Investigating Strategic Inertia Using OrgSwarm

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*This study describes a novel simulation model (**OrgSwarm**) of the process of strategic adaptation. Strategic adaptation is conceptualized as a process of adaptation (search), on a landscape of strategic possibilities, by a population of profit-seeking organizations. Unfortunately, the characteristics that make organizations coherent and viable such as organizational structure and shared organizational culture, also create strategic inertia, potentially limiting the ability of organizations to adapt. This study examines the impact of strategic inertia on the adaptive potential of organizations. The simulation results suggest that a degree of strategic inertia can assist rather than hamper adaptive efforts in static and slowly changing strategic environments.*

Povzetek: Predstavljen je OrgSwarm, nov model procesa strateškega prilagajanja.

1 Introduction

There are parallels between biological and social systems. In both, individuals within a larger population are attempting to appropriate scarce resources, or *to earn a living*, in a dynamic environment. Entities in these systems typically alter their 'strategies' over time in an attempt to improve their success. In an organizational setting, a strategy consists of a choice of what activities the organization will perform, and choices as to how these activities will be performed [36]. These choices define the strategic configuration of the organization. Recent work by [28] and [38] has recognized that strategic configurations consist of interlinked individual elements (decisions), and have applied general models of interconnected systems such as Kauffman's NK model to examine the implications of this for processes of organizational adaptation.

Following a long-established metaphor of adaptation as search [46], strategic adaptation is considered in this study as an attempt to uncover peaks on a high-dimensional strategic landscape. Some strategic configurations produce high profits, others produce poor results. The search for good strategic configurations is difficult due to the vast (combinatorial) number of configurations, uncertainty as to the nature of topology of the strategic landscape faced by an organization, and changes in the topology of this landscape over time. Despite these uncertainties, the search process for good strategies is not blind. Decision-makers receive feedback on the success of their current and historic strategies, and can assess the payoffs received by the strategies of their competitors [26]. Hence, certain areas of the strategic landscape are illuminated.

Organizations do not exist in isolation, but interact with, and receive feedback from, their environment. Their efforts at strategic adaption are guided by social as well as individual learning. Good ideas discovered by one organization disseminate over time. One model combining both individual and social learning which has attracted significant interest in recent years is that of *Particle Swarm Optimization* (PSO) [21], [25]. Particle swarm research has been concentrated in two broad areas, the application and study of PSO as an optimizing tool, and the application of PSO as a model of social and cultural adaptation. This paper adopts the second of these perspectives, and adapts the canonical PSO to create a plausible model of the process of strategic adaptation.

Although the particle swarm model has been applied to a variety of problems in the fields of engineering [1], chemistry [34], medicine and psychology [25], as yet it has not been applied to the domain of organizational science. This paper introduces the model to this domain, and utilizes it to examine the impact of differing degrees of strategic inertia on the adaptive capabilities of a population of organizations.

1.1 Structure of paper

This contribution is organized as follows. Section 2 provides a short discussion of prior literature in the domain of strategic adaptation in order to provide a number of perspectives on strategic inertia. Section 3 incorporates an introduction to the canonical Particle Swarm algorithm (PSA),[1] followed by a description of the simulation model in Section 4. Section 5 outlines the results of the simulations and finally, conclusions and future work are discussed in Section 6.

2 Strategic Adaptation

Strategic adaptation and strategic inertia are closely linked. If strategic adaptation is problematic, inertia is a possible cause. A substantial literature has emerged on strategic adaptation. This, along with its implications for strategic inertia, is outlined below.

Two polar views exist concerning the ability of organizations to adapt their strategic configuration. Adaptationists or advocates of strategic choice [35], [40], [31], broadly consider that managers or dominant coalitions in organizations scan the environment for current and future opportunities and threats, formulate strategic responses and adjust organizational activities and structure appropriately [10]. Therefore, strategic direction and organizational form are determined by managers, and market selection processes act to maintain organizations which are good adaptors. Under this perspective, an organization's fate is largely in its own hands, and hence strategic inertia is considered to represent a challenge rather than a roadblock to strategic adaptation efforts. The adaptationist argument presupposes that organizations are capable of adapting at least as fast as their environment changes [31], [30]. If firms are incapable of responding to environmental changes in a similar timescale, adaptation (or learning) processes will not enhance organizational survival [13]. The current practitioner interest in 'change management' [16] exemplifies the belief that even substantial strategic adaptation is possible.

In contrast, the population ecology school [12] proposes an alternative view on organizational-environment relations. This school of thought allows that organizations have some ability to adapt to environmental change and notes that '*leaders of organizations do formulate strategies and organizations do adapt to environmental contingencies*' [12] (p. 930). However, it is argued that the ability of firms to accurately and consistently adapt in a world of high uncertainty, where connections between means and ends are unclear is doubtful [13], [9]. Although selection processes select the most fit organizations in a given environment for continued survival, population ecologists contend that an organization's fitness primarily arises because of good initial strategic choices, or luck, rather than reflecting post-founding adaptation [2]. Advocates of the population ecology school suggest that the ability of organizations to adapt is highly constrained because of their inherent inertia. This inertia stems from two sources, *imprinting forces*, and as a *consequence of market selection forces*.

2.1 Imprinting Forces

Imprinting forces [4] combine to define and solidify the strategic configuration of a newly formed organization. These forces include the dominant initial strategy pursued by the organization, the skills / prior experience of the management team, and the distribution of decision-making influence in the organization at time of founding [4]. These forces influence the initial choice of organizational strategy. As consensus concerning the strategy emerges, it is imprinted on the organization through resource allocation decisions [42]. The imprinting leads to inertia by creating sunk costs, internal political constraints, and a rigid organizational structure. Over time this inertia intensifies due to the formation of an organizational history which creates barriers to industry exit, and legitimacy issues if adaptation is suggested [12]. The resulting inertia serves to circumscribe the organization's ability to adapt its strategy in the future. The initial imprinting determines the basin of attraction in which the organization is located on the strategic landscape. Imprinting also occurs as relationships are built up with suppliers and customers [43]. The creation of a web of these relationships can serve to constrain the range of strategic alternatives in the future, as strategic moves which dramatically disrupt the web are less likely to be considered.

2.2 Market-Selection Forces

The discussion of strategic inertia was extended by [13] who posited that inertia is also created as a natural *consequence* of the market-selection process, claiming that '*selection processes tend to favor organizations whose structures are difficult to change.*' (p. 149). The basis of this claim is that organizations which can produce a good or service reliably (consistently of a minimum quality standard) are favored for trading purposes by other organizations, and therefore by market selection processes. The routines required to produce a product or service reliably, tend to lead to structural inertia, as the construction of routines to achieve this leads to an increase in the complexity of the patterns of links between organizational subunits [13] & [27]. Building on this point, it can be posited that more efficient organizations are likely to exhibit inertia. As organizations seek better environment-structure congruence,

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[1] The term PSA is used in place of PSO (Particle Swarm Optimization) in the remainder of this paper, as the object of the paper is not to develop a tool for optimizing, but to apply the swarm metaphor as a model of organizational adaptation.

their systems become increasingly specialized and interlinked, making changes to their activities become costly and difficult. Structural inertia is rooted in the size, complexity and interdependence of the firm's structures, systems, procedures and processes [45]. Theoretical support for these assertions, that increasing organizational complexity can make adaptation difficult, is found in [19] and [38], as the heightened degree of interconnections between activities within the firm will increase the 'ruggedness' of the strategic landscape faced by an organization.

The arguments that organizations are subject to strategic inertia also finds resonance in the literature concerning organizational learning and organizational memory. The preference of organizations to continue to pursue activities similar to those undertaken in the past has been widely noted [14], [32], as has the cumulative nature of organizational learning [33].

In summary, strategic inertia can arise from a variety of sources, and the general consensus in organizational literature is that its existence poses clear difficulties for strategic adaptation by organizations.

3 Particle Swarm Algorithm

This section provides an introduction to the Particle Swarm algorithm (PSA). A full description of this algorithm and the cultural model which inspired it is provided in [25]. A Swarm can be defined as '... *a population of interacting elements that is able to optimize some global objective through collaborative search of a space.*' [25](p. xxvii). The nature of the interacting elements (particles) depends on the problem domain, in this study they represent organizations. These particles move (fly) in an n-dimensional search space, in an attempt to uncover ever-better solutions to the problem of interest.

Each of the particles has two associated properties, a current position and a velocity. Each particle also has a memory of the best location in the search space that it has found so far (*pbest*), and knows the location of the best location found to date by all the particles in the population (*gbest*). At each step of the algorithm, particles are displaced from their current position by applying a velocity vector to them. The size and direction of this velocity is influenced by the velocity in the previous iteration of the algorithm (simulates momentum), and the current location of a particle relative to its pbest and gbest. Therefore, at each step, the size and direction of each particle's move is a function of its own history (experience), and the social influence of its peer group. A number of variants of the PSA exist. The following paragraphs provide a description of the basic *continuous* version described by [25]. The algorithm is initially described narratively. This is followed by a description of the particle position-update equations.

3.1 The Algorithm

i. Initialize each particle in the population by randomly selecting values for its location and velocity vectors

ii. Calculate the fitness value of each particle. If the current fitness value for a particle is greater than the best fitness value found for the particle so far, then revise *pbest*

iii. Determine the location of the particle with the highest fitness and revise *gbest* if necessary

iv. For each particle, calculate its velocity according to equation (1)

v. Update the location of each particle

vi. Repeat steps ii - v until stopping criteria are met

Each particle i has an associated current position in the search space x_i, a current velocity v_i, and a personal best position in the search space y_i. During each iteration of the algorithm, the location and velocity of each particle is updated using equations (1) - (5).

To provide intuition on the workings of the algorithm, see figure 1. Each particle i has an associated current position in search space $x(t) = (x_{i1}(t), \ldots, x_{in}(t))$ at time t, a current velocity of $v(t) = (v_{i1}(t), \ldots, v_{in}(t))$, and a pbest position of $y_i(t) = (y_{i1}(t), \ldots, y_{in}(t))$. The position of the particle at time $t+1$ is a determined by $x(t) + v(t+1)$, and $v(t+1)$ is obtained by a stochastic blending of $v(t)$, an acceleration towards gbest (v_{gbest}) and an acceleration towards pbest (v_{pbest}).

Assuming a function f is to be maximized, that the swarm consists of m particles, and that r_1, r_2 are drawn from a uniform distribution in the range (0,1), the velocity update for particle i is as follows:

$$v_i(t+1)=Wv_i(t)+c_1r_1(y_i-x_i(t))+c_2r_2(\hat{y}-x_i(t)) \tag{1}$$

where ŷ is the location of the global-best solution found by all the particles.[2] In every iteration of the algorithm, each particle's velocity is stochastically accelerated towards its previous best position and towards a neighborhood (global) best position. The weight-coefficients c_1 and c_2 control the relative impact of pbest and gbest locations on the velocity of a particle. The parameters r_1 and r_2 ensure that the algorithm is stochastic. A practical effect of the random coefficients r_1 and r_2, is that neither the individual nor the social learning terms are always dominant. Sometimes one or the other will dominate [25]. Although the velocity update has a stochastic component, the search process is not random. It is guided by the memory of past 'good' solutions corresponding to a psychological tendency for individuals to repeat strategies which have worked for them in the past

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[2] A variant on the basic algorithm is to use a local rather than a global version of gbest. In the local version, gbest is set independently for each particle, based on the best point found thus far within a *neighborhood* of that particle's current location.

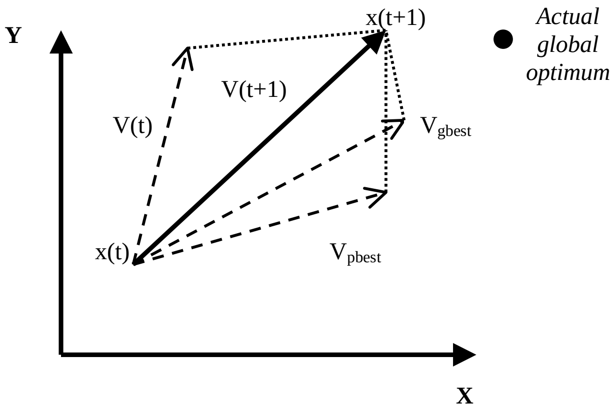

Figure 1: A representation of the particle position-update process.

[22], and by the global best solution found by all particles thus far. W represents a momentum coefficient which controls the impact of a particle's prior-period velocity on its current velocity. Each component of a velocity vector v_i is restricted to a range $[-v_{max}, v_{max}]$ to ensure that individual particles do not leave the search space. The implementation of a v_{max} parameter can also be interpreted as simulating the incremental nature of most learning processes [22]. The value of v_{max} is usually chosen to be $k * x_{max}$, where $0 < k < 1$. Once the velocity update for particle i is determined, its position is updated and pbest is updated if necessary.

$$x_i(t+1) = x_i(t) + v_i(t+1) \tag{2}$$

$$y_i(t+1) = y_i(t) \text{ if, } f(x_i(t)) \le f(y_i(t)), \tag{3}$$

$$y_i(t+1) = x_i(t) \text{ if, } f(x_i(t)) > f(y_i(t)) \tag{4}$$

After all m particles have been updated, a check is made to determine whether gbest needs to be updated.

$$\hat{y} \in (y_0, y_1, \ldots, y_m) | f(\hat{y}) = \max\ (f(y_0), f(y_1), \ldots, f(y_m)) \tag{5}$$

3.1.1 PSA vs the Genetic Algorithm

It is noted that the PSA bears similarity to other biologically-inspired optimizing algorithms. Like the Genetic Algorithm (GA), it is a population-based algorithm, is typically initialized with a population (swarm) of random solutions, and search proceeds by updating these solution each generation (iteration). Unlike the GA, the move (update) operators are not direct analogs of the genetic operators of mutation and crossover,[3] there is no explicit selection process, and potential solutions are referred to as particles rather than as chromosomes.

The communication (information-sharing) mechanism of the PSA also differs from that of the GA. In the GA, the communication is between two solutions, in the PSA, the communication is between the current solution, its pbest and the gbest. Hence, candidate solutions can 'see' the global best solution found by all particles thus far. The movement of each particle through the search space is influenced by their own previous experience (history) and a wish to move towards the global, best position found thus far by other particles [39].

3.2 The PSA and Social Learning

Despite its simplicity, the PSA is capable of capturing a surprising level of complexity, as individual particles are capable of both individual and social learning. In social settings, individuals are not '*...isolated information-processing entities ...*' [25] (p. xv), but also learn from the experiences of their peers. Social behavior helps individuals to adapt to their environment, as it ensures that they obtain access to more information than that captured by their own senses. Learning in social species is therefore distributed and parallel.

Communication (interactions) between agents (individuals) in a social system may be direct or indirect. An example of the former could arise when two organizations trade with one another. Examples of the latter include:

i. the observation of the success (or otherwise) of a strategy being pursued by another organization, and

ii. *stigmergy* which arises when an organization modifies the environment, which in turn causes an alteration of the actions of another organization at a later time.

The first of these indirect learning mechanisms is included in the canonical PSA, the second can be included through an adaption of the basic model.

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[3] It can be argued that the velocity vector update does bear similarity to a recombination operator, being impacted by the location of pbest and gbest [21].

The mechanisms of the basic Particle Swarm model bear *prima facie* similarities to those of the domain of interest, organizational adaptation. It embeds concepts of a population of entities which are capable of individual and social learning. However, the model requires modification before it can employed as a plausible model of organizational adaptation. These modifications, along with a definition of the strategic landscape used in this study are discussed in the next section.

4 OrgSwarm Model

This section describes the simulation model (OrgSwarm) employed in this study [7], [8]. The model can be classed as a multi-agent system (MAS). MASs focus attention on collective intelligence, and the emergence of behaviors through the interactions between the agents. MAS usually contain a world (environment), agents, relations between the entities, a set of activities that the agents can perform, and changes to the environment as a result of these activities [44]. The key components of the simulation model, the landscape generator (environment), and the adaption of the basic Particle Swarm algorithm to incorporate the activities and interactions of the agents (organizations) are described next.

4.1 Strategic Landscape

In this study, the strategic landscape is defined using the NK model [18], [19]. Application of the NK model to define a strategic landscape is not atypical and has support from existing literature in organizational science [28],[38], [15], and related work on technological innovation [29], [20], [41], [37]. The NK model considers the behavior of systems which are comprised of a configuration (string) of N individual elements. Each of these elements are in turn interconnected to K other of the N elements (K<N). In a general description of such systems, each of the N elements can assume a finite number of states. If the number of states for each element is constant (S), the space of all possible configurations has N dimensions, and contains a total of $\prod_{i=1}^{N} S_i$ possible configurations.

In Kauffman's operationalization of this general framework [19], the number of states for each element is restricted to two (0 or 1). Therefore the configuration of N elements can be represented as a binary string. The parameter K, determines the degree of fitness interconnectedness of each of the N elements and can vary in value from 0 to N-1. In one limiting case where K=0, the contribution of each of the N elements to the overall fitness value (or worth) of the configuration are independent of each other. As K increases, this mapping becomes more complex, until at the upper limit when K=N-1, the fitness contribution of any of the N elements depends both on its own state, and the simultaneous states of all the other N-1 elements, describing a fully-connected graph.

If we let s_i represent the state of an individual element i, the contribution of this element (f_i) to the overall fitness (F) of the entire configuration is given by $f_i(s_i)$ when K=0. When K>0, the contribution of an individual element to overall fitness, depends both on its state, and the states of K other elements to which it is linked $(f_i(s_i : s_{i1}, ..., s_{ik}))$. A random fitness function (U(0,1)) is adopted, and the overall fitness of each configuration is calculated as the average of the fitness values of each of its individual elements. Therefore, if the fitness values of the individual elements are $f_1, ..., f_N$, overall fitness (F) is:

$$F = \frac{\sum_{i=1}^{N} f_i}{N} \tag{6}$$

Altering the value of K effects the ruggedness of the described landscape, and consequently impacts on the difficulty of search on this landscape [18], [19]. The strength of the NK model in the context of this study is that by tuning the value of K it can be used to generate strategic landscapes (graphs) of differing degrees of local-fitness correlation (ruggedness). The strategy of an organization is characterized as consisting of N attributes [28]. Each of these attributes represents a strategic decision or policy choice, that an organization faces. Hence, a specific strategic configuration s, is represented as a vector $s_1, ..., s_N$ where each attribute can assume a value of 0 or 1 [38]. The vector of attributes represents an entire organizational form, hence it embeds a choice of markets, products, method of competing in a chosen market, and method of internally structuring the organization [38]. Good consistent sets of strategic decisions (configurations), correspond to peaks on the strategic landscape.

The definition of an organization as a vector of strategic attributes finds resonance in the work of Porter [35], [36], where organizations are conceptualized as a series of activities forming a value-chain.[4] The choice of what activities to perform, and subsequent decisions as to how to perform these activities, defines the strategy of the organization. The individual attributes of an organization's strategy interact. For example, the value of an efficient manufacturing process is enhanced when combined with a high-quality sales force. Differing values for K correspond to varying degrees of payoff-interaction among elements of the organization's strategy [38]. As K increases, the difficulty of the task facing strategic decision makers is magnified. Local-search attempts to improve an organization's position on the strategic landscape become ensnared in a web of conflicting constraints.

It is acknowledged that there are limitations to using the NK model as a strategic landscape generator. The model produces a finite graph and presupposes the existence of a strategy space, albeit one which may be poorly understood by strategists. This implies that it is inappropriate to apply the NK model to examine very long run adaptive processes, where organizational fitness is not clearly bounded, and

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[4] This activity-based conceptualization has spread beyond studies of strategy to encompass new methods of costing products/services [17].

where the dimensionality of the strategy space itself could change. It is also noted that the NK model assumes a constant value of K for all elements. In reality, the value of K is likely to differ for varying elements of a strategy vector. In the work of [37], a distinction is drawn between *generic activities* which are likely to have an optimal configuration for many firms, for example, the possession of an accounting system. Generic activities (or 'table-stakes'), whilst important for the successful operation of the firm, are usually not strongly interconnected with the non-generic activities of the firm [37]. In contrast, the firm-specific element of strategy are typically highly interconnected, as they embed choices involving trade-offs between alternative strategic configurations [36], [37]. Hence, the NK landscape can be considered to represent these non-generic, interconnected, elements of the strategy vector, rendering the assumption of a constant value of K more plausible.

4.2 The Algorithm

Five characteristics of the problem domain which impact on the design of a simulation model are:

i. the environment is dynamic,

ii. organizations are prone to strategic inertia,

iii. organizations do not knowingly select poorer strategies than the one they already have (election operator),

iv. organizations make errorful *ex-ante* assessments of fitness, and

v. organizations co-evolve.

Each of these factors is embedded in our simulation model. In this study we report results which consider the first three of these factors. Future work will extend this to incorporate the latter two. We note that this model bears passing resemblance to the eleMentals model of [24], which combined a swarm algorithm and an NK landscape, to investigate the development of culture and intelligence in a population of hypothetical beings called eleMentals. However, the strategic model developed in this study is differentiated from the eleMental model, not just on grounds of application domain, but because of the inclusion of an inertia operator, and also by the investigation of both static and dynamic environments.

4.2.1 Dynamic environment

Organizations do not compete in a static environment. Rather they can individually and collectively alter their environment. The environment may also be altered as a result of exogenous events. The second of these factors is implemented in this study by allowing the landscape itself to be respecified. During the course of a simulation run, the strategic landscape can be stochastically subject to minor or major respecification, mimicking a *regime change*, such as the emergence of a new technology, or a change in customer preferences. These respecifications simulate a dynamic environment, and a change in the environment may at least partially negate the value of past learning (adaptation) by organizations.[5] Minor respecifications are simulated by altering the fitness values associated with one of the N dimensions in the NK model, whereas in major changes, the fitness of the entire NK landscape is redefined. The probability that a minor or major respecification occurs is controlled by the modeler.

4.2.2 Inertia

Organizations do not have complete freedom to alter their current strategy. Their adaptive processes are subject to conservatism arising from inertia. Inertia springs from the organization's culture, history, and the mental models of its management [4]. In the simulation strategic inertia is mimicked by implementing a 'strategic anchor'. The degree of inertia can be varied in the simulations from zero to high. In the latter case, the organization is highly constrained from altering its strategic stance. By allowing the weight of this anchor to vary, adaptation processes corresponding to different industries, each with different levels of inertia, can be simulated. Inertia could be incorporated into the PSA in a variety of ways. We have chosen to incorporate it into the velocity update equation, so that the velocity and direction of the particle at each iteration is also a function of the location of its 'strategic anchor'. Therefore for the simulations, equation 1 is altered by adding an additional inertia term

$$v_i(t+1)=v_i(t)+R_1(y_i-x_i(t))+R_2(\hat{y}-x_i(t)+R_3(a_i-x_i(t)) \qquad (7)$$

where a_i represents the value of the anchor on dimension i (a full description of the other terms such as R_1 is provided in the pseudo-code below). This anchor can be fixed at the initial position of the particle at the start of the algorithm, or it can be allowed to 'drag', thereby being responsive to the recent adaptive history of the particle. Both the weight attached to the anchor parameter (relative to those attached to pbest and gbest), and in the case of a dragging anchor, the number of periods over which the anchor can drag, can be altered by the modeler.

It is noted that the concept of inertia developed in this paper is not limited to organizations, but is plausibly a general feature of social systems. Hence, the extension of the social swarm model to incorporate inertia may prove useful beyond this study.

4.2.3 Election operator

Real-world organizations do not usually intentionally move to poorer strategies. Hence, an election operator is im-

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[5] As noted by [11] (p. xxvii), '*the very processes and values that constitute an organization's capabilities in one context, define its disabilities in another.*'.

plemented, whereby position updates which would worsen an organization's strategic fitness are discarded. In these cases, an organization remains at its current location. One economic interpretation of the election operator, is that strategists carry out a mental simulation or *thought experiment*. If the expected fitness of the proposed strategy appears unattractive, the 'bad idea' is discarded [6], [25]. The simulation therefore incorporates a 'rachet' operator option, which if turned on, ensures that an organization only updates (alters) its strategy if the new strategy being considered is better than its current strategy. By permitting strategists to conduct thought experiment during each iteration of the algorithm, strategists are given a *look-ahead* capability. They can direct their adaptive efforts to the area of the strategic landscape which offer potential.

4.2.4 Outline of algorithm

A number of further modifications to the basic PSA are required. As the strategic landscape is defined using a binary representation, the canonical PSA described above is adapted for the binary case using the *BinPSO* version of the algorithm [23]. The binary version of the PSA is inspired by the idea that an agent's probability of making a binary decision (yes/no, true/false) is a function of both personal and social factors **Eq.** 8.

$$P(\mathbf{x_i(t+1)=1})=f(\mathbf{x_i(t)},\mathbf{v_i(t)},\mathbf{pbest},\mathbf{gbest},\mathbf{anchor}) \tag{8}$$

The vector $\mathbf{v_i}$ is now interpreted as organization i's predisposition to set each of the n binary strategic choices that they face to one. The higher the value of v_i^j for an individual decision j, the more likely that organization i will choose to set decision $j = 1$, with lower values of v_i^j favoring the choice of decision $j = 0$.

In order to model the tendency of organizations to repeat historically good strategies, values for each dimension of $\mathbf{x_i}$, which match those of **pbest**, should become more probable in the future, and the $Prob(x_i^j = 1)$ should be adjusted towards $pbest_i^j$ on each dimension j. Adding the difference between $pbest_i^j$ and x_i^j for organization i to v_i^j will move the probability thresholds towards 1.0, if the distance is positive ($pbest_i^j = 1$ and $x_i^j = 0$). If the difference between $pbest_i^j$ and x_i^j for organization i is negative ($pbest_i i^j = 0$), and $x_i^j = 1$, adding the difference to v_i^j will move it towards 0.0. The difference in each case is weighted by a random number drawn from U(0,1).[6]

In order to ensure that the vector $\mathbf{v_i(t+1)}$ is mapped into (0,1), a sigmoid transformation is performed on each element j of $\mathbf{v_i(t+1)}$ (**Eq.** 9), and each element of $Sig(\mathbf{v_i(t)})$ is mapped to either 0 or 1 by comparing it with a vector of random numbers $\mathbf{prob_i(t+1)}$ drawn from $U(0,1)$ (**Eq.** 10) .

$$Sig(v_i^j(t+1))=\frac{1}{1+exp(-v_i^j(t+1))} \tag{9}$$

$$prob_i^j(t+1)<Sig(v_i^j(t+1)) \; then \; x_i^j(t+1)=1; \; else \; x_i^j(t+1)=0 \tag{10}$$

The pseudo-code for the algorithm is as follows:

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For each dimension n
  v[n]=v[n]+R1*(g[n]-x[n])+R2*(p[n]-x[n])+R3*(a[n]-x[n])
  If(v[n]>Max) v[n]=Vmax
  If(v[n]<-Vmax) v[n]=-Vmax
  If(Pr<S(v[n]))t[n]=1
    Else t[n]=0
UpdateAnchor(a)      //if iteratively update anchor
                    //option is selected
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$R1$, $R2$ and $R3$ are random weights drawn from a uniform distribution ranging from 0 to $R1_{max}$, $R2_{max}$ and $R3_{max}$ respectively, and they weight the importance attached to the gbest, pbest and anchor in each iteration of the algorithm. $R1_{max}$, $R2_{max}$ and $R3_{max}$ are constrained to sum up to 4.0. x is the particle's actual position, g is the global best position, p each particle's personal best position and a is the position of the particle's anchor. V_{max} is set to 4.0. Pr is a probability value drawn from a uniform distribution ranging from 0 to 1, and S is the sigmoid function: $S(x) = \frac{1}{1+exp(-x)}$, which squashes v into a 0 to 1 range. t is a temporary record which is used in order to implement conditional moving. If the new strategy is accepted, t is copied into x, otherwise t is discarded and x remains unchanged.

5 Results

This section provides the results from our simulation study. As the adaptive process is stochastic, and as the initialization of the position and velocity for each organization is random, each simulation run describes a single sample-path through time. There are many possible sample-paths, so the results of the simulations are averaged over multiple (30) runs in an attempt to uncover prevalent characteristics of the sample paths which the system can give rise to. All simulations were run for 5,000 iterations, and all reported fitnesses are the average population fitnesses, and average environment best fitnesses, across 30 separate simulation runs. On each of the simulation runs, the NK landscape is specified anew, and the positions and velocities of particles are randomly initialized at the start of each run. A population of 20 particles is employed, with a neighborhood of size 18. The choice of a high value for the neighborhood, relative to the size of the population, arises from the observation that real-world organizations know the profitability of their competitors.

Tables (1, 2 and 3) provide the results for each of fourteen distinct PSA variants, at the end of 5,000 iterations, across a number of static and dynamic NK landscape scenarios. In each scenario, the same series of simulations are undertaken. Initially, a basic PSA is employed, without an anchor or a rachet (conditional move) operator. This

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[6] Similarly, each organization has a tendency to match the values for each dimension of $\mathbf{x_i}$ to those of **gbest**, and its anchor. Therefore, the resulting value of $v_i^j(t+1)$, is influenced by $v_i^j(t)$, and the position of gbest, pbest, and anchor.

simulates a population of organizations searching a strategic landscape, where the population has no strategic inertia, and where organizations do not utilize a rachet operator in deciding whether to alter their position on the strategic landscape.

The basic PSA is then supplemented by a series of strategic anchor formulations, ranging from an anchor which does not change position during the simulation (initial anchor) to one which can adapt after a time-lag (moving anchor). Two lag periods are examined, a 20 and a 50 iteration lag. Differing weights can be attached to the inertia term in the velocity equation, ranging from 0 (inertia is turned off) to a maximum of 4. To determine whether the weight factor has a critical impact on the results, results are reported for weight values of both 1 and 3. Next, to isolate the effect of the rachet, the conditional move operator is implemented, and inertia is turned off. Finally, to ascertain the dual effect of both rachet and inertia when they are combined, the inertia simulations outlined above are repeated with the rachet operator turned on.

Real world strategy vectors consist of a large array of strategic decisions. A value of N=96 was chosen in defining the landscapes in this simulation. It is noted that there is no unique value of N that could have been selected, but the selection of very large values are not feasible due to computational limitations. However, a binary string of 96 bits provides 2^{96}, or approximately 10^{28}, distinct choices of strategy. It is also noted that we would expect the dimensionality of the strategy vector to exceed the number of organizations in the population, hence the size of the population is kept below 96, and a value of 20 is chosen. A series of landscapes of differing K values (0,4 and 10), representing differing degrees of fitness inter-connectivity, were used in the simulations.

5.1 Static Landscape

Table 1 and figures 2 and 3, provide the results for a static NK landscape.[7] Examining these results suggests that the basic PSA, without inertia or rachet operators, performs poorly, even on a static landscape. The average of the average batch populational fitnesses obtained after 5,000 iterations is not better than random search (the expected value of a random point on the landscape is 0.50), suggesting that unfettered adaptive efforts, based on communication between organizations (gbest), and a memory of good past strategies (pbest) is not sufficient to achieve high levels of populational fitness. When a series of anchor mechanisms simulating strategic inertia are added to the basic PSA, the results are not qualitatively altered from those of the basic PSA. This suggests that communication and inertia alone, are not sufficient for the attainment of high levels of populational strategic fitness.

When a rachet operator is added to the basic PSA, a significant improvement in both average populational, and average environment best fitness is obtained across landscapes of all K values, suggesting that the simple decision heuristic of *only abandon a current strategy for a better one* can lead to notable increases in populational fitness. Finally, the results of a series of combination anchor and rachet mechanisms are reported. Virtually all of these combinations lead to significantly (at the 5% level) enhanced levels of populational fitness (against the rachet-only PSA), suggesting that inertia can be beneficial, when combined with a rachet mechanism. Examining the combined rachet and anchor results in more detail, the best results are obtained when the anchor is not fixed at the initial location of each particle on the landscape, but when it is allowed to 'drag' or adapt, over time. It is also noted that the results are not qualitatively sensitive to the weight value (1 or 3).

5.2 Dynamic Landscape

The real world is rarely static, and changes in the environment can trigger adaptive behavior by agents in a system [3]. In this simulation, the landscape can change at a variety of time scales, and the size of the relocation 'jump' of the optimum position on the landscape can vary. Therefore, the environment can be changed with varying temporal, and spatial severity [3]. Two specific scenarios are examined. Table 2 and figures 4 and 5, provides the results for the case where a single dimension of the NK landscape is respecified in each iteration of the algorithm with a probability of P=0.00025. Table 3 and figures 6 and 7, provides the results for the case where the entire NK landscape is respecified with the same probability. When the landscape is wholly or partially respecified, the benefits of past strategic learning by organizations is eroded.

Qualitatively, the results in both scenarios are similar to those obtained on the static landscape. The basic PSA, even if supplemented by an anchor mechanism, does not perform any better than random search. Supplementing the basic PSA with the rachet mechanism leads to a significant improvement in populational fitness, with a further improvement in fitness occurring when the rachet is combined with an anchor. In the latter case, an adaptive or dragging anchor gives better results than a fixed anchor, but the results between differing forms of dragging anchor do not show a clear dominance for any particular form. As for the static landscape case, the results for the combined rachet / anchor, are relatively insensitive to the weight value (1 or 3).

6 Conclusions

The objective of this study has been to examine the impact of strategic inertia on the dynamic adaptation of a population of organizations. A novel synthesis of a strategic landscape defined using the NK model, and a Particle Swarm metaphor to model the adaption of organizations

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[7] These simulations were also undertaken with a neighborhood size of four, to determine whether the results were sensitive to neighborhood size. No significant differences in the results between the two neighborhood sizes was noted. As a result, the remaining simulations were run with a neighborhood of size 18.

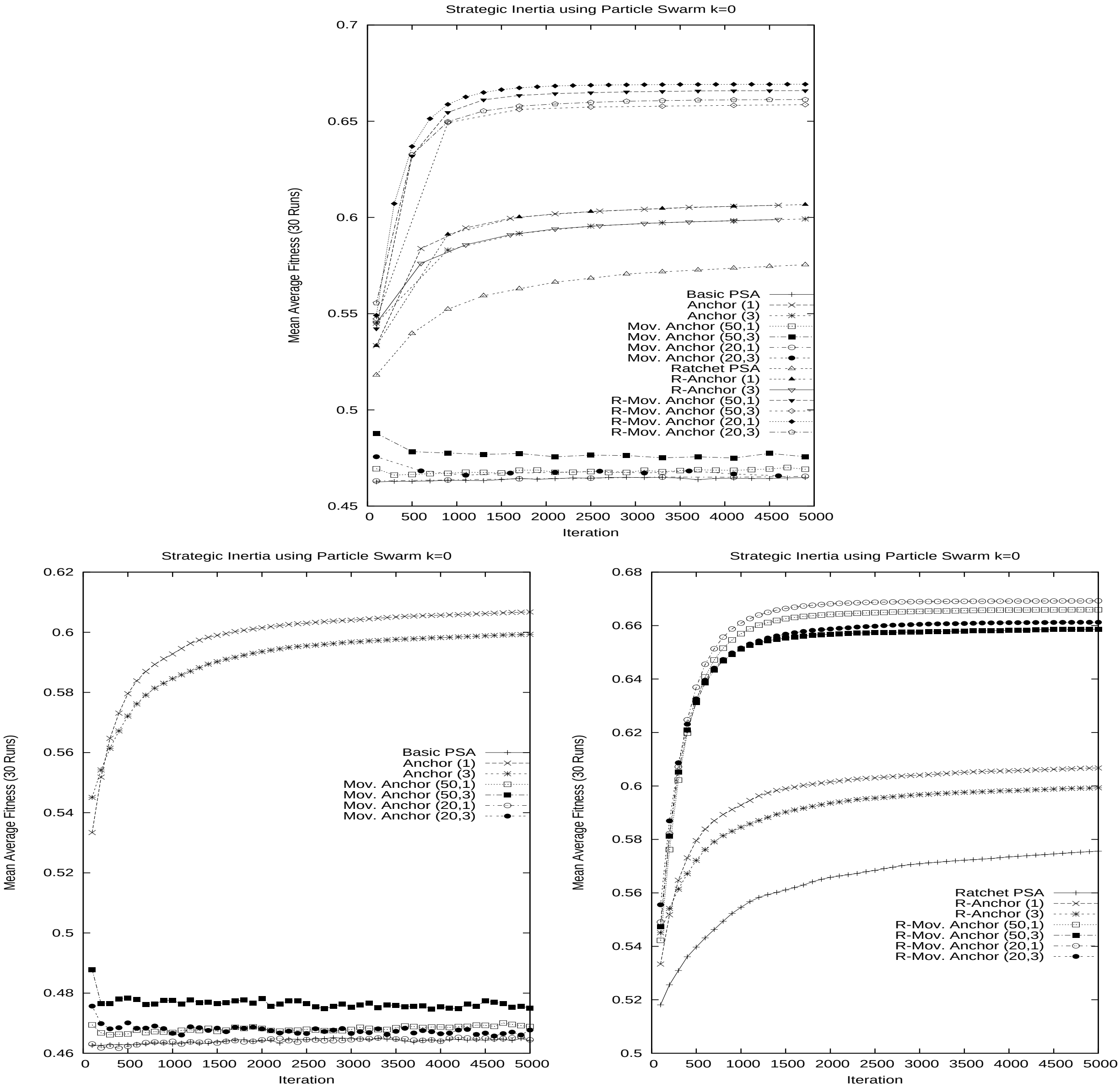

Figure 2: Plot of the mean average fitness on the static landscape where k=0.

on this landscape, is used to construct a simulation model. Adoption of the swarm metaphor allows the incorporation of both social and individual learning mechanisms, and the basic algorithm can be easily adapted to include other search heuristics such as election and inertia.

The results suggest that a degree of strategic inertia, in the presence of an election operator, can assist rather than hamper the adaptive efforts of populations of organizations in static and slowly changing strategic environments. The results also provide an interesting perspective on the claim by [13] that inertia may be a consequence of market-selection processes. The results indicate that there may be good reasons, from a populational perspective, for market selection processes to encourage populations of organizations which exhibit a degree of inertia. Despite the claim for the importance of social learning in populations, the results suggest that social learning alone is of limited benefit, unless supported by an election mechanism.

In the construction of any simulation model, aspects of the real-world system of interest must be omitted. In this study, we omit the cost of making a strategic adjustment,[8] and we omit an explicit birth-death process for the population of organizations.[9] We note that the effect of the gbest, pbest and inertia anchors, is to pin each organization on the landscape. To the extent that the entire collection of organizations have converged to a relatively small region of the landscape, they may find it impossible to migrate

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[8] Although we note that incorporating such costs would likely enhance the value of inertia.

[9] It could be argued that although there is no explicit selection process, the effect of including a gbest term in the model is to incorporate an implicit form of selection, in that organizations with poor strategies are drawn towards the location of gbest, mimicking a selection process.

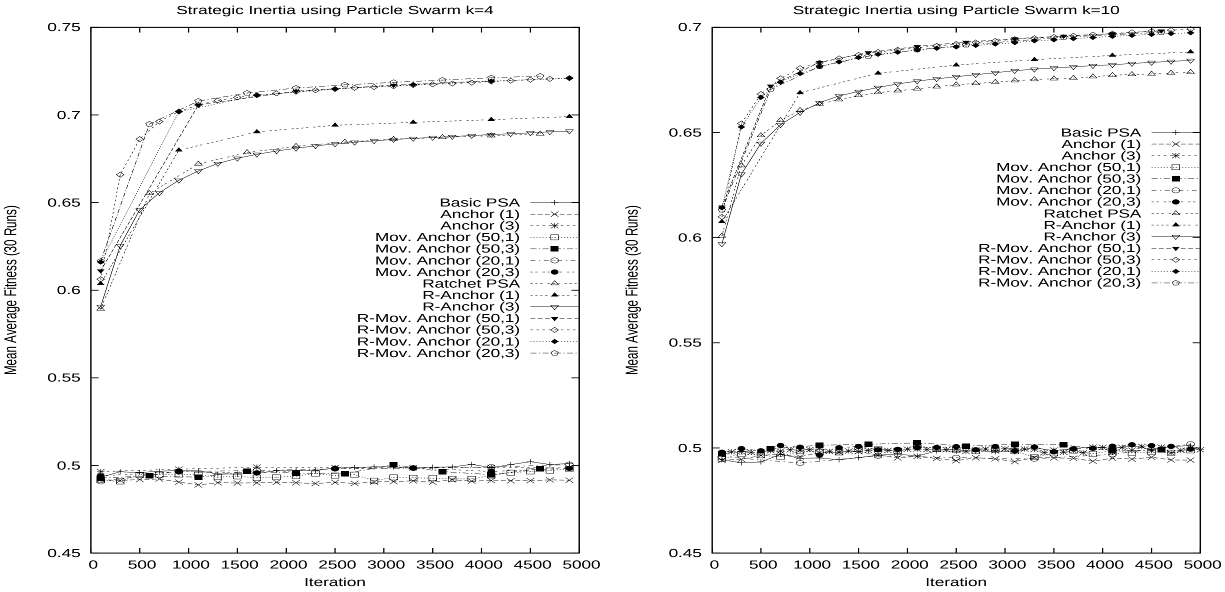

Figure 3: Plot of the mean average fitness on the static landscape where k=4 (left), and where k=10 (right).

to a new high-fitness region of the landscape if that region moves far away from their current location. In real-world environments, this is compensated for by the birth of new organizations.

This study describes the *OrgSwarm* simulator, and reports the results of initial simulations using this model. Future work will extend the range of strategic scenarios, and parameter settings considered. In particular we intend to examine the process of strategic adaptation when strategists make errorful assessments of the fitness of proposed strategies. We also intend to incorporate a co-evolutionary aspect into the model (mimicking direct competition between organizations), wherein the fitness of a strategy is partially determined by the number of organizations which are pursing similar strategies.

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Algorithm	**Fitness**		
	(N=96, K=0)	**(N=96, K=4)**	**(N=96, K=10)**
Basic PSA	0.4641 (0.5457)	0.5002 (0.6000)	0.4991 (0.6143)
Initial Anchor, w=1	0.4699 (0.5484)	0.4921 (0.5967)	0.4956 (0.6102)
Initial Anchor, w=3	0.4943 (0.5591)	0.4994 (0.5979)	0.4991 (0.6103)
Mov. Anchor (50,1)	0.4688 (0.5500)	0.4960 (0.6003)	0.4983 (0.6145)
Mov. Anchor (50,3)	0.4750 (0.5631)	0.4962 (0.6122)	0.5003 (0.6215)
Mov. Anchor (20,1)	0.4644 (0.5475)	0.4986 (0.6018)	0.5001 (0.6120)
Mov. Anchor (20,3)	0.4677 (0.5492)	0.4994 (0.6156)	0.4994 (0.6229)
Rachet PSA	0.5756 (0.6021)	0.6896 (0.7143)	0.6789 (0.7035)
R-Initial Anchor, w=1	0.6067 (0.6416)	0.6991 (0.7261)	0.6884 (0.7167)
R-Initial Anchor, w=3	0.5993 (0.6361)	0.6910 (0.7213)	0.6844 (0.7099)
R-Mov. Anchor (50,1)	0.6659 (0.6659)	0.7213 (0.7456)	0.6990 (0.7256)
R-Mov. Anchor (50,3)	0.6586 (0.6601)	0.7211 (0.7469)	0.6992 (0.7270)
R-Mov. Anchor (20,1)	0.6692 (0.6695)	0.7211 (0.7441)	0.6976 (0.7243)
R-Mov. Anchor (20,3)	0.6612 (0.6627)	0.7228 (0.7462)	0.6984 (0.7251)

Table 1: Average (environment best) fitnesses after 5,000 iterations, static landscape.

Algorithm	**Fitness**		
	(N=96, K=0)	**(N=96, K=4)**	**(N=96, K=10)**
Basic PSA	0.4667 (0.5245)	0.4987 (0.5915)	0.4955 (0.6065)
Initial Anchor, w=1	0.4658 (0.5293)	0.4908 (0.5840)	0.4957 (0.6038)
Initial Anchor, w=3	0.4922 (0.5513)	0.4992 (0.5953)	0.5001 (0.60852)
Mov. Anchor (50,1)	0.4614 (0.5200)	0.4975 (0.5927)	0.5008 (0.6044)
Mov. Anchor (50,3)	0.4691 (0.5400)	0.4975 (0.6040)	0.4987 (0.6174)
Mov. Anchor (20,1)	0.4686 (0.5315)	0.5010 (0.6002)	0.4958 (0.6099)
Mov. Anchor (20,3)	0.4661(0.5434)	0.4964(0.6084)	0.4988 (0.6137)
Rachet PSA	0.5783 (0.6056)	0.6859 (0.7096)	0.6808 (0.7066)
R-Initial Anchor, w=1	0.6207 (0.6553)	0.6994 (0.7330)	0.6895 (0.7142)
R-Initial Anchor, w=3	0.5927 (0.6239)	0.6900 (0.7182)	0.6850 (0.7140)
R-Mov. Anchor (50,1)	0.6676 (0.6688)	0.7187 (0.7438)	0.6987 (0.7241)
R-Mov. Anchor (50,3)	0.6696 (0.6696)	0.7203 (0.7462)	0.6989 (0.7264)
R-Mov. Anchor (20,1)	0.6689 (0.6694)	0.7193 (0.7426)	0.6974 (0.7251)
R-Mov. Anchor (20,3)	0.6594 (0.6622)	0.7221 (0.7450)	0.6987 (0.7280)

Table 2: Average (environment best) fitnesses after 5,000 iterations, 1 dimension respecified periodically.

Algorithm	**Fitness**		
	(N=96, K=0)	**(N=96, K=4)**	**(N=96, K=10)**
Basic PSA	0.4761 (0.5428)	0.4886 (0.5891)	0.4961 (0.6019)
Initial Anchor, w=1	0.4819 (0.5524)	0.4883 (0.5822)	0.4982 (0.6075)
Initial Anchor, w=3	0.5021 (0.5623)	0.4967 (0.5931)	0.4998 (0.6047)
Mov. Anchor (50,1)	0.4705 (0.5450)	0.4894 (0.5863)	0.4974 (0.6008)
Mov. Anchor (50,3)	0.4800 (0.5612)	0.4966 (0.6053)	0.5010 (0.6187)
Mov. Anchor (20,1)	0.4757 (0.5520)	0.4926 (0.5867)	0.4985 (0.6097)
Mov. Anchor (20,3)	0.4824 (0.5632)	0.4986 (0.6041)	0.5004 (0.6163)
Rachet PSA	0.5877 (0.6131)	0.6802 (0.7092)	0.6754 (0.7015)
R-Initial Anchor, w=1	0.6187 (0.6508)	0.6874 (0.7180)	0.6764 (0.7070)
R-Initial Anchor, w=3	0.6075 (0.6377)	0.6841 (0.7130)	0.6738 (0.7017)
R-Mov. Anchor (50,1)	0.6517 (0.6561)	0.7134 (0.7387)	0.6840 (0.7141)
R-Mov. Anchor (50,3)	0.6597 (0.6637)	0.7049 (0.7304)	0.6925 (0.7225)
R-Mov. Anchor (20,1)	0.6575 (0.6593)	0.7152 (0.7419)	0.6819 (0.7094)
R-Mov. Anchor (20,3)	0.6689 (0.6700)	0.7158 (0.7429)	0.6860 (0.7147)

Table 3: Average (environment best)fitnesses after 5,000 iterations, entire landscape respecified periodically.

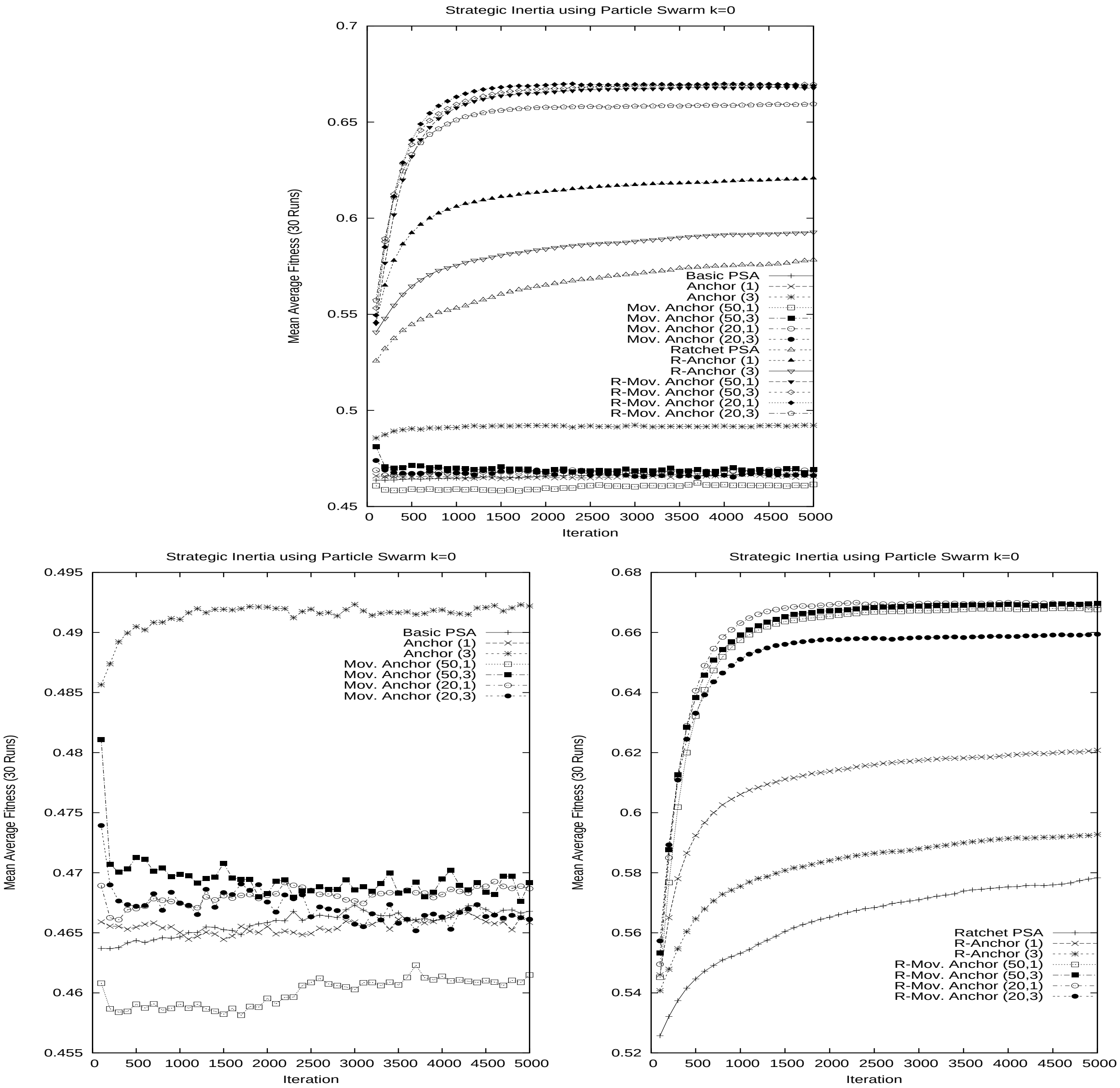

Figure 4: Plot of the mean average fitness on the dynamic landscape (one dimension of the landscape is respecified periodically) where k=0.

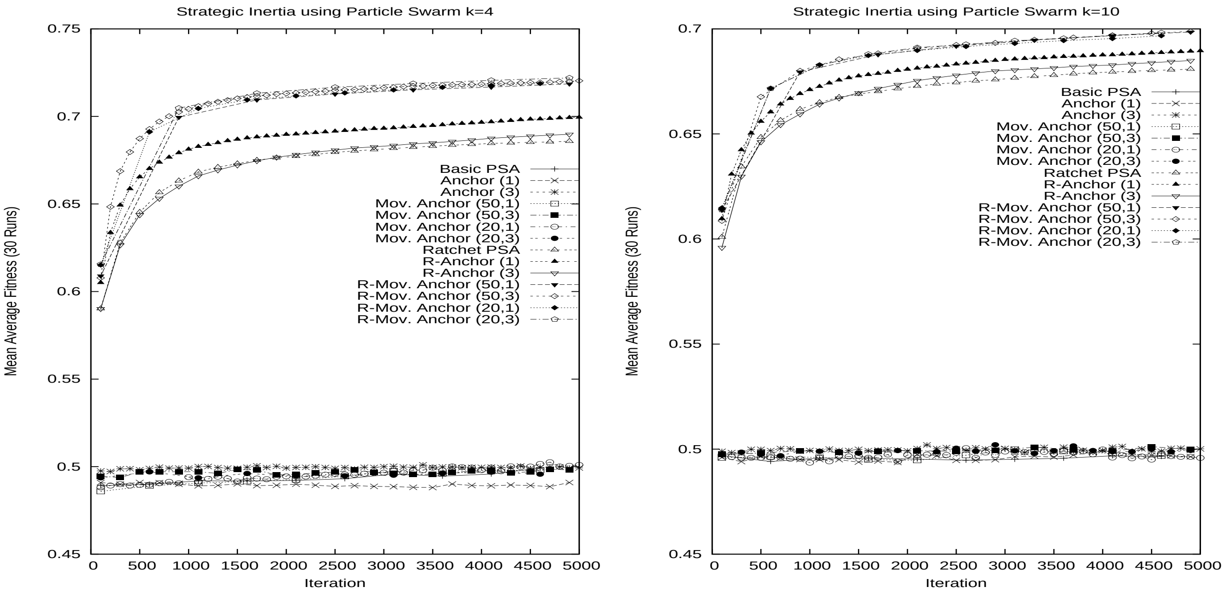

Figure 5: Plot of the mean average fitness on the dynamic landscape (one dimension of the landscape is respecified periodically) where k=4 (left), and where k=10 (right).

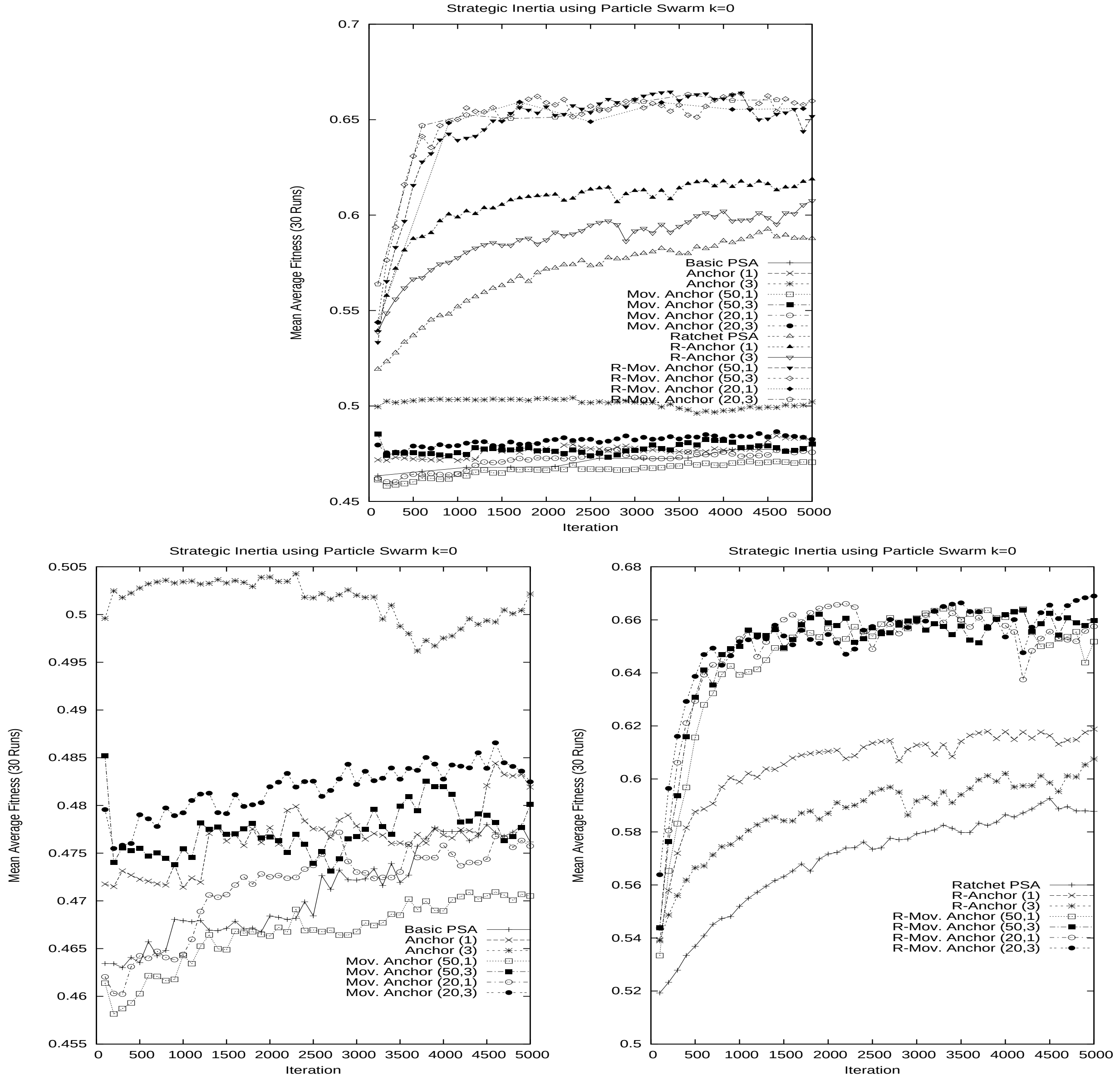

Figure 6: Plot of the mean average fitness on the dynamic landscape (entire landscape respecified periodically) where k=0.

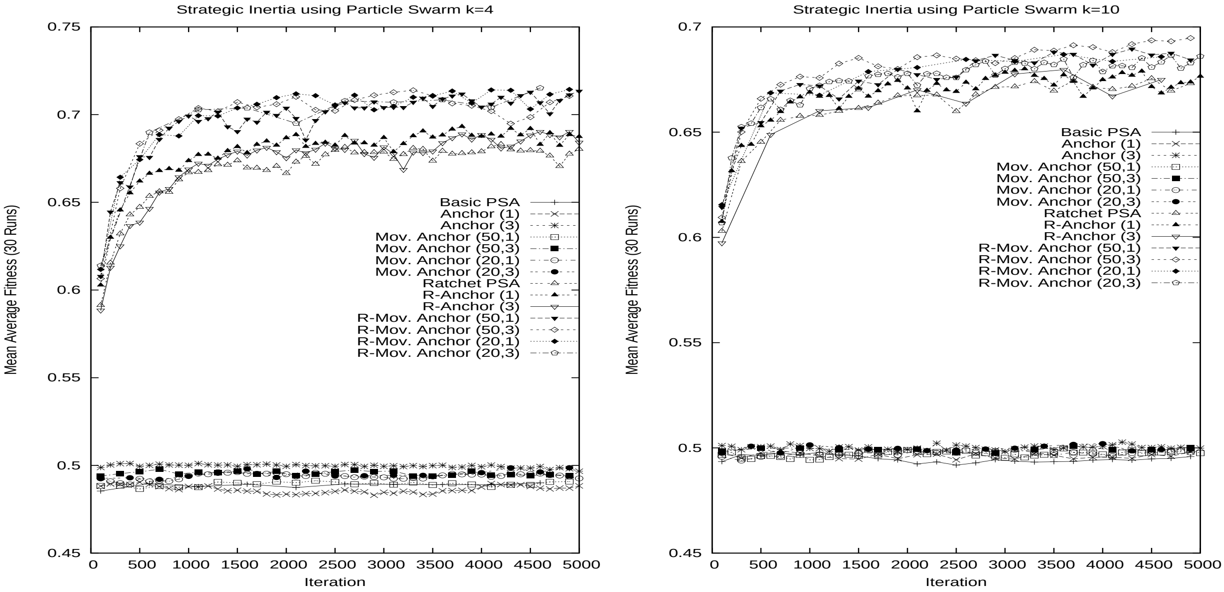

Figure 7: Plot of the mean average fitness on the dynamic landscape (entire landscape respecified periodically) where k=4 (left), and where k=10 (right).