Strategic Management Center
Virtual Members Meeting

26th November 2020

Minutes of Meeting

In attendance:

Paul Barrett	Babcock
Carolyn Comer	Shell
Tom Ford	Rolls Royce
Philip Meyers	ABF
Stein Rasmussen	SBM Offshore
Hein Schreuder (presenter)	Previously at DSM
Ben Slater	BP
Paul Titcombe	Atkins

From the Strategic Management Center:

Jo Whitehead

Hein: Schreuder: Strategic Learning Cycles, From Coal to Biotech

These notes summarise primarily the comments made by Members during the session. The content of what Hein had to say is described by the presentation that he distributed to attendees.

Hein began by asking the group a set of questions:

- Is your company in need of evolution and/or transformation – now or in the foreseeable future?
- How often is this discussed (per year)?
- How deeply is this discussed (time taken per year)?
- Is a process in place to guide this evolution / transformation?
- Is this process effective?
- Will your company's evolution / transformation succeed?

The general view was that most companies were in need of evolution, were discussing this and had some sort of process. However, in many cases it was less clear whether the process was, or would be effective.

Some other points:

- At one Member company the process was prompted by the arrival of a new CEO, CFO and a relatively new Chair.

- At another, although the company was stable, the Member orchestrated discussions about change
- Another Member's evolution was triggered by changes in technology and a push for de-carbonization.

Hein proceeded to describe the starting situation and changes to the DSM portfolio from the early 1990s to 2015,

One Member asked to what extent there was a logical path where you could see synergies, and to what extent it was just a matter of entering new and attractive businesses where DSM could add value with its parenting skills.

Hein commented that DSM had the concept of emerging business areas. Four were defined in 2005, with three in existence today after two of the original ones were divested, and another added. He explained that the goal was to exploit and develop their existing businesses in order to become best in class. In these businesses, the initial emphasis was about narrowing the scope to the point at which DSM could have world leading positions. DSM believed that it should also explore new opportunities all the time, accepting that some will fail. The fact that two out of four are good today constitutes a success. The overall answer to the question is that DSM shifted from exploitation to exploration.

Hein then asked some further questions of the group:

- Do you have a planning process?
- Is it effective as a mechanism for change?
- Is it more like 'extended budgeting'?
- Does it lead to an effective strategy?

The general view was that planning processes did tend to become or be more like an extended budgeting process. Strategy tended to be developed outside of this process. One Member commented that they had pieces of the portfolio where the process looks like extended budgeting, but other businesses which get on a certain track that enables them to grow consistently, organically, and shift into adjacent areas for 15 years or so.

Hein then described the strategy processes used to transform the portfolio. These included Business Strategy Dialogues (BSD) and Corporate Strategy Dialogues (CSD). One Member asked how the corporate center managed the BSD process, given that the businesses were in charge of deciding when to run such a process. Hein commented that both the central strategy group and the Board might put pressure on a business in the 20% of cases where the business needed to review its strategy but did not see it this way initially.

Members then discussed the DSM strategy processes more generally.

One Member asked about the ASR (Annual Strategy Review). Hein explained that it was integrated into the budget process. The BSD contained a strategic value contract which was related to the strategy of the business. It would commit the business to a certain strategy and performance which set the budget and would be subject to review at budget time and as part of the ASR.

Another Member asked whether, when DSM went to the new CSD process of setting five-year strategies, it affected its communications with shareholders.

Hein replied that this was an important issue. For example, following the CSR "Vision 2010", DSM committed to get out of petrochemicals and build up other parts of the company. It had to prepare the markets by telling them that they wouldn't get significant annual updates, as they had determined a five year strategy. This required some education of some analysts! DSM executed the strategy successfully. If you achieve the priorities that you set, as DSM had done in the past, then you have some credibility.

Another Member asked how to manage the fact that the BSDs were intermittent. How did DSM keep a capable strategy team together in the businesses given that strategy reformulation was only an occasional event?

Hein commented that they did extensive training prior to any BSD and then draw from a pool of facilitators to help. The facilitators were the process owners. This educated people over time about how to do this well.

Another Member asked whether the whole process Hein had described constituted an element of parenting advantage. Hein commented that he believed it was, and it was a capability developed by DSM as an organisation. It spanned the tenure of three CEOs, all of whom were home grown, which explains the consistency. It is different when a new CEO arrives from outside and, for good or bad reasons, wants to change things.

Hein then proceeded to describe how a major change in strategy was implemented at DSM, using innovation as an example:

- DSM had a corporate strategy of increasing the level of innovation
- To make this strategy become a reality required a process which Hein described as the Strategic Learning Cycle, consisting of a circular process of strategy, organisation and systems development.
- Hein's presentation described the various steps involved in this process, as they were carried out to increase the level of innovation. This included the creation of a separate Innovation Centre which was targeted with delivering 20% of the target of 1 Billion increased sales from innovations (the other 80% were the responsibility of the existing business units).

The learnings from each of these cycles informs the strategy. Evolution, transformation and learning are key themes.

At the end of this section of the presentation, there was time for a broader discussion.

One Member asked whether the BU can determine where to innovate, i.e., whether they can choose to retain an innovation in their unit, or whether it might be taken away from them and put in the innovation center.

Hein commented that the decision about whether the business or the Innovation Centre developed a business could create a lot of tension. The Innovation Centre was responsible for €200m out of the €1bn target, and in principle this would be outside of the businesses. DSM had a list of fifteen such businesses, and screened them on the basis of whether they were attractive in themselves and whether DSM was the right parent. One opportunity came out – biochemical materials. DSM had to take biochemical materials out of a business unit and put them into the Innovation Centre. The business didn't like losing it! It was, in the end, a corporate discussion. It was a tension between business and corporate strategy.

Another Member asked what the ratio of market cap to revenue did over this period.

Hein was unable to give exact figures but said that the ratio did increase quite substantially. The Member added that a transformation from coal to bio tech ought indeed to lead to an increase in this ratio.

The final section of the discussion involved describing some of the traits that allowed DSM to implement this approach to strategy.

One Member asked what DSM had done to cope with the rapid cycle time of the bio tech area in particular.

Hein answered that they had had to reduce the cycle time. The smaller companies DSM ventured with helped DSM to tune in to the fast learning that occurs in such businesses. Also, although things move fast, they are often in three phases. First, an idea that appears attractive; then a launch and failure; then it turns into a real business. So, there are opportunities to build in the third wave if you have the presence and capital. If this is your real strategy, rapid cycling isn't so important.

The meeting wrapped up with feedback from Members. There was a general appreciation of the session, with the following points being made:

- It is interesting to see the transformation from a heavy to high tech industry – which is not easy to do. Our industry is similar – asset heavy, long cycle. There is technology in our business, but we do not get credit for this. We are still viewed as an asset type of industry. It requires different thinking, different cycles – taking the people with you, the cultural challenge. There is a 'not invented here' syndrome that makes this difficult. We are trying to change – to a more technology driven asset business.

- We are a family company but with short term behaviour. When you look ahead it is difficult to predict. Looking back at past efforts to "explore" can be embarrassing. Hein recognized the issue and suggested that what helps is a hypothesis-testing, learning type of attitude, and not trying to make predictions or having a strategy that is cast in stone. Focusing on the good reasons for exploring and taking risks in trying something out is important. If the history is that some things have worked then there is more fertile ground to propose something. Overall, you need to get away from forecasting and predictions, and focus on the structural shifts, rather than the hype.

- Another Member liked the different cycles and was keen to follow up with more specific questions

- Another Member found the presentation particularly timely given all the turbulence this year has brought. The long-term perspective is a challenge and building confidence with the market is challenging across the sector. Trust with investors is going to be key for transformation and what matter here is the record of wins over time. It was particularly interesting to learn that there was not an annual planning cycle. Having one can impose an immense drain on resources, particularly when everything is aggregated up and then reviewed at various levels. Transforming the strategy process, incrementally, is something they are thinking about.

- Another Member from a different industry agreed with those comments. There was a need for different types of process for different businesses. The trust or mandate to make these changes is an issue. The first success gives confidence. People at the Members company think that the company's DNA is about the core product. But DSM show that it can be more about change and transformation.

Future meetings

Our next Members Meeting is scheduled to take place on 18th March 2021 when Professor Peter Williamson will introduce us to the ideas behind his recent book *Ecosystem Edge – Sustaining Competitiveness in the Face of Disruption*.

We are currently assuming that the meeting will be virtual, but we will let you know if it proves to be possible to return to our traditional format.