

MANAGING IN TURBULENT ENVIRONMENTS

Igor Ansoff's Strategic Success Model



The key challenge for managers in the 1990's is "assuring competitiveness and profit ability" for their companies in turbulent environments.

Never in history has the pace of change in the business environment been as rapid as it is now. Recent developments –such as the global marketplace, the opening up of Eastern Europe, the Gulf Crisis, the slowdown in the world economy... and in Singapore, the new political leadership, formation of the "Growth Triangle", increasing costs of doing business compounded by labour shortage, have posed real challenges for managers and made it increasingly difficult for companies to succeed in the turbulent environment.

Over the years, management consultants and academicians have suggested various success prescriptions. One of these is to "maximize market share" so as to reap economies of scale and hence lower costs of production. This prescription believes that the company's competitiveness and profitability is optimized when it is the lowest cost producer. Firms adopting this prescription set about busily to cut costs, reduce overheads and introduce automation, integrated manufacturing system, robotics and the like.

But a casual glance at today's reality reveals many successful companies that are not low-cost producers. Firms such as IBM and Apple are selling their products at a premium. Thus, while the ability to control cost is an important factor, it is only one of many that affect the success in today's environment. On the contrary, a company which is only good at cost control will eventually lose its competitiveness and profitability.

Recently, Peters and Waterman in their book *In Search of Excellence* suggested that companies should "stick to their strategic knitting". Their prescription directs firms' attention to the customers and markets and suggests that firms do what they are good at. The focus is on serving the future needs of the firms' customers using their existing strength. Companies therefore make incremental moves to progressively satisfy the future needs of their customers. This prescription has produced attractive results for some companies. But some other successful ones cited in the book got into financial trouble even as the book went to press.

So it is clear that each of these prescriptions provides a solution only to a particular situation and scenario and that there are no universal prescriptions for management success. Companies operating in different environments need different types of strategic prescriptions to succeed.

Igor Ansoff, the world-renowned Guru on strategic management, suggests that for a firm to optimize its competitiveness and profitability, it has to match its strategy and supporting capability with the environment. Ansoff has developed a strategic success formula to help firms do this. This formula is the result of years of his research and has been tried, tested and proven by managers in various industries and different countries.

Concept of Environmental Turbulence

Ansoff introduces the concept of environmental turbulence to describe the different environments. He classifies the different environments in

which firms operate into five distinct turbulence levels. At one extreme is the stable, placid environment where nothing changes; at the other is the creative environment, characterized by major technological breakthrough, and social political upheavals.

LEVEL 1: Repetitive Environment

This is the placid environment where nothing ever changes. In a free market economy, very few organizations are operating in this environment except for some not-for-profit organizations. The museum is an example of an organization in this environment.

The company operating in a turbulent environment needs a compass rather than a detailed road map for a road map with detailed instructions is of little use when the topography is unknown and fast changing.

LEVEL 2: Expanding Environment - Slow Incremental

This environment is usually found in the segment of the economy which is growing rapidly. In this environment, demand usually exceeds supply, and customers' needs are basic and undifferentiated. Price is the main determinant in the purchase decision and production efficiency is the key success factor.

LEVEL 3: Changing Environment - Fast Incremental

In this environment, customers' demands are differentiated by different buying power and product preferences. The key success factor shifts from production efficiency to marketing effectiveness.

LEVEL 4: Discontinuous Environment - Predictable

With the emergence of the global market place, influx of foreign competitors, technology substitution, rapid shifts in customers' needs, wants and attitudes, and governmental and social changes, the majority of companies today are operating in this complex and discontinuous environment. A recent survey carried out in Singapore showed that more than 70% of the firms in Singapore are operating at a level between 3.5 and 4.5. In this environment, changes are taking place at a rate faster than the company's ability to respond and the future is difficult to predict. The complexity and discontinuity of the environment also make it impossible for companies to succeed simply by optimizing on a single success factor as in levels 2 and 3. Production efficiency, marketing effectiveness and product responsiveness are all important determinants of the firm's success, but their relative importance are constantly adjusted by management in response to changes in the marketplace.

LEVEL 5: Surpriseful Environment - Unpredictable

In this environment, technological leadership is the key success factor. New technologies and new industries develop rapidly and customers are prepared to pay for the most advanced technology. It is in this environment that Steven Job created the personal computer.

In the first three levels of environmental turbulence, the future can be extrapolated from the past and there are few surprises. Rapid corporate growth usually leads to high profitability. The company's strengths and successful strategies in the past are likely to remain relevant in the future.

In the environments of turbulence levels 4 and 5, profits do not follow growth, extrapolation of the past into the future is dangerous, surprises are frequent, historical strengths can become weaknesses and what were successful strategies in the past may not be successful in the future.

Strategic Success Formula

Recent research shows that the most important factor determining the competitiveness and profitability of organizations is the extent to which they match their strategies and capabilities to the environment in which they operate.

For every level of turbulence, Ansoff has identified a particular type of strategy and capability for success (Figure 1).

Level 1: Repetitive Environment

In this stable and repetitive environment, firms do not change their products and services unless forced by a threat to their survival.

Firms operating at this level are hierarchical, highly structured and executives work according to precise job descriptions.

Level 2: Expanding Environment

In this environment which changes slowly and incrementally, firms succeed by adapting reactively to

change. These firms make incremental moves based on experience and do not change their products and services in the absence of threats from competition.

The successful firms are production-oriented with emphasis on internal efficiency and productivity. Little attention is paid to the market and customers since it is assumed that minimization of cost will automatically lead to success in the market place. Firms operating at this level are likely to achieve success by maximizing market share.

Level 3: Changing Environment

In this environment, the successful firms seek to progressively improve their products and services in anticipation of the evolving needs of the customers. The prescription to "stick to the strategic knitting" suggested by Peters and Waterman is appropriate for firms operating at this level.

These firms are extroverted and market-driven. The focus is on servicing the future needs of existing customers using the existing strengths of the firms.

Level 4: Discontinuous Environment

This is the most difficult level to manage and there is a radical difference between successful firms at level 3 and those at level 4.

The distinctive characteristic of a successful firm at this level is that it is ready to abandon its historical position. It is driven by its perception of the new opportunities that will exist in the environment. There is no attachment to particular customers, technologies or products. The firm is prepared to move to where it perceives the profits to be. This is rather different from firms at level 3 which concentrate on servicing the future needs of their existing customers using the historical strengths of the firms.

Figure 1: MATCHING TURBULENCE-AGGRESSIVENESS – RESPONSIVENESS

ENVIRONMENTAL TURBULENCE	REPETITIVE	EXPANDING	CHANGING	DISCONTINUOUS	SURPRISEFUL
	Repetitive	Slow Incremental	Fast Incremental	Discontinuous Predictable	Discontinuous Unpredictable
STRATEGIC AGGRESSIVENESS	STABLE	REACTIVE	ANTICIPATORY	ENTREPRENEURIAL	CREATIVE
	Stable Based on Precedents	Incremental Based on Experience	Incremental Based on Extrapolation	Discontinuous New Based on Observable Opportunities	Discontinuous Novel Based On Creativity
ORGANISATIONAL RESPONSIVENESS	STABILITY SEEKING	EFFICIENCY DRIVEN	MARKET DRIVEN	ENVIRONMENT DRIVEN	ENVIRONMENT CREATING
	Rejects Change	Adapts to Change	Seeks Familiar Change	Seeks Related Change	Seeks Novel Change
LEVEL					
	1	2	3	4	5

Level 5: Surpriseful Environment

The success formula at this level is to develop products and services with the cutting edge innovation and technology.

The firms seek to create their own environment. They are flexible and totally committed to creativity.

Ansoff's strategic success formula states that for optimum return on investment, both the aggressiveness of the firm's strategy and its capabilities must match the turbulence of the environment.

Thus, capabilities that are appropriate for a high level of turbulence will be costly and wasteful for firms operating in a low level of turbulence. Capabilities that are adequate in a low turbulence environment will leave a firm badly positioned in a highly turbulent environment.

In stable environments, the firm's strategic planning is based on extrapolation of historical success strategies.

The future can be forecast with a great degree of certainty and it is possible to prepare a fairly detailed long-range plan.

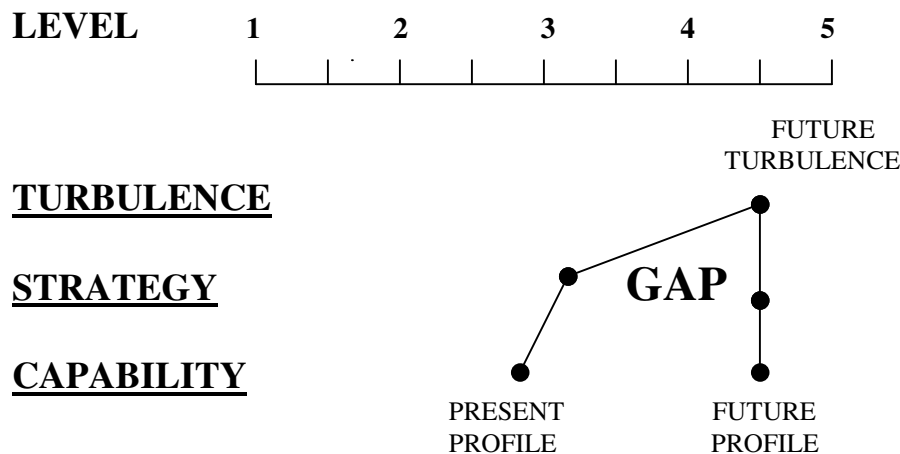
In turbulent environments, the firms will be confronted with frequent shifts in strategic success factors. One of the major challenges of the management is continuously be on the alert for such shifts and to adapt to these shifts. In these environments, the output of strategic planning is direction rather than a detailed plan. The company operating in a turbulent environment should have a compass rather than a detailed road map; for a road map with detailed instructions is of little use when the topography is unknown and fast changing. A compass will point to the right direction and management team, with ingenuity and teamwork, can overcome unforeseen obstacles and unanticipated opportunities that open the way to the destination.

Conclusion....

Ansoff has developed strategic diagnosis instruments to help a company assess its turbulence level, and to check whether it has a strategic alignment problem. The diagnosis also identifies a combination of turbulence levels, strategic aggressiveness and organizational capability responsiveness that will produce optimum profitability.

A simple exercise is available to help companies carry out a quick check to see whether it has a strategic alignment problem. If the result of the simple diagnosis produces information such as that illustrated in Fig. 2, the firm is poorly prepared to meet the future. In an environment with intense competition, where a strategic mismatch would result in severe deterioration in profitability, the firm must quickly change its strategic response in order to correct the mismatch.

Figure 2: STRATEGY-CAPABILITY GAPS



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