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# *Building Successful Companies in Transition Economies*

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## Comments Welcome

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# BUILDING SUCCESSFUL COMPANIES IN TRANSITION ECONOMIES

The momentous changes in transition economies have also brought in their wake deep transformations in the life and functioning of companies of all types. A gradual introduction of market elements has been accompanied by the emergence of new risks and challenges that companies did not have to face in the past. Consequently, they must now come to grips with new concepts and new modes of behavior in order to secure their long-term survival in an increasingly complex and turbulent environment. One such concept is the business strategy, which is a necessary prerequisite for building a successful company. In this paper, a successful company is taken to be one that has the capacity to operate successfully in the short as well as in the long-term.

The author's methodology for building successful companies in transition economies, described briefly in this paper, is a concrete application of his strategy of building culture-specific organization development (OD) theories in the area of strategic OD interventions and strategic change management (Perlaki, 1994). This context-based approach to OD (Cummings & Worley, 1993; Schein, 1985) puts emphasis and builds on using local values, knowledge, theoretical concepts and traditions to develop new culture-specific OD theories, strategies, procedures and techniques which are valid in this concrete cultural, economic and social context. Using this strategy an external consultant (external change agent) helps the company's management and members of the strategic scenario planning group to help themselves in developing their own strategic OD diagnosis and intervention(s) congruent with their own "theories-in-use" (Argyris, 1990) and with their own national and organizational culture. Building a culture-specific strategic and organization development theory has three basic phases: strategic OD and strategic change management education; environmental, organizational and change model building; and strategic diagnosis and intervention design, planning, implementation and evaluation.

*Strategic OD and strategic change management education* is the phase when members of the strategic scenario planning group read appropriate study materials and attend an introductory management development workshop entitled "Building a Successful Company". In this stage an external consultant acquaints them with the basic theoretical concepts of modern business strategy, strategic and organization development, and strategic change management and extends their knowledge of and skills in environmental, organizational, and change model building, strategic scenario planning, strategic visioning and strategic change design, planning, implementation and evaluation. During this workshop the external consultant helps the workshop participants to change their strategic management paradigms from classical to new ones.

This fundamental change is one of the basic prerequisites for building a successful company.

At the end of the workshop its participants and the consultant prepare a program and time-table for the whole "Building a Successful Company" project. Additional strategic OD and strategic change management workshops are developed and used if and when required.

*Environmental, organizational and change model building* is the phase when members of the strategic scenario planning group - with the help and guidance of an external consultant - use the theoretical concepts, knowledge and skills gained in the "Building a Successful Company" workshop to develop their own explicit and shared mental models of the present and future state of their company and of its present and future external environment. In these modeling exercises the strategic scenario planning group can use a great variety of a "new generation" of organizational and environmental model building approaches (Berstein & Burke, 1989; Burke & Litwin, 1989; Lundberg 1989; Moore, Gargan & Parker, 1987; Morgan, 1986; Senge, 1990; Senge et al (eds),1994). These model building methodologies use a systems approach, encouraging the group "to think in loops rather than in lines" (Morgan, 1986, p. 250) and describe environmental and organizational reality as a very complex and dynamic system of mutual causality represented by a network of multiple positive and negative feedback loops.

*Strategic diagnosis and intervention design, planning, implementation and evaluation* is the phase when members of the strategic scenario planning group use the environmental and organizational models they developed in the previous stage. *Environmental models* of the present and future state of the company's external environment are used here to support strategic scenario planning methodology (Schnaars, 1987; Schwartz, 1991, van den Heijden, 1995). *Organizational models* of the actual and future state of the company are used here in the development of an OD diagnostic model for diagnosing the actual state of company (Cummings & Worley, 1993; Kaplan & Norton, 1996; Perlaki, 1994), in strategic visioning (Bennis & Nanus, 1985; Nanus, 1992; Senge, 1990, Senge et al (eds), 1994; Tichy & Devanna, 1990) as well as in strategic intervention(s) design, planning and implementation (Beckhard & Davis, 1987; Buller, 1988; Hanna, 1988; Kaplan & Norton, 1996; Tichy, 1983). In this stage the external consultant helps members of the strategic scenario planning group to design, plan and implement their own unique strategic OD diagnosis and interventions, taking into consideration the uniqueness of their company and its environment. Strategic OD diagnosis and interventions designed, planned, implemented and evaluated in this way will be genuinely congruent with the values and "theories-in-use" (Argyris, 1990) of the company's management, members of the strategic scenario planning group and of other company employees participating in this strategic and organization development process, and also with their organizational and national culture. Their cultural risk (Hassard & Sharifi, 1989; Schwartz & Davis, 1981) will be therefore rather low.

The process of building a successful company can be described with some simplification, as a positive feedback loop consisting of four elements reinforcing one another. The first element is represented by a change of strategic management

paradigms, which is strongly influenced by the introductory workshop "Building a Successful Company". This change is one of the basic prerequisites for building a successful company. Other prerequisites are the planning of strategic scenarios and formulation of a strategic vision. The change of strategic management paradigms, strategic scenario planning, strategic vision formulation and the actual building of successful company (i.e. implementation of the strategic vision) are four elements, each one reinforcing all the others. Only after strategic management paradigms have been changed will it be possible to start strategic scenario planning. Only after strategic scenarios have been developed will it be possible to efficiently formulate an effective strategic vision of the company. Conversely, the process of building a successful company and verification of new strategic paradigms in everyday strategic thinking will lead to increasingly improved understanding and to more effective application of these paradigms. An important contribution to changing strategic management paradigms may naturally be made by management development in this area. The above mentioned positive feedback loop is illustrated in *Figure 1* by means of a systemic diagram of causal relationships. Below, a brief description of its four basic elements is given.

*Figure 1*

## CHANGING STRATEGIC MANAGEMENT PARADIGMS

When it comes to strategic management, transition economies face a very specific situation. Managers operating in market economies are very well aware of the vital role that business strategy plays for their companies. Courses on "Business Strategy" or "Strategic Management" are the last major courses at all levels of business studies. Each year, many interesting strategy books and university textbooks are published and several professional journals are also devoted to this area. The level of theoretical knowledge and practical business strategy skills reflects the significance that managers ascribe to this field.

On the other hand, before they had embarked on the road of reform, the transition economies experienced a virtual absence of independent business strategy at company level. Naturally, in order to realize the important and vital role of business strategy, managers had first to be exposed to the consequences of economic transition. The relatively short period that has elapsed since the emergence of strategic management and strategic thinking is inevitably reflected in an inadequate level of stategic management knowledge and skills among average managers in transition economies (with notable exceptions).

Considering the existing level of strategic management knowledge and skills in transition economies, a wise strategist can be characterized as, in the first place, *a catalyst of change of strategic management paradigms*. They are the following paradigms:

*1. The relationship between the past, the present and the future of the company*

Under the classical paradigm of relationships between the past, the present and the future of the company, its present is a function of its past, and its future is a function of its present - i.e. the past of the company influences its present and the present of the company influences its future. Under this paradigm the present is essentially nothing more than an extrapolation of the past and the future is nothing more than an extrapolation of the present. This paradigm rests on the assumption that both past and current trends will also continue (with certain inevitable modifications) in the future. The new paradigm of the relationship between the present and the future assumes just the opposite relationship. Under the new paradigm, it is the future that affects the present rather than vice-versa. Wise strategists, using strategic scenario planning, take "a trip to the future". Once they get there they take a good look around to see what opportunities and threats are in store for their company in distinctive alternative futures. Then they return to the present and prepare themselves very well for what they saw. The best strategic scenarios are those that help the top management of a company to gain a different perspective of the company's future external environment and, as a result, make them change their current behavior and their current business strategy.

Under the new paradigm, the present of a company is a function of its future - i.e. it is the future of a company that influences its present. The companies whose leaders are wise strategists capable of this kind of "foresight" are not pinned down by any past or present traditions and "rules of the game". They are not afraid to play against such rules and to creatively redefine their products and services, their markets or even the entire structure of the industry in which they operate. They are not afraid to start a revolution in business strategy (Hamel, 1996) or a revolution in production, marketing, research and development, financial or personnel strategies. Even now, at this point, they are getting ready to establish a leading position on as yet non-existent markets with as yet non-existent products and services (Hamel & Prahalad, 1996).

The classical and the new paradigms of relationships between the past, the present and the future of a company are illustrated in *Figure 2*.


*Figure 2*


## 2. Characteristics of a successful company

Under the classical paradigm of causal relationship between a successful product and a successful company, a company is successful if it makes high quality and successful products or offers high quality and successful services. Under such a paradigm the management has the role of analyzing the market and securing the production of products (the provision of such services) which perfectly satisfy the needs of customers in the given market segment. Under such a paradigm the management exercises control over the entire process of (1) customer need analysis, (2) production design, marketing and sale of products satisfying those needs, (3) production, sale of and after-sale service for these products, and (4) evaluation of the effectiveness of the whole process. The management's main focus is on developing visions of successful products and services.

The new paradigm of the relationship between a successful product (service) and a successful company envisages a completely opposite causal relationship. A company which is capable of making successful products and offering successful services has this capability because that is the way it has been designed and constructed (Collins & Porras, 1996). The first and foremost task of a management that thinks and acts in accordance with this new paradigm is therefore to design and construct a company that will be capable of producing entire generations of successful products and services on a sustained and uninterrupted basis. Sooner or later, the overwhelming majority of even the most successful products and services will become obsolete (classic product life cycle). The outcome of the endeavors of the wisest strategists and the greatest visionaries are not the visions of products or services that will satisfy the needs of the customer better than those of the competition, but the *visionary companies* (Collings & Porras, 1996), the companies with the built-in value systems, structures, processes and mechanisms which enable their constant self-renewal and continuous long-term success. A visionary company does not rely only on the wise strategy of its founder, president or general director: it will prosper and thrive also under the subsequent generation (or generations) of top managers. A visionary company has built-in structures and processes for the formulation and implementation of wise business strategies and, naturally, the corresponding structures and processes for the recruitment and training of wise strategists.

The classical and the new paradigms of a successful company are shown in *Figure 3*.


*Figure 3*


## 3. Orientation to customers

The command economy was a seller's market. The shift from the command to a market economy, from the seller's market to the buyer's market, calls for a major change in the mental models of managers and other company employees.

Under the classical paradigm of customer orientation, companies conduct market research in order to identify customer needs. In the next step, R&D personnel (working in conjunction with manufacturing, marketing, sales, etc. personnel) design products and services that will satisfy these current real needs. Under the new paradigm of customer orientation this is not enough. It is not enough if the company is oriented only to satisfying the current needs of its current customers. A typical customer is quite short-sighted. A successful company whose management, capable of "foresight", behaves according to the new paradigm, thinks also on behalf of its current and potential customers. It aims at the satisfaction, with its products and services, of their needs, including those the customers have not even dreamt of, better than the competition. At this point, the customers do not even suspect that there is someone that might satisfy in such a great way these as yet unsatisfied dormant needs. The results of a new paradigm of orientation to customers are products and services that surpass the expectations and desires of the entire conceivable market, i.e. products and services that satisfy the current and potential needs of current and potential customers better than the competition. Under the new paradigm, every company can be described as a system

whose objective is the identification and satisfaction of the current and potential needs of current and potential customers. Basic characteristics of this system are given in *Figure 4*. The ultimate objective of the companies which operate according to this new paradigm is to make their customers constantly delighted with their products and services, to make them enchanted with them or literally "fall in love" with them.

*Figure 4*

The only companies that can survive in the era of fierce and tough competition are those whose products and services bring over-average satisfaction to the customer. However, in the industries characterized by high-intensity competition, the over-average satisfaction of customers is not considered as a competitive advantage - it is simply a necessary prerequisite for their staying in business. In these industries high quality products and services are self-evident and customer loyalty will be won on the basis of the company's after-sale service and after-sale care - as well as any contact between the customer and the company staff. Only complete customer satisfaction secures their loyalty in these industries (Jones & Sasser, 1995).

The classical and the new paradigms of customer orientation are given in *Figure 5*.

*Figure 5*

## STRATEGIC SCENARIO PLANNING

An old Arab proverb says that those who predict the future are lying even when they are telling the truth. Strategic scenario planning is built on the premise that *predicting the future is not possible and trying to so it could be very dangerous*. For this reason we make no attempt to predict the future. All we are doing is thinking about 'and/or discussing with other members of the strategic scenario planning group possible alternative futures so as to be able to prepare for them very well now (i.e. in the present) or to be able to positively influence future developments. If we want to have success in the future, we must be able to build a sufficiently *flexible and strong company* capable of adaptation, which will "thrive" in any alternative future. We must be capable of preparing well for all strategic scenarios of the alternative futures. We must build a sufficiently strong company that will be ready to take up any great future opportunity and, at the same time, to fend off any large future threat (or to prevent its emergence or eliminate it) in all the alternative scenarios we have developed. For we cannot afford to build four different companies for four different strategic scenarios.

The beginnings of strategic scenario planning go back to the post-World War II period and are linked to strategic military simulations conducted by the Rand Corporation and the Hudson Institute in the United States. The most important representative of the first generation of strategic scenario planning was Herman Kahn. Early applications of strategic scenario planning in the area of business strategy were linked with the strategic planning group in the Royal Dutch/Shell Group. This group began strategic scenario

planning in the early seventies. Its methods were popularized by pioneering articles by Wack (1985) and de Geus (1988), and a number of recent papers and books (van den Heijden, 1995).

The increasingly growing popularity of strategic scenario planning is one of the consequences of an increasingly growing turbulence, complexity, dynamism and heterogeneity of the external environment. As a result, the trends of development of the relevant parameters of a company's external environment are becoming more and more volatile and the classical quantitative methods based, in essence, on the extrapolation of trends, are becoming less and less capable of "predicting the future". In his research into the effectiveness of quantitative approaches in forecasting the future Schnaars (1988) established that only some 20 % of economic and social forecasts published in 1964 - 1984 were actually fulfilled. According to Linneman and Klein (1979) approximately 22 % of the *Fortune 1000* companies were using strategic scenario planning at the end of 1970s. In their later follow-up research these authors found out that by 1982 strategic scenario planning was already being used in more than 50 % of the *Fortune 500* companies (Linneman & Klein,1983).

The "non-standard market environment" of transition economies is even more turbulent and unpredictable than the "standard" external environment of the Western countries. The trends of many relevant parameters of the remote, industry and operating environment in transition economies are, in comparison with the external business environment of Western countries, undergoing much bigger and more frequent discontinuous revolutionary changes. Strategic scenario planning in transition economies is therefore even more important and more necessary than in Western countries.

Therefore, wise strategists and modern progressive companies in transition economies are increasingly using *strategic scenario planning* as the basic method of "preparing for the future". Strategic scenario planning has four basic goals:

1. Change of strategic management paradigms.

2. Preparation of strategic scenarios of the development of the company's environment, and examination of their strategic implications.

3. Improvement of individual mental models of the company and of its external environment.

4. Improvement of strategic management skills and improvement of the effectiveness of managerial work in the field of strategy.

*Basic goals of strategic scenario planning*

*1.     Change of strategic management paradigms* is one of the basic prerequisites for strategic scenario planning, for the formulation of the strategic vision - and, in fact, for the entire process of building a successful company. Changing strategic management paradigms takes place at the introductory "Building a Successful Company"

management development workshop and is further reinforced in the process of building strategic scenarios, strategic visioning and during the implementation of the strategic vision.

2. *Preparation of strategic scenarios of the development of the company's environment*, i.e. creating alternative futures of its environment, is the direct outcome of strategic scenario planning. A strategic scenario of a company's environment is composed of a hypothetical description of all the relevant parameters of its future environment (i.e. its environment in five, ten, fifteen or even more years) and the causal relationships among them, and of a hypothetical chronological description of its evolution from its present to its future state. Individual strategic scenarios should describe qualitatively different alternative futures, i.e. their *archetypes*.

The strategic scenario planning process should not end with the development of a certain number of scenarios and their presentation to the top management. It should continue with the preparation of the company for the distinctive alternative futures described in the scenarios, i.e. with the *examination of their strategic implications*. A logical continuation of strategic scenario planning is an analysis into the influence of alternative futures on the company (i.e. an analysis of its preparedness and vulnerability), the formulation of a strategic vision of the company which will accommodate all the alternative scenarios of the development of its environment, and the elaboration of its implementation plan.

3. *The improvement of individual mental models of the company and of its external environment* is a very important outcome of the strategic scenario planning process. It is an inevitable precondition for achieving the fourth basic goal of strategic scenario planning: improving strategic management skills and improving the effectiveness of managerial work in the field of strategy.

The work on strategic scenario planning can be very effective in "unfreezing" and at the same time considerably enriching and refining the initial individual mental models of the members of the strategic planning group (the authors of the strategic scenarios) and, subsequently, those of all the managers and employees who have gained knowledge of the scenarios, agree with them and use them in their work. When they are planning strategic scenarios and working with them, management and the members of the strategic scenario planning group are learning and functionally changing their initial implicit individual mental models, and are collectively building one commonly shared and explicit model of the company and of its alternative future environments. One of the objectives of strategic scenario planning is, of course, to make this common model of the company and its external environment better, more accurate, more objective, more dynamic, more comprehensive, etc. than the best individual mental models of individual members of the strategic planning group are. Strategic scenario planning as an improvement of initial mental models of management, members of the strategic scenario planning group and all other employees who will acquaint themselves with the strategic scenarios and who will use them in their work is illustrated in *Figure 6*.

*Figure 6*

The elaboration of shared explicit mental models of a company's alternative future external environments and of the shared explicit mental model of the company thus contributes very significantly to individual learning by the company's management and all employees and to securing the organizational or institutional learning of the company as a whole. Today, in this era of constantly increasing frequency, degree and extent of changes in the external environment, the ability of the company to learn more quickly and more effectively than the competition is one of the few sustainable competitive advantages (Senge, 1990). The objective of strategic scenario planning is to help the company's management to obtain a more accurate perception of the current objective reality of the company's external environment, to make a more accurate assessment of alternative futures of the external environment, and to better prepare for future opportunities and threats.

4.     *Improvement of strategic management skills and improvement of the effectiveness of managerial work in the field of strategy* are the outcomes of the process of application of strategic scenarios in strategic management. An improvement of individual mental models of the company and of its external environment - i.e. individual and organizational learning - will result in an improvement of the effectiveness of the behavior of strategic planning group members and other managers in the processes strategic decision-making and strategic problem-solving. The effectiveness of this process may also be strengthened by the of identification of key strategic problems and decisions, and a follow-up elaboration of specific more narrowly focused strategic scenarios that explain the consequences of the implementation of these decisions in distinctive alternative futures.

The effectiveness of the first generation of strategic scenario planning was evaluated according to whether at least one of the developed alternative scenarios accurately predicted the future. This approach has long been outdated. The effectiveness of the third generation of strategic scenario planning is assessed according to totally different criteria. It is evaluated according to the extent to which company managers and employees who developed the scenarios (or became familiar with them, agreed with them, and used them in their work) were able to change - i.e. to improve, enrich and update their individual mental models of the company and of its external environment, to what extent they changed their behavior and to what extent they improved the effectiveness of their managerial work in the area of strategy.

The average "life expectancy" of the biggest industrial corporations is less than forty years - i. e. approximately one half of human life expectancy (Senge 1990). How is it then possible that several dozen large corporations are "alive, well and thriving" even though they are more than one hundred years old? The results of research into fundamental reasons for the success or failure of the companies in the long term indicate that all major successes and failures of a company are, in the first place, a reflection of its business strategy (Collins & Porras, 1996; de Geus, 1997; Labich, 1994; etc.). The ultimate long-term objective of strategic scenario planning is thus to strengthen strategic management skills and improve the effectiveness of managerial work in the area of business strategy - i.e. *the strategic and organization development of the company.* The strategic scenario planning process and the improvement of individual mental models of the company and its external environment are only important partial goals and means to

achieve an all-round improvement of business strategy, to secure long-term strategic and organization development of the company and to build a *strong, flexible and successful company*. This important role of strategic scenario planning in the strategic and organization development of companies in transition economies is illustrated in *Figure 7*.

*Figure 7*

The four basic objectives of strategic scenario planning that secure long-term strategic and organization development of the company can be illustrated by the systemic diagram of causal relationships in *Figure 8*. The change in strategic management paradigms, strategic scenario development, change in mental models and change in skills and behavior are illustrated in the Figure as mutually reinforcing elements of a positive feedback loop. The change in strategic management paradigms will lead to the development of strategic scenarios. As a result of an effective strategic scenario planning process, a significant change in mental models is produced. A significant change of mental models will entail a significant change in strategic management skills and improved effectiveness of managerial work in the strategy area - this will make it possible to verify the new strategic paradigms even more clearly and to apply them more effectively. Improved understanding of new paradigms will lead to an improvement in the effectiveness of further planning of strategic scenarios. More effective strategic scenario planning will result in the development of even better mental models, ... etc. Using the processes described above, the company can be permanently learning, i.e. may become a "learning organization" (Senge, 1990) and may permanently improve the effectiveness of its process of strategic and organization development.

*Figure 8*

Because strategic scenario planning belongs among the basic prerequisites for the building of a successful company, the feedback loop of strategic scenario planning may be built into the feedback loop of the building of a successful company. The resulting systemic diagram of causal relations is illustrated in *Figure 9*.

*Figure 9*

### *Strategic scenario planning process*

As was already mentioned above, strategic scenario planning methodology in business was developed by a strategic planning group in the Royal Dutch /Shell Group (Wack, 1985; de Geus, 1988). Many theoreticians and practitioners are further modifying and developing this original methodology (Schnaars, 1987; Schoemaker, 1995; Schwartz, 1991; van den Heijden, 1995; etc.) - including the author.

Although the four basic above mentioned goals of strategic scenario planning are always the same, strategic scenario planning methodology will be contingent on many situational variables. First of all it must be adapted to the current level of strategic management knowledge and skills - including knowledge of, and skills in strategic scenario planning, strategic visioning, and strategic diagnosis and intervention design, planning, implementation and evaluation - among the company's management and members of the strategic scenario planning group and also to the culture of the company and nation. The theoretical and methodological sophistication and personal style of the external consultant, the available time and other situational possibilities and constraints must be also taken into consideration. Last but not least, it should also be modified to the strategic decision(s) under consideration. Every application of strategic scenario planning methodology must be therefore customized according to the specific conditions unique to a concrete company.

In the first stage of the strategic scenario planning process, an analysis of the external environment of the company is carried out. This analysis may be further broken down into the analysis of the company's remote environment, the analysis of its industry, and the analysis of its immediate operating (working, competitive) environment (Pearce & Robinson, 1997). In all three types of analyses it is necessary to examine not only the current state of the basic environments of the company, but also their future development. Only in this way can the company be adequately prepared to use potential future opportunities and to eliminate potential future threats.

*The analysis of the remote environment of the company* includes an analysis of current global, economic, political, technical, social and environmental aspects of its functioning and an analysis of their potential developments. *The analysis of industry environment in which the company operates* is represented by the analysis of the intensity of competition in the given industry which, according to Porter (1979), is determined by the following five factors: (1) Rivalry between the existing competing companies, (2) the threat of competition from other industries trying to sell customers their substitute products and services, (3) Threats presented by potential entrants trying to penetrate the given industry, (4) the bargaining power of the suppliers and (5) the bargaining power of the buyers. *The analysis of the company's operating environment* is the analysis of its customers and markets, of its competitive position and immediate competitors, its suppliers, its creditors, its position in the community and its labor force.

The process of strategic scenario planning usually starts with a probe into the expectations and ideas of members of the strategic planning group (or top management) (Schwartz, 1991). The author identifies their hopes and concerns related to the future by means of a short anonymous questionnaire with open-ended questions. By processing and analyzing data collected in this way it is possible to identify the initial mental models and subjective concepts of individual respondents associated with key factors of the remote, industry and operating environment of the company in, for instance, a five-year period; a feedback meeting may be held to inform all the respondents about them.

Thus identified, the key factors of the external environment then represent the basic input information for discussions, by which the strategic planning group defines the

external environment of the company, builds its model and analyses its potential developments.

At the stage of *defining the external environment of the company*, the strategic planning group identifies and analyzes *key parameters* of the remote, industry and operating environment of the company. These key parameters are the basic "building blocks from which the company environment is built". After having identified the basic structure of the external environment the group may proceed by identifying *the key influences or driving forces which greatly influence changes in the environment*.

These driving forces can be subdivided into two basic groups (Schoemaker, 1995; Schnaars, 1987; Schwartz, 1991): (1) foreseeable driving forces, trends and configurations of trends and (2) critical uncertainties. As for the *foreseeable driving forces, trends and configurations of trends*, the group knows how to assess the dynamism of their influence and their effects. It is possible to estimate how and when they will influence certain key parameters of the external environment of the company. *Critical uncertainties* are very important driving forces which - as their name indicates - represent big question marks and it is not possible to estimate "what they will do and how they will behave".

According to the author's consulting experience the *dominant driving forces* which very frequently significantly influence key parameters of the external environment of companies in transition economies usually include:

- The demand for products and services: customer sophistication (character of their current and potential needs), customer loyalty, variability of demand, improvement of quality, patterns of price and price range development, development of the markets (their size, growth rate and segmentation), patterns of product and service life cycles.
- The purchasing power of the population: unemployment, wages, inflation, prices, etc. ...
- Intensity of competition: rivalry between competing companies, possible entry of new competitors, potential development of substitute products and services.
- Supplier-buyer relations: degree of vertical integration, marketing innovations, innovations in distribution, innovations in contacts and relations with customers.
- Manpower skills (training and education issues) and labor productivity.
- Prices of energy and raw material.
- Technological development: technological know-how and the costs involved.
- Information technology.
- Environmental issues: Environmental policy, environmental aspects of doing business, sustainable development strategy.
- Globalization and international aspects of business.
- National minority and ethnic issues.
- Economic, political and legal systems.
- Demographics, value system and lifestyle.

At the stage of *analyzing the development of the company's external environment*, the strategic planning group proceeds with the actual development of strategic scenarios of alternative futures of the company's environment. As a rule of thumb, four strategic scenarios are produced at this stage (Schnaars, 1987; Schwartz, 1991); they are qualitatively completely different and internally consistent. By producing four scenarios we try to avoid the pitfalls of making three scenarios. If we only produce three scenarios, we usually end up with one best case and one worst case scenario, the remaining scenario being situated somewhere in between these two extreme positions and considered as the one most probable "realistic" scenario.

Understanding of the basic logic (i.e. the basic causal relationships, connections and contexts) of individual potential alternative scenarios of the development of the company's environment may be considerably enhanced by means of developing basic, so-called *generic strategic scenarios* (Schnaars, 1987). For this purpose the author uses the following scenarios:

1.  *Base scenario: Anticipated development* (official future, generally recognized opinions concerning the future):
    A. Initial individual mental models of individual members of the strategic planning group and the group mental model of the anticipated future based on these individual models.
    B. Official corporate (or company) future.
    C. Official future as outlined by public authorities and major national and international interest groups.
    D. Official futures as outlined by ...

2.  *A. Best case scenario* (positive development, prosperity, growth and improvement): Imagine that even your most secret wishes became fulfilled. What would everything look like?
    *B. Worst case scenario* (negative development, crisis, decline and collapse): Imagine that even your worst worries became true. What would everything look like?

3.  *A. Continuous development* (no big surprises, evolutionary changes).
    *B. Discontinuous development* (big surprises, revolutionary changes).

In developing the basic logic of specific strategic scenarios the strategic scenario planning group can be greatly helped by acquainting themselves with specific criteria for analyzing the causal relationships among key parameters of alternative external environments and for building a systemic model of causal chains among them. For this purpose the author developed and uses the following five criteria:

A.  *Change in importance (significance, seriousness, influence):* Is issue *A* strengthening or weakening the impact of issue *B* - or there is no relationship between them?

B.  *Change in certainty:* Is issue *A* increasing or decreasing the probability of occurrence and/or of the specific development of issue *B* - or there is no relationship between them?

C.   *Change in speed (timing):* Is issue *A* speeding up or slowing down the origin and/or specific development of issue *B* - or there is no relationship between them?

D.   *Directness - indirectness:* Is issue *A* influencing issue *B* in a direct (primary consequences) or indirect way (secondary, tertiary consequences)?

E.   *The necessary condition:* Is issue A (or is it not) the necessary condition for the origin and/or specific development of issue *B*?

At the *strategic vision formulation and implementation* stage strategic implications of individual scenarios are analyzed. The company must be prepared to deal effectively with opportunities and threads in all scenarios. The objective of strategic scenario planning is not to predict the future, but to figure out all possible future opportunities and threats the company could face in qualitatively different alternative futures, to make a follow-up analysis of the preparedness and vulnerability of the company and, based upon this analysis, to conduct a long-term and proactive preparation of the company for all the potential opportunities and threats. For this follow-up analysis the author developed and uses the general framework which is illustrated in *Figure 10*.

*Figure 10*

A company which wants to be successful in the long run must be prepared to use all big potential opportunities and, at the same time, must be prepared to eliminate and/or fend off all serious potential threats. The strategic vision of the company must be formulated in such a way so as to accommodate any alternative scenario of development of the company's external environment. Formulation of the strategic vision is described in the following part of the paper.

Strategic scenario planning is a process which the strategic planning group should repeat every year; it should constantly refine (i.e. recalibrate) strategic scenarios it has developed. In this way it can also look one year further into the future.

## FORMULATING STRATEGIC VISION

One of the basic prerequisites for building a successful company is the formulation of its *strategic vision.* It is the perception, concept, mental picture or "interpretive scheme" (Gioia & Chittipeddi, 1991, p. 434) of a successful company which its owners, its management and its employees want to build. A more poetic expression can be also used - it is their *"dream about the company they want to build".* It is their dream about a company they could be proud of in every respect. About a company whose customers and employees would be literally "in love" with. About a company which would be a synonym for the best quality products and services. About a company ... (add what you think appropriate).

The strategic vision of a company can also be understood as a "blueprint" of how the company should look and work in the future. The strategic vision of the company should therefore contain all the important dimensions of the company's hardware and software. It should describe, in very precise terms, the future competitive position of the company: its mission (i.e. the purpose of its existence), its products and services, its customers and markets, its basic competencies and key factors of its success (or the sources of its competitive advantages). It should also clearly define the basic values of the company, company ideology and philosophy and basic principles of how the company functions.

In formulating the strategic vision, its authors should take two time perspectives into consideration and move along two time axes: from the present "forwards" to the future (by means of strategic scenario planning) and from the future "backwards" to the present (by means of identifying strategic implications of individual alternative futures). An effective strategic vision of the company can be formulated - in an effective way - only at the crossing point of these two time perspectives.

In this approach to the formulation of the strategic vision, the present and the alternative futures are interconnected with a positive feedback loop. The better, more precisely, more objectively, more dynamically, and more comprehensively we describe, using strategic scenario planning, the alternative futures of the remote, industry and operating environment of the company, the clearer their strategic implications for the company will be, and the better the company can get ready now, in the present, for all the great future opportunities and for all the serious future threats in all the strategic scenarios of alternative futures of its external environment. This general framework for strategic vision formulation, based on the new strategic paradigm of the relationship between the present and the future of the company, is illustrated in *Figure 11*.

*Figure 11*

### *Four basic premises for the formulation of a strategic vision*

The formulation of a strategic vision of a company is influenced by the following four factors (the first three of them are linked with the present and the fourth with the alternative futures):

*1.      Archetypes, i.e. basic, qualitatively different "prototypes" of today's successful companies (characteristics of successful companies and causes of failures of strong companies):* If  members of top management use modern theoretical concepts of strategic management to analyze successes and failures, victories and defeats, of well-known successful companies, they can derive considerable knowledge. They will use the best and the strongest companies in the world as "business strategy teachers". By analyzing the strategic successes and failures, correct strategic decisions and strategic mistakes of these companies, top managers can be greatly helped in formulating a strategic vision for their own company. In this process,  successful companies may serve

as models for building their company (understandably, taking its unique and incomparable characteristics and the specific conditions of its functioning into account).

At this point the author should add a word of warning about ill-suited imitation or even outright copying of successful companies operating in a different economic, political and social environment. The problems of cultural relativity of management theories and practices have been described by many authors (such as Adler, 1991; Gannon & Associates, 1994; Harris & Moran, 1991; Hofstede, 1980, 1993; Perlaki, 1994; Terpstra & David, 1991). It is not possible to mechanically copy a model of a successful company because of profound and insurmountable differences that may exist between basic parameters characterizing effective companies (and the basic values and personal visions of their employees) in different economic, political and social environments.

2.      *Basic values and personal visions of the owners, management and employees of the company:* The strategic vision of a company is very strongly influenced by the personal visions of its owners, management and employees. The visions of a successful and effective company held by individual members of the company reflect their personal values, opinions and convictions concerning the purpose of the company's existence (i.e. its mission), their fundamental business principles, fundamental principles of company functioning, and basic rules of employee conduct.

3.      *Current competitive position of the company:* using the first two factors the authors of the strategic vision may formulate an ideal vision for the company. Yet, if they want to avoid building castles in the air, if they want their dream of the company to be realistic and feasible, they must take its current competitive position as the starting point. The achievement of the strategic vision of the company (or making their dream come true) corresponds in fact to the implementation of the strategic change by means of which they will close the gap between the current competitive position of the company and its target competitive position. The real, attainable strategic vision of the company must be therefore based on a thorough analysis of its current competitive position.

4.      *Archetypes of successful companies operating in the given industry in individual strategic scenarios of alternative futures:* The authors of a company's strategic vision must take into consideration also the external environment (remote, industry and operating) in which the company will exist in five or ten years' time. They may use strategic scenario planning to generate several (typically four) alternative future external environments of the company. For each alternative future industry they can then develop archetypes (or formulate strategic visions) of successful companies. In essence, they are trying to answer the following questions: What will the archetypes of successful companies in the given industry look like and how will they work? What will the purpose of their business be (i.e. what will be their missions)? What will their products and services be? And what will their markets be? What will their basic competencies and the key factors of their success be? How will they build the sources of their competitive advantages?

Because the competitive environment of a company may - in five or ten years - change beyond recognition (in the future, it may become a "completely different ball game" or

"a similar game, but with completely different rules"), formulating answers to the aforesaid questions is an immensely difficult and creative task.

Only a creative synthesis of the four above factors will make it possible to formulate generic strategic visions of the company for individual strategic scenarios of its alternative futures. These alternative strategic visions will constitute the basic input for the difficult process of formulating a strategic vision of the company that will be suitable for all the alternative scenarios of the development of its external environment.

The last phase of the process of formulation of a company's strategic vision is the development of its implementation plan. This plan serves as a basic document for building a strong and flexible company that will be successful in any alternative future.


## BUILDING A SUCCESSFUL COMPANY

In addition to its final outcome (i.e. its content), an extremely important role in the formulation of a strategic vision is played by the *process of its formulation and implementation*. This process should not only involve the company "élite". Only a strategic vision formulated as a participatory and interactive exercise will receive the support of company managers and employees. Quite clearly, overall responsibility for the formulation and implementation of the strategic vision lies with the top management of the company. However, this does not mean that as many company employees as possible should not be involved in the process of its formulation and implementation. A wise strategist must try to put in place structures, processes and mechanisms that will enable as many managers and employees of the company as possible to become involved in the process of strategic scenario planning and in the process of formulation and implementation of the strategic vision, mission, strategic goals, operational objectives and strategies of the company. Only a strategic vision shared by all company employees can converge their individual visions and personal objectives into "our common company vision" and "our common objective". Only a strategic vision formulated in this way can exert an emotional appeal on the employees, mobilize their creative energies and motivate them to overcome themselves and "achieve even the impossible".

The strategic planning group must realize that their objective is not only to formulate and implement a strategic vision of the company for the year 2002 or 2007, but to build a successful company. This means that it is not sufficient to ensure a participatory and interactive unification of individual visions of company employees into a uniform company-wide shared vision. It is necessary to do more. The building of a successful company is based on the premise that the formulation and implementation of its strategic vision will not depend only on the "great visionary", top management of the company, or the strategic planning group and the visionary skills of its members. The underlying premise for building a successful *visionary company* (Collins & Porras, 1996) is the creation of effective organizational and management structures, processes and mechanisms for the participatory and interactive formulation and implementation of a strategic vision, and the incorporation of them into the structures and processes of strategic management of the company. If the company's management is successful in doing so, it no longer functions as the "driving force" behind the formulation and

implementation of strategic vision of the company, and has become the "chief designer of this driving force". There is no need to emphasize that this is a much, much more difficult task.

If the top management is successful in doing all of the above, then the company will not depend only on their visionary skills and their wise strategy. If they succeed, the company will also continue to be successful with the new generations of wise strategists and the new generations of successful products and services.

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## *Figure 1.* BUILDING A SUCCESSFUL COMPANY
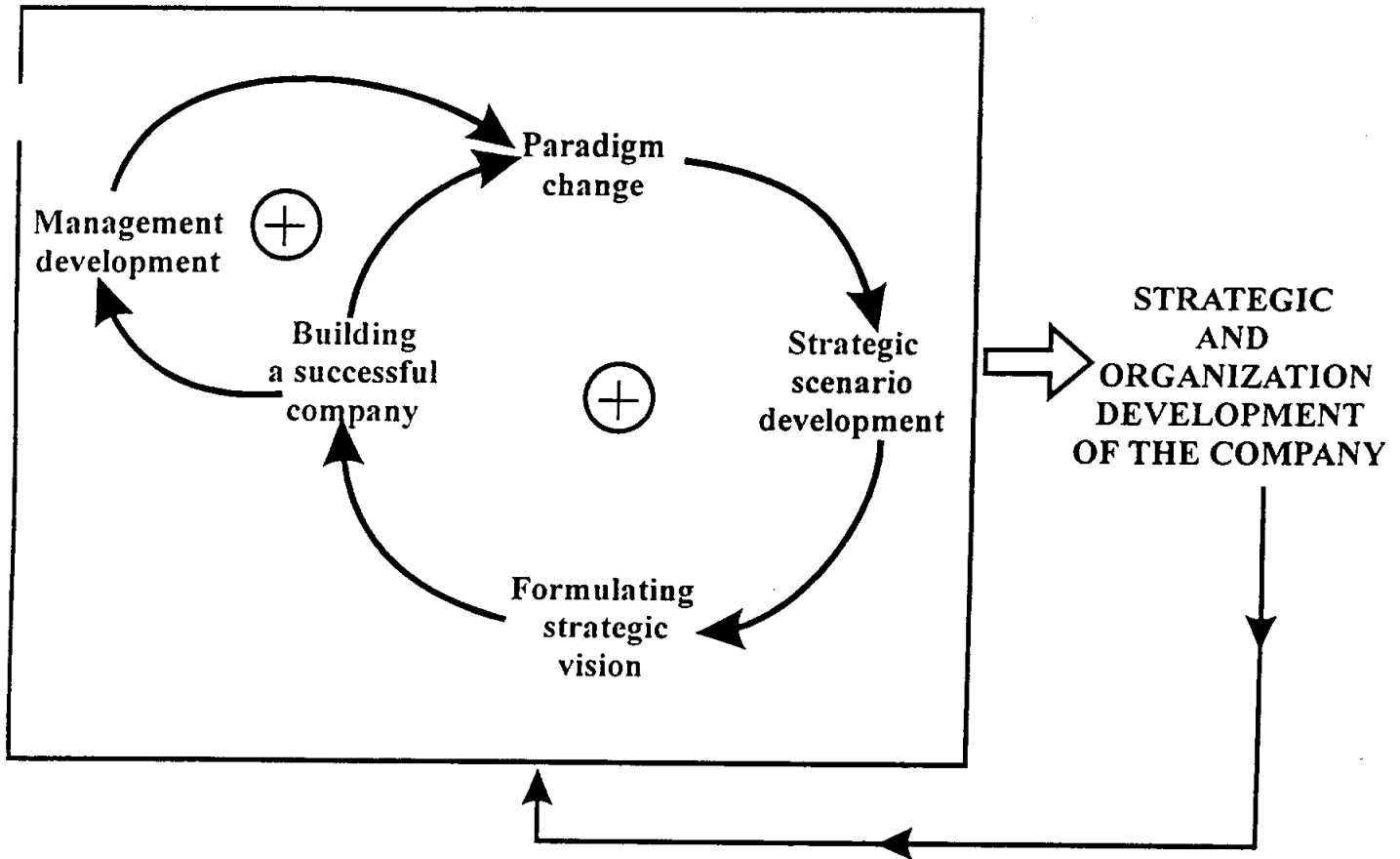
**_Figure 2._ RELATIONSHIP BETWEEN THE PRESENT AND THE FUTURE
OF THE COMPANY**

**CLASSICAL PARADIGM**

Past $\Longrightarrow$ Present $\Longrightarrow$ Future

**NEW PARADIGM**

Present $\Longleftarrow$ Future

_Strategic scenario planning_

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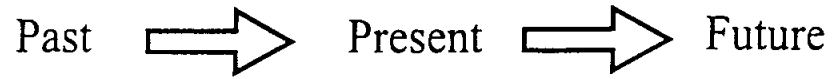
*Figure 3.* CHARACTERISTICS OF A SUCCESSFUL COMPANY

## CLASSICAL PARADIGM

*The management's role is to analyze the market and to secure the manufacturing of products (provision of services) that will best satisfy the needs of customers in the given market segment.*

Formulating the vision of successful products and services ⇨ Successful products and services ⇨ Successful company
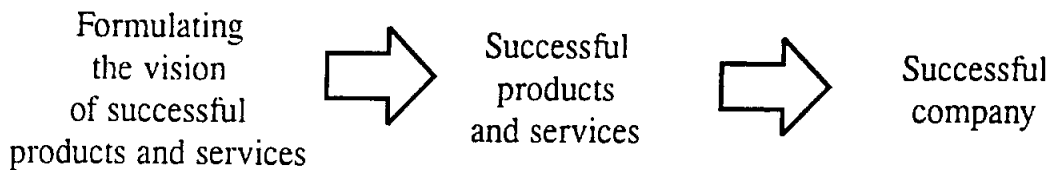
## NEW PARADIGM

*The main management's role is to design and build a company that will generate, continuously and in the long-run, entire generations of successful products and services.*

Formulating the vision of a company, successful in the long-run, characterized by built-in value systems, organizational and managerial structures, processes and mechanisms that will ensure its continuous self-renewal and continuous long-run success. ⇨ A company successful in the long-run ⇨ Entire generations of successful products and services
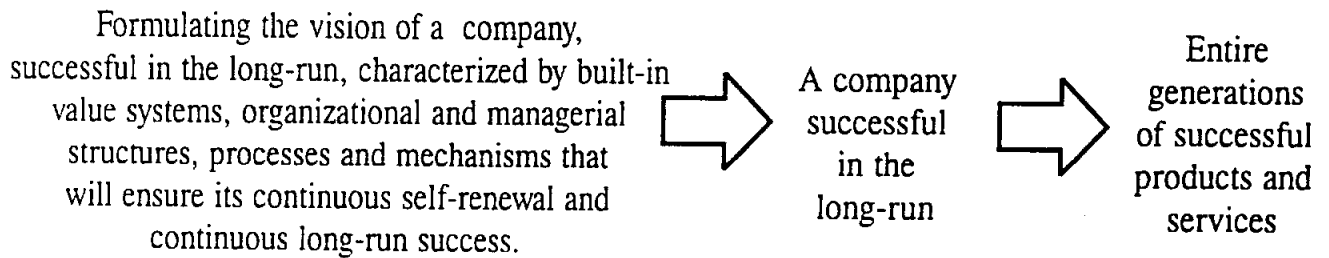
**Figure 4.** IDENTIFICATION AND SATISFACTION OF CUSTOMERS' NEEDS

*Vision of a company successful in the long-run*

*Customers' needs*

Identification of the current and potential needs of the current and potential customers

Vision of successful products and services that will satisfy or exceed all expectations and desires of customers

Products and services

Continuous work with customers in order to make them appreciate and use products and services

*Delighted customers*

*Satisfied customers*

*Unsatisfied customers*

Identification and elimination of the causes of customers' dissatisfaction

Feedback, evaluation and proposal of changes

## *Figure 5.* CUSTOMER ORIENTATION

### CLASSICAL PARADIGM

Identification of the current needs of the current customers

⟹

Products and services which satisfy the current needs of the current customers

⟹

Satisfied customers

### NEW PARADIGM

Identification of the current and potential needs of the current and potential customers

⟹

Products and services that will surpass expectations and desires of the entire conceivable market, i.e. products and services that will outperform the competition in satisfying the current and potential needs of the current and potential customers

⟹

Delighted customers

## Figure 6. STRATEGIC SCENARIO PLANNING
## AS IMPROVEMENT OF MENTAL MODELS

| Comparison criteria | Mental models of managers before the strategic scenario planning exercise | Mental models of managers after the strategic scenario planning exercise |
|---|---|---|
| Number of scenarios | Usually only one initial model of anticipated development. | Several scenarios of alternative futures. |
| Objectiveness | More subjective | More objective: more objective perception, analysis, interpretation, drawing of conclusions and development of working theories. |
| Complexity | Simpler | More complex: they contain more key parameters of external environment and more causal relationships among them. |
| Dynamics | More static | More dynamic: they contain more key driving forces and more causal relationships among them. |
| Group support | Initial individual mental models can be in mutual opposition and contradictory. They may not necessarily enjoy group approval and support. | Shared group mental models enjoy support and approval of the whole group. |

# Figure 7. STRATEGIC AND ORGANIZATION DEVELOPMENT

**Objective reality**

Company ⟷ External environment

*Individual and organizational learning feedback loop,*

*Strategic and organization development feedback loop*

**Individual mental models of the company and of its external environment**

*Strategic scenario planning*

- developing a shared model of the company and its external environment
- developing shared models of alternative futures
- formulating strategic vision of the company and developing its implementation plan

**Building a strong and flexible company**
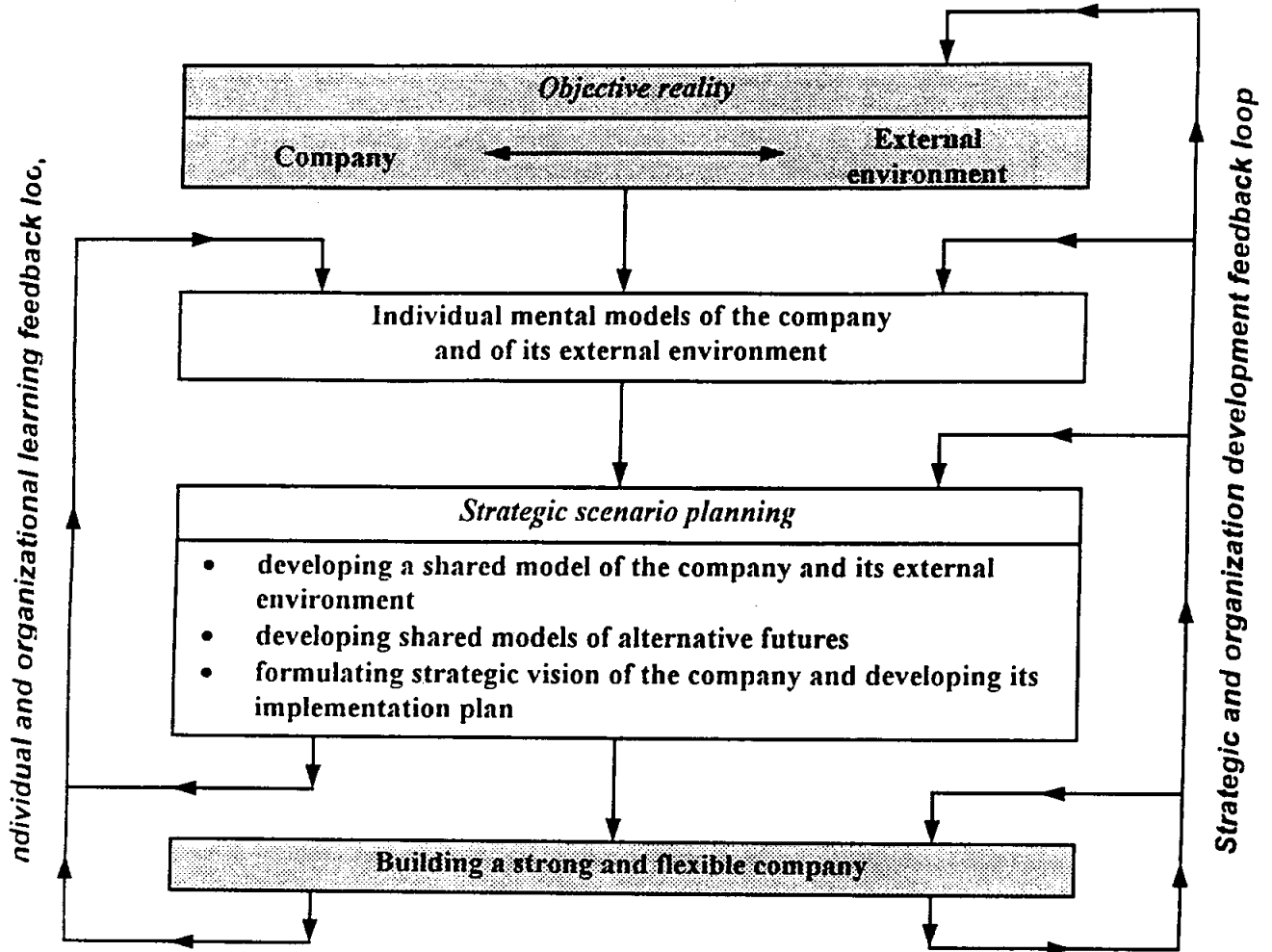
*Figure 8.* STRATEGIC SCENARIO PLANNING

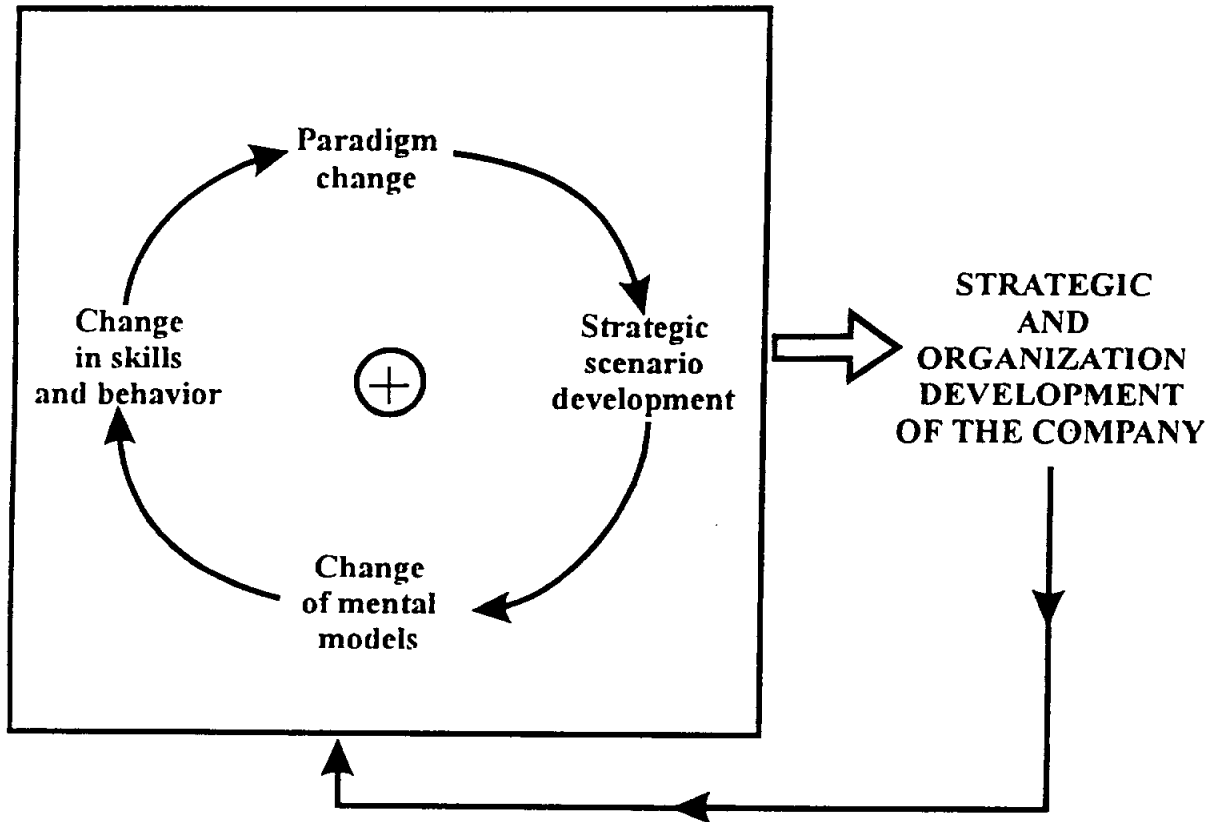*Figure 9.* BUILDING A SUCCESSFUL COMPANY



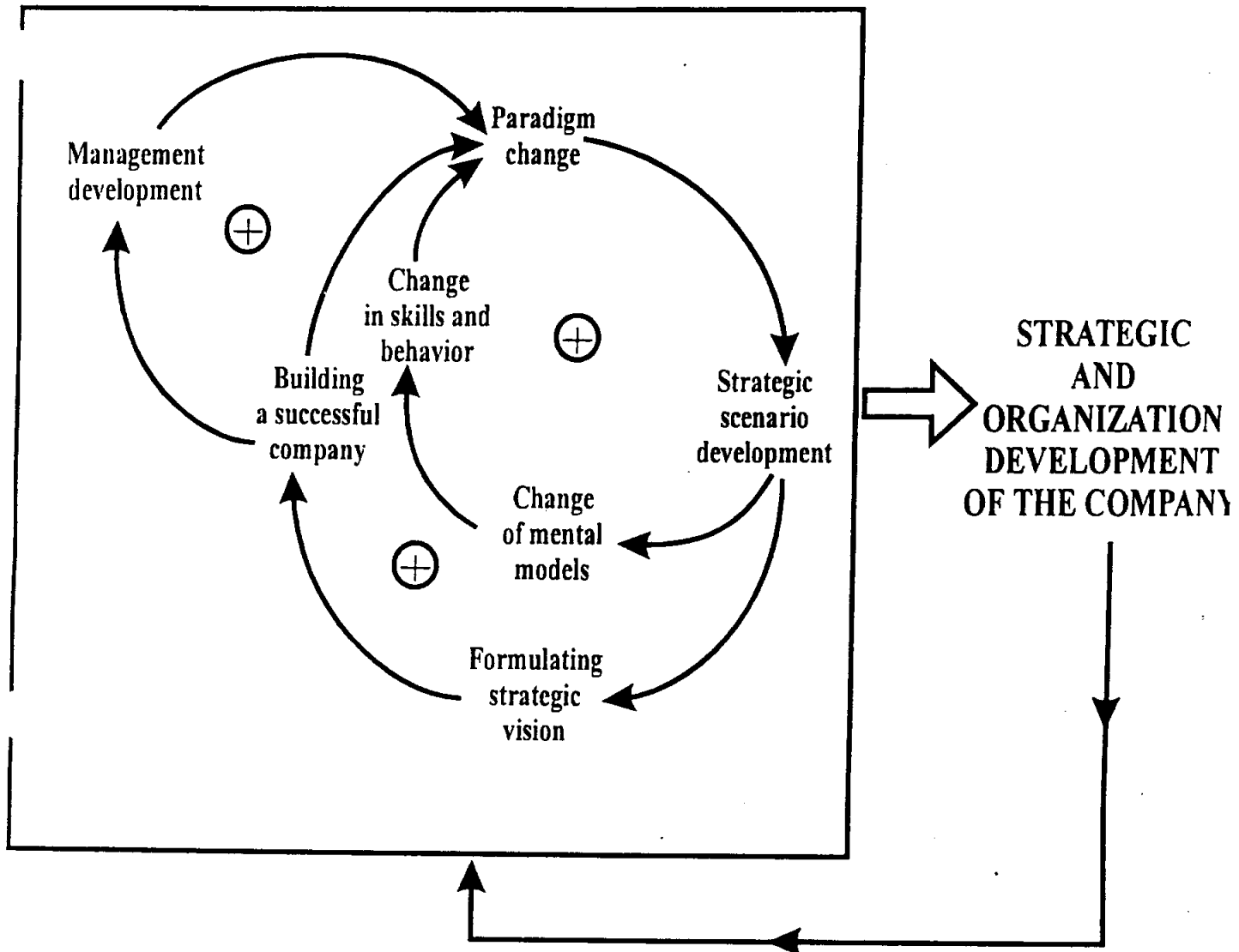*Figure 9.* BUILDING A SUCCESSFUL COMPANY

**Figure 10.** ANALYSIS OF COMPANY READINESS
AND VULNERABILITY

1. *Preparatory phase:*

1.1 Identifying and analyzing key factors (parameters and driving forces) of external company environment.

1.2 Preparing strategic scenarios of development of company external environment.

2. *Identification and analysis of potential opportunities and threats:*
Analyzing the influence of driving forces on key parameters of company external environment.

2.1. Selecting specific strategic scenario.

2.2. Selecting specific key parameter of company external environment.

2.3.A. How and in what way can the driving forces exert a positive influence on this key parameter of company external environment and thus create opportunities for company growth and development? What is the format of these opportunities? What factors influence their emergence and existence?

2.3.B. How and in what way can the driving forces exert a negative influence on this key parameter of company external environment and thus create threats to company functioning? What is the magnitude of these threats? What factors influence their emergence and existence?

3.A. *Analysis of company readiness:* Does the company possess the ability to positively influence the emergence and existence of the above opportunities? To what extent can it make use of them? To what extent is it ready for them?

3.B. *Analysis of company vulnerability:* Does the company possess the ability to prevent the emergence of the above threats? If it cannot prevent their emergence, to what extent can it resist them? To what extent is it capable of taking certain retaliatory measures?

4. *Repeating the second and the third phases of analysis of company readiness and vulnerability for all key parameters and for all strategic scenarios of development of its external environment.*

# Figure 11. FORMULATION OF STRATEGIC VISION

| Present | | Alternative futures |
|---|---|---|
| • Archetypes of successful companies:<br>   – characteristics of successful companies<br>   – causes of the failures of strong companies<br><br>• Basic values and personal visions of owners, management and other company employees<br><br>• Current competitive position of the company<br>   – company mission<br>   – products and services<br>   – customers and markets<br>   – basic competencies<br>   – key factors of success (sources of competitive advantage) | *Strategic scenario planning*<br><br>⇨ **Strategic vision** ⇦<br><br><br><br>*Strategic implications of alternative futures* | • Strategic scenarios<br>⇩<br>• Archetypes of successful companies operating in the given industry, for different scenarios<br>⇩<br>• Competitive position of successful companies:<br>   – company mission<br>   – products and services<br>   – customers and markets<br>   – basic competencies<br>   – key factors of success (sources of competitive advantage) |

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