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## Scenarios, Strategies and the Strategy Process

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# Scenarios, Strategies and the Strategy Process

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## **Abstract**

*The purpose of strategy is to create a good fit between the characteristics of the organisation for which the strategy is designed and the business environment. The strategist needs to consider both parts of the equation. This task needs to be carried out in a situation which is uncertain and ambiguous. The higher the uncertainty and the more dynamic the situation, the more problematic is the idea of 'the best strategy'. What seems best today may be far from ideal tomorrow. The key to success becomes the ongoing process of strategic evaluation and action.*

*The uncertain business environment can be studied by means of the scenario technique. Uncertainty means that there are multiple equally plausible futures to be reckoned with. This is captured in a number of scenarios. Vygotsky's theory of proximal development helps to understand the critical parameters for a successful scenario project.*

*Scenarios have been popular for a long time. However, in most cases the analysis stops at the boundary of the organisation, and it is left to the manager to use his/her intuition to develop conclusions relating to their meaning for the organisation. In this paper a methodology is presented which allows the manager to be more explicit about the specific strategic characteristics of the organisation itself. It is suggested that for every surviving organisation a 'business idea' can be formulated which explains its ongoing success. It is suggested that a 'business idea' needs to clarify three drivers for success:*

- *how 'rent' is created*
- *how 'rent' is appropriated by the organisation by deploying 'distinctive competencies'*
- *how rent and 'distinctive competencies' are employed to create growth.*

*By bringing together the 'business idea' and scenarios the success formula of the organisation can be tested in various plausible futures. In this way its power and its robustness can be evaluated. In a changing processual world the purpose is not to come to a final yes/no decision on strategy, but to keep working on the proposed 'business idea' by using the scenario testbed, trying to improve its effectiveness. While strategic actions are taken the 'business idea' and the scenarios evolve, keeping the strategic question on the agenda. The process is compared with an ongoing learning loop, which stays with the organisation during its entire lifetime.*

## **Keywords**

*Business ; Business environment ; Business forecasting ; Core competence ; Evaluation ; Methodology ; Scenario ; Strategy ; Success*

## **Citation**

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## Conceptualising the future

At the start of the well-known film “Lawrence of Arabia”, about 15 minutes into it, is a scene with Lawrence (Peter O’Toole) and fellow traveller taking a rest at a well during an arduous trip through the desert. An unusually long shot, a peptic looking Peter O’Toole and his guide, sitting out in the sun. And a long long way away, just perceptible on the horizon, a speck. It grows, something is approaching from a far corner of the screen. It is moving toward them forever. The horizon seems so far away and the whole vision shimmers in the heat of the desert. What is it? Long looks toward the horizon.... is it a band of horsemen...? Turks...? Bedouins...? They wait. They watch. They wait. Two guys standing there, not knowing what to do about an approaching unknown. The shot keeps rolling, what’s visible, finally, is a man galloping in on a camel. Who is this man? Camera still rolls on this one long long shot. Mesmerised they stand and watch, not knowing what this is or what to do. Finally, the dude with O’Toole suspects something really bad is about to happen, runs towards his own camel, grabs his revolver and BAM, from this desert spectre, a rifle retort and O’Toole’s buddy is dead. The camera is still rolling on the dead man. Omar Sharif dismounts his camel, rifle in hand, walks over and says:

*“he’s dead”. O’Toole says: “yes ..... why?”*

The film has a message for scenario planners. It illustrates some of the weaknesses of the “predict and control” approach to decision making and suggests why scenario thinking may help. Having identified an approaching speck on the horizon the decision maker tries to work out what it might be. In the film the two people work hard at it. Various hypotheses are explored. On the other hand nothing much is done in terms of response while they are trying to find the right answer. They assume they need to know what the future will bring before they can work out what needs to be done. As the “speck on the horizon” develops old theories need to be thrown out. While they are trying to keep up with this no response is considered. Paralysis has set in. Meanwhile things continue to develop. Clearly time available for developing a suitable response becomes shorter and shorter. Until the time arrives that further inaction becomes intolerable. Something just needs to be done. There is no more time left for thinking. Panic sets in, and the first action that presents itself is pursued. With disastrous consequences, as so often with panic actions.

The film illustrates this paralysis that can result from facing uncertainty in a “predict and control” frame of mind, leading to panic reactions when time is up, mostly with less than optimal outcomes. I will argue in this chapter that a “scenario thinker” may be able to overcome paralysis in such a situation. He will recognise the point beyond which expending energy in trying to work out what will happen produces diminishing returns. The energy is refocused earlier on a different question: “what do we do if ...”, and following that: “what does this mean for what we do now”. This requires keeping more than one future simultaneously operational in the mind, something that seems difficult and uncomfortable to many “energetic problem-solvers”. However, the discipline can be learned, and there are ways of helping people to get into this sometimes less intuitive thinking style. A crucial starting point is to make the thinking process explicit. Tacit knowledge can only be used intuitively. Articulated knowledge, on the other hand, can be consciously embedded in an unfamiliar, but more effective thinking pattern.

## Strategy: self and environment

In principle scenario thinking is always appropriate as all our decisions are affected by uncertainty. However, the degree to which uncertainty affects decisions can vary considerably. A useful concept in this context was introduced by Ackof in what he calls the “futuraity” of decisions. By this he means the degree to which the decision affects how the future will unfold. A decision on what I will eat today has low futuraity, there will not be much effect (normally) on what happens tomorrow and thereafter. On the other hand the decision which school to select for my son has higher futuraity, this decision will stay with him for the rest of his life.

The further out we look into the future the more uncertainty enters into our consideration. Much predictability in the world is due to inertia. Apart from laws of nature it is the most important source of predictability. The effect of inertia wears off with time. Decisions with high futuraity have to be taken in the light of high uncertainty. These are the decisions that are of most importance to us. We call these strategic decisions. They affect the direction in which we will be moving in the future.

Scenario thinking helps us deal with uncertainty. It is most helpful in those decisions where uncertainty is high, i.e. our strategic decisions. This is the area of focus of this chapter. In order to make scenario thinking more effective we need to be articulate about what strategic decisions entail ([\[32\]](#) Whittington, 1993).

### Rationalistic strategic decisions

A lot of strategy is developed intuitively. Mintzberg argues that strategy can only be understood in retrospect, when we are able to analyse and see patterns in what has actually happened. Most managers do not consider this view intuitively appealing. They believe there is a consistent pattern connecting the quality of their thinking and resulting success and failure. Good thinking should improve the chance of success. They would find it highly unsatisfactory to make big strategic decisions by rolling dice.

One approach to developing strategy is “rationalistic” decision making. The strong rationalistic tradition essentially involves the decision maker in the following steps:

- Predicting the future environment (assigning probabilities, if appropriate). Identifying the basic aims of the “self” (individual or organisation), and related measures of success.
- Mapping the capabilities of the “self”.
- Developing a list of optional strategies, based on these capabilities.
- Evaluating the performance of each option in terms of the established measure of success, in the predicted environment. Selecting the highest scoring option.
- Implementing the selected strategic option. This approach is known as the hard rationalistic paradigm. It is fundamentally based on two assumptions:
  - There is ultimately one and only one best answer to any strategy question
  - Implementation follows the discovery of strategy, i.e. action follows thinking.

In this chapter I will consider the validity of these two assumptions, and why we make them. I will argue that an alternative way of decision making which does not depend so strongly on these assumptions is scenario planning. I will first consider the assumption that

each strategic question has in principle one right answer. I will argue that the more uncertain the future seems, the less valid this assumption is.

## Uncertainty

In the context of this chapter we are particularly interested in the way the rationalistic paradigm handles uncertainty. Three approaches are possible:

- It can be ignored. The argument often used is that there is nothing much we can do about things we don't know. Therefore the best way forward is to develop a "most likely" prediction, by asking the most expert individuals we can get access to, and use this for further analysis.
- Each variable is annotated with a margin of error. These are carried through the evaluation of the value of all strategic options. The preferred option has the highest score on the basis of a statistically derived measure such as "mean value".
- A number of alternative futures are generated, a probability is assigned to each, and the value of each option is calculated by averaging the values for each future, weighted on the basis of these probabilities.

Each of these approaches will lead to one unequivocal answer, by either ignoring uncertainty or dealing with it on the basis of probability. The question remains, where do we find the requisite probabilities? The concept of probability has meaning only if we are considering events belonging to a set with known statistical characteristics, either on the basis of historical empirical observation (e.g. the weather) or from first principles, based on laws of nature (e.g. dice). In this chapter we are dealing with questions of strategy. Strategy tends to relate to unique issues, which have not been seen before. Indeed we will argue later that a strategy must have unique features in order to lead to success.

At this point the strong rationalist introduces the notion of "subjective probability". It is left to "the expert" to decide how to assess the probabilities. It seems self-evident to me that nobody, however expert, can come up with a justifiable answer for the probability of a unique event ([28] van der Heijden, 1994). What managers do if asked to make such an assessment is to make a metaphorical comparison with another area of human endeavour they know, for which they feel they have some historical evidence. However, the validity of the analogy cannot be assessed, metaphors have no assessable predictive value. The conclusion must be that the resulting subjective probabilities are untestable, arbitrary and meaningless.

The decision theory itself, based on this model, is entirely internally-consistent, based on a small number of intuitive axioms. However, the results of the calculations have no meaning as essential input is unknowable.

## The strategy process

The idea of scenario thinking cannot be combined with the strong rationalist approach to strategic decision making ([29] van der Heijden, 1996). It fits in a different thinking paradigm, which defines strategy making not as a one-time decision, but as an ongoing process. This is the logical consequence of the introduction of unknowable uncertainty, which invalidates the first of the two basic assumptions underlying the rationalistic approach. Therefore at this point this assumption needs to be dropped and with it the idea of a "best" strategy. What may seem "best" today may be far from the optimum tomorrow. Therefore scenario thinkers are never finished with a strategic decision. They are continuously aware that when action is taken the outcome is unpredictable.

The mental planning activity of the scenario thinker is focused on those elements in the future that are to a degree predictable. The aim is to avoid arriving at a point in time in the future where an unfortunate outcome of a decision has to be classified as something "we could have known". There is nothing more on offer about the future. The rest is unknowable risk the entrepreneur is prepared to take, for which society allows a reward in the form of "profit".

It follows that entrepreneurs cannot disengage from a decision, they need to continue to monitor progress, pick up new developments and reassess the value of what has been done. Rather than "making a decision" they are continuously involved, learning through experience, and readjusting controllable variables in real time. It is in this approach to the future that scenario thinking has something significant to offer. An analogy can be made with the activity of developing a new type of aircraft in a windtunnel. We join the activity at a point in time when the designer has come to a preliminary idea of what he wants to create. However, the situation is complex, and not all performance characteristics can be mathematically derived. At this point a model is made for testing in the windtunnel. The next question concerns the most suitable conditions for the test. Compare the aircraft model with the strategy we have invented. Compare the test conditions in the windtunnel with the scenarios of the business environment in which the strategy has to perform.

Establishing the right test conditions is not a trivial matter. A lot of thought has to go into the type of conditions the aircraft may encounter in real-world operations. What extreme conditions do we need to allow for in our plan? On the other hand what conditions are just too extreme to adopt as a planning assumption for the design at this stage? A supersonic jetfighter requires very different conditions in the windtunnel from a hang-glider. The same sort of question is addressed by the scenario planner. What could be considered plausible conditions, and what seems unsuitable and impracticable as planning assumption? For example, although a world-wide nuclear conflict is not impossible, few organisations will introduce such an event in their strategic considerations. There are bridges we will cross when we get there.

The crucial difference with the strong rationalist world view comes after the test is completed. Like aircraft designers scenario thinkers do not expect to make a "yes or no" decision when the test is completed. They will consider the outcome as the input to a further round of design activity. The observations for all options looked at in the windtunnel will be compared. The next question will be to try to redesign the model such that any upside potential is maintained while observed problems may be reduced in the next round. The activity never stops. Even if at some point in time it is felt that a satisfactory model has been created the designer knows full well that the one we run with may not be the absolute optimum. We can never be sure that a better solution is not escaping our attention. Further improvement might have been possible. The windtunnel is kept in readiness, just in case the new model runs into problems when scaled up into the final product. The designer does not disengage from the project. Similarly the scenario thinker stays with the strategy, to ensure that if things move off-course corrective action can be taken. The scenario windtunnel is kept in readiness, to be used for thinking through how this should be done.

## Defining the strategic question

### Puzzles in the environment, puzzles in ourselves

I will from here focus on the organisational strategist. Much of what will be said is immediately transferable to the individual working on strategy. However, the organisational situation has an additional complexity in terms of the need to get different individuals to align their thinking on the strategy developed. The organisational strategy process has an important inter-personal communication component. Communication takes many different forms. Arguably, the most influential is language. It is the organisational need to express a line of reasoning in language that makes organisations more rational in their behaviour than the individual strategist. I have argued elsewhere ([27] van der Heijden, 1993) that the language of organisations is rational, even if decisions derive mostly from other than rationalist algorithms.

An effective strategist is aware of this conversational process. What exactly is the subject of this conversation? Various metaphors are used to illustrate what the strategist is after. These are expressed in such words as “fit” between the organisation and the environment, or convergence between the “paths” the organisation and the environment are taking. Most of these metaphors have in common that strategic thinking involves both the nature of the environment as well as the nature of the organisation itself. By considering the juxtaposition of these two clusters of insights the strategist, following the “windtunnel” model, will be able to consider whether this particular organisation will be able to be successful in this particular environment. As we saw, in this thinking process scenarios become meaningful as test conditions. This means that only scenarios developed in the context of one’s own situation are experienced as interesting and important. Scenarios developed for someone else are not likely to be appropriate test conditions for one’s own strategic model. The conclusion is clear: scenario development must always be a customised activity. Only by pure coincidence may someone else’s scenarios be relevant to one’s own specific test requirements. Mostly they tend to be uninteresting and dull. Scenario facilitators would be well advised to make sure they know their clients’ strategic situations and involve them directly in the scenario development process ([31] Wack, 1985).

The traditional strategists, without access to scenario planning, often have difficulties in identifying and articulating the elements of the environment and of the “self” that are relevant to the strategic situation. In the absence of this the strategic conversation impoverishes, and decisions become more and more intuitive. As a consequence the rest of the organisation outside the immediate environment of the decision maker is excluded from the process, and decision making gets a strong top-down power-based character. Such an impoverished strategic conversation often manifests itself in people down the line worrying about “not knowing the direction we are taking”, and blaming the top managers for a lack of strategic focus. This is almost always incorrect, instead what tends to be missing is the articulation necessary for strategic ideas to be communicated.

### Articulation

We can divide our knowledge in two categories, a codified part and a tacit part. The codified part is operationally available for decision making. Elements are well connected and integrated and are understood in context; they have meaning. However, we also have tacit knowledge, which we cannot articulate well. These elements consist of isolated observations and experiences that we have not yet been able to integrate and connect up with our codified knowledge. They are isolated bits of knowledge which seem intuitively important but puzzling, the meaning of which we do not yet understand very clearly.

It is difficult for us to make our poorly connected constructs explicit on our own. In order to learn, one needs to relate new experiences to existing cognitive structures. Articulation of tacit knowledge requires an outside agent to confront the individual's unconnected bits of empirical knowledge with the knowledge structure in the wider group or society. This is the role of a "teacher" or sounding board. ([30] Vygotsky 1986) suggests that learning occurs as the result of social interaction. He introduces the term "the zone of proximal development" around a person's existing cognitive structures. It is here that an individual's empirically rich, but disorganised tacit mental constructs interact with the logic of the reasoning expressed in the language of the social group. As a result of this interaction the weaknesses of spontaneous reasoning are supported by the strength of the group logic. The process is known as "scaffolding" the thought processes of the learning individual. As a result unconnected bits of insight become part of the overall structure of the individual's domain knowledge (become meaningful) and in this way enrich the mental model used to operationally consider the future. This process of making sense can take place only in the zone of proximal development.

I will argue later that strategy development is essentially a process of invention. It needs to go beyond codified knowledge, and must involve linking in unconnected insights that have so far remained tacit. This means that the process takes place in the zone of proximal development and involves scaffolding. Scenario development can be seen as a process of scaffolding insights about the environment. In addition, as strategy is about confronting the "self" with the environment we need a similar instrument for scaffolding insights about the organisational "self". Many scenario planners stop short of this. Their clients have obtained exciting new insights about the business environment, but are left to their own intuitive devices to draw conclusions on organisational implications. This can be highly frustrating; many scenario workshops end with this "so what" question hanging. In the course of time it has turned many off the scenario methodology.

In this chapter I introduce a concept which I call the "Business Idea", designed as a tool for articulating and scaffolding knowledge about the organisation itself, in the same way as scenarios are tools for scaffolding knowledge about the environment. Equipped with a set of scenarios for the future environment, in combination with a Business Idea as an explicit structural representation of the "self", the strategist is enabled to address the strategic question: "Is this company equipped to face the various possible futures we can imagine ([16] Normann, 1977).

The first task, then, is to delineate possible environmental futures. After going through that I will discuss the concept of the Business Idea in more detail.

## Clarifying the environment: Scenarios

In this paragraph we deal with the environment side. We consider the question in the strategic time frame, which means that there is significant uncertainty in what we are considering. Not accounting for this is abdication of managerial responsibility, a point ignored in most one-line business plans. Many people are so entrenched in the strong rationalistic paradigm that they cannot see an alternative. On the other hand, no one who has been confronted with the possibilities offered by scenario planning can logically go back to the one line forecast. The scenario approach deals with uncertainty by generating more than one alternative future. Where do these alternative futures come from? What are the raw materials and how are these put together?

The crux of the scenario approach is that it makes use of insights and knowledge in the zone of proximal development, by scaffolding these into the body of codified knowledge of the scenario client. It is the only way in which the client can be helped to make progress. The client will not be helped much by representing only knowledge that has already been codified; this will just repeat what (s)he knew already. Representing knowledge that lies

outside the zone of proximal development is not helpful either, as it cannot be integrated, and therefore is experienced as meaningless or irrelevant. These are the scenarios that are classified by clients as “science fiction”, maybe fun, but useless for business decisions. The zone in which scenarios can be useful is not very large, and has to be carefully delineated in each exercise. It means that one cannot develop useful scenarios for someone else without their significant involvement. The client has to contribute insights and knowledge about his/her zone of proximal development. It is a well-documented fact that scenarios that were experienced as extremely helpful by the group who developed them are mostly not very meaningful to others. The above reasoning indicates that scenario design can only be productive as a customised process, producing scenarios serving the specific group only.

### The "black spot on the horizon"

The “Lawrence of Arabia” story provides an illustration of the sort of unconnected insights and knowledge we refer to here. These are called “weak signals”, events that are observed and which reach our consciousness because we intuit that they have some relevance to our situation. The notion of “weakness” in this context refers to our inability to give meaning to them, which contrasts with “strong” signals that we understand clearly in their potential implications. We puzzle about the “black spot on the horizon”, we just feel that they may become important, but we have no clue how. This is typical of the material in the zone of proximal development which are the building blocks of the scenarios. The more the scenarios can integrate this type of knowledge in a meaningful way the more successful the exercise becomes.

How can we go about, firstly to get these building blocks on the table, and secondly to link them up with our codified cognitive maps?

### Giving meaning to weak signals in the environment

Scenario development is a social process, individuals working together to combine their spontaneous insights as a way to scaffold each other’s tacit knowledge that is as yet unconnected. Scenarios elaborate cognitive structures through scaffolding to incorporate constructs that were initially isolated. They make the initially isolated constructs meaningful, and in that way incorporate these in domain knowledge, with which the future is considered.

The process is a conversational one, in which people are triggered to surface spontaneous knowledge and then integrate this in the existing cognitive structures. Experience has shown that these desirable results do not necessarily emerge spontaneously when people sit around the table with the wish to engage in such a conversation. It requires the help from a suitable process, involving a facilitator who is familiar with the dynamics of social interaction in this area. Over the years many techniques have been suggested and tried, and there are a number of methodologies that are all capable of producing results. The following extracts a number of common elements one can distinguish.

The first task is to surface what we have called spontaneous knowledge. It is not very useful to ask people to just tell us. We have seen that this knowledge is tacit, and needs to be triggered. The facilitator needs to provide these triggers. This requires knowing where triggers are going to be productive for exploration of the zone of proximal development. Most scenario facilitators will want to interview the members of the client team in some depth in advance to map this out. During these interviews the interviewer must not set the agenda, the interviewee has to decide where the conversation needs to be taken. The starting point of the conversation is the fact that we are looking for territory where the client feels insecure, puzzled or worried. These are all signals to indicate that knowledge is not properly integrated. The interviews must be open-ended (to the extent this is possible),

addressing questions of uncertainty and puzzlement. If successful the facilitator will collect enough insights to suggest a “scenario agenda” that characterises the zone of proximal development.

The group triggering process requires confronting the client group with suggestions relating to tacit insights and knowledge that will trigger a response. Material surfaced during the interviews can be used in this way. Brainstorming can do this too, by making people trigger each other’s knowledge. Most facilitators will consider it helpful to bring in new and unexpected external impulses. An effective method is to invite to the discussion people with domain knowledge, but who do not normally take part in the strategic conversation of the client. If these individuals are carefully selected on the degree of overlap between their domain knowledge and the clients’ zone of proximal development such an interaction can be powerful in terms of surfacing insights. Being expert is less important than having overlapping domain knowledge. These people are sometimes referred to as “remarkable people”, because they help the client in making leaps in understanding, causing them to surface tacit knowledge, and then integrate it.

Other ways of triggering involve asking questions based on general purpose checklists. This may surface responses, some of which one hopes will overlap with ideas in the zone of proximal development.

Following elicitation the next step is to integrate as much as possible of this material into the client’s cognitive representation of the business environment. In scenario thinking the instrument used for this is the story line.

### Scenarios as scaffolds

A story line is one of the most powerful means to package a complex set of events and relationships into something that is cognitively manageable, and therefore memorable.

There are suggestions in the literature that much of human empirical knowledge is stored temporally. For example ([20] Schank 1977) has introduced the term schema for a chunk of temporally organised knowledge concerning a area of human activity. Schank gives the example of the series of activities that one would expect to be involved in visiting a restaurant. Activating this schematic knowledge provides a basis for making inferences and suppositions about the meaning of events. People do not usually state all the parts of a given thought that they are trying to communicate. The conceptual processor uses schema’s to fill in the detail that is not provided. Memory for an event will be poor if an appropriate schema is not activated at the time of observation. On the other hand if a particular event or bit of information becomes integrated into a larger schema it will no longer be accessible as an individual entity and hence memory for it will be distorted.

Ingvar ([8] 1985) developed experimental evidence for his suggestion that temporally organised memories, for which he coined the term “memories of the future”, act as perception filters, determining what we perceive. Going through life people spin stories in their mind about the future. This mental activity builds up a store of schema’s or memories of the future, through which subsequent events are interpreted. Even if the specific rehearsed scenario does not play out in detail the mind had nevertheless built-up a readily available set of scaffolded concepts, allowing perception and judgment of what is going on. Following this model we all are well-trained scenario planners.

These theories explain why in scenario workshops participants feel empowered by the new knowledge they feel they have gathered through surfacing tacit knowledge and developing this into scenarios.

Because of the flexibility of the storyline it proves possible to embed the new discoveries made during the process in a limited number of scenario stories. Various ways have been developed to decide how to organise the building blocks into a limited number of stories. Most of these lead to satisfactory results. Important is to arrange the process such that building the story lines is another opportunity for participants to be triggered into surfacing further bits of their tacit knowledge. There are various elements to this. For example the juxtaposition of two ideas can lead to a third. Or the need to create an internally coherent story line may suggest a further construct to complete it.

## Clarifying the “self”: the Business Idea

We now turn to the articulation of the “self”, required to make the scenarios useful for reaching strategic insights. Social organisations are extremely complex mechanisms in which many significant variables interact. It is often experienced as something too complex to “put one’s mind around”. For the purpose of strategic conversation this needs to be simplified. I will argue that for the purpose of discussing strategy we need a mental model of the organisation that can be held in one’s mind as one whole. The literature is divided on what level of complexity can be overviewed as one. Miller ([14] 1956) suggested we can hold only 7 bits of information simultaneously. Kelly ([10] 1963) similarly suggested 15-20. It seems that we have to filter significantly, to get hold of the essential from a very large pool of available detail. What principle can be used to arrive at the essence of the strategic identity. What is the crux of the matter here ?

### The essence of the “self”

The first point to make is that we are considering questions of strategy. We need to distinguish these from tactics and operations. Strategy we connect with long term direction and high futurity, tactics with responding to outside disturbances in the short term.

Observers of the world of business are in two minds about what they admire more in organisations, direction and leadership, or adaptability. One only has to read magazines such as Business Week or Fortune Magazine to be aware of the “CEO as super-hero” style of interpreting business success. In this style of writing it only takes a strong willed CEO, who single-mindedly pursues his objectives to create the great success stories of the business world. Against this we see the modern Organisational Learning literature, which emphasises the need to be adaptable in a changing world. DeGeus ([4] 1995) admires companies that survive for hundreds of years by transforming themselves (in one typical celebrated example from copper mining to paper and pulp manufacturing). Double loop learning is preferred over single loop, leaving little room for the pursuit of a sense of direction.

### Two rationalities, direction and adaptation

It seems we have a clear dilemma here, two mutually exclusive but equally desirable objectives of pursuing a set goal or vision and maximising adaptation to change. How do we proceed ?

The strongly directional organisation will find that the pursuit of strategic direction needs protection from diversionary forces from the environment. The environment is constantly changing, and new developments if unchecked may push the organisation off course. For example in a competitive environment protagonists will take note of a successful strategy and consider emulation. The more successful a strategy the more the organisation will find that others will copy it, eventually invalidating it in the process as a success formula.

How does the organisational system deal with this ? Organisations can continue to exist only if they absorb uncertainties, that is, make internal changes that counteract the effect of external unexpected events. This has the potential of reducing internal coherence, where this disturbs the directional Business Idea. Thompson ([26] 1967) suggests that organisational systems require specialised uncertainty absorbing subsystems, such that uncertainty can be dealt with without disturbing the directive managerial role. One can, therefore, distinguish two rationalities in organisations. One absorbs uncertainty. Bougon ([3] 1977) has pointed out that in this rationality sense making requires a degree of inconsistency in order to override old obsolescent wisdom. The other is the directional aspirational rationality that provides the fundamental driving logic in the organisation and may, therefore, need to be protected and left undisturbed as much as possible.

### Survival and self-development

Charles Hampden -Turner ([6] 1990) suggests that dealing with dilemmas requires moving up one notch on the conceptual ladder. We need to generate a higher level concept that connects the two mutually exclusive objectives into one coherent construct. In the dilemma between direction and adaptability it seems that a higher level definition of the purpose of the organisation may be helpful. It uses the concept of the “living organism”, defined by Stern as the twin and interwoven purposes of survival and self-development ([24] Stern, 1906). Although these form an inextricable pair either of these may be a more appropriate expression of purpose in particular circumstances, depending on the state of the relationship between the organism and its environment.

Translating this in the organisational situation we define the overarching institutional objective as the self-development of the organisation, with the annotation that in an adversarial environment self-development becomes survival. Behind the dilemma between the visionary CEO or the adaptable firm we find a common agreement on the validity of the thrust towards self-development/survival of the organisation.

In most organisations growth is seen as a strategic imperative. The general instinct is to assume that growth is not an option, “if we do not grow we are dying”. I will adopt the overriding need for growth/survival as the starting point for the development of strategic identity. For most organisations who are searching for strategy the need for growth is intuitively plausible (but not for all. For example organisations may be set up to carry out a specific task after which it is intended they will be disbanded. The line of argument presented here is not applicable to these, but neither is the need for developing strategy).

## A shared worldview

Strategic identity is driven by an organisation's success formula, based on the objective of development/survival as the ultimate criterion for its validity. In other words, we are looking for an approach to defining the organisation by reference to its growth potential. A proposed directional success formula needs to be capable of being argued logically in those terms. Earlier we discussed the ongoing strategic conversation in the organisation in the face of uncertainty. The development of an organisational strategic identity is a social activity. Most organisations do not leave the development of strategy to only one individual. Strategy in organisations can be effective only if it is shared among people. This means that it needs to be articulated, discussed and negotiated. As we saw the notion of strategy is fundamentally tied up with uncertainty, and therefore involves more than one alternative view. In conversation comparison of the relative value of each view can only lead to a conclusion through a process of reasoning, linking each alternative strategic identity proposed with the shared world view of growth/survival. This rationale (i.e. why one might be preferable to another in growth/survival terms) is the only ground on the basis of which a common shared conclusion acceptable to all can be derived.

As we saw earlier the language of strategy in organisations is rational. The strategic identity of the organisation needs to be rationally argued. It needs to contain the basics of a "success formula" that will enhance the chances for the organisation to survive and flourish. This is the basis of the notion of a "Business Idea".

## The Business Idea explained

### A positive feedback loop

Systems theory represents self-sustaining growth as the outward manifestation of a positive feedback loop ([23] Senge, 1990). Such a loop is the result of variables in the system being causally configured such that an upward movement in one variable causes ripple effects through the other variables in the system which in turn push the variable up even further. For example investment in efficiency may lead to an improvement in margin that allows further cost-reducing investments. Or an increase in advertising may lead to an increase in sales and revenue, such that advertising can be increased even further. Loops of this kind may become self-sustaining, leading to sustainable growth.

Because growth is the overriding objective the Business Idea must be capable of being expressed as a positive feedback loop. The most convenient way to express a feedback loop is by means of what is known as an "influence diagram". In such a diagram the variables in the system are connected by arrows showing causal relationships. An arrow from variable A to variable B indicates that a change in A causes a change in B. Such a connection can be of one of two types. If B moves in the same direction as A the connection is annotated with a plus-sign (+). If B moves in the opposite direction of A the minus-sign (-) is used. If no sign is indicated the default assumed is plus.

### Distinctive Competences

Growth requires resources, and sustainable growth requires ongoing application of resources. The sustainable generation of these resources needs to be an explicit part of any Business Idea. The key issue the positive feedback loop has to address is the generation of resources on the basis of which growth can be based. This means that the organisation will have to interact with other actors in such a way that the interaction is sufficiently valuable for these actors to return some of this value in the form of a price paid for service. This interaction-partner is a crucial player in the growth game. It may be a customer buying goods or

services of value to them, or it may be a funding agent, acting on behalf of the community to cause the creation of a common good. In any case the crucial condition that needs to be satisfied for growth is the creation and realisation of value for others.

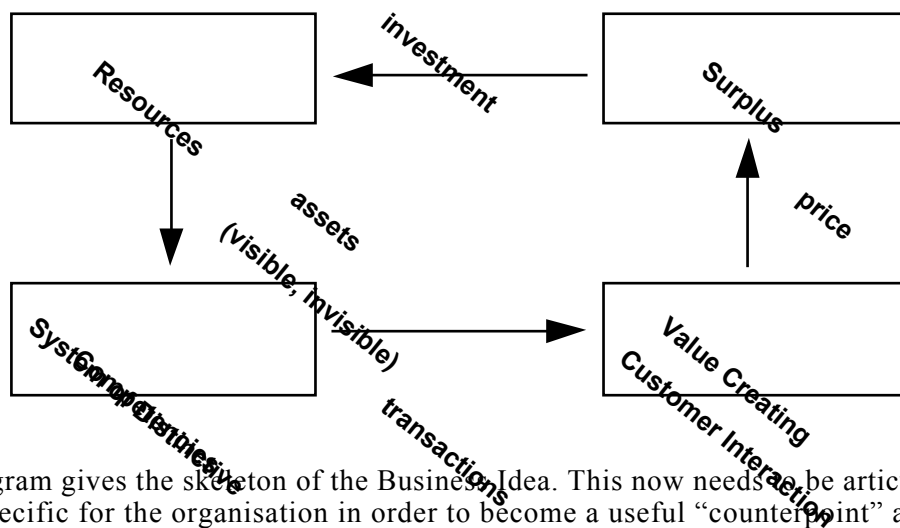
This is a necessary, but not yet sufficient condition for growth. In addition the organisation needs to be able to appropriate some of this value for itself. It must be able to command a price for its services sufficient to create a margin over costs incurred, to create the resources on the basis of which growth can take place. This is possible only if there are sufficient barriers to entry for other potentially competing organisations to this customer interaction. If these barriers are not in place, others will copy any successful customer interaction and in this way compete the surplus away.

A typical example of barriers to entry are monopoly rights granted to a public sector organisation. However, this security may be more apparent than real. This may become clearer if we re-perceive the funding agent as the customer. Most funding agents have competing alternatives open to them. Organisations need to be able to show that they perform a distinctive service if they want to continue to enjoy the funding agent's support. Rather than relying on others it is preferable in terms of robustness to rely on barriers to entry which are built-in, in terms of Distinctive Competences the organisation has which others find difficult to emulate.

The broad outline of the positive feedback loop now starts to take shape:

- Interactions between the organisation and its customers produce value for these customers.
- The contribution from the organisation is made possible through the exploitation of its system of Distinctive Competences brought to bear on the interaction
- The customer is prepared to pay part of the value created as a price. If this price is in excess of the cost incurred the organisation creates a surplus
- The surplus will then be applied towards acquiring the resources necessary to maintain the existing Distinctive Competences, and build new ones.

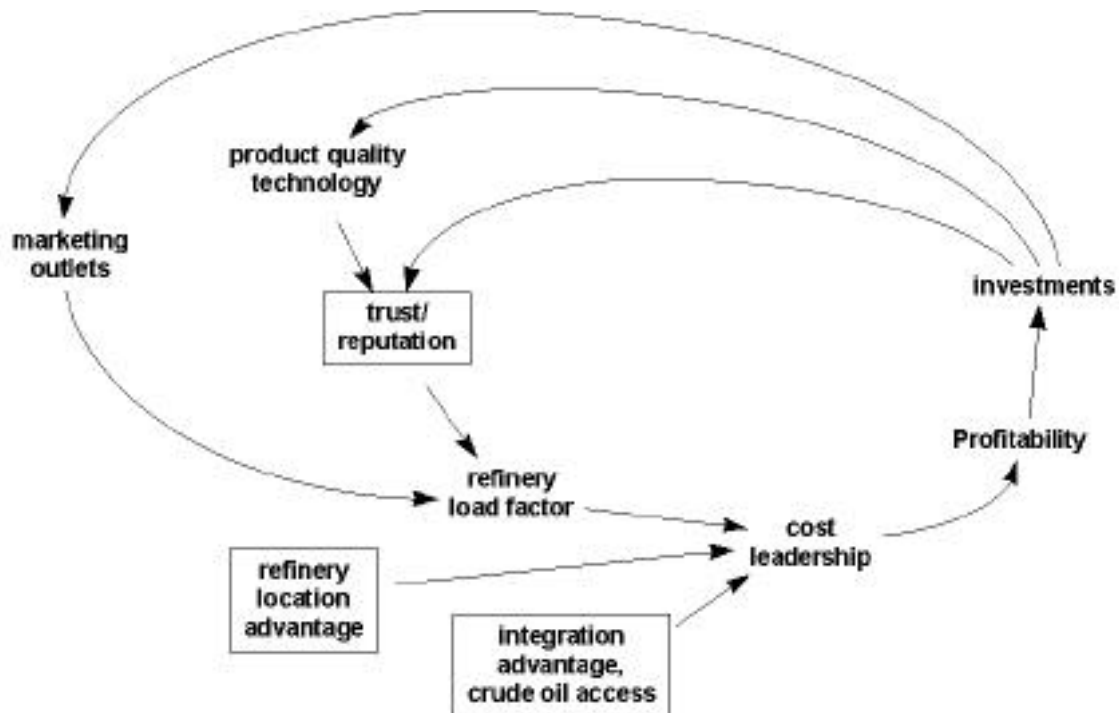
The generic loop underpinning the Business Idea is shown in the following diagram:



The diagram gives the skeleton of the Business Idea. This now needs to be articulated and made specific for the organisation in order to become a useful “counterpoint” against the scenarios as the basis of a strategic analysis and discussion. This articulation will need to address a number of important issues:

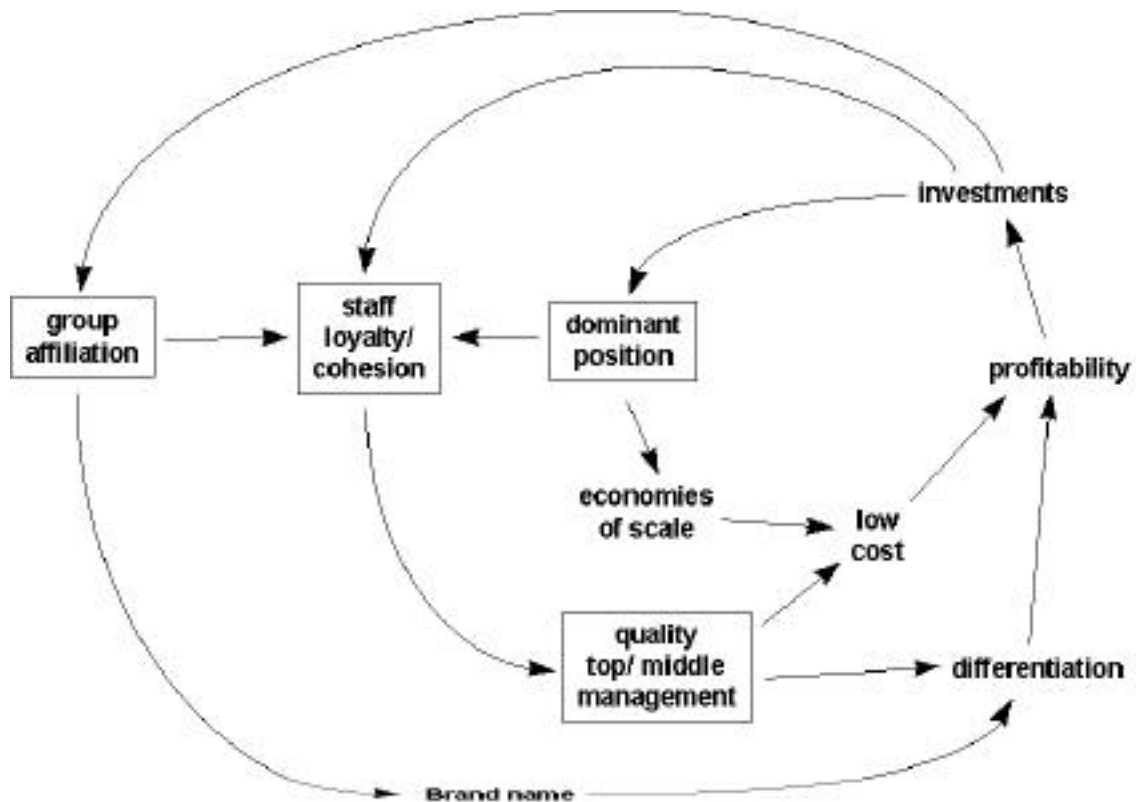
- Who is the customer (defined in terms of the party “paying the bill”, see below)
- What is the nature of the transaction between the organisation and the customer
- How does the customer derive value from the interaction
- What is unique in the interaction, deliverable only by the organisation
- What are the Distinctive Competences of the organisation allowing it to produce this element of uniqueness.
- What resources are applied to maintain the Distinctive Competences
- What resources are applied to renew the Distinctive Competences.

Worked-out examples of the Business Ideas of two organisations are presented in boxes A and B. Both are shown as influence diagrams to bring out clearly the positive feedback loops on which they are based. It is usual practice to annotate Distinctive Competences by boxing-in items in these diagrams.

**Box A: The Business Idea of a refining company, supplying the local market**

*This Business Idea was drawn up by a relatively small oil refining company supplying a local market. The company is competing with a number of international companies in its market, but these have to ship in the product from further afield. Management recognises that oil products are commodities, and there is very little room in the market for competitive advantage based on product differentiation. Profitability is primarily based on cost leadership, which is the strategic aim. The company has a number of advantages, one of which is the fact that its facilities are closer to its markets than its competitors', and shipping crude oil is cheaper than shipping oil products. It also has a close link to a local crude oil producer, which ensures it of a constant supply of crude oil of consistent quality. This reduces cost of refining by avoiding run switching and by cutting down working capital in crude oil stocks. However, these advantages lead to cost leadership only if the refinery is always fully loaded. The company ensures this by first of all investing in its marketing outlets, and secondly by investing in its reputation. The latter takes two forms, building of brand awareness in the market by advertising and promotion, backed up by top quality of the product, based on investments in product technology.*

*So far the Business Idea has enabled the company to survive in a highly competitive market. However, there are limits to its exploitation, in that expansion of capacity leading to a wider supply envelope will reduce its advantage vis-a-vis its competitors. This is a Business Idea with built-in limits to growth.*

**Box B: The Business Idea of an internationally affiliated multi-product business**

The second example of a Business Idea is one at the corporate level. The company is an affiliate of a well-known international group, with a very-well established brand name. It deals with a number of rather dissimilar product lines which do not have a lot in common except that they make use of the same logistics systems. By achieving a dominant position there are clear economies of scale to be obtained here, and the company has built up a position to benefit from this.

Another distinctive advantage the company enjoys at corporate level is due to its international affiliation. Through this it exploits the well-known brand name which differentiates its branded products in the market. An important aspect of the international affiliation is that it makes the company attractive as an employer in the market for managerial level staff. The company has traditionally reinforced this by investing in its employees, both by paying in the top quartile of the industry range, and by paying continuous attention to training and development, using its international affiliation to broaden the outlook of its managers. As a result it has traditionally attracted high quality employees in the top and middle management ranks. Top management takes it as axiomatic that this is a precondition for the realisation of rent potential through differentiation and cost leadership.

The positive feedback loop illustrates the realisation of profitability through the exploitation of economies of scale in logistics and product differentiation through brand recognition in the markets. Cash generated is invested in market share, the human resource, and dividends to the parent. As a result the company has been successful in building distinctive positions in market dominance, quality of managers and access to a world-wide brand. These form the foundations of its competitive advantage across all its product lines. The Distinctive Competences shown in the diagram work across the total business and benefit all products.

*All Business Ideas have built-in limits to growth. The company has already reached a dominant position, its managers are of the best quality available, and it already enjoys the benefits of a world-wide brand. The position of the company is strong, but significant expansion will have to be developed somewhere else.*

### Defining “the customer”

The identification of the customer depends on the definition of the business of the organisation. In the context of the Business Idea we define the customer generically as those parties deciding between competitors for their choice of partner in the value creation interaction. The question of who is the primary customer requires focusing on the crucial “moment of truth”, when the battle between competitors is decided in favour of the organisation we are studying. Accordingly, as we saw, the public sector organisation may consider its funding agent its primary customer. Similarly, rather than a customer buying its commodity product an oil company may prefer to consider as its moment of truth when a government decides who to grant a favourable concession for a promising reserve. In the context of its Business Idea the government may be the primary customer, and it may be more appropriate to define the company as providers of “rent-creation” services to host governments rather than by its secondary activity, selling of oil to the public.

### Distinctive Competences

The question why organisations might be able to acquire Distinctive Competences requires some further exploration. It is probably true that all distinctiveness is ultimately imitable. Assuming this to be the case Distinctive Competences are transitory phenomena, which need to be renewed. Their distinctiveness is based on the fact that they need time, resources and energy to develop. This creates barriers for potential competitors which Schoemaker ([22] 1992) refers to as “friction forces”, allowing organisations to enjoy the benefits of such acquired Distinctive Competences for a limited period of time.

But eventually each Distinctive Competence needs to be renewed or replaced. In this connection it is crucial for the organisation to understand what creates value for customers. Being able to read the customer’s mind may in itself be a Distinctive Competence. Therefore Distinctive Competences can be categorised as ([16] Normann, 1977):

- Productive Distinctive Competences
- Relational Distinctive Competences

Examples of productive Distinctive Competences include a better trained work force, technological know-how embedded in the organisation, ownership of patents, a flexible production system or culture, superior market share (leading to economies of scale and learning effects), etcetera. Examples of relational Distinctive Competences include reputation, brand-name, access to distribution channels, customer oriented culture etcetera.

An alternative categorisation is provided by Teece ([25] 1986) who has suggested that Distinctive Competences are based either on investments made in the past that cannot be reversed ( “sunk investments”) or on tacit institutional knowledge embedded in the organisation.

If real or intangible assets do not have an alternative use value these are available to the organisation to bring to bear in customer transactions at low opportunity cost. New entrants on the other hand would have to make these investments at their full cost, putting them therefore at a disadvantage. Examples of such assets created by (partly or wholly)

sunk investments are acquired legal protection (such as patents), reputation and specific-use assets.

The second category of Distinctive Competence suggested by Teece is uncodified knowledge, provided it is owned by the organisation and not by specific individuals in it. Only in that case will the benefits accrue to the organisation as a whole. The reasons why this type of knowledge is difficult to emulate are partly related to the friction forces mentioned above. Often an additional factor is the fact that much of organisationally embedded knowledge is tacit, acquired more by accidents than design. For this reason it may be difficult for a potential competitor to understand in all its detail. Examples of areas where organisations develop tacit institutional knowledge include distributed know-how systems, organisational culture, commitment and identification by individual members with the organisation.

The articulation of the Business Idea surfaces these Distinctive Competences in the context of their use in the value creation system of customers. A critical frame of mind is of some importance in this process. Distinctiveness is a relative notion, and Distinctive Competences can only exist relative to competitors. For example the notion that “we have a committed work force” as such is not enough. To qualify as Distinctive Competence one needs to be able to show that this quality is present in the organisation to a unique degree not seen elsewhere.

### Articulating the Business Idea

A practical way of developing a Business Idea diagram is in a workshop type situation, where a facilitator leads a structured dialogue in the management team, gradually developing the diagram on a white board. The best point to start is to identify what we have called the competitive “moment of truth”, where the competitive battle is decided. From this the primary customer is identified, together with the value that the transaction creates for him/her. The next question is why the customer would prefer to come to us for this transaction, rather than to our competitors. What do we have to offer that has unique value to them? Having established this the facilitator asks why we, as an organisation, can bring this attribute to bear. How come we have this capability? Where does it come from? By addressing repeated “why” and “how” questions the group gradually builds up the influence diagram, in which organisational attributes explain other organisational attributes. This process continues until attributes can only be explained by the investments the organisation has made in the past or is currently involved in. At this point the loop can be closed by connecting with the surplus generated, based on the value created in the customer system. This is illustrated in the two examples in boxes A and B.

Following this conversational process the facilitator normally needs to clean up the result, by unravelling crossing lines and simplifying the diagram down to a cognitively manageable number of constructs. This normally requires combining constructs into a lesser number at a higher conceptual level. The whole process normally takes a few iterations through the management team, until full agreement has been reached and “ownership” is shared.

## Working with Scenarios

### Business Idea analysis with Scenarios

The Business Idea encapsulates the “success formula” with which the organisation intends to walk into the future. The question arises whether it constitutes a strong robust formula, containing enough general purpose competences to deal with most futures as we can envisage these. Alternatively there may be weaknesses that we can bring to light in time for us to take corrective action. This is where the Business Idea needs to be confronted with the scenarios in a windtunnelling approach, addressing the question whether this is the right organisation to face the futures developed in the scenarios.

As we saw the scenarios must be appropriate test conditions for the Business Idea. An effective way to achieve this is by articulating the Business Idea in the management team before the scenario agenda is specified. The scenario development project then needs to be kept focused on this agenda, to ensure that test conditions are developed which are relevant to the specific Business Idea to be tested.

### Taking the entrepreneurial processual view

The entrepreneurial processual approach to scenario planning addresses the question whether "this is the right company for the future" head on. The steps involved include the following:

- Identify the evolution of customer value in each of the scenarios (ask what is changing across the whole range of stakeholders, what new needs are arising for each of them)
- Study the performance of the the Business Idea in the evolving value system of each of the scenarios. Identify strong and weak points.
- Generate options to respond to new customer values, either by exploiting a strong Business Idea, or by improving a weak one.
- Build options together into strategies
- Evaluate each strategy across all scenarios
- Reiterate as an ongoing process.

### Opportunity and capacity options

The process revolves around generating creative strategic options open to the organisation. At this stage the scenarios are used as idea triggers. The management team works through each of the scenarios in turn. They identify the stakeholders in each scenario and consider how each stakeholder’s value system evolves. They then ask themselves what their most effective competitor would be like and whether it would be possible for the organisation (as articulated in the Business Idea) to perform satisfactorily in that environment.

If the question is answered positively, option generation concentrates on trying to find new areas in which an apparently strong idea can be exploited. These options are known as “portfolio options”, as they concentrate on exploiting the same strengths over a wider portfolio of opportunities. Typical examples include:

- market development
- product development
- entering new markets for the same product (for example exports to new markets)
- concentric diversification (using existing competences in closely related new business areas)
- mergers with or acquisitions of comparable organisations.

If the Business Idea is found wanting, options will be generated of a type called “capability options”. These indicate that activities need to be concentrated in the first place on strengthening the Business Idea before a new business portfolio is acquired. Typical examples include:

- building new competences such as R&D skills
- building customer access skills or a service oriented culture
- investing in a low-cost strategy
- investing in turn around or retrenchment strategies
- divesting of weakly integrated activities.

As we saw, at this stage the scenarios are used as idea triggers. They are of course not the only triggers available; there is no monopoly for good ideas. Strategic options may have been around already on an intuitive basis and can now be incorporated in a comprehensive snapshot of the total business situation. It is important that the exercise is conducted in a true brainstorming frame of mind, i.e. all judgment should be postponed until no new ideas seem to be forthcoming any more.

The options surfaced during the brainstorming activity tend to be a range of possible actions conceptualised at various levels, from strategic to operational. The next step is to design strategies by packaging together those optional actions which pursue similar objectives and are mutually reinforcing. The best result is obtained if the options can be grouped into strategy clusters which distinguish themselves from each other in the way they resolve the major strategic dilemmas facing the management team. For example does the company concentrate on cost leadership or product differentiation ? Does the company resolve weaknesses by retrenchment or expansion (by vertical integration or conglomerate diversification) ? Does management down-size or expand? Does it reallocate rewards to investors, customers or employees ? The main dimension along which the various strategies are mapped can only be clarified by reference to the Business Idea. This will show where the scarce resources and basic bottlenecks of the organisation are located, and where the fundamental choices have to be made.

For example the oil refining company of Box A might be thinking in terms of strengthening its cost position or developing a new set of differentiated products/offerings. Alternatively it might think in terms of building on its current positional advantage versus repeating the formula elsewhere.

The clustering activity can be carried out by either trying to articulate these fundamental dilemmas in advance, or by intuitive clustering in a trial and error approach, on the basis of emerging choice criteria. However this is done, the final result should address the most basic choices facing the organisation. For example a company in S. Africa, under considerable pressure to pull out in the early 1990’s formulated its strategic options as follows:

- Pull out altogether
- Stay as we are, keep “ticking over”
- Do only short-term investments
- Invest for the long-term.

## The 4 strategy evaluation criteria

The next step involves discussing the consequences of the strategies designed. At this stage management are interested in the impact of the strategies on the attainment of the basic organisational goals of survival/growth discussed earlier. This overall objective can be broken down in terms of four categories of specific criteria that need to be considered to assess the quality of strategies and their chances for creating growth. These are the following:

- Financial performance, representing the surplus generated to drive future growth. The traditional way in which the financial performance of a strategy is expressed is by means of a financial business plan. The question can also be approached qualitatively by considering distinctiveness, competitive advantage and customer value.
- Risk performance. Often the assessment of strategic risk is a somewhat haphazard intuitive affair as the probability of unique events cannot be estimated. Many proxies are in use, for example investors will be interested in the qualities and track record of the management team as an indicator of their ability to deal with unexpected change. Similarly strong competitive advantage reduces risk. Scenarios can be used to assess risk by considering possible outcomes across a range of different future environments. Provided the scenario development has taken into account the crucial risk factors it can provide a major contribution to “calculated risk assessment”.
- Strategic fit. As we discussed the success of any organisation depends on a strong Business Idea, which is based on a system of Distinctive Competences working in concert. Building this system takes resources and time and a Business Idea cannot be changed overnight. A strategy based on exploiting existing Distinctive Competences is a lot more plausible than one based on building an entirely new Business Idea. Unrealistic expectations in this area need to be assessed as having a significantly lower potential for success.
- Cultural fit. A corporate culture is one of the most stable characteristics of an organisation. Any strategy aiming to make significant changes in this area faces major obstacles. Some companies have developed and successfully implemented strategies of culture change. In some successful cases these strategies involved projects involving the organisation in change activities over more than one generation of workers. These strategies take organisations into uncharted territory and always involve enhanced levels of uncertainty.

The concept of a scenario/strategy matrix, discussed below, can help management to get an overview of the strategic situation facing them in these four categories.

## Scenario/Strategy matrix

In a scenario/strategy matrix columns represent different scenarios and rows represent strategies. It illustrates the idea that all strategies need to be assessed for all scenarios, before a judgment of relative value can be made. Scenario planners must resist the temptation to develop preferences for specific scenarios. A “most likely scenario” is fundamentally against the windtunnelling notion of taking uncertainty along during strategy development up till the final decision point. The analytical task therefore is to assess all strategies across all scenarios, assessing performance in all boxes in the matrix on the 4 criteria mentioned in the last paragraph. Following this the scenario/strategy matrix needs to be read horizontally. Looking at the various outcomes for each strategy across the scenarios an impression is gained of the level of risk involved for each strategy.

At this stage the hard rationalist will suggest that a decision is taken using the principles of multi-attribute decision theory. This involves assessing weights for each of the criteria involved and calculating an overall score. My experience is that in real life most management teams avoid working in this way. In situations where scores on different criteria rank differently most teams will adopt an ongoing windtunnelling processual approach. They will want to continue to work on each strategy and change its component mix until the choice situation clarifies across the decision criteria. This will often involve building in increased flexibility in a strategy to reduce the risk factor.

### Flexibility

The windtunnelling approach is based on the assumption that there is always room for improvement in the design of strategic options. This involves an ongoing search for options that are more robust across the scenarios. Most optional strategies tend to show rather different perceived performances depending on the scenario in which they are being tested. The search to make options less dependent on scenarios involves the question of flexibility in strategy. Schnaars ([21] 1986) has suggested 4 different approaches that can be adopted when designing strategy with multiple scenarios.

The first is known as a **robust strategy**. It is a strategy which performs well over the full range of scenarios considered. It leads to an inherently conservative response to unpredictable environments. It takes positions on both sides of the range of possible developments. It protects against losses but provides only modest, albeit stable, returns. It seeks to maintain a viable position rather than to gamble heavily on achieving spectacular results.

The second is known as a **flexible strategy**. The idea here is to keep options open for as long as possible. With very high uncertainty a flexible strategy may be preferable to a robust one. This depends on the level of perceived uncertainty and the cost of postponing a decision. Requirements for a successful flexible strategy are:

- That the decisionmaker understands how the strategy will be adjusted in each scenario
- That the decision maker remains vigilant to spot actual outcomes
- That the response time is reduced as much as possible.

The third variant is a **multiple coverage strategy**. Firms with extensive resources can simultaneously pursue multiple strategies until the future becomes clear. The strategy is expensive, as it involves investments in strategies which will be discarded half-way, without producing returns. However, if one can afford it it is an ideal way to ensure against missed opportunities.

The fourth variant is the **gambling strategy**. In this case the strategist selects a strategy which is known in advance to lead to sub-optimal results if some of the possible scenarios develop. However, the strategy is selected by gambling on the development of other futures in which it produces more than proportional returns. As it is impossible to assess the probability of any of these scenarios the strategist will consider a gambling strategy only if survival of the organisation is not threatened in the worst case.

### Taking the organisational learning view

At the beginning of this chapter we identified the two basic assumptions underlying the strong rationalistic approach to strategy design:

- There is ultimately one and only one best answer to the strategy question,

- Implementation follows the discovery of strategy, i.e. action is organisationally separated from thought.

Earlier, while facing up to strategic uncertainty, we had to abandon the first assumption. In the light of this we discussed the strategy process as a managerial activity in which uncertainty is taken along all the way while the team experiments, makes sense of experience and acts accordingly. So far we have not yet discussed the notion of a strategic decision being followed by its execution, as if these were two different activities. It is now time to seriously consider the assumption that execution follows thinking. Observers have repeatedly come to the conclusion that it often seems far from how things seem to happen “on the ground” in most organisations.

Harvey Jones ([7] 1988), the ex CEO of ICI, observes in his book Making it Happen: “I believe ... that in deciding where you would like to go, as opposed to where you are probably going to end up, you need a great deal of discussion and a great deal of development of new thinking and new processes. The idea of doing this through the planning department or through a paper on strategy presented to the board, seems to me to be quite inadequate. This process involves large amounts of time and constant discussion with those involved down the line who will actually execute the strategy on which the whole picture relies. This sort of circular debate, frequently widening out to involve others within and without the company, goes on until all are satisfied that the result is as good as they are going to get”.

When Mintzberg ([15] 1989) observed a number of executives in action he also found a style of behaviour that seemed somewhat at variance with the traditional view of the world of decision making. He saw most executives:

- Preferring verbal over numeric information
- Preferring conversation over reading
- Gathering data on an anecdotal basis
- Highly distrustful of any general theory presented to them
- Avoiding the “grand design” sort of decision
- Preferring to make smaller incremental decisions
- Letting the overall strategy emerge.

Kotter ([11] 1982) saw that, while executives espoused their task as goal setting, resource allocation and use of resources, in fact they spent their time on a day-to-day basis on agenda setting, network building and execution.

Quinn ([19] 1980) observed that the full strategy is rarely written in one place. The processes used to arrive at the total strategy are typically fragmented, evolutionary and largely intuitive. Although one can frequently find embedded in these fragments some very refined pieces of formal strategy analysis the real strategy tends to evolve as internal decisions and external events flow together to create a new widely shared consensus for action among key members of the management team.

Preceding these observations were those of Lindblom ([12] 1959) who observed that strategy seemed to differ from the rationalist model in important respects, including:

- Executives spend their time in trying to avoid trouble rather than to pursue goals
- Objectives are mostly not articulated clearly
- Decision making moves between multiple ever changing decision centres
- People adjust positions through bargaining and compromise
- High value is being placed on consensus seeking behaviour

- Consequently policy making becomes a serial process, in small incremental steps, often disjointed.

The articulation of this different perspective is known as the processual school of strategy making. This school sees managers putting high priority on the importance of engaging in a superior process of strategic discussion. It has relatively little to say about the strategy itself. For example, one of the most well known representatives of this school of thought is Tom Peters ([17] 1982), whose messages since many years emphasise process skills, including:

- Bias for action
- Closeness to the customer
- “Being big, yet acting small
- Developing productivity through people
- Sticking to the knitting
- Simple form, lean staff
- Simultaneous loose/tight, minimal but effective control.

Other proponents of the processual school include Colin Eden ([5] 1992), who has written about strategic management as a social process. This connects to a long established tradition in the literature known as “The Management Of Change”. For example Pettigrew ([18] 1991) suggests that change requires five conditions to be in place, none of which may be missing if a change project is to be successful:

- Wide acceptance of an environmental imperative for change
- Clear championing/leadership of change
- Recognition of the importance of the human resource in any change project
- Linking the strategic change imperative with the operational scene
- Total coherence (including absence of mixed signals) relating to all aspects of the change project.

These views emphasise the importance of inter-human processes for the organisation's performance in its environment, with management just one of the many actors involved. The most important aspect of these processes is the continuing dialogue being conducted throughout the organisation. The part of this dialogue we are interested in here can be called the “strategic conversation”.

## The strategic conversation

In 1980 Managing Director Andre Benard ([2] 1980) of the Royal Dutch/Shell Group wrote in the Harvard Business Review that “experience has taught us that the scenario technique is much more conducive to forcing people to think about the future than the forecasting techniques we formerly used”. Since the mid 60’s Shell has invested heavily in promoting the scenario technique in the company. Throughout the 30 years that the company has been engaged in using scenarios it has proven difficult, except in a few celebrated cases, to come up with clear evidence of demonstrable links with improved strategic performance. This has not diminished the company’s enthusiasm for the approach. The above quotation is typical for Shell’s belief in the value of upgrading the quality of the strategic conversation in the company through the use of scenario planning, even if the direct link with performance is difficult to trace.

In consistently taking this stance the management demonstrates its perspective on the company as a community with a common purpose, which exists in a strategic conversation. Such a conversation creates learning loops the organisation continuously goes through, consisting of new experiences and perceptions, leading to conceptualisation and adjusted mental models, leading to new plans and actions, leading to new experience, and so on. The amalgam of these actions follows a coherent pattern, which becomes the organisation’s strategy, created through a process of strategic conversation. The conversational process makes this strategy conscious, without it the strategy would be tacit and emergent, without much scope for top management to intervene. Effective strategic management recognises the overwhelming role of the strategic conversation in making the strategy a conscious process. Rather than issue all commands from the top it is more effective for top management to use the ongoing strategic conversation as a “central nervous system” through which interventions can be made to influence the evolutionary strategic direction.

The management style that fits with this perspective is one of facilitation rather than command. Top management who recognises the power of the strategic conversation will approach the organisation as a “learning system”, intervening by means of instruments such as ([13] Don Michael, 1995):

- Projecting a vision of “a better future”
- Working through a facilitating management style
- Influencing by myths and metaphors, often revolving around tales of disaster and crisis
- Providing short-term rewards for learning behaviour.

The strategic conversation has a formal and an informal component. The informal component consists of any exchanges of views that take place as and when people meet by chance outside scheduled communication events, at home, in corridors or lunchrooms. While this part of the strategic conversation is difficult to influence deliberately, it strongly affects the views people hold. As it happens spontaneously it will naturally take place in the “zone of proximal development” of the participants, and therefore affect how they make sense of events and trends in the strategic situation. The resulting mental models will then drive their action planning and action taking.

Most organisations have formal processes, systems and methods for the exchange of ideas and views and organise events where people come together for this purpose. These systems offer opportunities for interventions by management. They include:

- Key meetings
- Budgeting systems, project evaluation
- Strategy reviews

- Cost-cutting exercises
- Product, capital, market decision points.

Because this part of the conversation is less spontaneous its level of relevance for many participants will be less than the informal conversation, and therefore less influential. Many organisations complain about the limited effectiveness of meetings and other information systems. The normal reaction is to do less of it. However, the effect of this is to leave more of the evolving strategy determined by the informal strategic conversation, mostly outside control by management.

In organisations where management approach their task in a facilitating style, influencing things through intervening in the strategic conversation, the question of relevance and therefore of attention management and agenda setting becomes of major importance. This requires them to be aware of what goes around in the informal conversation. In this way they can ensure that also the formal agenda addresses issues in the “zone of proximal development” as much as possible, thus maximising their impact.

Scenarios (and the Business Ideas they are based on) are natural intervention instruments in the facilitating management approach. The most powerful signals management can give out in an organisational system will have the form of stories or myths, which people subsequently tell each other as illustrative of “how things are understood”. The scenarios, provided they are of an appropriate quality, can serve this purpose. For this to work the scenarios need to be recognised as important signals that the organisation needs to heed. They need to enter the everyday language of the organisation. This can happen only provided they meet the following criteria:

- Simplicity and evocativeness
- Identified by a short but evocative name
- Plausibility, based on internal consistency and causal connections with the present
- Relevance (as determined by the Business Idea), yet challenging the ongoing strategic conversation.

It helps if people down the line are aware that the scenarios emanate from top management, and are indicative of areas they consider worth attention. Even more powerful is it if management makes the scenarios and the Business Idea part of the formal strategic conversation. One example of this was Shell’s introduction of a rule that new proposals put forward for top management consideration needed to be economically evaluated against the going set of scenarios. This forced managers down the line to pull out the scenario book each time that a project had to be put forward. As a result the scenarios became institutionalised and used in the day-to-day discussions about strategy. In turn this provided top management with a powerful line into the informal strategic conversation that can be so crucially important for company development into the future.

### Organisational pathologies

The strategic conversation connects individuals and groups of individuals. Each of these can be seen as intelligent learning systems in their own right moving through their own learning cycle of experiencing, reflecting, mental model building and adjusting, planning action steps, and obtaining new experiences. Through the strategic conversation these cycles are coupled. If this coupling is tight mental models will overlap, leading to increasing similarity in action plans, and therefore similarity in experience. This in turn will increase the degree of overlap between mental models. In such a system, deviant ideas will gradually be shut out, and the danger of “group think” ([9] Janis, 1982) will loom ever larger. If, on the other hand, the coupling is loose, overlap between mental models will be small. Planning of action steps will take less account of the thinking elsewhere in the organisation. Therefore experiences will

be personal rather than institutional, and overlap between mental models will reduce further. In such a system, ideas will grow apart and the organisation will lose coherence and fragment. This system of overlapping mental models constitutes a positive feedback loop. This means that organisations, if left to their own devices, will tend to drift in either of two directions, ending up in one of the pathologies described:

1. the inaction resulting from fragmentation and
2. the myopia resulting from group think.

A healthy organisation manages to avoid both of these. It needs to realise a degree of coherence in the way it moves forward, without shutting out divergent ideas in the strategic conversation. As we saw above reacting skilfully to external uncertainty requires a degree of variety in interpretation that is a match for the degree of variety of events and trends in the business environment ([1] Ashby 1983, the law of requisite variety,). This is why differentiation is needed in the organisation. On the other hand strong development requires a strong Business Idea that is shared sufficiently in the organisation to create coherent action towards realising it. This is why integration is needed as well.

In the nature of any positive feedback loop an organisation left to its own devices will tend to drift towards either of the extremes of fragmentation or group think. One of the prime tasks of top management is to continue to steer it to a more balanced middle position, where a degree of adaptability is combined with purposeful strategic direction. Most of the existing intervention and management training instruments attempt to improve communication and thereby increase integration. It is often less clear what management can do to increase differentiation and “out of the box” thinking. In closed organisations individuals need to see themselves as “learning agents” for the whole. This requires an environment promoting experimentation. Experimentation requires a culture of psychological safety, in which error is seen as a positive investment in the future, rather than something that needs to be punished. It also requires a degree of slack in the organisation. Differentiation does not come for free.

In order to promote differentiation in the strategic conversation management needs to use a conversational instrument that allows, indeed, requires multiple views as an essential part of its structure. Scenarios have been proven to be a particularly powerful tool in this respect. A scenario discussion consists of a divergent and a convergent phase. A well-conducted process will ensure that participants refrain from convergent thinking in the earlier divergent phase. Deliberate attempts are made to bring in new views, drawing from the outside, on the basis of the assumption that every organisation will develop some degree of myopia. In scenarios there is room for everyone’s theory. Different and new views are celebrated and rewarded. However, fragmentation is avoided by building in from the start a point in time where the divergent phase is closed and convergence starts. In the convergent phase story lines are developed which “scaffold” all these ideas and views, thus creating an overall structure in which the many seemingly divergent views are given meaning in the overall context. In this way a political debate in which one idea fights it out with another is replaced with a cognitive structure in which a variety of different ideas are all legitimised. This reflects the uncertainty in which organisations find themselves, and in which context the strategic direction will have to evolve.

Managers who see themselves as facilitators rather than commanders will consider intervening in the strategic conversation as their main role. They understand that the intervention is the highest leverage available to management, and more effective than the rationalist top-down optimisation of declaring the “best strategy”. They realise that “making people think” is more important than “espousing strategy” that many of them know will seldom be implemented.

## Conclusion

In this chapter we started exploring the world of rationalistic decision making and identified two fundamental assumptions underlying it. We then reviewed the world of organisations and found that we had to put some question marks besides these assumptions. As a consequence we focused on an alternative way of looking at organisational action as a processual learning loop. In this view management's role is more facilitating the process rather than decision making. Does this mean that the rational model has to be discarded? We don't think so.

We suggested that a crucial part of the organisational process is conversation. We saw that the language of organisations is rational. Ideas align by rational argument. Even if decision making is not based on the rationalistic paradigm the conversation which makes action possible is rational. Facilitation of the strategy process therefore involves facilitating articulation of knowledge on the basis of which the strategic conversation can be conducted. We have argued that scenarios, and their counterpoint in the conversation, the Business Idea, are powerful tools to help this conversational process forward.

The power of the tools become particularly apparent when considering pathologies in the organisational strategy system. It seems that continuous active management involvement is required to prevent the organisation from drifting into one of these. The scenario approach to strategy is one of the most powerful tools available to management to carry out this responsibility.

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