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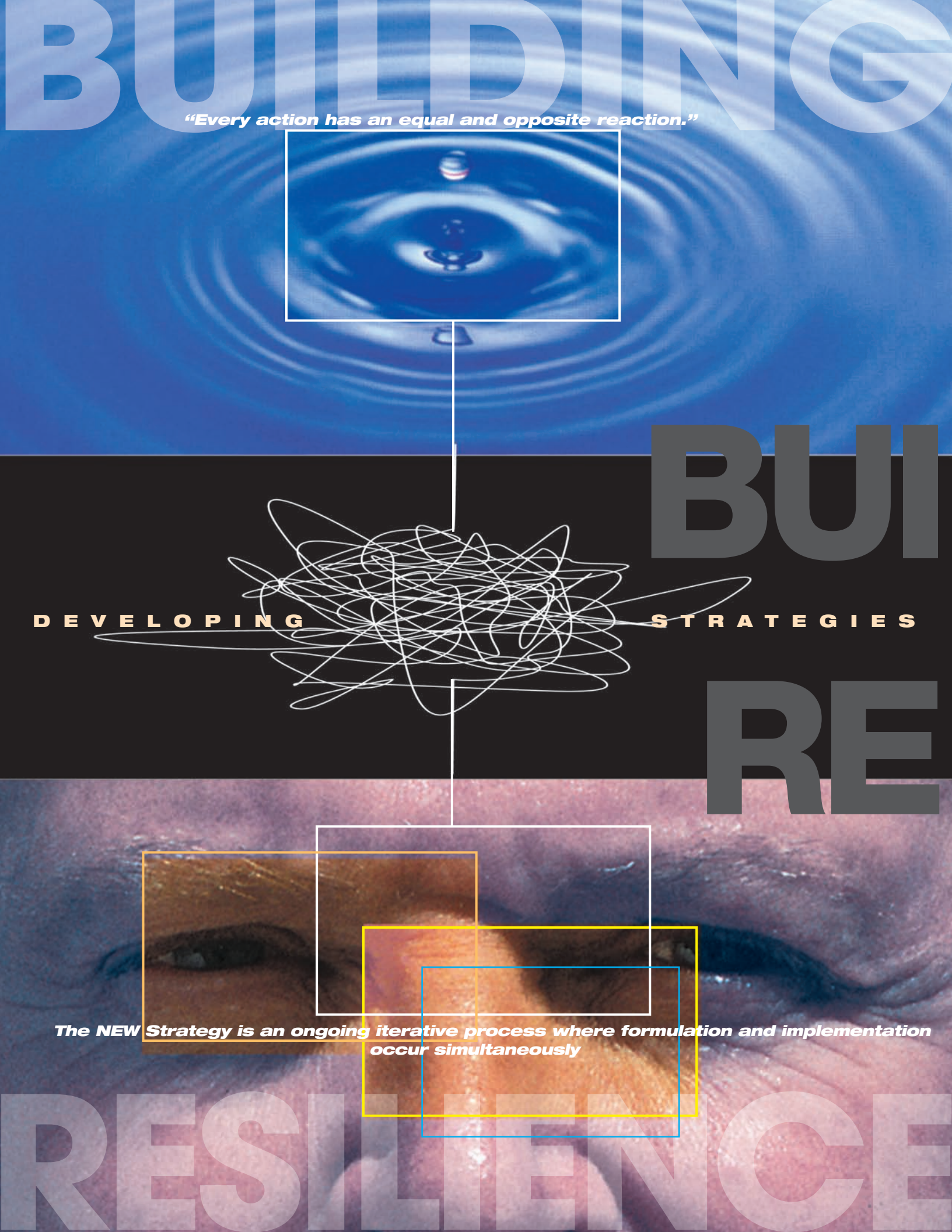
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**BUILDING
RESILIENCE**

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BUILDING

"Every action has an equal and opposite reaction."

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RE

RESILIENCE

DEVELOPING

STRATEGIES

The NEW Strategy is an ongoing iterative process where formulation and implementation occur simultaneously

by Robert Millard, **EDGE** INTERNATIONAL

There was a time when life was simple. The laws by which we lived were nearly always constant. “Every action,” Isaac Newton taught us, “has an equal and opposite reaction.” There was perceived order in the chaos around us, comforting us with the knowledge that we had only to learn from the past in order to forecast the future. Systems, we knew, tended towards equilibrium and chaos was uncomfortable, but temporary. If something broke, you fixed the defective component. Just like clockwork.

This thinking represents only a phase along the continuum of our understanding of the universe, over the course of human history. There have been previous understandings. There was a time, not too long ago in the greater scheme of things, when comets and erupting volcanoes were seen as symbols of a deity’s anger. Just sacrifice a few members of the tribe, preferably virgins (to emphasize to the gods that we were REALLY sorry about whatever it was that we had done to annoy them), and everything would be all right again.

In their time, both the above paradigms represented “state of the art” thinking. Today, although some residual truths may or may not remain, they are both largely defunct. We have learned far more about both our universe and ourselves. We have moved on. Our firms, of course, are an integral part of our universe. Our thinking about how they work, and how we craft strategy for them, needs to move on too.

LDING

T H A T T H R I V E O N C H A N G E

SILIENCE

COMPLEX SYSTEMS IN A COMPLEX WORLD

Today, we know the world in which we live is anything but ordered. Chaos is the norm and not the brief transition between equilibriums. Life is a spiderweb of inextricably intertwined interrelationships. The complexity makes accurate forecasting of the future impossible. Entirely new fields of science such as quantum mechanics, chaos theory and evolutionary biology have emerged to explain these new insights. Today’s view of the cosmos, from the galactic to the sub-atomic, is of a hierarchy of interrelated complex adaptive systems, each with its own dynamics.

These complex adaptive systems are far, far too complex to think about in the linear ways that we are so used to. Basic assump-

tions like cause and effect no longer apply in anything like the same way. This is not to say that there are no rules, or that everything is random. If one mixes two chemicals in fixed proportions, under the same conditions, then the same reaction will still materialize time after time. If one places a lion and an antelope in a small enclosure, it is still likely that one of them will become lunch and it is safe to predict that it will not be the lion!

What is new is our understanding of the implications. Where processes occur “in the wild” (as opposed to under controlled circumstances in a laboratory), then the influences of other processes will often, perhaps even usually, produce unanticipat-

ed results. Every action, it turns out, does not necessarily produce an equal and opposite reaction. Often, the reaction is out of all proportion to the action, and in a completely different direction. Although cause and effect still exist, the complexities of the intertwined relationships in a complex adaptive system lead to unanticipated consequences. Sometimes dramatically.

Today, we know the world in which we live is anything but ordered. Chaos is the norm and not the brief transition between equilibriums.

At the macro-level, though, there is also order. Complex adaptive systems that are sustainable have underlying cycles. Once understood, these become powerful means of influencing the system. In nature, one might think of the geological cycle, the nutrient paths up a food chain and energy cycles. Apparently random patterns in nature, when viewed at the macro level, often yield highly structured forms called fractals. At the local level, a pride of lions tearing a buffalo apart or a raging forest fire are the epitome of chaos. At the macro level, both fire and the cycle of life and death are essential aspects of the ecosystem's process of renewal and perpetuation. We abhor chaos, yet life itself cannot exist without it.

LESSONS FROM A NATIONAL PARK

As a young man, following my period of national service in the South African army, I spent several years managing 425 square miles (1100 square kilometers) of wilderness in the Etosha National Park in Namibia (then still South West Africa). It was a wild and rugged life, with very few indeed of the modern conveniences that we take for granted. Not even electricity. But spending every single day for several years in close proximity to lions, elephants, antelope and other game, not to mention the extraordinary birdlife and the lesser animals and plants, left an indelible impression on me. The most fundamental insight that was burnt into my psyche, that profoundly influences the way that I view organizations and strategy, was the inter-connectedness of everything.

It is still an absolute miracle to me that we as humans are made up of the same biological building blocks as the leaves on a tree. Or that nature manages to achieve a balance despite short-term cataclysms and disasters. That energy flows through the varied and complex facets of the ecosystem with absolutely no waste. That we are still, in the 21st century, only just beginning to scratch the surface of our understanding of the real processes at work in the wilderness.

Man cannot hope to control the ecology of a national park. The inter-relationships are too complex and the ecosystems are in a constant state of flux. At best, man can exert influence, to encourage a trend in a particular direction.

Unanticipated consequences are rife. Reduce the numbers of predators and the antelope flourish to begin with, leading to happy tourists, but then overgraze the grasslands that they feed on and massive die-offs follow, not to mention soil erosion and alteration of the species mix amongst the grasses. Fail to control burgeoning elephant populations, and they literally trample trees in the savannah until it becomes grassland, leading to the local extinction of other animals that relied on the trees, like the majestic sable and roan antelopes, and the highly endangered hook lipped ('black') rhinoceros.

Heavy-handed management action aimed at actual control almost invariably does more harm than good. I observe very similar phenomena, and a similar level of interconnectedness and complexity, in professional firms.

The relationships between different elements in a wilderness ecosystem are complex, dynamic, self-organizing and subtle.

Sometimes even incomprehensible.

In exactly the same way, the relationships between different elements in a professional service firm are complex, dynamic, self-organizing and subtle.

Sometimes even incomprehensible.





A mechanistic approach to strategy or management in either case is not assured of success.

Like a wilderness ecosystem, a professional service firm is not like a clock, where elements that malfunction can be excised and replaced. Newtonian physics does not work perfectly in either nature or our firms.

UNANTICIPATED CONSEQUENCES






In complex adaptive systems, cause and effect can be completely unpredictable. A minor act in one part of the system can have dramatic and unanticipated consequences elsewhere.

A telecommunications network is one example of a complex adaptive system. On January 4, 1991, a backhoe crew from AT&T accidentally put their shovel through a fiber optic cable. The immediate result was:

-  100,000 telephone calls were instantly terminated
-  The New York Mercantile Exchange was shut down and the Commodities Exchanges disrupted
-  Air Traffic Control in Boston, New York and Washington DC was disrupted
-  60% of telephone traffic into and out of New York was cut off.

In an unrelated event three days earlier, one single character in one line of computer code caused a malfunction that left 12 million people in the USA without a long distance service for several hours.

Whether they are national parks, telecommunications networks, galaxies or professional service firms, complex adaptive systems have the following common characteristics:

-  They are complex in terms of structure and process.
-  They are governed by complex and variable relationships.
-  They are made up of diverse elements.
-  They evolve over time.
-  They exhibit emergent behavior. (That is, local decisions may lead to global consequences that are difficult to predict.)

RELEVANCE TO PROFESSIONAL SERVICE FIRMS

It does not take much thinking to develop a whole series of metaphors from the above, to illustrate what we observe in professional service firms. And, it does not take much more thinking on top of that for the realization to dawn that these are not metaphors at all, but parallels. The similarities are there because exactly the same rules apply. Professional service firms are perfect examples of complex adaptive systems.


While we strive for order and a state of comfortable equilibrium in our firms, the reality is that disruptions come so frequently and with such dramatic and unanticipated effects, that change and uncertainty are the norm rather than the exception. As in nature, chaos is critical for renewal and advancement to take place in the firm. A new direction cannot be 'born' without the old direction 'dying,' and that death can be very traumatic for those that have an attachment to the old direction.

The practice of law, in many respects, comprises the same paradox of chaos and order intertwined. Law is practiced in large measure as it has been for many centuries. Yet it evolves all the time, sometimes unpredictably. Legislation itself may remain constant, but case law is derived from a complex collection of precedent spanning the same centuries. Chaos is very much a reality as precedents are overturned and replaced by those resulting from new situations. Ambiguities are commonplace where the relevance of conflicting precedent has to be assessed, and outcomes are far from certain. To the outside world, the chaos is hidden. It is cloaked beneath traditions, methodologies and rituals that have evolved to ensure the integrity of the process. Beneath the cloak, the familiar characteristics of a complex adaptive system emerge here as well.

DISRUPTION AND CRISES

Sometimes a disruption creeps up on us unseen, with the stealth of a thief in the night. At other times, it breaks loose from the forces that have been trying to subdue it, with the force of a tsunami. Or of Boeings ploughing into office towers. Furthermore, change is accelerating. Both the pace and the intensity in the 21st Century are unprecedented in human history.

THERE ARE AN INFINITE NUMBER OF POSSIBLE DISRUPTERS. FOR INSTANCE:

-  A key fee earner or a whole practice group defects, taking along one or more key clients.

- ⦿ A client that has historically yielded significant revenue moves its business away from the firm.
- ⦿ New technology emerges that allows a service that the firm provides profitably, to be automated.
- ⦿ Legislative changes to the laws governing the profession; for instance, the external ownership of law firms and multi-disciplinary practices and provisions of reserved legal services by companies other than law firms in England from 2007 (in terms of legislation resulting from the Clementi Review).
- ⦿ The macro-economics (interest rates, economic growth, war and peace, etc) change upward or downward.
- ⦿ The expectations of entry-level people change dramatically as the profile changes from "Gen X" to "Gen Y."
- ⦿ A firm in India offers services similar to your firm's at 10% of the fee.
- ⦿ Et cetera

ALL THIS HAS EXTREMELY IMPORTANT IMPLICATIONS FOR STRATEGY. STRATEGY (AS OPPOSED TO BUSINESS OR OPERATIONAL PLANNING) IS USUALLY ABOUT THE FOLLOWING:

- ⦿ The **long term direction** of the firm.
- ⦿ Developing some sort of **strategic advantage** over the firm's competitors.
- ⦿ The **overall scope** of the firm's service offering and its delivery to clients.
- ⦿ **Growth** of various kinds (e.g., market share / profitability / revenues / percentage of wallet).
- ⦿ **Allocation of resources** (people, time, money) to different priorities.

Many firms have responded to the increasing complexity and variability of their environment by simply shortening the strategic planning cycle, typically to between one and three years (although one year gets dangerously close to being operational planning rather than strategy.)

Of course, shortening the timeframe does make forecasts more reliable. There is less margin for error. Oil prices will likely fluctuate less in a week than a year. Ironically, though, this increased reliance on certainty may reduce the firm's resilience and ability to adapt if, inconveniently, a major disruption occurs. If a crisis results, then the firm may be ill-equipped to deal simultaneously with both the crisis itself and the need to change direction. The reason for this is simple. The reliance on certainty creates an

CONCEPT	OLD STRATEGY
MARKETS	Markets are fixed and definable in time
WORLD VIEW	The future is largely an extrapolation of the past, with variations for new developments. Strategy is about determining the forces that are and will be at play in the market, and fixing goals and striving towards them, so that one can plan ahead.
DRIVERS	Cause and effect are important factors and outcomes of actions and other influencers or drivers are predicted with the assumption that the prediction is accurate.
CONCEPT OF THE FUTURE	The firm's view of its future is embodied in a summary vision or mission statement (that can be framed and hung in the reception area). The vision is given form and substance through goals and objectives.
PRIMARY OBJECTIVE	Identify key competencies or areas that should be otherwise concentrated upon; define goals and objectives, and a plan to achieve them, in order to achieve competitive advantage.
PROCESS	Strategy formulation is a periodic activity interspersed with periods during which the strategy is implemented.
MANAGEMENT CONTROL	Aimed at ensuring that people adhere to 'the plan' and that progress is made towards defined objectives. People are told what is required and then supervised to ensure compliance.

illusion that it can dispense with developing the resilience and flexibility that is required when circumstances change, and concentrate on “the plan” instead.

It is relatively common for commercial organizations generally to survive crises, but it is far less common for a professional service firm that “hits the wall” to bounce back. Unlike factories and retail companies, the assets of a firm reside between the ears of

its people. As such, they are heavily dependent on the state of mind of those people. They are also highly mobile. As a crisis deepens, fee earners often defect, worsening the crisis into a spiral that leads to a firm’s demise. Clients may defect when they hear of problems, accelerating the worsening cashflow, and the death knell usually comes when additional working capital is required and either the partners or the bank (or both) decide not to advance it.

NEW STRATEGY

Markets are flexible and can (and do) change periodically, perhaps unexpectedly and fundamentally.

We now know that the future cannot be accurately extrapolated from the past. Internally, a firm’s future is largely a function of how the firm reacts to its environment NOW. Strategy is about developing the ability to be competitive under a range of possible futures.

While there are primary drivers that can and should be identified, it is recognized that there are probably others that are not obvious. Except for obviously predictive effects (which are also treated with suspicion), it is assumed that unanticipated consequences will arise.

The firm’s view of its future is a description or narrative that is detailed, accurate and descriptive enough for everyone to understand the “desired end-state” regardless of changes that may occur along the way.

Define the key performance areas and the boundaries within which the firm will operate in order to maintain them, and develop systems to encourage accountability for subunits to move towards the “desired end-state” within these parameters. Ensure that the firm is able to change direction frequently and quickly, as required by market shifts.

Strategy is an ongoing iterative process where formulation and implementation occur simultaneously.

Aimed at ensuring people work within defined boundaries and that the firm’s performance is acceptable in terms of specific key performance areas. People are empowered to do what is required and held accountable for their actions.

What, then, is the solution? How should professional service firm strategy be crafted in order to meet the challenges of today’s complex, adaptive environment that is different than before? Clearly, the first step is to realize the specific ways in which the world has changed, so that the firm’s view of strategy can follow. Some of these changes are summarized in the table to the left.

A BLUEPRINT FOR ACTION

The important thing to realize is that this new approach to strategy is not simply another way of doing things, or an alternative that may or may not be better than the “conventional” approach. Rather, it is a response to our new understandings of life around us, in the broadest sense. These understandings both inform us as to why our old approaches didn’t meet expectations, and provide guidance on how we can be better at crafting strategy for our firms.

Just as some continued to use horse drawn carts after automobiles became widely available, so there will be a transition in the way that firms approach the crafting of strategy. In time, approaches that acknowledge and capitalize on the complex and adaptive nature of firms will become the norm. The ‘risk free’ solution of not changing is an illusion. In both nature and business, the end of that road lies in extinction.

It is unlikely that firms will make the transition immediately, although many have already begun it without being actively aware of it. It is understandable, and to be expected, that those professionals who grew up with traditional approaches to strategy (and who thereby achieved great success) will firmly resist the fundamentally different approach I am recommending here. The new way requires very sophisticated understandings of strategy and management. It relies on more effective and focused leadership than has been traditional within law firms. It also requires more time, which is always in short supply, and therefore an accompanying recognition of the enormous return on investment that will flow from that additional time.

HOW CAN FIRMS MAKE THIS TRANSITION WITHOUT SACRIFICING SHORT-TERM COMPETITIVE ADVANTAGE? HERE ARE EIGHT STEPS TO BEGIN THE PROCESS.

1. With your colleagues, develop a detailed three to five-year "desired end-state" of what you would like your firm to achieve. Agree and document its values and also the boundaries and limitations within which it will operate. Be ambitious, targeting objectives that everyone agrees would be a "stretch," but attainable. Jim Collins¹ called these "big hairy audacious goals" or BHAGs. A BHAG is ideally a text of several pages, with various headings about the firm (from clients to personnel to premises to office locations to practice areas to industries served to technology employed) incorporating in each area particulars/specifics of lofty heights to be attained. Realizing all the time that even the BHAG may (and should) change as the market shifts. It is a "living" document that needs to be reviewed frequently.
2. Develop a formal, effective competitive intelligence capability to constantly inform of the ongoing changes before they arrive or become crises. The structure of a formal competitive intelligence capability is beyond the scope of this article, but typically it would include a formal process for collecting data about, for instance, clients, competitors and the market; collation and processing of the data into a format that is useful inside the firm, and communication of the intelligence to those that need to act on it.
3. Delegate authority far down into the firm, holding mid-to-junior-level leaders accountable for performance but empowered to do their own planning.
4. Create mechanisms for people in the firm to routinely have quick, focused discussions about issues. Existing technology allows this to be quick, easy and inexpensive. It is simply a matter of DOING IT. For instance, IBM developed a highly effective system called "jamming," that allows its 8000 employees worldwide to provide almost instant input on important issues. Blogs on the intranet and similar mechanisms can also be used effectively.
5. Pay attention to the different aspirations of the "Gen Y" professionals entering the firm. Leverage off the fact that they are not tainted by Newtonian thinking and are tech-savvy in ways that we cannot comprehend. Include them in strategy crafting not just to be inclusive, but also to genuinely draw out and capitalize on their insights.

6. Invest heavily in driving organizational learning (which is not the same as knowledge management). Use proactive learning processes such as business driven action learning, coaching and mentoring.
7. Reward mistakes made in good faith, that do not transgress values or boundaries. **Punish** failure to take risks within values and boundaries.
8. Make sure that the firm's management focus — and especially the performance evaluation and compensation systems — actively rewards the correct behavior! (Yet another reason, if you need one, to move away from a system that measures and rewards primarily billing and pays only lip service to other drivers of the firm's performance.)

This is the essence of the new strategy. In today's world, the sequential process of analysis followed by strategic planning followed by implementation has been roundly discredited both in academic business circles and through the appallingly low rate of success that has been achieved in execution. Perhaps the best book on this subject is Henry Mintzberg's "The Rise and Fall of Strategic Planning." (Free Press, 1994.)

There is a HUGE advantage to moving early. The magic in the new thinking is not in the knowledge. It is in the iterative cycle of concurrent formulation and implementation; one step at a time, feeling one's way to find what works (or not) in the unique environment that is your firm. As such, it becomes something that is impossible for competitors to emulate without going through the same process themselves, which makes it very difficult to catch up.

Now that's competitive advantage!



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International Inc. Robert has a multi-faceted, eclectic background. An MBA graduate of Henley in England, he led a South African consulting firm for a decade before joining Edge. As a young man, he served as a company commander in the South African Army and worked for several years as a ranger in the Etosha National Park in Namibia. Robert's passion is helping firms develop the dynamic resilience to grow and evolve in rapidly changing environments. Currently, he is working towards PhD in business administration. Robert can be contacted by email at millard@edge.ai

¹ Collins, J.C., 2001. *Good to Great*. Harper Business (the best selling business book of all time, incidentally).