

Preface for the fifth edition

In the fifth edition, a new chapter about revising or producing the mission statement has been integrated. Furthermore, to increase the conciseness, Chapter 5 has been revised and shortened.

The authors would like to express their thanks to Tu Le for her substantial work in preparing the manuscript for this edition. The authors would also like to thank Anthony Clark for translating the new chapter, Maude Montani for checking some sections and Esther Thahabi for updating the references and the bibliography.

March 2008
Rudolf Grünig, Richard Kühn

Preface for the fourth edition

In the fourth edition, Chapter 12 has been revised and enlarged. With the corporate options matrix, a new approach for developing options at the corporate level is introduced.

The authors would like to express their thanks to Tu Le for her substantial work in revising the manuscript and the figures for this edition. The authors would also like to thank Esther Thahabi for updating the references and the bibliography.

April 2006
Rudolf Grünig, Richard Kühn

Preface for the third edition

In the third edition, Part II has been enlarged with a new chapter about the strategic analysis and planning toolbox. In addition, some revisions

have been made to the text and figures and the visibility of the text has been improved with a new font format.

The authors would like to express their thanks to Tu Le for her substantial and excellent work in revising the manuscript and the figures for this third edition.

October 2004
Rudolf Grünig, Richard Kühn

Preface for the second edition

As a result of valuable feedback on the first edition of this book, some revisions have been made to the text and the figures for this second edition. In addition, the section in Chapter 12 which deals with strategic options at the corporate level has been improved and new findings about diversification have been added.

The authors would like to express their thanks to Wira Tandjung for his expert assistance with this second edition.

March 2002
Rudolf Grünig, Richard Kühn

Preface

The strategies of a company define its future way of doing business: they determine for years to come the target markets and the competitive advantages it must construct and maintain. It is the development of successful strategies, an essential and a complex task, which forms the focus of this book. The book begins with a brief introduction to strategic planning. This is followed by the presentation of a method for determining future strategies. Here seven stages in planning are proposed. They are afterwards described in detail and procedures are

provided for dealing with each stage. The recommended procedures are sometimes rather complex: we have done our best, while avoiding oversimplification, to make our methodological suggestions accessible by using clear terminology, charts where appropriate, and a large number of examples and case studies as illustrations.

The authors would like to express their gratitude to all those who have helped in the writing of this book. Many of the ideas and examples came from practice. We are therefore especially indebted to the many managers who have allowed us to share their strategic work. The authors would also like to thank all those former and present students, doctoral candidates and assistants, who contributed to the book. In addition we would like to address our special thanks to three people. This book could not have been produced without the considerable talents of Anthony Clark who translated large sections of the book from German into English and improved the language of the parts we wrote in English. Kiruba Levi and Barbara Roos merit special thanks for their efficient and excellent work in typing the text, designing the figures and producing the lists, the index and the bibliography.

March 2001
Rudolf Grünig, Richard Kühn

2 Development of strategic planning

2.1 Four phases in the development of strategic planning

Figure 2.1 displays the different stages of the development of strategic management. As the figure shows, we distinguish between a preliminary phase and four phases.

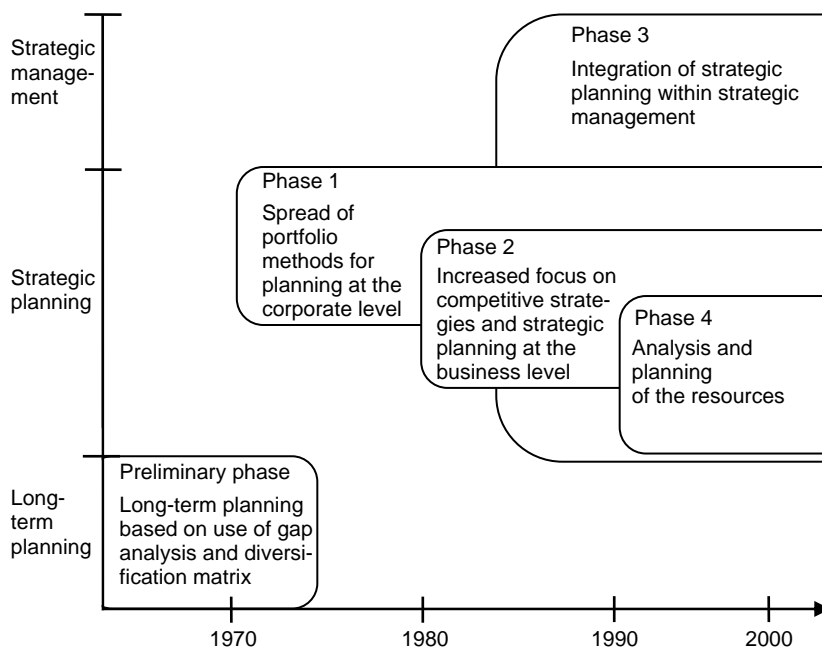


Figure 2.1: The development of strategic planning

Before the end of the sixties there was no form of planning which focused on the building and maintenance of success potentials and which could therefore be properly called strategic planning. The quantitative long-term planning available to companies was a form of analysis which proceeded by extrapolating trends and attempting to project past developments into the future. One example of a long-term oriented method of analysis which is based on the extrapolation of trends is gap analysis. This form of analysis looks at products already in existence and at products in development and predicts the rate of turnover or contribution margin they will achieve. Because of the product life cycle,

turnover or contribution margin tend to reduce over time. By comparing projected future figures with what would be necessary to ensure the survival of the company, a crucial gap can be identified. **Figure 2.2** shows how this is done. While gap analysis identifies the gap which needs to be bridged, it offers no clues as to how this can be done. If we consider the Ansoff matrix shown below in **Figure 2.3** we see that the gap in turnover or contribution margin can be closed with an improved market penetration, with new customers for existing products, with new products for existing customers, or with new products for new customers. But the Ansoff matrix cannot help a company to decide which of these alternatives is to be preferred and to be attempted (Ansoff, 1965, p. 127 ff.).

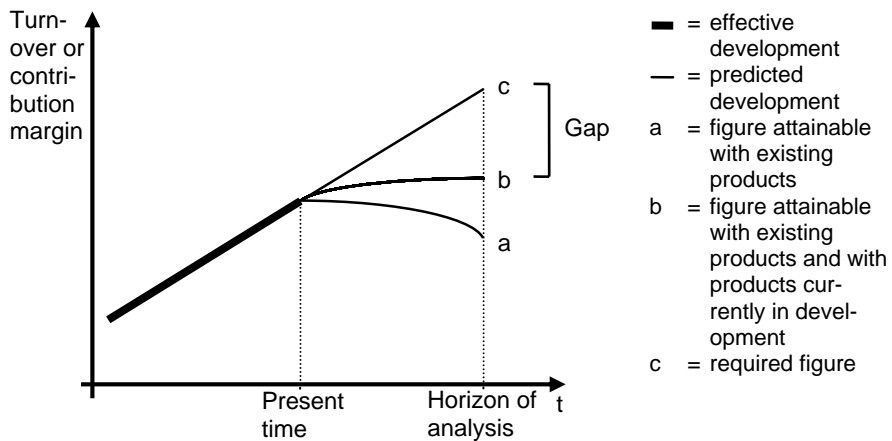


Figure 2.2: Gap analysis

	Existing products	New products
Existing markets	Improved market penetration	Product diversification
New markets	Market diversification	Lateral diversification

Figure 2.3: Ansoff matrix

At the beginning of the seventies suggestions from management consultants led to the development of portfolio methods of strategic analysis and planning. Unlike trend analysis, portfolio methods afford a strategic view of the company. The development of portfolio methods is the first step in the development of strategic planning. The methods are still used today to determine the strategic objectives of the businesses as a key element of developing a corporate strategy. They are therefore explained in detail in Part IV "Developing the corporate strategy".

At the end of the seventies, strategic planning at the corporate level with the help of portfolio methods began to be complemented by strategic planning for individual businesses. The crucial problem in developing strategies for businesses is how to win the battle against competitors. A prime mover in this second phase of the development of strategic planning was Porter, whose "Competitive Strategy" (1980) presented three generic competitive strategies which can serve as the basis for the competitive strategy of a business. Porter's ideas are presented in detail in Part V "Developing the business strategies".

After the publication of "From Strategic Planning to Strategic Management" (Ansoff, Declerck & Hayes, 1976) the term "strategic management" gained in currency. Since the mid-eighties, it has increasingly been preferred to "strategic planning", not only in the research literature but also in business practice. The term strategic management implies a broader view. Strategic management goes beyond planning, including the realization of strategies as well as strategic control. The reason for this widening of view is that in practice the introduction of strategic planning frequently did not lead to improved performance in the company concerned: "The outcome of strategic planning is only a set of plans and intentions. By itself, strategic planning produces no actions, no visible changes in the firm. To effect the changes, the firm needs appropriate capabilities: trained and motivated managers, strategic information, fluid and responsive systems and structures. Lacking these, the firm will appear to resist implementation of the plans. The resistance will be real enough, but it will not be due to some inner perversities, but rather due to a lack of requisite capabilities and motivations, reluctance of people to abandon tried and familiar activities in favor of unknown and risky ones" (Ansoff, Declerck & Hayes 1976, p. 47 f.).

A company's resources have always been considered implicitly within the process of strategic analysis and planning. However, from the mid-nineties on, companies have been able to use the findings of Barney (1991), who developed criteria for the identification of strategically valuable resources. These are presented in detail in Chapter 16 of this book.

2.2 Role of strategic planning within strategic management

As we have seen, the change in terminology from strategic planning to strategic management went together with an enlargement of the view. Strategic planning was complemented by the aspects of implementation and control. This means that strategic management comprises: (1) strategic planning, (2) the implementation of strategies, (3) strategic control.

These three tasks can be understood as forming three stages of a single process. The first phase, strategic planning, sets out long-term goals and provides a rough guide to what is necessary in terms of actions and resources. This provides a clear direction and basis for the second stage: implementation. The final stage, strategic control, has a dual function: First it provides feedback on how strategies are realized. Secondly it checks whether the assumptions or premises underlying the strategic plans correspond to reality. If there is too much divergence from the strategic plans and their implementation, or if the premises behind the strategies do not correspond to reality, then planning must begin again.

Although the three stages form a single process, they do not take place consecutively; there is considerable temporal overlapping. For example, stages two and three, implementation and strategic control, will obviously take place simultaneously. This overlapping in time means that there is an interplay between the three separate tasks, with each influencing the other two.

It is also difficult to distinguish sharply between strategic management and management of daily business. While strategic planning has its

own specific methods and can be distinguished clearly from medium and short term planning, the distinction cannot be made so clearly in the other two stages. Apart from early warning systems, there are no specific methods for the tasks of strategy implementation and control.

Figure 2.4 summarizes this view of strategic management.

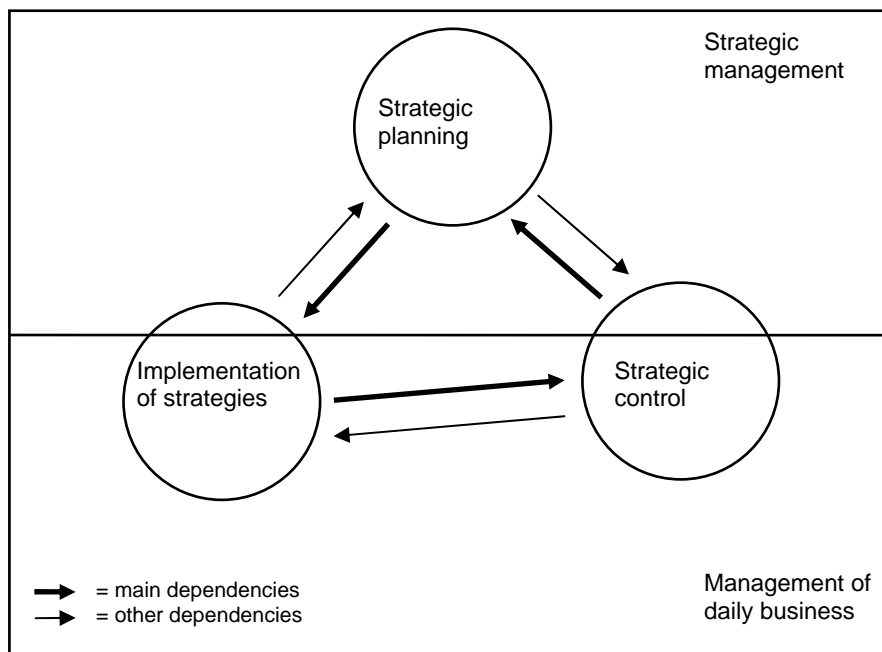


Figure 2.4: The three sub-systems of strategic management

As the chart shows, strategic planning plays a key role within strategic management. Strategic planning is perceived as a process which is run independently of daily business but which determines it, while the other two tasks, strategy implementation and control, are part of the ongoing day-to-day management process. Strategic management is thus to a great extent the product of strategic planning.

Strategy implementation refers to the realization of strategies at the material level of market offers and hard resources, but it also includes complementary measures concerning personnel. Unsatisfactory implementation at the personnel level is the most frequent cause of fail-

ure in achieving success with strategies. This is not surprising. The most important realization measures, such as the development of new products, the reduction in the number of production facilities, the outsourcing of production, the building up of foreign markets and so on, will be clearly stated in the strategies. This is not the case for the measures which concern the personnel. In strategic plans they are mentioned either in passing or not at all. This is because those participating in a strategy development process tend to concentrate on visible intended competitive advantages. But without realization measures at the personnel level the best strategies will fail hopelessly.

Strategic control comprises three elements: strategic realization checking, strategic monitoring and strategic scanning. Realization checking serves to guarantee that strategic measures are realized. After the strategy is formulated, strategic monitoring begins. For this reason an early warning system is built up and maintained. It observes indicators for key premises. But as it is impossible to look at all premises, the risk remains that one may be surprised by unexpected developments. The role of the third element, strategic scanning, is to minimize this risk. Strategic scanning involves the global intuitive observation of the environment and therefore implicitly includes all premises. **Figure 2.5** shows the relationship between the three types of checking (Steinmann & Schreyögg, 2002, p. 245 ff.).

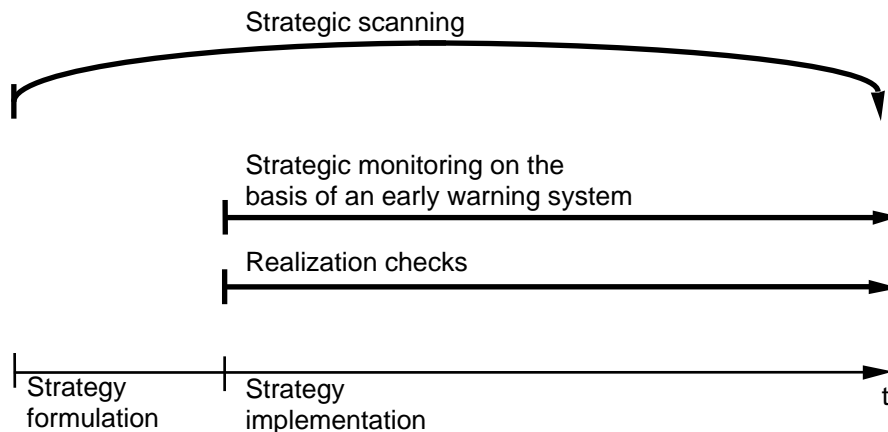


Figure 2.5: Elements of strategic control
(Steinmann & Schreyögg, 2002, p. 246)

The methods used for checking the realization of strategic programs are the same as those for checking medium-term projects, milestone setting and control being the principal tool.

A number of methods have been suggested for the determination of early warning systems. Although procedures recommended for the construction of early warning systems vary considerably, they all have one central focus: the determination of indicators for observing key premises. The quality of an early warning system essentially depends on the quality of these indicators. **Figure 2.6** gives the example of the indicators of a publisher of German university textbooks for students of medicine and of biology.

Global strategic scanning should be carried out on an intuitive basis by top management. It would not be appropriate for it to be delegated and carried out using fixed procedures.

(1)	Number of study places in the German-speaking universities <ul style="list-style-type: none"> ▪ for biology as main branch ▪ for biology as secondary branch ▪ for medicine
(2)	Percentage of English textbooks used in 10 universities selected randomly <ul style="list-style-type: none"> ▪ for the study of biology ▪ for the study of medicine
(3)	Percentage of the 50 most well-known scientists publishing their textbooks mainly or exclusively at Bigler Ltd in comparison with the percentages of the competitors <ul style="list-style-type: none"> ▪ for the German-speaking biologists ▪ for the German-speaking medical doctors
(4)	Number of innovations compared to the whole of deliverable books for Bigler Ltd in comparison with the number of the competitors <ul style="list-style-type: none"> ▪ for the books of biology in German ▪ for the books of medicine in German
(5)	Average number of copies over all editions of Bigler Ltd in comparison with the average number of the competitors <ul style="list-style-type: none"> ▪ for the books of biology in German ▪ for the books of medicine in German

Figure 2.6: Indicators for a publisher of German university textbooks of medicine and biology