Freshening up strategic planning: more than fill-in-the-blanks

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We have recently come through times where it was quite common to hear that things are changing too quickly to make strategic planning worthwhile, or that ''real-time'' processes are required to deal with rapid market shifts and competitor moves – with more value being placed on quick reactions rather than on well-reasoned responses. Things are settling down again, and many companies find themselves having to reintroduce strategy development into their core processes.

Under the general heading of planning, a variety of processes come to mind. The lowest common denominator tends to be the annual budgeting process that establishes financial targets with a fair amount of detail 12 to 18 months out. For many companies, this is where planning begins and ends. Moving beyond the numbers, some companies explicitly allocate resources and plan activities that are required to achieve the numbers – some refer to this process as activity based budgeting (ABB). ABB makes the numbers more robust and also allows for quick adjustments when the numbers invariably do not quite turn out as planned. Moving one step higher in the food chain, we find strategy development, a process that is often haphazard and decoupled from the resource allocation and planning that goes on annually, and in recent times, frequently nonexistent. It is all too common to see the budgeting process driving the strategy, one year at a time: ''Now that we've settled on the numbers, how are we going to hit them''? Strategy development should have a longer-term perspective and be tightly linked to drive the annual business planning/budgeting processes. Many companies need to reestablish some basic approaches to strategy development and create explicit mechanisms to link the resulting strategy to execution.

Has your strategy development process gone stale?

One of the primary purposes of any strategy development process should be to inject fresh thinking into the business:

■ Does the corporate staff drive the process by sending out detailed templates to be filled in, or, worse, do business units ask for templates?

■ Does the most recent hire in planning get assigned to ''deal with it''?

■ Is the result of the process a set of colorful PowerPoint presentations?

■ Do strategy binders go on the shelf to be referred to next year, if at all?

- Is the process mostly strategy staff talking to other strategy staff, with line management gratefully out of the picture?

- Are strategic initiative progress reports crowded out of regular operational reviews?

If so, one might wonder if strategy development is really a priority for the company, given the way it is currently being managed in the organization. Many people reach the conclusion that their process needs to be revamped, but are not quite sure where to start. Unlike some other operational processes, strategy development lacks a standard textbook approach. Quite the contrary, it is an area that has a shown an amazing propensity to attract competing theories for the right approach, coupled with the latest musings from gurus on strategy topics. It is no wonder that reasonable people throw up their hands in frustration when it comes to improving the effectiveness of their strategy development process.

Companies often try to mimic the mechanics of the usual benchmark candidates such as GE and Emerson, but they come up short in practice. It is actually quite difficult to transplant the strategy development process from one company to another because of differences across industries and company cultures as well as management aptitude and inclinations. It is, however, possible to start by agreeing on a high level purpose for strategy development along with the major steps in the process. Once this has been accomplished, the mechanics must be customized to the specific situation.

What is the purpose?

The reason for a strategy development process is one of the areas where competing approaches are evident. Documenting and communicating the strategy is one common reason. To accomplish this, one approach is to write down the strategy and see how it holds up to a series of increasingly more senior management reviews as it makes its way up to the corporate grand finale. The objective in preparing for these reviews appears to be to minimize the number of tough questions that you do not have the answers to. If the presentation holds up, with minor adjustments along the way, then it must be right! Not only that, you can also claim that there is buy-in up the ranks, and you are good to go until next year! If the strategy is driven from the top, this can be a very straightforward process indeed.

Admittedly, this characterization is a little disparaging, but we have all seen examples of it in action. There is nothing wrong with documenting and communicating the plan of record, but we would suggest that it falls far short of what to expect from a strategy development process. It may in fact be a good starting point for a highly effective process.

We would argue that the purpose of an effective strategy development process is not to avoid but to confront uncertainty: to pose the really tough questions that you do not have the answers to – the issues and opportunities that can make or break the business – and then get the right people involved to come up with a direction that addresses the issues and opportunities. This is not necessarily a lot of fun. It can expose great vulnerabilities, but if it is done with that purpose in mind and the right set of constructive interactions, the results can be well worth it.

The ultimate purpose of strategy development is to drive changes in resource allocation and behavior. If the right people are involved at the right stage, there is a good foundation to create change, but the linkages between strategy and execution need to be made explicit. In our experience, tools such as the balanced score card (BSC) are particularly useful in creating that linkage. It is important to use the BSC properly, especially given the complexity that a tool of this nature can create. We have seen too many cases where the BSC becomes the planning

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process rather than a tool to support the process – with more resources expended on filling out boxes and checking for internal consistencies than on evaluating the external business issues and opportunities.

Issues and opportunities should drive the process

The key, therefore, in effective strategy development is to first get the issues framed, and then deal with them. We would endorse a classical three-step process: first frame and prioritize the issues and opportunities; second, develop options and a recommended direction; third, integrate the strategy across the organization to set priorities that will drive resource allocation. It is critical to keep these steps distinct and to have separate discussions at the end of each step before proceeding to the next step. A very small, senior team should participate in these discussions. Seems pretty straightforward in theory, so why do we see such difficulty when it comes to the practical application of the process?

While people agree in concept with the process, they are often reluctant to expose weaknesses to their senior management. As a result the process turns into a dog-and-pony show with too many people involved to have the frank discussions that are required. Another common approach is to present the issues and the solutions at the same time, which tends to crowd out a discussion of what the tough issues and opportunities really are. By the way, if you already have the solution, is it really worth discussing in these sessions? Framing the issues is half the battle since it requires dealing with harsh realities supported by hard data.

The second step, evaluating options, is usually the most resource intensive portion of the process, where sensible shortcuts need to be taken to get through the process in any reasonable time. The key is having a keen sense of priorities as well as an understanding of when cutting corners can hurt decision-making. Too often, inadequate tools are used to come up with quick answers, such as two-day off-sites for scenario planning exercises, instead of allocating the right resources to collect and analyze the required information.

In addition, the last step, integration of business unit and functional strategies, is often skipped, leaving the organization without a prioritized list of strategies. The annual budgeting process is launched in a fashion that is completely disconnected from the strategy process, often resulting in incremental changes from the previous year.

By the way, while speed is good, some problems will not yield to a fixed schedule. Milestone meetings should force and track progress. While quarterly operations reviews tend to be pretty common practice, we do not usually see the same level of attention paid to strategy development.

Religious wars

Whenever we get into discussions about alternative strategy development processes, there are a couple of recurring, and related, themes that take on unusual fervor. The first is whether or not the process should be on an annual schedule. One argument goes that any scheduled process tends to go stale. There is some merit in this argument if, in fact, the process is not getting at the really meaty debates that should set direction for the business. If the agendas are kept fresh and relevant, there is no reason for the process to become extraneous. Another argument

often heard is that markets and competitors are moving too fast to wait for the annual strategy development process. We could not agree more, and we see no reason why the same fundamental steps of issue framing, option development, and strategy integration cannot be applied as required outside the annual process. We also believe there is a need to synch up and drive the business planning and budgeting process, which typically occurs on an annual basis. In essence you can, and should, have it both ways: you can respond to events as they occur *and* fit into the annual schedule with the same basic process.

The second topic that typically generates a lot of discussion around the strategy development processes is whether to start with an environmental scan or to jump right into the issues. A related point of view is that strategies only need to have a major refresh every three to five years, with only minor adjustment from one year to the next. On this one the answer is: it depends. We believe that in a well functioning business the market, regulatory, and competitive environments are continuously being monitored and as a result there is no need to start the process with an environmental scan – jumping right into the issues and opportunities framed by the appropriate data should be the goal, at any time as required. As we know, not all businesses have a well functioning strategy development process in place, and many do not have well defined strategies as a result. In these cases, a rigorous environmental scan is required to bootstrap the process and get it back on track. Over time the need to start with an environmental scan should go away as long as management does not become complacent.

Keys for success

Here are some guidelines to make strategy development effective:

Senior management needs to put in the time, as with any priority. Near term operational issues inevitably crowd out strategic thinking in most businesses, which is why it is important to schedule separate time for the strategy development process and stick to it – easy to say, but hard to do.

Design small meetings with the right people. Resist the temptation to bring in everybody that has a stake in the outcome. The strategy development process does need to be supported with effective communications to solicit input during the early phases and set direction at the back end. As the strategic direction becomes clearer, broad communication becomes imperative.

Break the process into three distinct steps and be disciplined not to move on to the next step until the previous step is completed in a quality fashion. The three steps are:

- Frame and prioritize issues and opportunities.

- Evaluate options and agree on a strategy.

- Integrate across functions and divisions resolving potential conflicts and articulating priorities for resource allocation.

Tie strategy to execution, making the linkages to the downstream annual planning and budgeting processes explicit by appropriately using tools such as the BSC. As a result, the broader organization will be involved in translating the strategy into action and feedback loops can be put in place to adjust the strategy, as required, based on experience gained through execution.

Develop a transition plan. We have found that it is not possible to go from a broken or non-existent process to a well-honed process in one step. Depending on the organizations other processes, individual skills, and orientation, the path forward will vary. For example, as we mentioned above, a rigorous environmental scan may be required initially as you transition to more continuous monitoring of your marketplace and competitors. It may take time to build the required skill base, and outside resources may play a role in the transition. Trying to do too much in the first go round can result in frustration and actually stop progress – typically what happens when companies try to transplant someone else's ''best practice'' process into their organization. On the other hand it is important to have an end-state in mind that you are moving toward.
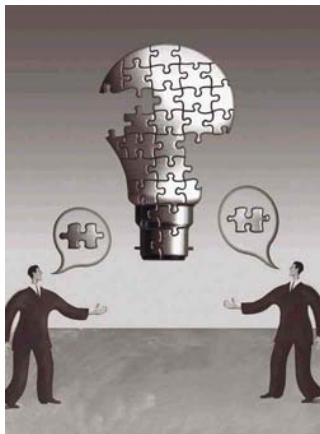
Great strategy from a systematic process

As organizations begin to upgrade their strategy development processes, it is important to have realistic expectations about what you can accomplish. The process should have the following major objectives:

- Surface all the right issues and opportunities.

- Get the people responsible for execution involved in strategy development.

- Communicate strategic priorities to the broader organization and link to downstream planning and execution.

- Deliver great strategies.

It is, of course, possible to come up with a great strategy without the rigorous process described above. Some would even say that following any prescribed process results in sub-optimal strategies – after all, strategy is a creative undertaking. (This line of reasoning might be the primary cause for the lack of systematic strategy development processes being deployed!) Developing great strategies is only part of the challenge. Any strategy is unlikely to be implemented successfully without a process that engages the organization.

To be successful, the strategy development process must be systematic in terms of high-level steps that should be followed, and it also needs to be tailored to the specific company in order to engage the organization.