

STRATEGIC PLANNING

What Every Manager
Must Know

A STEP-BY-STEP GUIDE

George A. Steiner

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Must Know

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Preface

Formal strategic planning with its modern design characteristics was first introduced in business firms in the mid-1950s. At the time, it was essentially the largest companies that developed formal strategic planning systems—they were called long-range planning systems. Since then formal strategic planning has matured until virtually all large companies around the world have some sort of system and an increasing number of smaller companies are following the example of the larger companies.

This experience has produced a vast and important body of knowledge about strategic planning. The purpose of this book is to capture the essence of that experience. More precisely, this book seeks to describe in simple and succinct language the fundamental concepts, facts, ideas, processes, and procedures about strategic planning that every manager—at all levels—should know.

The idea that every manager should have a basic understanding of both the concept and the practice of formal strategic planning rests on a number of observations about management and success in business. One is that strategic planning is inextricably interwoven with the entire process of management. Thus, all managers must understand the nature of strategic planning and how to do it. Also, except in comparatively few companies that will be discussed in the book, every company that does not have some sort of formality in its strategic planning system is courting eventual disaster. Some managers have such distorted conceptions of strategic planning that they are repelled by the thought of trying to do it. Others have such fuzzy concepts of what it is that they see it as

being of no help to them. Some are ignorant of the potentialities of the process for them and their companies. Some have a little understanding of strategic planning but not really enough to convince them they should be doing it. This book is designed to provide such managers with a reasonably complete, pragmatic, concrete, and clear understanding of what strategic planning is, how to organize to do it, how to do it, and how to implement it.

The main focus of this book is on experience with formal strategic planning in the business world. It is my belief that most of the lessons of this experience have applicability to strategic planning in the not-for-profit sector. Chapter 21 deals directly with this subject. Some lessons of experience with business planning are also applicable to personal planning, whether it be lifetime planning or career planning. This subject is treated in Chapter 20.

Since this book is a succinct state of the art of strategic planning it cannot cover in detail many aspects of the field. To aid those who read this book and want more information than it contains many references have been noted.

I have tried to make it easy for both the busy executive, as well as the general reader, to get a quick overview of the contents and essence of the book by presenting at the beginning of each chapter a short introductory statement of contents and at the end of each chapter a concluding summary and guidelines for action.

It is my firm conviction that a manager need not be an expert in every discipline touching upon the strategic planning process. I do think, however, that every manager should be able to identify those major elements, methods, and practices of disciplines that affect his or her area of planning and should have at least a conceptual understanding, as compared with a specialist's knowledge, of them. This book is designed to help managers meet this need.

The book does not include a technical discussion of the many advanced methods that may be employed in strategic planning; for example, computer based forecasting models. Ample references are given for those interested in learning more about such subjects. Yet, the book does set forth in Chapter 15 what managers should know about these analytical tools and comments are scattered throughout the book about them.

Rarely have I found a planning system, no matter how successful it has been in helping managers, that is completely satisfactory to all managers in an organization. It is my belief that even managers in companies with mature and developed planning systems may find valuable guidelines in this book to improve their systems.

This book is based heavily on the experience of many companies with formal strategic planning. Throughout the book, however, I have generally avoided identifying a particular company with a particular planning practice. The reason is that companies are constantly changing their planning procedures and what is true of their practice today may not be so tomorrow. Hence, to avoid any misunderstandings I have not made a practice of relating companies to specific planning activities.

GEORGE A. STEINER

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| Nature and Importance of Strategic Planning

1 Strategic Management and Strategic Planning

Strategic planning is inextricably interwoven into the entire fabric of management; it is not something separate and distinct from the process of management. This point is underscored in this chapter. Also discussed is the shifting focus of management from operations to strategy. Finally, attention is given to the different fundamental approaches to strategic planning that can support management decisionmaking.

The Managerial Task and Planning

Years ago when my colleagues and I were “selling” what at that time was called long-range planning and what I now call strategic planning, we spoke of it as a valuable new tool for management, a major new technique to help managers. I no longer speak of it this way. Strategic planning is inextricably interwoven into the entire fabric of management.

Several years ago, The Conference Board interviewed intensively fifty chief executives about their roles in planning. The first overarching frame of reference most executives articulated was that “planning cannot be usefully distinguished from the rest of the management process. . . .

The researchers summarized the view of the executives in this way: planning cannot be disentangled from such management functions as organizing, directing, motivating, and controlling.

Although it is acknowledged that each of these functions or elements can be formally defined and contrasted with one another, in terms of the chief executive's daily, weekly, even annual routine it is not realistic from his point of view to break up his job into parts and examine each as a discrete phenomenon. For his role as planner is meshed with his role as organizer, director, and so on, in a seamless web of management; for instance, the thought he devotes to what might be termed planning questions, and decisions he makes about them, have implications for his exercise of control; and vice versa. It is the whole of his job that must be looked at, the interaction of the elements of the management process rather than the individual elements.¹

The Conference Board survey was concerned with chief executive officers, but the conclusion is applicable to all managers. I believe that no manager is fully discharging his or her² responsibility when strategic planning is neglected. Strategic planning is a function and responsibility of all managers at all levels in an organization. It is obvious, however, that the planning responsibilities of managers will vary significantly among types of organizations and different organizational levels.

Strategic Management, Operational Management, and Strategic Planning

To oversimplify, there are two types of management. That which is done at the top of an organizational structure is strategic management. Everything else is operational management.

Strategic planning is a backbone support to strategic management. It is not, of course, the entirety of strategic management but it is a major process in the conduct of strategic management. Everyone recognizes that strategic and operational management are tightly linked. Strategic management provides guidance, direction, and boundaries for operational management. Just as strategic management is vitally concerned with operational management so is strategic planning concerned with operations. But the focus and

emphasis of strategic planning as with strategic management is on strategy more than operations.

Years ago the managerial emphasis in the typical corporation was on operations. A major question for management was how to use efficiently those scarce resources at its disposal in producing goods and services at prices consumers were willing to pay. If this task were done efficiently, it was believed, profits would be maximized. Today, efficient use of scarce resources is still a commanding concern of managements of all organizations, but today, because of a turbulent and rapidly changing environment, the ability of an organization to adapt properly to environment, internal and external, is becoming more critical in survival.

General Robert E. Wood, when chief executive of Sears, Roebuck and Company, succinctly captured this thought when he said: "Business is like a war in one respect, if its grand strategy is correct, any number of tactical errors can be made and yet the enterprise proves successful."³ A company may overcome inefficient internal resource use if its basic strategy is brilliant, but it is not likely to overcome the wrong strategies even with excellent production and distribution performance. The ideal situation, of course, is for an organization to design brilliant strategies and to implement them efficiently and effectively.⁴

In a growing number of companies, particularly the larger organizations, the framework for formulating and implementing strategies is the formal strategic planning system. Strategy can be formulated without a formal system, however, as will be discussed later. But either way, the processes of strategic planning are intertwined with management.

Tasks of Top Management

This is a book about strategic planning and not about the tasks of top management. It is useful, however, to comment a bit more on a point already made, namely, that strategic planning is a central concern of strategic management but not the entirety of the top management job.

In a recapitulation of his monumental book on management Peter Drucker summarized the tasks of top management as follows:

First is the formulation and implementation of strategy. Drucker explained this prime task as

the task of thinking through the mission of the business, that is, of asking the question “what is our business and what should it be?” This leads to the setting of objectives, the development of strategies and plans, and the making of today’s decisions for tomorrow’s results. This clearly can be done only by an organ of the business that can see the entire business; that can make decisions that affect the entire business; that can balance objectives and the needs of today against the needs of tomorrow; and that can allocate resources of men and money to key results.⁵

That, of course, is the strategic planning process.

The other tasks of top management according to this eminent observer of management and managers are as follows: standard setting, for example, for the conscience functions; building and maintaining the human organization; fulfilling responsibilities concerning relationships that only the people at the top of an organization can establish and maintain, such as with major customers, very important suppliers, or bankers; performing ceremonial duties, such as at civic events; and being the “standby” organ for major crises.⁶

There is, of course, no idealized or single way for top managers to discharge their responsibilities. For some managers the strategic planning process is a much larger part of the total job than for others. But for all it is of central importance in performing properly the top management function.

Planning Responsibilities of All Managers

It was said previously that strategic planning is a function of all managers at all levels of an organization. This point has been amplified by Marvin Bower, who for several decades was managing director of McKinsey and Company, a well-known, worldwide management consulting firm. In a superb book that summarized the lessons of experience of effective managers over a long period of time Bower concluded that there are

fourteen basic and well-known management processes [that] make up the components from which a management system for any

business can be fashioned. . . . Fashioning these fourteen components into a tailor-made management system is the building job of every chief executive and every general executive. To support, follow, and enforce the system is a vital part of every top manager's operating job—and of managers and supervisors at every level.⁷

What are these fourteen processes? They are, Bower says, the following:

1. **Setting objectives:** Deciding on the business or businesses in which the company or division should engage and on other fundamentals that shall guide and characterize the business, such as continuous growth. An objective is typically enduring and timeless.

2. **Planning strategy:** Developing concepts, ideas, and plans for achieving objectives successfully, and for meeting and beating competition. Strategic planning is part of the total planning process that includes management and operational planning.

3. **Establishing goals:** Deciding on achievement targets shorter in time range or narrower in scope than the objectives, but designed as specific sub-objectives in making operational plans for carrying out strategy.

4. **Developing a company philosophy;** Establishing the beliefs, values, attitudes, and unwritten guidelines that add up to "the way we do things around here."

5. **Establishing policies:** Deciding on plans of action to guide the performance of all major activities in carrying out strategy in accordance with company philosophy.

6. **Planning the organization structure:** Developing the plan of organization—the "harness" that helps people pull together in performing activities in accordance with strategy, philosophy, and policies.

7. **Providing personnel:** Recruiting, selecting, and developing people—including an adequate proportion of high-caliber talent—to fill the positions provided for in the organization plan.

8. **Establishing procedures:** Determining and prescribing how all important and recurrent activities shall be carried out.

9. **Providing facilities:** Providing the plant, equipment, and other physical facilities required to carry on the business.

10. **Providing capital:** Making sure the business has the money and credit needed for physical facilities and working capital.

11. **Setting standards:** Establishing measures of performance that will best enable the business to achieve its long-term objectives successfully.

12. Establishing management programs and operational plans: Developing programs and plans governing activities and the use of resources which—when carried out in accordance with established strategy, policies, procedures, and standards—will enable people to achieve particular goals. These are phases of the total planning process that includes strategic planning.

13. Providing control information: Supplying facts and figures to help people follow the strategy, policies, procedures, and programs; to keep alert to forces at work inside and outside the business; and to measure their own performance against established plans and standards.

14. Activating people: Commanding and motivating people up and down the line to act in accordance with philosophy, policies, procedures, and standards in carrying out the plans of the company.⁸

All these processes, without exception, are in one way or another embodied in a comprehensive formal strategic planning process. But again, managerial responsibilities and actions for some of the processes extend beyond the planning process. For instance, activating people (item 14) is a requirement that is more pervasive than planning. The point of this discussion is that dominant management processes, according to a management observer whose word commands respect, are elements of or rely heavily upon strategic planning.

Intuitive-Anticipatory versus Formal Strategic Planning

There are two fundamentally different ways for a manager to formulate strategic plans for the future. The first is to meet each day as it arrives and make strategic decisions only on that basis. I assume that managers who prefer this “Mickey Finn” approach will not be reading this book. Those managers who think much about the future and devise strategies to help them meet the future in ways they want may take one of two alternative approaches.

The first, the intuitive-anticipatory approach, has several major characteristics. Generally it is done in the brain of one person. It may or may not, but often does not, result in a written set of plans. It generally has a comparatively short time horizon and reaction

time. It is based upon the past experience, the “gut” feel, the judgment, and the reflective thinking of a manager. It is very important and must not be underestimated. Some managers have extraordinary capabilities in intuitively devising brilliant strategies and methods to carry them out.⁹ For instance, in speaking of Will Durant (the man who put together the companies upon which General Motors Corporation was built), Alfred Sloan (whose leadership built General Motors Corporation) said: “He was a man who would proceed on a course of action guided solely, as far as I could tell, by some intuitive flash of brilliance. He never felt obliged to make an engineering hunt for the facts. Yet at times he was astoundingly correct in his judgment.”¹⁰

Albert Einstein acknowledged the significance of intuition from a different angle in these words:

I believe in intuition and inspiration . . . at times I feel certain that I am right while not knowing the reason. . . . Imagination is more important than knowledge. For knowledge is limited, whereas imagination embraces the entire world, stimulating progress, giving birth to evolution. It is, strictly speaking, a real factor in scientific research.¹¹

If an organization is managed by intuitive geniuses there is no need for formal strategic planning. But how many organizations are so blessed? And, if they are, how many times are intuitives correct in their judgments?

In contrast, the formal planning system is organized and developed on the basis of a set of procedures. It is explicit in the sense that people know what is going on. Frequently, manuals of instruction are prepared to explain who is going to do what and when and what will happen with the information. It is research based. It involves the participation of many people. Support for the decisionmaking in the process is frequently documented and the result of the entire endeavor is a written set of plans.

It is not at all unusual to find in organizations a clash between these two approaches to strategic decisionmaking. A manager who has been successful with his intuitive judgments is not likely to accept completely or readily the constraints of a formal planning system. Such a manager may be uneasy with some of the new language and methods used by sophisticated staff in a formal planning system. Or, the manager may feel a challenge to his authority as those participating in the system engage in the decisionmaking