
- Saving on cost of supplies
- Saving on cost of development
- Saving on cost production

Technology. Another area of strategy – technology – has become so ubiquitous that to break it out as a separate item potentially limits its importance and application. Technology is an important underpinning in every function, in every part, in every aspect of a company. This may be in terms of the products a company develops and manufactures, how it communicates and integrates with its customers, how it manages its routes to market.

Strategy must consider a company's existing IT structure and designs, and its IT talent. Every company must assess not only how to utilize technology, but an organization must ensure it has a basis on which to grow and manage the increasing technological needs of the company in order to remain competitive.

“A Range of Futures” is another very important consideration of company strategy. Today most companies are operating in an environment where the future of their industry and markets are unknown. The global complexity of commercial, economic, political, technological, and cultural change makes it impossible to accurately anticipate industry and market movements. Likely, a company can distinguish some major trends, but is unable to predict the future with any real degree of accuracy.

Competitor's moves, changes in vendors' and customers' capabilities and needs, and advances in technology mean that a rigid strategic plan involving a long sequence of events unfolding over time is a recipe for profit minimization. Whereas, natural strategy development that grows from the action in and around a company is more likely to be forged out of reality and hence has a far higher likelihood of success.

In an environment, where a range of futures are equally likely, and multiple scenarios play themselves out in parallel, a portfolio/option approach is best. This means companies need to place multiple bets on multiple possible outcomes. A company must make investments in organizational capabilities designed to keep options open. Companies must reserve the right to play by making incremental investments as strategies emerge from the “noise.” This requires a company to continuously tap into ideas emerging from the industry, market, and inside the company.

Emergent Strategy Model

Emergent strategy means strategy development is a product of the daily work and interaction that goes on inside a company, its industry, its markets, and the global environment as a whole. In emergent strategy, the strategy is not known ahead of time, but through the rough and tumble of everyday work, a strategy emerges and it is senior management's job to bolt these things together into a system that drives the company forward.

Doing strategy as opposed to planning strategy requires a different approach. Strategic management can no longer follow a sequential logic of **analyze** → **plan** → **implement** → **monitor** → **evaluate**. The plan-do-check model is far too linear. In fact, traditional plan-do-check systems serve to discourage individual action and initiative. The logic behind the traditional approach is to control and minimize uncertainty, and to keep the organization in a steady state. However, think of it this way:

If, as traditional top-down strategic planning would have us do, everybody thinks and looks in the same way, then thinking within the company becomes obsolete.

Today, the level of uncertainty and the speed of expansion and increasing competition keeps the majority of companies in anything, but a steady state. Companies making plans with three to five year time horizons are essentially using the basic rule of economic theory – “all other things held constant” – and this is simply not realistic.

The problem with most strategic plans is they are based in academic investigation and mission statements, not in the daily work that is being done, nor around the people doing the work. Hence strategy becomes a grand scheme as opposed to an effective methodology for moving a company forward. Strategy should be, as Einstein’s axiom goes, 1% inspiration and 99% perspiration, not the other way around.

Business is becoming less like chess every day. Running a company is more like a soccer match. CEOs have a general idea of what they need to make happen, but the game evolves as it’s played. Strategy develops as the coaches watch the game and decide how to exploit weaknesses on the opposing team, or where and how opportunities can be quickly seized and capitalized on.

The best way to think about emergent strategy is as a 3-Prong approach:

- 1. Define the Game** →
- 2. Identify the Fitness Criteria** →
- 3. Stimulate Action** →

Defining the Game includes the more traditional top down approach of vision and mission formulation. However, this is not an academic exercise of what the ideal outcome should be. It needs to be rooted in the game in which the company is playing and the talent a company has. A definition of the game is not done in a three day senior management retreat. Instead, people from all levels and areas of the company must tell senior management what is happening. It is critical that these people are as close to the action as possibly. Frankly, they should be neck deep in it. The more layers between the market and a company’s strategy the more useless the strategy. Involving a well chosen section of people across various levels and functions in the company is the only way to understand what is really being done on a daily basis.

This is not altruism, and the end-goal is not to be nice to your staff (although that never hurts). The simple message is: Company managers do not have a monopoly on good ideas. Employees, especially those in the thick of the daily action and those closest to the customer are integral to a company’s business, and by increasing their input into company strategy the result is a far greater number of practical ideas. These ideas are rooted in marketplace, customer, and production realities – in the everyday work of the company. This is where strategy needs to emerge from.

Defining the Fitness Criteria flows directly from customer meetings and your industry analysis. The primary question being: What must be done to get and keep customers

and how does a company remain competitive in its industry? These are the must-deliver parts of a company’s strategy.

Depending on the company and industry, there is more than one way to break out the fitness criteria, and surely the first pass will result in an over abundance of information. The point is to boil down the fitness criteria into a manageable set of indicators – a dashboard or scoreboard depending on the analogy you like – that focuses the company on what it must deliver. To ensure focus and to keep arguments over data to a minimum, it is essential that the same fitness criteria are used throughout the company.

Table 1 shows an example of fitness criteria for suppliers serving the European automotive market.

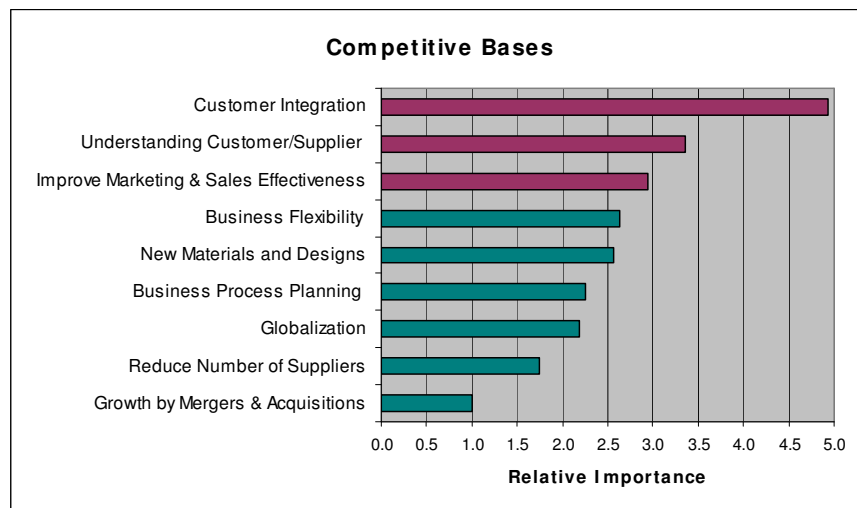


Table 1
Center For Automotive Industry Research at Cardiff Business School, United Kingdom

Stimulating Action is the crux that drives emergent strategy. Defining the game and defining the fitness criteria are not the most important parts of emergent strategy. Chances are the definition of the game and the fitness criteria will need to change in response to the marketplace. These changes will flow from people in the company identifying opportunities and taking action.

In emergent strategy, the work of a company constantly feeds the definition of the game and the fitness criteria. This is not done once per year, nor quarterly; Strategy is developed simultaneously and continuously as a product of the company’s work. The strategy is the company’s rudder, but the work guides the controls.

Emergent strategy is not the abandonment of authority and decision-making, and the argument here is not for anarchy. However, companies must realize it is impossible to control everything that everyone does. Unfortunately, a lot of company resources are wasted trying to do just that. Emergent strategy depends on people finding new ways of doing things. The critical part of emergent strategy is to encourage and regularly tap into this action. Effective managers play with the information and opportunities to find solutions to making the company more competitive and more profitable, and constantly look at the daily business for improved ways of doing things. The DOing that is going on inside the company is the root of the company’s planning.

The Tools Of Strategy

The traditional tools of strategy are great. The power of analysis and organization of information is an extremely important part of strategy. The only caution is to remember that these are the tools of strategy not the products. Too often the tools become the strategic plan and this is when companies fall victim to the consulting factor – where the high priced strategy is the product, the implementation be damned.

Strategic planning tools, although limited in terms of implementation, help build a framework and organize a company's thinking and ideas. The tools also help add discipline to how companies look at both external and internal factors. Some of the most valuable strategy tools are:

- Porter's 5 Forces
- Value Chain Analysis
- SWOT Analysis
- BCG Portfolio Matrix
- EVA (Economic Value Added)

For those who hold Peter Drucker, Michael Porter, and Kenichi Ohmae, and those like them, in the highest esteem, emergent strategy makes generous use of these people's tools and philosophies. However, to create an emphasis on DOing, the 3-Prong **Define The Game → Define The Fitness Criteria → Stimulate Action** approach is the best not just for formulating and implementing strategy, but in realizing the end results of that strategy. Remember, the tools are important organizers of information and analysis, but the tools are not the strategy.

A defining component of emergent strategy is to tap into the knowledge stream springing from the daily work of the company. To define the game in terms of what is happening inside and outside the company, the industry and the marketplace, two of the best ways of doing this, were perfected by General Electric.

- 1) Work-Out
- 2) Skip Level Meetings

These are critical channels for tapping into the action and must be regularly recurring parts of how a company operates and drives its emergent strategy approach.

Work-Out is a process by which employees and managers work together to develop ideas for improving an area of the business. Ideas are encouraged and pulled from a variety of levels and areas within a company. More importantly, management must make decisions on the spot: a) yes, b) no, c) need more information; and a set date for making the decision. Although Work-Out meetings can be initially cumbersome, it is a great tool for input into emergent strategy. Through Work-Outs, senior management taps into the action and achieves a stronger understanding of the game being played, and in turn this stimulates more action. Via Work-Out companies identify ideas opportunities and are forced to make the decision now on if and how to exploit them.

Skip Level Meetings are meetings between the CEO and junior managers and other employees, without their direct boss being involved. Whereas, this can be initially intimidating to the senior level team, whose departments are essentially being monitored by the CEO, it is a necessary step to drive input and to ensure company executives are leading and managing not just telling people what to do. Skip Level meetings are intended to be informal, friendly, and open discussion to tune-in the CEO to daily action, and ideas that may otherwise lay dormant.

Work-Out and Skip Level meetings are time tested tools for tapping into a company's daily action and knowledge base. Work-Out is intended to attack a particular issue from identification to solution, whereas Skip Level meetings are used to identify issues and problems that may otherwise be filtered from the CEO. Direct managers are intimately involved in Work-Out whereas they are purposely excluded from Skip Level meetings. In Work-Out it is most effective to use a professional facilitator, whereas in Skip Level meetings the CEO is expected to simultaneously drive interaction and listen carefully.

There are multiple sources available describing how to effectively implement Work-Out and Skip Level meetings, including books and the internet. However, for Work-Outs the following is a primer:

1. Decide on the topics to be discussed
2. Choose a "champion" that is responsible for this part of the business
3. Select a cross-functional team; Include people from all levels of the company
4. Choose an off-site venue to hold the meeting, usually a hotel or conference room
5. The group should meet for 2-3 days
6. Make as many decisions on the spot as possible (yes or no)
7. Set deadline dates for those decisions requiring more information

Implementing Emergent Strategy

Implementation of emergent strategy uses a great deal of what most companies already do for their strategic planning. However, as emphasized throughout this article emergent strategy reverses what comes first. Strategy development flows from the action plans not vice versa.

This table illustrates where traditional strategic topics fall in terms of emergent strategy's 3-Prong approach. For the sake of discussion and illustration, four of the areas are highlighted as examples below.

| Define The Game | Define The Fitness Criteria | Stimulate Action |
|------------------------|------------------------------------|---------------------------|
| Industry Analysis | Customers | Organization |
| Market Analysis | Competitors | Talent Assessment |
| Legislative | Financial | Management |
| Technology | Technology | Leadership and Motivation |

Table 2

Industry Analysis helps determine a company's competitive advantage as it relates to other players. A company must understand the historical backdrop of its industry, as well as the current momentum and inertia of the industry. An accurate picture can be developed from what a company's sales people think the future landscape will look like, as well as 3rd party research, and being active in industry forums. What is the influence of technology in the industry? To what degree does government legislation impact the

industry? Who are the dominant players, and how do they create opportunities for the other players to differentiate or build a profitable niche?

Competitors. Some competitors help make companies better, but real competitors also drive companies out of business. The respective market shares of all competitors; their respective competitive advantages and differentiators; and their apparent strategy for the future are all important first-level inputs. What is the competitive environment worldwide, and what have your competitors done in the marketplace over the last 12 - 36 months? What is their future strategy, and how can you prevent this or out maneuver them? This information helps determine where or why a company is uncompetitive, and how it can improve moving forward.

Customers. Companies must assess and monitor their customers' future intentions and investments, so that they can begin to meet and anticipate their customer's future needs. Share-of-customer is a measure of all the business being done at each key account, and how much is owned by the company. What is keeping the company from achieving the 100% mark? How can this be overcome? It is imperative that companies understand customers' relationships and partnerships, so that special needs arising from these can be effectively served. Companies need to understand: a) How do customers decide?; and b) What is the catalyst(s) for their purchase decision? Sales activities should be built around how a customer decides to buy.

Key accounts and a company's senior management must be well acquainted with one another. This establishes goodwill, but also the company need to understand its strong points at these accounts – what has the company done so well? Pragmatically speaking, customer relationships should be ranked based on historical sales, anticipated potential, and strategic importance. Much like business units and product lines, customers can be qualified in terms of the BCG Matrix: Cash Cows, Dogs, Stars, and Question Marks.

Organization. An organizational assessment, especially in the beginning of implementing emergent strategy is needed to understand a company's culture and most important the existing level of action orientation. What do the people inside the company think of the company, its markets, its customers, and what do they view as the company's primary assets and problems?

A talent assessment is also an important point in implementing emergent strategy. Talent, especially in terms of IT, international experience, and bench strength (up and coming talent) are critical to the success of emergent strategy, because it is from the talent that the strategy flows. Does the company have the talent it needs to accomplish create and implement a successful strategy? Can the company expand, grow, and improve with the talent it has? And if not, how can the company develop talent flow to fill the holes and meet the future needs of the company.

Because IT plays such an important role in business today, companies must make this a critical point in their internal assessment. Even if technology does not play a critical role today, it will in the future. What are the company's current IT structure(s) and systems? What about in-house IT talent? Does the company have IT platforms on which to grow?

Leadership & Motivation. A company's senior management needs to create the basis for action and emergent strategy. Ultimately strategy and the implementation of it should build a business with an action and results orientation. People must feel a clear connection between the company and their own self-interest. Otherwise any strategy or organizational improvement will not be successful. To ensure this, the CEO must make sure the company and its resources are aligned. Emergent strategy has alignment as its fundamental premise, because the strategy, and hence the deployment of financial and human capital, flow from what is being done.

It is important not to mistake emergent strategy as a feel-good approach to organizing a company. With an action orientation comes responsibility – Responsibility for ideas, responsibility to champion and implement those ideas, and responsibility for successes and failures. People must feel the fear of failure, while at the same time being inspired and motivated to take risks and chances. Organizations constantly need to regenerate themselves through the flow of ideas, excitement and action. The bar must be raised, by finding ideas, putting resources behind those ideas and raising expectations of results. Managers need to grow a culture where ideas are not only valued, but are seen as the driver of the company’s strategy and the company’s future.

Conclusion

A senior level Japanese business executive said to me in 1996: “*..to be successful you must have a hungry spirit, make quick decisions and act fast, and work like a horse...*” And I have also seen it characterized as “*..success requires equal parts of talent, ideas, hard work, and luck.*” The end message is: Success flows from DOing not from planning.

Globalization is leading companies to tear themselves apart and create new ways of doing things, but change is not always welcome, nor easy to make happen. Emergent strategy helps overcome this resistance. Emergent strategy is easiest because it grows from the actions of those people closest to the end game; It also requires senior management to “let go” and permit things to run faster and looser than they may be accustomed to. If senior management is truly committed to an action orientation, then action must be encouraged at the most direct-to-customer level; and it is from here that strategy must flow. A company must change flexibly according to the initiatives of its people as they create and exploit opportunities growing from the marketplace.

A CEO’s job is to direct financial and human capital into the best opportunities a company can find or create. Management’s role must be one of support, cross-feeding, and inspiration. Every company must drive commitment, innovation, and inspire initiative. To really deploy human capital from an action perspective, a company’s CEO should tell the people in his company: “I want you to DO things!” “Doing is honest philosophy.” “Take action, don’t wait.” “Focus on the customer and be innovative.” Strategy must meld conception and execution, so compensation and bonus systems must reward action. It is management’s responsibility not to manage, but to encourage ideas and help them take root and grow.

One of the most compelling ideals of emergent strategy is that the implementation and buy-in occurs before, or simultaneously with, the strategic intent, and views the human inputs as the primary success drivers of strategy. In the end, strategy is more easily adopted into the company because it grows out of something that is already being done and is likely the brainchild(s) of an employee or manager who now feels committed and connected to the success of the strategy.

The emergent strategy approach also helps combat the Library Of Congress effect of most strategic plans. Most strategic plans are carefully published, categorized, and filed away, usually never looked at again. It is significant that I have never seen a company with an effective communication or dissemination method for making anyone but senior management aware of the strategic plan. So, even the traditional top down approach misses its end goal of “cascading” the plan into the organization. In emergent strategy the plan grows from the action, and hence is inherent in the daily work people do.

Knowing and willing are not enough, companies must act and apply. This is substance over form. Do not tie people to a set strategic plan. Instead, Define the Game, Define the Fitness Criteria, and Stimulate Action – **Run with it.**