A Manuscript on Strategic Planning

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Over the past twenty years, American business executives have, for the most part, abdicated their strategic responsibilities. Operating more like stockbrokers than business leaders, they have been looking for a shortcut to the good life - a "home run" hit - while at the same time being preoccupied with numerical quantification, an emphasis on short-term cost reduction over revenue enhancement, and a high degree of incremental decision making. The resulting dichotomy plagues many organizations today. Things weren't always that way.

History explains why managers lost touch with strategy. During the 1950's, U.S. businesses were frequently headed by technical or marketing executives, many of whom were founding entrepreneurs driven by a vision. Job mobility was low, and the typical path to the top wound its way through many functional areas. As a result, chief executives had intimate hands-on knowledge of their company's customers, production technologies, sales force, and suppliers. U.S. management was admired throughout the world.

The 1960's was a decade of business growth, driven to a large extent by the escalation of the Vietnam War and the space program. It was also the decade of the business conglomerate, in which growth through acquisition was pursued as a single criterion for success. Important changes were occurring in executive suites, driven by this merger mania. There was a dramatic shift in the functional backgrounds of newly appointed presidents of major corporations, whose primary interests and expertise are in the financial and legal areas and not in production.

As corporations grew increasingly complex and diversified during the 1960's, and as performance began to deteriorate, strategic management consultants began to swarm. They were numbers people, because management was seen as a

numbers game, a financial game. In most cases, quantitative information preempted qualitative knowledge.

By the early 1970's, the environmental movement was expanding rapidly, and corporations were hiring technical and legal specialists to deal with the new regulations. Social initiatives, under a cadre of programs, were finding their way to the workplace door, further precipitating the need for personnel specialists with heavy legal/regulatory experience.

I entered the business world in 1972 with a bachelor's degree in engineering and an MBA. Like most of my classmates, I believed the credo of the management consultants: armed with facts, a bright person can manage any situation by applying scientific methods and large doses of planning, organizational theory, and control. I didn't realize we were entering a decade of discontinuity that would render my beliefs anachronistic. But since most managers have not understood the 1970's in retrospect, perhaps I can be excused for not understanding them in prospect.

A CORPORATE PLANNER'S EXPERIENCE

I was hired by a major investor-owned electric utility to assist in the development of long-range load and energy sales models. The utility, like many companies of the period, was moving from budget-based planning into a new phase: forecast-based planning.

Virtually all planning systems evolved from the annual budgeting process, where everything is reduced to dollars. Revenues, expenses, and capital needs are forecasted and tracked by functional areas and compared with budgetary targets. If corporate strategy exists, it is almost never formalized under budget-based planning. Forecast-based planning usually begins as an extension of the annual budget process. Historical data bases are quickly established, and trends are eagerly extrapolated into the future, predicting corporate performance through regression analysis and eventually computer simulation models.

During the early 1970's, I helped develop forecast-based planning models for the utility. The models reproduced historical results, and we hoped that they would predict future results. My earliest anxieties centered on the assumptions driving the models and whether or not they would continue to work successfully under alternative future scenarios. These anxieties were temporarily relieved with the belief that all we had to do was apply more effort, dig a little deeper for the “right” data, or hire the “best” consultant, in order to conquer uncertainty. The quest for certainty, in an effort to unlock the strategic puzzle, was (and, unfortunately, still is) a major focus of most companies' planning efforts.

Forecast-based planning does have advantages, primarily in relating corporate resources to strategic objectives. Major weaknesses, however, are that key business issues are often buried in masses of data, and that the whole exercise all too frequently becomes a mechanical routine that is updated once a year and

otherwise ignored. Most companies' long-range or strategic planning today is driven by a forecast-based system.

Weaknesses in this approach became all too evident after the Arab oil embargo, an event that single-handedly set most strategic planning efforts on their ears. Approaches, shaped and refined during stable decades, didn't work in a world characterized by scarce energy and rapid, unpredicted change. Inflation, wage and price controls, and general hostility to business kept more than one chief executive officer (CEO) up late at night.

THE RISE OF THE STRATEGIC MANAGEMENT CONSULTANT

Strategic management consultants became the carpetbaggers of the post-embargo 1970's. Armed with tools like the experience curve and the market share matrix and concepts like the strategic business unit, these consultants descended on corporate executives and promised them shortcuts to the good life. Walter Kiechel described the “sea gull” model of consulting:

> You flew out from Boston, made a couple of circles around the client's head, dropped a strategy on him, and flew back. For consulting firms, what it required was not knowledge of a particular industry, but platoons of bright people, capable of doing the requisite analysis and engaging enough to get the necessary information from the clients' organization.[1]

All that these consultants were doing was analyzing clients' costs, defining their markets *a la* Peter Drucker, and identifying their real competitors. In short, they reminded their clients of the importance of externals.

FROM ANALYST TO STRATEGIST

My company took a different, progressive, and more successful tack. A creative, visionary vice-president (a lawyer!) organized a small strategic planning group. He borrowed line and staff people, kept them for one or two years, and then transferred them out into other responsibilities. This concept of using a home-grown decentralized group of strategic thinkers was one of several ways he proved to be ten years ahead of the state of the art.

I was recruited to develop an environmental scanning function. We initiated an assessment of our environment, but rather than “buy” an assessment, we did it the hard way: we started with what we knew about our business and the world (our idiosyncratic viewpoints) and went outside to talk with experts. I met with George Katona of the University of Michigan and Herman Kahn of the Hudson Institute. We arranged to have a senior executive meet with Harvard University professor Theodore Levitt. Because we did our homework in advance and knew what we wanted to ask, we were able to get specific answers to specific

questions without running up enormous consulting bills: sometimes we had to cover only our travel expenses.

We expanded the concept with a business round table that brought in such pundits as journalist David Broder to meet with both middle and executive management. Backing up this effort, we circulated papers addressing several strategic issues. Rather than managing the strategic process (by hiring" experts" to tell us what to do), we were living it.

We heightened the utility's awareness of issues at middle and top management levels, and then we went ahead and formulated programs to respond to the issues. Specifically,

> We established the position of "issue manager" in charge of identifying grass roots initiatives likely to become public policy.
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> We changed the company's orientation from "electric utility" to "energy business" and translated this perception into a long-term support for research in alternative energy sources. Not just monitoring, please understand, but actual support of research.
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> We formed an energy conservation group long before utilities were directed to do so by the federal government, driven by the belief that it is a longer-term opportunity to reduce capital investment rather than a short-term negative impact on sales.
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> We acknowledged the inevitability of increasing costs of capital and increasing regulation and began to take these into account in deliberations, discussions, and communications with employees, stockholders, and customers.

Of course, what we discovered was already known: in a sense we did nothing but force people to acknowledge issues that were already being talked about outside the company. But we put this emerging wisdom on the company's agenda before it became conventional wisdom.

In 1978, at age twenty nine, I left planning to pursue career advancement in an operations position for the utility company. After two years of satisfying work, I was contacted by an executive search firm conducting a nationwide search on behalf of a worldwide hospitality company. Since the offered position, that of manager of environmental analysis, was made in heaven for someone with my interests, I accepted it and moved to another part of the United States.

My first step was to set up an environmental scanning process. I decided not to repeat the greatest shortcoming of my work at the utility: I decided that operations managers and non-planning staff would not be left out of the process. At the utility, I had raised issues and introduced concepts and left these to the functional groups for translation into projects, an approach that worked because it wasn't shoved down their throats. Many of my issues and concepts had indeed been implemented but far too slowly and inefficiently. This time, in this new job, I decided to pursue a more aggressive connection between ideas and actions.

The fact that I was already being referred to as the corporate “futurist” led

credence to the belief that a participatory approach was needed. The problem with being viewed as a corporate guru is that it can encourage executive management to dump its responsibility for foresight and imagination and to look for a rapid succession of “home run” ideas. Rather than be a “futurist,” I preferred to be an environmental analyst, a strategic planner, and an issues manager. And rather than assuming all responsibility for great ideas, I preferred to be a catalyst and coordinator.

We began by documenting about fifty trends that related to the various business units of the company: we called it the Strategic Trend Assessment Review (the STAR Report). For each trend, the history, current status, and future business implications were developed from sources inside and outside the company, from people and publications. Again, to avoid guru-dom, ideas were supported with hard numbers and statistics. The process did not run on reams of data, but on carefully chosen, significant facts and figures-which is what we gave them.

What we wanted to do was create a collective vision of our company in the future. We looked at the present organization and developed summaries of threats and opportunities posed by individual trends and by the confluence of trends. We held round table discussions by assembling corporate staff, headquarters executives, and delegates from the business units. Each participant was asked to identify the four most external factors affecting the company's future. The issues were ranked and categorized under “operations,” “human resources,” and “consumer markets.” In 1981, fifteen major issues were developed whose positive impact might be increased or negative impact diminished, and these were presented at an annual planning conference.

The benefits of this process began to become evident as we examined the opportunities hidden in apparent threats. For instance, video-conferencing, which was a short-term threat to our business travel segment, was determined to have enormous applications for generating new forms of business communication. We accelerated the development of video-conferencing centers in many of our hotels. This is what Theodore Levitt calls “creative destruction”[2]: we plotted to make one of our major products obsolete, in order to replace it with something more promising.

Sometimes threats and opportunities are not far into the future. During a round table meeting, we concluded that our casino facilities were potential targets for extortion because of the large concentration of cash. This discussion occurred one day before Harvey's Casino at Lake Tahoe was hit in 1980.
The incident made believers out of a few more people.

New ways of segmenting our customers and even our employees began to emerge as part of the process, in many cases generating more questions than answers. Would our whiz-bang models continue to work in the future? Would the baby boomers continue to eat junk food well into their senior years? What would become of our supply of entry-level workers as the population aged? How would we retain seasoned executives without de-motivating the baby boomers

within our ranks? What impact would the simultaneous existence of great poverty have on our future markets? Would terrorism rise, and what might we do to protect our people and property?

The hospitality organization is continuing to develop programs to address issues such as these that will ensure their continued success through the 1980's and beyond. The good news is that they are living their strategies and creating their future. The bad news is that as simple as these concepts are, most companies fail in the execution. Many are doing all the “right” things but not doing them right.

I left the hospitality organization to assume an operations position with a community development company in another state. I am now a functional vice-president. I continue to lecture and write on the subject of corporate strategic planning.

ROADBLOCKS TO THE GOOD LIFE

I'm frequently asked what a company must do to get back on the road to success. It must develop a process of anticipatory intelligence and assume responsibility for its future, whatever the present state of its productivity and however rapidly its environment is changing.

To begin, a company must understand the difference between, on the one hand, experienced leaders who understand their particular company and its stakeholders and, on the other hand, itinerant managers, who think that they have learned the skills required to function in this company or that, interchangeably.

When *Fortune* magazine surveyed 6,000 executives to develop a list of the most admired and least admired companies, the top ten most-admired companies all had CEOs who had been with the company for at least twenty years, and 80 percent of the least admired had “hired, fired or otherwise rearranged top management in the past 18 months.”[3] I don't believe that having experienced executives guarantees success, but I do believe that not having them precludes it.

Professional managers will let quantitative information preempt intuitive understanding of a situation; and putting numbers over intuition usually favors short-term results over long-term. Michael Schulhof, vice-president and director of Sony Corporation of America, said: “It is not entirely coincidence that the same years that have seen industry increasingly, almost exclusively, run by financially oriented business school graduates have also seen the worst productivity performance since the depression”[4]

In the absence of hands-on experience, the contemporary executive has no choice but to run the business by the numbers. Thomas J. Peters and Robert H. Waterman, Jr., have pointed out that an over-reliance on numerical analysis almost always leads to a conservative bias that places cost reduction ahead of revenue enhancement, because the numbers are the “hardest” there. This reduces the scope of factors considered, to the point that most of the major issues remain external to the analysis.[5]

A related problem is that analytical models tend to diminish awareness of

evolving issues, because people assume that the answer will be obtained from the computer. In the most acute example, people quote what the models' “say,” rather than explaining what they believe. Too bad.

It is my belief that the unbridled corporate diversification that began in the mid-1960's is directly related to the analytic detachment practiced by many executives. If you don't like your company's numbers, instead of making the company better, you buy a company with better numbers. Peters and Waterman state that “unchanneled diversification is a losing proposition.” Their research suggests that “organizations that branch out somewhat, yet stick very close to their central skill, outperform all others.”[6] There are studies refuting one of the primary arguments for mergers: diversifying business risk. Robert A. Haugen and Terence C. Langetieg wrote that investing in a merged company had no detectable advantage over a portfolio made up of each component company. [7]

In too many cases, a merger brought about by vertical integration, new market segments, or complementary products generates a portfolio management psychology that displaces leadership. Regardless of initial intentions to allow business units to exist as autonomous profit centers, corporate management invariably starts tinkering with long-standing strategies or beliefs and the trouble begins.

My former employer, the hospitality company, was integrated in 1970 with about thirty businesses. After they decided that they were in the hospitality business, they slowly sold off their non-hospitality holdings in buses, steamships, furniture, insurance, and meat packing. Now they are truly expert at managing what remains because it is all clearly related.

Another obstacle to organizational excellence concerns the misuse of consultants to manage strategic issues. More than one billion-dollar company has paid a consultant to tell them what business they are in. David Owen remarked that' “why a corporate chairman needs to pay hundreds of thousands of dollars for a green MBA to tell him what business he is in and who his competitors are is the great mystery of strategic consulting.”[8] I would add that it is an abdication of strategic responsibility to pay for a vision: leaders create visions, managers follow them. It is imperative that U.S. executives shift the short-term quantitative focus to a long-term qualitative vision of the type of company they want to become - a vision that is tempered with the realities of the external environment. If chief executives would communicate their beliefs for their subordinates to see and understand, they would discover that the basic philosophy, spirit, and drive of an organization have far more to do with its relative achievements than do technological or economic resources, organizational structure, innovation, and timing.

THE CORPORATE CULTURE

The growing interest in corporate culture as a determinant of corporate success mayor may not be a management fad of the 1980's, but there are several things that a strategic thinker should understand about the subject. First, there is a

difference between trying to be efficient and trying to be effective. The most efficient organizations are seldom the most effective. They have troubles getting things done because, while trying to abolish waste, eliminate duplication, consolidate control, and make sure everyone works from the same assumptions, they carelessly stamp out innovation and entrepreneurial thinking.

The successful companies of the 1980's will be decentralized, structured around small units. Their field managers and salespeople will have latitude to move without interference by staff specialists. The expert will be the person doing the work. Telecommunications and on-site computers will facilitate the decentralization by replacing the middle managers required to consolidate and report information. Division offices will have access to data bases and information services that have traditionally been available only to staff specialists.

Top management will act with the belief that the people in an organization are the only true competitive advantage that cannot be easily duplicated. Instead of hiring employees, the successful business will be hiring partners: they will make long-term commitments to their employees (through longer-term incentive programs) and, in return, they will expect a commitment to excellence.

Rigid hierarchies and cookie-cutter standardization will give way to flexible, participatory work practices focusing on contributions and accomplishments. Multifunctional teams will replace departmental programs, and peer review will replace traditional corporate auditing. Supervisors will become facilitators, rather than order givers.

In planning, several changes will become evident. First, top management will re-accept the responsibility for strategic vision and leadership. The “futurist” needs to be put back in the executive suite, a person who is a practical generalist with an appetite for studying and understanding external business trends. The ability to detect opportunities produced by change has always been a common attribute of top-performing organizations.

Strategic planning will be a decentralized process that brings together experienced, knowledgeable people from multifunctional areas (this defuses the potential adversary relationship between line and corporate staff personnel). Career paths leading to corporate planning will frequently begin at division line or staff positions. In fact, many people destined for staff positions will be hired as line employees. Several key planning positions will be temporary assignments reserved for line managers that have high potential for further advancement. The whole process will be facilitated by a senior executive or the CEO himself.

A good deal of work traditionally done by full-time staff specialists will be done by consultants. But the consultants will be kept on a short leash, with well defined assignments of short duration, and they may report to the multifunctional teams rather than to the CEO. Competitive analysis will become the responsibility of operations managers and salespeople. They are, after all, in an ideal position to understand the effects of competition.

In much the same way that we managed companies during the twenty-year period after World War II, U.S. executives have to stop searching for easy

shortcuts to the good life and get back to the basics. We need to exercise leadership by defining to the company's stakeholders what our organization stands for. We need to define a vision of what we want to be in the future. We will have to give up our belief in the omniscience of experts and put generalists in charge of our companies. There is no such thing as “pure” production, finance, law, or human resources at the strategic level. We need to be more vocal about our beliefs and at the same time do the right things rather than talk about them.

A baseball team is not “controlled” to the World Series; it is led and constantly motivated there. Starting with the best players one can afford, it takes countless hours of training, hard work, practice, and self-critique, with particular emphasis on flawless execution of the details. It takes the coach who has the ability to instill excitement in his team, who has a vision that extends beyond the present game. It takes managers who have spent years studying other teams, systematically documenting their strengths and weaknesses. It takes monetary incentives that rewards all the players for achieving excellence, not just the home-run hitters.

It takes candor, trust, and team playing. Just like the baseball team gets to the World Series with simple plays, executed flawlessly, U. S. business people need to get back to the basics and begin leading their organizations back to the winner's circle.

NOTES

1. Walter Kiechel III, "Corporate Strategists Under Fire," Fortune (December 22,1982), p. 36.
2. Theodore Levitt, *Innovation in Marketing* (New York: McGraw-Hill, 1962), p. 155.
3. Claire Makin, "Ranking Corporate Reputations," *Fortune* (January 10, 1983), p. 6.
4. Michael Schulhof, "Scientists in Business," *New York Times* (February 1, 1981).
5. Thomas J. Peters and Robert H. Waterman, Jr., *In Search of Excellence.* (New York: Harper and Row, 1982), p. 44.
6. Ibid., p. 295.
7. Robert A. Haugen and Terence C. Langetieg, "An Empirical Test for Synergism in Merger," *Journal of Finance* (September 1975), p. 1013.
8. David Owen, "Those Who Can't, Consult," *Harpers* (November 1982), p. 16.