Seek Strategy the Right Way at the Right Time

Among managers who make strategy and researchers who study it, fierce battles have been fought over the right way to discover a strategy. In one corner stand advocates of analysis, deliberation, and planning: Managers should study the competitive forces in their environment, deduce a set of choices that helps the firm confront those forces, and then implement the choices. In the opposite corner are those who support what’s termed an emergent approach: Managers should try things out, learn from experience, adjust, and gradually craft a strategy.

Our recent research, an in-depth, multiyear study of firms searching for strategies in the internet portal industry, suggests that both views are right—but incomplete. Deliberation and emergence work, just under different circumstances and at different times in an industry’s development.

Early in the life of a typical industry, competitive conditions are extremely ill-defined. In the nascent portal industry of 1993 to 1995, for instance, fundamental features of the market (who the customers were, what they would pay for) were ambiguous. It would have been futile for companies in this industry to search for a strategy purely by deliberate application of economic logic. Firms such as Yahoo that thrived in those early days analyzed the environment to some degree but took a largely emergent, experiential approach. Later, as the industry’s features solidified, it became effective for strategists to be more deliberate. By 1997, for example, managers at Lycos could see that economies of scale and switching costs were rising, which meant the company needed to be big and to lock in customers. The managers reasoned that the company had to grow quickly and that acquisition was the fastest way. Great strategists can, first, size up whether deliberate deduction is effective in an industry at a given point in time and, second, match how they search for a strategy to current conditions in their industry.

Both the deliberate and emergent views are incomplete in that they miss important other ways to search for a strategy, approaches that lie between deliberation and emergence. One way is analogical reasoning. After the period when industry conditions are wholly undefined but before economic cause and effect become sufficiently clear, an industry’s environment offers clues that it is similar to other settings. Around 1996, for instance, the internet portal industry started to bear certain resemblances to traditional media. This enabled forward-thinking firms such as Yahoo, which saw the similarities early, to precede rivals in adopting effective practices from the established media business. Yahoo organized itself around “producers” developing online “properties” and invested deeply in its brand; some other portals focused on developing the fastest search technology. Great strategists not only rely on emergence and deliberation at the right moments, but they also know when and how to employ analogies with care.

All this sets up a tension that managers must confront. A new firm in a new industry is highly flexible—it has made few immobile commitments, and its managers aren’t set in their ways. So if the management team could deduce a great strategy, the company would be adaptable enough to run with it. However, deduction rarely works in nascent industries. Over time, two things occur: Industry conditions clarify, making analogical reasoning and deliberate economic analysis effective. But the firm ossifies and commits itself to a particular way of doing business, and managers become inert in their thinking.

This raises a key question for managers: Can your firm remain supple and adaptable long enough to take advantage of analogy and deliberate analysis once they become useful tools? In the portal industry, Lycos accomplished this, shifting its strategy toward a media play late in the game and enjoying a few years of strong performance (well before, of course, Google rose to prominence). Meanwhile, some of Lycos’s rivals in the late 1990s appeared to develop industry wisdom too late to act on it, after they had hardened in their ways.

The ideal is to couple the flexibility of youth with the wisdom of age. The sad reality is that many firms lose flexibility sooner than they gain wisdom.