Strategic Development Process in Two Large Companies in Indonesia

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ABSTRACT

Strategic development process has been connected to performance in companies (Tapinos et al., 2011; Hart and Banbury, 1994; Miller and Cardinal, 1994; Yusuf and Saffu, 2005). This paper researched the scale and types of strategy tools and Operation Research (OR) tools and techniques used by profitable, large companies in Indonesia. The sample consisted of 22 company executives, each representing a contributor of strategy team at large companies in Indonesia. A self-report questionnaire inquiring on company strategy development process practices was distributed. The data were examined to identify general themes associated with Dyson’s (Dyson et al., 2007) seven stage strategy development process and other popular strategy tools and techniques utilized in company strategic planning. The data exposed that these large companies essentially engaged in extensive planning on a proper basis. However, traditional strategy tools and techniques prevalent in strategic management literature were not used in the process. Realistic implications of the contextual nature of companies’ strategic development process are discussed.

INTRODUCTION

Strategic Development Process is a subject that has been widely explored both theoretically and empirically in recent years (Hammer et al., 2011; Tapinos et al., 2011; Kunc et al., 2011; Fiorelli, 2011). Strategic planning another term of strategy development process has been associated to company performance, change implementation, and decision success (Hutzschrenereuter & Kleindienst, 2006). Aldehayyat and Anchor (2008)
researched the use of strategy tools and techniques in Jordanian companies which were listed on the Amman Stock Exchange, the key results of the research that the managers of these companies had an understanding of most of the strategy tools and techniques surveyed that the use of strategy tools and technique related more to the company’s size and less on the age and nature of the business. Yusuf & Saffu (2005) reported varied findings in the relationship between strategic planning and company performance in small and medium size companies. But there is still a strong relationship between strategic planning and performance in large companies in UK (Tapinos et al., 2007; Tapinos et al., 2011). This study required to explore to the link between performance and strategic planning process in profitable large Indonesia companies representing two industries. This study also vital to identify the strategic planning tools and OR tools utilized in these two companies’ activities. Since many companies have a high failure rate, information from this study might prove valuable in helping such company understand and apply the successful strategic development process practices of increasing profitable businesses to their company situations.

LITERATURE REVIEW

Strategic Development Process and Company Performance

The development of strategy has remained a major topic in strategy-process research because successful strategy planning has been coupled closely to some important business variables. Because companies are looking for a cure to overcome challenges to their capability, strategy-process studies are dominated by the linkage of strategic planning process and performance (Hutzschrenerreuter and Kleindienst, 2006).

There are some of the several studies contributing to the body of research validating the linkage of strategic planning and company performance. Hart and Banbury (1994) determined that strategy-making processes are significant predictors of company performance and that companies able to accumulate several modes of strategy-making appear to out-perform less capable companies. Miller and Cardinal (1994) found that
strategic planning is positively associated with company performance. Andersen's (2000; 2004) studies exposed strategic planning processes are positively associated with positive performance effects across industries.

Many other studies emphasize on different characteristic of strategy making process. For illustration, Nutt (1998) noted that evaluation tactics used in strategic decision making influence decision success. Kunc et al., (2011) confirmed that strategic direction and goals and their corresponding strategic initiatives should be rehearsed to ensure that the strategic initiative will contribute positively to the sustainability of the company. Most of studies found that strategy making process is considered important aspects of strategic management.

**Strategic Development Process in Indonesia Large companies.**

Many studies across industries and countries around the strategy planning and strategic development process in large companies have also resulted in linkage of strategic planning and company performance. Grant (2003) tries to explain the empirical gap by describing the characteristics of the strategic planning systems of multinational, multibusiness companies faced with volatile, unpredictable business environments. The study shows that these strategic planning systems refined adaptation and responsiveness, but shows limited innovation and analytical sophistication. Berry (1998) establishes that during the early stages of a company's life, strategic planning does not have to be a highly formalized process. He noted that companies employing strategic planning processes exhibited enhanced corporate performance. Lumpkin and Dess (1995) initiated that simple approaches to strategy making can be effective during the early stages of a company's growth, but may have negative effects in later stages.

Little is known about the practice of strategic planning or strategic development process in Indonesia. The limited knowledge of the strategic development process practice is suitable partially to the fact that many companies is not taken seriously strategic development process but also because relatively little has been researched or reported in Indonesia. In reality only few empirical studies have been done which clarify strategic
planning process in Indonesia companies. For illustration, a study was done by Neal Jr. Larry (1994), on strategic planning of P.T. Caltex Pacific Indonesia and some strategy researches were conducted by School of Business Management, Institute Technology Bandung (SBM – ITB).

**Strategy Tools and Techniques**

The term “strategy tool” is used here to include the full range of concepts, ideas, and techniques and approaches that structure or influence strategy activity. This study is concerned with how managers use these strategy tools as they carry out strategy activity. Some of the strategy tools within the scope of the paper are business process re-engineering, competitive analysis, the balanced scorecard, portfolio analysis models, core competence and resource-based approaches.

Many studies (Kettinger et al. 1997; Pidd, 2003; Hodgkinson et al. 2005; Stenfors, 2007; Knott, 2008) have recognized that strategy tools are regularly used by managers to support their strategic decision making. Hodgkinson et al. (2005) found that the most common strategy analysis tools used were well known and relatively simple. The popularity of strategy tools seems to be based on teaching these strategy tools in the business schools and on their relative ease of application in practice. Al Ghamdi (2005) did an empirical study in Saudi Arabia which revealed that the most regularly used strategy tools and techniques were benchmarking, analysis of critical success factors and sensitivity analysis, followed by product life cycle, SWOT and stakeholder analysis.

Rigby (2001) reported that some findings from survey conducted by Bain and Co that on average companies use twelve strategy tools. Rigby D & Bilodeau B (2009) argue that the global downturn certainly has taken a toll on management tool use in 2008, both in the number and kinds of tools executives used, because strategy tool usage declined, with firms employing an average of 11 tools, down from 12 tools in 2000 and from 15 tools in 2006. These findings are supported by another survey that found strategy tool use to be a normal part of strategy workshops (Hodgkinson et al., 2005). Strategy tools are also a key module of typical MBA strategy teaching and the associated texts (Johnson et al., 2005),
and continue to be supported in practitioner-oriented strategy literature.

The extensive use of the well-known and relatively simple strategy tools by practicing managers may be partially explained by Knott’s (2008) study, based on ten interviews with practicing managers, where “management fads” and “tool skepticism” appeared common. He suggests that the strategy tools are used more for facilitation, communication, and for the inclusion of managers in strategy interactions, rather than for their main purpose or analysis.

Other than strategy tools category, there are Operational Research (OR) tools, these tools have been developed mainly by systems and process researchers, and a number of contributions to strategy supporting tools and models have been from this area. Checkland (1999) has contributed with his Soft Systems Methodology (SSM) that links theoretical systems thinking to the real world. SSM has been applied in practical situations in many organizations (Checkland and Scholes, 1990; Checkland and Poulter, 2006). Other strategy support tools from this field of study are: Problem Structuring Methods (Rosenhead and Mingers, 2001; Franco, 2007), Systems Modelling (Pidd, 2004), Simulation Models (Kotiadis and Mingers, 2006). Most of the work from this field of study has been at the functional level of the organization to solve specific operational problems and many useful models and concepts have been developed over the years.

Although there are several standardized strategic planning tools available for use, literature shows that traditional planning methods have changed to reflect the needs of organizations today. Hutzschrenereuter and Kleindienst (2006) recognized that current strategic planning has different features than top-down hierarchy processes of the 1960's and 1970's. Hutzschrenereuter and Kleindienst (2006) found that, strategic planning is seen as a factor that is able to improve integrated different capabilities, internal communication, and coordinate organizational activities across functional areas.

Strategy formulation has advanced in theory and practice (Hutzschrenereuter & Kleindienst, 2006). Various studies began with the belief that strategy is the result of strategic planning process (Mintzberg, 1994) and later to demonstrate that strategic decisions are made outside the strategic planning process in reaction to opportunities and threats and are then integrated into the strategic plan (Grant, 2003). Understanding how strategy development
process has refined in successful companies could demonstrate valuable to the academic and practicing business community.

**Research question**

Based on the gaps in the literature, mainly in large companies, this study investigated what kinds of strategy tools, and techniques are needed for large companies to accomplish success. The study accounted here is an effort to evaluate the scope of formal strategic development process via Dyson’s SDP in profitable large companies in Indonesia and identify the types of strategy tools and techniques they employ. The explicit research questions in this study were:

Research Question 1: To what degree do profitable Indonesia large companies plan comprehensively?

Research Question 2: What types of strategy tools and techniques are used in these Indonesia large companies?

**METHODOLOGY**

**Setting and Sample**

This study was conducted with 22 executives that contributed to strategic planning process. Each officer represents an officer from 2 large companies in Indonesia. Case Study Organisation (CSO) A is the technology company and Case Study Organisation (CSO) B is the mining companies. The industries represented technology and mining sector. The sample used was a judgment sample, a type of sampling used in exploratory research in which the researcher chooses the sample to comply with definite criteria (Cooper & Schindler, 2001). Financial profit in large companies and the inclusion of the company in Kompas 100, Indonesia Stock Exchange (IDX), Indonesia/s Fortune 500 and best companies in Warta Ekonomi magazine, was the main criterion selected for inclusion in the case studies. Financial profit was also the measure of performance.
**Data Collection**

The data were gathered by means of a survey of 22 managers and strategy planning contributor from the two companies involved in the study. In particularly, a semi structured interview and a self-report questionnaire was developed to collect data on the strategy development processes, tools, and techniques used in company strategic planning and administered to the participants. The questions were based thorough review of strategic planning literature and Dyson's (2007) strategic development process (SDP) model, the questionnaire adapted from Tapinos (2005) and Tapinos et al., (2007). The Dyson’s SDP model includes three main components; a future view, to ensure the organisation knows where it is going; a rehearsal component to test and evaluate strategy options; and a control component to monitor progress (dyson, 2007)). As it can be seen from Figure 1, it has seven essential elements that are numbered in a sequential manner, but can form iterative loops. These elements are: direction setting, performance measurement, sense making, creating strategic initiatives, evaluating options, rehearsing strategy, selecting and enacting strategy or implementation. The SDP model provides a systemic view on strategy development highlighting the interdependencies and interconnections between the elements of the process (Hammer et al., 2011). The main areas of interest from this review with regard to strategy development, for this research are the SDP model, as a comprehensive and up-to-date prescriptive model of the strategy development process.
Data Analysis

To determine the extent and types of strategic development process used, the responses were content analyzed for the inclusion of all components of the seven stage SDP model as described by Dyson et al., (2007) and further analyzed for common themes associated with SDP models. The analysis conducted was adapted from the three stage process employed by Shimoni and Bergmann (2006) in their examination of organizational texts. First stage study, they included a separate analysis of each questionnaire in which principal content and themes were identified by reading each questionnaire. Second stage analysis, they identified thematic unity. They coded the principal content items and themes and organized into frameworks that represent strategic development process categories. Third analysis stage, they included a literature review and a peer review of the information.

RESULTS

Extent of strategy development process.

To answer the question about the extent of strategy development process engaged in by two CSO, several areas were explored involving formal and informal strategic planning frequency. Some participant took part on yearly planning session; other participant even
participated in monthly and weekly strategy planning session. Formal strategic planning plans were utilized by all participants in two CSO and they knew the company’s mission statement. The following table is the result of survey on SDP model.

**Table 1. SDP model result in CSO A and CSO B**

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>1 Organisational Direction</td>
<td>1 Direction setting</td>
<td>5.30</td>
<td>6.14</td>
</tr>
<tr>
<td>6 Performance measurement</td>
<td>2 Performance Measurement</td>
<td>5.79</td>
<td>5.86</td>
</tr>
<tr>
<td>7 Assessment uncertainty</td>
<td>3 Sense making</td>
<td>5.69</td>
<td>5.64</td>
</tr>
<tr>
<td>2 Strategic initiatives</td>
<td>4 Creating Strategic initiatives</td>
<td>4.73</td>
<td>6</td>
</tr>
<tr>
<td>3 Strategy Evaluation</td>
<td>5 Evaluating Option</td>
<td>4.83</td>
<td>5.75</td>
</tr>
<tr>
<td>5 Strategy Feedback and control</td>
<td>6 Rehearse Strategy</td>
<td>5.39</td>
<td>5.82</td>
</tr>
<tr>
<td>4 Implementation</td>
<td>7 Selecting and enacting strategy</td>
<td>6</td>
<td>6.15</td>
</tr>
</tbody>
</table>

The results of this study indicated from above table that the majority of the participants adhered to Dyson's principles of comprehensive SDP. Two CSO did on an intentional basis. The SDP model has clearly shown that the CSO A and CSO B develops its strategy in an informal, emergent manner, and is only formally articulated for communication to external stakeholders. There follows next a discussion of the essential elements of the SDP model and the findings of the study of the CSO A and CSO B via the perspective of the SDP model.

First stage, SDP - Direction Setting. Studying the CSO A and CSO B via the direction setting element of the SDP model, it becomes clear that the organisation does have a very clear sense of direction and purpose represented by the CSO’s the mission statement combined. This represents the intentional “desired direction” of the CSO as clarified by Mintzberg et al. (1994).
Second stage, SDP – Performance Measurement. Performance measurement is a very important part of the SDP for the CSO and there are direct links between the design and management of the performance measurement systems and direction-setting process, because each CSO has a strategic and planning review committee and has a clear key performance indicator and key result area. This is to make sure that whatever CSO needs to measure, is measured.

Third stage, SDP Sense-Making. The sense-making part of the CSO’s SDP is well developed, as mentioned above and links directly to the direction setting element, via all participant of strategy making process, strategy committee and strategy division. Any change or input from external environment are monitored and controlled by the continual performance measurement of strategy groups. The strategy groups get supply of information from networks of contacts, from variety of stakeholders that the CSO collectively has.

Fourth stage, SDP – Creating Strategic Initiatives. There were some strategic initiatives created from within the CSO and sometimes the initiatives were created by Consultant or external party. There also appears to be a clear difference between the Strategy member participant and employee that did not participate in strategy session. For CSO A, some member has a hesitation to create their own strategic initiatives because of the job routinitas.

Fifth stage, SDP – Evaluating Options. This element of the SDP process in the CSO is done by informal and formal way of evaluating option. Informal way of evaluating option by discussion among the members of strategy development group in each level of organization in CSO, which includes the head of department or director or commissioner as the main strategic decision maker. For CSO B, it seemed that outside stakeholder can participate in evaluating option.

Sixth stage, SDP- Rehearsing Strategy. There has been some formal strategy rehearsal element in the CSO’s strategy development process. An illustration to formal strategy rehearsal in the CSO B is pilot testing and market trials of new product development to particular customer segments. The pilot tests involve exposure to the market environment, including customers and competitors. The pilot tests require management decisions, and
support, which are based on careful cost/benefit analyses, and under the evaluation of the CSO B’s performance measurement system. From the interview, the cost benefit analyses as a model of rehearsal of a strategic initiative via a model or simulation, as suggested by the SDP model (Dyson et al., 2007).

Seventh stage, SDP – Selecting and Enacting Strategy. For the case of CSO A, this makes only changes that are inline with their current way of operation. The CSO A is good at what it does in current operation, as supported by the performance measures, and it keeps doing close to its core strengths. The decision making and implementation of strategic decisions is relatively quickly performed within the two CSO, when quick actions are required quickly, as evidenced by the rapid industry change of the CSO B, to include the words “media and edutainment” in company mission following the strategic planning initiatives. In this manner the CSO B successfully combines their strategy making and strategy doing in a good mode.

SDP – Summary and Lessons Learned. Theses analyses have been based on the findings from the analysis of the empirical data, via the perspective of the SDP model and it has been compared with the established theory. The SDP model is up-to-date strategy development process, which involves the main component parts, shows the interconnections of the parts and describing the overall process. It is shown by using the SDP model to analyze the two CSO, it is clear that much of the SDP process can be exposed. Accordingly, the two of Indonesia companies in this study engaged in the seven stages of SDP as identified by Dyson et al., (2007). The methods of strategic development process varied and were greatly formal in nature.

The use of Strategy Tools in CSO a and CSO B.

This study used various strategy tools and techniques in strategic planning. However, not many of the participants utilized many of the traditional tools and techniques explained in the literature review. Some of popular strategy tools were used. The most common consideration in strategy making process was making a financial profit. All interview participants did include Dyson’s (2007) comprehensive SDP stages as a part of their planning
process, all did so intentionally, and all did so formally.

\[ n \text{ (CSO A + CSO B)} = 22 \]

<table>
<thead>
<tr>
<th>Rank</th>
<th>Tool/Technique</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cost Benefit Analysis</td>
<td>6.13</td>
</tr>
<tr>
<td>2</td>
<td>Risk Analysis</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>Forecasting Economic</td>
<td>5.94</td>
</tr>
<tr>
<td>4</td>
<td>Value Chain Analysis</td>
<td>5.81</td>
</tr>
<tr>
<td>5</td>
<td>Balanced scorecard</td>
<td>5.69</td>
</tr>
<tr>
<td>6</td>
<td>Gap Analysis</td>
<td>5.25</td>
</tr>
<tr>
<td>7</td>
<td>SWOT (TOWS)</td>
<td>5.13</td>
</tr>
<tr>
<td>8</td>
<td>Benchmarking</td>
<td>4.63</td>
</tr>
<tr>
<td>9</td>
<td>PEST Analysis</td>
<td>4</td>
</tr>
<tr>
<td>10</td>
<td>Core Competence</td>
<td>3.63</td>
</tr>
<tr>
<td>11</td>
<td>Visioneering</td>
<td>3.63</td>
</tr>
<tr>
<td>12</td>
<td>Sensitivity Analysis</td>
<td>3.48</td>
</tr>
<tr>
<td>13</td>
<td>Decision Tree Analysis</td>
<td>2.31</td>
</tr>
<tr>
<td>14</td>
<td>Contingency Analysis</td>
<td>1.94</td>
</tr>
<tr>
<td>15</td>
<td>Resource Analysis</td>
<td>1.94</td>
</tr>
<tr>
<td>16</td>
<td>Porter 5 Forces</td>
<td>1.56</td>
</tr>
<tr>
<td>17</td>
<td>Cognitive Mapping</td>
<td>1.31</td>
</tr>
<tr>
<td>18</td>
<td>Corporate Modeling</td>
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<tr>
<td>19</td>
<td>Soft System Methodology</td>
<td>1.16</td>
</tr>
<tr>
<td>20</td>
<td>Profit Impact of Marketing Strategy</td>
<td>1.13</td>
</tr>
<tr>
<td>21</td>
<td>Gaming</td>
<td>0.69</td>
</tr>
<tr>
<td>22</td>
<td>Real Option</td>
<td>0.69</td>
</tr>
<tr>
<td>23</td>
<td>Delphi</td>
<td>0.56</td>
</tr>
<tr>
<td>24</td>
<td>Portfolio Matrix/BCG</td>
<td>0.38</td>
</tr>
<tr>
<td>25</td>
<td>Systems Dynamics</td>
<td>0.25</td>
</tr>
</tbody>
</table>

Table 2. The use of strategy tools in CSO A and CSO B, n=22.

Some of the strategy tools and techniques used were very basic. Planning sheets, written goals, and lists of items to consider were utilized by several participants. Reviewing financial, supply, and production situations were mentioned. From the respondent interviews,
Meetings, focus group, mailing list, brainstorming, and networking were stated as methods for strategy making process. Most of the respondents claimed to readjust their strategies for various reasons: new direction, profit, accounts, and situational change and securities issues.

Summary, the two of case study companies in this study engaged in Dyson’s comprehensive SDP stages. However, their methods for strategy making were different. The traditional strategy tools and techniques well-known in strategy making literature were not employed in full, but some of their strategy tools applications were used during the strategy making process in mix form. An essential detection was that strategic development process was related, or distinctive to each company’s situation, but the formal strategy making process is regular and consistent.

**DISCUSSION**

This study included limitations such as use of only two companies, lack of generalizability, and self-report effects. Important insights on an academic and practical level, nevertheless, may be taken from the results. In particular, the contextual nature of strategy making process in profitable large companies is a valuable area to consider when examining strategic development process extent and types. Implying that a certain quantity of strategy development process or strategy planning or one strategy method is best for Indonesia companies was far from true in this investigation.

Broad strategy development process was evident in this study, both on an informal and formal situational basis. One strategy model that can be fitted for all strategic planning process did not apply in this case. Each CSO planned differently; they did following their own mix forms of methodology and timeframes. Each CSO reported a complete use of combinations of formal and informal strategic planning. In their report, no formal strategy tools or techniques were identified as a major component of the strategic planning process. The value that this investigation adds to the literature is that strategic planning in profitable small firms is a process that is dynamic, contextual, and unique. This study further validated the detection of SDP model in the literature supporting the strategic planning and performance link. The entire respondent claimed to plan for their CSO on either a formal or
informal basis. The results also suggest that strategic planning processes are evolving, and do not necessarily reflect the practices of the past. SDP model is fitted with strategic planning process, since strategic planning can no longer be considered an event that follows specific rules; to a certain extent it can be seen as a dynamic process, unique to the firm concerned. Strategy planning process utilizing Dyson (2007) SDP model seven stages is seemingly necessary for good achievement of strategy development process even though the use of SDP will be different ways ranging from basic to elaborate. There is no magic strategy tool or technique for two case studies’ companies to utilize to ensure profitability. This is not to say that proven tools have no place in Indonesia companies strategic planning; instead, the unique situation of each profitable large company will likely influence the extent and types of strategy planning process chosen.

Future Research

The recommended step of the study should explore the degree and types of strategy development process in profitable, Indonesia large companies utilizing a larger sample. As part of ongoing research of this study, SDP survey will be conducted for larger sample of Indonesia companies. Furthermore, industry specific strategy making trends in Indonesia companies should be explored to establish if there is a relationship between strategy making practices types and tools in certain industry sectors. The result of study could prove useful in separating certain contextual factors that commonly face specific industries and examine how to plan successfully for them. To examine whether formal or popular strategy tools or techniques would positively influence the success of companies more than their existing practices is a significant part of study. The companies in this study were profitable, but, finding out if companies could be more profitable by utilizing certain strategy tools, techniques, or hybrids could provide valuable insight into the linkage of strategic development process and company performance.
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