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Strategy as Active Waiting

Key ideas from the [Harvard Business Review](#) article By Donald N. Sull

The Idea in Brief

Executives who cut their teeth in stable industries often stumble in volatile markets. Why? They assume they can gaze far into the future and craft long-term strategies that will win their company a sustainable competitive advantage.

But in volatile markets, visibility into the future is sharply limited. Technological innovation, customer preferences, government policies, and capital markets--these factors take unpredictable turns and interact in ways that create unexpected outcomes. To muddy things further, the best opportunities and the worst threats crop up sporadically, beyond anyone's control.

How to position yourself to seize advantage of golden opportunities and escape grave threats? Master the art of **active waiting** during the comparatively peaceful periods that reign between volatile times: Probe the future for harbingers of opportunities and threats. Maintain a war chest and battle-ready troops. Know when to wait--and when to strike. When you grab an opportunity or move to crush a threat, amass all your resources behind the effort.

Companies skilled in active waiting not only survive unpredictable markets--they thrive in them. Software maker BEA Systems discovered this firsthand when it seized a rare, fleeting opportunity in the emerging enterprise software market--and achieved \$1 billion in revenues faster than any other software firm.

The Idea in Practice

To master active waiting, apply these practices:

1. Keep your vision fuzzy and priorities clear. Describe your company's domain, geographic scope, and aspiration in broad terms; for example, "We aspire to global leadership (or excellence, or quality) in our industry." You'll provide direction and establish hopes--without locking your company into a specific course of action.

At the same time, specify a small set of clear short- and medium-term priorities to align your organization; for instance, "We will restore our company to profitability."

2. Probe the future. Use environmental scans, investments in potential new markets, and small-scale market experiments to explore potential opportunities and threats.

Embattled Brazilian brewer Brahma used inexpensive forays into the Argentinean and Venezuelan markets to solidify a position in soft drinks and take advantage of future growth in that sector. It also studied developed beer markets to spot trends that might affect its business. Brahma's successor firm, InterBev, is now the largest beer maker in the world.

3. Maintain a war chest. A reserve of cash can be deployed against numerous opportunities and provide the perfect hedge against unexpected threats. To maintain your war chest, scrutinize your firm's resource allocation process, cap investments allocated to future probes, and increase investment only after explicit evaluation suggests doing so.

During the fat 1990s, aircraft maker Embraer stockpiled cash, avoided debt, and listed on the NYSE to build its cash reserves. It also forged partnerships with firms that subsequently bore two-thirds of the development costs for its next-generation regional jet. By June 2001, it had a reserve of \$700 million. After 9/11 crushed demand for planes, Embraer remained aloft-while rivals stalled or went bankrupt.

4. Keep the pressure on. Continue making routine operational improvements-cutting costs, strengthening distribution, improving products. Though mundane, these initiatives foster efficiency-which can position you to snatch a golden opportunity from rivals' jaws.

5. Declare your "main effort." When you encounter an opportunity or threat so important that it demands your organization's full focus, declare it your main effort-your company's top priority for a specific period of time. Then reevaluate all investments and activities in terms of how well they support the main effort. You'll convey urgency, focus your organization, prioritize resource allocation-and boost the odds of winning big.

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Further Reading

Article

Strategy as Simple Rules

Harvard Business Review

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by Kathleen M. Eisenhardt and Donald N. Sull

The authors affirm that traditional thinking about competitive strategy doesn't improve your visibility in volatile markets. Instead, you must pursue constantly evolving strategies in market spaces previously considered unattractive according to traditional measures. In fact, the greatest opportunities for competitive advantage lie in market confusion. You gain an edge by successfully seizing fleeting opportunities. Key strategic processes, such as product innovation, partnering, or spinout creation, place your company where the flow of opportunities is greatest.

But you also need a few simple rules to guide your pursuit of such opportunities. These rules fall into five broad categories: how-to rules, boundary conditions, priority rules, timing rules, and exit rules. Follow the rules religiously, and avoid the temptation to change them too frequently. A consistent

strategy helps you sort through opportunities and gain short-term advantage by exploiting the attractive ones.

About the Author

Donald N. Sull is an associate professor of management practice at London Business School. His most recent book is *Made in China: What Western Managers Can Learn from Trailblazing Chinese Entrepreneurs* (Harvard Business School Press, 2005).

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