

campus

FREDMUND

MALIK

|Strategy|

Navigating
the Complexity
of the New World

“The strategic management’s core task is to ensure an organization’s long-term viability, long-term success and comprehensive competitive power.”

Prof Dr. Fredmund Malik

What we need today is the right strategy. A strategy that will lead to the right decisions, that will defend tomorrow’s market share and that will save our organization from marginalization. The right strategy aims single-mindedly at the organization’s continued market relevance – not at profit maximization, nor at growth.

In Strategy, Fredmund Malik disposes of many common fatal errors. He makes clear how important it is to strictly separate strategic from operational tasks. He establishes a holistic navigation system that enables us to develop and implement the right strategy for our organization ourselves.

PROF. DR. FREDMUND MALIK

is habilitated Professor of Corporate Governance and an internationally renowned management expert. He is founder and chairman of Malik St. Gallen, the world’s leading knowledge organization for integrated management systems based on the science of cybernetics.

Malik, based in St. Gallen, has around 300 employees, offices in six countries, and a network of partner organizations in the fields of cybernetics and bionics. It is the biggest provider of reliably functioning solutions to interconnected problems of organizational complexity and control.

Malik Management helps thousands of managers to integrate and improve their knowledge of general management systems via training and intervention.

Malik is the author of more than ten award-winning bestsellers including the classic Managing Performing Living. He pens regular columns in opinion-forming media. He is among the most cited and profiled management thinkers of our time. His numerous awards include the Cross of Honor for Science and Art of the Republic of Austria (2009) and the Heinz von Foerster Award for Organizational Cybernetics of the German Association for Cybernetics (2010).

Today's strategy is about ensuring tomorrow's success

The core of the current world economic crisis is a pervasive crisis of systems and control. Our thinking and behavior have already changed. We will never live, work or operate economically as we did before. We must honestly address critical questions: Is my organization prepared for future developments? Will it survive? Will it grow by following or leading the developments? Will it even actively co-create the changes?

Finding answers to these questions is a modern corporate strategist's task. For an organization, to act in a strategic way means nothing less than setting the course for the organization to survive. Fredmund Malik combines economic science and management thinking. His systemic model pictures the complexity of the strategic challenges. It provides a complete set of instruments for successfully navigating an organization in all economic climates.

"Fredmund Malik has become the leading analyst of, and expert on, Management in Europe (and especially in the German-speaking countries) as it has emerged in the last thirty years – and a powerful force in shaping it as a consultant. He is a commanding figure – in theory as well as in the practice of Management."

Peter Drucker

"Fredmund Malik is one of the most influential business thinkers in Europe whose lectures attract top CEOs."

Business Week

Fredmund Malik

Strategy

Navigating the Complexity of the New World

Translated from German by Jutta Scherer,
js textworks (Munich, Germany)

Contents

Introduction:

Strategic Solutions for ^R Evolutions®	11
--	----

Part I

Strategy for the Great Transformation 21	15
---	-----------

1. What Strategy Looks Like When the Future is Unknown	17
2. The Great Transformation 21	21
The Old World Ends as a New World is Born	23
Megachange in Megasystems	24
The Current Crisis as the New World's Birth Pangs	25
It Takes More than Economics to Understand the Global Economic Crisis	26
Anglo-Saxon Corporate Governance – A Destruction Machine .	27
Complexity and Management Crisis: The Absence of Neuronal Systems	30
Third Act of the Crisis: Deflation	31
The New Way of Functioning: Mastering Complexity	33
3. Propositions for the Strategy of New Functioning	35
4. When You Do Not Know What You Need to Know:	
The Minefield of Strategic Errors	38
Strategic Delusion by Operational Data	38
Operational and Strategic Management	43
Strategic Thinking Traps	49

Part II

Strategy as Master Control in the Wholistic Management

Systems®	57
1. Making Companies Function Well	59
Enhancing Management Impact Through Management	
Support Systems	59
Right and Good Management – Universally Valid	60
Management, Financial Markets, and Extreme Climbing	63
A Practical Hint for Readers in the Know	64
What are Master Controls?	65
The Basic Management Model and Its Basic Concepts	66
Management of Institutions: The General Management Model .	68
Management of People: The Standard Model of Effectiveness,	
or “Management Wheel®”	71
The Integrated Management System – IMS®	72
Integrated Strategy as a Top Cross-Divisional Function	75
2. Providing Direction Through the Corporate Policy and	
Business Mission	78
The Right Purpose	78
The Right Mission	83
The Right Performance	89

Part III

Mastering Complexity Through Reliable Navigation in

Any Circumstance	93
1. Revolutionizing Strategic Navigation	95
The Malik-Gälweiler Navigation System®	96
The Right Strategy for a Future Unknown	99
Putting an End to Arbitrariness in Strategy Design	101
Looking Further Into the Future – Without Forecasts	101
Time Constants and System Dead Time	101
Limitations of the Market Economy: Why Economists Do Not	
See Far Enough	103
What Must Be Monitored: Variables for Control and	
Orientation	104
Reliable Function With Cybernetic Control Systems	104

2. Reliable Control through Cybernetic Navigation	107
First System Level: Liquidity	107
Second System Level: Profit	112
Third System Level: Current Profit Potential (CPP)	113
Fourth System Level: Future Profit Potentials (FPPs)	119
3. Setting the Right Strategy, Irrespective of Economic Climate:	
The Strategy Map	126
The Solution-Invariant Customer Problem	130
Solution Technologies	137
Socioeconomic Trends	141
Market Position	143
Investments and Cost Reduction Potentials	150
Research and Development Objectives	152
Finance and Balance Sheet Variables	154

Part IV

Following the Change: Success Factors for Your Current Business	157
1. No More Blind Flying: PIMS® – The High Art of Strategy	
Development	159
Strategic Leadership	160
The PIMS Revolution	162
Strategy at the Strategic Business Unit Level	163
Discovery of the “Laws of the Market Place”	163
A Brilliant Research Idea: Profits Are Driven by Structure, not the Industry	165
New Benchmarking Based on the Biological Pattern	166
The PIMS Database Suites	167
75 Percent of Profits Depend on Factors That Are Universally Valid	169
Answering Key Questions of Strategy	170
Eight Key Factors for Success	171
2. Strategic Core Knowledge: A Cornucopia of Insights	173
Market Position	173
Stability of Results Over Time	174
A Seeming Anomaly Triggers Discovery of a New Factor	175

Is Innovating Good?	176
Where Many Businesses Lose Earning Power Without Even Noticing	177
How Important Is Market Growth?	178
Systemic Interconnectedness of PIMS factors	179
PIMS and the Six Central Performance Controls (CPC)	182
The Cybernetics of PIMS Strategy Development	182
Overview: Benefits of PIMS Findings for Top Management	183
Criticism of the PIMS Program	184
What Remains Valid in Business When Everything Changes	185
3. Breaking Strategic Barriers:	
Three Pioneering Models From PIMS	187
Knowing the Potential of a Business: The PIMS Par Model	187
Learning From Winners: The PIMS Look-Alike Model	190
Customer Value and Competitiveness as Two Unerring	
Guiding Stars: The Customer Value Map	195

Part V

Staying Ahead of Change: Success Factors for Your New Business

205

1. Constants in the Currents of Change	207
The Magic of Patterns that Connect	209
We, too, Will Be Replaced: Creative Destruction	210
Symphony of S-Curves: Seeing the Future Clearly	212
Simple Growth Processes	213
From Growth to Substitution	217
When Several Systems Compete for Existence	219
Discovering the Secret Driver of Epochal Change	221
Centennial Cycles: Invention – Innovation – Substitution – Exploitation	223
Was Kondratieff Right? The Rhythm of Long Economic Cycles .	226
Self-Destructing and Self-Creating Systems	228
2. Innovating for the Great Transformation 21:	
How to Preprogram Success	230
From the Art to the Craft of Innovation	231
Misconceptions About Innovation	233

3. Mastering Even the Unknown: The PIMS Start-up Strategy	239
Start-ups as a Synthesis of Several Arts:	
The Secrets of Innovation Success	240
The Right Environment for Start-up Businesses	249
Choosing the Right Strategy in the Right Environment:	
Knowing, Not Guessing	251
4. Implementing Start-up Strategies:	
Basic Rules for Effective Innovation	258
1. Go for the Top: Market Leadership and Distinct Changes . .	259
2. Make Room for New Things	259
3. Separate the Old From the New	260
4. Look for Opportunities in Problems	262
5. Ask Controllers for a Second “First Page”	263
6. Write Down Your Expectations	263
7. Determine Cut-off Points	264
8. Make Sure You Have the Best People	264
9. Run Tests	265
10. Strictly Focus on a Few Things	265

Part VI

Revolutionizing Management Methods –	
Strategic Approaches Without Time or Space Limits	267
1. Direttissima: The Straightest Path to the Right Strategy	269
2. Revolutionizing Change With SuperSyntegration	277
Epoch of New Leadership:	
Quantum Leap in the Social Technology of Functioning	278
Change and Innovation – Swift and Effective	278
What is the SuperSyntegration Method and What Does it	
Accomplish?	279
3. The Cybertools of SuperSyntegration	297
SensiMod – The Sensitivity Model, or the Organization’s GPS . .	298
EKS®: Dynamic Specialization	306
MSA: Management System Audit – New Ways	
of Functioning and Implementing	313
Operations Room: Implementation With Real-Time Control . .	318
4. How Even Giants Learn to Dance: HyperSyntegration	326

Appendix	339
Concept and Logic of the Series “Management: Mastering Complexity”	341
Basic Principles	342
Logic of the Series “Management: Mastering Complexity”	343
Possibilities and Limitations in Depicting Complex, Dynamically Interconnected Systems	344
The Malik Management Systems and Its Users	346
About the Author	356
Bibliography	359
Picture Credits	361
Index	362

Introduction

Strategic Solutions for ^REvolutions®

This book describes my strategic solutions for the ^REvolutions of the New World, which are already under way. They are part of the Great Transformation 21 which I will address in the following chapters.

These revolutions could either trigger a destructive social meltdown, or they could bring about a new economic miracle and create a new, better social order of human interaction. Which of the two will eventually happen depends very much on what solutions the global leadership elites have access to in dealing with this immense challenge, which of these solutions they even recognize as such, and which they will ultimately choose. One thing is certain: conventional means will not do the trick, as they have largely contributed to the current global crisis.

There is also transformational power within the strategic solutions themselves that are presented here: they act as catalysts for these revolutions, enabling them to pass off more quickly, yet without violence. They also facilitate the much-needed liberation from the old ways of thinking, from organization and management concepts, all originating in the past century and still prevailing, as well as from long-outdated organization structures and social problem-solving processes.

In my book *Corporate Policy and Governance*, the German version of which was published in 2008, I laid down a “*Manifesto for Corporate ^REvolution*”. Some of the developments anticipated there have materialized, foremost among them the collapse of the financial system which I had also seen coming as early as in 2005. Further profound changes, such as in technology as well as in people’s social value structures – in particular the younger generation with their perspective on and concept of the world – have progressed so far that they can no longer be stopped, but should be accelerated and guided in more constructive directions wherever possible. What was considered impossible by most people on publication thus became reality shortly afterwards.

In 2008 I wrote that knowledge was going to matter more than money and information more than power. My first point is now being proved by the ongoing self-destruction of the financial system, the second point by the ever-increasing global effects of the social media. Ruling and leading will never be the same again.

The financial crisis as such, however, will not form a central topic of this book. Over the past 15 years I have published everything that needed to be said about it – now I let the facts speak for themselves. Nor will I talk very much about the knowledge society in the narrower sense. Instead, I will make available the necessary strategic knowledge, the Wholistic Management Systems® I have developed, including navigation, information and steering systems, new strategy concepts, and about a dozen new, clearly superior methods and tools. The knowledge society will need these tools to master the new challenges and to grow and develop along with a new social order.

Just like in earlier phases of epoch-making transformation, almost everything is going to change fundamentally and radically. But while past revolutions were driven by such things as new machines, the key driver of the upcoming revolution will be a new way of functioning for the social structure, its management at all levels, and its strategy and methods, including cybernetic self-organization and self-control.

The Great Transformation 21, the transition from the Old to the New World, will be larger than any other social transformation we have ever gone through, as it will span the entire globe. The closer I have examined the effective but also explosive power of the Great Transformation and the corresponding strategic solutions, the narrower did the limits of language turn out to be. Describing the complexity of globally interconnected systems and finding words for the simultaneity of their change dynamics is just as difficult as putting a Beethoven symphony into words.

Wherever I turn, I face a lack of words to describe the new, the dimensions and speed of change, and the unknowable that this change is bringing. The usual superlatives – all those “super” and “mega” words –, even if they were not quite that trivial, would not suffice by far to describe the dimensions of the Great Transformation. Apart from that, all these terms originated in the Old World, so they can hardly convey more than the Old World’s scope of imagination.

Still, occasionally I have to use these terms for lack of better ones. If, for instance, the new methods introduced here enable even the most complex

decisions to be taken 100 times faster, increase team efficiency more than 80 times, and help create maximum consensus in only three days where even the smallest compromise was previously blocked by social divisions, and if this power of solution has brought success in hundreds of applications, without even one exception – what terms could be adequate for such achievements? While I strive to convey the radically new dimensions of effectiveness, I want to avoid any kind of grandiloquence and jargon. Previous transformations have always brought on a new language because new things cannot be described with old language; but such language can only develop in the process of change itself.

The Great Transformation from the Old to the New World will fundamentally change almost completely *what* people do, *why* they do it and *how* they do it, even *who* they are and what concept of the world they have. It will revolutionize the way society and its organizations function. Functioning twice as well at half the cost is just one of many challenges that most people consider impossible to master – although it has already become a reality. In just a few years' time people will think back uncomprehendingly and with pity, remembering today's sluggish political decision-making processes, coalitions getting in their own way, corporate management bodies paralyzing themselves, of change processes smoldering slowly, of lethargy and resignation in most organizations, of monstrous megaconferences without impact, and of the cluelessness of global organizations.

The leaders of these organizations will be pitied and also admired for having given their best and having tried to meet their responsibilities even under such inhuman conditions, even though their efforts increasingly failed because even the most talented racing driver doesn't stand a chance if he drives an outdated car.

People will, however, also wonder why these leaders were not given new solutions much earlier, although I published them long ago and they have been successfully applied by others hundreds of times. Anyone familiar with these solutions will immediately see the new ways to end crises, even using them as acceleration ramps for progress in the New World. For me, the ethical mission resulting from all that is to do anything within my power to spread the news about these new, global, society-saving solutions.

The money released by the new solutions – money which at present is pointlessly tied up in old structures – will not be used for maintaining mu-

seums, to store and display the past century's outdated methods. Rather, we will use it to create a new type of university where the next generation will learn, from the very start, those leadership skills whose lack got us into this mess in the first place – skills such as networked and wholistic thinking; knowledge about systemics as the theory of entities; the practical application of cybernetics, the science of functioning; and the use of bionics to transfer evolution's best solutions to socio-cultural organizations. This would strengthen our social solution intelligence by several orders of magnitude, because all of these things could then be accomplished in less than half the time and in one integrated and fully compatible study course, as is already possible with our tools.

In the six parts of this book, we will first look at the dynamics of the Great Transformation 21, its inherent risks of crisis and its opportunities, as well as the labor pains that the New World is suffering. After that, we will deal with the amazingly effective cybernetic systems for strategic navigation and the strategy maps required for that, as well as the empirical quantification of businesses, both existing and yet unknown, which will help break the new territory of innovation. Finally, I will reveal the patterns that the tidal currents of great transformations invariably follow, as well as the economic dynamics resulting from them and the strategies required to deal with them.

In the last part of the book I will describe the revolutionary new methods that enable us to master groundbreaking strategic change with great precision and unprecedented time compression – at the “speed of light”, so to speak. This way, even enormous corporate growth and size can be managed and turned into true strengths, with perfect ease and using innovative approaches where conventional approaches have proved useless. The almost magical efficacy of these methods is based on cybernetic communication processes which, to an extent previously unimaginable, enhance collective intelligence and generate social energies. The simultaneous use of innovative system design tools generates highly effective centers of intelligence and power to successfully master even hypercomplex systems. “Megachange of Megasystems at Megaspeed” will then lead the way to a bright future and into a New World.

malik

www.malik-management.com