

THOUGHT PIECE - Strategy in Uncertain Environments

The current economic environment is highly uncertain for most organisations. This level of uncertainty affects how we develop strategy, in particular how we answer questions about where and how we compete and the type of capabilities we need to develop in uncertain environments.

Analysing Your Way to a Strategy

Textbooks on strategic management emphasize an analytical approach to formulating strategy. Executives should decide on objectives, analyse the firm's competitive environment, assess the firm's strengths and weaknesses, and decide upon a plan for the future. Ideally, the plan should spell out answers to the following questions:

- *What markets should we compete in?*
- *How will we compete?*
- *What assets and capabilities do we need to do this?*

Uncertain Environments

However, analysis can only focus on the past. It is not possible to analyse what is happening now, because the information is not instantly available, and it is impossible to analyse the future, as it is unknowable. *There are no 'facts' about the future* that could be predicted and incorporated into any analysis. Where analytical approaches to strategy making have been used the implicit assumption underpinning the process is that analysing the past will help us predict the future. This might have been the case in highly stable environments, but even in these instances unanticipated shocks would inevitably have disrupted the implementation of even the most carefully crafted plan.

Clearly in the current uncertain and unstable environment it's almost impossible to anticipate what will happen next week, let alone predict the state of the world five years ahead. But the need to set some direction or 'strategy' still remains, in spite of this uncertainty. So how can we satisfactorily answer the three questions set out above, where we face unpredictable environments.

Strategy in Uncertain Environments

Our argument is that in stable environments we should be able to specify answers to all three questions. So we could state the target market segments we wish to operate within, we would be clear about customer needs, and what products and product features we need to provide to these customers. We can also be clear about the capabilities, processes, systems, equipment, know-how, skills etc we would need to deliver these products efficiently.

So in stable environments we can specify the core value creation processes required to deliver efficient customer value. Where there is incremental change in the environment we should be able to specify the core value creation processes in outline, but we would recognise that these processes would need to evolve with the environment over time. Hence we would need to, and be able to, specify the 'refinement' capabilities and activities that will deliver continual improvements to the core value processes e.g. just-in-time, six sigma etc.

Where we face faster paced change, and where this change is largely predictable, we are less able to specify the nature of the core value processes, but we can be clear about how to

innovate and in what general directions we should be looking to innovate. We can specify and establish research programmes, development projects etc, and we should be able to identify the kinds of systems, structures, and capabilities and culture we need to deliver and incorporate a stream of valuable innovations. Thus where we face fast-paced but largely predictable change we should still be able to determine where we compete and how we compete, but we might be less clear about the specific products we might need to produce and the processes we might need to produce them.

At the extreme end of environmental uncertainty we face almost unpredictable futures. All we can be certain about is that changes will happen, and they may be disruptive. We cannot predict what these might be, or when they might occur. So what can we specify as strategies when facing this level of uncertainty? In uncertain environments we might just be able to specify what markets we are intending to compete in; how we compete and what capabilities are required in the core value creating processes is difficult to specify. What we *can* decide is that we need to build adaptive capabilities into the firm, to enable us to react to unforeseen problems or opportunities.

The need for strategy in extreme uncertainty doesn't disappear. What changes is its focus. Rather than looking to specify the required core processes and capabilities, instead we need to specify the adaptive capabilities the firm will need. These might include ensuring we have the ability to sense the environment properly and that we are able to tap into diverse sources of information that we can detect and accurately interpret subtle but small signals of likely future changes. We might also choose to build in a capability to adapt and flex our activities, so we can respond rapidly and appropriately to market shifts. This might include extending the skill set of employees, breaking down rigid silos and hierarchies, decentralising decision making, building extensive informal external networks, and shifting the culture to one that encourages experimentation and risk-taking.

Conclusion

The degree of uncertainty we face should affect what our 'strategy' specifies. Stable environments allow us to be quite precise in our answers to the three questions. The more uncertainty we face the less specific we can be about a) how we might compete and b) exactly what assets and capabilities we will need in the core value creation processes. But what we can specify are the change or 'dynamic' capabilities we need to enable us to adjust to the emerging environment.

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