

Strategy

Reinventing Strategy in the Post-Industrial Age: Five Principles to Guide Strategic Planning Amidst Volatility and Uncertainty

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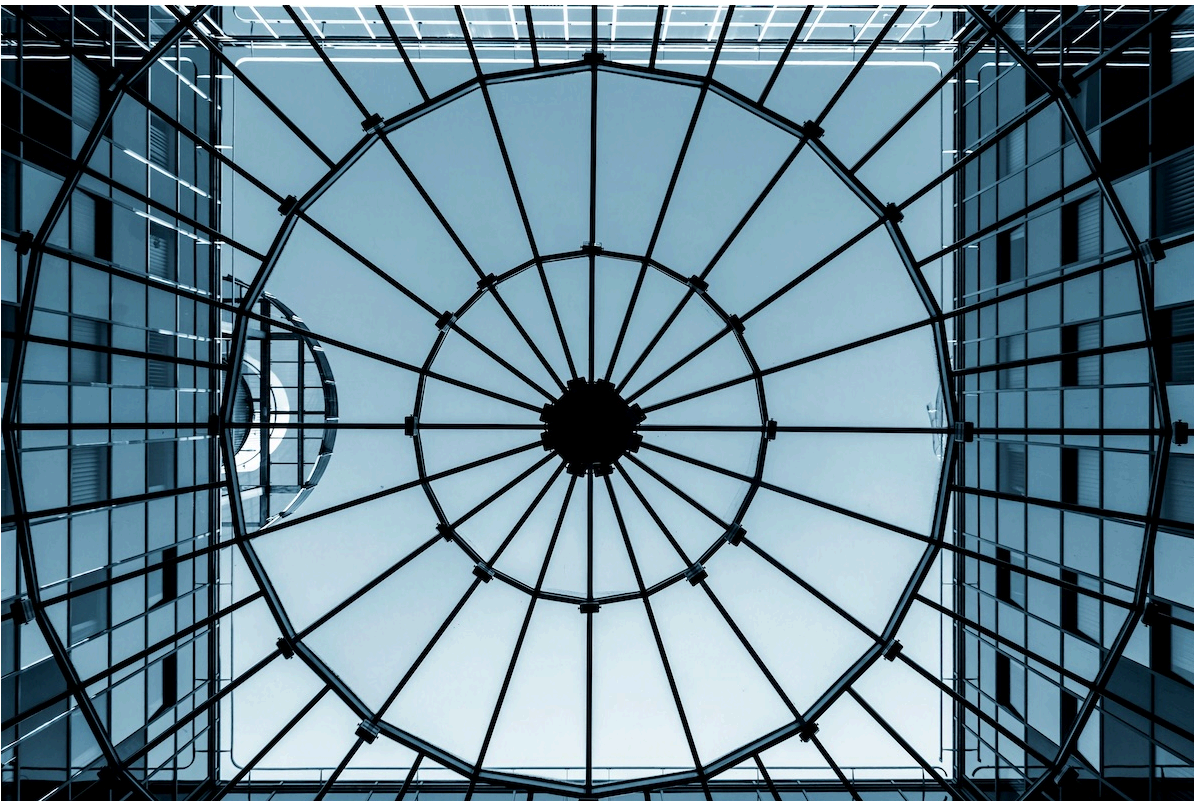


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An approach that counters the limitations of traditional strategic planning.

From the bankruptcy of the Medici Bank in 1494 to more recent examples like Blackberry, the history of business is littered examples of once-dominant organizations that failed, destroying significant economic value in the process. It is worth noting (though it often goes unremarked) that such business failures also entail an enormous human cost to individuals suddenly deprived of the means of making a living. Not all failures are avoidable of course, but many are. As leaders confront an operating environment of unprecedented technological change coupled with massive geopolitical uncertainty, new principles are needed to set organizational strategy. Below are five principles to guide strategic planning in an era of volatility and uncertainty.

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Shift from Episodic to Continuous Strategic Planning

The notion that “Plans are of little importance, but planning is essential” is commonly attributed to both Winston Churchill as well as Dwight D. Eisenhower. Whatever its provenance, the fundamental insight needs to replace the typical emphasis on defining multi-year strategic plans.

The first problem with strategic plans is that they usually are wrong in the underlying assumptions they make about the future, even as they create an illusion of predictability. The second is that they create constituencies that resist learning and adaptation. Once senior leaders have invested time and ego in a strategic plan (and often a substantial amount of money paid to high-priced consultants), they become wedded to it. They then consciously discount or unconsciously ignore disconfirming information. In a dynamic marketplace this can be deadly. Further, teams and organizational units that benefit from budgets, staff, and other investments of firm resources based on those plans gain organizational clout. Out of a very natural desire to preserve their status, they seek to control information, communication, and decision-making to validate and preserve the status quo. Ironically then, strategic plans often make a company less adaptable and resilient.

By contrast, effective strategic planning entails looking into the future and, based on imperfect and limited information, seeking to identify possible future scenarios (changing customer needs and preferences, an evolving competitive landscape, possible technological breakthroughs, and potential changes in the regulatory environment), and assigning estimated probabilities to those scenarios—then continuously refining and updating these scenarios and probabilities. An ideal strategic planning process needs to actively address the human discomfort with uncertainty and the tendency to find false comfort in overconfident predictions.

One critical means for implementing the discipline of continuous strategic planning is to define leading indicators (both confirmatory *and* disconfirming) for identified future scenarios which can then be regularly monitored, and embed real options analysis into

strategic planning and investments. Doing so enables firm decision-makers to bring the future into focus earlier than competitors, and encourages them to adjust investment and plans accordingly. Iridium failed to adapt to the faster-than-expected expansion of cellular networks. According to a **Tuck Business School case study**, Iridium's interim CEO John A. Richardson stated in August 1999, "We're a classic MBA case study in how not to introduce a product. First we created a marvelous technological achievement. Then we asked how to make money on it." But given the vast array of counterexamples (Facebook, now Meta, foremost among them) such an explanation is neither persuasive, nor helpful. According to multiple studies, most successful start-ups find success with a different business model than they started out with. Strategic decisions are, by their nature, always made under conditions of significant uncertainty. There's no formula for getting things right the first time. Better to focus on ensuring that faulty assumptions or unanticipated developments are spotted early, and that the flexibility to adapt and pivot quickly is not impeded by confirmation bias and sunk-cost thinking.

By contrast, Adobe is a classic example of company that adapted to changing competition and technology as they transitioned from a software license model to a cloud-based subscription-based pricing. The company introduced its first subscription offerings in 2011 while continuing to offer perpetual licenses. By 2013, Adobe's Creative Cloud was subscription-only, and by 2015, they had fully transitioned away from perpetual licenses. Lessons were learned at every stage of this transformation and used to guide successful navigation through a period of massive change in the software market.

Shift From Top-Down to Circular Strategic Planning

Strategic planning processes are almost always top-down and linear in nature. Senior executives—too often largely removed from day-to-day signals from the external market—debate and set strategy, and then subsequently communicate it down and out to the organization to execute. This paradigm excludes a wealth of information and insight from strategic planning. It also leads to the pervasive gap between strategy and execution. When lower-level managers and the rank and file are excluded from strategic planning, they are far less likely to buy in and thus less likely to implement strategies with passion and

commitment. Indeed, the telephone game that attends “strategy set at the top and then communicated down and out” means even if most employees in a company are willing to implement new strategies, they rarely are well-equipped to do so; too much context and nuance is lost by the time plans migrate from the C-suite to the front line.

The alternative approach is to build strategic planning into normal business operations. In such a model, every key organizational function, from Marketing, to Finance, to Supply Chain, regularly assesses the market and possible future scenarios through its unique functional lens. For companies that operate multiple business units with their own P&Ls, each unit does likewise. As they do so, however, they are encouraged and expected to consider the implications, risks, and opportunities for other functions and units in the company. Such an approach has an enormous cultural benefit—it undermines traditional siloed thinking. From this bottoms-up foundation, key trade-offs and synergies can and must be identified and assessed by more senior executives, who then provide guidance back down throughout the organization. The time and effort required by this more dynamic and continuous way of thinking about strategy entails a real cost, but the benefits of strategic agility and organizational alignment, especially under conditions of rapid change, are greater by orders of magnitude.

Avoid False Binary Choices

A fundamental principle of traditional strategic thinking is that it requires identifying and then making hard choices. This doubtless remains true—a company cannot be all things to all customers. Resources are limited, and choices must be made about how to deploy them in ways that generate the highest risk-adjusted returns. At the same time, assuming false or unnecessary binary trade-offs rather than looking for creative ways to balance apparently contradictory objectives is a common and costly strategic error.

In analyzing 80 strategy engagements I have led over the past 25 years, virtually all of them revolved around a critical choice that initially was framed in a binary way that prevented effective analysis and wise decision-making. These binarily framed choices further reduced in every instance to a foundational framing: “We cannot pursue course of action X because it’s too risky” versus “We must pursue course of action X because it’s too risky not

to.” For example, a major global food company was grappling with flat sales and changing consumer preferences. Everyone agreed the status quo was unsustainable. One camp insisted that innovation was needed and that key product platforms needed to be extended and/or reformulated to improve their nutritional profile. This in turn would require strategic partnerships with key ingredient suppliers and perhaps even with competitors. Another camp agreed that innovation was needed, but vehemently opposed any changes to the company’s “crown jewels” and any exposure of intellectual property to other companies.

After months of debate and exhaustive analysis of market and financial data, the strategic debate continued to go around in circles. Underneath the debate of “We can’t take that risk” versus “We cannot afford not to take radical action” was a binary argument about the future. “If we do this, we turn our key suppliers into competitors” versus “If we don’t do this, our current competitors will out-innovate us and drive us out of business.”

Ending strategic paralysis required moving beyond binary thinking and discussion. The first essential step was to break “risk” down into its constituent elements. Rather than declaring any changes to the formulation of a flagship product as “too risky,” we separated the action from possible consequential outcomes, then assigned probabilities to those outcomes (positive and adverse), and then estimated costs and benefits using the framework shown in Figure 1. This turned out to be transformative. While major disagreements persisted, everyone was able to quickly agree that different outcomes were at least possible. We then considered new ways of gathering and assessing data to help refine different probability assessments. Suddenly, arguments where executives were accusing each other of being naïve, irresponsible, or even crazy became a collaborative exercise in developing valid tests of different predictions.

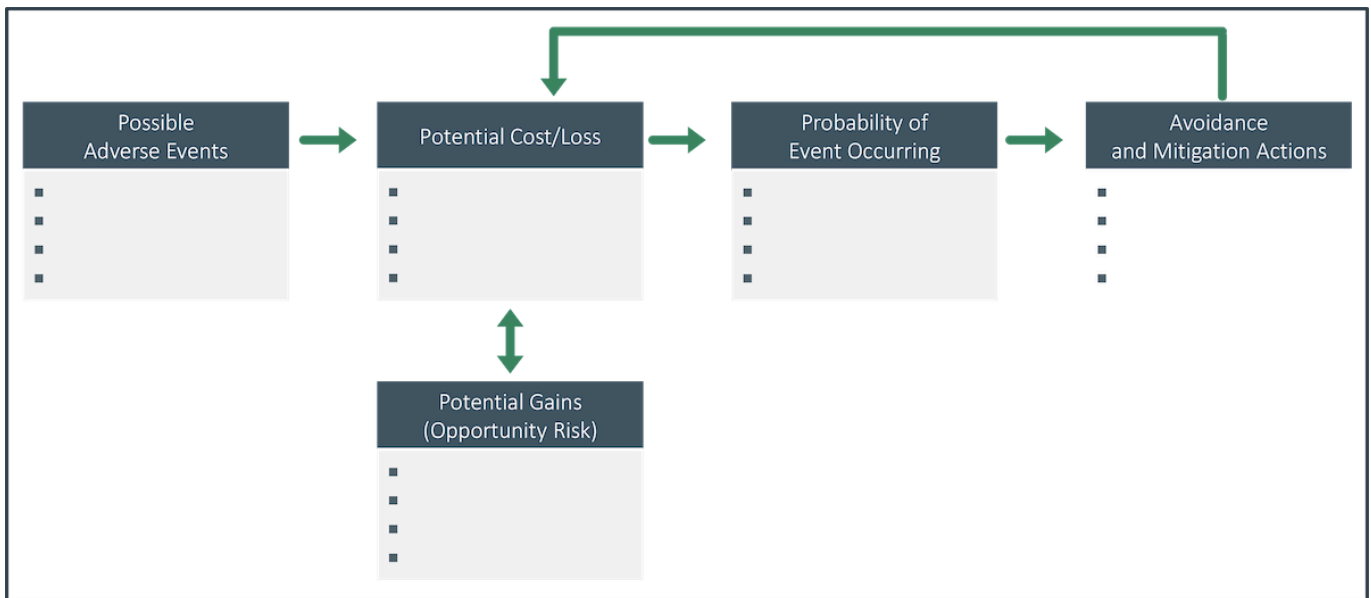


Figure 1: Example framework

Next, we agreed that the risk of adverse outcomes was not written in stone. For example, we parsed the risk of working on a product innovation initiative with a long-term supplier. Once strong supporters of this course of action were able to acknowledge that yes, they could (intentionally or unintentionally) leak our intellectual opportunity to a competitor, or decide to use it to shift their business to directly to compete with us, they found the opposing camp was more willing to listen to them. Not only were we now able to have a more reasoned debate about probabilities, we were able to shift the conversation to brainstorming of ways to reduce the likelihood of these outcomes. What safeguards might we put in place to protect sensitive information? What incentives could we engineer to discourage opportunistic behavior by the supplier? Were there different suppliers who might not be able to deliver quite as much innovation “lift” but with whom the risks would be much lower—thus offering a better risk-reward profile? And from one of the most adamant opponents of the external innovation strategy—“What if we worked with a university partner instead of one of our suppliers?”

Replace Zero-Sum with Positive-Sum Thinking

Sometimes explicitly, and often implicitly, the literature of business strategy and the conversations of business leaders focus on evading competition. To wit, “competitive moats” and “barriers to entry.” Of course, when a company makes major investments (whether in physical assets or innovation and the development of intellectual property) they must rightly consider how to maximize financial results on those investments. But this protectionist mindset is often self-defeating. Positive-sum versus zero-sum thinking is absolutely essential as the digital economy (characterized by near-zero marginal costs of production and distribution and pervasive network effects) continues to eclipse the analogue economy and its correlative dynamics of scarcity.

Consider the company that invested in the development of a proprietary data asset. For years the leader in charge of that asset sought to protect it, and to leverage it to force his company’s customers to buy other services and solutions to get access to it—even when they preferred a competitor’s solution. Despite the predictive power of this data for many risk, decisioning, and data-driven marketing applications, revenue growth for many years was slow, though indeed margins were quite high. Meanwhile, customers were resentful, and competitors had a strong incentive to invest in the development of competing data assets. When a new leader took over this business, I worked with her to adopt an entirely new strategic paradigm. Our goal was not to protect the asset, but to maximize financial returns on it. The company quickly pivoted to licensing the data to all competitors. Revenue skyrocketed, and the economic incentives of those competitors to develop competing solutions evaporated. Of course, margins on those resale and distribution agreements were lower than the company’s own sales of its data. But as we had modeled, the competitive cannibalization amounted to a rounding error compared to the profits gained by rapid penetration of multiple new markets. And ironically, the decision to relax a focus on protecting this unique data asset *reduced* competitive threats to it and extended its unique value in the marketplace for far longer than would have been the case under a protectionist approach.

Cultivate a Culture of Collaborative Dissent

Many high-profile strategic failures, from Kodak to Nokia to Xerox, occurred not because no one could see how the customer and competitor marketplace was changing, but because those who saw and advocated for the need to change were ignored. Ironically, conditions of uncertainty and rapid change increase the odds that people will see things differently while simultaneously reducing curiosity and the appetite to engage in synthetic thinking—just when they are most needed.

Unfortunately, many leaders, deliberately or unintentionally, censure dissent. Often this occurs under a banner of “positivity” and admonitions to “be a good team player.” Anyone who has ever occupied any kind of leadership role can sympathize with the stance of “Don’t bring me problems, bring me solutions.” But while constant complaining is not productive, it’s also hard to solve problems when it’s not okay to talk about them. Similarly, constant friction amongst colleagues certainly hampers execution, but when disagreement and debate are quashed, the risk of strategic missteps rises exponentially. A common hallmark of non-adaptive organizations is a mutual “cycle of dismissal” wherein senior leaders perceive dissenting views as uninformed resistance, and those beneath them in the hierarchy feel unheard and disrespected by “clueless leaders” who appear removed from operational reality. As a result, both camps frequently end up talking past one another and opportunities for learning are missed.

There is a third way that lies between an organizational culture of toxic positivity and enforced dissent, and one in which conflict and infighting run amok. This third way is a learning organization in which leaders understand that an essential part of their job involves seeking nuggets of insight from their employees, no matter how deeply buried or well-disguised they may be. Instead of responding negatively to complaints, effective leaders engage with complainers and naysayers to explore their views, *and* help them express their views more constructively.

Conclusion

Most of the academic literature on business strategy, whatever its merits, bears the hallmarks of zero-sum adversarial thinking, reflecting its roots in the much older discipline of military strategy. Similarly, the practice of strategic planning in most organizations reflects a top-down, chain-of-command model of leadership. We are well beyond the industrial age to which such approaches were arguably well-suited. The challenges and opportunities of our rapidly evolving digital economy call for a more agile and collaborative approach to strategic thinking and planning.



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Jonathan Hughes has consulted to Global 2000 clients on issues of strategy for more than 25 years. He has written dozens of articles published in Harvard Business Review, California Management Review, and other leading journals. He graduated with honors from Harvard University with a degree in Philosophy.