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UNDP - MEF Consultation Workshop to Identify New Sources of Growth

Strategy and Strategic Foresight

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Contents

1. The Origin of Strategy

Bruce Henderson (1989), "The Origin of Strategy," Harvard Business Review.

- Gause's Principle of Competitive Exclusion: No two species can coexist that make their living in the identical way.
- Competition existed long before strategy. It began with life itself. For millions of years, natural competition involved no strategy. By chance and the laws of probability, competitors found the combinations of resources that best matched their different characteristics. This was not strategy but Darwinian natural selection, based on adaptation and the survival of the fittest. The same pattern exists in all living systems, including business.
- In fact, business and biological competition would follow the same pattern of gradual evolutionary change except for one thing. Business strategists can use their imagination and ability to reason logically to accelerate the effects of competition and the rate of change.
- Strategic competition compresses time. Competitive shifts that might take generations to evolve instead occur in a few short years.

The Origin of Strategy (2)

- The fittest survive and prosper until they displace their competitors or outgrow their resources. What explains this evolutionary process? Why do business competitors achieve the equilibrium they do?
- Remember Gause's Principle. Competitors that make their living in the same way cannot coexist—no more in business than in nature. Each must be different enough to have a unique advantage.
- Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it.
- The basic elements of strategic competition are:
  (1) ability to understand competitive behavior as a system in which competitors, customers, money, people, and resources continually interact;
  (2) ability to use this understanding to predict how a given strategic move will rebalance the competitive equilibrium;
  (3) resources that can be permanently committed to new uses even though the benefits will be deferred;
  (4) ability to predict risk and return with enough accuracy and confidence to justify that commitment; and
  (5) willingness to act.

The Origin of Strategy (3)

Natural Competition

- Evolutionary.
- Natural competition is wildly expedient in its moment-to-moment interaction. But it is inherently conservative in the way it changes a species' characteristic behavior.
- Works by a process of low-risk, incremental trial and error. Small changes are tried and tested. Those that are beneficial are gradually adopted and maintained.
- No need for foresight or commitment, what matters is adaptation to the way things are now.

Strategic Commitment

- Revolutionary.
- Deliberate, carefully considered, and tightly reasoned.
- By committing resources, strategy seeks to make sweeping changes in competitive relationships.
- Only, failure and inherent advantage that an alert defender has over an attacker, can moderate its revolutionary character.
- Success usually depends on the culture, perceptions, attitudes, and characteristic behavior of competitors and on their mutual awareness of each other.

The Theory of the Business (1)

- Peter Drucker (1994), "The Theory of the Business," Harvard Business Review.
- Every organization, whether a business or not, has a theory of the business, which defines what to do and how to do things, to generate value.
- A theory of the business has three parts:

1) Assumptions about the environment of the organization: society and its structure, the market, the customer, and technology. → Define what an organization is paid for.
2) Assumptions about the specific mission of the organization. → Define what an organization considers to be meaningful results.
3) Assumptions about the core competencies needed to accomplish the organization's mission. → Define where an organization must excel in order to maintain leadership.

The Theory of the Business (2)

	American Telephone and Telegraph Company (AT&T) after WWI	Marks and Spencer (humdrum penny bazaar)
Environment	In 1876, Alexander Graham Bell invented the telephone and in 1877 formed the Bell Company, which was embroiled in a race with the leading telegraph company Western Union. In 1879 Western Union agreed to give all its telephone patents, claims and facilities in return to Bell's promise to stay out of the telegraph business. In 1881 Bell bought Western Electric to produce telephone equipment. The Mechanical Department became Bell Telephone Laboratories and in 1885 established AT&T. In 1894 Bell's patent on the telephone expired and started facing competition. In 1910, AT&T achieved control over Western Union. The Graham-Willis Act of 1921, gave AT&T a natural monopoly that would provide long distance service to all independent telephone companies. By 1939 AT&T controlled 83% of all telephones and 98% of all long-distance telephone lines and manufactured 90% of all telephone equipment.	Marks and Spencer started life in 1884, when the Belarus immigrant Michael Marks came to the north of England with little money and limited English, open his Penny Bazaar stall and added the slogan "Don't ask the price, it's a Penny." In 1894 Michael partnered with Tom Spencer, who matched a £300 investment to start expanding with stalls and stores with the "Admission Free" slogan. By 1900 they had 12 Penny Bazaar stores and 24 market stalls. By 1903 the firm's capital was £30,000. Tom died in 1905 and Michael in 1907. By 1914 Marks and Spencer bought the London Penny Bazar Company. In 1916, at the age of 28, Simon Marks becoming Chairman for the next 56 years The penny pricing continued until the WWI, when goods became expensive and hard to get, but the company kept the pricing strategy. The country's class structure shaken by the war, creating masses of new buyers of good-quality, stylish, but cheap merchandise. In the 1920s their product started reflecting customer's changing lifestyles, with the increase in demand for affordable household goods.
Mission	Ensure that every U.S. family and business have access to a telephone.	Being the change agent in British society by becoming the first classless retailer.
Core competencies	Technical leadership that would enable the company to improve service continuously while steadily lowering rates.	Ability to identify, design, and develop the merchandise it sold, instead of as the ability to buy. The merchant, not the manufacturer, knowing better the market demands, should design the products to make the goods to his design, specification and costs.

The Theory of the Business (3)

- The specification of a valid theory of the business requires that:

1) The assumptions about the environment, mission, and core competencies must fit reality.
2) The assumptions in all three areas fit one another.
3) The theory of the business must be known and understood throughout the organization.
4) The theory of the business has to be tested constantly.

- Some theories of the business are so powerful that they last for a long time, but not forever, eventually becoming obsolete and then invalid.

What is Strategy? (1)

- Michael Porter (1996), "What is Strategy?," Harvard Business Review.
- Improving operational effectiveness is a necessary part of management, but it is not strategy.
- In confusing the two, managers have unintentionally backed into a way of thinking about competition that is driving many industries toward competitive convergence, which is in no one's (companies) best interest and is not inevitable.
- Managers must clearly distinguish operational effectiveness from strategy. Both are essential, but the two agendas are different.

What is Strategy? (2)

- Strategy is the creation of a unique and valuable position (variety-based, needs-based, access-based), involving a different set of activities. If there were only one ideal position, there would be no need for strategy. The essence of strategic positioning is to choose activities that are different from rivals.
- Strategy is making trade-offs in competing. The essence of strategy is choosing what not to do. Without trade-offs, there would be no need for a choice and thus no need for strategy.
- Strategy is creating fit among a company’s activities. The success of a strategy depends on doing many things well – not just a few – and integrating among them. If there is no fit among activities, there is no distinctive strategy and little sustainability.

What is Strategy? (3)

The Operational Agenda:

- Involves continual improvement everywhere there are no trade-offs. Failure to do this creates vulnerability even for companies with a good strategy.
- Is the proper place for constant change, flexibility and relentless efforts to achieve best practices.

The Strategic Agenda:

- Is the right place for defining a unique position, making clear trade-offs and tightening fit.
- It involves the continual search for ways to reinforce and extend the company's position.
- Demands discipline and continuity; its enemies are distraction and compromise.

- Strategic continuity does not imply a static view of competition. A company must continually improve its operational effectiveness and actively try to shift the productivity frontier; at the same time, there needs to be ongoing effort to expand its uniqueness while strengthening the fit among its activities. Strategic continuity, in fact, should make an organization's continual improvement more effective.
- A company may have to change its strategy if there are major structural changes in its industry. In fact, new strategic position often arise because of industry changes, and new entrants unencumbered by history often can exploit them more easily.
- However, a company's choice of a new position must be driven by the ability to find new trade-offs and leverage a new system of complementary activities into a sustainable advantage.

The Five Competitive Forces That Shape Strategy

- Michael Porter (2008), "The Five Competitive Forces That Shape Strategy," Harvard Business Review.
- The five forces govern the profit structure of an industry by determining how the economic value it creates is apportioned. That value may be drained away through the rivalry among existing competitors, of course, but it can also be bargained away through the *power of suppliers* or the *power of customers* or be constrained by the *threat of new entrants* or the *threat of substitutes*.
- Strategy can be viewed as building defenses against the competitive forces or as finding a position in an industry where the forces are weaker. Changes in the strength of the forces signal changes in the competitive landscape critical to ongoing strategy formulation.
- In exploring the implications of the five forces framework, Porter explains why a fast-growing industry is not always a profitable one, how eliminating today's competitors through mergers and acquisitions can reduce an industry's profit potential, how government policies play a role by changing the relative strength of the forces, and how to use the forces to understand complements. He then shows how a company can influence the key forces in its industry to create a more favorable structure for itself or to expand the pie altogether. The five forces reveal *why* industry profitability is what it is. Only by understanding them can a company incorporate industry conditions into strategy.

The Five Competitive Forces That Shape Strategy (2)

- By understanding how the five competitive forces influence profitability in your industry, you can develop a strategy for enhancing your company's long-term profits.
- Competitive forces that define an industry's structure and shapes the nature of competitive interaction within an industry, determining prospective profits:

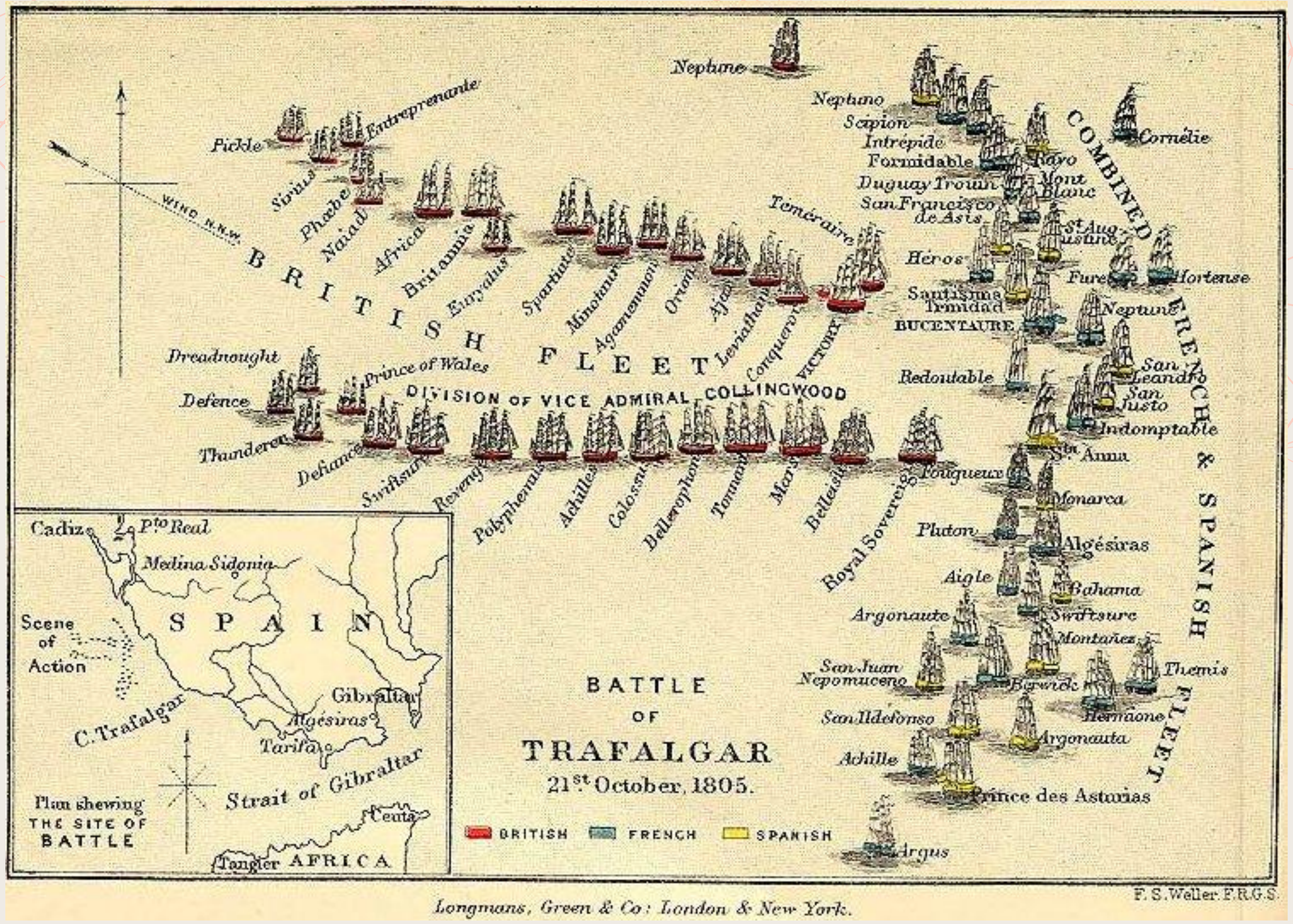
	Competitive force	How it affects profitability?
1	established rivals	can compete in prices or quantities
2	savvy customers	can force down prices
3	powerful suppliers	can charge higher prices
4	aspiring entrants	can ratchet up the investment required to survive
5	substitute offerings	can lure customers away

- Position your company where the forces are weakest.
- Exploit changes in the forces.
- Reshape the forces in your favor.

2. Good Strategy vs. Bad Strategy

- Richard Rumelt (2011), "The perils of bad strategy," McKinsey Quarterly, June.

Horatio Nelson had a problem. The British admiral's fleet was outnumbered at Trafalgar by an armada of French and Spanish ships that Napoleon had ordered to disrupt Britain's commerce and prepare for a cross-channel invasion. The prevailing tactics in 1805 were for the two opposing fleets to stay in line, firing broadsides at each other. But Nelson had a **strategic insight** into how to deal with being outnumbered. He broke the British fleet into two columns and drove them at the Franco-Spanish fleet, hitting its line perpendicularly. The lead British ships took a great risk, but Nelson judged that the less-trained Franco-Spanish gunners would not be able to compensate for the heavy swell that day and that the enemy fleet, with its coherence lost, would be no match for the more experienced British captains and gunners in the ensuing melee. He was proved right: the French and Spanish lost 22 ships, two-thirds of their fleet. The British lost none.

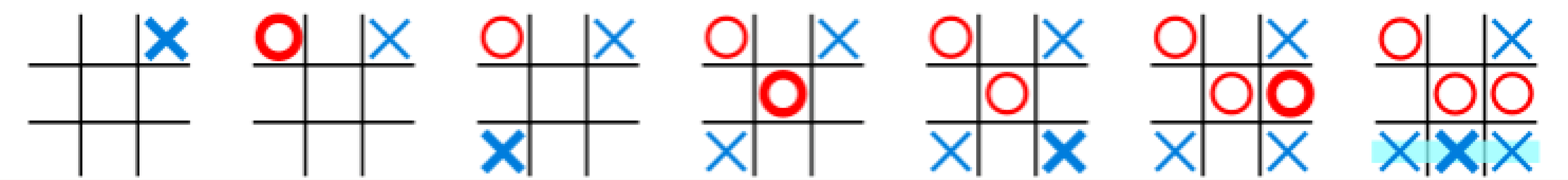


Good Strategy vs. Bad Strategy (2)

- Do you live your life according to a strategic set of rules? Do you start each day with a plan?

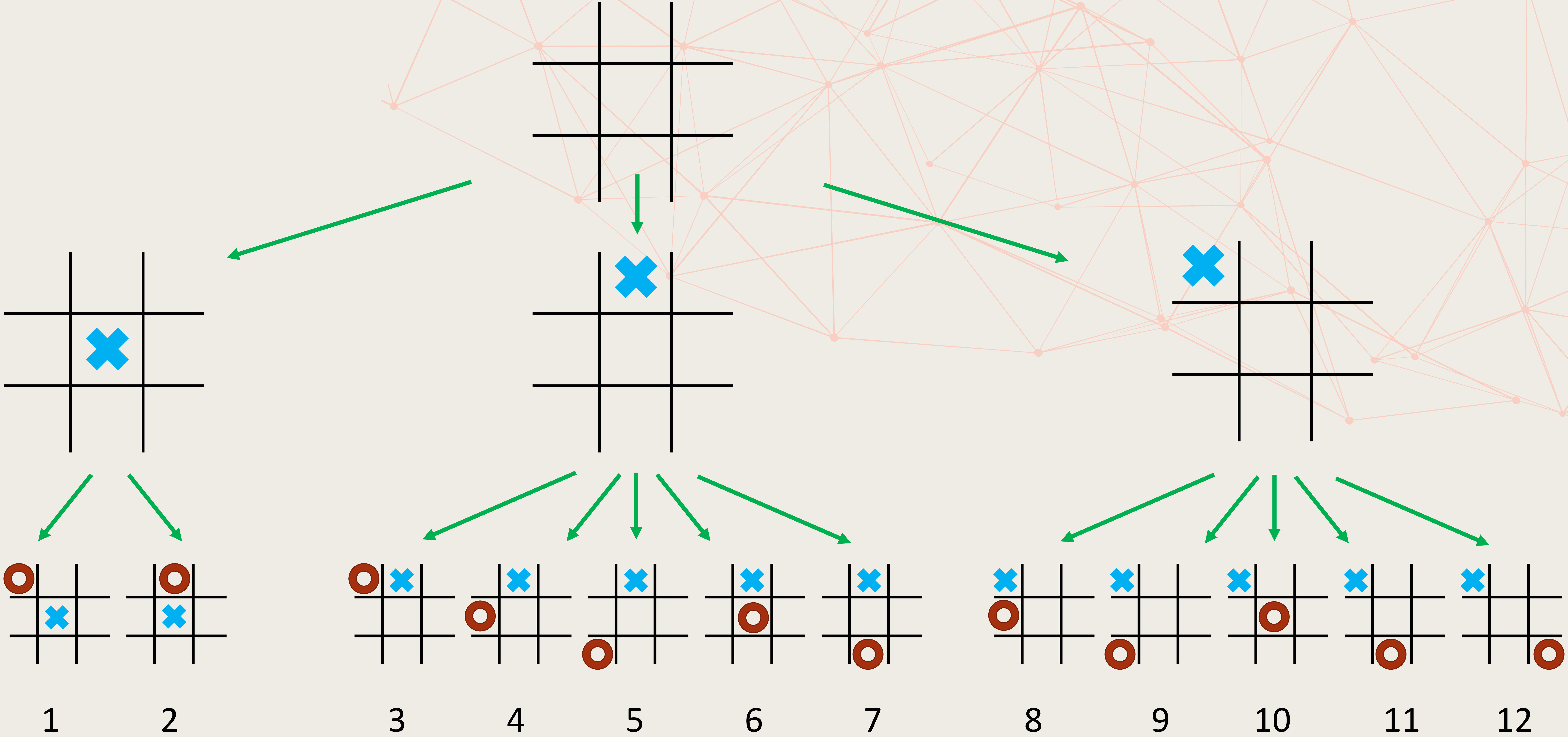
  → If no, you are failing to plan, therefore you are planning to fail.

- A goal is where you want to be, a strategy is a plan for how to get there.
- Example: Tic-tac-toe (or noughts and crosses or Xs and Os) is played on a three-by-three grid by two players, who alternately place the marks X and O in one of the nine spaces of the grid.
- The player who succeeds in placing three of their marks in horizontal, vertical or diagonal row is the winner (goal).

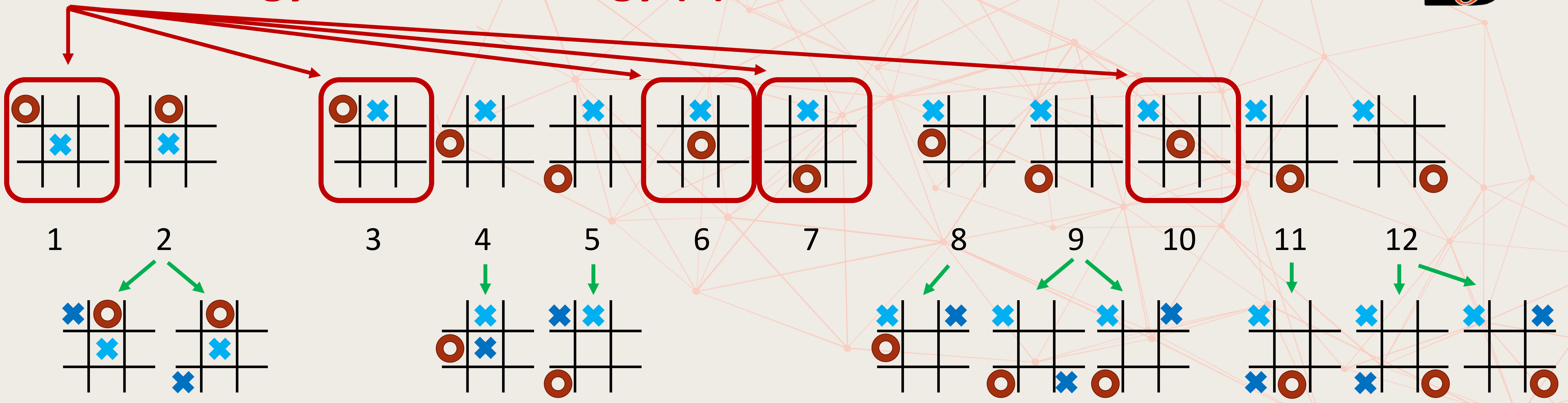


- The best strategy for both parties leads to a draw.

Good Strategy vs. Bad Strategy (3)



Good Strategy vs. Bad Strategy (4)



Optimal defensive strategies for **O**:

- If **X** starts in the center, **O** should move in a corner (1).
- If **X** starts in a side, **O** should move in the same row (3) or the same column (6) and (7).
- If **X** starts in a corner, **O** should move in the center (10).

➢ In this set-up, the optimal strategy is contingent on the opponent's action. It requires flexibility to adjust to the prevailing conditions.

Good Strategy vs. Bad Strategy (5)

- Charles Duhigg devised a system for prioritizing your time, making better decisions and accomplishing your goals → Specific, Measurable, Achievable, Realistic, and Time-specific (SMART).
- Goal: buy a $100,000 house.
- Strategy:
  - Specific: earn and save money every month.
  - Measurable: need to generate extra income and reduce spending to save $2,000 every month.
  - Achievable: my current and expected income stream and a reduction of my spending, would allow me to save the monthly target.
  - Realistic: I must take into consideration that my income might change in the future, that I might have unexpected spending needs and that house prices will change.
  - Time-specific: I will earn and save money every month to buy the desired house in 5 years.

Good Strategy vs. Bad Strategy (6)

A **Bad** Strategy:

1. Fails to face the challenge. If you fail to identify and analyze the obstacles, you don't have a strategy. Instead, you have a stretch goal or a budget or a list of things you wish would happen.

2. Mistakes goals for strategy.

3. Has bad strategic objectives. A long list of things to do, often mislabeled as strategies or objectives, is not a strategy. It is just a list of things to do.

4. Fluff. Superficial abstraction, restatement of the obvious, combined with combined with a generous sprinkling of buzzwords that masquerade as expertise.

A **Good** Strategy has:

1. A diagnosis: an explanation of the nature of the challenge. A good diagnosis simplifies the often-overwhelming complexity of reality by identifying certain aspects of the situation as being the critical ones.

2. A guiding policy: an overall approach chosen to cope with or overcome the obstacles identified in the diagnosis.

3. Coherent actions: steps that are coordinated with one another to support the accomplishment of the guiding policy.

Why so much bad strategy? 1) The inability to choose among goals, setting aside others and 2) Template-style planning – filling the blanks with "mission, vision, values, strategies", where instead of strategies, aspirations, goals, leadership, vision, or planning are provided.

Good Strategy vs. Bad Strategy (7)

Good Strategy vs. Bad Strategy (8)

- Nvidia's journey from troubled start-up to market leader for 3-D graphics chips.

Nvidia's first product, a PC add-in board for video, audio, and 3-D graphics, was a commercial failure. In 1995, rival start-up 3Dfx Interactive took the lead in serving the burgeoning demand of gamers for fast 3-D graphics chips. Furthermore, there were rumors that industry giant Intel was thinking about introducing its own 3-D graphics chip. **The diagnosis**: "We are losing the performance race."

Nvidia CEO Jen-Hsun Huang's key insight was that given the rapid state of advance in 3-D graphics, releasing a new chip every 6 months— instead of at the industry-standard rate of every 18 months—would make a critical difference. **The guiding policy**, in short, was to "release a faster, better chip three times faster than the industry norm."

To accomplish this fast-release cycle, the company emphasized several **coherent actions**: it formed three development teams, which worked on overlapping schedules; it invested in massive simulation and emulation facilities to avoid delays in the fabrication of chips and in the development of software drivers; and, over time, it regained control of driver development from the branded add-in board makers.

Over the next decade, the strategy worked brilliantly. Intel introduced its 3-D graphics chip in 1998 but did not keep up the pace, exiting the business of discrete 3-D graphics chips a year later. In 2000, creditors of 3Dfx initiated bankruptcy proceedings against the company, which was struggling to keep up with Nvidia. In 2007, *Forbes* named Nvidia "Company of the Year."

Good Strategy vs. Bad Strategy (9)

- **Goal**: create a more successful and meaningful life.
- **Strategy**:
  1. **A diagnosis:** Ask yourself → What is holding me back? Why isn't my life successful and meaningful now? What can I do to get where I want to be?
  2. **A guiding policy:** write an action plan by writing down a mission statement and a set of actionable steps that will help you realize your goal.
  3. **Coherent actions:** put those steps into practice. Steps should be clear, coherent and on-brand. Your steps should never conflict or contradict your action plan or your diagnosis of the problem.

Strategy Needs Creativity (1)

- Adam Brandenburger (2019), "Strategy Needs Creativity," Harvard Business Review.
- Competition existed long before strategy. It began with life itself. … The difference between you and your competitors are the basis of your advantage. Bruce Henderson (1989), "The Origin of Strategy," Harvard Business Review.
- "Creativity is seeing what everyone else has seen, and thinking what no one else has thought" Albert Einstein.
- Finding a creative mindset is always the most important step towards effective action. But mindsets are greatly helped by additional concrete guides to action.
- Four directions in which to look for creative moves with strategic impact, strategies from:

Contrast

Context

Combination

Constraint

Strategy Needs Creativity (2)

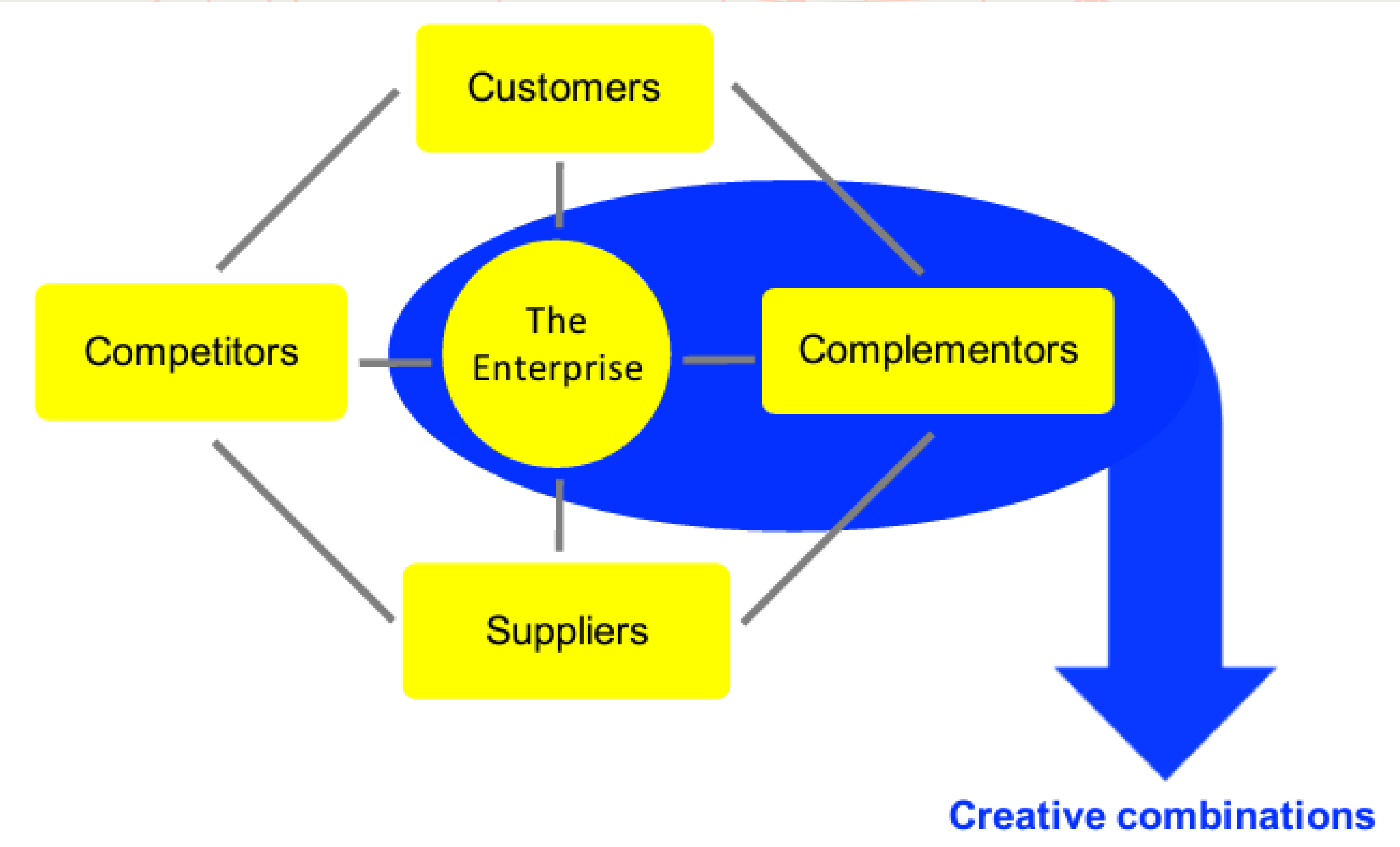
- The 4 C's map is a framework designed to help business strategists harness and extend their creative capabilities.
- **C**ontrast: the strategist should seek out moves that constitute a sharp contrast with convention. Being on the lookout for such moves offers a tangible way to try to break from the status quo.
- **C**ombination: Steve Jobs famously said that creativity is "just connecting things," and many break-through moves in business come from connecting products or services that had not been thought of as usefully connected before.
- **C**onstraint: at Google, Marissa Mayer proclaimed that "creativity loves constraints," and, indeed, creative strategists look at limitations and constraints in their organizations and turn them into strengths.
- **C**ontext: is key because it influences how one thinks and acts. For this reason, we say that changing contexts can even be king when it comes to having new thoughts. Adapting ideas from one context to another can be a powerful way to find new strategies.

Strategy Needs Creativity (3)

Strategy from Contrast

- **Contradiction** of the assumptions of the status quo: in the old days people transferred money through checks or money orders. In 1999, Elon Musk, of the online bank X.com, and Peter Thiel, Max Levchin and Luke Nosek, of the online payments startup Confinity, questioned this status-quo and proposed that it would be quicker, more convenient and even safer to transfer money online and formed PayPal.
- **Inversion** of the value chain: streaming services like Netflix, Amazon Prime, Disney+ or Apple TV, where viewers now pay to view content, which is different from open TV.
- **Reversal** of order: traditionally large flagship stores/restaurants followed by satellite locations. Now small pop-up stores and if successful adding larger locations.
- Whether via contradiction, inversion, reversal, or some other maneuver, strategy from contrast looks in a precise way at the logic underlying the current status quo and then tries changing that logic.
- How to begin:
  - Precisely identify the assumptions that underlie conventional thinking in your industry
  - Think about what might be gained by proving one or more of them false
  - Deliberately disturb an aspect of your normal work pattern to break up ingrained assumptions
- What to watch out for:
  - Because the assumptions underlying your business model are embedded in all of your processes — and because stable businesses need predictability — it won't be easy to change course.
  - Organizations are very good at resisting change.

Strategy Needs Creativity (4)



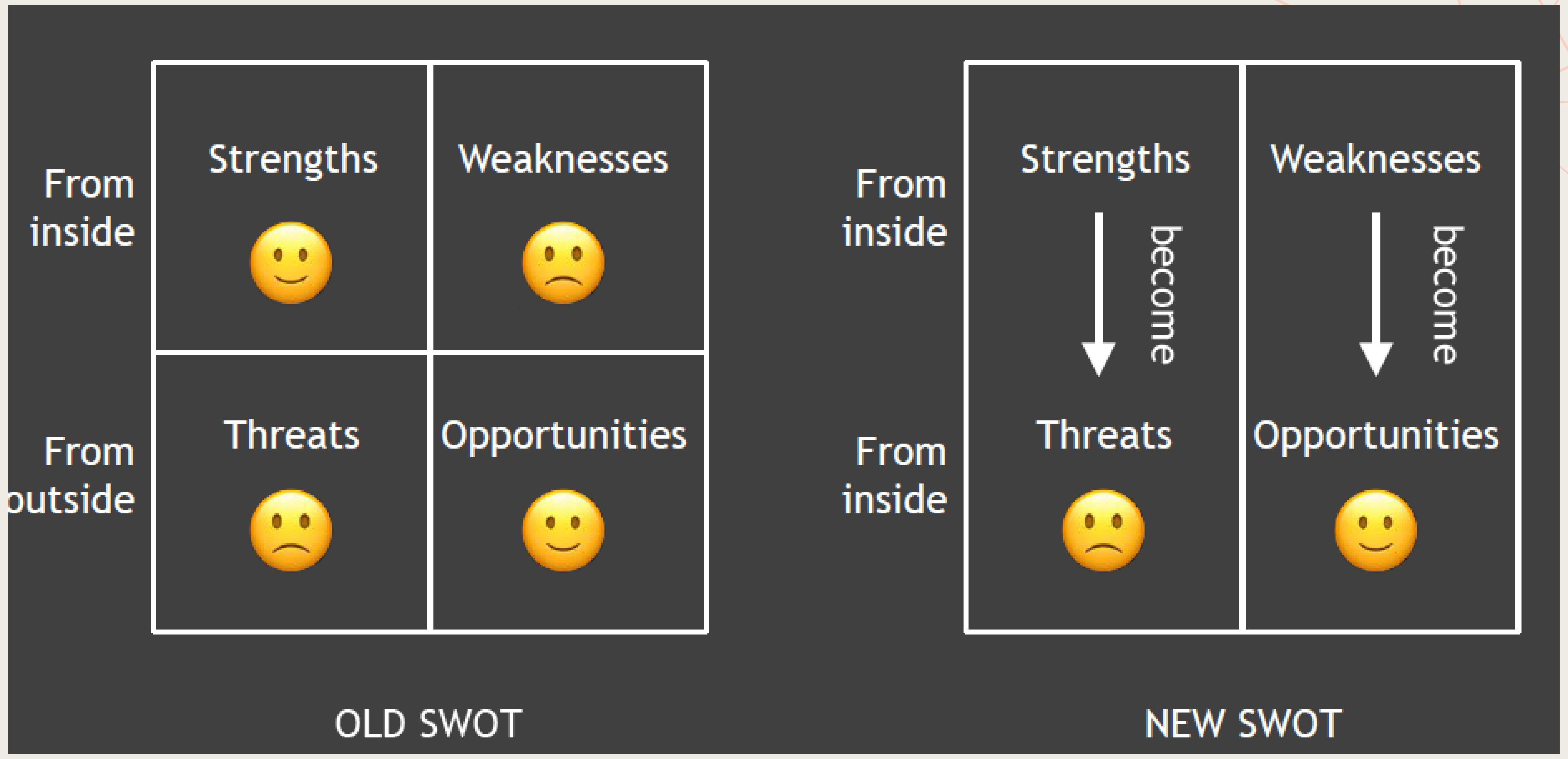
Strategy from Combination

- Vertical integration.
- The world of complementary products and services. For example, products and payment services : the Chinese social media platform WeChat (owned by Tencent) and its integrated mobile payment platform WeChat Pay that enables users to buy and sell products within their social network. In other combining moves, both Tencent and Alibaba (which owns WeChat Pay competitor Alipay) are now partnering with overseas payment firms to enable retailers in other countries to accept their mobile payment services.
- Compatible platforms, which is why BMW and Daimler have announced plans to combine their mobility services --- car sharing, ride hailing, car parking, electric vehicle charging, and tickets for public transport.
- Apple and Nike are complementors, starting with their 2006 introduction of the Nike+iPod Sport Kit, which enabled Nike shoes to communicate with an iPod for steps tracking. More recently, there are versions of the Apple Watch that come with the Nike+ Run Club app fully integrated.
- Nest Labs and Amazon are complementors. Nest's intelligent home thermostat is valuable on its own, but becomes more valuable when it can deploy voice control via Amazon's virtual assistant Alexa. Likewise, Alexa becomes more valuable with the added functionality of being able to adjust the temperature via a connected Nest.
- New technologies are a big source of combinatorial possibilities. AI and blockchain come together naturally to protect the privacy of the large amounts of personal data needed to train algorithms in sensitive areas such as healthcare, and people can also be paid via tokens for providing such data.
- How to begin:
  - Form groups with diverse expertise and experience; brainstorm new combinations of products and services.
  - Looks for ways to coordinate with providers of complementary products (who may even be competitors).
- What to watch out for:
  - Businesses often manage for and measure profits at the individual product or activity level.
  - But combinations require system-level thinking and measurements.

Strategy Needs Creativity (5)

Strategy from Constraint

- Tesla lack a dealership network when entering the car industry. Rather than get into the business of building such a network, Tesla has turned this constraint into an opportunity by establishing their own stores. This allows Tesla to control its pricing directly, relative to competitors as Bolt by General Motors which has large price differences across GM dealers.



- Could an organization benefit from self-imposed constraints? The famous Copenhagen restaurant Noma adheres to the New Nordic Food Manifesto (emphasizing purity, simplicity, beauty, seasonality, local tradition, and innovation) penned by its founders turned out to be a highly successful strategy.
- Self-imposed constraints can also spur innovation. In the early 2000s, the Audi racing team asked itself the question of how to win Le Mans if its cars couldn't go faster than the competition's. This led Audi to develop diesel- vs. gasoline powered racers, which required fewer fuel stops, and its new cars won Le Mans three years in succession (2004-2006). In 2017, Audi set itself a new constraint --- and a new ambition --- which is to build winning all-electric racers for the new Formula E (= electric) championship.

- How to begin:
  - List the 'incompetencies' (rather than competencies) of your organization — and test whether they can in fact be turned into strengths.
  - Consider deliberately imposing some constraints to encourage people to find new ways of thinking and acting.
- What to watch out for:
  - Successful businesses face fewer obvious constraints; people may feel no need to explore how new ones might create new opportunities.

Strategy Needs Creativity (6)

Strategy from **Context**

- Evolution has already solved a lot of problems. An entire field, biomimetics, is devoted to finding solutions in nature to problems that arise in engineering, materials science, medicine, and elsewhere.

- To find a clothing fastener that does not jam (as zippers are prone to do), look to the burrs from the burdock plant, which propagate by attaching themselves to the fur of animals via tiny hooks. This is the origin of Velcro, invented in 1941. Today, the gripping mechanism of geckos is being studied to come up with good solutions for how robots can pick up objects ranging from coffee cups to space debris.
- This is a classic problem-solving technique. Start with a problem in one context. Look to another context where there is an analogous problem that has already been solved. Then import the solution into the first context. Just like good problem solvers, creative strategists know that shifting contexts can be a powerful stimulus to having new thoughts.
- Intel did this when it went outside its normal business context to come up with its famous Intel Inside logo in the early 1990s. The goal was to turn Intel microprocessors into a branded product, in order to speed up consumers' adoption of next-generation chips and, more broadly, to improve the company's ability to drive the PC industry forward. The idea of a branded ingredient was well-established in certain consumer product sectors --- famous examples included Teflon and NutraSweet --- but had not been tried in the world of technology. In the 2017 Interbrand ranking of the world's most valuable brands, Intel came in at number 15, just one place behind Disney.
- How to begin:
  - Explain your business to an outsider in another industry. Fresh eyes from a different context can help uncover new answers and opportunities.
  - Engage with lead users, extreme users, and innovation hotspots.
- What to watch out for:
  - Businesses need to focus on internal processes to deliver on their current value propositions — but the pressure to focus internally can get in the way of learning from the different contexts in which other players operate.

Strategy Needs Creativity (7)

Strategy from:	How to begin (Prompts)	What to watch out for (Perils)
Contrast	Look closely to come up with contrasting moves --- identify the conventional thinking in your business and try contradicting (on-line money transfers relative to checks and money orders with PayPal in 1999), inverting (the value chain – streaming services as Netflix where viewers pay for content) , or reversing this thinking (small pop-out stores relative to large flagship stores to develop markets). Deliberately disturb an aspect of your and your team’s normal work pattern in order to break up ingrained assumptions.	Businesses need predictability in their systems in order to deliver consistent products and services. The desire for predictability can crowd out contrasting ideas.
Combination	Form groups with diverse expertise and experiences and brainstorm new combinations of products and services, in both horizontal and vertical directions. Think co-opetition --- look out for ways to coordinate with complementary products, not only for ways to defend against competing products.	Businesses often manage for and measure profits at the individual product or activity level. But for combinations, broader system-level thinking and measurements are needed.
Constraint	List the ‘incompetencies’ rather than competencies of your organization --- and test if these weaknesses can, in fact, be turned into strengths. Even consider deliberately imposing some constraints yourself in order to encourage people to look for new ways of thinking and acting.	Businesses that are successful face fewer obvious constraints, and lazy thinking can result. Every business should practice ‘lean thinking.’
Context	Explain your business to an outsider in another industry --- fresh eyes from a different context can help uncover new answers and opportunities. Shift your own vantage point to engage with lead users, extreme users, and innovation hotspots wherever they are found.	Businesses need to focus on internal processes to deliver on their current value propositions. The pressure to focus internally can get in the way of learning from the different contexts in which other players operate.

Better, Simpler Strategy (1)

- Felix Oberholzer-Gee (2021), "Eliminate Strategic Overload," Harvard Business Review, May-June.
- Get to better, more effective strategy. In nearly every business segment and corner of the world economy, the most successful companies dramatically outperform their rivals. What is their secret?
- These companies achieve more by doing less.
- At a time when rapid technological change and global competition conspire to upend traditional ways of doing business, these companies pursue radically simplified strategies.
- At a time when many managers struggle not to drown in vast seas of projects and initiatives, these businesses follow simple rules that help them select the few ideas that truly make a difference.
- The value stick is a simple tool, which every organization can use to make its strategy more effective and easier to execute.

Better, Simpler Strategy (2)

- Based on proven financial mechanics, the value stick helps executives decide where to focus their attention and how to deepen the competitive advantage of their business.
- How does the value stick work?
- It provides a way of measuring the two fundamental forces that lead to value creation and increased financial success--the customer's willingness-to-pay and the employee's willingness-to-sell their services to the business.
- Companies that win, create value for customers by raising their willingness-to-pay, and they provide value for talent by lowering their willingness-to-sell.
- The approach, proven in practice, is entirely data driven and uniquely suited to be cascaded throughout the organization.
- With many useful visuals and examples across industries and geographies, it explains how these two key measures enable firms to gauge and improve their strategies and operations.
- This is a guide for making better strategic decisions.

3 Strategic Reasoning

- Sally Blount and Paul Leinwand (2019), Why are we here? Harvard Business Review.
- For many employees, the key motivator is a sense of purpose—and yet more than half of those surveyed say they’re not even “somewhat” passionate about their jobs.
- If organizations want to inspire their workers, they must clearly communicate why they’re in business and what value they provide.
- When employees understand and embrace those things, their companies thrive: Survey results show that more than 90% of companies with a well-defined purpose deliver growth and profits at or above the industry average.
- An effective purpose statement answers several questions:
  - Why does our organization exist?
  - Who are we serving?
  - What value do we offer, and why are we uniquely capable of providing it?
- But a powerful statement is not enough; firms must also deliver on their promises to customers. That requires putting the right people in the right roles, breaking down silos to facilitate cross-functional collaboration, investing in the areas that matter most, and ensuring that leaders demonstrate every day, through their words and actions, their commitment to the firm’s articulated goals.

4. Strategic Foresight: Learning from the Future

- Peter Scoblic (2020), "Learning from the Future," Harvard Business Review, July – August.
- In times of great uncertainty, it's difficult to formulate strategies. Leaders can't draw on experience to address developments no one has ever seen before. Yet the decisions they make now could have ramifications for decades.
- The practice of **strategic foresight** offers a solution. Its aim is not to predict the future but to help organizations envision multiple futures in ways that enable them to sense and adapt to change.
- Its most recognizable tool is scenario planning. To use it well, organizations must imagine a variety of futures, identify strategies that are needed across them, and begin implementing those strategies now.
- But one-off exercises are not enough: Leaders must institutionalize that process, building a dynamic link between thinking about the future and taking action in the present.

Strategic Foresight (1)

- Angela Wilkinson (2017), "Strategic Foresight Primer," European Political Strategy Centre.
- The future is always a story and there is always more than one story.
  1) A story and new stories of the future are always emerging.
  2) There are no facts about the future.
- Facts, by definition, are of the past. The future has not yet happened and cannot be empirically observed or measured.
- But it can be experienced through imaginative storytelling, immersive learning and using collaborative approaches to group model building and whole system thinking.
- **Strategic foresight** offers a way of making use of our inherit storytelling abilities in order to engage tactic knowledge, make assumptions explicit, forge new shared understanding, and anticipate and prepare for what has yet to happen.
- In a strategic foresight process, a manageable and memorable number (between two and four) of plausible stories of the future are developed and contrasted.

Strategic Foresight (2)

- Avoid telling all good vs. bad stories about the future.
- Rather than telling stories of the future as victims or winners, add a third perspective and tell the story from the stance of the learner.
- Deeper and shared insights are developed by iterating between different ways of knowing the future – drawing on creative, critical and analytical thinking and developing narratives and a state description.
- The clarity of the “whole system” logic enables framing and reframing assumptions to be made explicit, testable and contestable. Reframing opens up space for new ideas.
- Future learning is enabled by completing several cycles of the reframing-re-perception loop.
- Prospective leadership judgment pivots on the quality of the strategic conversation, which opens-up a safe space for disagreement and provides a platform for immersive learning and learning by doing.

Strategic Foresight (3)

- By developing, analyzing, contrasting and using plausible, alternative stories of the future through a process of strategic conversation, it is possible to reveal, test and challenge deeply held assumptions about the future.
- Strategic foresight enables leaders to ask better questions about the future, make strategic choices explicit and support the discovery, design and consideration of more and better options for action.
- Strategic foresight is a learning process that offers a decision-maker new and refreshing perspectives on the present situation, engaging with uncertainty as a friend rather than a foe.
- <u>It is not a report</u> but a means to some other end. The carefully designed and purposeful intervention focusses the social learning process on the need of a specific set of users and their foresight needs.

Strategic Foresight (4)

- There is no single, right or best method: each approach has its strengths and limitations.
- Good practice involves purposeful design, a careful choice of methods, iterating between different steps in the conventional policy process and developing a culture of use.
- There is a diversity of strategic foresight methodologies – including megatrends analysis scenario planning, and normative approaches – design futures and visioning and back-casting.
- There is also diversity within each method – for example, the choice between expert-led Delphi surveys, open search or multi-lingual meta-scanning in horizon scanning, and the many different methods for building plausibility-based, exploratory scenarios e.g., inductive, deductive, abductive, normative, incremental, alternative, critical and perspectives-based methods.

Strategic Foresight (5)

- The **role of the strategic foresight practitioner** is akin to:
  - **Futures midwife**, helping anxious parents to breathe in and out whilst learning to cope with new and surprising future possibilities encountered in bringing forth new life – i.e. new ideas that would otherwise not be considered or given any room to grow.
  - **Storytelling coach** - using the power of stories as a motive for change.
  - **Window cleaner** – helping people to think “outside the box” and see beyond the usual policy timeframe in decision making.
  - **Map maker** – enabling the bigger picture to be seen and forging shared understanding and new meaning.
  - **Psychoanalyst** – as uncertainty creates anxiety in the expert, promoting positive thinking, cultivating empathy, reflecting deeply on the role of the self in perceiving reality, and making change happen.
  - **Learning facilitator** – engaging user-learners as reflective practitioners.
- The strategic foresight practitioner does not claim to know the future but aims to support and enable groups, leaders and their organizations to prepare, shape and create their future through the process of learning with futures.

Strategic Foresight (6)

- What can strategic foresight offer?
- Our world is, and has always been, full of surprises.
- The realistic hope for a better future is realized through the reality of team-based decision-making and the development of collaborative and anticipatory strategies.
- The limited space for “open” futures thinking in policy settings is not conductive to learning the way into the future: struggle to find time for big picture never mind think deeply about the future, bias towards stepping up in a crisis, rather than preventing it. Presentism bias and a culture of short-termism.
- Modern societies are not looking for leaders who know what the future holds, but for leaders who can help them realize a better future for themselves, their families and communities.
- Strategic foresight redirects leadership attention from knowing about the past to exercising prospective judgement about things that have not yet happened, by learning with a manageable and memorable number of alternative futures.
- Good leadership involves individuals making tough decisions in uncertain times. Great leadership involves creating the future.

Strategic Foresight (7)

- Achieving the shift from producing a report of forecasting-based policy analysis to using strategic foresight is a culture change, rather than a substitution and upgrade in tools.
- Leadership attention and champions are key to creating the space and time for effective development and use of foresight and in encouraging and incentivizing the accompanying change in behaviors.
- There are multiple barriers in the authorizing environment including:
  - Emotional barriers: fear of the future, anxiety about uncertainty, which can be overcome by being positive and realistic.
  - Culture barriers: an organizational bias towards the short-term, a lack of behavioral incentives, e.g., with zero tolerance of failure or rewards only for those who step up in a crisis. These can be overcome by building a political culture that rewards farsightedness and commitment devices of various kinds to ensure that governments give adequate attention to future risks, threats, vulnerabilities, etc.
  - Institutional barriers: lack of culture of conversation, strong silos, limited capacity for joined-up thinking and action planning, leadership power contest and delays between thinking-action process.

Strategic Foresight (8)

Who has power?
How are decisions made?

Politics: People and Power

Are you working with an existing user or a fluid, manufactured user group?
Is the user = producer?

Organization Setting

Culture and Mindset

Are leaders rewarded for creating new ideas and realizing new opportunities?
Is there a dominant culture decision making forecasting or conversation based?

Source: A. Wilkinson & K. van der Eslt

Strategic Foresight (9)

Strategic foresight in practice: how to do it?

- Why and when to use strategic foresight
    1. We cannot rely even on the best experts to predict the future – all facts are "of the past."
    2. The future cannot be directly experienced; it can already be perceived and experienced through storytelling.
    3. Global new reality is socially complex: strategic knowledge exchange is key to new shared understanding.
    4. Organisations can better prepare and shape the future by learning with plausible alternative futures to develop new collaborative strategies.

Strategic Foresight (10)

Strategic foresight in practice: how to do it?

- Principles for effective practitioners
    1. Purposeful design
    2. Craftsmanship
    3. Collaborate and create empathy
    4. Be open and humble

Strategic Foresight (11)

Common traps and pitfalls in strategic foresight interventions

	Success factors	Source of failure
Purpose	Clarity about who will use the foresight, how and when.	Failure to manufacture a coherent user and align on a specific purpose. Lack of agreement about who will use the foresight, when and to do what.
User(s)	Identified and engaged from the start. Sometimes it is necessary to manufacture a "single client" from a diverse group of users in different organisations.	Selling an analytical report to prospective users who have not been engaged in the foresight process.
Authorising environment	Secure a high-level champion. Start with a modest piloting initiative. Share examples of how others "we" admire are doing it.	Lack of incentives for forward acting leadership, a culture of blame and no tolerance for learning with failure.
Governance	Engage users from the start – by proxy if not in person. Clarify and agree a participation mode e.g., who decides which futures are important to consider and how (core team, consultation with X, coproduction with XYZ, etc.). If 3rd party funders are involved, ensure they can guide the process but not dictate/influence the choice of plausible futures.	Lack of clarity about who decides and how and on what basis which futures need to be considered and why.
Quality of strategic conversation	Careful design of the whole process by an experienced facilitator. Space and time for generative dialogue and constructive disagreement.	Inexperience facilitator. Absence of a culture of conversation. Misunderstanding of the role of narrative in meaning making by quantitative cultures.
Immersive learning	Use of storytelling and experiential learning techniques which enable new memories of the future to penetrate the cognitive barriers that keep us sane, happy and focused.	Failure to overcome the narrative barrier of the front neo-cortex of the brain.
Timing	Embed the foresight process, linking with and across all phases of the policy cycle. Develop mechanisms to sustain intervention across political cycles and changes in leadership. Clarify when new insights developed in the foresight can be used in decision-making and to support new action planning.	Initiating a foresight intervention without attention to the different phases of the policy cycle. Failing to link/embed into wider decision processes from the start of the intervention.
Choice of methods	There is no single, best method but a choice of methods and the selection and sequencing of methods should reflect the purpose in hand and the authorizing environment.	Sticking to the way we do things around here!
Evaluation of impact	Design of an intervention and use of a developmental evaluation framework. Clarifying measurable success before starting the intervention.	Emphasis on inputs and outputs e.g. number of experts, reports, citations (without evidence of use).

Strategic Foresight (12)

The Foresight methods

- Foresight is a purposefully designed intervention process. It does not claim predictive power but maintains that the future is open to human influence and creativity.
- There is a diverse toolkit of strategic foresight methodologies which fall into three main types:
  - **Possible** and still emerging futures – horizon scanning.
  - **Plausible** futures – including megatrends analysis and exploratory scenario planning.
  - **Preferable** or normative futures – including visioning (and backcasting) and design futures.
- A helpful place to start is to appreciate the general differences between forecasting and foresight. The next step is to be able to appreciate the differences, strengths and contingencies of the diversity of and within strategic foresight methods.

Strategic Foresight (13)

Common methods used in policy-relevant foresight

Methodology	Future as …	Characteristics
Horizon scanning	Events and trends – open and still emerging.	Systematic scan and collection of events and trends. Output: a future-scape/visual mapping of new signals of change.
Megatrends analysis	Pattern shifts – interacting trends.	Analytical-discursive process. Output: THE story of the future (singular) and a plan of action.
Visioning (and backcasting)	A preferred direction – a description of a preferred future state used to guide pathways for progress.	A preferred direction – a description of a preferred future state used to guide pathways for progress. Output: A shared understanding and explicit description of THE preferred future and a medium-term roadmap detailing specific actions for making progress towards the vision.
Scenario planning	A set of plausible stories of the future content, not the self, that are coming at us from the future whether we want them or not.	Interactive and iterative, intellectual and social learning process which involves interviews and strategic conversation and is supported with analysis and modelling. Output: a set of 2, 3 or more stories of plausibility-based / explanatory futures (multiple) and how these might come about.
Policy gaming	A "serious" game – behavioural insights about the interaction of key actors in response to a novel event or hypothesized future situation.	An immersive learning process that simulates and test the preparedness of a group/organization to deal with an unfamiliar future event/situation.
Design futures	Better – an interactive and iterative process of goal – orientated incrementalism.	Creative-immersive learning process involving the design of new and better future possibilities/products. Output: a viable prototype.

Strategic Foresight (14)

Forecasting

- Forecasting is a data-rich activity. In forecasting we extrapolate the past. There are no breaks in logic allowed. The future is assumed to be fully contained in the statistically significant evidence base. The emphasis is on the predictability – accuracy, reliability and precision – of outcomes. Forecasts can be used by anyone for anything.
- Forecasting can be undertaken as an act of probabilistic prediction, an assessment of the most likely future. Or it can offer a conditional, evidence-based projection – a baseline that assuming all other things remain equal, identifies the cone of possible outcomes: the singular future in terms of a high-, best-, medium-, low-, worst-case "scenario.

Forecasting	Foresight
GDP growth in Ukraine next year.	Implications of continued Russian incursion into Ukraine.
Occurrence of extreme droughts in Sub-Saharan Africa in coming years.	New waves of regional migration into Europe.
A company's share price next week.	How the company's share price will evolve over the next year.
EU consumer spending over the next two years.	How consumer preferences and behaviours will change in the next five years.
Projection of job losses due to increasing uptake on industrial robots.	The production paradox: will/when will the creation of new digital economy jobs exceed the loss of industrial economy jobs.

Strategic Foresight (15)

Horizon scanning

- Ongoing systematic process aimed at detecting early signs of new and different futures and disruptive developments. What is constant, what may change, and what is constantly changing in the time period under analysis.
- Stages in the scanning process: (1) scan and identify – discover; (2) track and monitor – evaluate; (3) research and analyse – understand; (4) socialize and strategise – take action.

Benefits	Methods	Tools	Examples	Challenges
Systematically scan and collect events and trends from diverse information sources to enabling broader base of futures knowledge to be legitimized than the statistically significant evidence base of the past.	Open scan. Targeted search.	Desk top research using a variety of tools: data mining, sentiment analysis, bibliometrics, regression analysis.	OECD next production revolution meta-scan 2015, policy horizons, Canada technology scan 201x	Ongoing (low intensity) process that requires active management and cannot be fully outsourced. Redirecting attention to new developments. Trade off: comprehensive vs. comprehensible.
Anticipate, detect and prepare for early signals of disruption.	Delphi scan.	An iterative assessment of future developments involving a pre-qualified panel of experts. Conducted in several rounds of interview- or- online surveys and aimed at clarifying consensus.		More resource and time intensive-time for effective engagement of experts. Drive to consensus can overlook important “outliers” (weak signals).
	Multi-lingual meta scanning.	An analytical-discursive process involving different disciplines and enabling strategic knowledge sharing across different linguistic traditions.	New contours of conflict, Hague centre for strategic studies.	Resource intensive – time and capacity to collate and interpret signals in different languages.

Strategic Foresight (16)

Megatrends

- "A megatrend is defined as a major shift in environmental, social or economic conditions that will substantially change the way people live" – Our Future World, CSIRO 2012.
- A megatrend analysis provides a conceptual framework to help leaders and their organisations to think about and prepare for inevitable pattern shifts that occur in a decadal timeframe.
- Key steps in megatrends methodology: (1) list and develop a typology of megatrends; (2) decompose to operationalize; (3) translate into national trends; (4) explore dynamics and timing of impacts; (5) match megatrends to sectoral priorities; (6) identify new threats and opportunities; (7) explore impacts on markets and implications for technology.

Benefits	Methods	Tools	Examples	Challenges
Agile and flexible approach to appreciating the interactions of trends.	No standard methodology: a multistep process using a combination of analysis, discussion and creative thinking.	Brainstorming. Storytelling, Cross impact matrix. Trend impact analysis.	OECD	Ad-hoc futures – no logical frame for clarifying which futures need to be considered and why.
Anticipate shifts in patterns e.g., rapid ageing societies.				Can be misused to support attention to comfortable developments rather than used to challenge business-as-usual thinking.
Develop shared sense of future outcomes and use to test existing policies and design new policy options.				

- Principles of good practice are: (1) linking action to agenda from the start; (2) making it nationally relevant; (3) understanding the dynamic of impact; (4) encouraging policymakers; and (5) adopting an inclusive policymaking approach.

Strategic Foresight (17)

Scenario planning

- Building and using a set of plausible, alternative stories that can be used to reframe the present situation.

Benefits	Methods	Tools & Techniques	Examples	Challenges
Reframing and reperceiving – ability to consider more and better options.	Many different plausibility based/explanatory scenarios building methods, including: - inductive; - deductive; - abductive; - critical futures; - perspectives-based.	Storytelling. Systems thinking.	World Energy Scenarios 2016 – The Grand Transition. UNAIDS: Three Scenarios for 2025.	Confusion: not same as quantitative model based conditional projection forecasting with sensitivity analysis.
Reveal and test deeply held assumptions.			US NIC Paradox of Progress: Three Global Scenarios 2017.	
Engage constructively with uncertainty and ambiguity – reveal and respect different perspectives, create a safe space and enabling conflict to be managed as a learning assets.	In common: • Using plausibility as a guide to the future. • Working with 2, 3 or more alternative stories of the future. • Stories describing the wider context (strategic landscape, not the self) and how it came about. • Plausibility as a guide to the future.	Group model building e.g., rich pictures, lego modelling, quant modelling (illustrative purposes, consistency, check).	World Energy Scenarios 2016 – The Grand Transition.	Failure to use / use effectively: lack of engagement with users/ did not clarify purpose and use at start; not linked/imbedded with decision process; focusing on marketing a report rather than designing a new service.
Forge deeper and shared understanding – new common ground in developing shared visions.				Lack of leadership capabilities – open mindfulness, strategic conversation.

Strategic Foresight (18)

Event	Threats	Opportunities
Graduation from LDC before or on 2030	• Loss in preferential treatment in trade relationships. • Loss in concessional loans and ODA.	• Improvement in competitiveness and productivity. • Higher purchasing power. • More resources to invest. • Higher economic diversification.
Climate change	• Lower productivity. • Natural disasters. • Heath stress. • Damage on capital. • Distortion of food production. • Effects on biodiversity.	• Possibility to trade carbon-credits. • Expedite energy transition. • Be a net supplier of clean energy.
Another pandemic	• Mental and physical health problems. • Stall economic activities. • Affect people income. • Threaten livelihoods. • High unemployment. • Pressure on government expenditure.	• Expedite digital transformation. • Strengthen health-care system and safety-net. • Resiliency prevention. • Temporary environmental benefits. • Improve telecommunications and logistics.
Geopolitical tensions	• Change in strategic alliances. • De-globalization. • Trade barriers / trade diversion. • Changes in ODA. • Potential wars. • Sanctions.	• RCEP • Trade diversion. • Trade diversification.
Inflation + Recession in US and EU	• Reduction of importers purchasing power / international tourists. • Higher borrowing costs / debt service. • Capital outflows. • Currency depreciation. • Higher import prices.	• Trade diversion in South-East-Asia Pacific • Import substitution. • Learned about the importance of managing inflation. • Lower real-interest rates on fixed-interest loans.
Cybersecurity	• Put electronic records at risk. • High expenditure. • Reduce the speed of digitalization. • Lack of privacy/ fraud / security	
Artificial Intelligence	• Jobs displacement by technology • Impact to learning • Lack of social skills.	• Increase productivity. • Reduce costs and save time. • Increase in welfare. • Skill upgrading. • Resilience to cyberattacks
Demographic changes	• Ageing of population. • Changes in consumption / lifestyles. • Urbanization • Social discord. • Housing needs. • Social security. • Resources required by elderly people.	• Increase productivity. • Young people entering the labor force. • Urbanization and provision of services. • Younger cohorts with higher education. • Larger market size for investment.