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Strategic Planning and Management

A Review of Recent Experience

Nagy Hanna

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ABSTRACT

This paper reviews the recent experience of strategic planning and management in large institutions, primarily in the private sector. The main conclusions are:

1. Planning practices have undergone fundamental transformation in response to accelerated changes in the complexity of institutions, the diversity of their businesses, and the uncertainty and competitiveness of their environment.
2. Planning has evolved from a preoccupation with financial controls, forecasting and formal planning processes towards increasing emphasis on understanding the external environment and competitors, providing a strategic framework for resource allocation, and integrating the strategies, structures, systems, skills and values of an institution to fulfill a clearly defined mission.
3. Strategic planning practices have employed various tools to promote environmental analysis, differentiate among market segments, and formulate a hierarchy of strategies for corporate, business and functional levels. In general, strategic planning has introduced a discipline for coherent thinking about the long term and uncertainties and raised awareness of the threats and opportunities arising from competitors and environmental changes.
4. Strategic management has emerged as the latest form of planning in response to tendencies towards bureaucratization and centralization of the strategic planning function. Strategic management emphasizes an ongoing strategy management process, widespread creative thinking, and the integration of strategy formulation processes with other management structures and systems. It employs a planning process that is outward-oriented, issue-focussed, creative, selective, opportunity seeking and highly interactive. It emphasizes leadership, delegation within a strategic framework, and line management ownership of strategy development and implementation. Staff planners act as facilitators, catalysts, counselors and stimulators to the line manager, who must be the strategist. Strategic managers bridge the gap between planning and implementation by addressing implementation early and often, by involving key players at early stages, by experimentation, and by conscious management of resistance to change.

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Strategic Planning and Management

A Review of Recent Experience

I. OVERVIEW

Management practices, particularly at the executive level and in the private sector are undergoing substantial changes in response to fundamental environmental changes. Organizations have to respond to new levels of global competition and economic restructuring, market shifts, increasing uncertainties and an accelerated pace of change. Technological and institutional innovations have made finance, physical resources and finished goods more mobile than ever. The world is becoming a highly interdependent and competitive marketplace. The pace of technological change has also accelerated and contributed to the dynamics of a world market with substantial and frequent shifts in competitive advantage. In the corporate world, extremely diversified, complex and global organizations have emerged. Also industries are becoming more knowledge-based and skill-intensive. The "knowledge worker" has become the dominant labor force in industrial countries. Public service institutions are facing similar environmental challenges as they support social changes that must accompany economic change. They have to exhibit new levels of flexibility and selectivity. They are learning to respond quickly and effectively to diverse needs and clients in full recognition of their specific comparative advantages and of those of other actors in the environment.

A previous era was characterized by stability, continuity, and predictable growth. That era was governed by the logic of large scale

production: standardized rules, centralized authority, machine-like organizations, predictable demand and given ends. The management's attention to internal efficiencies had as its premises growing demand, steady supply of resources, and the consensus of stakeholders on the mission (businesses) of the institution. Slow adaptation, gradual evolution, production and efficiency-orientation, and forecast-based planning were then perhaps the adequate modes of response for growth and survival.

With the emergence of the present era of uncertainty and turbulence, prediction became impossible and strategic adaptation had to replace the stable rules of slow evolution. New productive organizations are emerging with flexible systems of production, outward-looking and customer-focused cultures, less hierarchical structures, and learning-oriented processes of planning and decision making. There is also a growing evidence that corporations are increasingly adopting and adapting technologies and know-how created by others; more emphasis is given to screen the environment for information and to gain competitive advantage through strategic partnership with external sources of knowledge and innovation. The new era requires a new form of management that fosters strategic thinking and behaviour, influences the external environment, and organizes feedback from clients and stakeholders. More than ever before, top management has to focus on setting and communicating clear directions, generating broad-based consensus and commitments about adjustments, and engaging all employees in continuous learning and the constant improvement of the entire organization. In this context, planning becomes a critical tool for top and line management to facilitate rapid and active adjustment,

to define and build upon competitive advantage, to concentrate resources on the highest payoffs and the future, and to enhance the management of change.

This paper identifies the major steps in the evolution of planning, to the present state of "strategic management". Its objective is to clarify the basic concepts and components underlying the recent experiences and practices of leading corporations in strategic planning and strategic management. The paper draws on the experience of 90 organizations that have been surveyed through direct interviews with strategic planning managers and selected executives and consulting firms (see Table 1, page 51, on summary of findings and Annex 1 on methodology of the survey). Although most of these organizations were selected from the private sector, where most of the innovations in planning practices have occurred, this paper emphasizes those concepts and practices that are essential to the effectiveness of both public and private organizations, including public and professional "services" organizations.

The most important and recent trends in the strategic planning process emphasize:

- Ownership: line managers must see strategy formulation and implementation as their business; strategy setting must be restored to be the core of line management responsibility. "The notion that an effective strategy can be constructed by someone in an ivory tower is bankrupt". Top management, in particular, support and drive the strategic planning process as its tool for executive management.

- External orientation: strategy must be born out of close relations with and sensitivity to customer needs and market shifts.
- Implementability: the credibility of planning will erode to the extent plans do not get implemented effectively; changing the capability of organizations to manage new strategies and postures is at the heart of strategic planning.
- Agility: the planning process must be informed but not enslaved by analysis and bureaucratic routines; it must be flexible, responsive, and selective (rather than calendar-driven, formalistic and comprehensive). It should enhance understanding, creative thinking, and experimentation. There must be a fundamental change in the nature of planning from an exercise in forecasting to an exercise in creative choice.
- Add Value: planners and planning systems must be seen to contribute directly to improved decision making and strategy implementation.

These changes in planning practices are congruent with and reinforced by other changes in management practices. These transformations emphasize:

- Leadership: top management must lead organizational change. The keys to managing change are (1) a clear mission; (2) well thought

out and clearly communicated strategies; (3) top management drive; and (4) bold implementation actions. The closer managers are to the point where the product is made or the service is delivered, the more important is the capacity to clarify purpose, to inspire people with its importance, and to meet their requirements and expectations. To fulfill their role, senior managers should be active communicators and motivators and should infuse their organization with vision and purpose^{1/}.

- Culture Management: a key to effective organizational performance and strategic adaptation is to develop a consciousness of the organization's character, of the limitations and possibilities derived from its history, and to consciously shape this culture both as a resource and a constraint to strategic adaptation. The elements of success in "In Search of Excellence" are primarily cultural: closeness to the customer, bias for action, autonomy and entrepreneurship, etc. Survey results indicate that CEOs are assuming their responsibility as leaders of the corporate culture and value shapers, rather than simply occupying the apex of a multi-layered bureaucratic structure.

^{1/} This suggests that senior managers should devote significant time and effort to communicate and engender a sense of direction and purpose to all levels of staff. This may involve managers in open and frequent meetings and professional fora with various sections of the organization, intensive information campaigns in different media, and presenting all staff with themes, visions and clearly defined organizational objectives and strategies. This may be referred to as "transformational" leadership.

- Stimulating innovation and learning: management must assume responsibility for strategizing, for choosing and modifying "what business we are in", for developing new competences, for validating the choices made, and for energizing the values and aspirations of organization members at all levels to sustain these choices. At the heart of this process are learning organizations and learning persons. There is a resurgence in the development of organization capability not only in management ranks, but wherever creative contributions to competitive advantage can be sparked and developed. This extends beyond training and encompasses appropriate incentives, careful career planning and placement, decentralization, delegation, an open and supportive climate for learning, and the nurturing of teamwork and collaborative entrepreneurship. In an environment where knowledge and innovation are the cutting edge of competitiveness and relevance, managers are expected to empower staff to act on their ideas and be rewarded for risk taking and entrepreneurship.
- An integrated approach: orchestration of strategy, structure, systems, staff, skills, style and shared values: organizational change and development is not simply a matter of selecting a new strategy or organizational structure. Rather, effective organizational change is the result of managing mutually reinforcing changes in the strategy, structure, systems, staffing, skill development, managerial style, and organizational

culture (shared values)^{2/}. These elements of change management are closely interconnected; it is difficult, perhaps impossible, to make significant progress in one factor without progress in the others as well. The role of top management is to initiate mutually reinforcing changes in these factors; a priori, it is not obvious which of the seven factors will be the driving force in changing a particular organization at a particular point in time.

^{2/} This implies a shift from management by control and adherence to procedures and processes, to management by intellectual leadership, and by orchestration of all the capabilities of an organization.

II. THE EVOLUTION OF PLANNING

The reasons for the emergence of strategic management and the problems of implanting strategic planning processes in organizations can be best understood within a historical perspective. This perspective suggests that management systems evolved in response to qualitative changes in the environment. Each system addressed a particular challenge, and as its limitations became clear, other capabilities were added to complement earlier systems and/or older systems had to be totally transformed.

Four major stages are recognized here:

- . financial planning (management by budgetary control)
- . long range planning (management by extrapolation; improved forecasting)
- . strategic planning (management by strategic analysis and positioning)
- . strategic management (management by widespread strategic thinking, well defined strategic framework, effectively communicated vision and strategy, and strong culture).

A. Financial Planning

This stage emphasizes the annual budgeting process and operational efficiency issues. This is the dominant activity of top

management and was sufficient for the continued growth of organizations within stable environments. It still predominates in large bureaucracies and heavily regulated institutions. It remains an important building block of more advanced planning systems. However, its role, structure and links to other management functions have been changed in fundamental ways when used in the context of advanced strategic planning systems.

The traditional budgeting process is based on standards of efficiency and performance that are implicit in budgetary projections and targets, and are derived from historical experience. This process has been subjected to continuous refinement; to increase flexibility and transparency; to increase delegation and task control; and to facilitate other management functions. A new approach to the use of budgeting for setting performance (productivity) targets calls for the use not only of historical data, but for the establishment of commitments that emerge from a strategic plan, or from negotiations conducted within a management by objectives (MBO) framework. Other approaches to link budgets to performance improvements and enhance non-incremental resource decisions are Planning, Programming and Budgeting System (PPBS) and Zero-Based Budgeting (ZBB). The latter establishes a set of comprehensive rules to force managers to justify their budgetary allocations from ground zero. These refinements are usually associated with later stages in the evolution of planning.

The complementary process to the budget is financial control. Financial control measurements are used to judge the performance of a corporation or of well-defined segments within a corporation. Recent

advances have emphasized the transparency of cost structures as the basis for formulating competitive strategies, low cost comparative advantage, and competitive marketing and pricing (e.g., the deregulated banking services). The notion of the responsibility center has been developed to promote the decentralized accountability of profit and cost performance at various levels in the organization. Substantial gains in performance improvements can still be achieved, particularly among public organizations such as the Bank, by rendering the cost structure transparent and by subjecting line managers to internal market discipline and incentives that serve broad institutional goals.

Even among profit-oriented organizations, exclusive reliance on budgeting and financial controls as a planning mode has proven to have major limitations. The main pitfall is excessive myopia and undue concern with short-term objectives (profitability or cost effectiveness) at the expense of the long-term development of the organization. Moreover, budgetary-based resource allocation decisions lack a long run framework for strategic commitments. The proper development and communication of the business (institutional) strategy and the translation of the resulting strategic commitment into resource allocations and meaningful performance indicators are essential requirements to prevent the misuse of budgeting and financial controls. Targets for a given year can probably be achieved. The main question is, at what price?

B. Long-Range Planning

Long range (LR) planning was a response adopted by many firms to manage the unprecedented growth triggered by the economic boom during the

post World War II period. To meet the required expansions of capacity and to find the corresponding financial resources, it became necessary to extend the planning horizon beyond annual budgeting. The starting point for LR planning is a multi-year forecast of demand (the firm's sales). All other functional plans are based on this forecast, which represent a growth commitment of the organization. The final step is the aggregation of these functional plans (projections) into a long or medium-term financial plan. The forecasting effort relied heavily on historical projections and was primarily a bottom-up aggregation of budgets and programs.

The primary contribution of LR planning and budgeting has been to provide a multi-year perspective on resources and thus facilitate the development of strategies and policies for their use. It forced managers to confront the long term resource implications of their decisions. The limitations of this mode of planning became clear with the increasing uncertainties of demand and growth prospects and the growing awareness of the need to better understand the market/client. With increasing competition and growing complexity in the environment, some of the basic assumptions underlying forecast-based planning were called into question. The growing uncertainties frustrated the forecasters and undermined the credibility of "blue print" planning. The typical reaction of forecast-based planning has been to add further complexity and data to their large scale forecasting models. Moreover, beginning the process with sales (demand) forecasts represents a serious flaw. Instead, the focus should be on forecasting total markets (needs) which are linked to sales through the market share. The latter is a critically important decision variable in the definition of a strategic position. LR planning also

assumes a static portfolio (mix) of products and a focus on current capabilities. This type of planning has often deteriorated into a mechanical routine and a mere extrapolation of the past. It has distracted managers from understanding client needs and the dynamics of markets. It has focussed planners' attention on predicting rather than creating the future. It has often made managers fall into the trap of thinking they were creating a sustained growth situation when, in fact they were merely being driven by highly favorable external forces. Even when conditions were not favorable, forecasted trends have often shown a tendency among planners that has come to be called the "hockey sticks" phenomenon which are plans that project a sudden recovery of demand (sales, lending) and performance, even after a sustained decline.

LR planning does not work under changing external conditions, increasing uncertainties, intensive competition, or in situations that call for major discontinuities between the past and the future. Likewise, it does not work for organizations with diversified products (programs or services) or corporations engaged in a variety of businesses. The functional orientation of LR planning presupposes a monolithic business structure and a homogenous customer (need). When there is a multiplicity of businesses (clients, geographic markets), it is essential, first, to understand their inherent differences in order to meet their distinctive needs. Notwithstanding its shortcomings, LR planning constituted an important first step in preparing for the next stage of planning evolution.

C. Strategic Planning

With accelerating structural changes in the national and global economies and growing uncertainty, complexity and unpredictability in the environment^{3/}, organizations began to lose faith in forecasting and in the use of blueprint planning to eliminate uncertainties. Planning had to become externally-oriented. Strategic planning has provided some key concepts and processes which help to understand the market and the forces driving change, a dynamic and creative framework for resource allocation, and a process for the generation and evaluation of strategic choices at various levels in complex and diversified organizations. The following three key concepts that have been used extensively in strategic planning: (1) Segmentation and the Strategic Business Unit (SBU), (2) portfolio management, and (3) a hierarchy of strategies. In the following discussion, each of these concepts is first described and is then employed in a prototype strategic planning cycle to illustrate its role and how the system operates at prototypical managerial levels and in the strategic planning process.

(a) Segmentation and the Strategic Business Unit (SBU)

The concept of segmenting a company's activities in the market place into strategic business areas arose in response to the increasing diversity and complexity of the businesses and environments that diversified companies had to manage. With diversification, the first step

^{3/} For a full appreciation of the nature and degree of changes in the socio-economic environment and their implications for institutions see Robert P. Reich, The Next America Frontier, Times Books, 1983.

in strategic analysis became not to define "the business we are in"^{4/}, but to identify the multiplicity of the distinctive businesses of the company. In order to do this, management had to make a fundamental change in outlook. It became necessary to question the historical portfolio of businesses and to avoid limiting business prospects to historical product lines and established operational units. It became necessary to shift to an "outside-in" perspective: to analyze the environment of the firm in terms of distinctive areas of demands, trends, threats and opportunities.

The unit for this analysis is the strategic business area (SBA) which is a distinctive segment of the environment in which the firm does (or may want to do) business. As the first step in strategy analysis, the respective SBA's are identified and analyzed without any references to the firm's structure or its current products. In business, the pioneer was GE, which developed a complementary concept called the Strategic Business Unit (SBU) which is a unit of the firm responsible for developing the firm's strategic position in one or more SBA's.

This environment-centered perspective was pioneered in the U.S. Department of Defense by developing the "mission slice" and creating new units charged with strategic planning for the respective "mission slices", independent of the operating departments of the Defense (Army, Navy, Air, Marines). One example of a mission slice was the "Polaris" missile development project. In this application, the SBU's had only strategic planning responsibility, the departments being responsible for strategy implementation.

^{4/} The importance of defining or choosing the right business is reflected in the criticism leveled against railroads and petroleum companies for failing to articulate their business concepts, to be in the "transportation business" and in the "energy business" respectively.

In our survey, we found considerable variations between corporations in relating the strategic structure (the hierarchy of SBU's) to the operating organization. In the Department of Defense example mentioned above, the duality of structure, one for strategy formulation and the other for implementation, led to conflicts and problems during implementation. To avoid such duality, GE undertook the difficult task of matching existing operating units to the SBA's, thus making their SBU's responsible not only for strategy planning and implementation, but also for subsequent operating performance (profit making or satisfying the market)^{5/}. An intermediate step between the above options is to create a strategic (SBU) structure that articulates strategy formulation and implementation but assigns the strategic roles to the operating managers; in this case many managers assume dual roles, strategic and operational. Given this, systems and incentives must be developed to balance their attention between short- and long-term imperatives^{6/}. In the terminology of Texas Instruments, these individuals wear "two hats". Other organizations have used the SBU structure for new business development

^{5/} But GE found there are limitations to reorganizing the firm to provide one-to-one correspondence of SBA's and SBU's because a reorganization based on the SBA, which maximizes the effectiveness of strategy formulation and implementation, may compromise the firm's operating performance or may be infeasible in light of common resources and production linkages.

^{6/} At Texas Instruments, a planning organization was adopted which differed from the organization for operating day-to-day business. Short-run operations are decentralized to product/customer centers (PCCs), which were keyed to existing capabilities, serving existing markets and incremental expansions. A new structure, called Objectives/Strategies/Tactics (OST) has been created to supplement the PCC structure. At the top of the OST structure are the objective managers, and each objective is served by several strategy managers. In turn, each strategy is served by several tactics managers. These managers are selected among the senior and line managers and are expected to handle both their short-run operating responsibility and the assigned long-run strategic responsibility.

while maintaining the formal organizational structure for on-going businesses^{7/}. The most extreme case that can be adopted in seeking integration between operational and strategic responsibilities, when these responsibilities cannot be squarely assigned to a single individual (wearing "two hats"), is the matrix structure^{8/}.

Many organizations have used the SBA/SBU concept as the basis for periodically realigning the operating structure with the strategic focus of their businesses/markets. Others have adopted a dual structure, reflecting the difficulty of changing the operating structure too frequently and the flexibility that the SBU structure can provide by changing the strategic aspects of management processes to respond to accelerated changes in the environment without full reorganization of operations.

The segmentation process may be guided by various dimensions, depending on the driving forces of the market and the organization. The common dimensions used to determine SBA's/SBU's are: demand (growth prospects), customer type, geography and technology. The segmentation process must identify a large number of significantly different combinations of SBA's/SBU's so that each SBA/SBU should include as few product/market segments as possible to allow for the development of

^{7/} At Elkem (Norway), both an SBU organization and a formal organization were initially developed; the SBU organization was actively used to introduce new products or ideas. After a while, however, the SBU organization tended to be formalized into a structure conforming with the rest of the company. IBM's Personal Computer Project and GM's "Saturn Project" are variations on this approach to the use of SBU's.

^{8/} A true matrix organization however is more than an organizational structure; it has overwhelming cultural, behavioral, planning and systems implications, all of which should be congruent and properly balanced for the matrix to be viable.

coherent SBU strategies and meaningful decisions on the strategic allocation of resources. On the other hand, the number of SBA's/SBU's must be small enough to ensure a manageable span of control for the top management and corporate planners and hence to keep strategic decisions manageable and the strategy of the overall organization coherent.

Regardless of the limitations and the difficulties in segmenting a firm's environment into SBA's and reorienting its own internal structure in terms of SBU's, the SBU concept has become a common tool for giving a clearly organized view of its future environment and of differentiating its strategies to meet the increasing diversity of the businesses (roles) it is in. The SBU has become to strategic planning what a profit (cost) center is to financial planning. During our survey we noted that the leading organizations have further enriched this concept to enhance the decentralization of strategy formulation, to improve the focus of dialogue among levels of management on strategic issues, and to ensure accountability for strategy implementation.

(b) Portfolio Analysis/Competitive Positioning

Although the concept of portfolio management and the analytical tools used for its implementation have been limited to private diversified corporations, it is important for its impact on strategic thinking and the possible development of parallel methodologies in other organizations that might enhance thinking about and the communication of distinct strategies.

The essence of portfolio methods is to position each business (domain) within a matrix in accordance with: (1) the attractiveness of the

industry (market growth, economic factors, etc.) and (2) the competitive strength (market share, comparative advantage, etc.) of the firm. This corresponds to viewing a business strategy as a response to two dimensions: (1) in facing the external environment, to try to take advantage of market opportunities and neutralize adverse environmental impact; and (2) in facing the internal environment, to reinforce internal strengths and improve upon perceived weaknesses. Put differently, the portfolio matrix views strategy as a plan of action for maximizing or realigning one's strength (comparative advantage) against the forces at work in the environment (demands and opportunities). The results of this analysis, presented in a simple graphical display, allow managers to visualize the contribution of each business to the corporate portfolio. At the corporate level, portfolio analysis provides a tool to set up criteria for resource allocation among various SBU's, to identify the major strategic issues and performance gaps facing various SBU's, and to balance the risks and potentials, developmental (investment) needs, and cash flows among various SBU's. At the business/SBU levels, the focus of attention changes to specific product/market segments.

Among the most popular portfolio matrices is the "Attractiveness-Strength Matrix", developed by General Electric and McKinsey & Co. The process begins with the identification of critical external factors which are noncontrollable by the firm. This leads to the determination of the overall attractiveness of the industry to which the business belongs (e.g. market size, market growth rate, competitive structure, industry profitability, political concerns, technological factors, ...) and similarly to identify the critical internal (success) factors, which are largely controllable by the firm. These factors are weighed and use to

identify the current position of the business in the "Attractive Strength Matrix". The process of generating and probing these factors is fundamental to a deeper understanding of the business the firm is in and the firm's own strengths and weaknesses. This process is repeated by identifying the trends of each external factor to gain an understanding of the most likely environment the firm will be facing and to anticipate explicitly what are the competitive, economic, financial, socio-political and technological assumptions on which its proposed strategic actions will be based, (often, this step does not lead to a single projection, but to several scenarios). Having determined the future trends of industry attractiveness, a strategic position is selected for the future development of that business (SBA/SBU), and the global competitive strategy (desired business strength) is decided. Subsequently, the new positioning of each of the controllable success factors is selected to achieve that overall business strength; this step provides the basis for identifying the multi-functional action programs necessary to secure a long-term sustainable competitive advantage. The strategies formulated for each business thus have two components: (i) broad action programs based on the controllable success factors (neutralize internal weaknesses, build on positions of strength); and (ii) broad action programs based on the external factors (prevent negative consequences of adverse trends, take advantages of potential opportunities).

Portfolio approaches have made important contributions to the improvement of strategic planning thinking. They represent simple and effective ways of decomposing the firm's activities into a set of well-defined businesses. By permitting the clear differentiation of the nature of each business in terms of industry attractiveness and competitive

position, portfolio approaches allow top managers to set distinct strategies for each business in accordance with its inherent potential and developmental needs. They also represent a way of communication that captures the essence of strategic options confronting a diversified firm. They were judged as most significant in raising the strategic alertness (external orientation) of many managers we met since their implementation has required a minimum level of quantitative information regarding market potential and competitors performance. They have provided a disciplined process for seeking opportunities for growth, and a necessary step for improving environmental intelligence. Finally, portfolio management raises awareness and provides a common framework for examining the corporation's comparative advantage in each business and for making difficult choices to ensure selectivity in each segment or role.

(c) Hierarchies of Strategies

Within large organizations, strategy formulation processes were progressively differentiated to match key levels of executive and operating management. This need for multi-level planning and strategy formulation parallels the need for a hierarchy of objectives in large organizations. This differentiation was also a response to the need to deepen strategic thinking and action throughout the organization, involve lower levels of the managerial hierarchy, and promote decentralization and responsiveness. The common hierarchy of strategies (planning levels) involves the following three major levels: (a) Corporate Strategy; (b) business (SBU) strategies; and (c) functional strategy.

The emphasis of corporate-level planning is on establishing the mission of the firm, stating corporate objectives and strategic thrusts, defining a corporate philosophy and values, identifying the domains in which the firm will operate, and on the broad allocation of resources consistent with corporate priorities. The corporate level strategy is concerned primarily with answering the question: what set of businesses (roles) should we be in? Consequently, scope (product/market segments) and resource deployment among the SBU's are the primary focus of corporate strategy.

At the business level, strategy focuses on how to operate or compete in a particular business or product/market (service/client) segment. The most important components of business strategy are determining present resource and skill deployment (distinctive competence) and creating competitive advantages by repositioning resources vis-a-vis competitors (other actors).

At the functional level, the focus of strategy is on maximizing resource productivity, integrating activities to support corporate and SBU strategies, and the further development of distinctive competences of the overall organization, (e.g. R&D).

In our survey we found many variations regarding the degree of emphasis on one of these levels of planning. For conglomerates, holding companies and where extensive decentralization of planning has been achieved (such as CitiCorp.), most strategic planning activities are carried out at the SBU level. In other complex conglomerates, where groups

of SBU's share significant resources and concerns among themselves (HP, GE), a new hierarchical level called group or sector management has been introduced to promote synergy among SBU's. Yet in other organizations where strategic planning is relatively recent and planning skills and culture are not commonly shared, corporate-level planning is the focus and is oriented towards controlling and evaluating strategic planning at the SBU level or major participation in SBU planning activities. At functionally-organized firms, corporate planning is relatively centralized and often combined with planning for key functional areas (at Kodak, technology planning is the responsibility of corporate planners). In sum, the scope of planning at various levels varies between organizations because, among other reasons, of variations in management style, the degree of diversity among businesses and markets, the degree of common sharing in strategic resources, and the availability of planning skills at lower levels.

(d) The Strategic Planning Process

The above discussion of the key concepts of strategic planning can now be used to describe the process of strategic planning in a prototypical fashion. At the risk of being overly simplistic, the following diagrams provide a brief description of a typical strategic planning process, involving corporate, business and functional levels (see Figures 1 and 2). It should be emphasized that the survey indicates that there are many variations to this process, depending on the characteristics of the firm (its structure) and its businesses and environment (see Annex 1). The following describes some common properties among these variations.

The strategic planning process depicted in the diagrams provides a disciplined and well-defined organizational effort to specify and evaluate strategies at the business and functional levels within the framework of overall corporate mission, objectives, and priorities. The following is a brief account of the objectives of each step in the cycle:

Step (1) and (3) The Corporate and Business Missions

(See Figure 1)

The corporate mission is a relatively permanent statement that communicates institutional purpose and business scope, provides a framework to relate the institution to its primary stakeholders, and states the broad objectives of the organization's performance. This statement often includes an expression of the mission of the organization in terms of its product and market (service and client), and of the way to achieve its competitive advantage (leadership)^{9/}. It often identifies the SBUs and their interactions in terms of shared resources and concerns. Finally, it articulates the corporate philosophy in terms of corporate policies (e.g., relationship to clients) and cultural values (e.g., commitment to excellence, entrepreneurship). The mission at the SBU level is sharper and more detailed.

^{9/} One useful tool used to reflect upon changes in the mission of a firm is the concept of the driving force (NCR, Tregoe). The following strategic areas have been suggested as forces that decisively influence the nature and direction of any organization: markets/ products (market needs, products offered), capabilities (technology, production capabilities, method of sale, distribution, natural resources), and results (growth, return-profits). For example, the market-needs driven organization will be constantly looking for alternative ways to fill the needs it is currently filling; and searching for new or emerging needs in the market-segment it serves.

Figure 1. THE FORMAL STRATEGIC PLANNING CYCLE

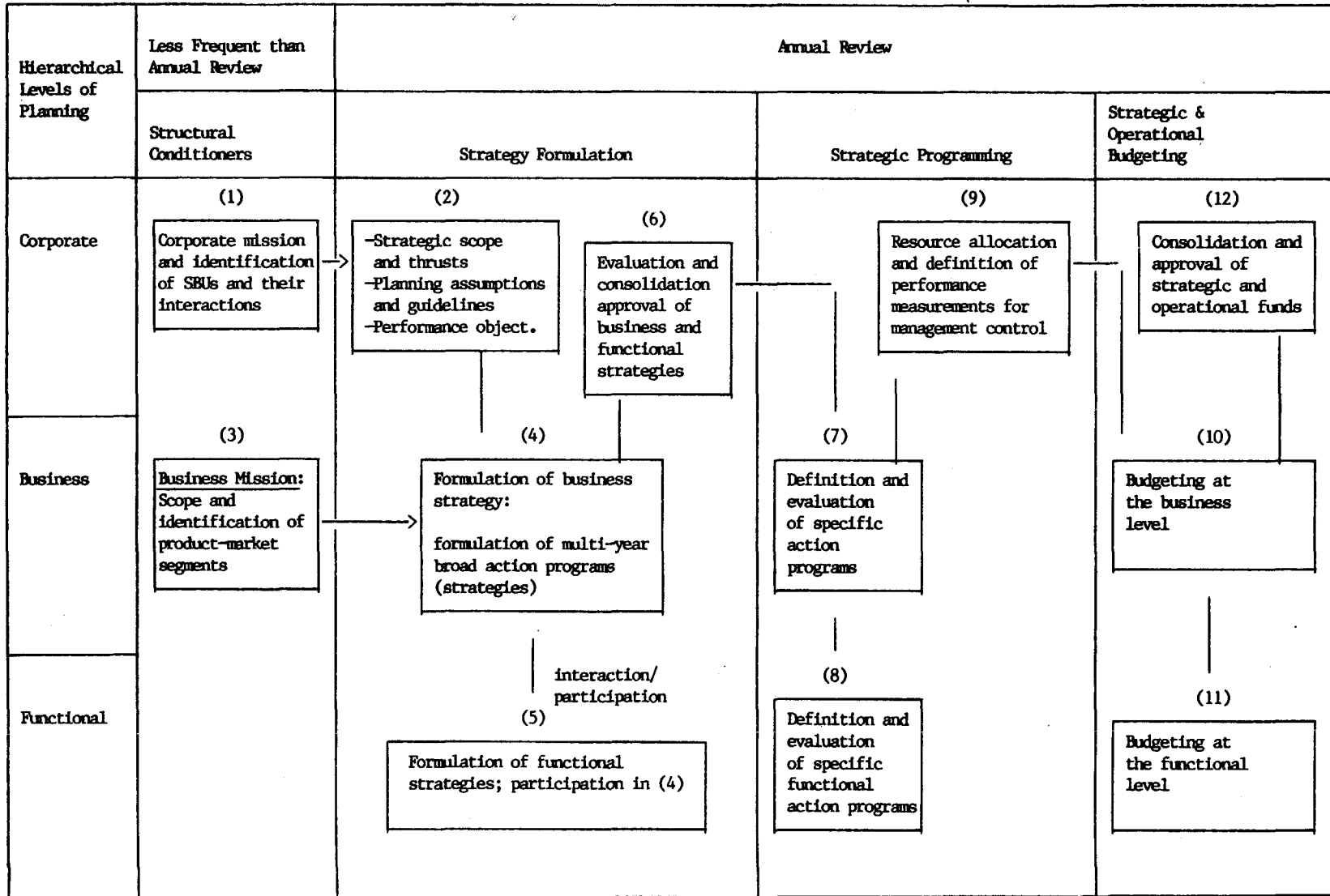
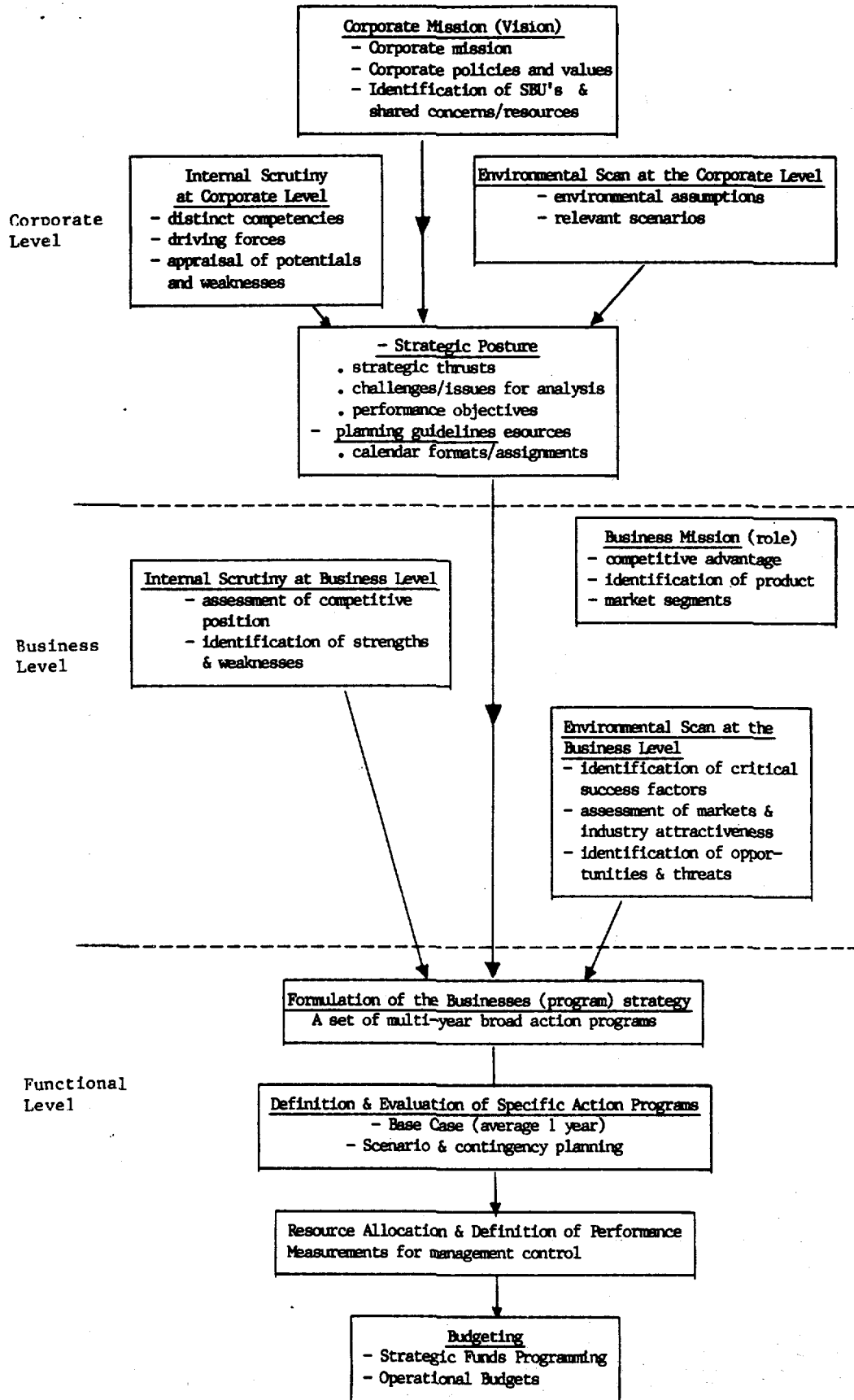


Figure 2. The Fundamental Elements In Formal Strategic Planning



Step 2: Formulating Strategic Posture

(See Figures 1 and 2)

The corporate mission has to be translated into more concrete guidelines which serve as immediate challenges for the development of strategic proposals at the business level (SBUs) and in the major functions of the firm. This is expressed as a strategic posture which has to be distilled from the mission and the situational analysis of the external and internal environments. As indicated in Figure 3, situational analysis encompasses both environmental scanning (including forecasting and scenario development) to identify external threats and opportunities, and internal scrutiny to identify the strengths and weaknesses of the corporation. The resulting outputs are: corporate strategic thrusts (the primary issues the organization must address in the next 3-5 years to play its roles, the identification of specific planning challenges for the corporation, businesses (SBUs) and functional areas, and the statement of corporate performance objectives (quantitative indicators). This step provides the framework for formulating strategies and action plans at all levels of the firm.

Step 4: Formulation of Business Strategy

(See Figures 1 and 2)

This step requires a thorough analysis of the current and future business position in terms of:

- (a) the non-controllable forces of the external environment which determine the industry trends and market opportunities; and

- (b) the internal competencies of the firm which will determine its unique competitive leadership. Strategy formulation at this level is also guided by the strategic thrusts provided at the corporate level. The result of this step is a broad outline of multi-year action programs.

Step 5: Formulation of Functional Strategy

In highly decentralized corporations, functional managers are directly involved in the development of their corresponding functional strategies to support each business unit (SBU) in the planning process (Step 4). Functional strategies are also formulated in response to relevant corporate thrusts. In corporations with businesses that share centralized support functions, the functional managers might be in a position to analyze the business strategies and broad action programs proposed by business managers and indicate their concurrent or non-concurrence with them. When a functional area (resource) is critical to the overall organization, the formulation of its strategy becomes closely linked to the corporate strategy (e.g., technology planning in high-tech organizations; professional resources planning in Price Waterhouse).

Step 6: Consolidation of Business and Functional Strategies

(See Figure 1)

This step is crucial and usually involves the critical review and approval at the corporate level of the set of broad action programs proposed by business (SBU) and functional managers. It requires the involvement of all key executives who share the responsibility for shaping the strategic direction of the firm. It addresses the following issues: resolution of conflicts between managers of businesses and functional areas; balancing the business portfolio of the firm (priorities among businesses); defining the availability of strategic funds; and preliminary evaluation of proposed action programs and their priorities for resource allocation.

Steps 7 & 8: Definition and Evaluation of Specific Action Programs

(See Figure 1)

Once strategies are defined and approved, this step specifies the instruments for deploying the strategic funds in terms of structured, coherent and timed actions. In most corporations, these actions involve capital investments and developmental expenses.

Step 9: Resource Allocation and Performance Measures

(See Figure 1)

At this step, top managers are confronted with the task of making a final evaluation of the proposals originated at the business and functional levels. In addition, performance measurements are

developed to facilitate control and monitoring of the action programs supporting business and functional strategies.

Steps 10, 11 & 12: Strategic and Operational Budgeting

(See Figure 1)

Once all strategic programs have been approved and resources allocated accordingly, business and functional managers are left with the task of translating those commitments into detailed operating budgets and precise estimates of the strategic funds needed^{10/}. The new concept that has emerged in recent years among leading organizations has been the separation of strategic from operational budgets in order to sharpen and make more accountable the strategic commitments of the organization.

(e) The Use of Scenarios in Strategic Planning

There are three essential ingredients in the formulation of corporate strategic thrusts: the corporate mission, an assessment of corporate strengths and weaknesses (internal scrutiny) and an environmental assessment (Figure 2). Scenarios are now developed at a growing number of companies (such as Shell, Amoco, NCR) as a critical input into environmental assessment. In particular, it is used to specify the

^{10/} "Strategic funds" for an organization is the equivalent to a "development budget" for a government; they are expense items required for the implementation of strategic action programs whose benefits are expected to be accrued in the long-term, beyond the current budget period. This definition goes beyond the traditional "capital budget" and includes areas such as research and development, strategic items to open new markets and develop new businesses, etc.

planning focus, the basic environmental assumptions for planning, and the contingency conditions, and to identify key threats and opportunities that may be confronted or exploited. The growing use of scenarios is mainly the result of increased awareness that institutions have to plan and adapt to environments with major uncertainties and discontinuities. Forecasting models have not provided for the timely introduction of new factors or parameters that result from discontinuities; quantitative techniques have only addressed quantifiable phenomena and have inevitably extrapolated the future from the past. In contrast, scenario development stimulates thinking about different logics of change in the macro environment, accommodates structural and qualitative changes, and takes account of political, social and technological forces in addition to the economic ones.

Scenarios are not predictions; rather, they are coherent descriptions of plausible futures. Scenarios do not reduce uncertainty; they clarify it. They complement traditional approaches to forecasting by focusing planners' and decisions makers' attention on the critical assumptions that underlie corporate strategies and strategic decisions, on the different plausible logics of change and early signs for their unfolding, and on the opportunities and threats present in these distinct change logics.

The use of scenarios in strategic planning are varied. In some diversified chemical companies, they are used to provide a common framework for SBU strategy development, for corporate assessment of SBU strategies and/or corporate allocation of resources among SBUs. For several integrated oil companies, scenarios are used to convey planning premises at

corporate and businesses levels for plan formulation at various levels of the organization (Shell). At some high-tech companies (NCR), scenarios are used to provide forward looking and holistic views of the world which could provide the basis for formulating their basic thrusts in R&D, product development and markets. At others, scenarios are used as a top management stimulus for thinking about crucial and difficult-to-define environments.

Some companies have experimented with various types and uses of scenarios. The Royal Dutch Shell group was one of the first companies to use scenarios in planning. Experimentation with scenarios started at Shell in 1971, mainly due to dissatisfaction with other forecasting approaches. The company now uses three kinds of scenarios - long-range, medium-term, and operating company - to serve different roles in planning and to address different sorts of concerns and time horizons. Long range global scenarios cover the world and go forward about 20 years; medium-term scenarios cover 5-years and serve as a backdrop for nearer-term, more cyclical planning issues. Another tier of scenarios is developed by specific planning departments and operating companies to focus on the concerns most relevant to Shell's operating companies and particular major investments. The 20-year scenarios primarily serve Shell's committee of managing directors; the planning group that prepares and revises these scenarios is organizationally close to that committee. Shell revises its long term scenarios every 4 to 5 years, and its medium-term scenarios every year. Shell planners underscore the value of the global scenarios in providing a "common language" for Shell's operating companies for use in their specific and more tailored scenarios. Reflecting its culture, the company strongly encourages interaction among diverse parts of its organization in creating, critiquing, and using scenarios. It also pays special attention to how it

presents scenarios and related information to users. Working with such an elaborate scenario development system is not without problems, but the company's scenario approach has been highly successful in raising the quality of information and debate about its future and its future business environment, both critical to good strategic thinking.

(f) Contingency Planning

In turbulent environments, contingency planning and alternative futures explorations become a necessity. The strategic planning process is based on the most likely future forecast or scenario. However, there are less likely conditions that would create serious difficulties for a firm if they actually occurred; these are the subject matter of contingency plans. The fundamental purpose of contingency planning is to place managers in a position to deal more effectively with unexpected developments than if they had not made such preparations. An additional advantage cited for contingency planning is that it forces managers to look at dimensions of the environment other than probable events.

Since there are many events which might cause serious damage to most organizations, a few of these contingencies must be identified and selected for planning, such as deviations from expected demand (sales) or profits, political threats, or the loss of a major customer. These events are screened for their criticality (impact) and probability. Answering the "what if" question might then entail the formulation of strategies for advance actions to avert the possible event, of strategies to respond to it if it actually occurs and of tactical plans to implement the strategies. Contingency plans may also specify trigger points or warning signals of the

imminence of the event for which the plan is developed. For reasons of economy and practicality contingency plans are usually few and should be made for really critical events, not merely troublesome ones.

Alternative scenarios and means of futures explorations can serve to identify events that might become the subject of a contingency plan. They can also serve to stretch the imagination of managers and staff; they force managers to deal with interactions of forces that might be missed in single case projections or in a base scenario. Hence, as with strategic planning in general, contingency planning is likely to assist managers in dealing with crises for which no contingency plans have been prepared.

Scenarios can also serve in developing contingency planning capability by enhancing environmental scanning and improving the robustness of the selected strategy. When using scenarios, the best strategy would be one that will work well within the envelope of trends and uncertainties that all the plausible scenarios encompass. Most companies cannot meet this goal in practice and rather choose as a "planning focus" one or two scenarios that reflect the decision makers' view of what is currently most likely; they then design strategies to fit the "planning focus" best. Some companies however use the other plausible scenarios as background for building flexibility into strategies made in the context of a "planning focus" scenario. Finally, by identifying critical uncertainties, scenarios provide a framework for the strategic monitoring of the environment and provide a selective framework for the early detection of changes and for switching to other scenarios.

(g) Value Added by Strategic Planning

Formal strategic planning constitutes a powerful tool to enhance managerial understanding and to guide strategic resource allocation (including redeployment and reorganization). Among the most important contributions of the above concepts and processes are:

- (i) Providing direction, coherence and unity to organizational efforts: By starting the process with a clear articulation of the mission of the organization, and subsequently by the mission (role) of each SBU, and the recognition of its distinctive competencies, the planning process formulates unifying thrusts and mobilizes the key managers in the pursuit of agreed upon objectives. Strategic planning provides a strategic framework to guide resource allocation, new business initiatives, the innovation and development of new products and markets and many of the daily decisions of managers at all levels of the organization.

- (ii) Introducing a discipline for long-term thinking: The formal planning process enforces a logical process and a calendar for thinking about strategic options and tasks and thus ensures that managerial time, especially of top management, is not preempted entirely by short-term operational issues. It encourages managers to reflect upon the strategic direction of the business.

- (iii) Raising awareness about the environment: By analyzing competitive advantage and the position of businesses vis-a-vis competitors and market prospects, the process has induced managers to be more externally focussed. An extensive amount of information is collected on the overall structure of the industry (business) and its trends, on the strength and possible strategic moves of competitors, on the comparative advantage of potential complementary actors (for joint ventures), and of customer needs, perceptions (image) of the product, and the degree of satisfaction with it.

- (iv) Enhancing the dialogue among managers on strategy: The process has been used, in varying degrees, to focus senior management attention on shaping and evaluating the strategies of line management at all levels of the organization. It has also enhanced the communication of strategic options and issues at corporate and business levels.

- (v) Improving the organization of the firm: Segmentation and portfolio analysis have often forced a continued examination of the organizational structure, both to enhance business autonomy oriented towards serving evolving but distinct markets and to exploit potential synergies.

- (vi) Educating managers in strategic thinking: Perhaps this is the most important contribution. Engaging in communication, generating multiple negotiations, creating a

need to understand the primary factors affecting the business, the common understanding of corporate objectives, and the personal involvement in answering the strategic issues that arise during strategy formulation, is what makes the planning process worthwhile.

(h) The Limitations of Strategic Planning

Like earlier forms of planning, strategic planning failed to meet all the expectations and demands for strategic behavior by organizations in turbulent environments. The following are some of the limitations of strategic planning which, if not properly recognized, can destroy its effectiveness:

- Tendency towards excessive formalization, bureaucratization and ritualization: One of the inherent risks in formalizing any process, particularly a creative one, is to create conditions that impose an increasing burden and rigidity over time which ultimately stifle creativity and result in losing the sense of shared objectives the process is intended to support. Planning can become an end in itself, and degenerate into a staff dominated, paper based, number intensive and control oriented activity. This risk is very real and some of the companies we visited have fallen in this trap; others have tried various innovations to maintain strong vitality and interest in a process which can otherwise become time-consuming and repetitive. GE experience highlights these risks and the company's efforts to de-bureaucratize the process. An approach used by some companies

(e.g., American Express, Merrill Lynch) is to conduct a comprehensive and strategic audit once every several (say five) years, and in the interim to deal with selective upgrading and marginal adjustments of strategies and programs. Another is to selectively identify each year those businesses that deserve more careful attention, either because of environmental changes, the dynamic nature of their business, or their performance problems and risks. Many of the advanced multinationals have adopted this approach to ensure timely in-depth review and continuous dialogue with selected businesses. A third approach is to select each year a planning theme which will require the attention of all key managers in their annual planning efforts. A fourth is to engage managers in various interactive processes to structure their thinking and stimulate their creativity, e.g., the use of scenarios rather than model-based forecasting.

Institutionalization of the planning process, like many earlier management functions, is a necessity. In the case of Texas Instruments (TI), the late President and founder of TI argued that institutionalization was the cost they had to pay for cumulative institutional learning. The challenge, however, is not only to prevent the strategic planning process from ossification but also to use it as a means to transform other institutional capabilities to more entrepreneurial and flexible modes.

• Grand design vs. incrementalism and experimentation: Some questions have been raised regarding whether creative thinking

can ever emerge from a formal analytical process. The authors of the book In Search Of Excellence highlight the need for action-orientation, experimentation, "chunking", and risk taking and argue that over-reliance on analysis and numbers often leads to a built-in conservative bias, a narrow form of rationality, and inflexibility.

The process of logical incrementalism, however, does not have to contradict a well-conceived strategic planning process. A participatory planning process, which provides a sense of vision from the top, but is shared by all key managers, does not blindly set a grand design, but rather generates a sense of long term direction and continuously adjusts its course of action with a strategic posture in mind. Many of the companies we visited (e.g. 3M, IBM, HP) have complemented the formal process by action-oriented task forces, sponsoring the champions of new products/businesses, pilot projects and other approaches for learning by doing. Hence, managers proactively guide streams of actions, innovations, and events and incrementally build strategies at more disaggregate levels and then to integrate and institutionalize them.

- Formal vs. entrepreneurial (opportunistic) planning: There is also a need to respond to unforeseen opportunities and threats that arise outside the formal planning cycle. Organizations that rely exclusively on formal planning can trap themselves into inflexibility and rigidity. On the other hand, an organization whose decision making capability rests entirely on ad-hoc

opportunistic responses will be constantly reacting to external forces, without having a clear sense of direction. Formal strategic planning, however, can complement opportunistic planning, and if appropriately developed, can train managers in strategic thinking and reinforce other efforts to nurture and guide an entrepreneurial culture.

• A Calendar-driven vs. continuous planning and real-time response:

The increasing turbulence of the environment and the need to make planning an on-going concern have also called for processes to complement the calendar-driven planning process. IBM and TI have instituted an alternative system which allows for program initiatives (e.g., product development) to be generated at any time during the year, as opposed to waiting for the prescribed time in which action programs are supposed to be formulated. But even under this system, there is a given point in time, called period planning when all the program proposals are consolidated to be sure they form a consistent strategy. Other firms, such as GE, have developed a rolling agenda for the selective review of strategic issues and the strategies of their businesses (SBU's) to make strategic planning an ongoing process. Volvo views strategic plans as continuous guiding frameworks for an ongoing decision making process (see Annex 3).

- Isolation of planning from other management functions: This is perhaps the most fundamental limitation to the common application of strategic planning. The establishment of large centralized planning departments has often resulted in isolating the planning

process from the mainstream of managerial decisions. Moreover, since its introduction, particularly in the USA, strategic planning has been viewed primarily as a rational analytical process; implementation was taken for granted. It is assumed that, given the new selected strategic posture, the institution will muster and allocate its energy to effecting its realignment vis-a-vis the environment. The common result was failure in implementation. Moreover, following the original approach to strategic planning, a new strategy was chosen to match the historical strengths of the firm. In a discontinuous environment, however, historical strengths may become irrelevant, if not future weaknesses^{11/}. These limitations suggest the need to add "capability transformation" planning to strategy planning. In particular, there is a need to replace the historical strength/weakness concept with a broader concept of organizational capability which involves, among others, managers' attitudes, capacity for change, structural rigidities and culture. Ultimately, planning must become a "way of life" for management.

^{11/} Henry Ford was so trapped by his historical success in mass production that he failed to adjust to market-based competition; his famous statement "give it to them in any color so long as it is black" suggests the consequences of taking the client for granted.

III. THE STATE OF THE ART: STRATEGIC MANAGEMENT

Strategic management attempts to resolve the above limitations to the strategic planning process and to build on the potential contributions of strategic planning concepts. It develops the "enabling conditions" for carrying out effective strategic planning and implementation. It represents a natural evolution in planning practices. It offers a way of integrating all organizational capabilities to ensure effective strategic thinking and behavior at all levels in the organization.

This section discusses some of the fundamental concepts of strategic management, concentrating on those aspects that transform or complement the strategic planning process. These aspects are organized around:

- . the need to change the structure and modality of the strategic planning process and the role of institutional (corporate) planners to ensure that the process is led by the executive and line managements and that it remains a creative learning process;
- . the need to integrate the multi-level planning processes with the other managerial systems and processes at the corresponding levels of management; in particular, the need to integrate all management systems in the strategic mode;
- . the need for additional flexibility to be built into the new capability to provide effective and timely responses to

continuous and unanticipated change and to facilitate the management of strategic issues.

- . the need to seek congruency between managerial infrastructure (formal systems and processes, including planning) and the culture; the need to create an entrepreneurial climate that supports strategic behavior; strategic management is basically a way of life;
- . the need to plan capability transformation to create the new capabilities (strengths) necessary for strategy implementation; strategic posture management concerns itself simultaneously with the strategy and the capability needs of the institution.

A. Changing and Integrating Strategic Planning and Management Systems

(a) Changing the Strategic Planning Process

The major challenge, illustrated by the case study of GE, is to use the strategic planning process as a powerful means to institutionalize strategic thinking and behavior into the executive management function. This should be accomplished in such a way that it integrates the entire organization into a coherent whole, yet remains responsive and agile to avoid bureaucratization of an otherwise creative mode of decision making. This requires a fundamental understanding of the organic nature of strategic decision making and the role of planners in facilitating this

creative process by providing tools, information and orderly social interactions to foster superior executive decisions.

The following illustrates some of the specific changes in the structure and modalities of strategic planning at leading corporations.

(i) Changes in the structure

The main directions of change in the structure of the planning process are intended to:

- . Focus the process on addressing the real gut issues and make it more selective, opportunity seeking and agile (GE, Abbott Labs, Salomon). Strategy reviews have well defined purposes and no rigid formats.

- . Enhance the quality of discussions on strategy at the top management level and between levels of management, making the process more interactive and thought provoking, and using it to enhance understanding, consensus, and commitment. (Abbott Labs, GE, HP, IBM). Some SBU strategies are discussed more frequently and in greater depth than others. The emphasis is on visualizing and communicating the strategy and subjecting its fundamental assumptions to the scrutiny and collective judgement of the top management. The CEO would not "let his managers get away with no strategy or accountability for their business".

- . Make strategy formulation and adaptation an ongoing rather than calendar-driven process, and thus responsive to real-time needs, and closely related to continuous monitoring, evaluation, experimentation, and learning. (GE, Marriott, Wang). A rolling agenda of issues and business strategies are discussed by top management; in managing this process, top management is highly involved, interactive, and action oriented.

- . Emphasize the use of institutional strategy as a framework for guiding all choices, rather than as a "blueprint" plan for detailed control and mechanical implementation. The heart of the planning process is to deepen the understanding of the environment, to clarify purposes and priorities and to provide effective means and forums to share these understandings and purposes as a guide for daily decision making. Strategies are kept in broad, qualitative, and easily understood terms. Strategies must provide a firm direction to meet clear objectives but allow for maximum possible autonomy in meeting them; they should provide stable expectations about "what really counts".

- . Use task forces and other ad-hoc and flexible means of organizing senior management and staff and empower these task forces with the authority to formulate fundamental strategic responses such as redefining the mission and markets to be in, or creating a major product such as the personal computer (IBM, Merrill Lynch, Sears, Dean Witter,

Citicorp). The corporate planners would engage in the organization, follow up and provision of support to these task forces (primarily composed of senior managers) and draw on resources and special skills/knowledge from throughout the organization to formulate a new comprehensive strategy; this exercise is done periodically and once approved, planners work with line management to facilitate its implementation.

- . Involve multiple dimensions of the organization in strategic planning so that strategy formulation can capture the totality of potential interactions between the organization and its environment and can engage all managers in the formulation of their own contributions to the overall organization (GM, GE). These dimensions might include: functional, product/service, client/market, and regional/geographic. However, the primary dimension for such planning has been the SBU, which has often been based on market/client segmentation.

(ii) Changes in the modalities of the process

The above directions in the evolution of strategic planning processes suggest a deeper understanding of the nature of strategic decisions and of the role of a staff function in facilitating decision making. In many organizations where strategic planning has not yet taken hold (American President Lines) staff planners are often frustrated by the lack of top management attention and response to their analyses. Gaining

the attention and support of executives appears to be the most difficult challenge facing the planning function. "It is difficult to push ideas that go against the corporate power structure". "Managers are fearful that formal planning will limit their freedom". "The incentives are based on the short-term". "Planning documents are hardly read". The dilemma for planners is that although they are subordinate to most executives and general managers in terms of authority, they must advise these superiors on the most important decisions affecting the institution and must assume some control over the decision-making process itself to be influential in bringing about more effective decisions.

The nature of strategic decision making that emerges from this review suggests the following:

- . Strategic problems are not amenable to simple, sequential problem solving; strategic management is like sailing or exploring. The executives steer the organization into the unknown future (or create its future) by constantly extending their sight ahead and making tentative changes and experiments to discover and influence this future.

- . Strategic planning (and decision making) is a social process of communication, negotiation and learning among many managers. It is also a political process that involves the realignment of interest groups into a coalition for strategic change.

- . Strategic decisions are not purely "rational" or "objective", but involve personal and intuitive thinking. They involve existential choices, risks and commitments.
- . In contrast to a formal strategic planning process, strategic decision making has important organic qualities. Executives are action oriented and ultimately base their decisions on intuition rather than complex studies. Strategy formulation is a creative process; the decision maker continually gathers opinions and information and integrates the most useful of them into a mental model that is constantly evolving until a choice emerges.

If the decision-making process is so messy, fluid and unstructured, then what role can the planning staff and the planning process play? The answer lies in transforming the planning function to facilitate, rather than work at cross purposes with the decision making process. Although strategic decisions are the result of an organic flow of executive thinking and must evolve from an extensive web of interactions, the role of the planning process is to facilitate this creative process by providing orderly social interactions, tools, information and perspectives to foster superior decisions. The recent drive is to keep planning systems simple and to use techniques that are easy to grasp. Various methods are used to intensify interactions among managers on strategy development (task forces, planning conferences, etc.), to stretch imagination and invite intuition and judgement (scenarios, contingency planning, brainstorming), and to facilitate the flow of ideas and information among otherwise distant components of the organization.

This understanding also transforms the role of planners and the working relationship between planners and executives. At the progressive organizations among the sample surveyed, planners described their role as process facilitators who help foster change in the consciousness of others. They cultivate "the art of influence" through the generation of new ideas, information, perspectives, environmental scanning, perceptions and feedbacks from external clients, etc. They try to cultivate a consultant-client relationship similar to independent professionals. They seek strategic entry or leverage points and opportunities to provide value added. Although planners are tempted to provide the solutions and write the planning documents, their most effective role is to assist executives by providing them with information and processing capabilities to formulate their own judgements. In some firms, planners have taken the role of advocates, representing the perspectives (interests) of the executives. In others, planners became the advocates of the operating managers. In either case, planners are acting to facilitate the thinking and actions of management, rather than planning for others or promoting their own solutions. They become advisors and catalysts for strategic thinking and a focal point for anticipating and facilitating change (see Table 1).

This understanding suggests that the planning process must be driven by line management, and, in particular, that strategy formulation and implementation must be led by top management. The CEOs and/or executive vice presidents met during the survey described their role as the leaders of the overall strategic planning process, giving it the vision, the drive, the commitment, the resolve, the legitimacy and the supportive culture to ensure its utility as their own primary tool for strategic management (IBM, GE, Wang, HP, Marriott, Citicorp, SAS, Volvo and Norwegian

Management School). Citicorp's strategic planning task force was headed by the Senior Vice President who managed the most dynamic and successful division. Most of top management time (Senior Operating Officer/or the Chief Executive Office, general managers of the major business units) is allocated to thinking through and managing strategy development and the resolution of strategic issues. The organic and day-to-day informal relationships between corporate planners and top management are emphasized. Most corporate planning officers are influential vice presidents who report directly to the CEO. Central planners are often former line managers who have extensive working experience and in-depth understanding of the actual working of the organization. The chief planner is so close to the CEO and key top managers to be the "alter-ego" and counselor of top management. Planning at lower levels exhibits similar characteristics and planning staff work very closely with line managers to facilitate the formulation and monitoring of line manager plans (see Table 1).

(b) Integrating Planning With Other Managerial Systems

In complex organizations, planning alone will never produce the massive mobilization of resources and people and will never generate the high quality of strategic thinking and response required for success in a turbulent environment. Strategic management has, as an ultimate objective, the development of organizational responsibilities and administrative systems which link strategic and operational decision making at all hierarchical levels and across all businesses and functional lines of authority in an institution. At this stage of management development, the conflicts between long term development and short term performance would be explicitly managed and resolved. In our survey, the leading organizations

have integrated their planning processes with the following management systems: organizational structure, resource allocation, communication and information systems, and incentive structures. The following sections point to some of the lessons learned.

(i) Link to Organizational Structure

The planning process is a primary vehicle for systematically identifying the major tasks faced by an organization. The organization is segmented into responsibility centers (strategic business units and operating units) which allows for proper decentralized authority and accountability at all levels of the structure. Hence, a common result of periodic strategic exercises in many organizations has been to restructure them to facilitate the development and implementation of the long term directions of the business of the organization; structure follows strategy. (Merrill Lynch, Hewlett-Packard, Volvo, First Chicago, GM, IBM, Bechtel). The process of adjusting the basic organizational structure should be distinguished from ad-hoc organizing and from the detailed or micro organizational structuring. The basic restructuring is to reflect the major segmentation of the businesses the firm is engaged in by defining an hierarchical order which reveals the priorities top management assigns to the firm's central activities.

Organizing for the strategic mode may take various forms, short of complete reorganization. The SBU manager may be assigned a permanent coordinating role. A second option is to assign to a committee (normally composed of the CEO and the top operational managers) the task of developing and implementing the necessary strategic programs of SBU's. In

their role as members of the SBU management committee, managers are supposed to act on behalf of the institution's ultimate interests, and not as parochial defenders of their own areas of operational responsibility. A third and most extreme option is to adopt a matrix form of organization for dealing with operational and strategic responsibilities.

In general, strategic planning has been used to foster decentralization among large corporations. The development of a strategic planning process and the periodic repositioning of the overall organization have facilitated, or have been explicitly used to facilitate the delegation of authority to more manageable units of the organization. "You cannot delegate without a strategic framework". As strategic decisions are taken regarding the portfolio of businesses the firm should be in and the long term direction of each individual business, the organizational structure is realigned to facilitate the allocation of resources among its businesses, and to support the implementation of each business strategy. Thus, strategic planning has been used to clearly define authority, accountability and objectives at each level of the organization.

(ii) Link to Resource Allocation

Strategic planning is used to define a strategic framework for resource allocation among competing claims, both among businesses and between short term performance and long term (institutional) development. In the private sector, the use of portfolio matrices has facilitated the allocation of strategic funds for potential investments, R & D, and other developmental expenses in accordance with clearly-selected portfolios and business strategies. Resource allocations often reflect the generic

strategies selected for each business: invest to increase market share, invest to hold position, invest to gradually give up share, and divest to exit. A common approach is to allocate the strategic funds directly to the SBU's based on the overall priority of each SBU, leaving to the SBU managers the assignment of those resources among the individual projects (developmental activities) generated at the SBU level. An alternative approach is based on central examination of each project (program) emanating from the business (operating unit) level and the use of some common criterion such as net present value as the basis for funding. In many leading organizations, the former approach has been used to provide tentative allocation of strategic funds among SBU's according to their strategic position in the portfolio. This approach guarantees a strategic fit between the allocation of resources and the strategic positioning of each SBU.^{12/}

Although non-profit/public sector organizations may not be able to apply these specific criteria and tools, there are some broad concepts and lessons that may be transferable. One principle is the progressive delegation of resource allocation to SBUs, in accordance with the overall strategy of the organization and the priority of the business each SBU is in. Only major single investments beyond a certain level would be evaluated by levels higher than the SBU management. Another is to clearly distinguish and scrutinize the strategic from the operating budgets and to devote the attention of top management to improving the allocation of the strategic budget. A third is to provide clear performance criteria or returns to the organizations from investment in these strategic programs.

^{12/} Central approval on a project-by-project basis can often lead to incongruencies between the perceived priority of a business and resources allocated to it (due to the different behavior regarding the generation of projects on the part of the managers in charge of each SBU).

Managers at all levels are held responsible for their performance in managing these strategic expenses (and not only for the operating budget).

Finally, strategic planning is distinguished by its emphasis on providing strategic criteria for resource allocation (derived from the institutional strategy) that depart from marginal, ad hoc or trend increases. It ensures that resource allocation decisions are taken in full view of the strategies of each business and the long term consequences of resource redeployments. Strategic planning tools, such as portfolio matrices, are used to examine the contribution of each business in light of the institution's competitive position (specific strengths) and the future attractiveness (evolution, growth) of this business, and to shift resources accordingly. Thus strategic planning enables institutions to concentrate their resources on the most promising activities and to withdraw resources from old and less productive ones. "Resources can be productive only if they are concentrated; fragmentation inhibits results" (Peter Drucker). "Sloughing off yesterday" is particularly important in turbulent times and for public service institutions. They have to think through the changed circumstances in which they operate. Precisely because results in service organizations are not easily measured, there is a need for organized abandonment of marginal and resource-consuming activities of the past. In turbulent times an institution needs to be able both to withstand outside contingencies and to avail itself of sudden unexpected opportunities.

Although commonly neglected as a resource for strategic allocation purposes, managerial and staff skills, and their knowledge about the clients and the environment, are now increasingly recognized as the

scarcest organizational resources. Financial resources are easier to measure and redeploy. As Texas Instruments put it, "financial resources can be borrowed, but the scarcest resources for us to find are entrepreneurial managers and innovative engineers to run our most challenging businesses". Not surprisingly, in professional services organizations and high-tech companies the highest priority for the attention of top management is the recruitment, placement and development of human resources. (IBM, Price Waterhouse, Salomon, Citicorp, SRI).

(iii) Link to Communication and Information Systems

Various levels of planning must be supported by appropriate information systems. The clear delineation of levels (hierarchy) of strategies, objectives and responsibilities have been used to structure the information flows and communication channels within strategically-managed organizations. For strategic planning purposes the focus of the information system is reoriented to ensure that the organization is able to scan its environment, to detect trends and to provide timely feedback to top management on emerging problems. Information systems for top management levels are focused primarily on the critical assumptions governing strategy formulation and strategic issue resolution. Information systems are designed to discriminate relevant information to be made available to different levels of the management hierarchy. Similarly, information systems developed for lower levels of the management hierarchy are shaped by their decision making needs. Information systems are designed to provide early detection of opportunities and threats and continuous feedback on clear performance indicators.

Many of the strategically managed organizations have used their information system capability to enhance their understanding of their clients and improve their ability to provide "value added" to their clients (understand the user's total economics). For example, Citicorp has used its superior information network and information technology as the basis for its competitive advantage and hence its competitive strategy. Many organizations have built an extensive network of information channels to detect and meet their clients' needs; this has become a strategic strength and a decisive competitive advantage (Sears, Salomon, American Express, Wang, Merrill Lynch). They have empowered lower level management to take actions based on such information. In addition, they devised ways to ensure timely detection of patterns of such needs and to bring them to the attention of top management for strategic response. Systems are also developed to provide information (intelligence) on the objectives, strategies and plans of other influential actors in the environment (competitors, potential collaborators, strategic allies). Significant attention is also given to measure the organization's performance. From a strategic point of view, for example, it is not enough to know the firm's own cost structure; rather, it is the industry cost structure and the firm's relative position in it that is relevant. Service-oriented organizations, in particular, have developed an impressive array of channels (including local representatives, user surveys, etc.) to assess their performance and comparative advantages vis-a-vis other competitors and have used these information systems to formulate their own strategies. (American Express, American President Lines, Abbott Labs, American Airlines).

Strategic management integrates strategic planning and communication systems for the purpose of translating information into meaningful messages to both internal and external audiences (stakeholders). It develops clear and well defined communications strategies. Communications are actively used to facilitate understanding of institutional strategies, objectives and plans. The primary thrust of these communication processes is the articulation of the central objectives and programs the organization is intended to pursue in a way which is effective for key external and internal audiences. The purpose is to increase the level of understanding and the degree of commitment of the organization to its stakeholders and vice versa.

(iv) Link to Incentive Structure

Well designed planning processes should include the definition of performance measurements which are the essence of management control. In operational planning, the continuity between planning, performance measurement and control is well understood and more commonly practiced. This is not the case, however, in strategic planning. Very often, firms resort to the budgeting and financial control systems (developed in stage 1 of the evolution of strategic planning), thus falling into the trap of short-term accounting-driven control instruments. Therefore, the ability of the organization to implement, monitor, evaluate and control strategic commitments is almost entirely lost. Strategically managed organizations devote considerable attention to devising measures of performance and control for strategy implementation. Much more creativity is required for measuring the long term impact of the chosen strategic plan, and monitoring the progress of strategic programs and the deployment of strategic funds.

Both the budget and the reporting systems are often designed to express this dichotomy between operational (for ongoing businesses, short term) and strategic accountability (GE, TI).

Rewards and motivational systems are also devised to allocate appropriate weights between short and long term performance. Most organizations suffer from the use of short term measures of performance to reward high-level managers, who are mainly responsible for implementing strategic actions (Japanese companies are noted for tempering this bias and for emphasizing rewards for long term performance as well). Strategically managed organizations are trying to develop more balanced reward systems. Among other systems, the strategic factors approach involves the identification of the critical success factors governing the future performance (profitability) of the business and the assignment of proper weights depending on the inherent characteristics of the organizational (business) unit and its agreed upon strategy. Some relevant factors might include: product quality measures, client-satisfaction/market demand measures, productivity levels, product development measures, and personnel development measures. More subtle and richer varieties of motivational systems are ultimately derived from managing the culture of the firm (see the following section).

In our discussions during the survey, it was often emphasized that performance measurement, accountability and incentives are integral to the successful implementation of strategies and to the introduction of an effective strategic planning process. The difficulty of devising such systems was commonly acknowledged, particularly for non-profit service

organizations. However, it is a necessity for the strategically managed organization.

In summary, the integration between the structure and systems of organizations should ensure the continuity of decisions across all hierarchical levels, not only in an operational mode, but also in a strategic one. Organizational structures are developed not only to allow for the efficient execution of day-to-day operational requirements, but also to facilitate the implementation of the strategic commitments of the organization. Similarly, resource allocation systems are designed to distinguish between processes for allocating strategic funds and operating funds. Managers are expected to "wear two hats", the first as an operating manager concerned with today's operating results and the second as a strategic manager concerned with longer range results (TI). Information and communication systems are also restructured to guide strategic decision making and strategic performance, and to foster an externally-oriented outlook. Finally, performance measures, monitoring and evaluation systems and incentives are realigned to ensure that strategy formulation and implementation are taken seriously.

B. Strategic Issue Management

(a) Purpose

There are three primary reasons for the emergence of strategic issue management as a core capability of strategic management. The first is to focus management attention on resolving strategy-derived issues as

they arise from implementing a selected strategic posture. The early expectation of strategic planners was to revise strategies annually and comprehensively. But experience showed this was impractical and unnecessary. Impractical because comprehensive strategy revision is an energy and time absorbing exercise which, if conducted annually, overloads management or deteriorates into ritual. Annual comprehensive revisions may also cause vacillations in managerial behavior and prevent a fair test of the strategic posture. Unnecessary, because a comprehensive strategy is a long term thrust which takes several years to implement. As this understanding grew, organizations began to space comprehensive revisions of strategies several years apart (Merrill Lynch, American Express, Sears). In the beginning of the annual planning cycle, a review of last year's progress focuses attention on business areas (SBU's) which have encountered important strategic issues (changes in basic assumptions underlying their business strategies, new threats and opportunities, difficulties in strategy implementation). In this context, issue analysis becomes the heart of an on-going process of planning and implementation of a comprehensive and long term strategic posture.

A second reason for issue management is to resolve environmentally-derived issues. Strategic issues would arise from environmental scanning, identification of trends, and emerging environmental threats. These signals are examined in terms of their impact on future organizational goals and performance. In this context, issues can be thought of as the stresspoints resulting from the clash between the organization and its continuously shifting environment. Issues are not always threats, but may also pose unusual opportunities. For example, the

decision of IBM to enter the exploding personal computer market was a major issue.

The third reason for the growing importance of issue management has been the growing incidence of surprise events which come from unexpected sources and impact quickly on the organization. The combination of speed and novelty of such issues make them less amenable to a regular, calendar-driven planning cycle. Time is of the essence; early detection of these issues, and their resolution at the appropriate level (top management) is critical to the quality and effectiveness of institutional response. In this context, it becomes desirable to separate issue resolution from the annual planning cycle.

The above suggests that issues may arise both in the context of comprehensive strategy development in an annual planning process and the context of continuous surveillance of the environment. They can therefore be partly addressed within an agile and issue-focused annual strategic planning process. However, there is a growing differentiation between the two processes, particularly in enterprises whose basic strategic thrusts are clear and relatively stable, but whose environments are turbulent.

Regardless of variations among the organizations surveyed, almost all of them have orderly systems for issue identification, analysis, and management. It was often reported that top management, which constitutes the "issue management team", is spending more than half of its time on this process. Top management time is considered the scarcest resource of an organization; the role of planning staff is to structure the time and focus the attention of the top team on managing the fundamentals.

(b) What is a strategic issue?

There is no generic list of strategic issues that can be relevant to all types of organizations. There are, however, three basic sources of information about impending strategic issues: trends in the external environment, trends in the internal environment, and trends in organizational performance. Large and complex organizations have developed advanced capabilities for environmental surveillance, for tracking internal developments, and for monitoring institutional performance. Particular attention is given to possible major future discontinuity which might have a major impact on the organization.

The following criteria might be used in identifying and screening strategic issues for top management consideration:

- a. present or potential impact on institutional performance/strategy implementation;
- b. urgency;
- c. impact on other issues/organizational units.

(c) What is a Strategic Issue Management (SIM) Process?

Strategic issue management anticipates, assigns priorities and systematically manages the resolution of issues. An SIM process is a disciplined procedure for early identification, fast response, and systematic follow-up on changes both within and outside the institution.

Early identification can be assured in the following ways:

- (i) Unlike the annual strategic planning process, SIM is a continuous "real-time" process. In many organizations, this means a periodic (monthly) review and updating of a key strategic issues list.
- (ii) It also means continuous surveillance, both inside and outside the organization, to detect emerging threats and opportunities and the continuous sifting of signals for top management attention.

Fast response to trends can be assured in the following ways:

- (i) A staff group facilitates the consolidation and screening of issues, elicits issue identification from relevant sources throughout the organization, frames these issues in a standard format that facilitates the examination of options and action, and chairs task forces to examine cross-departmental issues.
- (ii) The responsibility for managing the process is assumed by a senior management group which has the resources and authority to initiate prompt action without unnecessary delays. In practice, this group is often the executive management committee (Kodak), the strategic planning committee (Sears), or the policy committee (IBM). In other

organizations such as Bechtel, there are several overlapping strategic issue management committees that address issues confronting different businesses or key functional areas. Such committees are empowered with the authority to take actions on all the strategic issues in their areas.

- (iii) Particularly among entrepreneurially-managed organizations, SIM cuts across hierarchical levels and assigns responsibility for individual issues directly to units which are best equipped to deal with the issue. When an issue is not particular to a managerial unit (most often), and ad hoc project (task force) is formed, resources are directly assigned to the project, and progress is monitored and reported directly to senior management.
- (iv) The SIM is action-oriented. In many organizations this means that the assigned responsibilities are not for planning the response but for acting on the issue. The usual separation between planning and implementation periods is not visible and experimentation is often the mode for testing options for issue resolution (particularly among bureaucracies). Unless explicitly guarded against, SIM may degenerate into "paralysis by repeated analysis".

Systematic follow-up can be assured in the following ways:

- (1) A "staff" group is made responsible for maintaining an up to date display of the key issues list, their priorities and

the status of the task forces (change projects). The group is also responsible for ensuring that completed studies are fully implemented, or, when necessary, adapted throughout implementation.

- (ii) Particularly for bureaucracies and socio-political organizations, many issues are complex and unstructured and cannot be resolved "in one shot". Moreover, many task force recommendations and action projects are left half done and never meet their original objectives. In such cases, there is a need to revisit issues and to resolve them in a progressive and persistent manner. Moreover, urgent issues may be addressed by task forces before their dimensions and implications are fully understood. The early stages will progressively make clear the strategic dimensions of the issue: the extent of its impact and its urgency. The SIM process provides the focus and discipline to manage a complex agenda of issues and to follow up on a large number of on-going task forces and organizational change projects.

- (iii) Senior management usually exercise strategic control over the task forces or project teams, and give them sufficient autonomy, guidance, and support. The design, use, and management of task forces have become important tools for managing organizational change and enhancing responsiveness to fast changing external environments.

(d) Modalities of the SIM Process

Strategic issue management and the strategic planning process must be linked together in at least two ways. The first is through the inclusion of issues of moderate urgency in the annual planning process. Issues generated from the SIM process are thus incorporated into the annual planning guidelines and addressed by the relevant SBUs. The second is through the issues and strategies generated by the annual planning process itself which can be consolidated and analyzed as high priority institutional issues for SIM consideration.

Various tools and formats have been developed to assist in SIM. The objectives of these tools are to assess the impact and urgency of trends and to analyze their interdependence. Trends and issues usually arise and form a cluster of interdependent problems. Cross-impact analysis may be used to identify clusters of events/trends which are likely to impact on the organization so they could be confronted or exploited. The recent trend is to use more creative and interactive processes for issue identification, such as scenario building (Shell, NCR, SRI). In this context, scenarios are used to span the plausible envelope of uncertainties that bear upon the strategic issues or decisions of the organizations. They can help clarify likely threats and opportunities and the significant developments that managers and planners need to watch and review on a regular basis. Such processes could improve on the generation of strategic issues for senior management consideration. Such interactive methods can be designed to induce change in the corporate culture by encouraging new ways of thinking about the future, by seeking to stretch the search for

plausible futures, and by surfacing assumptions and basic beliefs for examination by top management.

Corporations naturally take varying approaches to issues management. Some companies have created new positions or groups of issues-managers, separate from the corporate planners. At some, an issues manager organizes a committee of middle managers and relevant staff to do the analysis, with the results sent to top executives. At others, like Hewlett-Packard and Wang, the corporate planner or the advisor to the CEO organizes issue-oriented task forces. Other companies, such as Arco and Sears, have large staffs of full-time issues managers. In some cases, issues managers try to build a consensus among operating units before the issues get to top corporate management. The common use of "issue management" is to alert executive management to emerging trends, threats and opportunities, and to help mobilize the company's resources to deal with them. It is seen as a "pre-crisis approach". "Single-line numbers forecasting, typically done by economic planners, did not predict the oil crisis or the environmental revolution. We need a wider, more qualitative approach to supplement the traditional forecasting techniques" (Arco).

Perhaps the most important prerequisite for the effective functioning of a SIM process is the role and group dynamics of top management. At first glance, SIM appears to be an easy system to put in place and to manage; it is lean, with a minimum of paperwork and mechanics; it is complementary to and compatible with periodic planning processes; and it addresses pressing problems with a minimum of routines. However, SIM is not simple to operate and requires support from top management and the organizational culture; it is not the staff's but the top managers'

process. One common source of difficulty is the refusal of the top management group to submit itself to the discipline of SIM. While periodic planning is frequently used for organizing "others", SIM requires top management to become part of the process. Another often mentioned difficulty is the resistance of top management to accept new and unfamiliar issues as relevant to running their business. One way to engage managers in the process of generating these issues is to involve top management in scenario development. To enhance its acceptability, the SIM may start first by addressing those issues that are ranked highest by few key members of the top management group. One or more top managers may periodically put on "staff hats" and become engaged on a part-time basis in managing the "issue agenda", with the support of the planning staff.

In companies which emphasize consensus management and where "issue management" is effective, the chairman usually play a crucial role in maintaining the process honest and open while ensuring final resolution of issues and accountability for implementation. In such cases, the powerful members of the top management group assume the role of "patrons" of the process and use it collectively to drive the organization. Issues are then considered on their merits and examined collectively by the group; "once they step into those meetings, they take off their territorial hats (functional turfs) and put on their institutional hats". In some cases, corporations have sought external help from process consultants to ensure the smooth and effective use of this process and to help build "a team spirit" and to develop a climate that is safe for risk taking and open to candid examination of the gut issues facing the organization. Without engendering a supportive climate for confronting issues and "thinking the

unthinkable", task forces and planning staff would tend to obfuscate rather than clarify the strategic issues and options, and top management would tend to inhibit innovative and non-marginal responses.

C. Culture Management

(a) Managing the Corporate Culture

Strategy needs not only to be congruent with the organizational structure and the key administrative processes but also has to be integrated within and supported by the corporate culture. The findings of "In Search of Excellence" and numerous other studies suggest the critical role of the style of top management and shared values (or superordinate goals) in shaping the organization's strategic and operating behavior. The style of management, reflected in the way it collectively spends time and attention and uses symbolic behavior, provides tangible evidence of what management considers important. In this sense, it is not what management says is important, it is the way management behaves. The mix of staff (demographics) and skills (disciplines and experiences) also shape the corporate culture. Culture is transmitted and shaped in many ways: statements of philosophy and vision, deliberate role modeling and coaching by leaders, explicit rewards and promotion criteria, symbolic events, what leaders attend to and control, what criteria are used for recruitment, selection, promotion, leveling off and "excommunication" of people, information and communication systems, etc. Some leading corporations have conducted cultural analysis and cultural audits to unveil the operating and behavioral principles governing the organization, and how the organization

relates to its clients, how it manages time, how its members relate to each other, etc. In general, our survey has underlined that a supportive culture is fundamental in moving strategic planning away from being a mechanical and abstract activity towards becoming a driving force and a way of life in an organization.

One common and simple differentiation between organizational cultures is whether it is inward or outward looking. Outward-looking cultures prevent complacency and rigidity by adhering to an obsession with some facet of their performance in the marketplace such as "excellence in servicing the customer". Inward-focused culture, by contrast, place a premium on internal priorities and procedures. Another dimension is the strength of a culture, which may be defined as the extent to which it has an influence on behavior. Among the key determinants of cultural strength are how long people have lived and worked in it (culture is formed from experience and learning), how many shared values and basic beliefs exist and how widely they are shared, and how clear are the priorities among these values when conflict arises.

Cultural characteristics have fundamental implications for the openness of the organization to influence and/or adjust to the environment. a case in point is how does the strength of an organizational culture influence its ability to play a catalytic role or engage in joint ventures with other autonomous institutions. Sufficient cultural strength is needed to withstand external adversity and to sustain values that conflict with those in the external environment. On the other hand, strong but inward-looking cultures could militate against cooperation, make it

difficult to compromise and may become counterproductive as circumstances change. The basic guiding rule is to develop a strong culture that derives its stability or source of change from the needs of the customer.

The growing awareness of the corporate culture as a constraint or a driving force is generally accepted, even by some of the most hard-headed corporations (GE, IBM, HP, 3M, Volvo). There is a growing trend among strategically managed organizations to shape their culture to become supportive of strategic thinking and entrepreneurial behavior. Senior Management is engaged in shaping appropriate and strong cultures to meet the challenges of their business; IBM culture "is so pervasive that leaving the company is like emigrating". To start with, the first step of the strategic planning process (the definition of the mission or purpose of the firm) is not used as a rhetorical exercise in issuing empty platitudes. Rather, statements of corporate missions become the joint output of a visionary leader and the product of much involvement and conviction by the major stakeholders. They are stated and communicated in a way that goes beyond the pragmatic functions of the organization. They become essential for creating the "spirit" and vision that energize the organization and give it a sense of purpose.

Survey findings suggest that in strategically managed organizations top management has assumed a central role in communicating the basic strategic roles of an organization to its various stakeholders. Strategy would be unlikely to become a driving and motivating force if it were treated as a top secret and highly confidential matter that could be trusted only to a select few. Top management not only serve as the key

architect for shaping the strategy of the firm, but equally important, it devotes substantial time and effort to communicating the organization's strategic thrusts to all levels of the organizations. This aspect of cultural management has recently received significant attention from American firms, particularly after recognizing the strengths that their Japanese counterparts have enjoyed in this area, and the significant competitive advantage resulting from that strength. At progressive Japanese corporations, top management views its role as one of managing the culture and of recruiting, rewarding and coaching other managers to ensure that these managers can formulate and implement strategies that are appropriate to the chosen culture and the environment. It is interesting to note, moreover, that many European firms, particularly the Scandinavian ones, have placed a strong emphasis on developing corporate cultures that are congruent with their strategies and on using these cultures as the main driving force for implementation.

In most of the strategically managed organizations we visited, the processes for defining missions and selecting strategies are led by top management, and particularly by the CEO. A significant amount of the time of top management is spent not only on strategy development and objective setting, but also in simplifying, clarifying and communicating objectives and strategies throughout the organization (Volvo, SAS, IBM, GE). In some of the professional organizations, such as the Norwegian Management School, the process involved as much bottom-up as top-down communication and interaction before missions, strategies and priorities ultimately emerged. The process was guided by a leader who engaged the imagination and energies of a highly professional organization.

The above concern with strategizing and communicating choices in an open way may present a dilemma for public and political organizations which are subject to diverse external interest groups and scrutiny. The Harvard Business School (HBS) suggests an example where mission and strategy formulation were managed differently for its different constituencies. What is important, even in this example, is that strategic planning is conducted openly among the top management as a team and that, once a strategy is decided, it must be communicated effectively and purposefully to the various concerned constituencies. In the case of HBS, the planning process had to move around the rather individualistic aspects of the institution's culture and to avoid threatening the autonomy of its major stakeholders (the faculty).

More fundamentally, strategic management attempts to transform the institution and its systems rather than to introduce strategic planning as an appendage to traditional, hierarchical, bureaucratic institutions. Effective strategic planning requires willingness to deal with ambiguity and to address non-marginal choices. "If you don't like to take chances, you won't do well here" (Citicorp). People management is given centre stage; team work, involvement and commitment are nurtured and rewarded. Management is engaged in nurturing creativity and a passion for excellence. The eleventh Commandment at 3M is "thou shalt not kill a new product idea". The Hewlett-Packard way is "a chance to learn by making mistakes". Communication is actively used to secure understanding and ensure identification of all staff with institutional objectives and strategies. This does not involve the production of thick planning documents; it involves the creation of various forums and professional group interactions to reach all members of the organization (Salomon).

Senior management is open, accessible, and in touch; "management by walking around" (Hewlett-Packard) is more than a popular idea. The most fundamental aspect of this transformation is to create organic entrepreneurial networks.

Many leading corporations have been engaged in creating flexible "entrepreneurial networks" of small, self organizing business units that employ participative forms of leadership (such as GE, HP, SAS, Solomon and other high technology or service-oriented firms). The corporation is slowly being transformed from a hierarchical pyramid into a loosely connected system of individual entrepreneurs who collaborate in solving their strategic problems at the grassroots level. In this organizational context, strategic decision making is becoming more "participative" because managers must interact more directly to foster the knowledge and "spirit" that ultimately nurture innovation and excellence. Executives are increasingly focusing their efforts on encouraging collaboration, developing new institutional roles, resolving critical issues, facilitating the contacts with external constituencies and fostering synergy. Executives are also providing more personal leadership to unit managers by offering advice and ensuring accountability. Rather than being the boss in the traditional sense, the executive is becoming more of a coach, teacher and catalyst..."We are trying to reshape GE in the minds of its employees as a band of small businesses...to take the strength of a large company and act with the agility of a small company". This institutional model is also conducive to an external orientation that fosters collaboration with clients, playing catalytic roles, and forging strategic ventures with other actors in the environment.

The strategically managed organization described above can be thought of as a "mega-strategy" or a higher level strategy that transcends strategic planning to create a new type of organization especially good at fostering strategic change and entrepreneurial innovation. As such, strategic management is an ideal that has been realized only partially in some of the leading organizations we surveyed. Therefore, organizations can only strive constantly towards the pursuit of this vision of management. Change towards this mode takes a significant period; consolidation and integration of strategic planning into the systems and culture of the organization is a long-term and continuous process.

(b) Planning and Managing "Capability Transformation"

The above discussion has focused on strategic management as an institutionalized capacity for managing strategic change and fulfilling future objectives and strategies. This section is concerned with planning the development of specific capabilities within an organization to fulfill a selected strategy. In this context, a strategy is a long term thrust which implies substantial changes in roles and capabilities, and may involve several years of implementation. The section concludes with some ideas about managing institutional resistance to changes in strategies and capabilities.

Strategic management concerns itself simultaneously with both the strategy and the kinds of capabilities needed to support this strategy. Explicit consideration and planning for these capabilities are essential when the selected (necessary) strategy implies a significant discontinuity

or departure from historical strengths and historical management capability. The experience of most organizations which have practiced strategic planning has shown that the implementation of strategy does not automatically follow strategy formulation. When some firms diversified from within (internal development) into new products and markets, the organization exhibited resistance to the new departures; costs were underestimated, benefits were overestimated, and delays frustrated the planners and managers. Other corporations which grew and diversified by acquisitions have often been disappointed; new acquisitions turned unprofitable, cultures clashed between the parent and acquired firms, and the synergies anticipated from mergers failed to materialize. Moreover, the experience of many organizations suggested that the treatment of strategy planning and implementation as two sequential and independent processes is an artificial convenience which neglects the fact that the way planning is done has a determining effect on the eventual implementability of planning decisions.

The measures used to plan "capability transformation" are similar to those discussed above (under integrating planning with other managerial systems and with the culture). The main difference here is in making specific changes in planning and budgeting systems, in communication and information, in controls and rewards, and in the culture, to support the long term strategic thrusts of the organization. Another difference is in developing specific skills and attitudes among the managerial cadre and the staff to carry out their new roles and tasks and to develop the new instruments and action programs for implementing the selected strategy. People management and management development systems (selection, placement,

training, reward) assume paramount importance for overall corporate capability realignment with strategy. The organizational structure of the institution must be also realigned to support its strategy and intended behavior. Roles, authority structures and accountabilities are redefined accordingly.

Four generic options are available to deal with the question of compatibility between strategy and culture:

- (i) ignore the culture, which has often led to disappointing results;
- (ii) manage around the culture by changing implementation (choosing the "second best" solution);
- (iii) change the strategy to fit the culture, perhaps by reducing performance expectations; this is often the adopted option in strategically planned organizations;
- (iv) change the culture to fit the strategy; this is the emerging choice among strategically managed organizations. This is a difficult task to accomplish and must be led by the CEO and coordinated with all the necessary and mutually reinforcing internal changes in management systems and organizational structure. In the most progressive and entrepreneurially managed organizations, culture is used as the driving force for managing change; other management systems and structures

follow the cultural transformation, or are used to reinforce it, (Volvo, SAS).

The process of "capability transformation" almost inevitably faces resistance. Like resistance to the introduction of strategic planning, resistance to capability transformation is not a superficial phenomenon; it has a logic of its own, and it cannot be removed by exhortation from top managers. It occurs whenever an organizational strategy implies a discontinuous departure from historical behavior, power structure, skill mix and institutional and managerial roles. Resistance manifests itself in procrastination, slow change performance lag, bureaucratizing change instruments, paralysis by analysis, lack of implementation follow up, etc. It also manifests itself in the elimination of significant and bold options.

Strategically-managed organizations have become increasingly sophisticated in developing procedures for the effective management of the transformation process from the historical to the new capability-strategy. To assure an optimal transition to the new capability, the change process is managed in a way that anticipates, minimizes and controls resistance. As a first step in managing change, a preliminary diagnosis is conducted of the nature of change in capability needed to support the strategy. This diagnosis also determines the units which will be affected by the change, the key groups and individuals who will support/resist change, the reasons for their positions, and their relative importance for the success of the proposed change. The result of this diagnosis is a "readiness assessment" or a "resistance map".

Using this map, measures can be taken to build a supportive environment and to eliminate unnecessary resistance that may be due to misperceptions and fears. Progressive organizations invest significant time and effort to ensure adequate communication and information about the strategy, with special attention to the affected units and groups. Varieties of measures are used to build a pro-change power base, such as forming coalitions and offering incentives. In addition, behavioral features may be designed into the plan for change such as including in decision making all individuals who will be involved in implementing the change. To the extent time permits, change is started with groups who are committed to the change; rewarding and recognizing them can facilitate the spread of change to other units. Participants in the change process should be provided with the necessary new concepts and skills. Action programs and "capability change" projects are often formulated to support and sustain the new strategy.

In our survey, we observed that progressive organizations have placed increasing attention on building implementability into planning. More attention is given to this in European firms, particularly in Scandinavia (Volvo, SAS, Norwegian Management School) than in the U.S. Top management invests considerable effort to ensure behavioral acceptance of new strategies. Exemplary behavior by top management in its daily work is considered crucial in communicating its commitment to the new strategy. The Japanese approach is similar: concern with behavioral acceptance of new strategies from the very beginning of the decision process; and early launching of experiments and change projects before planning is completed, resulting in parallel planning/implementation activity. (WANG, with a Chinese CEO, came closest to this approach).

IV. SUMMARY AND CONCLUSIONS

Our review of external planning practices indicates that leading organizations have evolved their planning processes, transformed the focus and modalities of these processes and integrated them into other management systems and structures over time. The evolution of planning practices also suggests that time is of the essence and that effective organizations must learn to plan as well as plan to learn. Particularly since 1980, and in response to an accelerating rate of change and increasing competition, some leading organizations have adopted a new mode of strategic planning, called "strategic management". Viewed as an ideal, strategic management is only partially realized in progressive organizations. These organizations have become committed to strive constantly towards the realization of this form of management. Strategic management has come to be seen as an essential goal for organizations to learn and develop, to maintain their excellence, to remain responsive, even to survive.

Survey findings indicate that present planning practices at the leading organizations have built upon and transformed earlier forms of planning. Starting with budgeting and financial controls, organizations have developed measures for setting productivity targets, transparent cost structures, appropriate base for unbundling and pricing their services, responsibility centers, and internal incentives and markets to enhance competitiveness. Lacking a long-term perspective, however, the main pitfall of this planning mode is excessive myopia and an absence of meaningful incentives and performance indicators for strategic adaptation. Long-range planning was then adopted and was driven by multi-year forecasts

of demand. While this mode may have been appropriate in a period of fast growth and in a stable environment, it proved inadequate as the environment grew less certain and more competitive, and as markets and clients could not be taken for granted. Planners have focussed their attention on forecasting techniques and on predicting rather than creating future demand.

Subsequently, planning had to become externally oriented and strategic planning emerged with some powerful concepts and tools to provide this orientation. In particular, the businesses of a corporation are segmented into distinctive strategic business areas and the organization is restructured along strategic business units (SBUs) that are responsible for developing the firm's position in one or more of these areas. Segmentation has become a common tool for giving a clearly organized view of present and future environments and for differentiating the strategies of the organization to meet the increasing diversity of the roles it should play and the clients it should serve. Portfolio matrices are employed to position each business (domain) in accordance with the attractiveness of the industry and the competitive strength of the firm in this particular business. These tools provide a common framework for establishing priorities among businesses in the portfolio and for developing distinctive strategies for their repositioning in view of the changing structure of the industry and the critical success (internal) factors that must be influenced. Strategy formulation processes were progressively differentiated into corporate, business (SBU) and functional levels, with each level determining the broad directions and thrusts of the next. The overall strategic planning process has become an encompassing tool for engaging all business (SBU) and functional managers in formulating their

own strategies, and subsequently their plans and budgets, in response to the corporate mission, internal scrutiny of strengths and weaknesses, environmental scanning of threats and opportunities, and the overall corporate posture. Scenarios have been used to provide a common world view and a coherent set of planning assumptions for the development of a corporate strategy and subsequently, the business (SBU) and functional strategies.

Strategic planning tools and processes have rendered the strategy formulation process transparent, encouraged differentiation of business strategies to meet the needs of diverse environments and clients, and provided feedback on and accountability for strategy management at organizational levels closer to the market. Over time, it introduced a discipline for long-term thinking, increased awareness about the diversity and fast changing character of the environment and possible threats and opportunities from competitors. In general, it educated operating managers in strategic thinking and prepared them for more general management functions. However, tendencies towards bureaucratization, ritualization and isolation of the strategic planning function prompted its transformation into a new mode, called strategic management.

Strategic management involves a strategic planning process that is issue-focused, selective, opportunity seeking, and highly interactive. It puts more emphasis on qualitative and creative thinking and uses strategies as frameworks for guiding all choices rather than as "blueprint" plans for detailed controls. It complements the cyclical and formal processes with ad-hoc and flexible means of organizing and responding on a continuous basis. In addition to changing the structure, strategic

management is striving to transform the modalities of the strategic planning process. In particular, the role of institutional planners is to facilitate and foster superior strategic decisions and creative choices by providing information, tools, perspectives, interactive processes and stimulation to executive and line managers. This implies close and informal working relationships between planners and managers, at times as advisors and "process consultants", and at times as advocates, stimulators and even intellectual challengers (see Table 1, page 50).

The strategic planning process is also integrated with other management structures and processes. At many progressive organizations the strategic planning process is used to realign the organizational structure in terms of emerging or redefined strategic business areas and to facilitate decentralization. It is linked to strategic resource allocation and is used to provide a framework for the allocation of strategic resources (including staff) according to clear priorities among businesses and selected strategies for their repositioning. The strategic planning process is also linked to the organization's information and communication systems and is used to shape the orientation and focus of these systems; a premium is put on understanding the client and the overall industry structure, and on communicating well defined objectives and strategies to both internal and external audiences. Finally, strategic planning is linked to the incentive structure and control systems to ensure that the institution can motivate, monitor, evaluate, and control strategic commitments and can balance rewards for the opportunistic and short-term with the strategic and longer-term.

Strategic management introduces a new dimension to planning commonly called "strategic issue management". Strategic issue management focuses top management attention on key issues arising from implementation of the strategic posture of the institution (strategy-derived), from emerging environmental threats and opportunities (environmentally-derived) and from unexpected (surprise) events. The processes employed for issue management must be simple and flexible and must assure early identification of issues, fast response, action-orientation, and systematic follow up. At strategically-managed companies, the issue management team is the top management, with the chief corporate planner acting as agenda manager. The debate on issues is conducted in an open and candid way and in deliberating and acting on the issues, team members assume overall corporate, rather than territorial responsibilities. The corporate planners facilitate the identification and examination of the issues, organize task forces and mobilize institutional resources to further clarify or act on the issues and ensure selectivity and persistence in addressing the difficult strategic issues facing the institution.

Strategic management emphasizes culture and people management, "transformational" leadership, communication and clarity of mission and objectives, entrepreneurship and risk taking, and support for learning and external interaction. It fosters an organizational climate that facilitates the implementation of the strategic thrusts of the institution and that induces strategic behavior in general. It nurtures an outward-looking and strong culture and transmits the fundamental values of the institution through role modeling, recognition, symbolic events, communication systems and incentives. It offers meaning and a sense of

involvement and mission; it gives staff confidence (to innovate, for instance) stemming from stable expectations about what really counts. It combines a firm central direction (value driven) with maximum individual autonomy and attention to the client.

Finally, strategic management plans and manages capability transformation to realign present capability and culture with the chosen strategic thrusts. It acknowledges that resistance to strategic thinking and to capability realignment with environmental change are not superficial phenomena to be removed by exhortation. It manages change in a way that anticipates, minimizes and control resistance. It diagnoses the nature of required capability changes, determines their impact on different groups, develops a "resistance map" and then engages in building coalitions for these changes. It empowers participants with the necessary concepts and skills to initiate their change experiments and provides appropriate incentives and a supportive environment to sustain their commitment. Early launching of experiments and "capability change" projects is used to create "facts" and demonstration effects, to provide feedback to planning, and to enable the institution to learn as it plans.

A METHODOLOGICAL NOTE

Table 1 covers the organizations visited by the review team, which comes to about 90 organizations, equally distributed between the USA and Europe. Interviews were short and limited to the chief planners (usually a V.P.); in a few cases it involved the CEO. The coverage was intended to provide more breadth than depth; follow up was expected for in-depth interviews with various levels of managers and planners within few selected comparator organizations.

All organizations covered by the survey were asked to describe their basic planning approach and their experience with institutionalizing planning. In particular:

1. What is the basic purpose(s) of planning? What are its contributions (value added) to the organization? Who are the primary users/audience of the planning process?
2. What planning approach is adopted to achieve these purposes?
3. What mechanisms, concepts, modalities and means are used to implement the adopted approach:
 - (a) Do you distinguish among strategic planning, long-range and operations planning and where does the organizational responsibility lie for each?
 - (b) What is the time cycle and steps involved in the planning process?
 - (c) What are the means of communicating and documenting plans and coordinating the strategic planning, long-range planning, and operations planning elements?
4. How was formalized planning introduced into the organization and how did it evolve? What factors have influenced its evolution and effectiveness (contributing, hindering)?
5. What common pitfalls should be avoided in planning practices? How to maintain a high pay off for organizational planning?

Figure 1 suggests some of the key dimensions which the Bank shares with the categories of organizations surveyed. We have found that these dimension have significant impact on the planning environment and on the scope and focus of the planning process. The following Figures and Tables define these dimensions.

Figure 2 suggests some of the linkages between the characteristics of the organization and its business and the environment and their implications for the scope and focus of the planning function and hence the basic approach to planning used. Table 2 suggests the major impact of various business characteristics on the role of (need for) the planning function. Table 3 highlights some of these characteristics and their relevance to the Bank. The following points describe the impact of key business and organizational characteristics on the planning process:

Impact of Business and Organizational Characteristics on Planning Processes

- . When managers operate under consensus and/or entrepreneurial approaches, a centrally-imposed planning process will be resisted and resented.
- . When organizations have no supportive culture for strategic thinking, planners must create effective demand for their services and demonstrate "value added" early on in introducing planning tools and processes.
- . An organization's position in the market can affect its role and approach to planning — e.g. leadership means orienting planning to influence the market rather than only adapt to it.
- . Professional service organizations typically generate new ideas and strategic direction based on a combination of what their staff and managers are good at and what clients appear to need.
- . The organization's "basis for success" must be an integral part of the planning process: (1) in providing feedback on past decisions; (2) in comparing strategic alternatives.
- . Bottom-up planning probably won't work in a bureaucratic or rigidly hierarchical organization.
- . Where there is a high risk of error with major consequences, the planning approach should incorporate contingency and "hedging" devices, take an adaptive role, and be willing to detect and acknowledge deviations early on.
- . A stable customer base (usually associated with hard products and repetitive services) permits the planning process to rely on the market place for predicting future trends in sales volumes and customer preferences.

- . Lead-time characteristics of organizations dictate: (1) the planning horizon; (2) the type of market information that is needed for strategic business decisions; (3) the reliability of projection of future markets and competitive conditions.
- . Where feedback on performance and the results of past strategic decisions is unclear or slow, the planning process is usually bureaucratic and budget driven. In such cases, planners may use "performance indicators" as surrogates for measuring the actual criteria for success.
- . Emphasis on performance measurement enhances the potential for successfully introducing planning in an organization because it heightens managers' sense of accountability.
- . Highly volatile and uncertain conditions of supply and demand may mean it's best to use strategic planning to influence "position" in the market.

TABLE 1: SURVEY OF COMPARATOR ORGANIZATIONS' PLANNING FUNCTIONS

ORGANIZATIONS	U.S.A.	EUROPE
International agencies	UNDP	ILO EC
Multinational Financial Institutions	Merrill Lynch Citibank Chemical Bank First Chicago Bank of America Interfirst Corp. American Express Dean Witter Phibro Salomon	Midland Bank SG Warburg Bayerische Vereinsbank Deutsche Bank Dresdner Bank Swiss Bancorp Union Bank Svenska Handelsbanken CBK Banque Bruxelles Lambert
Governmental Institutions	US State Dept US AID	Kreditanstalt Fur Wiederaufbau Norad Veritas
Project Management Organizations	Bechtel Fluor	
Multinational Manufacturing Organizations	3M Abbott Labs Eaton	Pechiney Renault Metallgesellschaft BOC Group Imperial Chemical Industries BMW Hoechst Ciba Geigy Brown Boveri Volvo Elkem Noboe Norsk Hydro
Resource/Infrastructural-based Companies	Dupont Exxon Shell Oil Amoco	British Petroleum
Professional Services Organizations (Consulting, Think Tanks & Academia)	Conf. Board Management Analysis Center Booz-Allen McKinsey AMA SRI BCG Ernst & Whinney Strat. Planning Associates Price Waterhouse Harvard Business School	INSEAD (Business School) Coopers & Lybrand Ltd. McKinsey (Germany) Competanse Centeret IFL Indevo University of Stockholm Norwegian Mgt. School Mars and Co.
High Tech Companies	General Electric Hewlett-Packard NCR Xerox Kodak IBM TRW Texas Instruments Wang	Philips
Consumer Services/ Transportation	American Airlines Marriott Conrail Amer. Pres. Lines	Nestle SAS Norema Acty-Nor

FIGURE 1: COMMON DIMENSIONS BETWEEN THE BANK AND COMPARATOR ORGANIZATIONS

ORGANIZATION AND BUSINESS CHARACTERISTICS											
Organization Category	Management Style & Culture	Basis of Success	Clarity and timing of Performance Feedback	Determinants of Range of Choices	Size and Scope of Market	Nature of Product	Diversity and Inter-dependency among Businesses	Stability of Customer Base	Level of Uncertainty of Supply/Demand	Lead-Time for Strategic Change	Risk of Strategic Error and Magnitude of Consequences
World Bank	<ul style="list-style-type: none"> • Consensus/ hierarchical • risk avoidance • process oriented 	<ul style="list-style-type: none"> • Usage of leadership • professional excellence • client relations 	<ul style="list-style-type: none"> • Often ambiguous and slow 	<ul style="list-style-type: none"> • Geopolitics • Financial and prof. resources • Acquired knowledge and exper. 	<ul style="list-style-type: none"> • Global • Gov't. orgs. as intermediary for client org. 	<ul style="list-style-type: none"> • Non-Repetitive Services • Intelligence and info. • Funding 	<ul style="list-style-type: none"> • Highly Interdep. for a given client (country) 	<ul style="list-style-type: none"> • Repeat umbrella org. (Govs) • Changing sub-groups (institutions) 	<ul style="list-style-type: none"> • Growing uncertainty in both supply and demand 	<ul style="list-style-type: none"> • Potentially very short 	<ul style="list-style-type: none"> • Substantial risk of error with major consequences on instit. & client
Internatl. Agencies	X		X	X	X						X
Financial Instit.		X				X	X		X	X	
Prof. Services		X		X		X	X			X	
Gov't. Instit.	X		X	X							X
Project Mgt. Organs.						X	X	X		X	
Industrial Multinatl.					X						X
Resource/Infra-structure			X								X
High-Tech. firms		X							X		X
Consumer Services		X									

Management Style:

Method and location of decision-making: use four categories — bureaucratic, hierarchical, consensus, entrepreneurial; organizations may reflect a combination of these styles.

Basis of Success/ Performance Measure:

The way the organization rates its own performance and the success of its professionals; the key to success in a certain industry or business.

Clarity and Timing of Performance Feedback:

How precisely and how quickly the results of individual decisions and overall strategy are known to management.

Determinants of Range of Choices:

The basic operating framework and constraints on the organization as established by, for example, geopolitics, shareholders, competition, resources, structural commitment, regulation, and charter.

Size and Scope of Market:

Regional vs national vs international; "type" of customer or constituency.

Nature of Product:

"Hard" product; repetitive service (e.g. transportation); non-repetitive service (e.g., management consulting).

Interdependency Among Businesses:

Extent to which existing products or businesses can be "bundled" or "unbundled".

Stability of Customer Base:

Degree to which revenue is generated over time by multiple sales (services) to the same or similar set of customers (stable) vs a pattern of one-time sales to a constantly changing set of customers (unstable).

Level of Uncertainty of Supply/Demand:

Risk of unavailability of resources (supply and cost of funds, expertise, materials) and/or a market demand (because of changing needs or competition).

Lead-time for Strategic Change:

Time lag between making and executing a strategic decision as dictated by time required to develop "production" capability of the product or service.

Risk of Strategic Error and Magnitude of Consequences:

Probability of wrong strategic decision and the impact on the organization and/or constituency of the mistake.

FIGURE 2: LINKS BETWEEN CHARACTERISTICS OF ORGANIZATIONS, THEIR BUSINESSES AND ENVIRONMENTS, AND THE SCOPE/FOCUS AND APPROACH TO PLANNING

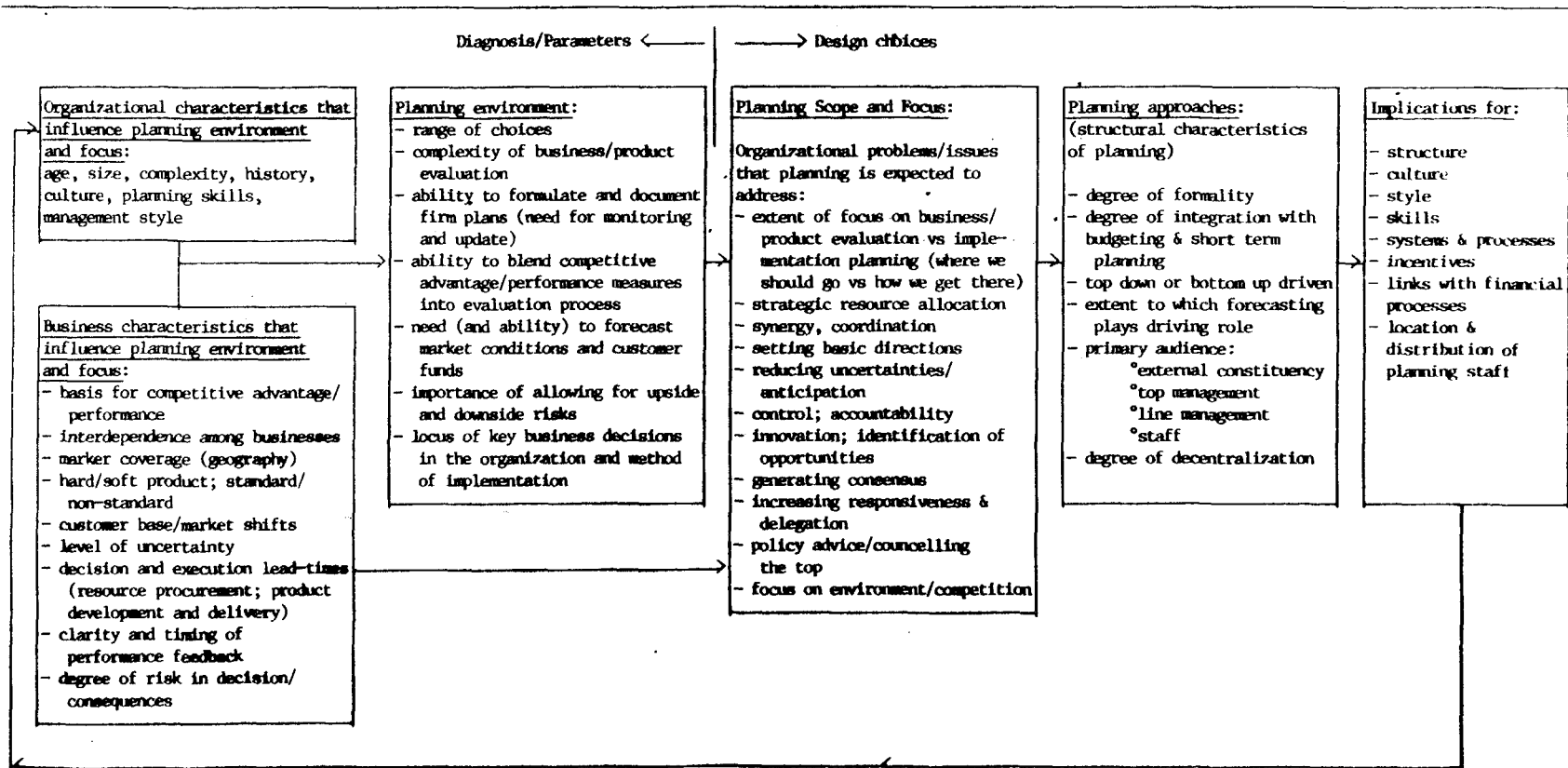


TABLE 2: IMPACT OF VARIOUS BUSINESS CHARACTERISTICS ON THE PLANNING FUNCTION

Major Influence	Impact on Planning Environment	Impact on Planning Role (Scope and Focus)
- <u>Interdependence</u> among businesses services/diversity of products.	-range of business choices available -complexity of business/product evaluation	-evaluating diversification opportunities -focus on synergy and coordination
- The <u>time horizon</u> necessary for effective planning (decision and execution lead-times)	-ability to forecast accurately -need for routine monitoring and update	-forecasting, contingency planning -time frame, continuity,.... -anticipatory
- Degree of <u>risk</u> in decisions/consequences.	-importance of allowing for upside/ downside -need for monitoring and update	-degree of centralization -focus on strategic assumptions
- Clarity of <u>measures of performance</u> /immediacy of feedback.	-ability to formulate and document firm plans	-focus on measuring feedback -link to incentives
- The organization's " <u>basis for success</u> " and measures of performance: - low cost - high quality, reliability, service - innovation, high value added, nichmanship	-ability to blend performance measures explicitly into planning process	-detailed control, link to budgeting -customer focus -highly decentralized and informal planning
- Degree of <u>flexibility</u> as dictated by the most important determinants of the organization's range of choices - Geopolitics - Charter and regulation - Competition - Resources - Structural commitment	-range of business choices -complexity of business/product evaluation	-selective audience/degree of openness -advocacy, focus on constituency, political process -ad hoc, agile, strategy focus -resource allocation focus -to stimulate innovation and experimentation -capacity to forecast

TABLE 2: IMPACT OF VARIOUS BUSINESS CHARACTERISTICS ON THE PLANNING FUNCTION (Continued)

	<u>Impact on Planning Environment</u>	<u>Planning Role & Focus</u>
- <u>Size and scope of the "market"</u> particularly with respect to extent of international coverage, sectors, beneficiaries.	-complexity of business -locus of key business decisions -need to forecast market conditions	- segmenting the market - portfolio management - decentralized structure
- Providing a <u>hard product</u> , a <u>repetitive service</u> , or <u>non-repetitive service</u> .	-need and ability to forecast market conditions and customer trends -importance of allowing for upside/downside risks	- emphasis on innovation degree of - entrepreneurship degree of - standardization
- Dependability and <u>stability of the "constituency"</u> (customer base funding base).	-need and ability to forecast market conditions and market funds -ability to formulate and document firm plans	-focus on influencing the environment -role definition -focus on consensus: value added to stockholders
- Level of future uncertainty.		
- In markets to be served	-need and ability to forecast market conditions	- scenario building
- In competition	-importance of allowing for upside/downside risks	-focus on environment
- In volume of business	-need for close monitoring and update	
- In availability of resources		
- In achievable performance (customer satisfaction, impact, cost/profit).		

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