



New Concepts in Corporate Strategy Development

Prof. Dr. Alexander Jungmeister
Berne University of Applied Sciences
HTI Management Center Berne
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“Basically we never use the stuff that comes out of our annual planning session. We spend three days in creating this thing called a strategic plan, then we go home and never look at it again. It’s been that way for the last 15 years.”

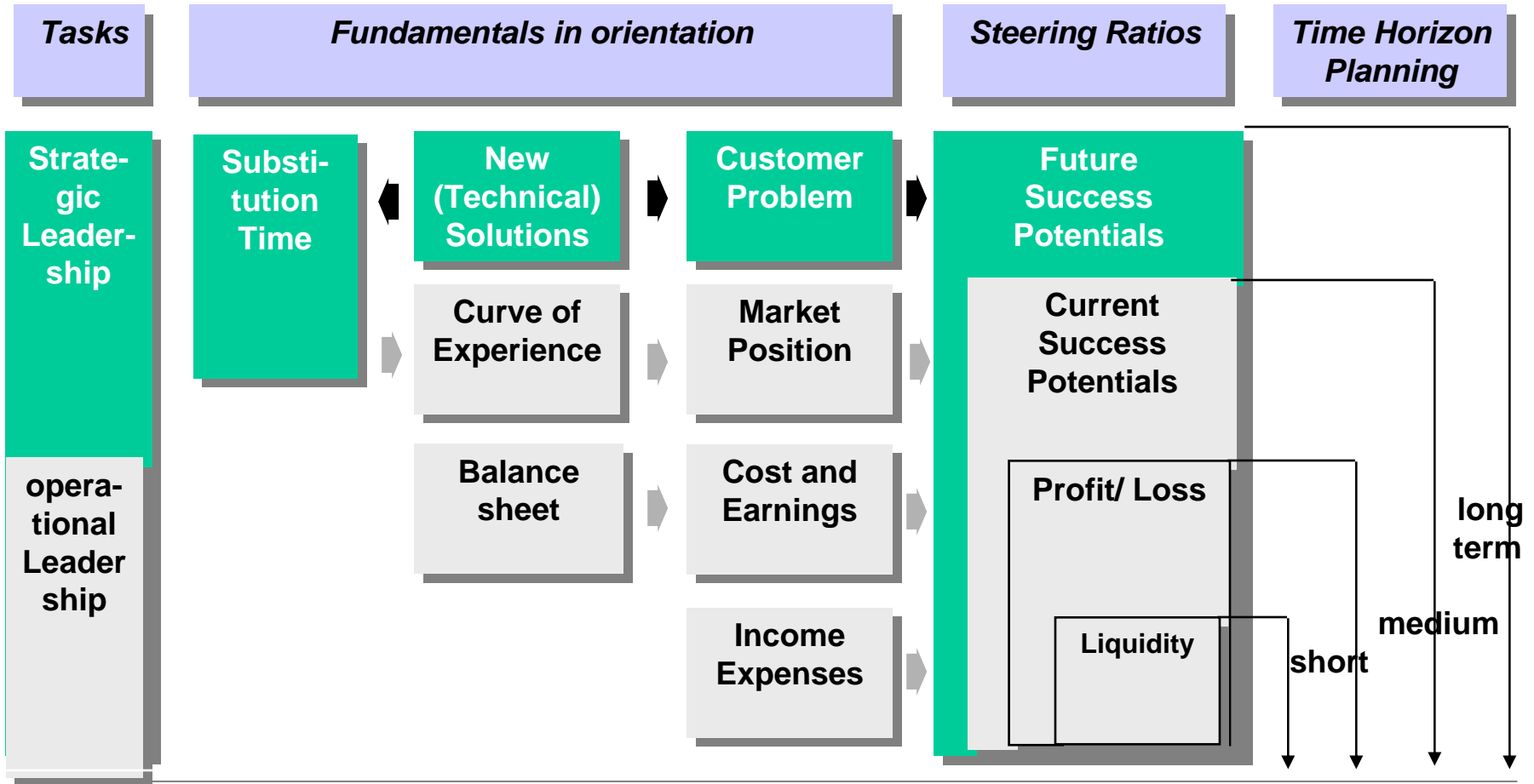
Senior manager in international firm

cited by Underwood, 2002

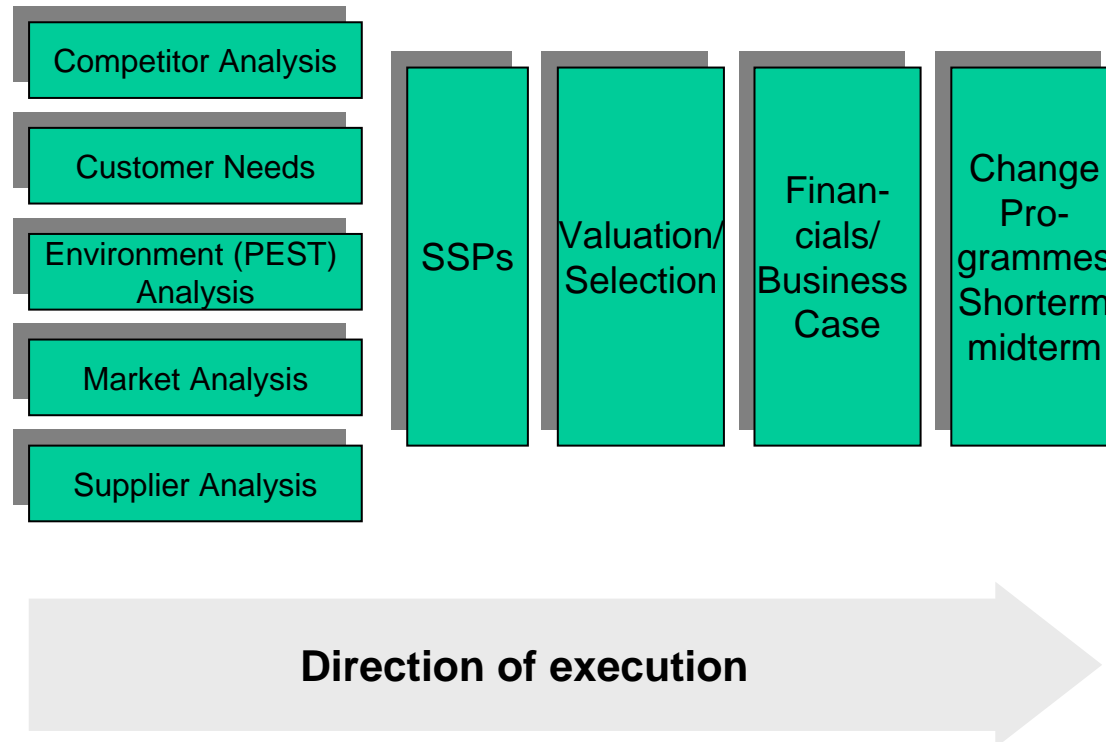


Is strategy making in a crisis - what is the purpose of business strategy development?

Strategy development should secure future income streams



The typical model of traditional western way of strategy development (f.e Abplanalp et al.).



Western Models of Strategy Development are sequential and focus on analysis

- Sequential model – one step after each other
- Typically driven by rationale, execution often left open
- Analysis is long and thorough and focuses more on hard factors than on soft factors
- Goals for strategy will be set typically after analysis
- Success means having identified the new potentials and laid out the new structure of SBUs and setting up of financial goals, implementation issues are very often neglected or
- Implementation is considered as something that will happen or not, is an option
- Implementation will be given very often to line (operational) managers (“long leash”, no control)
- Time frame in development is considered often not important, only in tactical movements
- Short term success often more important than reachment of longterm goals



What's wrong with it?

Challenges in strategy development today (1/2)

- Current volatile business environment, once up, once down makes forecasting and planning difficult
- Modern interconnected communication fosters (trade computers, stock exchanges etc.) fosters quick decisions and vulnerability of markets – speed of change makes strategy often obsolete
- „Time to market“ – Strategy development takes too long, (usually 3- 6 month) - chances arise quickly and go quickly (short Window of opportunity). F. e. structured financial products have a short life cycle, every bit of information is shared quickly around the world.
- Traditional models focus on analysis and valuation of success potentials, less on weak signal screening, rapid changes in environment and implementation speed
- Success control is often lacking, so often not successful strategies will be implemented
- Managers who define the strategy are no longer around, when strategy implementation issues show up („Job hoppers“)

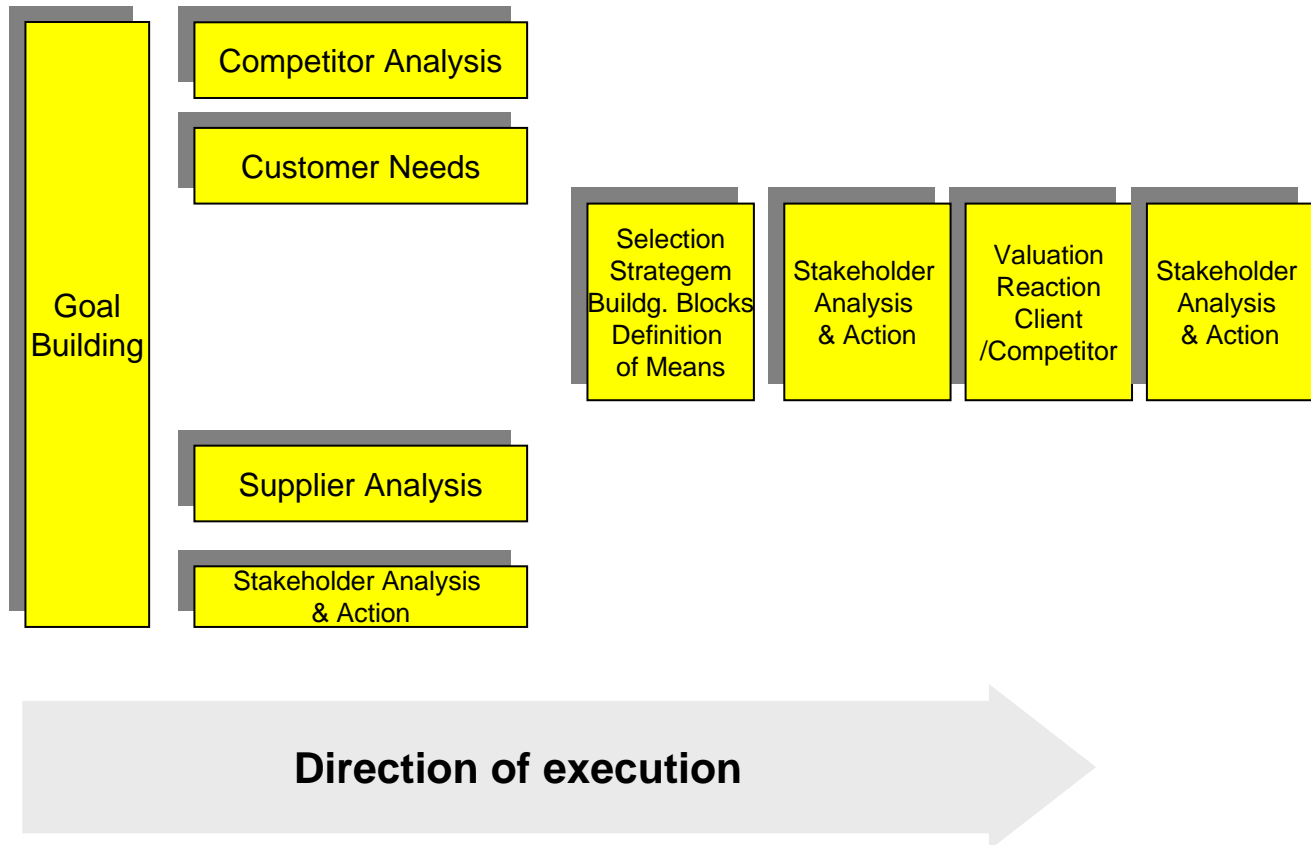
Challenges continued (2/2)

- Many strategies are developed, only few are implemented. Link to implementation and control is often lacked
- Separation between operations and strategy making (feedback, what works and what not is missing).
- Risks in new strategies are not clearly shown very often and considered
- BU strategy, corporate strategy: link and interdependence between them is often missing.
- Too quick changes in strategy development endangers success and measurability – sustainability questioned, no system view
- Soft factors and people issues are often neglected as strategy formulation is often data driven, yet decisions and implementation are people driven

How can strategy development be done better? Solution elements.

- Scenario planning
- Testing, pilots, impact valuation, simulation
- Predefined action groups and tasks
- BSC, Controlling system and implementation in MBOs
- Future screening, weak signal management (Ansoff)
- Risk management
- Governance principles
- Clear defined decision making rules, standards and processes
- Rolling planning, continuous tasks
- Integration of soft factors and cultural diversity and stakeholder management, integration of chinese strategic thinking

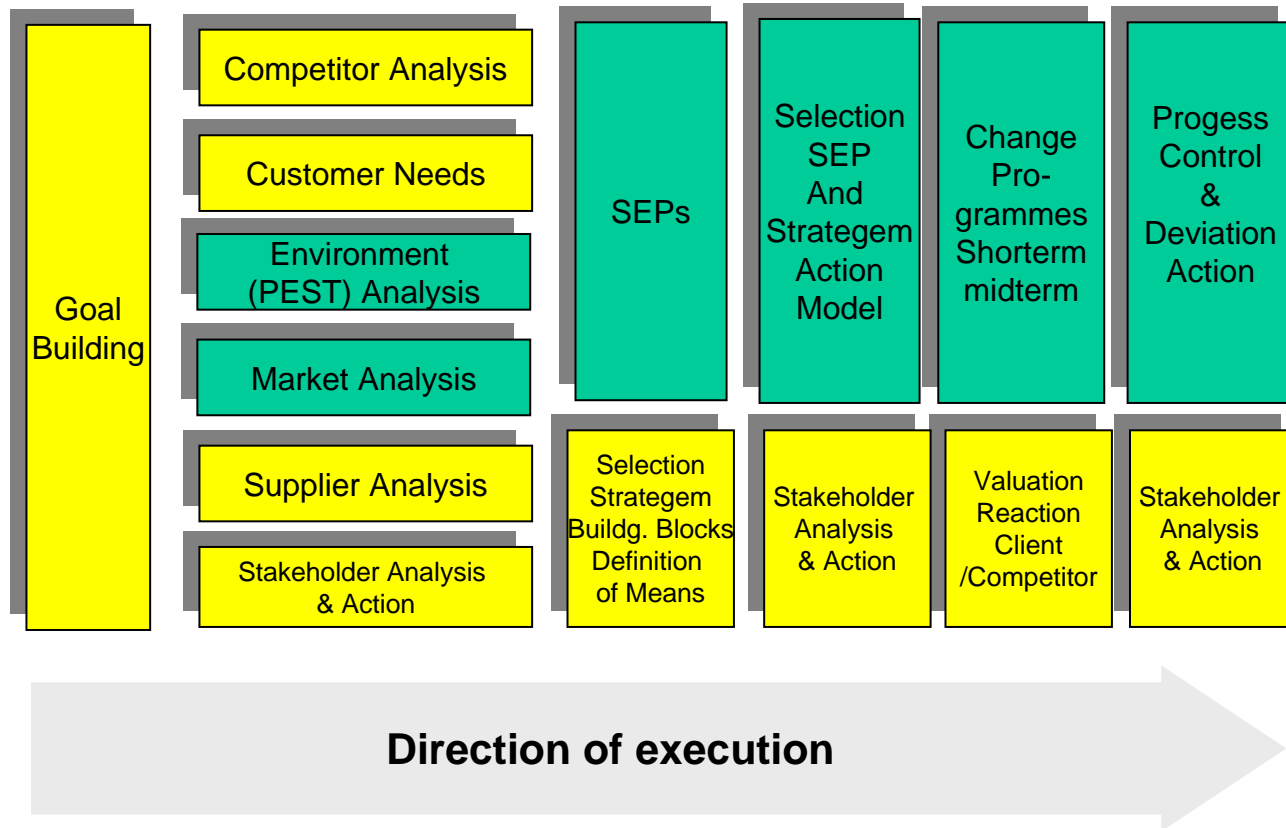
Typical Chinese Strategy Model



Chinese Model (as formulated in chinese war literature)

- Sequential model as western model, yet not clearly formulated
- Typically driven by emotions, hidden execution
- Analysis is typically short and focuses more on soft factors than on hard factors
- Goal will be set typically before analysis
- Competitors reaction will be thought of in many ways and predefined action items are set up
- Success means implementation is done according to the goal
- Implementation will be done by the emperor or strategist itself (yet has many subordinated helpers), at least strict and tight control over the result
- Time frame is not important, only in tactical movements
- Long term orientation rather than focus on short term success

New Model can integrate Chinese thinking into western strategy frameworks



So we have a new and probably better approach, yet some problems still remain....

- Sequential flow of tasks,
- Time of development needed

To solve the remaining problems, I suggest to include a portfolio based view on strategy formulation

Portfolio theory was invented/ formulated by Harry Markowitz in the sixties

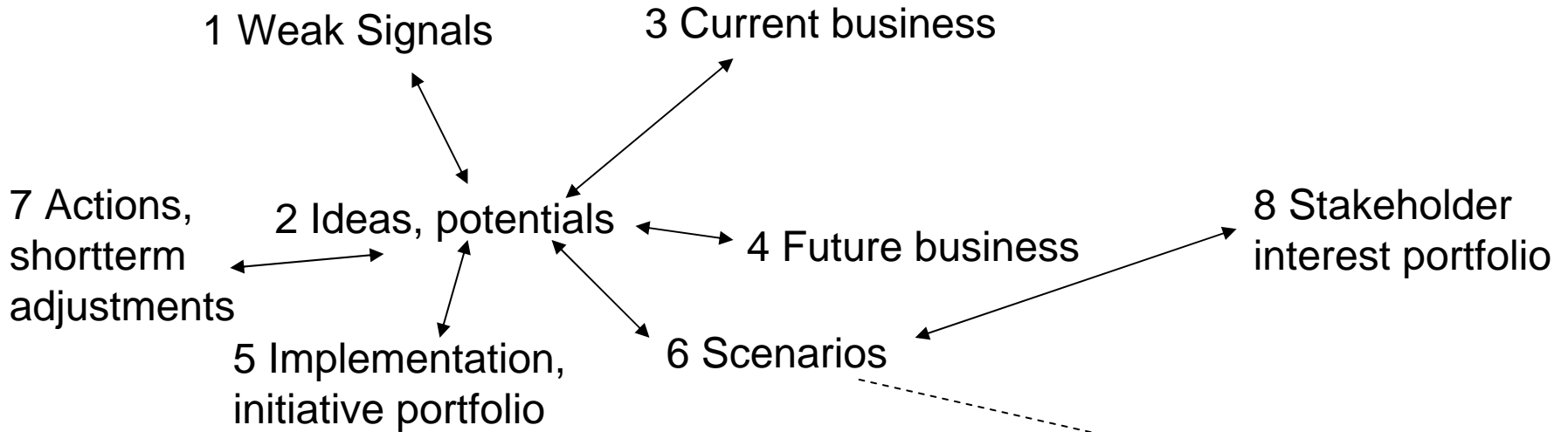
Basic principles:

- A portfolio is build as a collection of independent items (originally stock), which have their own characteristics
- Individual items (stock) are not correlated (yet in business they are usually highly connected, “synergies”)
- Risk follows return and vice versa, leads to optimal portfolios with an “efficient frontier”
- Diversification of risk needed, limitation from 15 items on
- Stocks resp. a portfolio grows through market exposure and trading (a business grows through sales or M&A)

What is a portfolio?

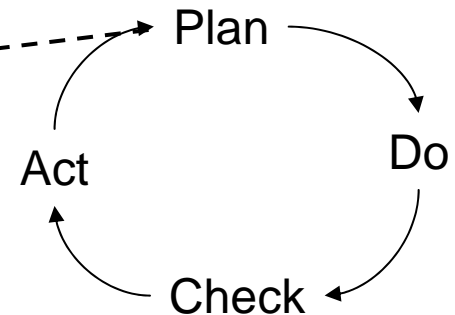
- A list of independent assets or items, which have to be identified, separated, listed and valued against each other and other portfolios. Our new model typically has a future success potential portfolio, a current SBU, a SSP portfolio, an implementation portfolio, and a change ability portfolio
- According to the nature of the portfolio the list has different properties, yet all portfolios share one goal: to be efficient and maximize returns against the level of risk taken

If strategy development items where regarded as managed and interconnected portfolios, a complete portfolio overview may look like this:

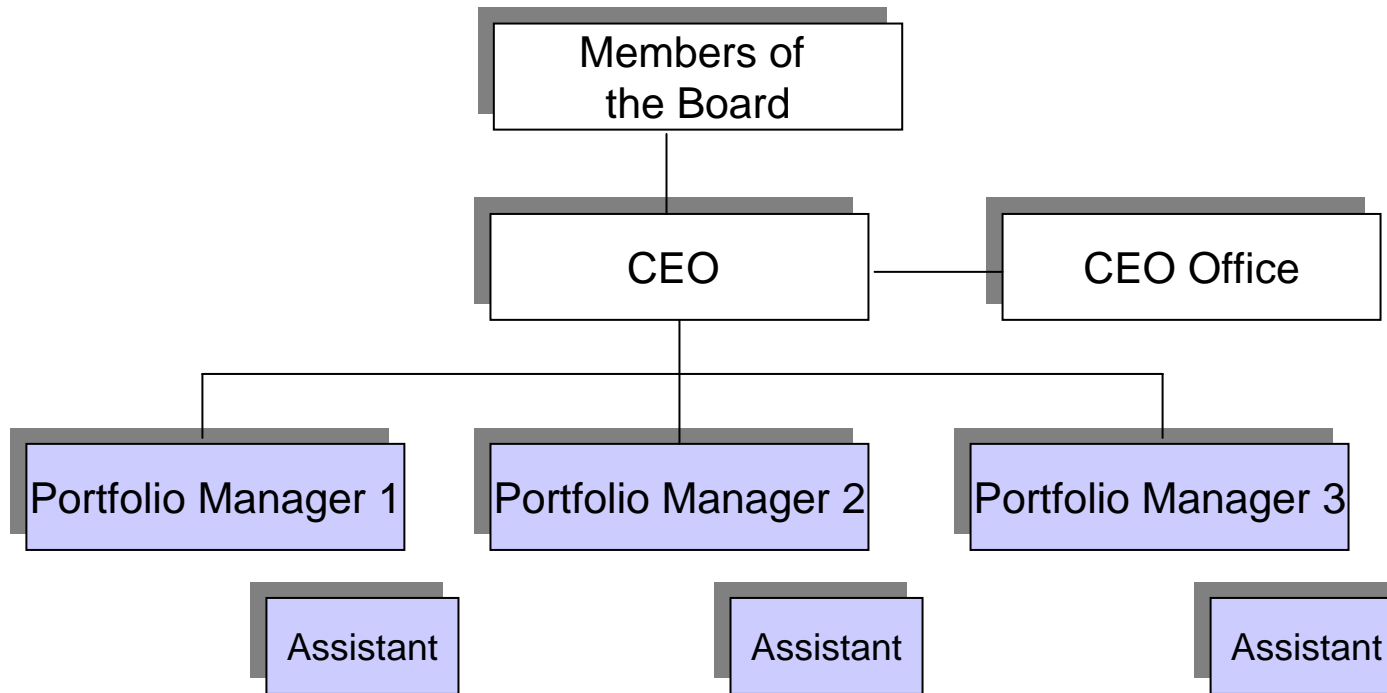


Screening and planning:
 Asees Turbulence in Market
 Assess Risks
 Valuate: Chances/Returns
 Growth rates
 Market Attractivity
 Define Success Ratios

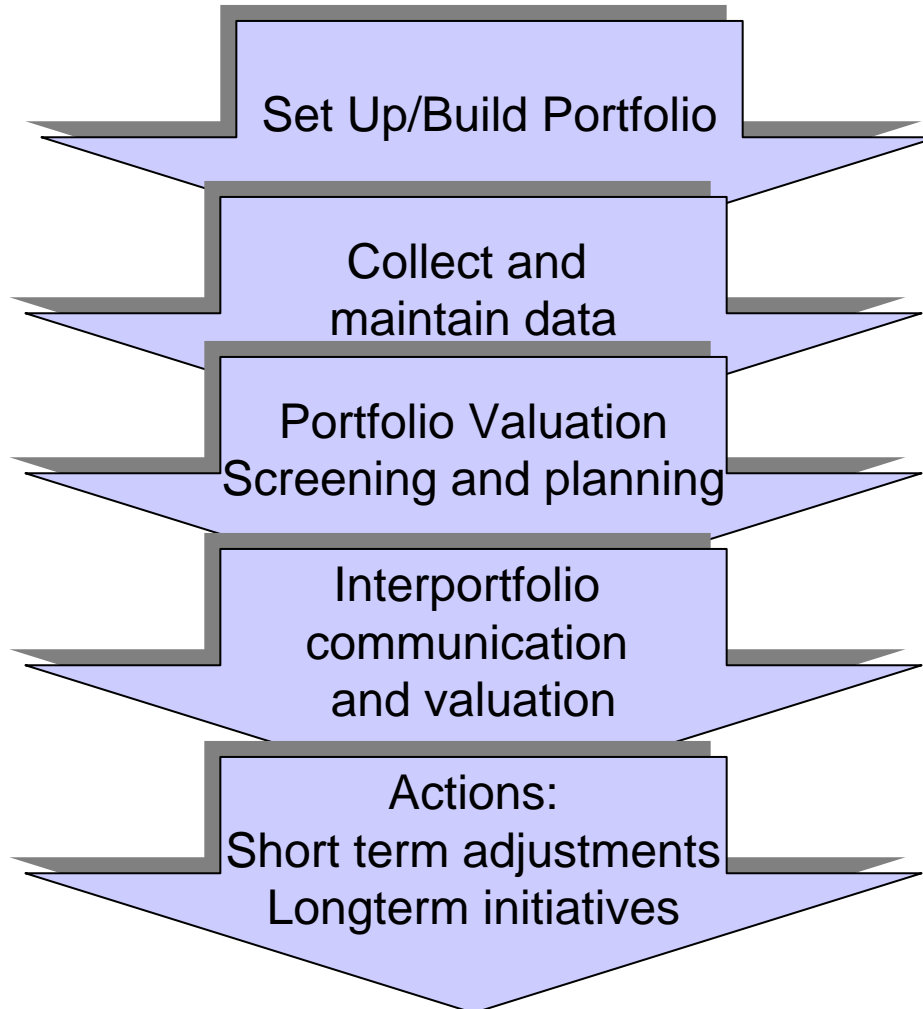
Cybernetic cycle



As portfolios should be actively managed, an organization of portfolio managers should be assigned to the portfolios



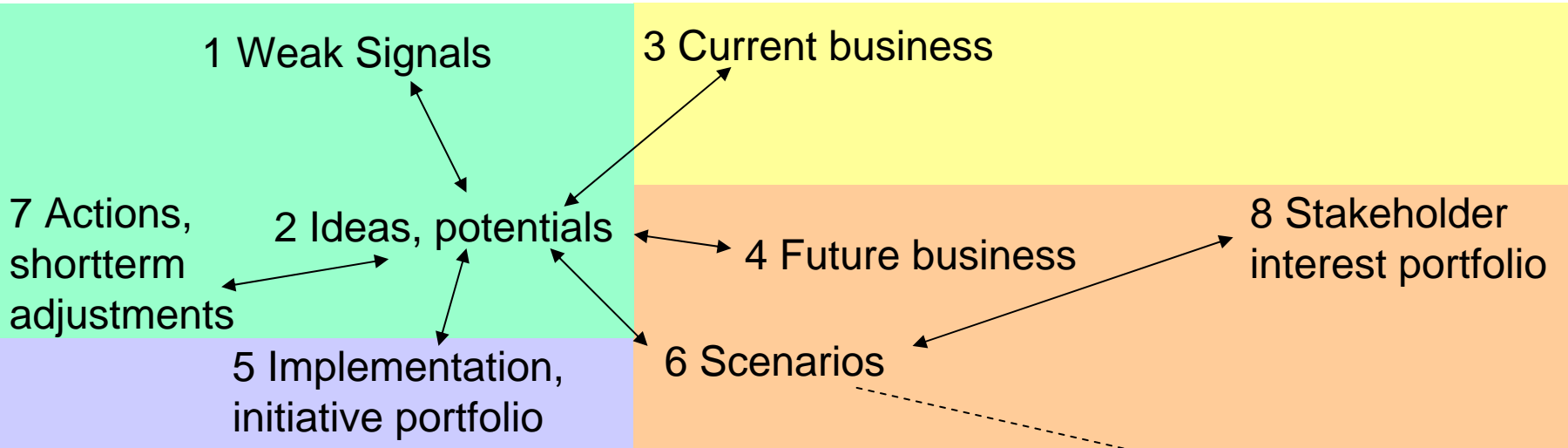
As each portfolio needs to be actively managed, some typical tasks have to be carried out by each assigned portfolio manager



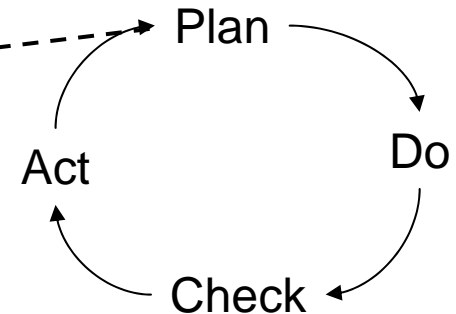
Characteristics of the new system

- Strategy will be planned and executed continuously, not in a sequential model with distinct steps, ongoing tasks vs. sequential procedures/ projects
- Success control is integrated – only what is successful will be implemented
- Implementation and market tests as well as stress tests for existing SBUs are integrated reducing so the risk of failure overall
- Tight integration of soft factors and people issues within the framework may lead to a better and more sustainable execution
- Integration of future trends can be done on an ongoing basis, not just by occasion or because of the time frame of the strategy project
- Tight interconnection between tasks and a two side direction of communications help to avoid errors in decision making
- Flexibility: Countries, competences/skills, system speed ...

The clock cycle and decision making speed can be assigned different on each portfolio thus delivering flexibility and speed overall



Cybernetic cycle



Screening and planning:
 Assess Turbulence in Market
 Assess Risks
 Evaluate: Chances/Returns
 Growth rates
 Market Attractivity
 Define Success Criteria- Ratios



Color indicates different decision making speed

What problems are solved by the new model better than with the older models?

- Time to market, speed of analysis to implementation
- Internationalization/ globalization (as county specific portfolios can be set up easily and compared to each other)
- Integration between different units and steps in the strategy process are much easier to set up and maintain, than with the sequential model
- The portfolios can easily be linked to risk management, financial data, performance measurement
- Success control and backtracking made easy

What remains to be done in the future – future research

- Proof of concept – test pilot
- Description and details on all elements of the model
- Empirical studies



Any questions, remarks?

Thank you!

Literature, References

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