Strategy as Learning

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The leadership challenge

What is the central challenge facing business leaders today?

The answer most management experts will give you is “the need for change.” This has been repeated so many times, that it has become accepted as a truism. But on closer inspection, this answer is only half true. And a half-truth, like a little knowledge, can be a dangerous thing.

The problem with “the need for change” as an answer is that it strongly suggests that change should be a one-time event – that a company needs only to go from point A to point B in order to succeed. This A-to-B approach is at the core of traditional strategy, but in today’s fast-changing world, that approach is badly outdated.

Today’s competitive environment presents unique challenges for organizations: high levels of uncertainty and complexity, disruptive technologies, and a premium on speed, choice, and innovation. These new challenges demand a new type of leadership.

Rather than A-to-B change, the central challenge facing business leaders today is to create and lead an adaptive enterprise. This means creating an organization with the built-in ability to sense and rapidly adapt to changes in the environment… on a continuous basis.

As a practicing CEO for 20 years and now as a professor of the practice of management, I recognize that one of the biggest hurdles facing executives is their inability to mobilize their companies behind new ideas. Change is disruptive to organizations and is notoriously difficult to lead. And ongoing, continuous change is even harder to achieve than one-time change. Yet building an adaptive enterprise is the only path to long-term survival.

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Learning from nature

What are the principles of successful adaptation? Nature is our best teacher.

In nature, the creation of favorable varia-
What lessons does nature hold for organizations? As in nature, the rules of survival in the marketplace are essentially Darwinian. Never sit still. Continuously generate favorable variations – those that create competitive advantage – or run the risk of extinction.

This strategy is not without risk, of course. What if another plant produces a sweeter-tasting nectar and the bees “switch brands”? Or what if the bees themselves are outmaneuvered and become extinct? The risk/reward trade-off is hard at work here! Nonetheless, at least for the time being, the alliance strategy has captured a significant advantage that no other plant has been able to challenge.

How does the natural world produce such brilliant strategies? Nature generates variations through a massive and ceaseless set of experiments – mutations that test a wide range of survival strategies. Most of these variations are failures. But a few succeed, enabling individual organisms to live longer, reproduce in greater numbers, and out-compete other species. These are the favorable variations that will come to dominate future generations.

The key is that nature never sits still. What is stunning is that, in nature, the development of favorable variations is a completely random, unconscious process. The variations that arise are generated without apparent design, and the ones that will survive are not predictable. As a result, evolution is a low-odds game: 99 percent of the species that ever existed are now extinct.

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The five killer competencies

I believe every organization must master the following critical skills to become an adaptive enterprise:

1. Insight: As the engine that drives everything else, your organization must have the ability to make sense of the changing environment through powerful tools that generate superior insights into market trends, the evolving needs of customers, and the organization’s own realities. This is where the competition begins. In fact, the competition for insight is the most decisive battle today.

2. Focus: Throughout the ages, no lasting success has been built without a robust process that translates superior insights into an intense focus on the right things. This involves the ability to make the most intelligent strategic choices about where you will compete, how you will win and how you will prioritize your scarce resources in support of your Winning Proposition.

3. Alignment: Every element of your entire organization – measurement and reward systems, organizational structures and processes, your corporate culture, and the skills and motivation of your people – must be aligned and energized behind your strategic focus. This is a crucial leadership challenge and without success here, no strategy can succeed.

4. Execution: A rigorous discipline for executing better and faster than competitors is essential. Speed in carrying out your strategy expands the gap between you and your nearest competitors and improves your ability to take advantage of the next shift in the environment – which is likely to happen sooner than anyone expects. But you’ll be able to do this only when the first three competencies are in place.

5. Renewal: Finally, you’ll need the ability to do these things repeatedly, thus creating a cycle of continuous learning and adaptation.

Note that the fifth competency is different from the first four. The first four competencies are aimed at producing specific outputs. The fifth creates an ongoing cycle of renewal. The ability to constantly renew your organization separates truly dynamic organizations from those that are doomed to become tomorrow’s dinosaurs. It is the ultimate killer competency.

The strategic learning cycle

Strategic Learning is a practical process for mobilizing the five competencies to create an adaptive enterprise. Unlike traditional strategy, which aims at producing one-time change, Strategic Learning is a process for sensing and responding to change on a continuous basis. (See Exhibit 2)

The Strategic Learning process mobilizes the key principles of evolutionary theory. The process has four linked action steps – learn, focus, align and execute – which build on one another. The first two steps form the basis of an organization’s strategy creation. The third and fourth steps are the foundations of strategy implementation. Strategy creation and implementation are integrated in a mutually reinforcing process. The cycle is then...
repeated continuously – the fifth step – to embody the five competencies for sustainable competitive advantage.

The underlying ideas and tools of Strategic Learning have been applied in organizations as wide-ranging as ExxonMobil, Ericsson, DePuy, Novartis, the Federal Home Loan Bank of Atlanta, the Girl Scouts of the USA, and Henry Schein, Inc. amongst others. The leaders I have worked with feel that the process and the concepts that have inspired it are intrinsically compelling and have made a real difference to their organizations. The Strategic Learning methodology has also become the main basis for how strategy is taught in Columbia Business School’s Executive Education programs.

Strategy and the leadership challenge
An interactive, dynamic process like Strategic Learning is an essential tool in the quest for strategic innovation. But such a process cannot operate at its full potential in the absence of strong leadership. While strategy has little to do with planning, it has everything to do with leadership. In fact, every failure of strategy is a failure of leadership: either to set the right direction for an organization, or to mobilize the energies of the people behind that direction.

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One of the central reasons for the link between strategy and leadership is this simple truth: Strategy takes courage. Here’s why:

• Strategy is about asking tough questions, challenging existing assumptions, and dealing fearlessly with the consequences. It is about seeing the world as it is, not just as you wish it to be.

• Strategy demands difficult choices. You will never know in advance whether your strategy will work. And you will never have enough information to make a risk-free decision.

• Strategy almost always involves dealing with change, and change is inherently stressful. Overcoming resistance to change and converting it into active support is the ultimate test of leadership.

For all these reasons, strategy requires not only business acumen and superior insight but also a combination of intestinal fortitude, personal integrity, and (in Ernest Hemingway’s phrase) the kind of “grace under pressure” that constitutes courage. It’s a quality that isn’t taught—and probably cannot be taught—in business schools.

Fortunately, the courage to lead can be significantly enhanced—or undermined—by the processes within which individual executives operate. A strong leader is much stronger when equipped with a good set of tools.

When strategy is developed through an organization-wide process, the leaders are not merely directing the company through the current year’s business plan. They are also building a crucial organizational capability: the ability to think and act strategically. Over time, the members of the organization internalize the strategy-making process, grow increasingly skilled at using it, and therefore continually sharpen the company’s adaptive capability.

An effective strategy process doesn’t remove the need for leadership courage. But it provides the insights, decision framework and organizational support to help make and implement the tough—and courageous—decisions that strategy demands.

Applying such a system is in itself an act of leadership.

About the author
Willie Pietersen is a Professor of the Practice of Management at Columbia Business School in New York. He specializes in strategy and the leadership of change, and his methods and ideas, especially Strategic Learning, are widely applied within Columbia’s executive education programs, and also in numerous corporations.

Prior to joining Columbia Business School he served as the CEO of multibillion-dollar businesses such as Lever Foods, Seagram USA, Tropicana and Sterling Winthrop’s Consumer Health Group.

Pietersen’s latest book is Strategic Learning: How to be Smarter than Your Competition and Turn Key Insights into Competitive Advantage.

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