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By Syed H. Akhter

It was in the 1960s when business strategy emerged as a field of study for understanding and responding to market and competitive developments. The portfolio approach to planning and decision-making became popular, guiding executives in selecting markets and allocating resources to products. To this strategic tool were soon added environmental scanning, economic value-added analysis, and portfolio management, among others. The focus of these early strategic initiatives was mostly external, epitomized in the marketing literature as consumer and market orientation.

The strategic landscape subsequently underwent a shift in its quest for new approaches to strategic management. From reengineering to downsizing to total quality management, the emphasis shifted internally, leading to the goal of finding and developing core competencies.

These two approaches, one external (market-oriented) and the other internal (organization-oriented), have provided the focus and guided the development of strategic plans in recent years. But although strategic planning based on these two approaches delineated the goals and the ways to achieve them, it did not inculcate organizational knowledge that would have prepared managers to take advantage of competitive developments. Companies' experience in industry after industry has shown that neither market positions nor traditional sources of competitive advantage can guarantee long-term success. Competitors are invariably able to appropriate existing markets or create new ones through successful innovations. 3Com's Palm Pilot, for example, overtook Sharp's Wizard in the personal organizer market. Dell and Compaq now lead in the PC markets.

Core competencies also do not give firms sustained competitive advantage because they can be copied, replaced, or made irrelevant. Toyota flattened the scale economies of assembling a car by reducing in-process inventories, setup times for machinery, and overhead costs. Wal-Mart overtook Sears by efficiently managing its supply chain operations and competing on assortment and price. Now Toyota and Wal-Mart will need to continually upgrade their competencies or develop new ones that satisfy shifting customer/market requirements. Firms suffer losses at the hands of nimble competitors not because they do not have strategic plans, but because their strategies do not prepare them to anticipate and deal with competitive developments.

There is a growing realization among businesses that the strategic plans they develop are more like a ritualistic dance. When pressed, managers readily admit that their strategies are more about today's problems than tomorrow's opportunities. The discontent with strategic plans has raised so many questions about their usefulness that many firms have chosen to develop them only for symbolic purposes. Given the intensity of competitive developments and the uncertainties surrounding them, questions about the efficacy of strategic planning have surfaced. In particular, firms are asking the critical question: Can strategic plans prepare us to solve today's problems and exploit tomorrow's opportunities?

In fact, firms can gain sustainable competitive advantages in hypercompetitive markets by developing organizational knowledge through strategic planning. Strategic planning provides both structure and context for developing such knowledge, a sustainable and renewable source of competitive advantage.

Hypercompetition and knowledge salience

Business scholars characterize today's global market landscape as high-velocity and hypercompetitive. What this means is that the rules of the game have changed due to the rapid pace of technological developments and changes in the behaviors of competitors, consumers, regulators, and suppliers, among others. In this new business environment, consumers expect and demand more; competitors aggressively introduce new products, change distribution channels, implement cost-cutting programs, and imitate each other's innovations; and companies regularly redraw the traditional boundaries of markets as they globalize their operations in response to the changing regulatory and competitive climate. Change—or, more appropriately, accelerated change—is the watchword for understanding this new landscape.

In this mercurial environment, attention is converging on knowledge as a critical source of comparative economic advantage. The ability to grow in today's hypercompetitive milieu will depend on how well a firm collects and shares information. Moreover, a firm's understanding of what information to collect, how to collect it, and how to use and share it within the organization will have an impact on performance. According to Taft (2000), 85 percent of CIOs surveyed by Cambridge Information Network believe that knowledge management creates a competitive advantage for firms by fostering faster and better decision-making. This line of reasoning launches firms into a competitive arena in which success depends on how effectively knowledge is created and used. A case in point is the formation of a consortium of seven multinationals—Unilever, Novartis, ICI, Nestlé, ICL, Monsanto, and Statoil—that, says Jackson (1998), set itself the task of examining the nature of corporate knowledge and how it can best be deployed to increase shareholder value.

Strategy theorists use the metaphor of the company as a body of knowledge to understand the rent-generating properties of different types of resources. Viewing a company as a body of knowledge, however, raises the question of what knowledge is. Both Classical Greek and modern thinkers have debated the epistemology and ontology of knowledge, but, not surprisingly, have not come to a consensus. Without delving into the polemics, we take the tautological position on knowledge and define it as that which is known. As for organizational knowledge, we define it as knowledge that is relevant to organizational activities and is available to organizational decision makers. Both the availability and relevancy of such knowledge in enhancing company performance is receiving much scholarly attention. As Grant (1996) notes,

> If the strategically most important resource of the firm is *knowledge*, and if knowledge resides in specialized form among individual organizational members, then the essence of organizational capability is the integration of individuals' specialized knowledge.

Strategic planning and knowledge management

The popular goals of strategizing have been to develop a plan of action and facilitate a response to environmental changes. More specifically, firms set out to identify new markets, exploit new product opportunities, develop corporate and business unit objectives, manage diversity and turbulence, and create a strategic change. Schematically, the reasons for engaging in strategic planning can be marked along the different stages of the planning process, from developing conceptual models to making decisions, and from developing strategy to evaluating performance. What has not received sufficient attention in this schema is how to use strategic planning for knowledge mapping and knowledge integration.

Traditionally, strategic planning has been pursued with a decision-making orientation—the "what should we do" dilemma. In this approach, actions take precedence over knowledge creation. The general chronology of events starts with *actions* (decisions) followed by *results* and *knowledge*—in other words, *the ARK approach*. This focus on decision-making is understandable. The rapidly changing business environment and growing competitive pressures force firms to face new issues and give immediate answers. They have to put out fires, so to speak. As such, the ARK approach to strategic planning often results in an exercise in solving today's problems rather than exploiting tomorrow's opportunities, which leaves companies unprepared to deal with emerging events.

From a strategic marketing perspective, today's markets, products, and competencies are largely irrelevant. What is needed is an understanding of the evolution of the market—tomorrow's problems, competencies, and opportunities. Business scholars emphasize the role of knowledge in improving a firm's potential to survive and grow. Thus, an alternative approach is one that focuses on knowledge management as both the source and outcome of strategic planning. The process begins with *knowledge* mapping and integration, leading to *actions* and *results—the KAR approach*. How knowledge can be enhanced through strategic planning and made available to decision makers becomes an integral goal of the planning process. The KAR approach to strategic planning provides both the structure and the context for knowledge development. The underlying logic is that knowledge should lead the company into the future, influencing decisions about customers, competitors, the company, and the environment. Moreover, the assumption is that the focus on knowledge development will encourage managers to share information and thereby create an environment in which trust and commitment can play a constructive role in developing individual and shared cognitions. The differences in the two approaches are shown in **Figure 1.**

Scenario building (knowledge integration)

Organizational perception of uncertainty arises from the difficulty of predicting how different environmental elements will unfold and how different players will act to create the future. However, the presence of uncertainty does not mean firms can abstain from understanding and interpreting the environment in which they expect to operate. On the contrary, understanding environmental developments becomes critical for success because it prepares managers to respond and adapt to anticipated and unanticipated changes.

Among the different techniques managers use to understand the environment, scenario building has traditionally dealt with the "big picture" snapshot of the future. The emphasis on the future is important, considering that the long-term objectives of a company are to survive and grow. These objectives can be achieved by understanding and meeting the future needs of customers. Building a scenario compels managers to consider what could be, not what has been. The aim is not to make a prediction but to develop a framework in which subsequent events can be placed.

Firms can increase the usefulness and usability of scenarios by focusing on both process and outcome. Process encompasses how scenarios are created—the activities and interactions that bring them about. Outcome involves what is created—the end result of these activities and interactions. When managers focus only on the outcome (what the big picture will be) and ignore the process (how scenarios are created), they leave out a key component of strategic planning: knowledge integration. Knowledge integration becomes an important contribution of scenario building when both outcome and process are connected. Pierre Wack (1985a), one of the leading architects of Shell's planning system, suggests that scenario building deals with both the inner space of people's minds and the outer space of the organization, and that these two should be bridged.

Outcome. A firm's strategic actions depend on how it perceives and interprets its environment, and its success depends on the fit it achieves between the environment and those strategic actions. Scenarios, by definition, attempt to delineate the different spaces in the environment. Firms construct these pictures by focusing on environmental variables (political, social, economic, technological) and micro-variables (suppliers, customers, competitors, public policy makers). Two questions should guide the development of environmental scenarios: What is happening in the environment, and what is not happening? Likewise, the two questions critical for micro scenarios are: What are the players doing, and what are they not doing?

In developing these scenarios, managers need to combine three dimensions: type, likelihood, and impact. Two types of scenarios should be developed, based on the degree of expected change: continuous and disruptive. A continuous scenario represents an extension of the present involving some moderate change, whereas a disruptive scenario suggests a major departure from the current state, an inflection point that will create new opportunities and new threats, forcing firms to change their business models, processes, and offerings. For each scenario, managers need to determine the likelihood of its occurrence and what impact, favorable or unfavorable, each will have on company performance (see **Figure 2**). The combination of these three dimensions creates stories about the future that delineate the perceptions of the competitive environment in which the firm is expected to operate. Scenarios also set the stage for preparing a firm to avoid threats and exploit opportunities.

Process. Strategy scholars recommend that in developing scenarios, firms should take an interdisciplinary and interdepartmental team approach. Team members from different cultural groups get together to develop a common language to learn about each other and share ideas and experiences. Scenarios result from these interactions. For successful scenario development, the team should specify the following: which variables were used, how they were related to each other, and what assumptions were made about those relations in creating the different scenarios. A shared understanding of the variables used, their posited interactions, and explicated assumptions will lead to knowledge integration. The interactions take the team members through the knowledge creation spiral, which eventually leads to changes in individual and group cognition. The participatory setting provides a forum for learning to take place in which knowledge and a shared understanding develop through interactions and synthesis of ideas.

Internal situation analysis (knowledge mapping)

In the traditional ARK approach to strategic planning, internal situation analysis generally deteriorates into a discussion of whether or not financial and physical resources are available for some pet projects, and the opportunity to map organizational knowledge is lost. Keeping this from occurring serves two goals. First, it helps capitalize on the firm's knowledge capital and, thus, its sources of strength. Second, it reveals what knowledge is available and where it can be used, and what knowledge is needed but is not available internally.

Companies determine their ability and readiness to exploit emerging opportunities by evaluating their capabilities and shortcomings, which they consider as residing in finance, R&D, IT, marketing, production, and HR departments. Although this compartmentalized view brings out the firm's disparate capabilities, it falls short of revealing the unique and inimitable skills that can improve the firm's survival and growth potential. Current research in strategic management suggests that a firm's distinctive capabilities reside in knowledge capital. Thus, viewing the firm as a body of knowledge forces managers to address a different set of questions—questions that attempt to determine the firm's knowledge base. Given this orientation, the goal of the team is to determine whether the firm has the required knowledge to be a player in the marketplace of the future.

This is where the idea of knowledge vectors comes in for mapping a firm's knowledge endowment. The three dimensions of these vectors are: object, type, and class (see **Figure 3**). Together, they constitute the knowledge capital of the firm. *Knowledge object* focuses on what the knowledge is about, such as products, processes, customers, suppliers, competitors, markets, and so on. *Knowledge type* deals with the explicit and tacit nature of knowledge, presented by Polanyi (1967) and elaborated by Nonaka and Takeuchi (1995). Explicit knowledge is documented and expressed in words, graphics, and numbers that can be easily shared, whereas tacit knowledge is individual-based and hard to share. The third dimension deals with *knowledge class.* Machlup (1980) identifies five "classes of knowledge": intellectual, practical, small-talk/pastime, spiritual, and unwanted. Building on these classifications, the organizational counterparts include

- *strategic knowledge*—enables the firm to create a differentiable advantage
- *tactical knowledge*—enables the firm to gain an implementation advantage
- *informal knowledge*—creates bonding and a shared identity among people with common interests, and transmits tricks of the trade
- *ethical knowledge*—enables the firm to discriminate between right and wrong conduct
- *redundant knowledge*—has no apparent use but might be profitably applied to an existing or new product-market situation

In the knowledge-mapping phase of strategic planning, team members need to link together an element from each of the three dimensions of the knowledge vectors. For example, they need to know whether their knowledge about customers (object) is tactical or strategic (class), and whether this tactical or strategic knowledge is tacit or explicit (type). Such a process of linking different elements of the knowledge vectors will give the team a better sense of what they know and what they must know, revealing the gaps in their knowledge.

Strategic planning provides both the structure and context for mapping and integrating knowledge. As a process to identify knowledge gaps, it can transform a firm into a learning organization and create conditions for superior performance. Making knowledge management an integral component of strategic planning allows firms to tap into a source of competitive advantage that cannot easily be copied. Organizational knowledge, renewable and unique to the firm, resides in the employees; the more they know, the more they can learn.

Knowledge generated through strategic planning is the result of collaborative efforts of people from different functional areas. It has both individual and collective components—knowledge that people acquire and knowledge that they collectively share. These characteristics are what make imitation difficult and constitute a basis for sustainable competitive advantage. Even when competitors are able to recruit key team members, knowledge transfer becomes difficult because of cultural and contextual differences in their organizations.

What a firm plans to achieve and what it actually does are two sets of data. The control process suggests that managers should evaluate the differences in these two sets of data to take corrective actions. However, the crucial role of these differences for enhancing knowledge is seldom highlighted. In particular, the results give managers the needed feedback to question the assumptions they made about markets, suppliers, customers, and competitors, the analysis they conducted to understand market behavior, and the decisions they took to achieve their goals. Thus, in evaluating the data coming from the market, the question that needs to be addressed is whether the assumptions made were valid and whether the hypothesized conceptual relations materialized. The use of the feedback mechanism in this process creates a learning organization and becomes a tool for increasing knowledge and improving understanding about markets, suppliers, customers, and competitors. It is through this learning that a firm will increase its overall return on knowledge capital and gain its competitive edge.

Market volatility, the hallmark of today's competitive environment, is putting a premium on the managerial skills required to develop organizational capabilities with long-term rent-earning potentials. Making knowledge management a key component of strategic planning has implications for organizational design and human resources. The hierarchic model of an organization, borrowed from military science, is not antagonistic to knowledge creation. It merely fails to exploit knowledge efficiently by letting it reside at different locations. In a knowledge-based firm, the hierarchy is replaced by interactivity in which members are valued by the knowledge they can generate and share to help each other.

The focus on knowledge as the source of competitive advantage also requires firms to renew their commitment to employees as their most important resource—the creators, integrators, and disseminators of knowledge. Their understanding of internal situations and external environments creates for the firm a renewable competitive advantage. Strategic planning is a team effort, and when team members recognize the conceptual linkages in their thought processes, know the assumptions that shape their analysis, and understand the constraints that influence their decisions, knowledge will increase and market-responsive decisions will improve.

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Appendix

Figure 1: Strategic planning approaches

	ARK approach	***KAR approach***
Task	Make decisions Action-oriented	Generate knowledge Learning-oriented
Nature	Agenda-driven Individuals dominate	Organization-driven Holistic and shared
Time frame	Now	Future
Mechanism	Event-focused	Process-focused
Dynamics	Self-interest dominates Protect information	Trust and commitment Share information

Figure 2: Prioritizing scenarios, either continuous or disruptive

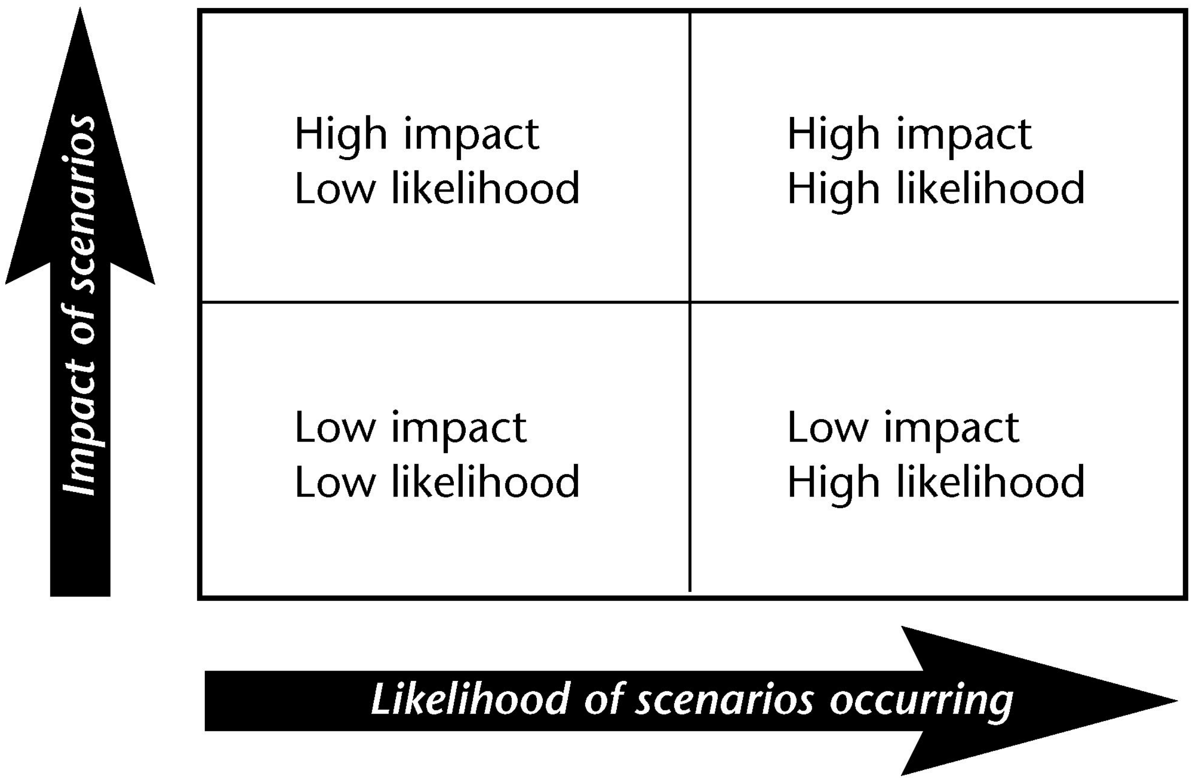

Figure 3: Knowledge vectors