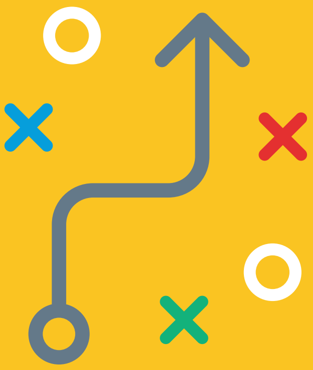
STEVE TIGHE

RETHINKING STRATEGY



HOW TO ANTICIPATE THE FUTURE SLOW DOWN CHANGE AND IMPROVE DECISION MAKING

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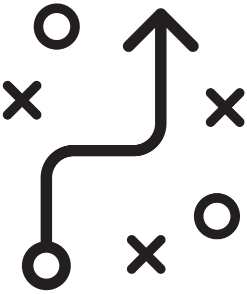

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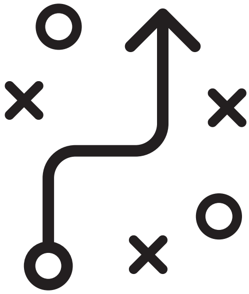

STRATEGY

HOW TO ANTICIPATE THE FUTURE
SLOW DOWN CHANGE AND
IMPROVE DECISION MAKING

STEVE TIGHE

WILEY

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To Sharon, for believing in me,

and Miliani, for inspiring me

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ACKNOWLEDGEMENTS

This book shares my accumulated learning from the past decade and a half of studying and practising strategic foresight, both from within a large multinational company and from working with similar-sized organisations as an external consultant.

My exposure to futures studies began at the Australian Foresight Institute (AFI) at Swinburne University where I was lucky enough to come under the tutelage of Joseph Voros and Peter Hayward. Instantly I appreciated the space they created for thinking about the future and, in the process, opening up a whole new way of seeing the world. This was especially true of their focus on worldviews and values, the hidden drivers of social behaviour and an oft-overlooked component of strategy. I still regard the lifetime work of psychologist Clare Graves, summarised in *Spiral Dynamics*[1] by Don Beck and Chris Cowan, as offering one of the most powerful tools for understanding and anticipating social change.

It was at Swinburne that I met Marcus Barber, whose initial support with implementing organisational foresight assisted me greatly. In my early days as Foresight Manager at Foster's, whenever I found myself asking 'Where do I start?' I turned to Marcus. His practical advice provided a handy counterbalance to the abundance of theories and models that exist within the futures community.

Through the AFI I was introduced to the thinking of Sohail Inayatullah, whose book *Questioning the Future*[2] continues to provide such clarity around how to think about social change and the future. Through the writings of Sohail I learned to appreciate the value of understanding the patterns of history as a guide to the future. His thought-provoking work with Robert Burke enabled me to see the central role that strategic identity plays in allowing organisations to adapt to the future.

The work of another Australian futurist, Richard Bawden, with his emphasis on experiential learning and *learning from the future*[3], strongly influenced my thinking about the purpose of scenarios and the design of scenario workshops. He helped me move on from the certainty of the future, to appreciate its uncertainty, and to bring the future alive in the minds of scenario participants.

Several colleagues from my decade at Foster's deserve special thanks. Bettina Freshney began the journey with me at Swinburne in 2004. We weren't sure what we were searching for, but we knew there had to be a better way to think about strategy and innovation. Justin Casey, the pragmatic CEO-in-waiting, continually urged me to pursue the 'so what?' challenge when my focus was too skewed towards exploring 'what's next?' Allan Brassil, a mentor who became a friend, continues to provide invaluable advice today.

Kara Rodden, Andrew Fairlam and Mark Truelson, the innovation A-team at Foster's, quickly recognised the strategic link between foresight and innovation, and fully supported my early attempts at scenario planning. When others were struggling to see the corporate benefits of scenarios, or when self-doubt began to cast its mighty shadow, it was the wisdom and support of this trio that reassured me I was on the right track.

While foresight is critical, hindsight is a wonderful thing. And looking back, it's clear that I've been fortunate to meet so many gifted thinkers and practitioners over the years—people who have helped me to constantly review and develop my philosophies and processes on the future, strategy and innovation. So, to the managers, tutors, mentors, friends, colleagues, clients and participants who have helped to shape and shared my experiences along the way, your influence is reflected within these pages.

INTRODUCTION

EMPOWERING YOUR ORGANISATION

Strategic agency is possible in a time of volatility and uncertainty

In December 2003 I pondered a question increasingly at the forefront of every business leader's mind: *How do you get ahead of trends?* I had been working in the Consumer Insights department at global brewer Foster's (Carlton & United Breweries) for just on 12 months, and from my close vantage point I could see the limitations of our heavy reliance on market trends to guide innovation and marketing. We were a myopic and reactionary company, obsessed with our competitors and often surprised by shifting industry dynamics. We needed to broaden our outlook and to develop our anticipatory capabilities.

From this simple question, my career took a dramatic detour as I commenced my journey into the field of futures studies. While researching the word *foresight*, I was fortunate enough to discover that Swinburne University in Melbourne had actually established the Australian Foresight Institute. This was a stroke of luck. One of the few places in the world to offer a Master of Strategic Foresight degree was literally just down the road.

Four months later I found myself sitting in class imagining naively that I was about to learn how to predict the future. While this hope was quickly dashed ('What do you mean the future's not predictable?'), I instantly recognised the organisational value of what I was learning. So much so that in May 2004 I wrote to the Managing Director at Foster's, making the case for a new internal position: that of 'Foresight Manager'. I didn't know exactly what the role looked like, but my instincts told me there was a need for such a function. He agreed—and I was it.

So in June 2004, three months after starting my master's degree, and having only just worked out where the best coffee was served on campus, I commenced my role as Foresight Manager at Foster's. Essentially, I was charged with responsibility for understanding how the behaviours of Australians might change over the next 10 years, what future social wants and needs might emerge from these changed behaviours, and what the implications and opportunities might be for Foster's as a beverage company.

As I sat at my desk on the first day in my new role I still clearly remember the feeling of being overwhelmed by the complexity of the task. Indeed, the one clear thought I had at the time was *Where do I start?* The future appeared to me a vast, uncertain and unknowable black hole, seemingly awash with infinite possibilities. What was important? What was insignificant? And how would I know the difference? These were the questions running through my mind as I sat paralysed at my desk surrounded by colleagues purposefully going about their roles.

The difference, of course, was that my workmates fulfilled roles where the patterns of expectation and performance were well established. I, on the other hand, had seemingly stepped into the unknown. Such a role had not previously existed at Foster's, and corporate foresight managers were hardly prominent, so useful reference points were somewhat limited. What I needed at the time, and what every organisation needs today, is a framework for anticipating and preparing for future change. Something to help make sense of the patterns in the chaos.

Rethinking Strategy is the book I needed to read on my first day as Foresight Manager at Foster's.

The fundamental challenge

This book is about organisational empowerment. It provides the strategic insights and tools to empower managers to determine the future they want for their business.

Rethinking Strategy is based on the premise that environmental sensitivity, strategic transformation and strategic distinctiveness are the fundamental challenges for organisational empowerment and business success in the twenty-first century:

- In an increasingly uncertain environment, organisations must develop the sensitivity to anticipate emerging market shifts and turn future ambiguity into ongoing strategic advantage.
- In a time of constant change, organisations must be able to transform what they do, how they do it, even who they are, to remain relevant and achieve their future goals.
- In a time of expanding competition, organisations must be able to generate a distinct strategic outlook that differentiates them from competitors and provides a sustainable advantage into the future.

More than ever, these are the strategic challenges that confront and overwhelm business leaders today.

What they don't know is how to meet these challenges.

This inability to foresee and to adapt to significant changes in their business environment, to develop distinct strategies for the future, is the cause of great frustration and anxiety for managers, their boards and investors. It traps them in a cycle of responsiveness to external changes; it constrains them to clinging to strategies that have passed their use-by date; it forces them to adopt a scatter-gun or me-too approach to innovation; and it ultimately leads to corporate failure.

But companies don't have to die; strategies do.

What this terminal pattern points to is the failure of strategy and innovation processes to keep pace with increasingly volatile market conditions and the modern demands of business. Knowing no different, managers reluctantly return to the inadequate data sources and ineffective strategy processes they know but no longer trust. The result is increasing vulnerability to strategic surprises and a growing sense of disempowerment when it comes to influencing the future they want.

With volatility and uncertainty as the business norm, managers are searching for a new approach to take their companies forward, a process specifically designed to seize opportunity from uncertainty, a process that can generate a new and distinct strategic outlook, a process that mobilises the creative and entrepreneurial capabilities that lie within every organisation.

Rethinking Strategy presents such an approach.

It aims to restore the loss of organisational agency by providing an innovative process for strategy development that is purpose-built for today's volatility and uncertainty. Such a process reframes strategy as a resource and positions strategic design as the organisation's principal creative and learning activity. In doing so, *Rethinking Strategy* presents a complete and practical approach to address the three essential questions at the core of successful strategy development:

- What's next?
- So what?
- Now what?

Central to this process is the art of developing scenarios and an appreciation for the anticipatory and transformational capacity that scenarios enable. Scenarios empower managers to generate original strategic perspectives; to *reperceive* the future environments in which they might have to compete, and to *reconceive* the organisation's role and functions within these futures.[1] In doing so, internally generated scenarios help to deliver that rarest of business assets, a unique strategic outlook that is fit for the future. Such an outlook is the source of organisational distinctiveness.

Overview

This book follows the pathway of my journey from Consumer Insights Manager at Foster's to the emerging fields of futures studies and strategic foresight, and ultimately to the domain of strategic design. It pulls together the academic and practical experience acquired over this period to present methods for anticipating future change and an end-to-end process for strategy development as a catalyst for strategic transformation and distinctiveness.

This process is outlined in a logical sequence that captures the three distinct phases of my journey: *Searching*, *Learning* and *Doing*.

PART I: SEARCHING

Chapter 1: The trouble with trends. Managers are uncomfortable and frustrated with their organisation's unhealthy and often ineffective reliance on obvious market trends and industry-centric data sources. While trends are useful, the trouble with trends is that they don't illuminate future market shifts and they don't provide a competitive advantage. As a result of this dependence, organisations have become disempowered at a time of increasing turbulence and continue to suffer from foreseeable strategic surprises that disrupt their business models.

This chapter makes the argument that a different approach to strategy and innovation is necessary to recalibrate the loss of organisational agency in today's turbulent business environment. Scenario planning sits at the core of this approach.

PART II: LEARNING

Part II details the theories and methods, acquired and developed over the past 15 years, that underpin my approach to designing strategy.

Chapter 2: The latent resource. Scenario planning has been applied in business since at least the late 1960s, yet for all their promise, and despite their suitability to volatility and uncertainty, scenarios have enjoyed a mixed history, with few celebrated successes, widespread misunderstanding and ultimately unfulfilled potential. Key reasons for the failure of scenarios to make a greater impact on business strategy are presented for resolution in this chapter.

Chapter 3: Where does the future fit? Scenarios continue to be neglected by corporations because of a general lack of understanding around where they fit with business strategy and innovation. This lack of understanding and subsequent lack of integration is a key driver of business failure — managers simply don't have the skills to anticipate emerging discontinuities.

Defining strategy as *a plan for action to achieve your goals in perceived future environments* illuminates the role of futures thinking and places scenarios at the centre of strategic design. Scenarios provide strategic reasoning, the focal point around which the organisation's strategic positioning and objectives interact and evolve. From this definition, a logical process to develop strategy emerges.

Chapter 4: Reframing strategy. In turbulent times, the purpose of strategy is to generate a new and distinct strategic outlook that is *fit* for the future. Successful strategic design therefore requires the imagination to foresee future change and the innovative skills to apply meaning for the organisation.

This entrepreneurial approach to strategy reframes strategic design as the organisation's principal creative and learning activity. And the emphasis on creativity, participation and learning repositions strategy as a *process-oriented* activity, as opposed to being *output-oriented*.

Chapter 5: Overcoming myopia. Managerial passion, industry expertise and omnipresent data combine to produce a myopic vortex at the top of the organisation that seeps down through the lower reaches. Close-knit industries are especially prone to myopia and therefore vulnerable to strategic surprise because all the member companies look to each other for standards of best practice. This is the danger of industry benchmarking.

This chapter places the organisation and its industry within the broader context of a changing society, recognising that successful strategic design requires managers to overcome industry myopia and adopt a broad contextual outlook.

Chapter 6: The shape of things to come. The evolution of social change tends to follow the shape of a bell curve, passing through four distinct stages: an embryonic phase, an emerging phase, an established phase and an eroding phase. Rarely easy to detect, the ability to anticipate and prepare for the emergence of strategically significant embryonic issues and opportunities *before* they develop is perhaps the greatest planning skill an organisation can have.

This chapter introduces original methods for identifying embryonic issues and opportunities, providing managers with the tools to anticipate different future operating environments before they emerge.

PART III: DOING

As the business environment evolves, organisations must be prepared to transform and transition to new strategies to maintain their strategic fit with the external environment. Proficiency at strategic design therefore becomes more important than developing a one-time 'best strategy'.[2]

Part III moves on from the theory of strategic design to its application, describing an end-to-end process for scenario-based strategy development and using successful case studies to illustrate business practicality.

Chapter 7: The strategic challenge. Scenario planning starts with a strategic challenge: any pressing issue management considers strategically significant. This chapter describes the types of strategic challenge typically faced by organisations for which the use of scenarios is advantageous: these are innovative, specific and exploratory. It also offers guidelines to assist those about to embark on the process by providing an indicative timeline for effective scenario planning and criteria for setting the horizon year.

Chapter 8: How do I know what I think until I see what I say? The orientation phase of strategic design places an emphasis on internal interviews to understand managerial perceptions of the past, present and future. This qualitative research provides the necessary foundation for strategy formulation, yet remains overlooked in most processes. Extensive personal experiences are included to show how strategic insights can be extracted from these interviews. The output of these interviews then provides a framework for subsequent environmental scanning.

Chapter 9: Conversations with Mr Silly. This chapter explains the role of environmental scanning in the strategic design process. The purpose of scanning is not to trawl mindlessly through endless data but rather to identify potential drivers of future change that hold significance for the organisation and to stimulate thinking about what could be in the future. To achieve these ends, the personal, historical and external aspects of effective scanning are extensively covered, with particular focus on the limitations of industry experts and the need to collate and cultivate a collection of perception pioneers — outsiders who see the world and the future differently.

Chapter 10: 'What's next?'—Anticipating the future. Scenarios are the most effective vehicle for business transformation because they unlock strategic creativity. This chapter comprehensively details the process of creating scenarios including choosing the significant drivers of change, fleshing out different scenario worlds and backcasting from the future to the present. The result is a different, future context from which decision makers can assess strategic implications and options for their organisation.

Chapter 11: 'So what?'—Positioning for the future. Inability to extract strategic value is perhaps the greatest managerial frustration with the scenario process. 'So what?' addresses this longstanding issue by demonstrating how optimal interpretation and subsequent strategic positioning relies on a broad sense of corporate identity (*who we are, why we do what we do*). A broad strategic identity enables management to assess future opportunities from the widest practical platform, providing the flexibility to adapt to evolving social conditions, while remaining true to organisational purpose and heritage.

Chapter 12: 'Now what?'—Transitioning to the future. Achieving impact with scenarios relies on integration with the organisation's planning and operations processes. This integration is achieved via a strategic plan, which gives operational meaning to any longer-term strategic framework. Such a plan provides a direct line of sight between the scenarios and the organisation's day-to-day operations and priorities.

Chapter 13: Making sense of the patterns in the chaos. Scenarios build a corporate intelligence for anticipating and interpreting future change. They equip managers with a future memory of signals to scan for and provide reference points for attaching meaning as these events occur. The strategic benefit is increased sensitivity and preparedness for future discontinuities before they occur. Ongoing and purposeful monitoring of the external environment then feeds into the next round of scenario development, providing the organisation with a dynamic, integrated and repeatable strategy process.

Further resources on scenarios, strategy and innovation can be found at www.stevetighe.com.au.

PART I

SEARCHING

CHAPTER 1

The trouble with trends

Information must illuminate future discontinuities to deliver strategic value

Businesses love trends.

Trends make life easier for planners, marketers and innovators because they provide the illusion of a safe framework to which they can attach their plans and initiatives. In a sense, trends do the hard yards by defining the domains for exploitation. Once this heavy lifting is done, it's then up to the skills of the business to exploit the obvious. The trouble is, all of your competitors are likely doing the same thing.

I first became aware of the corporate love for trends when I was appointed Consumer Insights Manager at Foster's. Charged with the responsibility for assisting marketing decisions including innovation, this role was my first real exposure to consumer and social trends. And I was soon able to see first-hand the influential and often central role that trends play in business decisions.

One of the first jobs in my new role was to develop a set of consumer trends that would act as a guiding framework for marketing and innovation — a corporate version of the ten commandments, if you like. After locking ourselves away for a couple of weeks, my colleagues and I came down from the mountain brandishing a list of trends that would surely take us to the promised land. We beamed with pride at what we thought was the originality of *our* trends and the creativity with which we had named each one: *Keeping it real* described the consumer's desire for authentic products and experiences. *Time as currency* captured the increasing value consumers placed on convenience due to a lack of time or energy. *Gender blending* spoke to the breaking down of traditional male and female stereotypes.

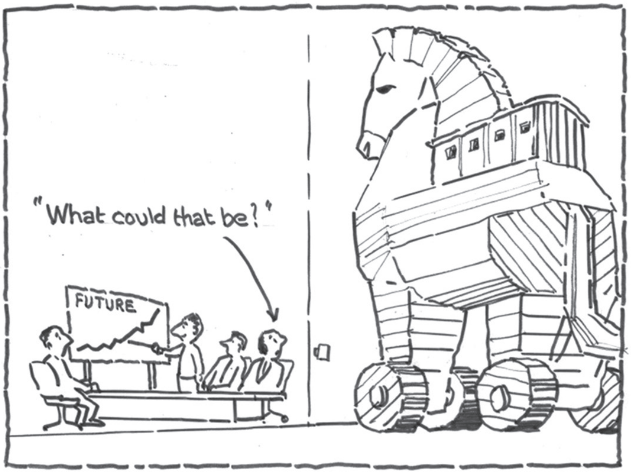
Little did we know, rather than place Foster's at the forefront of global innovation, what this set of trends actually did was to position us smack-bang in the middle of corporate mediocrity. Despite our initial hubris, you could be sure that every major consumer goods company in the world had a similar list of social trends guiding their marketing and innovation. Furthermore, our attachment to these trends only made us more vulnerable to more significant, less obvious changes emerging around us.

Trends are not enough

Trends essentially represent a noticeable shift — an emerging pattern of behaviour that is different from the established activities of society or an industry. To a business, trends often represent a change in the attitudes, preferences or behaviours of customers or consumers. As opposed to fads, which can come and go quickly, trends tend to be sustained, often representing fundamental shifts in the market.

And this is what makes trends important. Organisations must respond to trends or risk losing relevance with customers. This means constantly adapting what you do or how you do it to remain in harmony with evolving consumer preferences. At Foster's, the most senior management at the time even had a saying that was repeated throughout the company: 'The trend is your friend.' The message in this axiom was clear: *follow the trend*.

The danger, of course, is in relying too heavily on trends as a guide to the future.



The deceptive friend: ***The comforting future-as-written impression provided by trends leaves many organisations unprepared for imminent discontinuities.***

It soon became apparent that trends also have significant limitations, especially with regard to their usefulness for (1) providing competitive advantage and (2) illuminating future market shifts.

1. **Trends don't provide competitive advantage.** The very fact that they are noticeable suggests there must be mounting and measurable evidence of change for a trend to exist. And this is the usefulness of trends: their visibility provides a guide for planning and innovation. But this visibility is also a weakness for organisations, because if we at Foster's were innovating to the latest social trends, then you could be sure our competitors were doing the same.

   The resulting convergent behaviour that trends promote is akin to moths being attracted to a flame. Pretty soon every player in the industry is innovating to the same reasoning, until a new norm is established. In this instance, trends rarely provide a competitive edge — unless you are the first to take advantage of them, in which case you'd be acting upon weaker signals. If all you are doing is responding to trends, then you're back with the pack.

2. **Trends are deceptive.** They convey a comforting *future-as-written* air that can provide the illusion of stability to all who worship at their altar. This comfort is deceiving because trends don't last. Sure, some trends last longer than others; some may even persist for decades and beyond. The future is never simply a linear continuation of the past, however, and sooner or later a significant discontinuity in the form of a fundamental market shift will emerge.

In today's world, these discontinuities are increasingly common and relying on trends fails to prepare you for their impact. Instead, a business-as-usual environment is assumed, and strategy is designed for an extrapolation of today's conditions (see figure 1.1). This lack of preparation for change is now your Achilles heel and inevitably leads to change being experienced as *disruption*—a significant shift in the organisation's operating environment for which you are unprepared. Examples of disruptive change are all too common today but few have been as public, as painful or as sudden as the crisis that enveloped the Australian live cattle export industry in 2011.

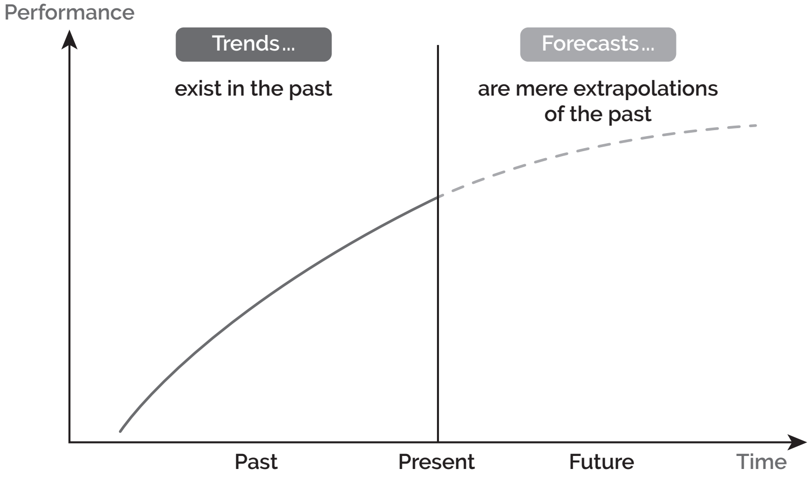


Figure 1.1: 'trends exist in the past'

My colleague Marcus Barber helped me to see trends in a new way by proposing that 'trends exist in the past'. So ingrained was our future-oriented view of trends that at first this observation seemed counterintuitive.

Before 2011 the industry had experienced a sustained period of growth in exports to Indonesia, a trend that was forecast to continue. However, in May 2011 the ABC's current affairs program *Four Corners* exposed cruelty inflicted on Australian cattle in Indonesian slaughterhouses. This led to a major public uproar and an immediate ban on abattoirs featured in the program, followed by a six-month ban on all live trade to Indonesia. The forecast growth trend, upon which industry members had based investment decisions worth millions of dollars, was immediately rendered worthless. Overnight the once prosperous industry was brought to its knees, and years later it was still trying to recover.

If the purpose of strategy is to exploit opportunities in order to achieve future goals, then the strategic value of information is in its capacity to illuminate plausible and significant future market shifts. It's within these shifts that new strategic opportunities reside, providing gateways to a step change in performance (see figure 1.2). Significant market shifts don't come along all that often; you want to be prepared for them when they do, and drive them when you can. If all you are doing is planning for a business-as-usual future, then 'the value of forecasts is very little'.[1]

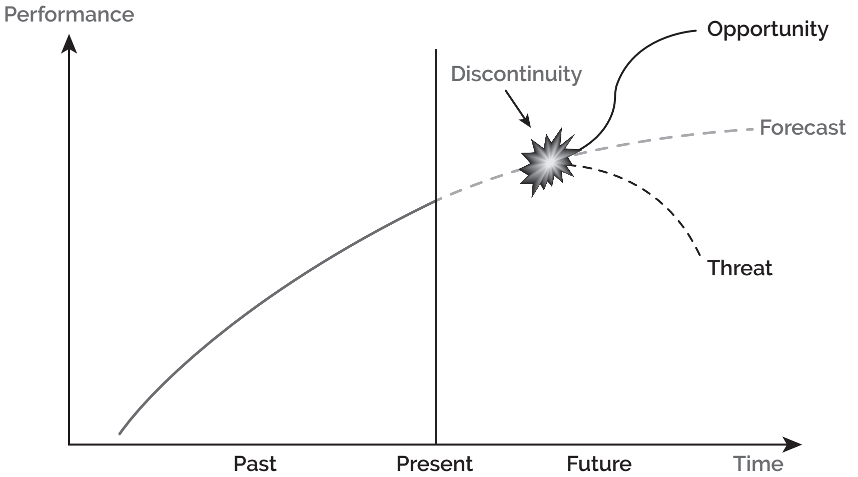


Figure 1.2: failing 'when they are needed most'[2]

Traditional forecasts fail to anticipate the significant market shifts that can deliver a step change in organisational performance. (Source: Adapted from Igor Ansoff.*[3])***

As the limitations of trends and forecasts as a source of insight into the future became clear, I realised there had to be more effective ways to approach strategy and innovation. Driven by an equal mix of curiosity and corporate competitiveness, I began to explore a question that would lead me to the emerging field of strategic foresight.

How do you get ahead of trends?

I wondered if it was possible to anticipate future market changes and strategic opportunities before they became obvious to competitors. And if so, how could I learn and apply such processes internally? At the same time, I came to the broader realisation that it wasn't just our use of trends that needed reviewing; our whole approach to information, strategy and innovation needed an overhaul.

Like many organisations over the preceding decades, Foster's had become an active and willing participant in the *information age*—an age in which businesses sought to acquire ever-greater amounts of market data in their pursuit of competitive advantage. The folly of this addiction to information was perfectly captured in comments from the Consumer Insights Manager at a large multinational firm with whom I worked several years later. Asked, 'What are the key challenges with internal data usage?', her reply was as universal as it was succinct:

- 'There is too much.'
- 'We don't use what we have.'
- 'They [internal staff] always want more.'

As for her Marketing Director, his great irritation was the fact that they had all this information yet never seemed to lead the market in innovation or to discover the 'next big thing'. I suspect this frustration is all too common.

Over the course of the information age we've seen the micro-analysis of company sales data; we've seen the collection of in-store scan data as a more accurate guide to consumption patterns; we've seen the explosion in market research and focus groups, with consumers