LEADERSHIP
ADVANCE
ONLINE

The Strategic Triumvirate: How to increase your organization's value and avoid future extinction

Leadership Advance Online– Issue IX, Spring 2007

by David Wimberly

Virtually every company in the world has some form of a strategic planning process. Whether it works or not is another issue. How it is carried out is a very real concern and may determine whether it works or not.

One author claims that "very often what happens is that senior executives...re-write the previous year's plan, producing a report that is then sold to company employees to get their buy in so that they will implement the plan" (Hiemstra, 2006, p. xxii). This type of "strategic planning" is futile and would not be very effective in the long run.

The primary objective of every CEO or owner should be to create and increase the value of the company. Yet all too often, we find that this is not their high priority. How does the concept of strategic planning relate to value? Many CEOs and owners haven't made this connection, yet these concepts are directly related. The CEO or owner can take strategic actions that directly impact the value of the company.

The Strategic Triumvirate: Strategic Thinking, Planning and Foresight

Numerous authors, business gurus and commentators have described their views of strategic thinking and strategic planning. Strategic thinking refers to the mindset of constantly considering which strategic goal best fits the needs of the company (the "goal"). It is this mindset that the CEO and executives should have in the forefront of their minds at all times.

Strategic planning, on the other hand, is a linear process, which involves an extrapolation of a "variety of factors, usually measurable" from the past "that help you align your resources toward a strategic goal" (Yorkovich, 2005, p. 1). This is largely deterministic in its process and could be described as the process to reach the goal.

However, strategic planning only takes into consideration the known factors (usually measurable, according to Yorkovich) of the past and develops a forecast based on these past known factors.

> A better approach is to follow a three-stage process for preferred futures planning. The first stage of this process is developing foresight. The second stage involves choosing a future direction. Taken together, these two stages are what we call futuring. The final stage is deciding on a web of strategies to shape the future and to respond nimbly to surprises along with the routine but difficult task of turning vision and strategy into action. (Hiemstra, 2006, p. xxii)

Strategic foresight, on the other hand, anticipates the future and develops a plan today based on an anticipated future. It leads from the future rather than leading from the past, as traditional strategic planning would.

Strategic foresight is a multi-criterion, decision making process that is usually a stochastic or non-linear process. It may involve scenario-based or simulation-based approaches. Hence, foresight approaches decision making by looking at unknowns as well as knowns and building models, simulations or scenarios, which take both into consideration. It also may consider chaos theory, complexity theory and other mathematical theory and technique so that the model is protected against surprises, anomalies and perturbations, such as the extremely improbable event. This type of event would be an extreme outlier in a probability distribution. Yet, if it happens, it could have catastrophic consequences.

Additionally, the entire process is one of continuous update. One looks to the future in foresight to see the possible future, the probable future and then the preferred future (Hiemstra, 2006). These change the so-called "moving target" continuously. No one would argue that the changes in medicine and biotechnology, genetics, etc., have caused the health futures of many to change dramatically over the last five years alone. This is also true in nanotechnology, robotics, computer science and other industries. Moore's Law states that change is changing at an ever-increasing rate (Kurzweil, 2005).

The Relationship to Value

Value is commonly defined as the future benefits of ownership. Typically, business valuation practitioners talk about those future benefits discounted to present value. One model used for this is discounted cash flow. Yet, this model assumes that there is future cash flow. In other words, it assumes a future for the business. No future – no value.

If the company has no future, it has no value. An old businessman was discussing value with me and he asked me "what is the value of the very best buggy whip manufacturing company in the world right now?" My immediate reply was "zero or nearly so." Why? Because only the Amish and a few others still drive buggies, but Henry Ford made them virtually obsolete. Again, no future—no value.

The issue is that many companies have a good product and a stable market right now. But what if their product became obsolete or antiquated overnight for some reason? They would have no future and hence, no value, as it has been defined. Thinking about these issues may be painful. Many companies have been in families for generations, yet may be on the verge of extinction unless change occurs.

The Way Forward

Every CEO or owner should constantly be practicing strategic thinking. Strategic planning is essential, but must incorporate strategic foresight if it is to be effective. These studies must be conducted at regular intervals to ensure that the company is moving toward its preferred future. These studies should be approached with a "blank slate" rather than re-writes of last year's plan. This often involves "thinking outside the box" and using new methods, such as non-linear models or chaos theory. This process may not be without some pain. Yet it will enable the company to avoid extinction by some unanticipated event.

Such studies are readily available at very reasonable cost. Practicing strategic planning/strategic

foresight, in this manner, will enable the CEO or owner to create and build value, which is the primary objective.

About the Author

David Wimberly is a managing director at Scott-Macon, Ltd., a 34-year-old, New York based investment bank, where he is the head of the Valuation Services Group. He is a graduate of Florida State University (B.S.) (M.Acc.) and has completed additional graduate study in financial engineering at the University of Florida. He is a Certified Public Accountant (CPA) and holds a number of valuation credentials, including Certified Valuation Analyst (CVA). He is a member of the National Association of Certified Valuation Analysts, Society of Petroleum Engineers, International Association of Financial Engineers and Society of Business Analysts, in addition to the Alliance of Merger & Acquisition Advisors.

Email: dwimberly@scott-macon.com

References

Hiemstra, G. (2006) *Turning the future into revenue: What businesses and individuals need to know to shape their futures.* Hoboken, NJ: John Wiley & Sons, Inc.

Kurzweil, R. (2005) *The singularity is near: When humans transcend biology.* New York, NY: Viking.

Yorkovich, S. (2006, October). Why Strategic Foresight? *Leadership Advance Online 7*. Virginia Beach, VA: Regent University School of Global Entrepreneurship & Leadership.