strategic drift

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Conceptual Framework

Strategic drift can be defined as a gradual deterioration of competitive action that results in the failure of an organization to acknowledge and respond to changes in the business environment. Drift is a reflection of a static outlook, which over time becomes more distant from the reality of shifting conditions in the economy, technology, and consumer demand. The consequence of strategic drift is a decline in competitive advantage through managerial inertia, an increase in operating costs and the decline of innovation and market adaptability.

The transportation and telecommunications industries provide some of the more visible examples of strategic drift. Leading airlines held on to outdated cost structures and pricing policies were overrun by agile low-cost carriers. Incumbent national telecommunications providers lost their dominant position when they failed to react fast enough to the opportunities brought about by new technologies.

The term strategic drift is used to describe a sense of cognitive sloth in the ability to meet the original objectives of an organization. It lies at the opposite end of the strategic spectrum from "mission creep," a term used to describe the incremental widening of the original scope of a mission or organization.

Symptoms of Strategic Drift

It is problematic for executives to recognize strategic drift from inside the organization. Internal culture and cognitive inertia will impair judgment and the ability to detect behavior that is disharmonious with the external environment.

What indicators or what symptoms does the executive team need to monitor to diagnose the need to change? There are a set of symptoms that can be monitored to alert the organization. Strategic drift is likely to set in when the following internal and external conditions are observed over an extended period of time (typically measured over a number of years):

- *Homogeneous mind set* at managerial and board levels. While homogenization creates a common culture and more harmony within the organization, it impedes the strategist's ability to recognize and adapt to external changes in technology, the economy, society, or the regulatory environment.
- *Preservation of the status quo* sets in with a tendency to resist changes within the value chain, to keep matters as they are, and to discourage innovation in:

  – Organizational structure and human resources
  – Technology adoption
  – Product innovation
  – Procurement policies
  – Supply chain management
  – Internal operations
  – Distribution methods
  – Marketing and sales
  – Customer relationship management

  Preservation of the status quo leads to resistance to change or resistance to any form of improvement. In this situation, managers veer toward a defensive strategy that is more concerned with reducing the risk of loss than increasing the chance of gaining competitive advantage. Strategy would focus more on cost reduction as a means of remaining competitive, rather than developing product attributes and added value. Marketing strategy becomes product or process oriented (selling what we make) rather that customer oriented (developing products that customers want). A product and process orientation has inherent strategic risks. Not only does it ignore the needs of the consumer, it also removes the organization's focus on where the market is going and what products will be in high demand in future.
- *Lack of focus on the external environment*. The behavior is symptomatic of companies that have enjoyed the benefits of monopolistic or oligopolistic market structures. An internal focus can be costly as was evident in the case of Microsoft and the international regulatory environment.

  In its earlier days, Microsoft adhered to a highly product-oriented strategy to produce

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and deliver software that would have a considerable impact on society. However, assuming the power the company derived from its exceptional products, it failed to focus externally on the growing power of the regulatory environment in the European Union that was under growing pressure from competitors to control its closed platform policy. In March 2004, the European Union fined Microsoft US$794 million and the sharing of information on its closed software platforms, an order that Microsoft ignored for two years. In 2006, the European Union fined Microsoft another US$448.58 million for failing to comply with its request, and an additional US$1.44 billion in 2008 for failing to comply with the original 2004 antitrust decision.

The detection of a homogeneous mind-set, the preservation of a status quo and lack of external focus are early warning signals of strategic drift.

- *Decline in performance* is a late signal detected when the damage has already been done. Deterioration in performance is observed through declining revenues, relative market shares, profitability, and cash flow. At this stage, strategic management has a tendency to go into a stage of unrest as objectives shift to cost cutting, which further damages long-term performance. The next stage would be the recognition of the need to change the company's strategy and to embark on transformational change.

Causes of Strategic Drift

We have seen that a homogeneous mind-set, preservation of the status quo, internal focus, and a decline in performance are the main symptoms of strategic drift. The causes of strategic drift are found in the characteristics of cognitive mapping and organizational culture.

Cognitive mapping. Cognitive mapping is created through the mental images and concepts that are built to visualize and assimilate information. Cognitive maps are also referred to as mental maps, mind maps, schemata, and frames of reference. Top management takes decisions based on the mental maps it has constructed for its industry, which in turn has direct effects on strategy reformulation and subsequent industry structure. Strategic decisions are based on intuitive and cognitive constructs of managers' cognition.

Cognitive maps are built on both intuitive and logical thinking. When strategists develop cognitive assumptions, they are often limited by intuitive thinking. Economists and organizational theorist describe the limitation of intuitive thinking as bounded rationality – a rationality that is constrained by partial information, past experience, or personal bias. Managers tend to find solutions that have worked in the past and that are satisfactory rather than optimal. In other situations, logical thinking may become activated and analytical thinking that weighs all the options intervenes. There are interesting overlaps and interactions between intuitive iterative thinking and rational incremental thinking.

The process gives rise to agreement and disagreement that is often the basis of negotiating different cognitive maps developed by various groups of industry participants. Research on cognition in industry shows that there is a difference between what has traditionally been defined as an objective environment and how top management perceives the world around them. The difference gives rise to lack of awareness of shifting environments and the eventual drift from the strategic action required to remain competitive.

Culture. Strategic drift is a reflection of a culture of conservatism in strategic thinking and perception. In some cases, it is not merely an inability to recognize that the context is changing but a mental disposition to not even think about it.

Strategic drift is likely to occur when cognitive processes and managerial assumptions are unable to acknowledge or to shift with changes in the external environment. The strategic decisions made within an organization are framed by culture, which in turn develops around organizational structure, hierarchy, routines, internal controls, symbols, and shared narratives. The paradigms of managerial assumptions provide the foundation of organization culture and have a strong influence on decision making.

In mergers and acquisitions, the respective cultures of the parties involved are likely to trap the new larger organization with incumbent managerial paradigms, which could lead to outdated assumptions and strategic drift. Incompatible cultures may not be the downfall of mergers. It is the inefficient integration and development of the incumbent cultures that may cause strategic inadequacies. In the early days of integration, much attention is given to drawing synergies through cost reduction at the expense of developing new strategies. The leading party in a merger tends to force its managerial culture and mode of operation on the target organization. Managers assume that the methods deployed to run the original organization will function equally well in creating a new strategy involving new corporate partners. The misplaced paradigm often leads to the inefficient distribution of physical resources and tacit capabilities and eventually leads to strategic drift.

Avoiding Strategic Drift

Avoiding strategic drift requires a disciplined approach to implement the strategic plan and a degree of flexibility and maneuverability to adapt the plan to changing needs. Aligning an organization's strategy with incremental and radical changes in the industry landscape requires a methodical approach.

There are three main approaches of avoiding drift: developing an early warning system, developing strategic resilience, and encouraging organizational flexibility. The following activities will help prevent the wearing out of an organization's strategy and provide a constant check on the compatibility of internal strategy making and external variables:

1. *Encourage diverse perspectives*. Encourage diversity in managerial culture, skills, and perspectives to avoid the buildup of a homogeneous mind set.
2. *Champion innovation*. Reward and incentivize initiatives that bring about positive change in the organization's processes and discourage managerial behavior that is intolerant of innovation.
3. *Promote an external focus*. Encourage a focus on the external environment of evolving technology, consumption patterns, and industry competition. This can be done through a coordinated flow of information for decision makers and influencers within the organization.
4. *Industry benchmarking and market research* can be used to challenge prevailing assumptions on the best way to enact strategy. Benchmarking at the level of the products, processes, and markets would bring to light new trends and practices. Data collection should include environmental indicators such as economic variables, sector growth, and weak signals of new ideas, products, inventions, and innovations that have not yet become trends, but are likely to have an impact on the organization in the future.
5. *Monitor performance* in terms of both market and financial indicators. A decline in market share is a clear signal that the company strategy is misaligned with external realities and not cognizant of the opportunities for growth.

The activities implemented to detect and detract from strategic drift encourage the view of strategy as an evolving process. Sustaining business performance is based on the dynamic capacity to generate new strategies and business models as economies, industries, and markets evolve.

Strategic Stagnation versus Disruptive Change

While some organizations go through strategic drift and stagnation, others are tempted to make too many changes too quickly. Frequent shifts in tactics would interfere and disrupt strategic positioning.

Organizations are likely to go through radical change when external CEO's are brought in with the remit to turn around businesses and are under pressure to produce results in a short time. According to research, external CEOs are more likely to succeed if they implement organic, gradual change rather than revolutionary change. The CEOs that are likely to succeed are those that allow sufficient time to comprehend the company's business and culture before they act.

When to implement strategic change versus when to leave it alone is a tactical dilemma that has considerable implications on the competitive position of an organization. The answer lies in the degree of awareness of a strategic situation at board and top management level, and the ability to act at the right time. The primary challenge is to safeguard continuity while preparing for strategic change. For strategic change to succeed, a top down approach is encouraged, starting with building support for new strategic activity at board and executive levels. Communication of the relevance of supporting new strategic directions would help the stakeholders understand the implications on potential improvements in market shares, revenues, profits, and internal opportunities for advancement. Knowing when to strike a balance between immediate gain and fundamental long-term change is a pivotal strategic tool in its own right.

See also *cognitive map*; *cultural web*; *organizational culture*

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