



Chapter 1

DYNAMICS IN THE BUSINESS WORLD AND THE APPROACH OF THE BOOK



Executives are facing considerable new challenges in a so-called *VUCA world*, where *volatility*, *uncertainty*, *complexity* and *ambiguity* set the future pace of competition. In such an environment executives need to understand how to make use of short-lived opportunities, quickly and decisively. The acronym *VUCA* was originally introduced by the *U.S. Army War College* to describe the dynamics and the strategic impact of today's multilateral world. The elements of *VUCA* pinpoint the strategic significance of foresight and insight, as well as the insight into the behavior of stakeholders, groups and individuals, outside and inside organizations. The following elements represent the context in which organizations in the field of business view their current and future state:

- **V > Volatility:** addresses the nature of change and the dynamics of those forces and catalysts causing the change. As a consequence external change may be faster than the organization's ability to respond.
- **U > Uncertainty:** describes the lack of predictability and the prospects for sudden surprise. Here the leadership challenge is the requirement to develop a sense of awareness and the ability to anticipate and interpret issues and events effectively.
- **C > Complexity:** indicates the variety of forces influencing an organization and its ability to survive. Multiplex issues and missing understanding of cause-and-effect chains may lead to confusion. Leaders may be lacking the time to reflect and think through these complexities. They end up acting too quickly or getting stuck in analytic paralysis. And, consequently, they may be acting too late.
- **A > Ambiguity:** addresses the haziness of reality and the resulting potential for misreads and confusion. Leaders may not understand the significance of a trend or an event and may respond in an ineffective way.

Johansen (2012) points out that in an uncertain world there is urgent need for a future paradigm of leadership, turning the original VUCA idea on its head:

- The threats of *volatility* can be countered by a clear *vision* causing a light-house effect for the navigation in turbulent times.
- *Uncertainty* can be countered by a deep and solid *understanding* of the developments in the business environment using the ability to listen, to look, to perceive and to understand what makes the environment tick.
- *Complexity* can be countered by *clarity* and the ability to think in networks and systemic cause-and-effect patterns.
- *Ambiguity* can be countered by *agility*, the *ability* to communicate, to share paradigms for better understanding, to exploit short-lived opportunities. It is crucial to keep pace with the respective market speed.

Abidi and Joshi (2015) draw the conclusion that there is a need for resilient leadership skills, comprising engagement themes in planning, knowledge management, impact models, recovery systems and perception systems for behavioural and systemic failure detection.

McGrath (2013) shows that some of the traditional paradigms of strategic business development no longer continue to exist. A set of future paradigms has to be developed to keep the strategy moving as fast as the VUCA world requires. In these future-oriented paradigms the understanding of competitive advantages has to recognize that advantages are not sustainable, but transient, on rather short notice. Because of this need for agility the approaches of strategy and innovation – formerly separate disciplines – now have to be interlinked. The understanding of market attractiveness and the relevant competition are shifting from the traditional industry focus to competitive “arenas”. This is where the real threats and opportunities happen between industries, caused by functional substitution rather than by product substitution and by competitive business models. The rules of the game are becoming more important than compelling product offers.

Table 1.1 lists the changing paradigms for leadership. It shows that the future paradigms from the VUCA world have considerable influence on the way companies have to manage strategy and innovation in their competitive arenas. The approach of *Strategy Design Innovation* is inspired by these future paradigms.

Table 1.1 Volatility, uncertainty, complexity and ambiguity create a VUCA world – changing the paradigms for leadership. ▼

Aspect of Strategy Design	Traditional paradigm	Future paradigm
Idea of competitive advantage	Presumption of relative stability in industry competition → competitive advantages can be sustainable	Uncertainty, volatility, complexity and ambiguity lead to transient competitive advantages
Relation between strategy and innovation	Two separate disciplines: finding favorable positions in a well defined industry by strategy and creating new business by innovation	Combining strategy and innovation into one discipline in order to keep pace with the speed of markets
Emphasis on strategy	Focus on analyzing industries and achieving sustainable competitive advantage	Focus on transient competitive advantages by exploiting short lived opportunities with speed and decisiveness
Competition	Competition within the industry and its forces matters most	Competition in arenas of market segments, offers and geographical location, as well as between industries
Customer advantages	Advantages created by product economics	Advantages created by customer oriented solutions and lock-in approaches

Further reading:

Abidi, S. / Joshi, M.: The VUCA company, How Indian Companies have faced Volatility, Uncertainty, Complexity & Ambiguity, Mumbai 2015.

Hax, A. / Wilde, D.: The Delta Project: Discovering New Sources of Profitability in a Networked Economy, New York 2011.

McGrath, R.G.: The end of competitive advantage: how to keep your strategy moving as fast as your business, Boston 2013.

Johansen. B.: Leaders Make the Future: Ten New Leadership Skills for an Uncertain World, San Francisco 2012.



Chapter 2

STRATEGY DESIGN INNOVATION – INTRODUCING THE ENTIRE MODEL



INTRODUCTION TO CHAPTER 2

In chapter 2 we will introduce the entire model of *Strategy Design Innovation* providing the basic definitions of

- *Strategy Design,*
- *the Strategy Design Toolbox,*
- *Strategy Design Modelling and*
- *Strategy Design Innovation.*

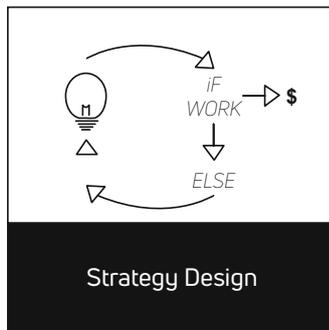


2.1 Strategy Design

Here is the definition of *Strategy Design*:

A STRATEGY DESIGN IS

1. a consistent set of measures
2. aligning a company and its environment,
3. with the overriding goal of creating value for all stakeholders
4. in a balanced way.



- ① ‘Set’ means more than just one measure and ‘consistent’ means that all measures must be aligned in a common strategic direction.
- ② ‘aligning a company and its environment’ according to *Michael Porter’s (1986)* definition of strategy.
- ③ It is our conviction that the purpose of any strategy must be: to create value for all stakeholders.
- ④ The term ‘balanced’ applies to points 1, 2 and 3. It means that the different parts should be held in a relatively acceptable equilibrium.

We use the word *‘Design’* to underline that the process of creating a strategy is based on the methodology of Design Thinking.

The concept of *Strategy Design* replaces the traditional concept of a Business Plan or a Business Strategy.

2.2 Strategy Design Toolbox

Here is the definition of the *Strategy Design Toolbox*

The Strategy Design Toolbox is a framework

- of seven perspectives
- with four methods each
- allowing to ask strategic questions and to find answers.

Table 2.1 The Strategy Design Toolbox and its two platforms. ▼



As shown in Table 2.1, the ‘seven perspectives’ give a holistic overview of all the relevant aspects of *Strategy Design*. This is what we call the ‘Overview Platform’. It helps to find orientation and to connect the answers in a consistent way.

The four strategic questions per perspective and the associated methods allow to find answers. This is what we call the ‘Detail Platform’. It helps to analyze problems and to create solutions for *Strategy Design*.

2.3 Strategy Design Modelling

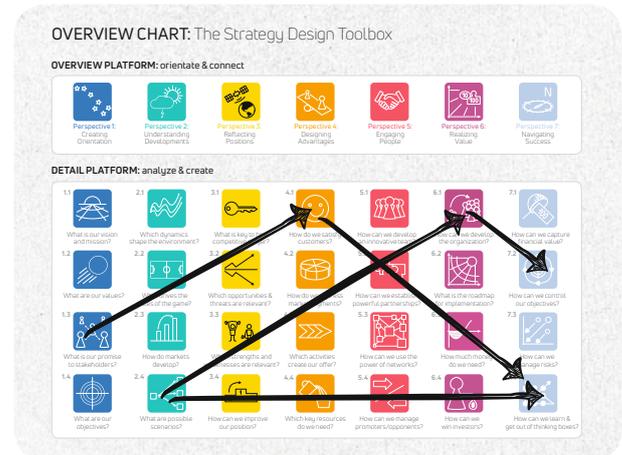
Here is the definition of *Strategy Design Modelling*:

Strategy Design Modelling is the process of applying the Strategy Design Toolbox to concrete strategic cases.

Strategy Design Modelling can be done using three different approaches:

- 1 A linear process allows working from top to bottom and from left to right of the *Strategy Design Toolbox*.
Example: If you intend to analyze, develop and validate a new business idea, it makes sense to opt for the linear approach.
- 2 A flexible and networked process allows jumping from perspective to perspective and from tool to tool.
Example: If you want to analyze an existing business and validate it reacting e.g. to critical incidents in the environment, it makes sense to opt for the flexible and networked approach.
- 3 Both approaches are combined in the 'pyramid approach' outlined in chapter 4.1.

Table 2.2
The Strategy Design Toolbox and the two approaches for Strategy Design Modelling. ▶



2.4 Strategy Design Innovation

Here is the definition of *Strategy Design Innovation*:

Strategy Design Innovation is

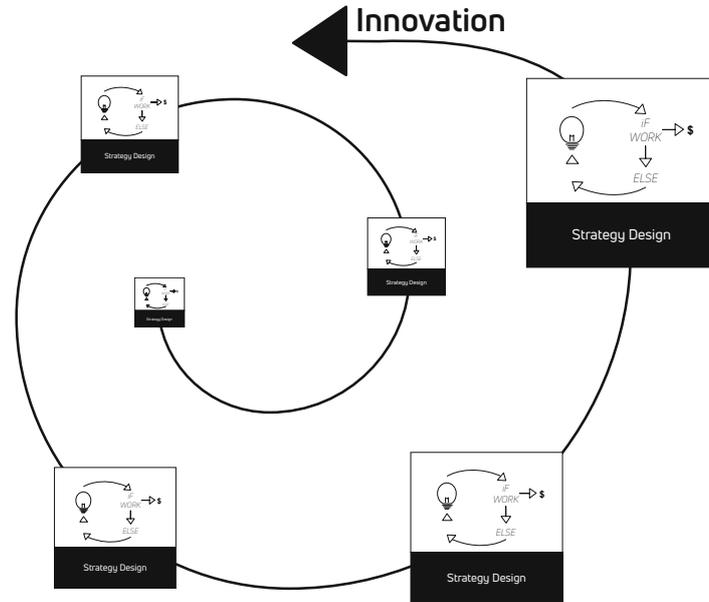
- a continuous strategic adaption and improvement process,
- pushing a *Strategy Design* to the next higher level.

Strategy Design Innovation takes into account the experience

- both from the current implementation of a given *Strategy Design*
- and from new developments and influences
- so that innovation takes place whenever this is required or reasonable – not just when a revision cycle is over (e.g. one fiscal year).

The result will be that

- the *Strategy Design* never grows old or obsolete
- innovation will not lag behind, because it is now part of the strategic process.



3.1.3 What is our promise to stakeholders?

What it does

According to *Freeman / Harrison / Wicks (2007)* four main trends changed traditional approaches to management: the liberalization of markets, the emergence of environmentalism and social values, the liberalization of political institutions and the explosion of information technology. How to cope with these challenges? Managing for Stakeholders (MFS) is, according to *Freeman / Harrison / Wicks* the key management approach for an organization's survival, reputation and success. Stakeholders in this model are defined as 'any group or individual who can affect or is affected by the achievement of an organization's purpose'. The basic idea is that business can be understood as a set of relationships among groups that have a stake in an organization's activities. Business focuses on how customers, complementors, suppliers, employees, financiers, the society, the government and, indirectly, competitors interact and create value. For entrepreneurs the task is to know how these relationships work and how they can be shaped strategically. Entrepreneurs have to concentrate on creating and sustaining value for those stakeholders that are key for the survival. This principle is true for any kind of organization, no matter what overall purpose or direction the particular business has set. Several developments lead to fundamentally new conditions and challenges in the relations with key stakeholders:

Customers have always been taken as stakeholders with the highest importance. In nowadays' hyper competition in saturated markets it is no longer that simple to just offer superior quality or low prices to create customer advantages. Outpacing strategies must create segment specific bundles of benefits and customer advantages around price, quality, service and speed. Organizations have to create new and disruptive rules for the bilateral relation with their customers.

Suppliers, traditionally perceived as 'just somebody to buy stuff from', have to be understood from a new perspective, as certification standard liability aspects have become key success factors over the last years with reference to the idea of Total Supply Chain Management. Nobody can accept materials or services from a supplier who creates the offers in an environmentally dangerous or in a socially questionable way. The quality of the value chain is questioned backward and liability does not stop at the point of sale. So the traditional value chain has mutated into a responsibility chain.

Complementors, a rather new category of players, are those players who add value to one's own offer, but without necessarily having an initial contract with this organization. Specifically in digital business models and open innovation approaches complementors take over an important and ambiguous role of *'coopetition'*: cooperation in a common value creation approach on the one hand, and potential competition on the other hand. Entrepreneurs need to balance this ambiguity, for example when creating platform strategies for technological lock-in strategies.

Employees need to be given challenging assignments, training skills and comprising perspectives in order to create their individual potential for employability, flexibility and market value. Enabling employees who are different from each other in terms of race, gender, sexual orientation, age, education and culture, has become a new and challenging task for **Managers**, and diversity is considered to be a key enabler for the innovativeness of an organization.

Financiers – external investors and shareholders – have changed their relationship to organizations they could invest in after the scandals of Enron, Tyco and WorldCom at the beginning of the new millennium. The scandals have created a deep skepticism and, as

a consequence, tough legislation requires companies to prove, more and more, that all of their strategies, processes and actions can be qualified as compliant. In addition, transparency rules have made the financial markets more competitive, thus creating new challenges for companies to get the buy-in of financiers.

Society expects from a local company to be a good citizen in a new quality: not just obeying the law, donating for charities or sponsoring, but taking responsibility in a virtual and global world.

Governments are no longer monolithic entities but highly differentiated systems creating policy regulations, product liabilities, anti-trust legislation, tax regulations, social policy and constraints and space for national and international economic growth.

Competitors create global and local competition at the same time. Non-domestic competitors, with a different cultural and institutional background and with the financial backing of their governments, emerge with high speed and considerable disruptive power.

Indirect stakeholders, such as **consumer advocates**, **environmentalists** and other **special interest groups** and the **media** take over important roles. They may have high interest in the activities of the company and, at the same time, they may create considerable impact on an organization's development by influencing their network of promoters and opponents.

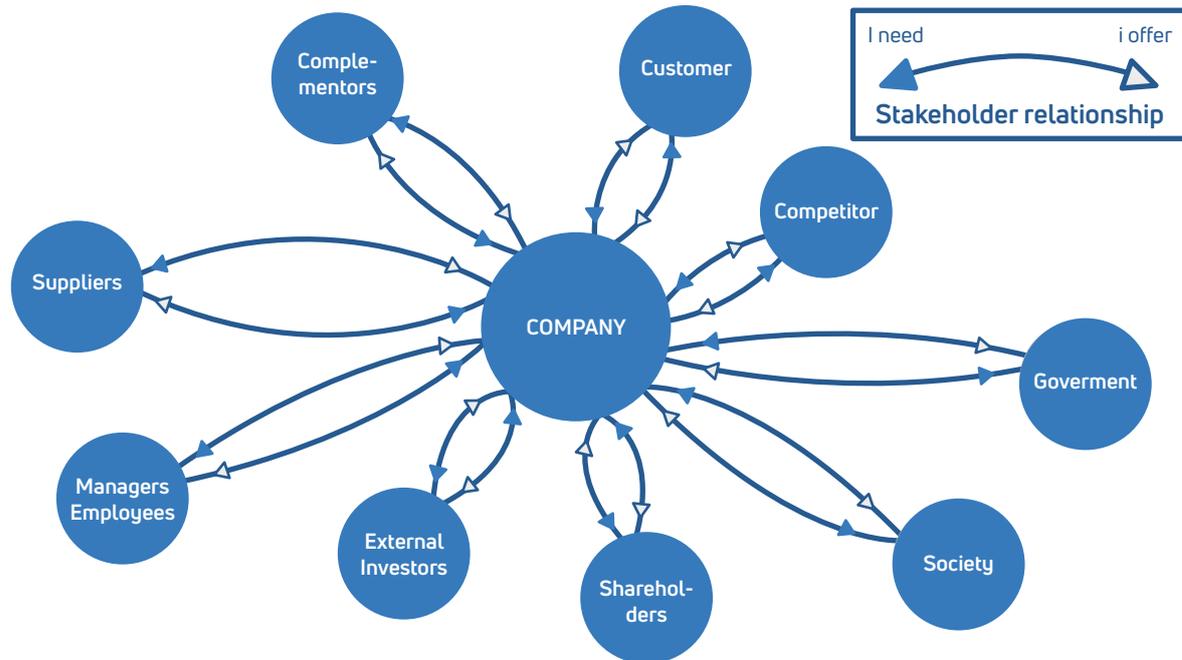
Table 3.5 outlines stakeholder relations.



Perspective 1 – Creating Orientation

SD-T 1.3 What is our promise to stakeholders?

Table 3.5 The executive's job is to manage the relationships among groups that have a stake in the organization's activities. ▼



Further reading: Freeman, R. E. / Harrison, J. S. / Wicks, A. C.: Managing for Stakeholders – Survival, Reputation and Success, New York 2007.

How it works

Freeman / Harrison / Wicks (2007) pinpoint some fundamental techniques for effective stakeholder management and its application in the real world of business:

Understanding stakeholders in depth. Helpful questions:

— **Interests.**

- What are the stakeholder's main interests?
- How do we affect these interests?
- How are we affected by these interests?

— **Networks.**

- Who are the groups and individuals who can affect this stakeholder?
- Who are the stakeholder's stakeholders?

— **Paradigms.**

- What does this group think about us?
- What assumptions are they making?
- What assumptions do we make about them?

— **Coopetition.**

- What are natural coalitions that could occur?
- Where are joint interests? What are the major points of conflict? What might cause a stakeholder to engage in a behavior that is either more cooperative or more competitive?

Mapping stakeholder relations. The bilateral relations between one's own company and the specific stakeholders have to be assessed according to one's own organization's mission and strategy on the one hand and the stakeholder's interest on the other hand. The above-mentioned questions can help to get a deeper understanding of current and future stakeholder relations and it opens up creativity for proactive stakeholder management. In Assignment SD-T 1.3 the bilateral promises can be outlined for each of the stakeholders by fixing what the stakeholder and one's own organization expect and offer to create the relation.

Assignment SD-T 1.3 invites you to work out your ideas about your organization's stakeholder relations.



Chapter 6

STRATEGY DESIGN INNOVATION – CREATING SUSTAINABLE COMPETITIVE ADVANTAGES



INTRODUCTION TO CHAPTER 6

In chapter 6 we will look at two vital aspects in running the process of *Strategy Design Innovation* effectively.

In **chapter 6.1** we will show that managing the innovation funnel requires a combined movement of opening up and consequently narrowing down the scope of creativity.

In **chapter 6.2** we will see that *Strategy Design Innovation* means running through creativity loops and fostering continuous improvement in order to develop competitive Strategy Design over time.

Chapter 6.1

MANAGING THE INNOVATION FUNNEL

We used this funnel graphic before when we talked about the Stage Gates, in chapter 5.1. Here, we refer back to it, with a different focus: The Innovation Funnel. With reference to Tidd and Bessant there is a generic innovation funnel comprising the following steps: generate ideas, select the most promising ideas, implement these ideas and develop business (see table 6.1).

In order to get the highest level of creativity out of this funnel it is important,

- **to open the funnel** widely in the first step in order to generate ideas (green arrows). This can be fostered e.g. by applying creativity methods, by searching in the environment for technical and

economic clues of change, by integrating market or technology expert knowledge or by implementing open innovation approaches.

- **to consequently narrow down the funnel** in the second step in order to select ideas (red arrows). It is necessary to check the ideas' potential in a customer context, to verify the organization's ability of implementing the idea in the next step and to consequently apply additional selection criteria.

The combined movements, opening the funnel and concentrating it, are important boosters of Strategy Design Innovation.

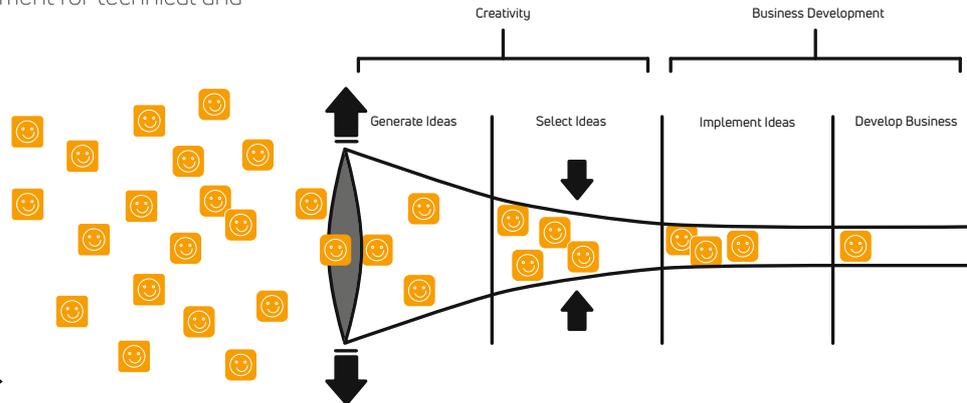


Table 6.1
Managing the innovation funnel ▶

Chapter 6.2

RUNNING CREATIVITY LOOPS ALONG THE INNOVATION SPIRAL

Creativity is not a one-way-process. Creativity needs considerable degrees of freedom in terms of time and resources. Ideas will be most powerful when they are not fixed too early but when there is enough space for inventing, prototyping, testing, receiving feedback, rejecting, starting up, and so on. Running creativity loops along the innovation spiral therefore is a crucial principle for effective and efficient *Strategy Design Innovation* as shown in Table 6.2.

A key idea of this principle is the dual recognition that customers may change their minds about what they want or need and that there may be unpredictable challenges from the VUCA world for which a predictive or planned approach is not always suited. The idea of running creativity in loops adopts an evidence-based empirical approach, accepting that the problem cannot be fully understood or defined up front. Instead we focus on how to maximize the organization's ability of delivering quickly, in order to respond to emerging requirements, and of adapting to evolving technologies and changes in market conditions.

Therefore, this principle is an invitation to play along and to cycle through various loops of creativity by investing a little and learning a lot in each of these loops. This is the

best way to create a portfolio of potential ideas and strategy patterns that can become a substantial element of a specific *Strategy Design* and, at the end of the day, create value. This will stimulate the continuous creation of ideas and of competitive *Strategy Designs*, over time, as shown in Table 6.4. – The supreme objective is not one excellent *Strategy Design*, but the continuous process of *Strategy Design Innovation*. This replaces the idea of a relatively static Business Plan, in the past.

Table 6.2
Running creativity loops. ▼

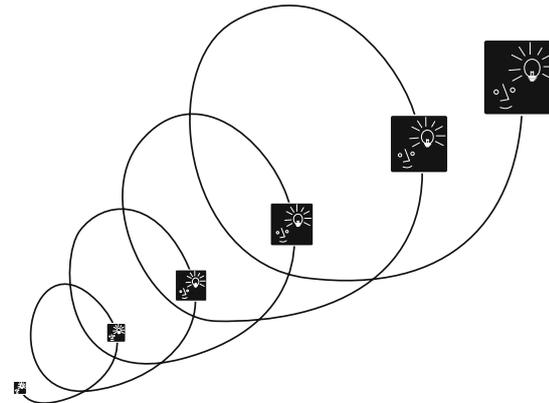


Table 6.3

Strategy Design Innovation as a process of continuous development of competitive Strategy Design. ▼

