



Consultants to Management

A Guide to Strategic Planning

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I. Developing And Implementing Effective Strategy

The concept that the planning process is more important than the plan itself is perhaps the most critical message embodied in this document. Nevertheless, before examining the factors that make up the planning process, it is useful to understand the major steps involved in developing and implementing effective strategy.

Figure 1 illustrates the relationship between the elements of a formal strategic management system. Although the elements are depicted sequentially, their relationship is, in practice, iterative and not sequential. Moreover, the figure shows that strategy development and implementation must be considered concurrently (though not with equal weight) throughout the process. As discussed in the following pages, the early involvement of the line managers will help ensure the development of a strategy that can be implemented (i.e., is feasible given the resources of the company) and that will be implemented (i.e., has gained the commitment of its implementers).

Each element in the figure is briefly described below.

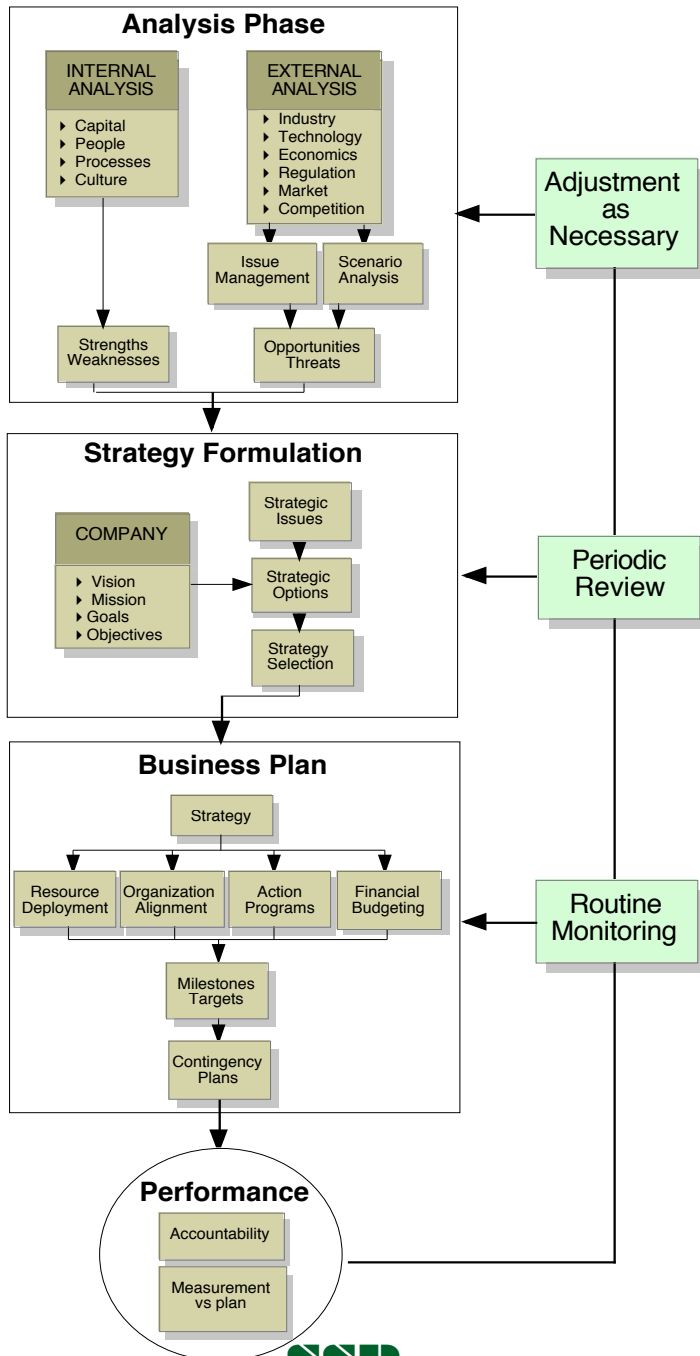
The Elements - Analysis Phase

External Analysis

Strategy development begins with an analysis of the factors in the external environment that are likely to affect the organization. The principal components of an external analysis often include the following:

- Industry analysis (attractiveness, key success factors, size, structure, barriers to entry, cost structures distribution channels, trends, growth, and product life cycles)
- Environmental analysis (economic, technological, regulatory)
- Market analysis (segments and customer motivations and unmet needs)
- Competitive analysis (major competitors, their performance, objectives and strategies, strengths and weaknesses, and cost structure)

Figure 1
Strategic Management System



Scenario analysis has become an increasingly popular planning tool, especially for companies operating in complex environments. This analysis considers, in an integrated manner, the critical factors affecting a company's environment; that is, it develops two, three, or four scenarios of the probable future environment. For example, a company might build three scenarios - optimistic, pessimistic, and most likely - of its future environment, considering federal and state regulatory events, technological development, and competitors' activities. Strategies could be developed for each scenario, and any strategy could then be evaluated for its potential impact under the other scenarios. The use of scenario analysis not only encourages the development of the best possible strategy to serve a number of potential futures, but also enhances the company's ability to respond to changes in its environment. Scenario analysis thus facilitates contingency planning, which is discussed below.

Issue management is another frequently used tool for analyzing particular issues and developing strategic responses. This process assigns responsibility for tracking and analyzing specific issues to particular cognizant groups within the organization. These groups then work closely with those responsible for strategy development to ensure that the critical issues are reflected in the organization's strategy.

Opportunities and Threats

A thorough external analysis should lead to an understanding of the current and potential opportunities and threats associated with specific strategic responses.

Internal Analysis

An internal analysis attempts to understand the attributes that affect an organization's resources as well as norms, values, and beliefs. A typical internal analysis would include the following areas:

- **Customers:** An analysis of who the firm's customers are, and how they perceive the company's products or services
- **Value-added:** An examination of the value-added chain, research and development, manufacturing, marketing, distribution, service, etc. - to determine the areas of potential competitive advantage
- **Cost:** An analysis of cost structure and the areas of potential competitive advantage
- **Strategy:** A review of existing strategy - its effectiveness and sustainability
- **Portfolio:** A review of product mix to determine the appropriate mix of new and mature products to meet growth objectives and operating requirements

- **Performance:** A review of past and desired financial objectives, growth targets, and critical result areas (e.g., management development, productivity)
- **Financial resources and constraints:** A determination of the financing available from internal and external sources
- **Internal organization:** An examination of internal structure, management systems, and culture to determine what will facilitate or impede strategy implementation

Strengths and Weaknesses

An internal analysis will identify an organization's strategic strengths and weaknesses, those assets or distinctive competences that will enable the firm to develop a sustainable competitive advantage and those liabilities that must be mitigated or managed.

The Elements - Strategy Formulation Phase

Company Mission, Goals, Objectives

Company strategy is only a means to an end. The most creative strategy, superbly executed, is of little value unless it advances the organization toward the achievement of a clearly defined statement of mission.

A mission statement is a broadly defined but enduring statement of purpose that distinguishes a business from other firms of its type. It identifies the firm's scope of operations in product and market terms, its self-concept, and the image it seeks to project. And it reflects the values and priorities of its strategic decision makers. Statements about building shareholder wealth or achieving a specified growth rate **do not** help to clarify an organization's purpose. The mission must define the business a company intends to be in and how it intends to be in it; it should set out goals that will endure for long periods of time and give the organization direction during periods of change.

Specifically, a mission serves the following purposes:

- To direct the formulation and implementation of corporate strategy
- To articulate long-term intentions so company goals can serve as a basis for planning and performance evaluation
- To provide a basis for orchestrating managerial action
- To establish a unified direction that transcends individual, parochial, and transitory needs
- To achieve a heightened sense of purpose, worth, and intent
- To consolidate values over time and shape a culture that will guide future action
- To promote a sense of shared expectations

While the CEO has ultimate responsibility for the mission's formulation and promulgation, developing a mission should be a highly participative process. Involving key personnel in formulating and evaluating mission statement issues and achieving consensus on final issues, is vital to ensuring commitment to the mission. Once formulated, the mission should be communicated and promulgated continuously and universally, both verbally and symbolically. It should thus serve as an inspiring, unifying force, guiding strategic decisions and driving operating plans and priorities.

Just as the company mission should be clearly articulated, so should the missions of its organizational units. Those organizational units can be business units or, functional units or cross-functional (matrix) teams. Taken together, the missions of all the organizational units should be mutually exclusive and collectively exhaustive - that is: (1) each responsibility should belong to only one sub-organization, and (2) together the sub-organizational missions should achieve the purpose of the organization as a whole. Table I presents the characteristics of company and organization-unit mission statements in a generic company.

Table I

Characteristics of Company and Organization-unit Mission Statements	
	<u>Mission Statement</u>
Company:	<p>Broad definition of product-market scope and general business strategy</p> <p>Clear definition of corporate goals, values, business principles, and responsibilities</p>
Organization Unit:	<p>Clear definition of product/market focus and specific goals</p> <p>High degree of consistency with corporate values, business principles, and responsibilities</p> <p>Focus on achieving strategic ends</p>

Goals are most often embodied in a mission statement, but are sometimes expressed separately. Simply put, a goal is an enduring statement of what an organization seeks to accomplish (e.g. become the industry leader; provide high-quality, highly differentiated services).

Objectives on the other hand represent tangible milestones on-the road to achieving goals and are often specific statements of results to be achieved - discrete, quantifiable measures of performance, most often stated in financial or economic terms.

For example, for firms engaged in the transportation services industry, company goals and objectives might be placed into five categories: financial, market, regulatory, employee, and societal. Table 2 defines each category and provides a representative example of a goal and objective within that category for a transportation services company.

Table 2

Examples of Goals and Objectives for a Transportation Services Company

<u>Category</u>	<u>Type</u>	<u>Goal</u>	<u>Objective</u>
Financial	"External" standards related to shareholders, bondholders, and financial markets in general, and "internal" standards such as revenue, profit, and return on investment	"To diversify earning and asset base while maintaining satisfactory total returns to investors."	Achieve annual EPS growth of 5-7%
Market	Physical or other quantitative measures related to diversification, product, service choices, customer targets, and technological developments	"To become a leading transportation services company by generating a large proportion of sales in third-party logistics services."	By 2005 derive 25% of revenues from accounts gained after 1/1/2002
Regulatory	Related to regulatory treatment	"To achieve regulatory separation of core transportation business from new competitive offerings and to ensure separate regulatory treatment."	By 2005 increase rate of return to 18.5%
Employee	Related to organization	"To provide a challenging work environment, career growth, and competitive salaries while giving greater individual responsibility to all employees."	By 2005 increase average wages by 2.5%
Societal	Related to social responsibilities	"To employ capital and labor resources productively and to provide for society through taxes and growth, and for investors through financial returns."	During 2002 participate in four major community fund-raising efforts

Strategic Issues

An examination of external opportunities and threats, internal strengths and weaknesses, combined with the articulation of a mission statement, should lead to the identification and prioritization of the critical strategic issues facing the company - those areas in which the company has distinct and important choices regarding the management of its external environment and internal resources.

Strategic Options

Each strategic issue raises a number of alternative courses of action. This step involves: (1) identifying the realistic options an organization could pursue to address each major strategic issue, and, (2) evaluating the impact of each option under a number of scenarios.

Strategy Selection

The next step is designing an integrated strategy by selecting those strategic options that collectively best serve the organization under the most realistic scenarios. The criteria used to select a strategic direction include the following:

- Responds to environmental threats and opportunity
- Provides a sustainable competitive advantage
- Achieves the objectives expressed in the organization's mission/goals
- Is feasible, i.e., can be accomplished with the resources of the organization and is consistent with the organization's structure, systems, and culture
- Is integrated, i.e., provides the firm with a balanced portfolio of businesses and takes advantage of potential synergies
- Gives the organization flexibility in responding to unforeseen circumstance

Related to this step is the development of contingency plans - determining, in advance, courses of action for unanticipated, but significant, events (e.g., if the pessimistic scenario developed as part of an earlier scenario analysis occurs). Contingency planning includes: (1) identifying the events that will have a critical impact on the company, (2) establishing trigger points - signals that will indicate the impending occurrence of such events and, (3) developing strategies to respond to these events, as well as estimating the financial impact and other effects of these events on the original strategy.



The Elements - Business Plan Phase

The Strategic Plan

The strategic plan serves to: (1) communicate strategy (both upward and downward), (2) identify and allocate the resources required, (3) coordinate and control strategic action programs, and (4) integrate strategy with other management systems. The format of the plan may vary (as discussed below) but most plans usually include some or all of the following:

- Summary of the external and internal analyses that led to the identification of strategic issues and a discussion of those strategic issues and the options considered to address them
- Statement of the strategy, major assumptions, risks, and contingency plans
- Resource requirements (financial, manpower, technology)
- Strategic action programs to implement the strategy, along with milestones against which progress may be measured
- Summary capital and operating budgets and financial statements

The Elements - Performance Monitoring and Review Phase

Monitoring and Review of Strategy

Although strategy is intended to define a long-term direction for an organization, it will require change, or at least "tuning," to respond to significant external events or the internal realities of making the strategy operational. The strategy therefore requires frequent monitoring and review:

Monitoring ensures that action plans are being implemented according to established milestones; reviewing ensures that the key measures of strategic performance (e.g. market share, ROI) are being met and that the strategy selected is still the best course of action.

A process for monitoring strategy implementation is crucial. If creative strategic plans are not well implemented, they serve little purpose. Monitoring systems should therefore be designed as part of the strategic plan through milestones, reporting dates and measurement criteria. The monitoring of strategy implementation usually takes place in conjunction with other planning and control activities. Results may be monitored, for example, in the following ways:

- Annually when plans are developed,
- Quarterly, through the use of a tracking system
- Through "exception reports" (i.e. when results are significantly better or worse than expected)
- At regularly scheduled operating plan reviews
- Through informal irregular reviews



Strategic review, distinct from monitoring, focuses on identifying major problems in strategic direction and taking corrective action; it is qualitative rather than quantitative. The selection of targets for review is tied to critical issues. Internal performance measures are often a starting point for identifying issues, but trends in the external environment should be integral to the strategic review. (Scenario analysis and issue management, previously discussed, are two ways of tracking external events.)

Monitoring and review systems raise the following issues:

- Performance measurements must be established that indicate long-term strategic results; quantitative results do not necessarily match qualitative criteria.
- Strategic and operating plans must be compatible, especially if the operating plan is to be used to measure strategic results.
- Reward systems must be designed to strike the appropriate balance between short- and long-term results.
- Top management should play an active role in strategic review and monitoring to emphasize its importance.

Other Considerations

Two other topics related to the development of the strategic plan are discussed below: planning manuals, planning formats, and the use of planning tools to aid in strategic decision-making.

Planning Manuals

Many companies issue planning manuals, some under the CEO's signature, to communicate the company's planning philosophy and procedures. The purposes of these manuals are as follows:

- To give the key executives a uniform understanding of major planning activities and responsibilities and how the various elements of planning fit together
- To describe the basic approach to planning and outline the activities necessary to get the job done
- To help develop the management skills of managers who must participate in the process

Planning Formats

Planning formats vary from large documents containing highly detailed qualitative discussions and quantitative data to simple, concise statements of strategic direction. The best plans are presented very simply, with the right amount of documentation to require managers to perform a rigorous analysis of their long-term plans. A standardized format helps specify content, tracks results over time and makes comparisons easier.

At a minimum the plan should contain the following sections:

- A narrative describing the operating environment, the vision and mission of the enterprise, the strategic issues to be considered, an assessment of the market and the competition.
- A list of key objectives and action plans/programs with required resources, accountabilities and timelines
- An assessment of known risks
- A statement of contingency, the actions to contend with major unanticipated events
- References to any subordinate plans whether they be divisional or functional

The best plan formats anticipate change and are able to easily accommodate updates and revisions. All changes and updates should be easily identifiable. Often, the use of colored pages and serial numbers is desirable.

The most common binding solution is the 3-ring binder, it has the advantages of being universally available, customizable, inexpensive and is easy to revise.

II. Developing And Implementing The Planning Process

The planning process is perhaps the most critical (and overlooked) aspect of strategic management. An effective process ensures commitment to implementation, provides a vehicle for horizontal and vertical communication, and integrates efforts toward a common purpose. Moreover, it affects the quality of the strategy: an effective process provides for an in-depth analysis of strategic issues and options by key decision makers.

Establishing an effective strategic management process involves two phases:

Defining the process - the major players, their roles and responsibilities, the timing of the planning cycle and its formal interaction with other management processes (e.g. the budgeting system).

Making the process operational - making planning a way of life.

Defining The Process

Roles and Responsibilities

A planning process is shaped, in large part, by those who participate in it and their roles. Participants include the Board of Directors, the CEO, key line and staff executives, business-unit managers and corporate planning staff; the nature and extent of their involvement vary at different stages of the process.

Key line executives generally include sector heads or the heads of operating units reporting directly to the CEO. Key staff executives include the chief financial officer, a chief technology officer and the heads of the corporate planning and corporate development functions. The heads of other staff functions, e.g. human resources, administrative services and systems and legal, are generally not included unless a particular staff head possesses expertise or control of resources critical to establishing and implementing strategic direction. For example, some regulated companies include the chief regulatory or legal officer in the strategic planning process because attainment of regulatory goals is integral to the strategic plan. Business-unit managers for the purpose of this discussion are defined as heads of "SBUs" (see later discussion on organization). The lower levels of management are generally not involved directly in corporate strategy formulation; their participation tends to make the size of the decision-making group unwieldy and distracts them from focusing on current operations.

The principal executives involved in the planning process may assemble as a formal group, or "strategy committee." The strategy committee may include the same membership as other top management committees (e.g., Executive Committee, Operations Committee), but its role should be distinct from these other committees, i.e., its purpose should be to discuss strategic issues and formulate, approve, and review strategic decisions.

The experience of many companies with successful planning systems reveals the following:

Strategy development and review are most effective when responsibility rests with the line managers. The role of the corporate planning staff is generally limited to support functions, counsel, and plan administration.

Executive leadership critically affects not only the content of the strategy but also the process of strategic management. Strong leadership providing a vision of the business leads to creative, consistent strategy and provides the motivation for implementation.

Approaches to planning have varied from top-down to bottom up. On the one hand, the need to develop a sound corporate strategy, make sound decisions about resource allocation, and integrate efforts across business units argues for a process dominated by the CEO. On the other hand, the need to develop sound business-unit strategies and gain commitment to their implementation argues for significant involvement (including decision making by the business-unit managers).

Alternative CEO Models

The following discussion presents four models with varying degrees of top-down/bottom-up emphasis to illustrate the roles of the major players. The leadership style of the chief executive and the extent of his commitment to strategic planning are major determinants of the roles others play in the planning process; hence, the models focus on the role of the CEO. The models represent not only discrete choices for a management approach, but also a continuum of possible approaches.

Pace-Setting CEO Model

In this approach the CEO leads, or sets the pace for the strategy development process. He sets goals and objectives, develops strategies for both the corporation and its individual businesses, and communicates strategy to the line managers, who are responsible for its implementation. The CEO also monitors progress toward goals and objectives.

The line managers are relatively inactive in planning. The rationale is that they should focus on the short-term operating needs of the business; the CEO alone provides the vision for the future.

This approach has merits. If the CEO has a strong vision and if he wields enough power to command implementation, he could be forceful in integrating and developing the company's businesses, a capability that might provide a strong competitive advantage in turbulent times. But the drawbacks of this approach are significant. Because the line managers are not actively involved in either setting goals or establishing strategy the CEO may be depriving himself of the valuable knowledge of those closest to the company's markets and operations. Moreover, the line managers are less likely to fully understand or feel committed to the selected strategic direction, thus putting its implementation at significant risk.

Collaborative CEO Model

In this approach, the CEO begins the process by issuing a set of planning objectives for the corporation and its business units. He may also issue a set of "planning challenges," issues perceived as generally standing in the way of meeting corporate objectives (e.g., declining productivity or inflation). Then, as a team, line managers (sector executives and perhaps business-unit managers), key staff executives, and the CEO develop strategic alternatives. These are reviewed and selected in a collaborative process, but the CEO exercises final authority.

The corporate planning staff collects and analyzes data, helps the business-unit managers understand both the substance of the strategy and the planning process, and assists the CEO in collecting and reviewing strategic alternatives and in monitoring performance against objectives.

This approach has significant benefits and few major drawbacks. The development of a sound and feasible strategic direction is supported by the active participation of both the CEO and the line managers. In addition, the CEO's ultimate authority helps ensure an integrated corporate strategy that balances the needs of individual business units with corporate needs. However, although the participation of managers encourages commitment to implementation, this commitment may be incomplete because the managers do not help set initial objectives. In addition, the approach can be expensive: it is time consuming, and it requires a substantial effort (especially when initiated) in educating managers in the principles and techniques of strategic planning. The larger the group of line managers involved (i.e., sector executives and business-unit managers), the greater that time and effort. Finally, the success of this approach is highly dependent on the leadership style of the CEO.



Consensus-Building CEO Model

In this model, the CEO's role is as a member of the strategy development team; he demonstrates no strong leadership. His primary objective is to establish consensus among the major decision makers. Corporate objectives and strategy are developed jointly at annual planning conferences attended by key line and staff executives and business-unit managers. Business-unit managers develop their own strategies, which are reviewed and approved in a collaborative process.

The corporate planning staff is small; it plays no substantive role in planning, but rather confines itself to administrative responsibilities and, on request, research and analysis for the corporation and business units.

This approach has the same advantages as the Collaborative CEO Model because of the joint participation of the CEO and line managers. In addition, it is likely to maximize the commitment of the managers because of their full participation. However, it is limited to the extent that the "group think" process may encourage parochialism and turf battles, thereby resulting in a corporate strategy that is more conservative and less visionary than that developed under an approach where the CEO exerts more authority. Further, to an even greater extent than the Collaborative model, it requires significant time and education as well as very careful management to ensure that valuable time is used productively. Finally, since the CEO is considered an equal member of the group, the approach requires other leadership to facilitate the process; a planning officer or external consultant can play this role.

Delegating CEO Model

The CEO may issue broad guidelines to initiate the planning process, but his involvement in objective setting, strategy development, and strategy review is minimal. The corporate strategic direction emanates from the bottom - individual business-unit strategies, developed by unit managers, flow upward and are consolidated to form the corporate strategy.

While this approach fosters autonomous, entrepreneurial business units, it ignores the opportunities inherent in diversified businesses. Since the corporate strategy is the sum of individual plans, it does not reflect an effort to exploit areas of synergy or allocate resources to maximize overall corporate strategic advantage. For this model to be at all effective, systems and



structure must be manipulated to encourage bottom-up strategy formulation; that is, the structure should be designed to indicate the dimensions on which strategy should focus, and systems should encourage risk-taking and an entrepreneurial spirit. In addition, once a process such as this is well established, it may be difficult to move to a more collaborative approach, because of the dominance of individual interests.

Planning Cycles and Calendars

Planning cycles vary according to the needs of a business. Traditionally planning has been done on an annual cycle, keyed to the budgeting system. In recent years, however, many companies have selectively focused their planning efforts at critical points of strategic development, either as a substitute for or as a supplement to an annual cycle. At General Electric, for example, the cycle varies by strategic business unit (SBU) - in some SBUs formal strategic planning is done on a two- or three-year cycle.

A well-defined calendar specifying what needs to be accomplished and when, helps to provide structure and discipline. However, although the calendar schedules the formal planning process, it does not schedule informal planning - that is, the real-time interactions among managers. Further, strategic analysis and strategy evaluation have to be ongoing processes, not tasks for a specified calendar period.

A three-pronged cycle is typical of most calendars - strategic planning, then resource allocation, then development of the operating plan and budget. In many companies strategic planning is deliberately kept separate from capital and operating budget activity (in particular, generating short-term operating budgets) in an effort to ensure that planning is not constrained by short-term performance objectives. Strategic plans focus on qualitative strategies and include broad, parametric estimates of capital requirements and financial results. Once a strategy has been agreed to, detailed quantitative analysis ensues. The intent is to keep strategic planning externally focused and not reduce the activity to a "figure-beating exercise." In any event, strategy should drive budgeting, not the reverse.



Interaction of Planning and Other Management Processes

In establishing a planning process, consideration must be given to how that process will be formally integrated with other management systems, including financial and human resources allocation and corporate development. Some general observations can be offered on the integration of planning and budgeting, two of the most critical linkages. Strategic plans and budgets can be linked in three ways: (1) by content - the correspondence between the data presented in the plan document and that presented in the budget; (2) by organization - through the relationships of units responsible for planning and budgeting; and (3) by timing - through the sequence of the annual planning and budgeting cycles. The degree to which these aspects are managed loosely or tightly influences the balance between the creativity and conservatism of a company's strategy.

One important feature of content linkage is the amount of detail in the financial statements included in the plan document. The tightest linkage would be to include statements with the same level of detail as those used for monthly reporting, which compare budgeted with actual results. The loosest linkage would be not to include financial statements at all.

Another important feature of content linkage is the conformity between plan and budget numbers for those years common to both documents. If the numbers differ, there may be a substantial gap between the results anticipated by the plan and actual results. Many companies, however, believe that allowing such differences is critical to maintaining the aggressive forward thrust of the planning effort. If numerical differences are permitted, one way of moving back toward tightness is to require some kind of formal reconciliation in the plan.

A final important content feature is the structure of the plan. In most companies, the budget is structured in terms-of the organizational units that will be responsible for carrying it out. It is possible however, to restructure the plan to focus on programs rather than on organizational units. The total expenditures for a given year are the same in either case, but there is nevertheless a distinctly looser impact on the way in which the plan document is interpreted.



The major organizational consideration is the relationship between the organizational units responsible for the long-range planning and those responsible for the budgetary-control processes. The loosest form is to place planning and budgeting in separate organizations, reporting to different senior executives. The tightest form is to have the two functions combined in one department. Even when planning and budgeting are separated, it is probably neither possible nor desirable to exclude the controller from the formal planning effort.

Between the extremes of separate planning and budgeting channels and the complete integration of these functions is a broad middle ground that can be examined to achieve an appropriate level of involvement. Among the relevant questions to ask in this regard are the following:

Does the controller provide staff support for the preparation of the financial data in the plan document?

Does the controller review the plan document before it is finalized?

Does the controller have any direct or indirect responsibility for approving the plan?

Does the controller have any direct or indirect responsibility for monitoring planned financial results against actual results?

The more questions of this kind that can be answered yes, the tighter the plan-budget linkage, even though the functions may officially be separate.

The most important **timing** consideration is the sequencing of the annual planning and budgeting cycles. The loosest timing linkage is to have the planning cycle done before the budgeting cycle and to have several months elapse between the two. The advantages of this approach have been discussed previously. The tightest linkage is to complete the budgeting cycle first and then have the planning cycle follow it with minimal time in between. This would result in practical, but certainly not creative, planning.

Making The Process Operational

Once the formal process has been defined, the task of making it operational begins. The development of an effective strategic planning process evolves slowly - managers need time to adapt to new planning processes, and it may take several years before top management is satisfied with the output. Early intensive training to communicate to line managers both the concepts and techniques of strategic planning will help managers understand the value of planning, have realistic expectations for the process, understand their specific roles and responsibilities, and make planning a way of life. Further, structure and systems adapted to strategic objectives can help to make the process operational:

An organization that is compatible with the planning objectives facilitates the development and implementation of strategy.

A measurement system that disaggregates corporate objectives into a realistic set of quantitative and qualitative objectives for each organizational unit helps to ensure the effectiveness with which a strategy is implemented.

Organizational Issues

Structure. It is by now a well-established concept that structure should follow strategy. The challenge in designing a formal organization is to create well-defined business units, based on sound segmentation concepts, where strategic planning and implementation should occur. (The strategic planning structure need not, and at many companies does not, correspond to the operating structure.)

Companies are organized by function, product, geography, customer, process/technology, or any hybrid of these forms; the selection of an organizational structure rests on which provides the best strategic advantage. For example, a high-volume manufacturer with a narrow product line may organize functionally if it perceives cost as a major strategic advantage. Many companies find that it is most effective to plan around customers and therefore design an organization (planning and/or operating) to focus on customer segments. GE's strategic business unit (SBU) is a good example of a customer-focused organizational unit.

GE establishes the following criteria to classify an organizational unit as an SBU:

First, an SBU must serve an external, rather than an internal market; that is, it must have a set of external customers and not merely serve as an internal supplier or opportunistic external supplier.

Second, it should have a clear set of external competitors that it is trying to equal or surpass.

Third, it should have control over its own destiny. This means that it must be able to decide for itself what products to offer, how and when to go to market, and where to obtain its supplies, components, or even products. This does not mean that it cannot use pooled resources such as a common manufacturing plant, or combined sales force or even corporate R&D. There is choice. It must be able to choose, not merely the victim of someone else's decisions. It must have options from which it may select the alternative(s) that best achieves the corporate and its business objectives.

Fourth, its performance must be measurable in terms of profit and loss; that is, it must be a true profit center.

Companies need not adopt GE's SBU definition; SBUs, however, should be well defined and externally focused and serve as the basic building blocks of strategic planning.

Depending on the size and complexity of the planning units, an intermediate organizational level for plan review, integration, and identification of synergy may be necessary (e.g., sector level).

Systems, Skills, Staff, Style, Shared Values,

Structure is not the only aspect of an organization that may require adjustment to adapt to a strategy. A tool known as the 7-S framework is often used for identifying and positioning all the organizational components that affect the implementation of strategy. The components—the 7-S's—are as follows:

Strategy

Structure

Systems

Skills (tasks)

Staff (people)

Style (of management)

Shared values



This framework helps identify the interactions between organizational components. For example, the following questions might be addressed:

1. Do the systems fit with the structure? Does the compensation system emphasize teamwork rather than individual performance when teamwork and cooperation are required?

2. Do the people fit the culture? Is there sufficient consensus in the organization about the Rules of the game* to enable the organization to achieve its goals? For example, can a rapidly growing organization be sure that new people will understand and accept a totally informal communications system?

3. Do the people fit the structure? Can they operate within the organizational groups and integrating mechanisms to complete the task? For example, creative people or entrepreneurial-type managers may be uncomfortable in a highly structured organization.

4. Does the structure fit the culture? Does the structure complement the values or norms of the organization? For example, a top management group accustomed to controlling its own operations may be less effective in a matrix organization, where persuasion and coordination are most important.

5. Do the people fit the task? What are the backgrounds of top and middle management? What are the critical tasks to be performed? How capable and motivated will the current management be at performing those tasks?

6. Do the systems fit the strategy? Do the reward and control systems reinforce and support the strategy? For example, if the reward system focuses on short-term ROI, then investment in plant and equipment and in training to support a cost driven strategy must be discouraged.

7. Is the organization competent in the tasks required by the strategy? Some strategies will require that the organization be competent or even excel in some particular functional area, such as distribution or manufacturing.



Establishing Measurements

Many planning processes are ineffective because they fail to explicitly link "planning" and "doing" activities. Linking corporate objectives (the targets of corporate strategy) to operating-unit objectives provides the basis for a strategic monitoring system, the importance of which has already been discussed. Translating corporate strategic objectives into explicit, realistic priorities relevant to each organizational unit provides a tool for measuring the effectiveness of strategy implementation. A framework for establishing objectives and making them operational is outlined in Table 5 and described briefly below.

Table 5

A Framework For Translating Planning Into Action	
Step 1 Determine Qualitative Goals:	<ul style="list-style-type: none"> Organize around constituencies and conflicts Organize around issues and priorities Identify gaps Focus analysis on gaps
Step 2 Quantify Objectives:	<ul style="list-style-type: none"> Stress iterative nature of planning Encourage tolerance for preliminary nature Define programs Segregate programs by level of difficulty
Step 3 Identify Unit Objectives:	<ul style="list-style-type: none"> Locate high-impact programs Provide comparative data Identify discontinuities in responsibility
Step 4 Identify Unit Objectives:	<ul style="list-style-type: none"> Concentrate on effectiveness Establish links: why-, what-, how much-, did we-
Step 5 Integrate Planning and Management Systems:	<ul style="list-style-type: none"> Relate objectives to programs Check weight of control versus objectives Audit decision and performance

The first step, determining goals, focuses on relating in qualitative terms aspects of the mission statement to each major constituency (e.g. investors, customers, employees, regulators, general public). For example, a corporate goal might be to provide customers with a competitive range of products and services and to be perceived as responsive, productive, and a leader in technology. Major strategic issues could then be analyzed in terms of their effect on each constituency. For example, the capability to provide enhanced services through the local loop may serve the goals of important customer groups, but have an adverse impact on regulators. Next, the analysis focuses on resolving the areas of conflict between the goals for constituencies and the strategic issues; the result is the identification of qualitative corporate goals.

The second step involves quantifying these qualitative goals, again related to each major constituency. The effort to quantify strategic objectives is frequently difficult. It can be moved forward by:

Setting goals and making decisions through a highly iterative, dynamic process;

Encouraging tolerance for preliminary objectives and recognizing the likelihood of change; and

Separating tactical operating programs (on which progress can continue) from strategic programs.

The quantified objectives may then be categorized and related to organizational units (Step 3). Responsibility for each of these objectives may then be assigned to organizational sub-units, as appropriate (Step 4), and related to specific programs (Step 5). Each organizational unit would thus have an explicit set of objectives guided qualitatively by corporate goals and related to the extent practical to corporate objectives for each constituency. A procedure for auditing performance may then be established.

As objectives are worked down through the organization, they should become more specific, be identified with specific programs, and ultimately be related to the basic budgeting, compensation, and control systems. The process should be iterative between organizational units and top management, define near-term programs in terms of the general strategic framework, and provide a basis for evaluating progress and outcomes.



Strategic Solutions Partners

WHY STRATEGIC SOLUTIONS?

The pace of business is accelerating. To succeed in today's new economy you need to know what you're doing and get it done fast!

The Strategic Solutions team, partners principals and associates, are seasoned professionals who have accumulated decades of experience solving business problems across a wide spectrum of industries. They are now available, as contractors, to apply their knowledge to your business.

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Established in 2000 by the merger of Transportation Solutions, Co. and Strategic Marketing, LLC. Strategic Solutions' founding partners, Bert Hall and Alan Courtney, together with their team of associates, bring decades of functional and general management experience at the most senior levels.

Our Mission

STRATEGIC SOLUTIONS PARTNERS LLC is dedicated to providing the best consulting services at a fair price. We proudly develop close working relationships with our clients and strive to build lasting goodwill.

WHO ARE OUR CLIENTS?

Typical clients are small to medium sized businesses who cannot justify full-time employment of specialized resources for project management and implementation.

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"Strategic Solutions used successful management skills to find the root cause of our problems and presented management with the corrective measures."

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"Your in-depth analysis and expertise were key factors in our attaining a savings of over \$700,000 annually."

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Safeway Inc.

Strategic Solutions Partners, LLC is a management consulting firm experienced in assisting clients in conducting their strategic planning process. Our clients tell us that their most important business opportunity is planning. But in the press of day-to-day business planning is often neglected. It is hard work, and without a practical guide the planning process often results in plans that are less useful than they could be.

Strategic Solutions has found this approach to be useful in describing a practical planning process.

The process that is diagrammed herein delivers a workable plan that gives practical guidance to the enterprise.

Strategic Solutions has successfully developed and implemented business planning processes for clients using this approach.

We will work with you, each step of the way, to help you create a plan, establish key performance indicators and install critical monitoring, review and adjustment processes for your business that are useful, flexible and enduring

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