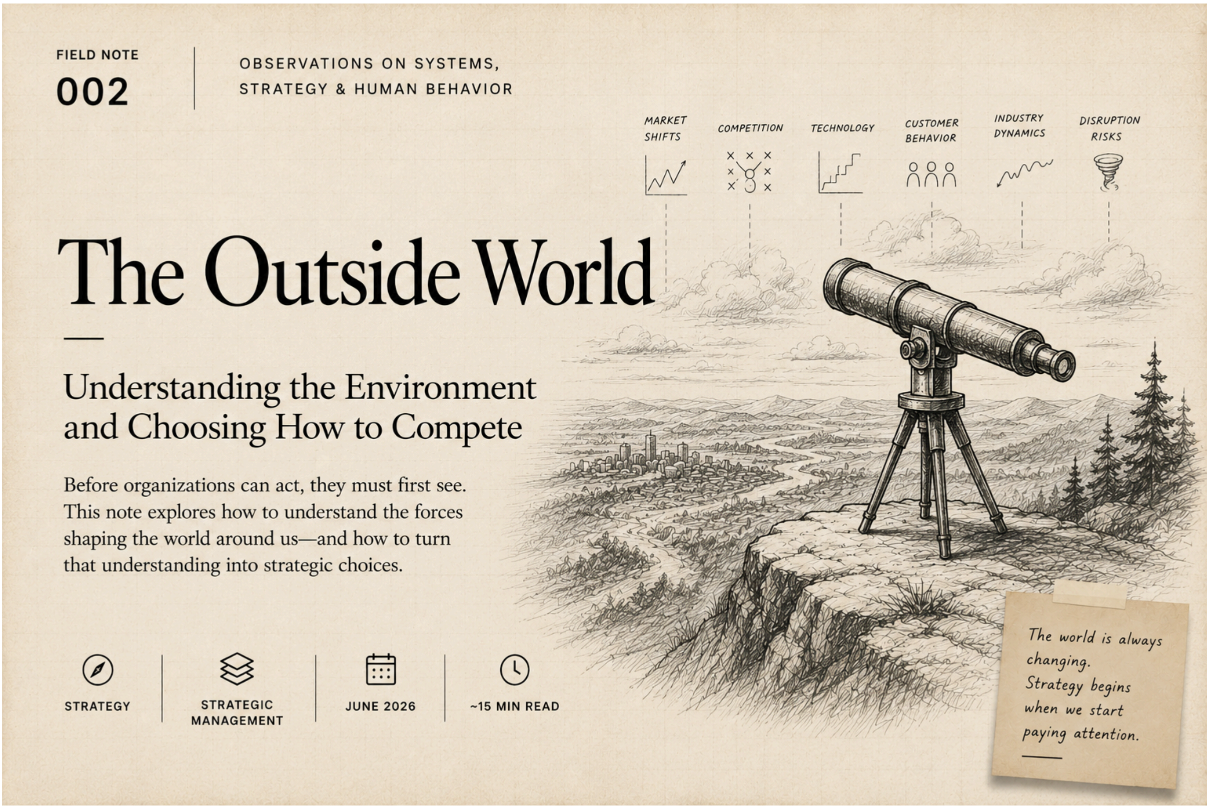


By Rafa Munaro

Part II of a three-part series exploring how organizations survive, adapt and endure.

Questions Worth Asking

Why do some organizations seem capable of anticipating change while others spend years reacting to it?

Why do industry leaders sometimes disappear despite having talented people, strong brands and abundant resources?

And why do two organizations facing the same market conditions often make completely different strategic choices?

These questions appear different on the surface, but they all point toward the same underlying challenge.

Organizations do not operate in isolation. They exist within environments that are constantly changing. Customers evolve. Competitors adapt. Technologies emerge. Entire industries can be reshaped by forces that initially appear small or insignificant.

The organizations that endure are rarely those that predict the future perfectly. More often, they are the organizations that develop a better understanding of the present and continuously update that understanding as reality changes around them.

Before organizations can adapt, they must first learn to see.

And that is where strategy begins.

Looking Back

In the previous Field Note (*[Field Note 001 - Why Some Organizations Endure While Others Slowly Fail]*), we introduced a simple but powerful idea.

Organizations exist between two worlds:

1. An external world they cannot control
2. And an internal world they can design

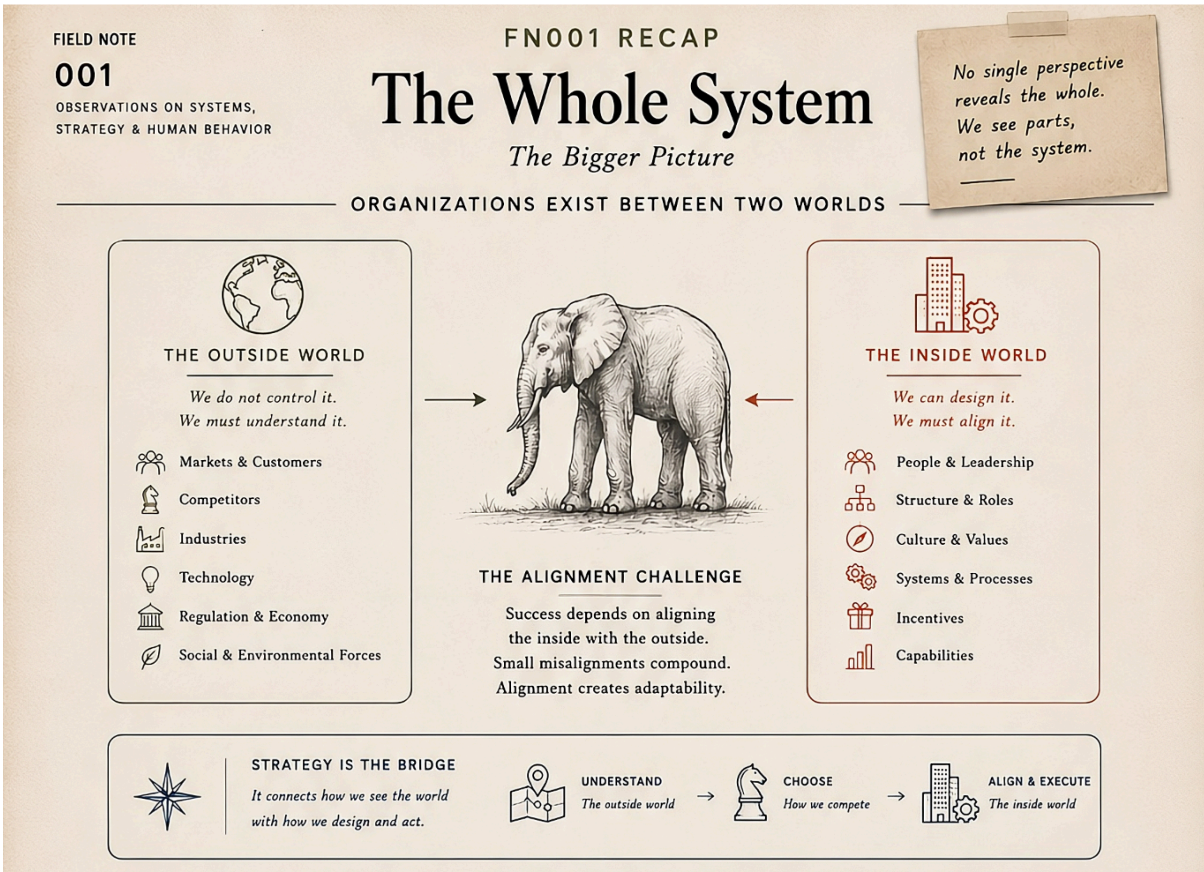
The **external world** consists of markets, competitors, technological shifts, customer behaviour, regulation and broader industry dynamics.

The **internal world** consists of people, structures, systems, culture, incentives and capabilities.

Long-term performance depends on maintaining **alignment** between the two.

When organizations remain aligned with reality, adaptation becomes possible. When small misalignments begin to accumulate, decline often starts long before anyone notices.

One of the central arguments of the previous note was that failure is rarely sudden. More often, it emerges from a long series of small misalignments between what is happening outside the organization and how the organization continues to operate inside it.



This note focuses on the first half of that equation. The outside world.

Why Start Outside?

When people think about organizational performance, they often focus on what happens inside the organization.

- Leadership
- Culture
- Talent
- Execution
- Structure
- Systems

These factors are undoubtedly important, but they are only part of the story.

A highly capable organization can still fail if it is responding to a version of reality that no longer exists.

History provides no shortage of examples. **Kodak** possessed extraordinary capabilities in film manufacturing. **Nokia** employed some of the world's most talented engineers. **Blockbuster** dominated its industry for years. None of these organizations lacked intelligence, resources or operational expertise.

Their challenge was different.

The environment changed faster than their understanding of it.

The lesson is subtle but important.**Organizations rarely fail because they stop executing. They often fail because they continue executing against assumptions that no longer reflect reality.**

This is why strategy begins outside.

Before deciding how to organize ourselves, we must first understand the environment in which we are operating. Before deciding how to compete, we must first understand the game itself.

What Is Strategy?

Few words have become as overused in modern business as strategy.

Projects become strategic. Meetings become strategic. Priorities become strategic. Roadmaps become strategic. At times, the word seems to function less as a precise concept and more as a signal that something is important.

The result is that strategy gradually loses meaning.

Michael Porter offered a much more demanding interpretation:

“The essence of strategy is choosing what not to do.”

This idea is deceptively simple.

Most organizations spend considerable time discussing what they should pursue. Far fewer spend time discussing what they should deliberately ignore.

Yet meaningful strategy requires trade-offs.

An organization cannot pursue every opportunity, serve every customer, enter every market and maintain every possible source of competitive advantage simultaneously. Resources are finite. Attention is finite. Time is finite.

Strategy therefore becomes the process of making choices.

Choices about where to play.

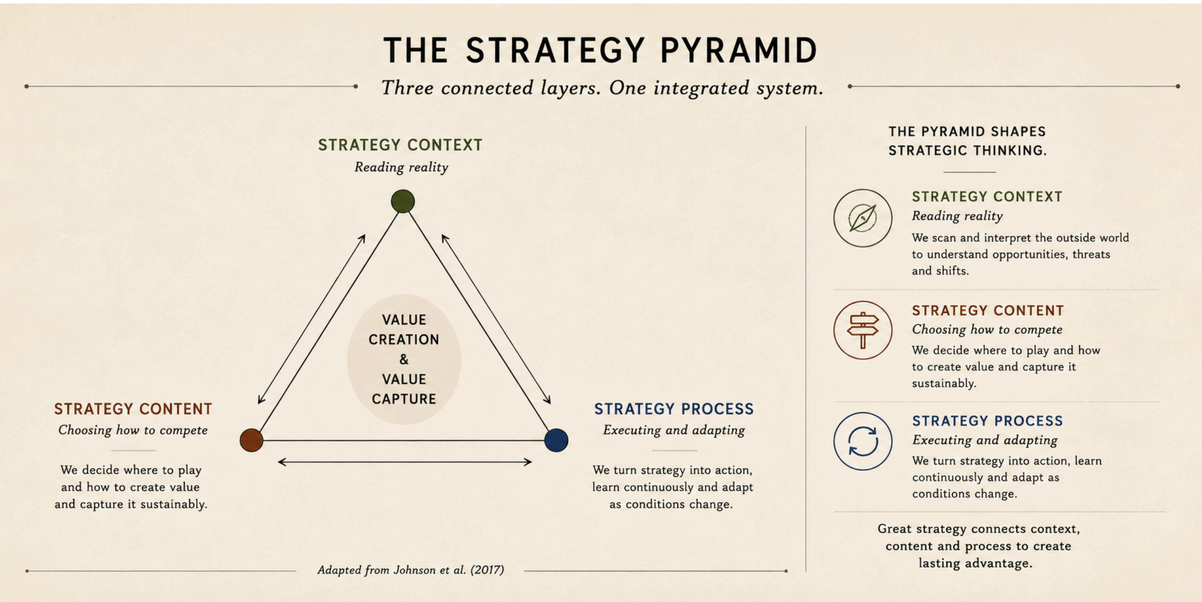
Choices about how to compete.

Choices about which opportunities deserve commitment and which should be left behind.

Before those choices can be made, however, organizations must first understand the **environment** within which those choices exist.

The Strategy Pyramid

One useful way to think about strategy is through three interconnected layers.



The first layer is **Strategy Context.**

This concerns understanding the environment surrounding the organization.

The second layer is **Strategy Content.**

This concerns deciding how the organization intends to compete within that environment.

The third layer is **Strategy Process.**

This concerns implementation and organizational alignment.

In simple terms:

1. First we observe
2. Then we choose
3. Then we execute

This framework also serves as the roadmap for the broader Field Notes series.

This note focuses on Strategy Context and Strategy Content.

The next note will focus on **Strategy Process** and the **organizational architecture** required to bring strategic choices to life.

ACT I

Strategy Context

Reading Reality

The first responsibility of strategy is not action.

It is interpretation.

Organizations operate within environments that are constantly evolving. Customers change their preferences. Competitors launch new products. Technologies reshape industries. Regulations alter market dynamics. Economic conditions create both opportunities and threats.

The challenge is rarely a lack of information.

The challenge is determining which information matters.

Over time, strategists developed a variety of frameworks designed to help organizations interpret the environment more systematically. While these frameworks differ in form, they are ultimately trying to answer the same question:

What is happening outside the organization that deserves our attention?

- Some frameworks focus on **customers**
- Some focus on **competitors**
- Some focus on **industries**
- Others focus on broader **environmental forces**

Together, they help organizations construct a more complete picture of reality.

Understanding Customers

Organizations exist to create **value** for specific groups of **people**. Understanding who those people are, what they value and how those preferences evolve over time is therefore one of the foundational responsibilities of strategy.

*Some of the classic frameworks used to explore this layer include **Customer Segmentation, Customer Analysis, Targeting and Market Mapping**, many of which may become future Field Notes in their own right.*

Understanding Competitors

No organization operates alone. Every strategic choice is made within a **competitive landscape** that includes **direct competitors, indirect competitors** and **substitutes.**

*Frameworks such as **Competitor Analysis (direct + indirect), Strategic Groups** and **Substitute Analysis** attempt to help organizations understand not only who they compete against today, but who they may be competing against tomorrow.*

Understanding Industries

Beyond individual competitors lies the broader structure of the **industry** itself.

Some industries are naturally attractive. Others are structurally difficult. Some reward scale. Others reward specialization.

*Classic frameworks such as **Industry Analysis, Value Chain Analysis** and **Porter's Five Forces** help explain why profitability varies so dramatically across industries and why some competitive environments are far more challenging than others.*

Understanding the Broader Environment

Organizations are also shaped by forces that exist beyond customers, competitors and industries.

- Technological shifts
- Regulation
- Political change
- Social movements
- Economic conditions
- Environmental pressures

*Frameworks such as **PESTEL, Environmental Scanning** and **Scenario Analysis** attempt to capture these broader forces and help organizations identify emerging trends before they become obvious.*

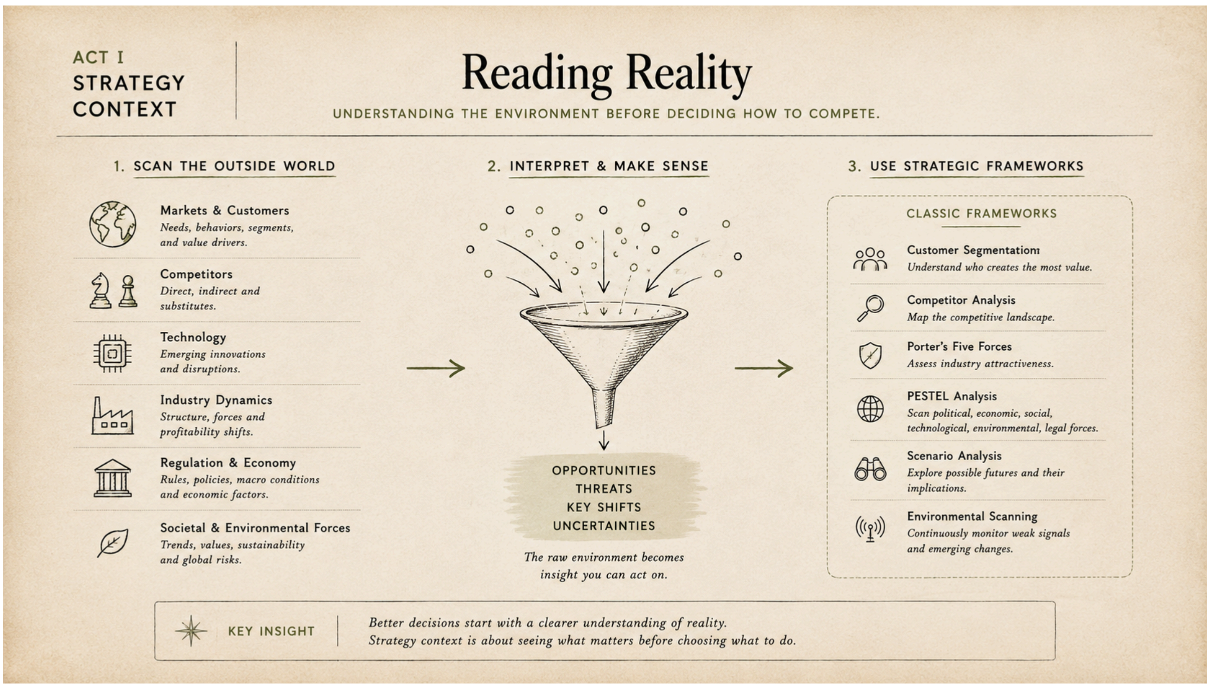
The goal is not prediction.

The goal is awareness.

Because organizations rarely fail because change occurs. More often, they fail because they fail to notice it.

Act I Summary - Seeing The Pattern

Up to this point we have explored customers, competitors, industries and broader environmental forces as separate lenses. The diagram below brings those pieces together into a simplified view of how organizations interpret reality before making strategic choices.



Reflection From The Field

Most strategic surprises are visible long before they become obvious.

The challenge is rarely access to information.

The challenge is attention.

What assumptions about your customers, competitors or industry are you currently treating as permanent?

And what happens if those assumptions are already changing?

ACT II

Strategy Content

Choosing How To Compete

Understanding reality is necessary.

It is not sufficient.

At some point every organization must decide what it intends to do with what it has learned.

This is where strategy moves from observation to choice.

If Strategy Context asks:

"What is happening?"

Strategy Content asks:

"What should we do about it?"

Two organizations can observe the same environment and reach completely different conclusions. The same customers, competitors, technologies and industry dynamics can lead to radically different strategic choices.

This is the domain of **Competitive Strategy.**

At its simplest, Competitive Strategy can be understood as:

Value Creation + Establishing a Favourable Competitive Position in the Market

In other words, it concerns both the **value** an organization creates and the **position** it seeks to establish within its chosen **market**.

The challenge is not simply creating value.

Many organizations create value.

The challenge is creating value in a way that allows the organization to occupy a distinctive and sustainable position relative to competitors.

Everything that follows can be understood as different dimensions of that challenge.

Understanding Competitive Strategy

Value Creation & Business Models

The first question any strategy must answer is deceptively simple:

What value are we creating, and for whom?

Organizations exist because they create value for customers, employees, investors or communities. Without **value creation** there is no reason for the organization to exist. Without **value capture** there is no reason for the organization to survive.

This is why many strategic frameworks begin with concepts such as **Value Creation, Value Capture** and **Business Models.** They help organizations understand not only how value is generated, but also how it can be sustained over time.

Know Your Competitive Options

Strategic Positioning

Creating value is only part of the equation.

Organizations must also decide **how they intend to compete**.

- Will they compete through lower costs?
- Through differentiation?
- Through specialization?
- Through focus?

This is the domain of **Strategic Positioning.**

*Classic frameworks such as **Generic Strategies, Cost Leadership, Differentiation** and **Focus** attempt to answer a central question:*

Given the environment we face, what kind of position are we trying to establish?

Different positions require different **choices**.

And different choices inevitably create different **trade-offs.**

Strategic Fit

Capabilities & Resources

Even the most attractive opportunity can become dangerous if an organization lacks the **capabilities** required to pursue it.

This is why strategy cannot be separated from capabilities.

- An organization may wish to compete through innovation, but does it possess innovative capabilities?
- It may wish to compete through operational excellence, but does it possess operational excellence?

*Frameworks such as the **Resource-Based View, VRIO, Key Capabilities** and **Strategic Fit** attempt to answer a critical question:*

Do our ambitions actually match our capabilities?

The strongest strategies are rarely those that chase every opportunity. They are the ones that **align opportunities with capabilities.**

Strategic Choice, Growth & Renewal

Organizations rarely face a shortage of options.

The challenge is deciding which options deserve commitment.

- Some opportunities appear attractive but are strategically inconsistent.
- Others fit the organization's capabilities but offer limited long-term potential.

This is why strategic choice ultimately becomes an exercise in judgment.

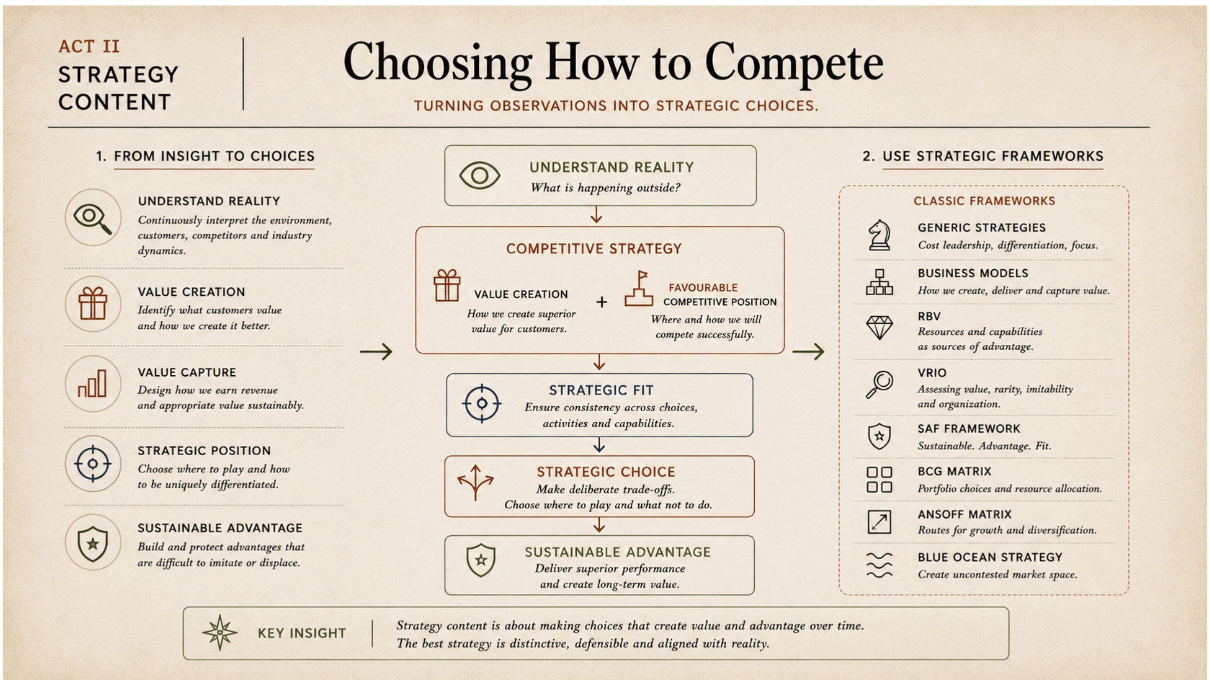
*Frameworks such as **SAF, BCG Matrix, Ansoff Matrix, Blue Ocean Strategy** and **Strategic Ambidexterity** provide different lenses for evaluating opportunities, balancing risk and deciding where future resources should be allocated.*

Their purpose is not to provide answers. Their purpose is to improve decisions.

Act II Summary - Choosing How To Compete

Understanding reality is only half of the challenge. Once an organization has a clearer picture of its environment, it must decide what to do with that understanding. This is the domain of strategy content: transforming observations into choices about where to play, how to compete and what capabilities deserve investment.

The diagram below summarizes the core logic explored throughout this section, from value creation and value capture to competitive positioning, strategic fit and sustainable advantage.



Reflection From The Field

Organizations rarely struggle because they lack options.

Most industries offer more opportunities than any organization could realistically pursue.

The challenge is deciding which opportunities deserve commitment and which should be deliberately ignored.

Competitive Strategy is ultimately less about maximizing possibilities and more about making choices.

The Organizational Alignment Model

Bringing The Pieces Together

Up to this point we have focused primarily on the outside world and on the choices organizations make in response to it.

But strategy only creates value when it can be translated into execution.

The model below reconnects the pieces discussed so far and shows how context, content and process interact as a single system.

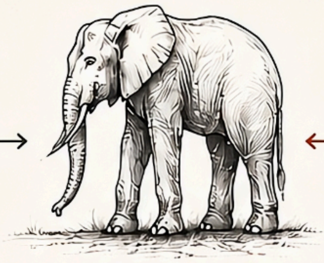
THE ORGANIZATIONAL ALIGNMENT MODEL

Connecting the outside world with the inside world.

THE OUTSIDE WORLD

The environment shapes the game.

- Markets
- Competitors
- Technology
- Customer Behavior
- Industry Dynamics
- Macro Trends
- Regulation



THE ALIGNMENT CHALLENGE

Success depends on aligning
the inside with the outside.
Small misalignments compound.
Alignment creates adaptability.

THE INSIDE WORLD

The organization designs and aligns.

- People & Leadership
- Structure & Roles
- Culture & Values
- Systems & Processes
- Incentives
- Capabilities

STRATEGY IS THE BRIDGE

We understand the context. → *We choose how to compete.* → *We align and execute.*

1 STRATEGY CONTEXT

READING REALITY

We scan and interpret the outside world.

We build insight about the environment.

Markets | Competitors | Technology | Customer Behavior | Industry Dynamics | Macro Trends | Regulation

Outcome: *Clarity about opportunities, threats and shifts.*

INSIGHT

We understand the context.

2 STRATEGY CONTENT

CHOOSING HOW TO COMPETE

We decide where to play and how to win.

We turn insight into strategic choices.

VALUE CREATION — *How we deliver superior value to customers* + **VALUE CAPTURE** — *How we earn value sustainably* = **COMPETITIVE STRATEGY** — *Where to play. How to compete.*

Outcome: *Clear choices that create sustainable advantage.*

DIRECTION

We choose our path.

3 STRATEGY PROCESS

ALIGNING & EXECUTING

We design the system and bring strategy to life.

We align the organization to execute and adapt.

KEY CAPABILITIES

Innovation | Speed | Customer Intimacy | Operational Excellence | Brand Strength | Process Efficiency

PEOPLE — *Talent, leadership, incentives* ↔ **STRUCTURE** — *Roles, coordination, hierarchy* ↔ **CULTURE** — *Values, norms, behaviors* ↔ **SYSTEMS** — *Processes, workflows, governance*

EXECUTION → ADAPTATION → LONG-TERM SURVIVAL

We execute, learn and realign continuously.

EXECUTION

We align, execute and adapt.

CORE TRUTH

Strategy is the bridge between the outside world and the inside world. Organizational alignment determines whether it can happen.

REMEMBER

There is no permanent alignment. Only continuous realignment.

Looking Ahead

At this point we have explored the two halves of the outside world.

1. Understanding reality.
2. And deciding how to respond to it.

Yet even the most insightful strategy eventually encounters a second challenge.

Execution.

A strategy can identify the right opportunity, define a compelling position and establish a clear direction. Yet it can still fail.

Because organizations do not execute strategies. People do.

Which raises a different question.

How should an organization be designed to support the strategy it has chosen?

That question takes us **inside the organization.**

In the next Field Note, we will explore the second half of the equation:

- People.
- Structure.
- Culture.
- Systems.

The elements that determine whether strategy remains an intention, or becomes reality.

Download Resources

Field Note 002 — Full Essay (PDF)
Long-form archival version of this essay.

Field Sheet 002 — Understanding The Outside World (PDF)
A one-page operational synthesis of the core ideas, frameworks and strategic questions explored throughout this Field Note.

The Organizational Alignment Model (Enhanced) (PDF)
A visual framework illustrating how organizations interpret their environment, make strategic choices, develop capabilities and continuously realign themselves in response to change.

Selected References & Influences

Selected influences behind many of the ideas explored throughout these notes include:

- **Michael Porter**
- **Richard Rumelt**
- **Henry Mintzberg**
- **Igor Ansoff**
- **Johnson, Scholes & Whittington**
- **W. Chan Kim & Renée Mauborgne**
- **Clayton Christensen**
- **Jay Barney**
- **Gary Hamel**
- **C.K. Prahalad**

along with broader work in:

- competitive strategy
- strategic management
- industrial economics
- systems thinking
- organizational theory
- behavioral psychology
- complexity science