Strategic Planning for International Business – A Future Methods

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ABSTRACT

Scenario Planning has been around for more than 30 years and during this period a multitude of techniques and methodologies have developed, resulting in what has been described as a ‘methodological chaos’ which is unlikely to disappear in the near future. This is reflected in the fact that literature reveals an abundance of different and at times contradictory definitions, characteristics, principles and methodological ideas about scenarios. It has been suggested that a pressing need for the future of scenarios is amongst other things, to resolve the confusion over ‘the definitions and methods of scenarios’. This paper makes a beginning at this need by tracing the origins and growth of scenarios and the subsequent evolution of the various methodologies; a classification of the methodologies into three main schools of techniques is given and the salient features of these schools are compared and contrasted.

This article documents the underlying principles of scenario planning considered best practice in its application. These principles have been learned directly over the past 15 years from the first- and second-generation pioneers of the scenario method. In this article, human resource development professionals wishing to gain expertise in the discipline of scenario planning will encounter a way of thinking about this work, some key processes having a track record of success, and an outline of the knowledge skills they need to develop to become competent practitioners. The first part identifies a number of key phenomena that led to the birth of scenario-based strategy as a method. The second part describes some of the essential process elements, their origins, and the competencies needed for facilitation and execution. The goal of this article is to provide a set of reliable “handrails” for practitioners and guidelines for identifying useful further learning resources.

Schnaars [35] states that most of what is known about scenario planning techniques comes from three sources, namely articles, many of which are written by scenario practitioners describing how scenario planning is undertaken in large companies and offering experienced-based advice on the process of carrying out scenario projects; articles from the future research literature which offer numerous models for constructing scenarios, ‘many of which are impractical and most of which have never been adequately tested’; and finally, a small body of research based on empirical studies of related topics, which ‘offer some evidence as to the value of scenarios’ as a long range planning tool. In reviewing these three sources, a number of observations can be made, the first of which is that rather than any consensus as to what framework scenarios belong to, there appears to be several overlapping camps of opinion, testimony to which is the fact that the terms planning, thinking, forecasting, analysis and learning are commonly attached to the word scenario in the literature. The second is that there appears to be virtually no area in scenarios on which there is widespread consensus; the literature reveals a large number of different and at times conflicting definitions, characteristics, principles and methodological ideas about scenarios. Mason observes that the term scenario has become as illdefined as the term strategy, while Simpson suggests that the term elicits ‘all kinds of vague and loosely defined concepts’. Godet and Roubelat’s view on this is that the term scenario is increasingly ‘misused and abused’.

The consequence of all of this according to Khakee is that ‘few techniques in futures studies have given rise to so much confusion as scenarios’. The third observation is that there are a plethora of scenario development models and techniques, the result of which is that the ‘present methodological chaos’ which ‘will not fade away in the foreseeable future’. As a consequence of the foregoing, Millet [30] suggests that one of the major issues to be addressed ‘for the future of the scenario method’ is to ‘resolve the confusion over the definitions and methods of scenarios’.

Keywords----- scenario technique; scenario building; innovation strategy; technology planning.

I. INTRODUCTION

In the last few years, scenario planning as a strategic planning tool appears to have enjoyed a revival in popularity judging by the increasing attention the topic has been receiving in practitioner and academic journals.
II. METHODOLOGIES

The contribution this paper seeks to make to the literature is to begin to address this confusion by tracing the origins and growth of scenarios and the subsequent evolution of the various methodologies, which are classified into the main schools of techniques, and the salient features of these schools are then compared and contrasted. In doing so, it should be recognized that the province of scenario planning is wide ranging and includes the following:

- Crisis management such as civil defense exercises in which scenarios are used in the form of simulations of future crisis situations, to design and test the suitability of systems and equipment to respond to the situations, and to increase response preparedness;
- The scientific community who use scenarios as a means of communicating the increasing degree of complexity of scientific models and theory in a more readily and widely understandable format. Examples of this include scenarios for the development of climate change based on environmental computer models and scenarios for economic development based on econometric models;
- Public policy makers who are increasingly using scenarios as a forum to involve multiple agencies and stakeholders in policy decisions, enabling joined-up analysis and creating an accommodation platform to assist policy implementation. An example in this area is the UK government’s ‘modernisation programme for local government’ described by Saunders;
- Professional futurist institutes of which there are many; most are independent research and membership organizations working to spread ideas regarding critical trends that will shape the future, and to promote future research methodologies;
- Educational institutes which aim to promote the research and development of future studies theories and methods, and create a learning environment so that issues are considered within an evolving futures context. Well known institutes in this context include the Hawaii Research Centre for Future Studies within the University of Hawaii at Manoa and the Australian Foresight Institute at Southern Cross University; and
- Businesses which use scenario planning as a long range planning tool.

International business ventures (IBVs) face many barriers to success, not the least being the “mind-set” barriers that Kodak had to deal with in interpreting consumer responses in different cultures. If new market entry is a challenge in domestic markets, in foreign markets it is doubly difficult. As a result firms entering markets abroad require new frameworks and capabilities to complement their core resources that drove success in the home market. This paper addresses three interrelated questions. Firstly, why is success harder to achieve with international business ventures? Secondly, how can the batting rate be improved? Thirdly, what is the process for building a profitable venture?

III. RULES FOR THE BUSINESS

The rules of the game are the cultural, legal and regulatory constraints that shape business interactions. Cultural differences include, for example:

- The level of hierarchy accepted in business differs from country to country
- The importance of the individual versus the group in social and business situations differs
- The wide differences in the roles of women in business
- The tolerance for ambiguity; some cultures can cope with change and uncertainty easily, while others demand stability
- Some cultures emphasise perseverance and planning for long term success while other focus on short term results.

International entrants face the disadvantage of “foreignness.” Customers tend to discriminate against foreign firms, sometimes formally and other times informally. Fundamentally, trust is lower between partners that are culturally distant.

Failure to recognize these different rules can cost foreign firms dearly, so foreign entrants need to learn new “rules of the game” in host countries to overcome the liability of their non-native status.

The importance of relationships

In countries with a weak legal system strong personal ties (also known as “relational” contracts), serve as viable substitutes for formal legal contracts. The role of relational contracts is to utilize the parties’ detailed knowledge of their situation to adapt to new contingencies as they arise.

Strong personal ties between firms not only provide trust and predictability—and consequently low transaction costs—but also facilitate cooperation when facing environmental change. However, strong ties take time and effort to build and are often constrained with limited size that one person or firm could manage, thus reducing the potential transaction opportunities with other firms.

For example, Guanxi or interpersonal relationships is one of the major dynamics of Chinese society. A pervasive part of the Chinese business world for the last few centuries, it binds literally millions of Chinese firms into a social and business web.

Any business in this society, including local firms and foreign investors and marketers, inevitably faces guanxi dynamics. In China’s new, fast-paced business environment, guanxi has been more entrenched than ever, heavily influencing Chinese social behaviour and business practice.
IV. THE ORIGINS OF SCENARIOS

The concept of scenarios is an old one, since earliest recorded time people have been interested in the future and have used scenarios as a tool for indirectly exploring the future of society and its institutions. In this context, scenarios have usually taken the form of treatises on utopias and dystopias and as such, have a long history which can be traced back to the writings of the early philosophers, such as Plato’s description of his ideal Republic and visionaries from Thomas More to George Orwell. However, as a strategic planning tool, scenario techniques are firmly rooted in the military and have been employed by military strategists throughout history, generally in the form of war game simulations. Despite their long history in the military the first documented outlines of what today might be regarded as scenarios, do not appear until the 19th century in the writings of von Clausewitz and von Moltke, two Prussian military strategists also credited with having ‘first formulated the principles of strategic planning’. Modern day scenario techniques however, only emerged in the post-war period, and the1960s saw the emergence of two geographical centres in the development of scenario techniques, the USA and France.

V. QUALITY AND EVALUATION OF SCENARIO TECHNIQUES

Only a limited number of scenarios can be developed in detail, otherwise the process dissipates. The core question is how can an approach be developed that will produce a manageable number of scenarios, in a logical manner, that best captures the dynamics of the situation and communicates the core issues effectively. According to Wilson (1998) the golden rule in deciding the number of scenarios is no fewer than two, and no more than four. He suggests five criteria for selecting scenarios:
• Plausibility: the selected scenarios have to be capable of happening.
• Differentiation: they should be structurally different and not simple variations on the same theme.
• Consistency: the combination of logics in a scenario has to ensure that there is no built-in internal inconsistency that would undermine its credibility.
• Decision-making utility: each scenario should contribute specific insights into the future that help to make the decision identified in step one.
• Challenge: the scenarios should challenge the organisation’s conventional wisdom about the future.

According to von Reibnitz, scenarios should have the greatest possible consistency and compatibility, stability and variability. Heinecke and Schwager compiled out of a literature review four criteria for scenarios (clarity, thoroughness, relevance, constitution/ relationship) which are summarised in Table 4.

Evaluating the effectiveness of any ‘future’ activity, among them scenarios, is problematic. A conventional research approach towards measuring the effectiveness of a particular methodology is relatively straightforward. Possible criteria are the following ones:
• Was futures research (the developed scenarios) used in making the decision?
• Did the decision makers in each case take all relevant factors and implications into account?
• How confident or satisfied was each group with the decisions they made?
• Did the decisions have their intended effect?
• Were all the consequences anticipated?

Two problems hereby arise. Firstly, actual decisions in future-oriented fields invariably take a long time to make and a very much longer time to have an effect. Secondly, there are not the organisations or individuals around who are properly equipped to undertake such an evaluation. It has been recommended that the best approach towards achieving legitimacy and recognition for future work is not to try to measure the benefits of the field directly, but rather to acknowledge and promote those who are clearly doing it well (see Bishop 2001 in Ratcliffe, 2002, p.17). This concedes that, for the moment at least, futures activity is more art than science, and good futurists rely more upon their skills.

VI. SCENARIOS ON THE FUTURE BUSINESS ENVIRONMENT

International market developers face profound and persistent uncertainty. The natural inclination of managers is to work from what is known. Scenarios force managers to look at what is not very well-known, and what cannot be controlled. Importantly, they help planners think about the larger picture. They aim to stretch thinking and question assumptions. In so doing they help managers overcome decision making biases, open up new frames of
The flexibility of the intuitive-logics methodology lends itself to a wide range of scenario purposes as it evidenced by the fact that examples of the application of the methodology to all four of the above ‘purposes’ can be found in the literature. While both the La Prospective and PMT may be theoretically applicable to a range of purposes, the objective of scenario work under these methodologies is generally to determine the most likely evolutionary development of a particular phenomenon with a view to improving the effectiveness of policy and strategic decisions. Consequently, scenario work under these methodologies generally falls in the left-hand quadrants of the ‘purposeful scenario work matrix’—the work tends to be a one-off exercise associated with ‘making sense’ of a particular situation or with ‘developing strategy’. At the same time, whereas the perspective of intuitive-logics base scenario work can be either descriptive or normative and the scope extremely broad as in the development of global scenarios or narrowly focused on a particular issue, both the La Prospective and PMT models tend to be descriptive in perspective, and focus on a specific phenomenon and the set of key variables which bear on the future of that particular phenomenon.

The PMT models are further limited in terms of the scope of issues to be investigated by the need to have detailed and reliable time series data. Common to all three methodologies is that the scenario horizon year typically spans a period of between 3 and 20 years, but longer horizon periods are also found, particularly where the focus of the scenarios is a broad one. The methodological orientation of the intuitive logics methodology is firmly a process orientation as evidenced by quotations in the literature indicating that the insights and learning arising from the process are more important that the reliability of the content of the end product, the scenarios. The approach taken to develop scenario can be either inductive or deductive, but all approaches are subjective and largely qualitative in nature, relying fundamentally on what Jungermann and Thuring refer to as ‘disciplined intuition’. Meanwhile the La Prospective and PMT are both essentially outcome oriented. Subjectivity and intuition of course play a role in both these methodologies, but in the main the approaches used are directed and objective and
revolve largely around complex mathematical, extrapolative forecasting and computer simulation models in their development of scenarios. Significant differences exist between the three scenario methodologies in terms of the nature of scenario team participants and the role of experts in the scenario process.

Under the intuitive logics methodology the scenario development process is customarily carried out by a team of individuals from within the organization undertaking the scenario work. External experts are used in two ways; firstly the process is commonly designed and facilitated by an experienced scenario planning practitioner. Secondly, outside experts in the form of ‘remarkable people’.

VII. CONCLUSION

Understanding and managing strategic risks in international ventures has never been more important in this era of globalisation. When advantage lies mostly in the unknown and the uncertain, the ability to sense and learn faster, to correct mistakes, and to embrace uncertainty as a source of advantage, become absolutely essential. For executives directing international business ventures, the frameworks described in this Paper are valuable aids to build resilience into international initiatives. Within the management team, they can foster openness to new ideas and different perspectives, and can help re-shape core planning assumptions before they become outdated or just plain wrong. Key success factors are uncovered, leading to an enhanced ability to succeed with international business ventures.

REFERENCES