

From Strategic Analysis to Organizational Foresight

65 Techniques for Diagnosing
Present Realities and Potential Futures

Matthew E. Gladden

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Preface

This volume is the result of a passion for helping organizations implement successful strategic management practices that has been nourished through years of work as an executive, consultant, and researcher. Throughout this journey many individuals have entrusted me with invaluable opportunities to learn from their example and to experience firsthand the challenge of developing sound strategy – and the immense impact that it can have on organizations. I am especially thankful to Gasper F. Lo Biondo, S.J., Terry R. Armstrong, and all of my past and present colleagues from NeuraXenetica, Cognitive Firewall, Georgetown University's Department of Psychology, and the Woodstock Theological Center. I am also grateful to Kathy Kretman, Luisa Boyarski, Douglas M. McCabe, Serge Pukas, Paulina Krystosiak, Jacek Koronacki, and all the faculty and staff of Georgetown University's Schools of Public Policy and Continuing Studies and of the Institute of Computer Science of the Polish Academy of Sciences for the insights and support that they shared during my graduate studies in management. As always, I am most thankful to my family and friends for their encouragement of my work.

Throughout the process of preparing this volume, I have benefitted from the input and support of many individuals who contributed in one way or another to its successful completion. Some of the material contained in this volume relating to the three phases of strategic management and the relationship between future studies and strategic foresight is adapted from work that I first presented at a number of academic conferences at the Jagiellonian University and the Facta Ficta Research Centre. I am grateful to Barbara Kożuch, Stanisława Jung-Konstanty, Krzysztof Maj, Ksenia Olkusz, Sven Dwulecki, Michał Kłosiński, Paweł Gąska, and all of the other conference organizers and participants who engaged in lively discussion and offered meaningful critique of my work.



The individuals mentioned above have collectively made it possible for me to prepare this book. Whatever value this volume holds for those interested in strategic analysis is due largely to the insights, suggestions, encouragement, and good example that they have offered. Whatever flaws and limitations the book might possess in spite of their best efforts remain its author's responsibility alone.




Introduction

The Purpose and Organization of This Text


This volume is a guide to more than sixty of the most popular, valuable, and important tools and techniques employed in contemporary strategic analysis. It is designed to serve as a comprehensive reference for the experienced strategic analyst as well as an accessible introduction for those who are new to the field of strategic analysis – including those whose primary professional responsibilities lie in another field but who have been tasked by their organization with designing and executing a process of strategic analysis.

Chapters One and Two offer a general introduction to the practice of contemporary strategic analysis that constitutes the conceptual foundation of the volume. **Chapter One** provides an introduction to the process of strategic analysis and an exploration of the ways in which futures studies is becoming an essential component of contemporary organizations' attempts to develop strategic foresight. We begin by presenting an overview of competitive strategy and the rapidly evolving strategic context within which organizations can no longer expect to carve out some unsailable competitive advantage and then 'coast' successfully for years (or even decades) without a radical reimagining of strategy; instead, contemporary organizations must engage in a continuous cycle of strategy development in order to stay abreast of accelerating environmental change – especially that of a technological nature. We then describe the three stages of strategic management, which are (1) strategic analysis, (2) strategy formulation, and (3) strategy implementation. This volume focuses especially on the first of these stages. Consideration is given to the types of raw materials or inputs needed for strategic analysis and the types of



products or outputs generated by that process. We then present a generic overview of the mechanics by which strategic analysis is performed, along with guidance for selecting the right type of strategic analyst. The chapter concludes with an investigation of the nature of futures studies, the unique perspective that it adds to strategic analysis, and its importance for developing strategic organizational foresight in the contemporary competitive environment.


Chapter Two offers a step-by-step guide for designing a customized process of strategic analysis for a contemporary organization. It begins by introducing the concept of the Strategic Futures Hub as a means for understanding the eight strategic domains that are critical to the development of strategic foresight for any organization. An organization's *internal system* comprises the domains of (1) the organization's financial resources and realities, (2) its internal architecture and capacities, and (3) its current and potential products. The organization's *external supersystem* comprises the domains of (4) consumers' needs and anticipated future behaviors, (5) competitors and their expected future behaviors, and (6) the current and future dynamics of the organization's competitive ecosystem. Finally, the sphere of *conceptual constructs* by which an organization conceptually links and aligns its internal system and external supersystem comprises the domains of (7) causal chains and possible, probable, and desirable organizational futures and (8) potential organizational strategies. Criteria are presented to help a strategic analyst determine which of these eight domains provides the most appropriate starting point for a given organization's process of strategic analysis. A suite of generic templates containing particular selections and orderings of analytical tools are developed that can be adapted by a strategic analyst for use in three commonly encountered situations: (1) when performing a fast and simple strategic analysis as preparation for a more in-depth and formal analytical process; (2) when conducting strategic analysis for a startup attempting to create a new market; or (3) when performing a strategic analysis for an established firm in a mature market. The chapter concludes with a guide to choosing analytical tools to address a wide range of critical strategic questions. Together, the practices presented in this chapter provide a key to understanding and applying the individual tools for strategic analysis that are described throughout the remainder of the book.



Chapters Three through Ten constitute the second part of the volume, in which particular tools for strategic analysis are discussed in detail. Within each of these chapters, the tools are listed not in alphabetical order but in a more functional order that takes into account not only the sequence in which tools *conceptually* flow from one another but also the sequence in which tools *practically* precede or follow one another. (For example, it is easier to do benchmarking after one has carried out the more basic work of competitor analysis and strategic group analysis.) For each tool, a brief bibliography suggests resources that a strategic analyst can consult in order to develop greater expertise than can be gained from studying this volume. Where possible, works are noted that represent the latest scholarship and practice, although in a few cases we have included classic foundational texts which – while written decades ago – are still valuable for gaining a full understanding of a particular analytical tool. We have also prioritized texts that explain the theory and practice of a strategic tool broadly (rather than very narrow and idiosyncratic case studies) and works that are dedicated in their entirety to a given technique (rather than those that address a given tool only briefly among many other techniques).

Chapter Three identifies and describes popular strategic management tools that can be employed to diagnose the financial realities that an organization is facing. Such analysis is critical, given the fact that no organization possesses unlimited financial resources, and the range of strategic options that can be seriously considered will be expanded or constrained by an organization's current and anticipated future financial situation. The tools presented here include financial statement analysis, industry and company value chain analysis, cost-benefit analysis (CBA), financial forecasting, and activity-based costing (ABC). For each analytical tool, we explore the type of strategic question that it helps to answer, the nature of the tool, practical considerations relating to its application, and recommendations for developing deeper expertise in its use.

In **Chapter Four**, tools are explored that can be utilized to analyze an organization's internal structures, systems, processes, and capacities. It is essential that an organization accurately understand its internal architecture and capabilities prior to embarking on the task of strategy formulation, as an organization that lacks such knowledge may unwittingly adopt an excessively ambitious strategy that cannot be realized, given its limited internal capabilities – or it may adopt an unnecessarily narrow and timid




strategy that fails to fully exploit the significant internal resources that the organization has at its disposal. The tools presented here include resource analysis, experience curve analysis, statistical analyses, the concept of the ‘cultural web,’ technology assessment, vulnerability analysis, SWOT analysis, the Internal Factor Evaluation (IFE) matrix, strategic gap analysis, and enterprise architecture (EA) domains, views, and landscapes.

Chapter Five presents and investigates tools that can be employed to analyze an organization’s current or potential future product lines or individual products from a strategic perspective. It is important for an organization to understand the value and limitations of its current or envisioned products before initiating the work of strategy formulation, as an organization that lacks such knowledge might inadvertently develop a strategy that stakes the organization’s survival on the success of a product whose strategic value is limited – or it may misguidedly cancel the production or development of products that possess significant long-term strategic potential. The tools for strategically appraising products presented here include conjoint analysis, comb analysis, market share analysis, the growth-share matrix, the Hofer matrix, product diffusion analysis, and product life cycle analysis.

In **Chapter Six** we explore tools that can be utilized to understand the needs and anticipated future behaviors of an organization’s current or potential customers. It is essential that an organization acquire the best possible understanding of consumers’ sentiments, needs, and behaviors before embarking on a process of strategy formulation, as in the absence of such knowledge an organization may unwittingly adopt a strategy that will alienate existing customers or may fail to notice some emerging need on the part of consumers that is not yet being met by competitors and which provides the organization with a major opportunity for product innovation, the creation of new markets, and the development of a unique competitive advantage. The tools described here include market segmentation, analytical customer relationship management (CRM), win/loss analysis, customer loyalty analysis, price analysis, brand equity analysis, social network analysis, focus groups, and surveys.


Chapter Seven discusses tools that can be utilized to evaluate the nature and activities of an organization’s competitors and attempt to predict their future behaviors. Before undertaking the work of strategy formulation, it is important to gain the best possible understanding of its current



competitors; in the absence of such knowledge, an organization might fail to recognize successful strategies and best practices employed by competitors that it could beneficially adopt for its own use and it might fail to correctly identify those organizations that constitute its most threatening direct competitors. The techniques described here include competitor analysis, strategic group analysis, and benchmarking.

In **Chapter Eight** we describe tools that can be employed to analyze the current dynamics of an organization's competitive ecosystem and anticipate its future behavior. Before undertaking the work of formulating new strategies, it is important for an organization to develop the best possible understanding of the complex external ecosystem that constitutes its competitive environment, as without such knowledge an organization may inadvertently develop strategies whose successful fulfillment will be rendered impossible by future political shifts, legal and regulatory changes, economic developments, technological advances, ecological change, natural resource and infrastructure developments, social transformations that impact consumers' needs and expectations, changes in competitive intensity, or broader market and industry evolution. Conversely, organizations that understand such environmental forces and accurately anticipate changes in the ecosystem may be able to align their strategies with them in order to generate new forms of competitive advantage. The tools described here include industry life cycle analysis, economic forecasting, the PESTEL analysis and its variants, emerging issues analysis (EIA), market opportunity analysis, Porter's Five Forces and Diamond models, and SPIRE environmental forecasting.

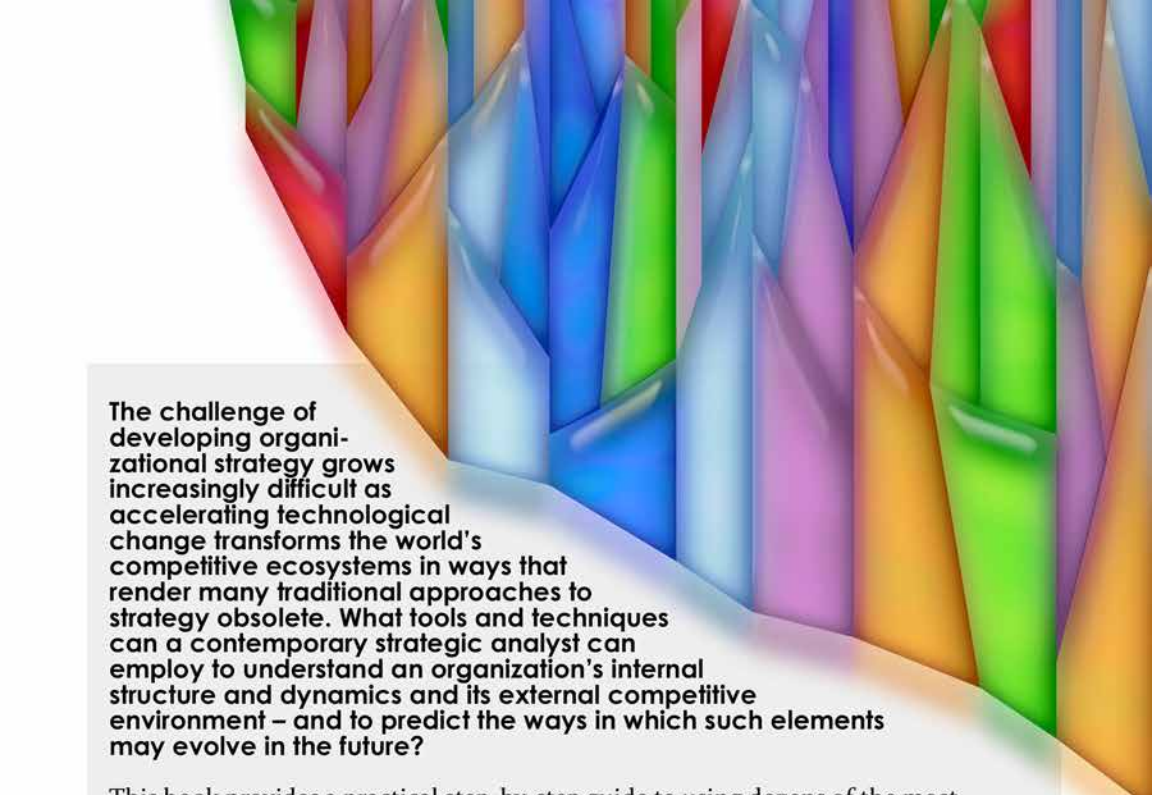
In **Chapter Nine** we explore tools that can be utilized to analyze the chains of causality that link past, present, and future events and to envision an organization's possible, probable, and desirable future states. Such tools are strategically important, insofar as they provide a cost-effective means of 'testing' an organization's potential strategies and anticipating their effects. By means of such analyses, an organization can gauge the resilience or fragility of potential strategies and diagnose the extent to which the successful implementation of a given strategy may be facilitated or impeded by future changes within the organization or its external environment. If an organization neglects to perform such analysis, it might unwittingly adopt and implement a strategy that generates unforeseen (but not unforeseeable) side-effects and whose negative impacts could easily have been avoided if minor strategic adjustments had been



made. The tools presented here include trend analysis, spreadsheet modelling, relative probability analysis, risk assessment, the futures wheel, cross-impact analysis, influence diagrams, scenario analysis and alternative futures, simulations, and thought experiments.

Chapter Ten investigates tools that can be employed by an organization to identify a broad range of potential strategies that exist for it, develop a solid understanding of the nature of such strategic options, and assess their strengths and weaknesses. The analytical tools discussed here include dialectical inquiry, the External Factor Evaluation (EFE) matrix, market signal analysis, stakeholder analysis, brainstorming, blue sky thinking, decision trees, the Delphi method, backcasting, morphological analysis, QUEST analysis, roleplaying exercises and serious games, and prediction markets.

Collectively, the tools and techniques for strategic analysis described in this volume constitute the core of an invaluable toolbox for the contemporary analyst who must develop actionable strategic foresight for a wide range of organizations.



The challenge of developing organizational strategy grows increasingly difficult as accelerating technological change transforms the world's competitive ecosystems in ways that render many traditional approaches to strategy obsolete. What tools and techniques can a contemporary strategic analyst employ to understand an organization's internal structure and dynamics and its external competitive environment – and to predict the ways in which such elements may evolve in the future?

This book provides a practical step-by-step guide to using dozens of the most important tools for generating organizational insight and foresight, along with an investigation of their underlying nature and purpose. It serves as an accessible introduction for those seeking to learn the essentials of strategic analysis and a comprehensive reference for the experienced organizational strategist.

The text employs the Strategic Futures Hub as a means for understanding eight domains that are key to the development of strategic foresight: (1) an organization's financial resources and realities; (2) its internal architecture and capacities; (3) its products; (4) consumers' needs and anticipated behaviors; (5) competitors and their expected future behaviors; (6) the dynamics of the organization's competitive ecosystem; (7) causal chains and possible, probable, and desirable futures; and (8) potential organizational strategies. For each domain, the reader is taught when and why to choose (or avoid) specific techniques to answer the most frequently encountered strategic questions.

The volume explains not only traditional tools like market opportunity analysis, benchmarking, resource analysis, stakeholder analysis, SWOT and PESTEL analyses, and the Delphi method, but also emerging techniques like internal prediction markets, as well as longer-range diagnostic tools from the field of futures studies, such as emerging issues analysis, backcasting, morphological analysis, and cross-impact analysis. The nature of each technique is clearly described, along with recommended approaches to its use and practical considerations such as the time commitment and skills required.



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