

*In unpredictable markets getting lucky is too important to leave to chance. By actively in the lulls between major opportunities and threats, managers can increase their odds of anticipating and seizing the moment.*

*Keep your priorities clear to avoid dissipating energy and resources*

*Conduct reconnaissance into the future to identify gaps in the market*

*Keep a reserve of cash to fund golden opportunities when they emerge*

*Keep the troops battle ready during lulls in the storm*

*Declare the main effort to seize a golden opportunity before rivals*

## **How to get lucky**

By Donald Sull

In highly volatile markets, a company's success or failure is often attributed to luck. Turbulent markets throw out opportunities whose timing, nature and magnitude managers can neither predict nor control. The same holds for threats. In such a competitive casino, you place your bets and hope for the best. It is better to be lucky than good.

For the past six years I have studied over twenty pairs of comparable companies in unpredictable industries such as telecommunications, airlines and enterprise software and in countries such as China and Brazil. By pairing similar companies, I showed how they responded differently to the same unforeseen threats and opportunities.

I found that the more successful companies were luckier, in the sense that time and again they responded more effectively to unexpected shifts in regulation, technology, competition, macroeconomics or other volatile factors. Yet such luck is too important to leave to chance. The most successful companies exemplified "active waiting", an approach to strategy in highly unpredictable markets that consists of anticipating and preparing for opportunities and threats that executives can neither fully predict nor control.

### **TIMING IS EVERYTHING**

A chief executive is sometimes described as the captain of a ship, peering through a telescope into the distant horizon and setting a course for the future. In many markets that future is obscured by a dense fog and finding a clear view becomes all but impossible. In the telecommunications industry, for example, shifting regulations, continuous technological change, entry by non-traditional rivals such as Skype, and shifts in consumer preferences throw out a steady stream of unforeseen opportunities and threats to wrongfoot managers.

The good news is that such markets also generate opportunities. Demand for cars in China, for example, arose from the confluence of increased disposable income, government investment in infrastructure, rising middle class aspirations, easy credit, and the demise of employer-provided housing.

But all opportunities are not created equal. In volatile markets, companies face countless small opportunities, mid-sized ones and the periodic golden opportunity—a chance to create value disproportionate to the resources invested in a short period of time. Typical golden opportunities include acquisition of a major competitor to gain global scale, such as the Royal Bank of Scotland's acquisition of Lloyds-TSB; explosive demand in an emerging market like China or India; or pioneering a new product or service such as the iPod.

Golden opportunities are rare, because they occur only when external circumstances throw open several windows of opportunity at the same time. Consider the opportunity for middleware - software that links an enterprise's applications - an opportunity that IBM and BEA converted into billion-dollar businesses. Several developments occurred at once: the internet created demand for software that could get applications to talk to one another; available technology happened to be up to the task; early leaders like NCR and Novell were distracted by other markets; and the paucity of venture capital funding at the time prevented many start-ups chasing the same market.

Timing is everything in these circumstances. Had IBM or BEA entered the market a year or two earlier, customers' pain would have been less acute and the technology fix less developed. A few years later, and new entrants flush with venture capital cash might have established a lead.

## THE STRATEGY OF ACTIVE WAITING

Managers can neither predict nor control golden opportunities. But there is much they can do to prepare their companies to capitalise on one (or weather a major crisis) when it arrives. The secret to success lies not in heroic efforts in the midst of a golden opportunity, but rather the quiet actions taken during periods of relative calm between the storms.

Keep the priorities clear. In unpredictable markets, managers often try to hedge against every possible contingency by running COUNTLESS experiments and launching a flurry of new initiatives. BIG MISTAKE. Employees and managers find themselves overwhelmed by multiple, often conflicting, priorities. In attempting to pursue too many priorities simultaneously, EXECUTIVES DISSIPATE RESOURCES AND hinder coordination across units. Managers must exercise RUTHLESS discipline in choosing a small number of objectives to pursue first, PUTTING OTHER VALID CONCERNS ON THE BACK BURNER FOR THE TIME BEING. Equally important, they must decide what to stop doing to free up time, attention and resources to make sure the truly critical objectives are met.

Conduct reconnaissance into the future. PRUDENT EXECUTIVES WILL CONSCIOUSLY TAKE ACTIONS TO PROBE A FOGGY FUTURE. FIRST, THEY SHOULD Send out probes in A FEW directions to broaden the search for opportunities INSTEAD OF STAKING EVERYTHING ON A SINGLE WAY FORWARD. Exploratory forays INCLUDE investing IN or partnering with start-ups, or running small-scale experiments to test the market. SECOND, When conducting reconnaissance, managers must remain alert to anomalies - new information that

surprises them or conflicts with expectations. **In turbulent markets, a manager's mental map quickly become outdated, AND Anomalies provide clues as to where a mental map is wrong. Managers who QUICKLY MODIFY THEIR MENTAL MAPS can seize the initiative from HIDEBOUND rivals.** MANAGERS CAN INTERROGATE ANOMALIES BY gathering FIRST-HAND data and digging deeper until they are satisfied they understand the source of the discrepancy. FINALLY, MANAGERS SHOULD Pass surfaces but swarm gaps: Reconnaissance into the future resembles a process of probing along a wall of resistance looking for gaps. Most of the time, a company encounters hard surfaces: competitors who won't get out of the way, customers who don't want to buy or technologies that won't work. Rather than exhausting resources trying to smash through the wall, executives should probe for gaps in the market. When they find one, they should swarm it, pulling other resources in their wake.

Keep a reserve: During periods of relative calm, executives should BUILD a war chest of cash to deploy quickly when a golden opportunity EMERGES. Building and preserving a war chest requires restraint. Spreading a company's chips across too many probes or doubling down on too many bets at the same time leaves little cash in reserve when a big opportunity COMES ALONG. To avoid this risk, senior executives should scrutinize the company's resource allocation process, CAP the number of probes, and increase investment only after explicit evaluation.

Keep the troops battle ready. During periods of active waiting, executives must push through operational improvements—cutting costs, strengthening distribution, improving products. More efficient rivals can survive perfect storms that kill rivals. Operating improvements during the lulls contribute to the war chest, of course, but also build the credibility required to seize the golden opportunity. The Royal Bank of Scotland, for example, WON Lloyds-TSB BECAUSE the Scottish bank's track record of execution convinced the capital markets that they were the buyer most likely to make the deal work.

Declare the main effort. One of the greatest challenges in active waiting is deciding when to commit reserves and go for broke. Periodically, executives will encounter an opportunity or threat so important that it demands the company's full focus. Declaring it the main effort creates a sense of urgency, focuses the organisation, prioritises resource allocation and lays the groundwork for coordinated effort. Yet many executives say that this was the most difficult decision they ever made. Playing it safe in the short term can prove hazardous in the long term. Companies that pass on every golden opportunity will eventually find themselves eclipsed by players that can both wait actively and strike decisively.

Leading a company into the fog of the future remains risky business. By waiting actively during periods of relative calm, however, executives can increase their chances of success.

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## BOX

Much has been written on managing in an unpredictable world. Below are a few recommended readings.

- Peter Drucker, 1985, *Innovation and Entrepreneurship*. In this book, Drucker focused on innovation as a way to exploit changes in the business environment. Full of fresh insights and examples from a range of industries and countries.
- Constantinos C. Markides, 1999, *All the Right Moves: A guide to crafting breakthrough strategy*. An accessible and practical primer on the essence of strategy that helps executives craft innovative strategies to differentiate their firm from rivals.
- Various authors, 1999, *Harvard Business Review on Managing Uncertainty*. A useful collection of articles by thought leaders including Kathy Eisenhardt, Rita Gunther McGrath, Adam Brandenburger, Clay Christensen, Joseph Bower and others.
- Donald N. Sull, 2005, *Made in China: What Western managers can learn from trailblazing Chinese entrepreneurs*. Few markets are more volatile than China, and this book details how some of China's leading entrepreneurs have made their way forward.
- The United States Marine Corps, 1989, *Warfighting*. Business isn't war and war isn't business, but both domains require action in the face of uncertainty. In my opinion, this is one of the best summaries of the principles of strategy in uncertain markets. It draws on and distils much of the best thinking about flexible strategy from earlier thinkers including Carl von Clausewitz, Sun Tzu and B.H. Liddell-Hart.