

DESIGNING AN EMERGENT CAPABILITY BASED STRATEGY

TOWARD A NEW BUSINESS PLANNING PARADIGM?

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Updated:

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Prior to establishing HolisTech® in 1998, Pat spent twenty years (and 3 days!) in the Australian Regular Army serving in a variety of locations, utilising different skills and performing a wide range of tasks. These tasks included: project management, requirements analysis, strategic capability analysis, process analysis and management, implementing management efficiencies, liaison, general management, contract development and management, human resource management, leadership, administration, and platoon commander.

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He has a Bachelor of Arts and a Masters of Technology Management. He wrote this paper some years ago when he was researching his PhD (never completed due to HolisTech® business commitments). He subsequently updated it for publication as he has found the concepts as relevant today as they were when he first wrote it and particularly in the light of the recent Gulf war when commentators regularly referred to military strategy concepts.

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INTRODUCTION

Many years ago as a young cadet at military college I, along with my class mates, was educated in the art of military strategy. Learning these concepts consisted primarily of learning the ‘appreciation process’; a process of assessing the enemy’s capabilities, our own capabilities, the ground over which the operation was to be conducted, the timing limitations on the operation, and so on. Hours and hours, even whole days were spent on the process. It was almost as if the process was the most important lesson. We had little plastic folders (called ‘vui tuis’) filled with data on our own and the enemy’s forces; weapon ranges, ammunition holdings, enemy tactics, enemy unit configuration, principles of the attack; principles of defence; how many soldiers it would take to construct a figure eight barbed wire obstacle; enough data to confuse the mind and put you off the whole purpose of you enlisting in the first place (perhaps there was a message for me there).

This same scenario was repeated over subsequent courses with the seemingly inevitable focus on the process - the appreciation. All courses emphasised performing the process; slowly at first, then faster down to having two hours to consider the problem, conduct a reconnaissance, complete the appreciation and finally, to write the plan. Moreover, it was understood (by me at least) that if you followed the process, the plan just ‘popped out’ at the end.

This is perhaps better illustrated if one looks at one of the oft-quoted definitions of strategy provided by Colonel A.F. Lykke quoted by Clarke (see Hooker, 1993, p. 103). Lykke expresses the concept of strategy *as an equation: Strategy equals **Ends** (objectives toward which one strives) plus **Ways** (courses of action) plus **Means** (instruments by which some end can be achieved).*

STRATEGY	=	ENDS	+	WAYS	+	MEANS
		Objectives toward which one strives		Courses of action		Instruments by which some end can be achieved
		The outcomes we wish to achieve		The tasks we need to perform to achieve our objectives		The things we use to perform the tasks

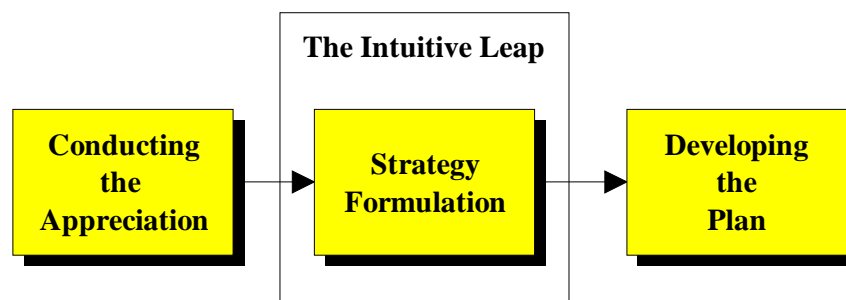
Put another way, this is analogous to saying that strategy is equal to the *outcomes we wish to achieve* plus the *tasks we need to perform* to achieve those outcomes and *the resources or things we use to perform those tasks* that achieve those desired outcomes.

But this isn’t quite complete in my view. There remain unanswered questions, including:

- When do we perform those tasks? At what point do we act to achieve those ends?
- What things do we use for what tasks and when do we employ them and to what end?
- What synergies arise when we combine a number of resources to perform a number of tasks at the same time? Can we exploit these synergies or should we keep some sort of reserve in case things go bad?

These questions cannot be easily answered going through a “cookbook” planning process. Indeed, they are difficult to answer – period! These were also the answers I was seeking when each time I went through the appreciation process to develop a plan.

Although I always felt that something was wrong with this process approach to strategy, I could never quite put my finger on why. It was not until I was required to read Hart’s book, *Strategy: The Indirect Approach* (1954), that I came to realise that strategy was a significantly more cerebral concept than spending hours conducting the appreciation process. It is not to say that the processes of an appreciation are not required; rather it is to say that the concepts of strategy do not fall out of conducting the appreciation. It seemed to me to be forever a discontinuity to consider all the ‘factors’ (ground, enemy, friendly, etc) in an appreciation then to come up with a plan of action. There was an intuitive leap from appreciation to plan that I was not taught (or perhaps could never grasp). That intuitive leap is an understanding of the true concepts of strategy. This is what Hart (1954) taught me.



Now, having read still more, I have come to realise why this situation may be so. The concept of strategy is difficult to pin down to a formula, to a checklist that can be placed into one of those ubiquitous ‘vui tuis’. Hence the training system concentrates on something it **can** reduce to a formula or a checklist; the appreciation and its subsequent plan.

ON CORPORATE STRATEGY

What I learnt from a military perspective is what Mintzberg (1994) observes in his book, *The Rise and Fall of Strategic Planning*, with respect to corporate strategy. Mintzberg (1994, p. 139) quotes Quinn:

A good deal of the corporate planning I have observed is like a ritual rain dance; it has no effect on the weather that follows, but those who engage in it think it does. Moreover, it seems to me that much of the advice and instruction related to corporate planning is directed at improving the dancing, not the weather.

If I insert ‘battle’ for ‘corporate’ I find a succinct description for the phenomenon I have experienced¹. Reading the “CMR Forum: The Honda Effect Revisited” (Mintzberg et al, 1996) encouraged me some years ago to explore this phenomenon further by investigating the concept of corporate strategy and how a compromise may be reached between those that like or need pattern and those that prefer a more intuitive approach to business strategy formulation. The compromise attempts to provide a framework to assist in that intuitive leap from conducting an appreciation of an organisation’s environment to developing a plan for the organisation.

¹ The description has even more meaning for those who have experienced the military training regime, for if our plans were less than acceptable we would be placed in the firing line of the directing staff, a situation we referred to as “tap dancing”.

Richard Rumelt in “CMR Forum: The Honda Effect Revisited” (Mintzberg et al, 1996), identified three broad views of business strategy:

- **Designing Strategy.** This view holds that strategy is formed from the top and implemented against a grand design that attempts to predict future outcomes. The BCG study into the British motorcycle industry provides what could be considered to be a typical example of this approach.
- **Emergent Strategy.** The emergent strategy view holds that an organisation gets on with business and learns about its competitive environment as the environment evolves. Strategy is made in response to external stimulus and emerges as the organisation learns from its experience. Henry Mintzberg, in many respects, is a proponent of this view.
- **Capability Based Strategy.** This view has been championed by C.K. Prahalad and Gary Hamel (1989 and 1990). It embraces the concept of strategic intent and identifies how organisations compete on capabilities or competencies², specifically their core capability. The organisation with a vision that stretches its current capabilities is the organisation of the future.

Although these three views are not entirely incompatible, there has been considerable discussion of the benefits of one view over the other. My intention is not to fuel this debate, but to illustrate a methodology for operationalising these concepts to provide managers with a framework for explaining and formulating strategy within their organisation.

It permits a designed strategy insofar as broad direction is provided from the top in the form of objectives and ongoing monitoring, yet the strategy is permitted to emerge from the bottom in response to the initiatives undertaken by junior managers and line workers attempting to meet the organisation’s broad objectives. The organisation’s means of achieving these objectives are its capabilities, embodied in its people, software, hardware, facilities, information and so on. Further, to implement a designed emergent capability based strategy requires an organisational culture that encourages initiative, self-examination and risk taking.

The following discussion utilises concepts from all three of the above views and sprinkles it with liberal doses of military strategy to bring the concept together. It is an heuristic model and its ability to consistently explain past events and processes and to apply it to our company’s current business planning and consultancy tasks leads me to the conclusion that it is also robust. I finish the paper with a brief review of the 2003 Gulf War to illustrate that even in today’s military environment the three broad views of strategy exist.

THE THESIS

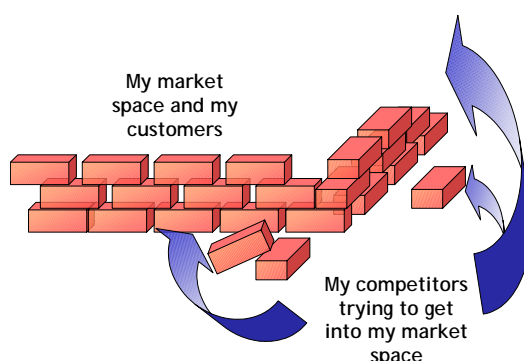
Another Brick In the Wall

It is my contention that a framework to assist in the intuitive leap from appreciation to plan can be established by the application of some defined business strategy concepts. Fundamental to these strategy concepts is the raising of “barriers to entry”.

² For the purpose of this analysis, capabilities and competencies are considered to be one and the same. I prefer the term capability as it has a compatibility with the military concept of capability that competency cannot.

In economics, “barriers to entry” refers to the obstacles preventing or slowing the entry of new competitors into a market. I have taken the concept a step deeper and applied it to the individual organisation. In this context I mean for it to describe the competitive forces that drive an organisation to capture part of the available market and to attempt to retain and grow it. Accordingly, the further a firm reaches into the marketplace, the more barriers to entry it raises, perhaps in an incremental fashion, against competitors. Strengthening its position relative to its competitors and/or protecting its current position against interlopers.

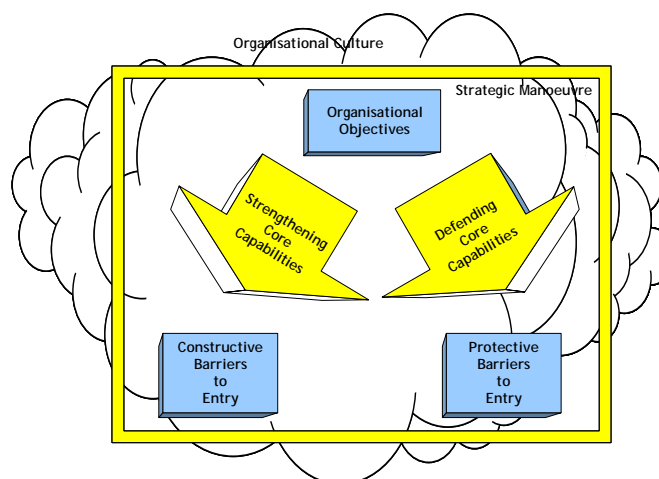
Accordingly, it manages to build a wall around its portion of the market brick by brick. Each brick might represent a particular barrier for a certain part of the market. The more bricks, the more the company has secured its future or at least its present, and made it hard for competitors to take that portion away.



Within this conceptual framework I further contend that firms can engage in three broad strategic activities to achieve their objectives:

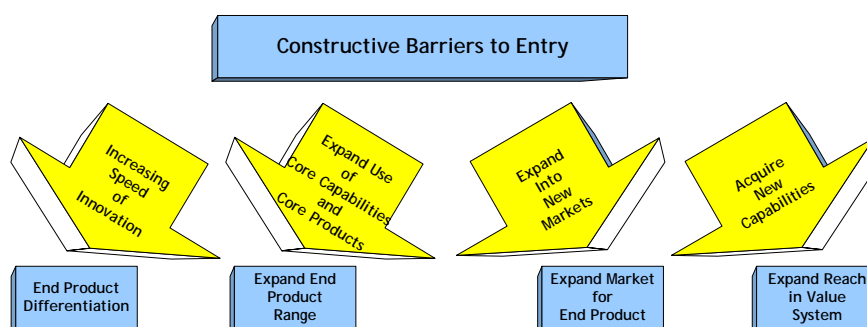
- Strengthening core capabilities by raising constructive barriers to entry. This can be used in both an offensive and defensive sense.
- Defending core capabilities by raising protective barriers to entry. Again this can be used in an offensive or defensive mode.
- The final strategic activity is the employment of strategic manoeuvre.

Moreover, to fully utilise these concepts they must be enmeshed in an organisational culture that nurtures forward focused people with initiative and drive.



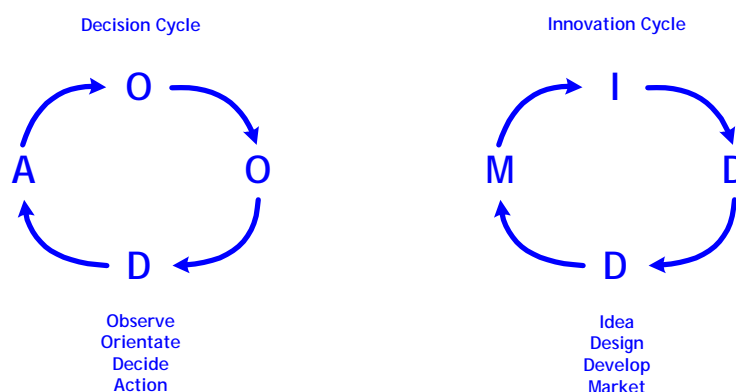
Constructive Barriers to Entry

Constructive barriers to entry are those barriers imposed by a firm through strengthening and building a firm's core capabilities. I consider these concepts to be constructive in nature as they directly **grow** the organisation to conquer new territory whether that is geographical, market or product. This is analogous to building "positive" bricks in the wall. Four concepts that permit these strategies to be operationalised might include:



- Increasing the Speed of Innovation.** The concept of increasing the speed of a product's 'cycle time' from research and development to product introduction (Wheelwright, 1988, p. 44) has significant competitive advantages as it encompasses Porter's (1985) generic strategy of 'product differentiation' in which he identifies a means of gaining competitive advantage by ensuring the product provides different and preferably, additional, customer value. The primary purpose is to get inside a competitor's innovation cycle so that when they have responded to your latest innovation with one of their own, you have innovated yet again. To paraphrase Wallace (1992, p. 3) its aim is to *transition through more innovations than the competitor, so that his current or impending innovations are no longer relevant.*

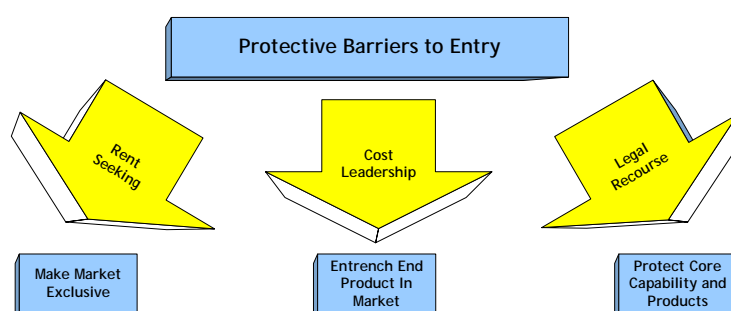
A similar concept has been used in military strategy theory for sometime and is known as the Boyd Cycle, after Colonel John Boyd of the USAF, or the OODA Loop (for Observation, Orientation, Decision and Action) (see Lind, 1985, p. 4-6). Accelerating the cycle time for product innovation will assist a firm in increasing the durability of their core capabilities, as the end products will continually trump those of competitors. Acceleration can be achieved through creating the right environment for innovation by instituting cross-functional project teams and supplier partnering, among other initiatives.



- **Expand Use of Core Capability and Core Products.** To extend the durability of the core capability and core products a firm can expand the end product range into areas hitherto untapped. For example a firm that produces steel buildings as end products would likely have core products, among others, of steel frame manufacture and assembly and steel sheet fabrication and assembly. Core capabilities would include welding, steel rolling and shaping, design and drawing. Accordingly, the firm could expand in a number of areas and provide other end products and services such as designing and drawing other structures and/or products (particularly in steel or metal) or manufacturing other steel or metal products such as small trailers or grain silos.
- **Expand Into New Markets.** Expanding into new markets includes expanding into new geographical markets or even creating one that previously did not exist. It could permit a firm to increase the market size for its end products, gain new skills and knowledge from operating in different cultures and business environments and be a catalyst for the development of new core products and/or core capabilities.
- **Acquire New Capabilities.** Acquiring new capabilities such as those embodied in new skilled staff or purchasing a firm with the necessary capabilities to ensure the geographical and core capability expansions go ahead will permit expansion further into a firm's value system or assist in achieving other objectives.

Protective Barriers To Entry

Protective barriers to entry are those barriers designed to safeguard or protect the core capability of a firm. I consider them protective as they are primarily designed to secure the perimeter of an organisation; to hold the status quo; to entrench the current position of the organisation. They **do not grow** the firm's core capabilities per se but provide a base to consolidate and launch onto the offensive and something more constructive. Employing protective barriers to entry does **not** imply a defensive action as they can be used in an offensive way. But use of them could be considered a **holding** action until the opportunity to grow capabilities is considered possible, at which time a firm can be more constructive in its activities. They are not an excuse to neglect growing the organisation merely a chance to catch a breath, counter a rival's actions or even grow market share within an established market. Concepts include:

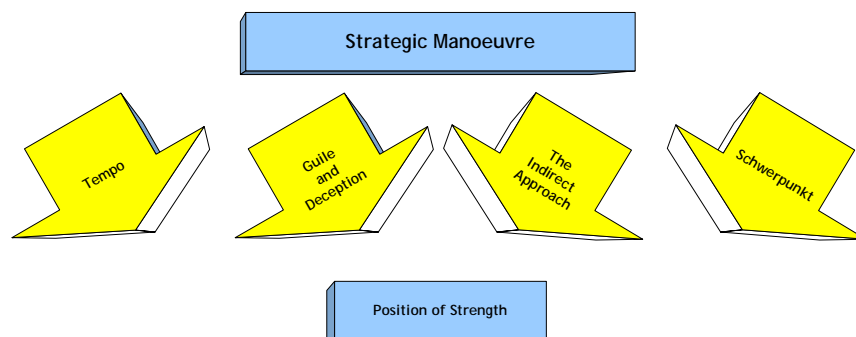


- **Rent Seeking.** Circumstances permitting, it may be possible to lobby governments at all levels to use a firm's products and/or services exclusively or at least guarantee a particular segment or share of the market. Examples could include: the issue of licenses to operate in certain markets; long term contracts for the supply of goods and services to government; a policy limiting the competitors in an industry; or lobbying for tariff protection from competitors.

- **Cost Leadership.** Through competitive pricing coupled with other tactics such as advertising campaigns and product improvements, a firm can entrench an end product in the market. Moreover, once an end product is entrenched, switching costs (see Lieberman et al, 1988) associated with the product may prevent customers from seeking alternatives even if they offer additional utility. Microsoft versus Apple has some of these features. This strategy encompasses one of Porter's (1985) generic strategies, namely cost leadership.
- **Legal Recourse.** Legal protection through patenting ideas, processes and technologies or perhaps seeking a court injunction to prevent or force certain actions by competitors, is an accepted way of doing business in some parts of the world. However, some countries and cultures do not perceive this as a barrier, indeed they only see it as an opportunity to exploit, say the patent or copyright. The ongoing altercation between China and the USA over copyright is an example of this conflict in cultures and the ability to police the law. The solution in these situations could be to employ 'strategic manoeuvre'.

Strategic Manoeuvre

Strategic manoeuvre involves positioning an organisation in such a way as to gain an advantage in order to ensure the objectives of that organisation have the best chance of success. Strategic manoeuvre is employed to place a firm in a position of strength relative to its competitors to assist it in employing constructive and/or protective barriers to entry. It is not an end in itself, but a technique to gain advantage. It is designed to put a competitor, or competitors, at such a disadvantage that the will to compete is lost; to so unhinge any likely opposition that an attrition or price war is avoided; all from outthinking and/or outplaying the opposition. A number of concepts are available:



- **Tempo.** Tempo involves moving quickly to reinforce core capabilities and erecting barriers to entry before the competition realises or can react to the intent of your actions. In this way it can invoke the advantages of the OODA Loop or decision cycle as explained earlier, but at an organisational level. Every time a competitor responds to an action in the marketplace, such as the launching of a new product or an advertising campaign, it finds that it is of minimal impact or irrelevant. Further, it finds that each time it does react, the reaction becomes increasingly irrelevant. It may require reengineering processes to reduce the time to conduct revenue generating activities.

- **Guile and Deception.** Guile and deception are manoeuvre concepts that have often been employed in business (and should always be used in military strategy). It is used to mask the real intentions of an organisation until it is too late for competitors to react. It could be used to assist in harvesting first mover advantages. However, it should be noted that in expressing the need for guile and deception, I in no way advocate dishonest, misleading or unconscionable conduct.
- **The Indirect Approach.** The indirect approach as articulated by Hart (1954) has three critical features; the centre of gravity of the opponent, the line of least resistance, and the line of least expectation.

The centre of gravity of an organisation is the critical element(s) that makes an organisation effective, of which the defeat, capture or otherwise render impotent will defeat that opponent in its endeavours to achieve its objectives. In the world of business the center of gravity could be the customer's tastes, the competitor's technological base, the manufacturing processes or the tacit knowledge of key employees. The centre of gravity could include the core capability of an organisation. Capturing and/or targeting the centre of gravity of a competitor will render them impotent.

The line of least resistance is best explained in Lind's (1985) terms of 'surfaces and gaps'. This concept advocates the identification of the easiest routes to achieving the required objectives (gaps) and the hardest routes to achieving the same objectives (surfaces). If the objective were to defeat an opponent, then it would mean identifying the gaps that permit the easiest approach to the opponent's centre of gravity. Lind (1985) even considers the use of overt probes against the opposition to determine where these surfaces and gaps might be. The concept has given rise to the military term of 'reconnaissance pull' whereby general direction is given from above, however, the detailed route or method emerges as the results of the reconnaissance become known. In business strategy terms this could translate into: testing the market before launching a new product; finding niches away from the main players in the market; or launching multiple products and then putting your main effort behind the ones that appear to offer the best prospects.

The line of least expectation implies a degree of surprise. In business strategy terms the surprise can be in the timing, the market area targeted, the market segment targeted or even the product launched. It is the concept most likely to utilise guile and deception.

The concepts associated with the indirect approach could be utilised for risk reduction, because employed together they would assist in avoiding direct confrontation with competitors and the likely commensurate attrition style price war.

- **Schwerpunkt.** Schwerpunkt is a German word the concept of which translates into focusing the main effort to rapidly reinforce success. When a 'gap' in the enemy's defences is discovered then that gap is rapidly and ruthlessly exploited. A firm could use this concept by 'trawling' for end products that sell by launching multiple end products and then putting their main effort behind the successful one(s). It may also find that a manufacturing process is highly successful at reducing cost; again the schwerpunkt is placed behind this process to maximise the return from cost leadership.

Organisational Culture

It is fine to have a framework in place that provides focus and concepts for doing battle in the marketplace. However, without the parallel development of a supporting culture at all levels, an organisation will find itself unable to fully utilise the advantages of such a scheme. A suitable supporting culture requires an ability to identify competitive opportunities (gaps) and to respond quickly before the opportunity is lost.

Such a concept is an implicit acceptance of the emergent strategy view. To not accept this view would disregard the realities of the marketplace as a chaotic system. Chaos theory was developed to assist the science and engineering fields to better explain the unpredictable phenomena inherent in systems studied or developed by them. However, chaos theory has a wider application than those two fields, management science being one.

Business strategy, as part of the management sciences, could be said to be an attempt at working within the chaos or even taming the chaos to ensure a particular end state beneficial to the organisation for which the strategy was developed. However, the inherent problems in any attempt to work within or tame a chaotic system are manifest in the make up of a system. To micro-manage the nuances of an organisation operating within a national macro-economy, which in turn is influenced by global economic activity is difficult, primarily because it is a true chaotic system. Entropy no doubt contributed by the actions of human beings, or groups of human beings, within that system. Although it may be difficult to provide order within a chaotic system, it should not prevent a firm from ever striving to limit the adverse effects of chaos upon their enterprise and, more importantly, to take advantage of the chaos to edge closer to their objectives. It does this by a degree of design or planning which is aimed at providing a broad direction and a commonly understood strategic framework within the organisation and to incorporate an organisational culture similar to that the military call directive control, mission oriented orders or in its original German form; auftragstaktik.

The philosophy of auftragstaktik requires that all members of a military combat formation understand what are the objectives of the current activities, say a battle. For once the enemy is engaged, regardless of how good communications may be, the superior commanders will be unable to control every activity during the battle. The emphasis is on the initiative of the individual commanders and soldiers to carry out the 'commander's intent' knowing, as they will, their immediate situation. The Germans saw this as seeing through the 'fog of war' and seizing opportunities to achieve the commander's intent when they were presented. To wait for a decision from higher would see the opportunity missed and the fog once more enveloping the battlefield.

In Australia, it is known as Directive Control and is the endorsed philosophy of command for the Australian Defence Force. It is defined as: *A philosophy of command and a system for conducting operations in which subordinates are given clear direction by the superior on his intentions - that is the result required, a task, the resources and any constraints. It includes the freedom to decide how to achieve the required result. Successful directive control demands a high level of trust, understanding and communication between commanders at all levels and their subordinate commanders who must be willing to take decisive action based on their commander's intent. Superior commanders must be willing to accept responsibility for the actions of their subordinates* (ADFP 1, p. xxxiii).

From the above definition it may appear that auftragstaktik is analogous to management by objectives. However, it goes far deeper in that it is a culture that permeates all levels of an organisation and is not merely a tool for monitoring performance.

In an attempt to pin down the philosophy to something tangible, Bashista (1994) identified four elements all of which are required to successfully build an auftragstaktik culture:

- Obedience by the adherence to the commander's intent. This would be analogous to all employees having an understanding of the organisation's strategic intent and focusing their efforts toward it.
- A proficiency in technical and tactical concepts. Analogous to managers having a good understanding of the strategic concepts and management practices required of their trade. The implication is the 'learning organisation'; building on past knowledge to move forward.
- An encouragement of independent action and the latitude for its conduct. Indeed, inaction is considered a worse crime than the wrong action. In the military environment, this concept is an imperative as an enemy will target communications links and render centralised control ineffective. Targeting communications is a situation unlikely to eventuate in business; hence this concept could be translated to offering **solutions** for senior managers to select rather than offering **problems** to be solved. Any solutions must be based on the lower management perception of the problem in the first place. Once a solution is chosen, then lower management is permitted to get on with the job.
- The maintenance of self esteem focuses on the individual having a sense of worth to the organisation; of being a contributor to the organisation's goals. This requires upper management to relinquish control and rely on the lower levels to achieve the organisation's goals. Further, it gives people at all levels the **right** to make a mistake without it endangering their job so long as that mistake was made in an attempt to achieve the strategic intent.

The culture of an organisation will have a considerable influence on its success in winning on the marketplace battlefield. It will permit the decisiveness and focus that is essential to good management practice in a competitive environment.

CONCLUSION

There is no doubt that an entity must first conduct its appreciation of its market using a "cookbook" of some sort. In this case it might first identify its objectives, or **Ends**, within the context of its competitive environment; determine the broad **Ways** those **Ends** can be achieved and provide broad guidelines for the allocation of resources, or the **Means**, to achieve the objectives.

The detailed **Ways** are determined by the lower management levels as they attempt to achieve the 'commander's intent', or in the business sense, the corporation's strategic intent; lower management **pulls** the organisation toward its strategic intent. If it appears that a particular **Way** is likely to succeed then the **schwerpunkt**, or main effort, of the corporation is directed at this gap to ruthlessly exploit any competitive advantages.

However, the intuitive leap that permits management to decide, among other considerations, how, when and in what order and magnitude to commit resources, is the missing link to strategy. It is difficult to build into a cookbook, but nonetheless, broad frameworks can be applied. This is what I have attempted to demonstrate using my heuristic model to analyse the situation presented in "CMR Forum: The Honda Effect Revisited" (Mintzberg et al, 1996).

More recently from observing the news, commentary and analysis during the recent Gulf War and applying my model I believe I can provide a reasonably broad view of the war's strategic development:

- The US, UK and Australian forces that fought the Iraq war were capability based forces. The process used to define, design and develop these forces was a capability based one. The **capability based strategy** was a lengthy one that had been in place for some time.
- There was undoubtedly a **grand design strategy** in the invasion. The plan would have been developed down to the last tank and the last minute.
- However, even the best laid plans suffer from the changing environment. For example the **emergent strategy** had to change the grand design to accommodate the fact that Turkey did not permit the use of their country as a launching pad for part of the invasion force. Later the plan changed again as the resistance was found to be lighter than expected - this permitted a direct rush into Baghdad itself, well in advance of the timetable anticipated.

The Gulf War demonstrated aspects of all three views of strategy. The capability based strategy is undoubtedly a long term view. The designing strategy is one that has to be developed at some stage, for without a plan it is difficult to know what capabilities might be required. However, once committed to the plan the emergent strategy takes over, as it is the only way to accommodate the inevitable changes in the environment.

As a last word, using a broad strategic framework such as the one outlined assists business executives in making that intuitive leap from having an understanding of their competitive environment and where the corporation wants to be, to developing plans to implement a particular focus in achieving those corporate objectives. It permits the **design** of a broad strategic framework based on their current and required **capabilities**, the detail of which **emerges** in response to the competitive environment. If a corporation designed an emergent capability based strategy they would be capable of recognising and seizing commercial opportunities as they arise rather than to rely simply on good luck.

Luck is being ready for the chance - J. Frank Dobie

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