

Strategy as Learning

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By Willie Pietersen



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This A-to-B approach is at the core of traditional strategy, but in today’s fast-changing world, that approach is badly outdated.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.

This article will lay out a practical leadership process for creating an adaptive enterprise by mobilizing a dynamic cycle of four steps: *learn, focus, align, and execute.* These steps build on one another and are repeated to create a dynamic cycle of renewal that I call Strategic Learning. It is a process that offers a new way to lead companies in a world of unpredictable change.

Learning from nature

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

In nature, the creation of favorable varia-

tions is the key to successful adaptation. A wonderful example is a plant, the common red clover, which has developed a flower with a unique feature – a long, thin funnel leading to the nectar at its base. Only bees, which have very long tongues, can reach the sweet nectar. Other insects are shut out.

The beauty of this strategy is that bees can fly farther than other insects. In effect, the red clover has formed an exclusive alliance with bees that ensures that its pollen is distributed more widely than that of other plants. This gives it a crucial competitive advantage which promotes its long-term survival.

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.

Fortune 1000 Companies: % New in Top 20

1993 – 2003

60%

1983 – 1993

45%

1973 – 1983

35%

Exhibit 1

Source: Lawler & Worley, “Built to Change”

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.

But here is the twist. People have one crucial advantage over other organisms: the power to think and learn. Nature’s low odds are due to two gigantic learning disabilities. When nature fails, it doesn’t know why; when it succeeds, it doesn’t know why.

Organizations possess the capacity to overcome these learning disabilities. It is our power to harness learning that increases our chances of survival, and the quality of that learning determines our odds of success. Therefore, in the world of organizations, *effective learning is at the heart of successful adaptation*.

Strategy is broken

What is the track record for organizations in responding to this challenge? The evidence is not encouraging. Longevity in corporations is the exception, not the rule. A survey

of *Fortune 1000* companies found that between 1973 and 1983, 35% of the Top Twenty names were new. The number rose to 45% in the following decade, and between 1993 and 2003, shot up to 60%. (See Exhibit 1)

If organizations want to improve their ability to adapt and survive, they will have to change their ways.

The trouble is that most companies are relying on the conventional A-to-B strategic planning process. That model simply doesn’t cut it in today’s turbulent environment.

In many companies, there is widespread frustration over the fact that their strategic plans are not doing their main job – creating competitive breakthroughs. People groan when they hear that the strategic planning season is at hand. Frankly, they have good reason. Strategic planning in most cases is 10 percent strategy and 90 percent planning – number crunching, forecasting, and budgeting. All this does is generate thick binders full of data that end up collecting dust on the shelf. The sad truth is that strategy all too often fails to engender the kind of ongoing renewal that is the hallmark of an adaptive organization. Why is this so?

Remember that successful strategy is essentially a response to the Darwinian logic we explored earlier. Survival, in the final analysis, depends on our best use of limited resources. No matter what business we manage – IBM or the local pizzeria – we all have finite resources; if we squander them, we are out of the game. Thus, the main job of strat-

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The Strategic Learning Cycle



Exhibit 2

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egy is to make the most intelligent choices about how to use our limited resources. And as the environment becomes more discontinuous, intelligent choice-making depends increasingly on an organization's ability to make sense of the changing landscape through learning and discovery, to translate superior insights into strategic action... and to do so continuously.

Strategy's new mission

The key, then, is to shift from the original notion of "strategy as planning" to "strategy as learning" and thus to the new mission of strategy: to create an adaptive enterprise. We need a *method* of doing strategy that enables us to adapt and renew in response to a shifting environment.

Every effective business process begins by defining its outputs. Work happens through processes that make it happen. Winning strategies will only emerge through a deliberate and practical process for generating insight, making choices, acting on them, and then adapting successfully as the environment changes. The outputs of a robust strategy method are what I call "the five killer competencies."

The five killer competencies

I believe every organization must master the

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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 intel-

ligent 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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