

THE STRATEGY THAT REACHES THE FLOOR · CHAPTER FIVE

The Strategy You Already Follow

Every organisation follows two strategies, the one it wrote and the one its decisions add up to.

Ammanuel Santa Anna

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A NOTE BEFORE YOU READ

This work is offered for education and leadership development. It is not legal, financial, accounting, investment, medical or psychological advice; take the advice of a qualified professional who knows your circumstances. Companies and events are described from the public record as the author understands it; characterisations are the author's analysis. Examples are illustrative, and no particular outcome is promised to any reader.

ABSTRACT

Every organisation follows two strategies, the one it wrote and the one its decisions add up to. It is nine o'clock on a Sunday evening in January, and the chief executive of a firm that makes and services commercial kitchen equipment is at her own kitchen table with a laptop, a glass of water and a spreadsheet her finance director sent on Friday. It lists every request for money, people and time that the executive team approved last year, one line each, with the date and the reason. There are three hundred and twelve lines. The house is quiet. Above the table a single pendant lamp makes a circle of warm light on the wood, and the rest of the room is dark. The strategy the board approved a year ago fits on one slide, and she knows it by heart: grow the service business, so that by the end of the decade the firm earns more from keeping kitchens running than from selling them. She sorts the spreadsheet by purpose, twice, to be sure. Most of last year's money went to the equipment business: a new production line, a larger sales team for the new range, a second warehouse.

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Nine o'clock, the kitchen table

It is nine o'clock on a Sunday evening in January, and the chief executive of a firm that makes and services commercial kitchen equipment is at her own kitchen table with a laptop, a glass of water and a spreadsheet her finance director sent on Friday. It lists every request for money, people and time that the executive team approved last year, one line each, with the date and the reason. There are three hundred and twelve lines. The house is quiet. Above the table a single pendant lamp makes a circle of warm light on the wood, and the rest of the room is dark.

The strategy the board approved a year ago fits on one slide, and she knows it by heart: grow the service business, so that by the end of the decade the firm earns more from keeping kitchens running than from selling them. She sorts the spreadsheet by purpose, twice, to be sure. Most of last year's money went to the equipment business: a new production line, a larger sales team for the new range, a second warehouse. Each request was sensible. Each was approved on its merits, in a meeting she chaired. The service business received what it asked for, which was not much, because the service managers had stopped asking. Her stomach does something slow and unpleasant. Nobody decided to abandon the strategy. She is reading the record of an organisation that followed another one, one reasonable decision at a time.

She is a composite, drawn from the way these evenings are described in the research below and in the house's own practice, and no firm is meant. Anyone who has read a year of their own approvals has met the second strategy.

Ammanuel Santa Anna's canon opens its chapter on emergent strategy with a story of a plan meeting the world,[38] told as the canon's own account of a healthcare cooperative's annual retreat:

> *In the summer of 2019, the leadership team of a mid-sized healthcare cooperative in the American Midwest gathered for their annual strategic retreat. They spent three days in a conference center, surrounded by whiteboards covered in SWOT analyses, competitive positioning maps, and cascading five-year goals. By Sunday evening, they had produced a strategic plan of impressive comprehensiveness — eighty-seven pages of objectives, initiatives, timelines, and key performance indicators. The document was professional, internally consistent, and unanimous in its approval.*

Six months later, the canon goes on, the world changed and the plan became, in its words, "a memorial to a world that no longer existed." The chief executive's plan has not been overtaken by a pandemic. It has been overtaken by her own organisation.

This chapter makes one claim. Every organisation has two strategies: the one it wrote, and the one its decisions add up to. A strategy is lost on the way to the floor when nobody compares the two. It is sometimes found there too, because the second strategy is occasionally wiser than the first, and the only way to know which is to read it.

A pattern in a stream of decisions

In 1978 Henry Mintzberg published a paper in *Management Science* that changed what the word strategy could mean.[39] The usual definition, he observed, encouraged the idea that strategies are deliberate plans conceived in advance of the decisions that carry them out. He proposed another: a strategy is "a pattern in a stream of decisions." The definition made it possible to study both the strategies organisations intended

and those they realised despite their intentions. His two examples were long ones, the strategies of Volkswagenwerk from 1934 to 1974 and of the United States government in Vietnam from 1950 to 1973, and his conclusion was that the interplay between intended and realised strategy might lead to the heart of how organisations actually choose.

In 1985, with James Waters, he set the idea out as a continuum.[40] At one end lies the purely deliberate strategy, intended precisely and realised exactly as intended; at the other the purely emergent one, a consistent pattern that nobody intended. Real strategies lie between, and the two authors named the kinds they had found in their research, among them planned, entrepreneurial, umbrella, process and imposed. An umbrella strategy sets broad guidelines and lets the specifics emerge beneath them. An imposed one is set from outside, by a parent company or a government.

Mintzberg's work is built on long historical case studies, read closely, and its strength is description rather than measurement. It does not say that emergent strategy is better than deliberate strategy, and Mintzberg was careful not to. It says that both are always present, and that a leadership team which looks only at the deliberate one is looking at half of what it is doing.

Santa Anna's canon, which acknowledges Mintzberg by name, puts the idea in a sentence that the chief executive could write at the top of her spreadsheet: "Strategy, in this view, is not what you plan. It is what you *do*." Three hundred and twelve approvals are what her firm did.

The rule that decided

The most closely studied case of a realised strategy overtaking a written one comes from Intel, and it was documented by Robert Burgelman of Stanford over many years of fieldwork inside the company.[41] In the early 1980s Intel thought of itself as a memory company. Memory chips were its founding business and the centre of its identity. Yet by the middle of the decade most of its manufacturing capacity was being used for microprocessors, and Intel's formal decision to leave the memory business, taken by its top management in 1985, ratified a shift that had already largely happened below them.[42]

The mechanism, as Burgelman described it, was not a rebellion. It was a rule. Intel's middle managers allocated scarce factory capacity by a simple criterion, the margin earned on each start of a silicon wafer, and as memory chips became a commodity and their margins fell, the rule moved capacity, quarter by quarter, toward microprocessors, whose margins were higher. Nobody in the factories decided that Intel should become a microprocessor company. The allocation rule decided it, and the strategy on paper followed some years later. Andrew Grove later told the story of the decision from the top in his book *Only the Paranoid Survive* (1996).[43]

The account here rests on Burgelman's published work and on summaries of it; the 1994 paper's full text was not reopened for this book, and some details of dates differ between secondary accounts. What the

case shows, and what Burgelman drew from it in his 1991 paper on the ecology of strategy making inside firms, is that strategy is shaped by two processes at once: an induced process, in which the formal strategy guides decisions, and an autonomous one, in which people below the top respond to what they see and the organisation's own rules select among their responses. Successful reorientations, he proposed, are likely to have been preceded by internal experiment and selection of exactly this kind.

The chief executive's firm has an allocation rule too, though nobody has written it down. The rule is that a request with a clear return in the next two years is approved and a request whose return lies further out is deferred. It is a sensible rule. It is also, in the arithmetic of three hundred and twelve lines, a strategy, and it is not the one on the slide.



Read in the allocations

HAUTE LUMIÈRE · THE STRATEGY THAT REACHES THE FLOOR · CHAPTER FIVE

Read in the allocations

If the realised strategy is a pattern in a stream of decisions, the practical question is where the stream can be seen. The answer, for most organisations, is in the places where scarce things are given out. Joseph Bower's study of how large firms allocate capital, published as *Managing the Resource Allocation Process* in 1970, argued that strategy in a diversified firm is made less in the planning office than in the long chain of proposals, sponsorships and approvals through which investments are actually chosen, often starting well below the top.[44] Bower's book is a field study of a small number of firms, summarised here from its stand-

ard reading rather than reopened. Its idea has proved durable because anyone can test it against their own records. A firm's strategy is visible in its approvals, its hiring and its senior people's diaries, whether or not anybody has looked.

The three are not equal witnesses. Money is the easiest to count and the most often studied. Hiring is slower to move and harder to reverse, so it shows what the organisation expects to be doing in two years. And the diaries of the executive team are the most revealing of all, because senior attention is the scarcest thing a firm has and the one nobody approves. The chief executive's calendar for last year would show, if she opened it, that she spent four afternoons with the service managers and most Thursdays with the equipment sales team. Nobody decided that either.

Santa Anna's canon describes the organisation that grows this way, without a plan, as an image from the forest. "A forest does not have a strategic plan," it says. "It has a pattern of adaptive response — millions of organisms, each responding to local conditions, collectively producing an order that no central planner could have designed." The image is not an argument against planning. It is a description of what is always happening underneath a plan, in any living system, and of why the pattern deserves to be read as information rather than dismissed as noise.

The house's Luminous 100 adds a practical note about the kind of problem the kitchen table presents. Of the Cynefin framework, Dave Snowden's sorting of decisions by how far cause and effect can be known in advance, it says that it is valuable "because it tells you WHAT KIND of problem you're facing before you try to solve it." Whether customers will buy service contracts at scale is not a problem that more analysis will settle. It is the kind that is settled by trying something small and watching what happens.

Two strategies, and which is right

There are two ways to read the kitchen table, and the canon holds both of them.

The first reading is that the organisation has drifted, and the written strategy should be enforced. The canon is clear that direction matters: "A governance body that provides no direction is not practicing emergence — it is practicing abdication." A firm that approves every sensible request on its merits, with no view of what the requests add up to, has no strategy at all, only a habit.

The second reading is that the organisation knows something the slide does not. Perhaps the equipment business is growing because customers want the new range more than anyone forecast, and the service managers stopped asking for money because their customers are not yet ready to buy service contracts. Intel's allocation rule was right, and its formal strategy was the thing that was late. The canon describes this possibility in its chapter on living systems, writing of the patterns that arise inside every organisation from the relationships between its people, "patterns that no manager designed and no strategic plan anticip-

ated," and arguing that they are often the system's own intelligence rather than inefficiencies to be removed.

It also offers a way of holding the two readings together, which is the most practical thing in the chapter. Purpose, it says, is to be held firmly, strategy lightly and tactics very lightly. It puts the point as an image:

> *The metaphor is sailing. The destination (purpose) is fixed. The general course (strategy) adjusts to wind and current. The moment-to-moment handling of the sails (tactics) responds to the immediate conditions. A sailor who fixes the sails in one position and refuses to adjust them regardless of changing wind is not a committed sailor. That sailor is a drowning one.*

And it names the danger on the other side, the firm that follows its written strategy faithfully into a world that has changed: "the more faithfully the organization executes an outdated plan, the further it moves from the reality it needs to serve."

Which reading is right at the kitchen table cannot be known from the spreadsheet alone. That is the point. It can only be known by putting the two strategies side by side, on purpose, and asking.

The rule nobody wrote

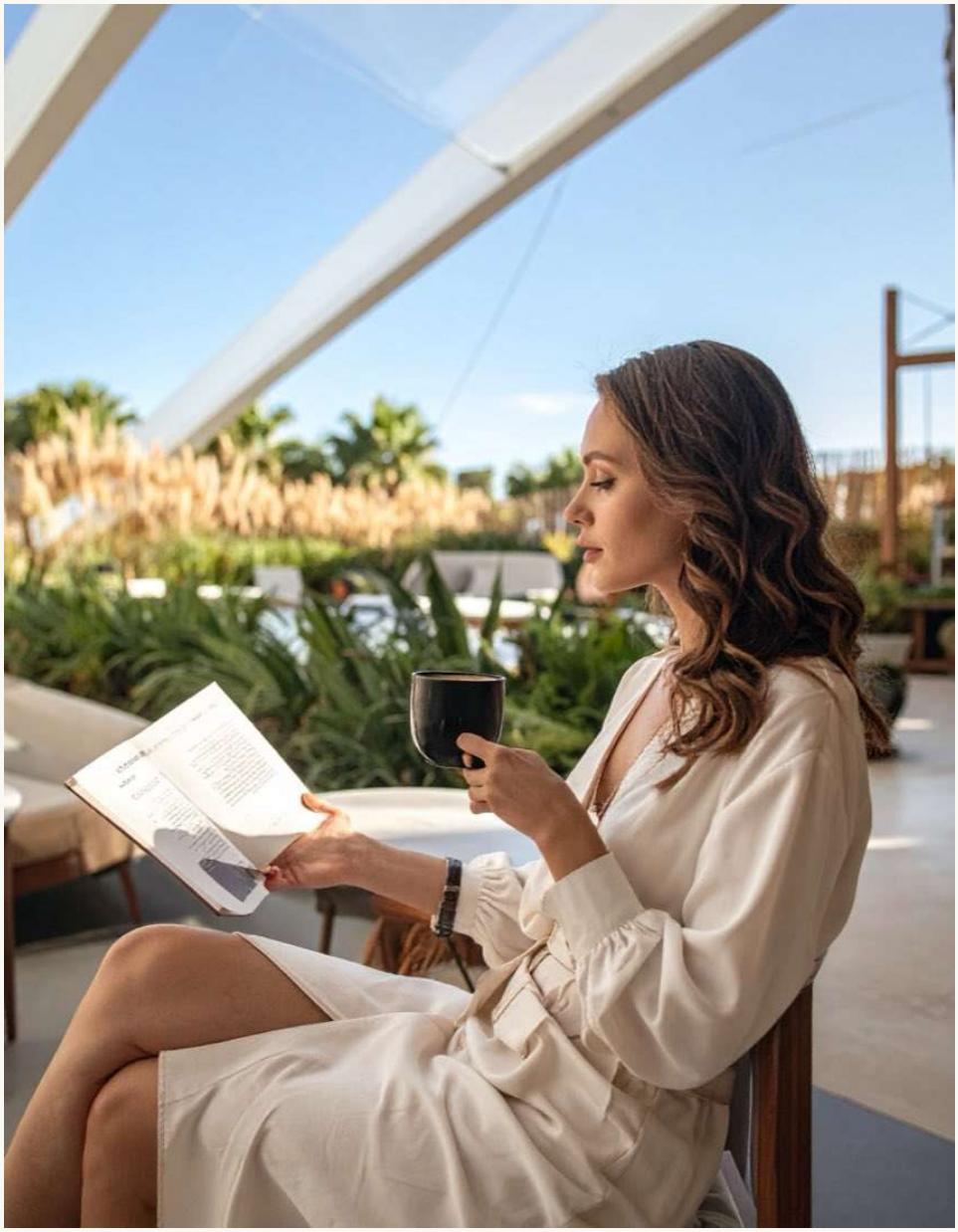
The most useful thing the chief executive can find at the kitchen table is not a decision. It is a rule, because rules are what make three hundred and twelve decisions point the same way. Intel's rule was written down: margin per wafer start. Hers is not, which makes it both more influential and harder to see.

There is a simple way to find it, and it needs nothing but the spreadsheet and an hour of the executive team's time. Take the last twenty approvals and the last twenty refusals or deferrals, and ask, of each, the reason it was given at the time. Not the reason on the form; the reason people remember. Within an hour the same few reasons will appear again and again: *it pays back inside two years*, *the customer asked for it*, *we already have the people*, *it is what we know how to sell*. Those sentences are the firm's realised strategy, written in the voice of its approvals. They will rarely mention the slide.

Once the rule is written, it can be judged. Some unwritten rules are wise, and the written strategy should learn from them. Others are habits that once made sense and now quietly overrule the board. The two-year payback rule at the kitchen-equipment firm is both. It protected the firm through a hard decade, and it is the reason the service business, whose returns arrive slowly and over many years, has never been funded.

The canon has a sentence on why the effect of a strategy is so hard to predict from its size, and it applies with particular force here. In a living system, it says, "Large inputs can produce negligible effects (the multimillion-dollar change initiative that changes nothing; the comprehensive strategic plan that gathers dust)." A plan the size of a slide deck can be outweighed by a rule the size of a sentence, if the rule is the

one applied every Thursday. That is not a reason to despair of plans. It is a reason to write the rule down, and to put it on the same page as the plan.



What the comparison is worth

HAUTE LUMIÈRE · THE STRATEGY THAT REACHES THE FLOOR · CHAPTER FIVE

What the comparison is worth

Before the practice, the gain, because here it is largest and least visible. When an organisation's decisions add up to one strategy and its words to another, it pays twice. It pays for the investments the decisions make, and it pays for the plans, people and promises built on the words: the service managers hired for a

business that is not being funded, the board told a story that the money does not tell, the customers promised contracts that nobody is building. And if the written strategy is the wiser one, it pays a third time, in the value of the service business that the allocation rule quietly declined to grow.

None of these costs appears in any report as the price of two strategies. They appear as missed targets in one division and surprise growth in another, each explained separately. The difference between what the firm earns when its decisions and its strategy agree and what it earns when they do not is a real gain, sometimes a very large one, and it can be found and measured from records the firm already keeps: the approvals, the hires, the calendars, the results. The house has written about how such a gain should be [measured before anyone shares in it, honestly enough that both sides would sign the number]({{BOOK:orgdevflow}}). This book does not describe how a measured gain is divided; that depends on the organisation and on the people whose work produced it.

The quarterly reading

Picture the chief executive doing one thing differently. She does not call a strategy offsite. In the first week of every quarter she asks her finance director for three lists, all drawn from records the firm already keeps: where last quarter's money went, sorted by the strategy's own priorities; where the new hires went; and, from the executive team's calendars, where the senior hours went. She lays them out, on one page, beside the slide.

The executive team spends one meeting a quarter on that page, and only on the places where the two strategies disagree. For each divergence it gives one of three answers, out loud and on the record. The first is *adopt*: the pattern is wiser than the plan, and the written strategy changes to say so. The second is *stop*: the pattern is drift, and the rule that produced it changes. In her firm that means writing down the unwritten rule about two-year returns and deciding, explicitly, how service requests will be judged instead. The third is *test*: nobody knows which strategy is right, so the team designs a small, contained experiment to find out, with a hypothesis, a measure, a date and a point at which it will stop. The canon describes this third answer in its own terms, as the safe-to-fail experiment, designed so that failure teaches rather than harms.

The first quarter is uncomfortable. The page shows that the service business received a small share of the money and almost none of the senior hours, and the executive team learns that it has been approving one strategy and describing another to the board. The team chooses *test*: three service contracts sold at cost to existing customers, to find out whether the demand the strategy assumed exists. Two quarters later the answer is in, and the strategy is rewritten, a little, to match what was learned.

There are failure modes, and they are predictable. The page is assembled but the meeting is spent defending the divergences rather than deciding them. Every divergence is answered *stop*, because the team cannot bear to admit the plan was wrong, or *adopt*, because it cannot bear to admit the decisions were. The calen-

dars are left out because they are the most personal list. And the allocation rule, once named, is not changed, because changing it means saying no to sensible requests. Chapter 7 carries the run sheet for this practice, and Chapter 6 places it in the order of a first ninety days.

The reading is where the rest of this book meets. The three good words on a card (Chapter 1) become a strategy only when they decide something; the review that reports in colours (Chapter 4) becomes useful only when it asks which assumptions have failed. The quarterly reading asks the same question of the whole firm at once.

Reading your own realised strategy

The article this chapter began as followed one chief executive and one spreadsheet. The book can go further, into the finer points of reading the realised strategy every quarter, and the first of them is assembling the three lists honestly.

The money list is usually the easiest, because finance already keeps it: every approval of spending above a level the executive team chooses, with its date, its sponsor and the reason given. The hiring list comes from the people records: every new role created or filled, and the part of the organisation it went to. The hours list is the hardest and the most revealing, and it should come from the executive team's own calendars for the quarter, sorted roughly by the strategy's priorities. It is personal, and some teams will want to leave it out. It should not be left out, because senior attention is the one resource no approval process records, and it is often where the second strategy is most visible.

The second finer point is sorting by the strategy's own words. Each line on each list is placed under the priority it serves, or under *none of these*. The sorting should be done by two people who did not make the decisions, usually someone from finance and someone from the strategy or planning team, and their disagreements noted. The *none of these* column is not a failure. It is often where the firm's real business lives, and it is the first place to look for the realised strategy.

The third is finding the unwritten rule. Take the last twenty approvals and the last twenty refusals or deferrals, and ask the people who decided them for the reason as they remember it. Write the reasons down in their own words and count them. Within an hour the same few sentences will appear repeatedly. Those sentences are the allocation rule the organisation is actually using, and they should be written at the top of the page, beside the strategy, in the same type size.

The fourth is the three answers, and the discipline of using all three. For each place where the lists and the strategy disagree, the executive team says *adopt*, *stop* or *test*, out loud and on the record. A team that only ever says *stop* is defending its plan against its own organisation. A team that only ever says *adopt* is letting the organisation's habits write its strategy. The proportion is not fixed, but over a year a healthy team will

use all three, and will be able to point to at least one place where its written strategy changed because its realised one was wiser.

The fifth is the test. A *test* is a small, contained experiment designed to find out which of two strategies is right, in the spirit of the safe-to-fail experiment the canon describes: a hypothesis, a measure, a date, and a point at which it stops. It should be small enough that failure is affordable and specific enough that the result will actually decide something. Three service contracts sold at cost to existing customers is a test. A pilot of the whole service business in one region for two years is a programme, and will be defended rather than read.

The sixth is the rule itself. Once the unwritten allocation rule is on the page, the executive team can decide whether to keep it, change it, or write a second rule beside it for the part of the business it is starving. Changing a rule usually goes further than changing a hundred decisions, because the rule makes the next hundred. It is also harder, because the rule usually exists for a good reason, and the people who apply it every Thursday have been right to.

And the decision that most changes the result is whether the first quarterly reading is allowed to embarrass anyone. It will show that the executive team has approved one strategy and described another. If the team treats that as a finding about the organisation's rules, it will read the next quarter with interest. If it treats it as a finding about who approved what, the lists will be quietly tidied before the next reading, and the second strategy will go back underground.

What the reading finds is also, in most firms, the largest gain this book points to: the value released when an organisation's decisions and its strategy are made to agree, in whichever direction. It can be measured from the same records the lists come from, against a history fixed before the reading begins, in the way [Where the Flow Stops]({{BOOK:orgdev-flow}}) describes in its chapter on a number both sides can sign. This book does not describe how a measured gain is divided; that depends on the organisation, on its people and on its history, and it is decided separately with those who will be covered. Chapter 6 places the first reading in the last month of a ninety-day plan, and Chapter 7 gives the three lists, the sorting, the search for the unwritten rule and the three answers as working pages.

Nine o'clock, a year later

It is nine o'clock on a Sunday evening in January, a year later, and the chief executive is at the same table under the same lamp. The spreadsheet from her finance director has four columns now, not one: the money, the hires, the senior hours, and a fourth column headed *adopt, stop or test*, filled in, quarter by quarter, in the executive team's own words.

She sorts it by purpose once. The service business has more of the money than it had, and more of the hours, and a written rule for how its requests are judged. The equipment business has less than it asked for and more than the slide once allowed, because one of last spring's tests showed the new range was worth it.

The two strategies are not the same yet. For the first time, she can see both of them.

A NOTE FROM THE HOUSE

Every organisation follows two strategies, the one it wrote and the one its decisions add up to. The distance between them is where a gain is usually kept. Luminous Prosperity Inc. reads that distance inside organisations as a gainshare, and is paid as a share of the gain it helps find.

REQUEST A CONVERSATION

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