

## **Strategy in Disruptive Times**

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### **Introduction**

Typically, we would expect to take our lessons on how to achieve complex social, economic, and environmental objectives from the world's dominant institutions. After all, if these institutions grew to such scale, and established such power, then they must know how to manage and achieve big things.

Today this reasonable expectation appears wrong, contradicted by the accumulating incidence of strategic failure by major institutions. These failures are now so regular and so costly that managers increasingly seek their lessons in strategy from the purveyors of new "disruptive" organizational and business models. They explore the cell-based organizations of criminal and terrorist networks; or self-organizing micro-credit systems and Web-based communities; or large sourcing or distribution networks based on rationalizing existing micro-enterprises into scaled systems; or city governments that use bottom-up innovations to shape the growth of their cities and achieve new performance levels.

These "breakthrough" innovators of the late 20<sup>th</sup> and early 21<sup>st</sup> centuries contrast with the failing practices of major 20<sup>th</sup> century institutions as they face today's challenges. The gap between innovators and institutions is explored in this work-in-progress as a transition between two distinct eras of strategic practice: a passing era of modern strategy, and an as yet undefined era of new strategic practices better matched to a radically different operating environment. The paper also explains the assumptions underlying my strategy practice. It is the outline for a future, fuller publication, to be announced on this website.

### **On the Fault-lines of a Strategic Divide**

(Re)consider the following:

- September 2001. The intelligence strategies of more than a dozen national intelligence agencies and their international coordinating mechanisms are overwhelmed by a network of amateur operatives organized into loose 'cells.' The logistics strategy of NORAD, the U.S. aerospace defense command, is similarly overwhelmed by the logistics practices of the same amateur network. Subsequent attacks in other countries reveal the same failures of modern intelligence and security strategy, and its related practices and operating procedures. Meanwhile, the New York City Police Department, lacking confidence in the above apparatus, establishes its own international intelligence and counterterrorism divisions. In 2004, they successfully halt the work of a major international terrorist organizer, Abu Hamza Al Masri, by ensuring his arrest, conviction, and incarceration in the United Kingdom.
- October 2001. The U.S. sends aircraft carriers to the Persian Gulf and begins Operation Enduring Freedom. Aerial bombing missions are run against Taliban and Al Qaeda sites in Afghanistan, and leaflets are dropped over civilian areas. The from-a-distance strategy creates high civilian casualties and infrastructure damage. In December, special forces launch their first ground operations, targeting Al Qaeda strongholds, but they fail to locate senior Al Qaeda and Taliban leaders. The U.S.-led NATO strategy fails to anticipate that destruction of the central Taliban government will shift power to local tribal, ethnic, and sect leaders and warlords. As foreign military and intelligence organizations try belatedly to build-up their Afghanistan presence, their shortages of personnel with local Afghani knowledge and language capabilities becomes an issue. Alliances of local leaders reach across the Afghanistan-Pakistan border and organize a daunting resistance based on a set of highly flexible, adaptive military and intelligence practices attuned to indigenous cultures

and loyalties, and drawing on decades-long experience with guerilla operations in their territories.

- November 2003. The early warning and disease control strategies managed by dozens of national institutes of health, and their coordinating mechanisms under the World Health Organization, respond slowly to reports of a “flu outbreak” in China’s Pearl River Delta. The region has been the world’s leading incubator of major global epidemics for a century, including the Avian flu pandemic starting in 1997. Two months pass before the first reports of the local outbreak are translated from Cantonese/Mandarin and disseminated internationally. The international system fails to forecast the disease’s spread to 37 countries via established international business and migrant networks emanating from the region. By the time a global outbreak response network is activated, more than 500 people have died from the disease worldwide. Meanwhile, local directors of public health in cities like Vancouver and Toronto manage the containment of the disease through a real-time trial-and-error learning and crisis management process.
- December 2004. Although immediately detected by the Pacific Tsunami Warning Center in Hawaii, warnings about the Indian Ocean tsunami take hours to reach national capitals and to percolate down to regional and local authorities in India, Thailand, Indonesia and elsewhere. Meanwhile, using a very different kind of monitoring and warning system based on the transmission of traditional knowledge from generation to generation, indigenous tribal people in Indonesia and India ‘predict’ the impending waves from local insect behaviors and the retreating, bubbling ocean waters. They spread the word through informal village networks and flee en masse to safe, high ground. In response to the deaths of 230,000 and displacement of millions, an Indian Ocean Tsunami Warning System is established ex post facto. The lack of such a system is attributed to the infrequency of Indian Ocean tsunamis, the last occurring in the 15<sup>th</sup> century.

- November 2007/December 2008. The International Panel on Climate Change, one of the largest collaborative scientific endeavors in history, releases its fourth report on the physical science of climate change and mitigation strategies. The 2007 report continues to analyze the problem according to modern institutional categories, e.g., economic “sectors” and nation states, even though three-quarters of global energy use is organized via the infrastructure, form, and processes of urban systems, which do not function according to these categories. In 2008, representatives from 180 countries meet in Poznan, Poland and agree to establish a fund to help poor nations adapt to the effects of climate change, and create a mechanism to protect forests. No action is taken regarding urban energy use and systems. Yet a large network of city governments has demonstrated over the course of a decade that changes in urban infrastructure, technology, and policy can produce greenhouse gas reductions far exceeding the Kyoto Protocol targets. A key impediment to taking action on urban issues through the Kyoto process is a convention of modern foreign policy: “respect for national sovereignty.”
- January 2006-September 2008. Large American banks, mortgage finance companies, and investment rating agencies use advanced but still generalized risk management models as their strategy to assess and manage risks associated with primary, secondary, and derivative mortgage finance instruments. The embedded, historic logics behind these models do not take measure of two ‘tectonic’ shifts in U.S. urban property markets. First, they did not assess the rising cost-structure for residential living in sprawling American metropolitan areas, relative to real incomes, and the related impacts on household cash flow and solvency. Second, they did not factor a dramatic rise in retail home purchases for investment purposes, increasing housing turnover and vacancies, thereby establishing a structural over-supply and exerting downward pressure on prices. Had the financial industry used more granular measurements of

risk based on patterns like these at the district and neighborhood level, the financial risks could have been more accurately and geographically specified. Instead, the geographic patterns of urban economic fragility have only been documented post-crisis as foreclosure concentration zones in new condominium districts and suburban and exurban residential areas.

These above examples are cases of declining strategic potency in the face of changing operating environment conditions. The 2005 floodings of New Orleans and Mumbai; the increased incidence of major forest fires in western North America, of droughts and water shortages, of pest and disease ranges, or of rising global food prices are further examples of challenges to modern institutional strategies in disruptive times.

### **The Implicit Logic of Modern Strategy**

Modern systems of government and jurisdictional control, of economic production and management, of military operations, and of multilateral regulation and investment reflect the institutionalization of strategies that were designed and optimized to succeed under distinct operating conditions. These conditions are passing.

The primary characteristics of the modern operating environment were the following.

- Climate and ecological production in the modern era were very stable in both historical and geological terms, providing predictable resource replenishment.
- Territorial control of land, natural resources, and geophysical location served as primary determinants of economic advantage and power. Associated with this linkage between power and land/resource supplies,

the management of populations, markets, and social affairs could be achieved through ‘top-down’ and ‘outside-in’ territorial control.

- The needs and demands of populations and production were relatively homogenous, even across widely different cultures and political-economic systems. There was an ability to aggregate and scale through standardized solutions.
- The needs and demands of populations and production were primarily material, i.e., there was an emphasis on physical production relative to knowledge and experience production.

Modern strategies, and the institutions and practices developed for their implementation, were highly effective within this operating environment. These institutions and their organizational models will not disappear, but their ability to shape and control the primary determinants of social and economic outcomes, and to achieve their objectives, is severely strained by the erosion of modern operating conditions. The emerging new global operating conditions is “disruptive” because institutionalization of old strategies prevents the rapid scaling of more adaptive strategies. Even as modern institutions lose ‘traction,’ their control of resources and power is often used to undermine new entrants with more adaptive strategies. They thus lose efficacy even as they retain the legacy capital of societies—at detriment to societies and their own legitimacy.

As a result, society as a whole loses its ability to prepare for and respond in a timely, effective fashion to surprise events, i.e., to social and economic developments that are extra-territorial; to sudden declines in resource stocks; by technological (non-material) invention; to social organization around non-material motivations; and to the diversification of economic and social needs and demands.

### **‘Next Practices’: Strategies for Emerging Operating Environments**

The emergence of ill-defined new operating environments requires strategies that function under shifting environmental conditions and that shape the new, more stable operating environments of the future. Gaining traction in fast-changing environments requires more than strategy as conventionally understood. Conventional strategies are built on the foundation of generations of modern practices and operating procedures that had been tested over centuries in the evolving modern operating environment. This is what made a modern strategy like the 'outside-in' and 'top-down' Green Revolution so rapidly scalable.

The declining efficacy of inherited modern practices forces us to build strategic responses to emerging operating conditions from the 'inside-out' and 'bottom-up.' In other words, meaningful strategy starts with 'next practices' that are tailored to new kinds of problems and that rebuild an organization's basic ability to act with strategic effect.

Although the emerging operating environment is ill-defined and in flux, the following principles appear to be working, in practical fashion, as guides for 'next practice' development:

- Shift practices from emphasis on standardized planning, control, and production to adaptive, real-time 'solutions management' systems.
- Use 'co-creation' processes to tailor solutions to heterogeneous groups and situations.
- Replace top-down and outside-in territorial management with bottom-up and inside-out development of new place-based systems.
- Scale through adaptive, distributed systems (not fixed, hierarchical ones).
- Shift focus from stabilizing external supplies, to increasing internal input productivity and primary productivity, i.e., creating self-replenishing systems.

Many are documenting examples of these kinds of 'next practices,' from which I believe we will conceive the strategies that will once again provide societies with

the scalable capacity to respond to the big challenges and opportunities of the 21<sup>st</sup> century.