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Planning and Policy

PREFACE

This book deals with the field of strategic or long-range planning and the policy-making functions of managers in a variety of organizations. It is intended to serve as an exposition of modern strategic planning thought and practice for the manager as well as a supplement to the "cases" usually emphasized in courses in "Business Policy."

The book emphasizes the methodological "how to do it," aspects of strategic decision making and planning rather than the "what to do" aspects usually emphasized in policy courses. It should therefore prove useful both to the experienced manager who is concerned with achieving more effective organizational strategic planning and to the student of planning for whom the methodological focus can serve to complement the important "what to do" decision-making skills that can be developed through case analysis and other simulations of real-world decision situations.

The methodological emphasis of the book is not an exclusive one, however. We believe that this book's broad view of the organizational strategic planning function—one that emphasizes long-run, truly strategic thinking about opportunities as well as problems—is an extremely effective device in stimulating strategic thought processes in managers and students.

Based on our consulting experience, which forms a primary empirical basis for the book, we have concluded that the ability to "think strategically" in comprehensive policy terms is perhaps the least homogeneously distributed personal managerial trait. Those few managers who have the ability to think strategically are generally extremely successful and move readily to the top of their organization, whereas those who do not, move less quickly.

In working with many firms and agencies in developing the ideas and methodologies of this book, we have found that the process of designing and developing a strategic planning methodology in an organization may well be the single best device for stimulating strategic thinking. This is so because, in thinking about the vast range of considerations that must be explicitly, yet economically, taken into account in an organizational strategic planning process, the individual expands his own horizons and level of awareness of the overall system of which he and his organization are a part.

Thus, the methodological emphasis of the book has payoff in *both* the methodological and substantive areas. We have tried to amplify these substantive learning benefits by incorporating many real-world examples and by discussing methodology using substantive contexts.

In treating the methodological aspect of strategic planning, this book deals with systematic approaches that can serve to amplify the value of the ever-necessary managerial judgment. It focuses on strategic decision-making within the supportive framework of a strategic planning system. Such a system provides procedures, processes, informational support, and a facilitative organizational structure to permit managers to "break out" of an emphasis on day-to-day operating problems and give appropriate attention to the development of *contrived organizational change*.

The strategic-planning system is treated at both the conceptual and operational levels. This dual approach reflects our belief that the field of strategic planning has developed few integrating concepts, even though, at the same time, its literature is filled with "motherhood and sin" prescriptions of how strategic planning *should* be accomplished. Here, we attempt to provide some integrating concepts, as well as to show how these concepts have been applied in real-world situations.

Much of the material in the book is based on our personal consulting experience with a variety of business and public organizations; however, we have supplemented our personal experience with ideas and approaches adapted from some of the world's best strategic-planning organizations. In all instances, we have adapted language and approaches to a single conceptual framework and set of terminology that is used throughout the book. This attempt to do more than catalog various strategic-planning approaches addresses a major problem in the field: a "semantics jungle" in which words are used by different authors to mean different things and old ideas are given new names to make them more appealing and "saleable."

The premises on which this book is based, although they are not eternally established truths, have been developed and tested in real-world situations to a degree that makes them worthy of serious consideration by any organization with a need and desire to do better strategic planning. These basic premises are as follows.

1. Professional planners can facilitate a planning process, but they cannot themselves do the organization's planning.
2. Planning activities should be performed by the managers who will ultimately be responsible for the implementation of the plans.
3. Creative strategic planning is inherently a group activity, since it must involve many different subunits of the organization and many different varieties of expertise.

4. A "planning organization" must be created to deal with the conception and development of strategic plans. This organization provides *the climate and mechanisms through which individuals at various levels are provided a greater opportunity to participate in determining the organization's future.*

5. Strategic planning involves much more than numerical extrapolations of trends; it involves as well the selection of missions, objectives, and strategic alternatives.

6. Managers must be motivated to spend time on strategic planning through a formalized system and organization approach, which also permits their contribution to the planning process to be assessed.

7. The planning process must provide for the development of relevant data bases—qualitative as well as quantitative—that facilitate the development of environmental forecasts and the evaluation of strategic alternatives.

8. An evaluation of future environmental trends, competitive threats, and *internal organizational strengths and weaknesses are essential to the* strategic-planning process.

9. Evolving ideas within the organization provide the point of departure to develop future products and markets.

10. The chief executive's responsibility for developing future organizational strategy centers around the development of a "strategic planning culture" in the organization, the final evaluation and selection of strategic alternatives, and the design of a master plan of implementation for those alternatives.

These premises form the broad bases for the strategic-planning approach developed in this book.

The book begins with an Introductory Section that develops basic ideas and outlines the overall scope of the strategic planning system. Subsequent major sections deal with the principal subsystems of the strategic-planning system: The Outputs of Strategic Planning (Section II), The Strategic-Planning Process (Section III), The Strategic-Decision Subsystem (Section IV), The Information Subsystem (Section V), The Organizational Subsystem (Section VI), and The Planning-Management Subsystem (Section VII). Each of these subsystems is treated in one or more chapters at both the conceptual and operational level, thus giving both the "how to do it" and the "why" treatments essential to effective use of the ideas.

The dual nature of the audience to which the book is focused—practicing managers and students—is addressed through the incorporation of two sets of exercises at the end of each chapter. One set, "Strategic Questions for the Manager," is intended to summarize the chapter in a concise fashion, which

stimulates the reader to apply the ideas to his own situation. The questions serve to illustrate a personal bias about strategic planning that authors hold that questions about planning may be more important than answers, or, to paraphrase Albert Einstein: "I wish I knew what questions I should be asking myself!". The strategic questions are addressed to the manager in his organizational setting. When the manager finds the question unanswerable or only partially answered, then he knows that someone in the organization has some work to do!

The other set of questions at the end of each chapter, labeled "Questions and Exercises," is intended to serve the more traditional purpose of chapter review and the elaboration and expansion of ideas from the chapter. They are directed primarily to the student. However, while the managerial-oriented strategic questions are primarily intended for managers, they should also be reviewed by student readers. This will serve to stimulate the student to think in managerial, rather than academic, terms.

We are indebted to a large number of students, colleagues, consulting clients, and professional planners for their inputs to this book. However, since we have adapted their ideas to our own mold, we take seriously the traditional claim of total responsibility for the results.

Our debt is especially great to Dean H. J. Zoffer of the Graduate School of Business and Dean M. L. Williams of the School of Engineering of the University of Pittsburgh, both of whom provided the "facilitative organization" conducive to the completion of the manuscript and to Claire Zubritzky, Carol Capone, Lois Aurila, Arlene Wycich and Olivia Harris, who typed the many drafts.

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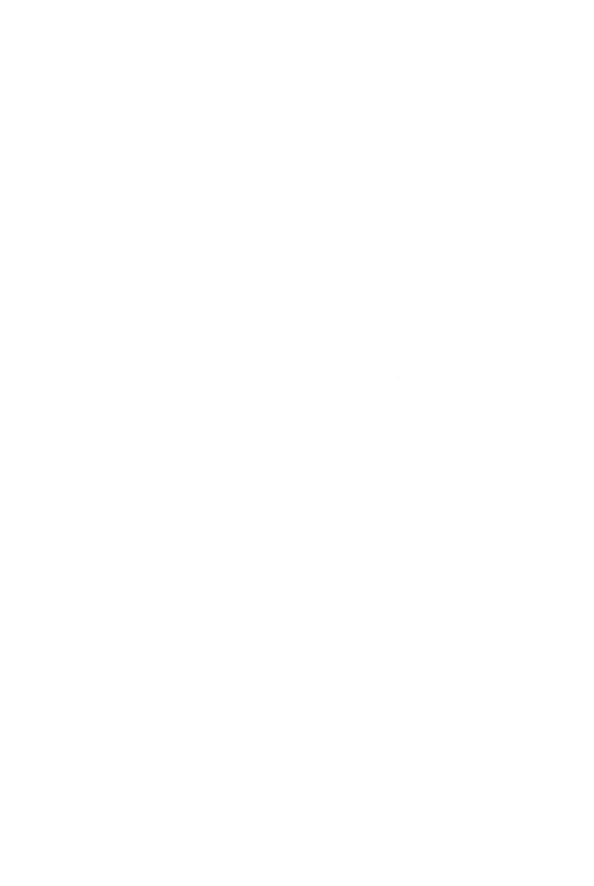David I. Cleland
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PART I

Introduction

PLANNING, STRATEGY, AND POLICY

Change and the organizational implications of change are very much on the minds of modern managers. Managers are becoming increasingly aware of the need for better information, techniques, and processes to cope with the risks and uncertainties that are the handmaidens of change. Management assessments of the likely impacts of the constantly occurring social, economic, and technological changes have become essential to organizational survival and growth. Among the most perplexing problems facing contemporary managers is how to anticipate future problems and opportunities and how to design strategies to cope with and take advantage of them.

Although there is much that continues to be said about the accelerating rate of change that faces contemporary organizations and managers, the notion of change as a way of life has become accepted, at least in principle by most modern managers.[1] Indeed, throughout society, change has become simultaneously more rapid and more familiar, whereas in the past change was relatively slow and was often surprising when finally perceived.

Organizational behavior to cope with change was, in the past, reactional in nature. Today, most institutions in our society recognize the need for the deliberate *contrivance of change* carried out through a rigorous process of anticipating change, plotting its course, and shaping the change for intended organizational purposes.

Terms such as ''long-range planning'' and ''strategic planning'' connote philosophies and approaches through which the *future impact* of change is assessed and integrated into *current decisions*. These terms deal with broad, important, far-reaching forces that beset the organization as opposed to the more parochial and shorter range issues involved in day-to-day operating decisions. Yet, despite the fact that the literature of management is replete with exhortations concerning the importance of such high-level, long-range approaches, they are among the least well-developed and least understood concepts of man-

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[1] See Toeffler, A., *Future Shock*, Random House, New York, 1970, and Drucker, P., *The Age of Discontinuity: Guidelines to Our Changing Society*, Harper & Row, New York, 1968.

agement. Moreover, even in those organizations and situations where these ideas are understood, they are among the least practiced of the many elements of the manager's job.

Most large organizations attempt to perform activities labeled "long-range planning" or "strategic planning," but few actually have developed structured approaches and effective processes for exploring the broad range of opportunities and strategies available to enhance future prospects. For the most part, activities conducted under these labels are either highly formalized exercises that narrowly focus on financial extrapolations or, at the other extreme, creative efforts performed in an unstructured way and having little real impact on the organization.[2]

There is a good deal of empirical evidence suggesting that high-level managers recognize the great significance of strategic planning, but that, paradoxically, they devote only a small proportion of their time to it. As a consequence of this incongruity, planning is often entirely neglected by managers, or relegated to staff people with top management playing only a reviewing role. Sometimes managerial involvement in planning primarily occurs when one level of manager, say at the divisional level, approves the plans prepared by his staff and submits them to a higher-level manager who promptly sends them to his staff for review.

The reasons for the pervasive failure to implement the sound strategic planning practices that are almost universally regarded to be worthwhile are manifold. Among them is the natural tendency for the day-to-day short-run problems of the organization to occupy so much of the manager's time that the long run is neglected. The greater difficulty and uncertainty inherent in consideration of the long run unquestionably discourages managers from devoting their limited time and energy to "blue sky" thinking about the uncertain future when that time can be applied so effectively to solving the "real" and more easily understood issues of today.

However, perhaps most important in this regard is the *lack of effective management systems for the conducting of strategic planning*. Put simply, the field is much less well developed, in terms of the sort of processes, approaches, techniques, or even principles that managers are used to applying to their short-range tactical activities, than are most other areas of management. Strategic planning is time consuming, complicated, and has long-run payoffs at best. Many managers are therefore willing to forego these practical problems and the consequent promise of long-run benefits on the premise that if they don't solve today's problems, they may not be around to experience the long run.

This tendency is undoubtedly amplified in the many organizations in which

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[2] For instance, see Zoglin, R., "The Futurists—Seers in a Shortsighted Industry," *New York Times*, July 23, 1975, pp. 1 and 27.

managers are evaluated primarily in terms of current performance. The corporate executive whose pay and promotions depend largely on this year's profits is unlikely to willingly trade off current profits for potentially larger future ones, especially if his personal advancement will ensure that he will not be in his current position when those future profits are realized. Thus, when managers are assessed in short-run terms, they are unlikely to devote much thinking to anything other than the short run.

Long-Range and Strategic Planning

The primary purpose of this book is the conceptualization and operational development of an approach to strategic planning and policy that can be applied to a wide variety of contemporary organizations. Although the approach taken to satisfy this objective has something of a business bias, one of the important points to be made is that the traditional business emphasis on "the market", the environment of the organization and the marketing function is as important to other types of organizations as it is to business.[3]

This book deals with *systematic processes for the assessment of the future impact of present strategic decisions, how those decisions can best be made and effectively implemented, and how the organization can be structured to facilitate, rather than hinder, this process.*

LONG-RANGE PLANNING

Just what is long-range planning? The term is often used to denote planning for actions that will impact on the organization only in the long run. In some organizations, such as a paper firm that must plant forests 30 or more years in advance, long-range planning may be done for very long planning horizons. Elsewhere, such as a firm that manufactures style goods, the planning horizon, at least in the product dimension, may be only about a year. In this new product context, other firms, such as pharmaceutical manufacturers, need to plan for much longer than a decade. This is so because the lead time required to develop new products, test and evaluate them, and obtain federal government approval for placing them on the market may well be of that duration.

Many other organizations, such as public agencies, try to plan for the very long run (i.e., decades), but find that they are limited in their ability to do so. Most organizations find that some dimensions of their planning *must* be done in

[3] Kotler, P., *Marketing in Nonprofit Organizations*, Prentice Hall, Englewood Cliffs, N.J., 1975.

the range of five years hence, e.g., planning for facilities, since the time required to complete facilities is often of that magnitude.

Thus, precisely what is meant by "long" in the term "long-range planning" depends very much on the context in which the planning is being done. What is long-range to one organization may be short-range to another, and the planning horizon feasible in one area of an organization's activities may be impractical in another.

STRATEGIC PLANNING

In this book, we prefer to use the term "strategic planning," rather than long-range planning, because it does not have the confusing time horizon connotation and because it has the connotation of importance. Thus, whereas some authors[4] have tried to avoid this linkage of strategic planning and important decisions, it is clearly true that *the decisions that are the province of strategic planning are those most important to the organization's future.*

A variety of definitions have been put forth for strategic planning. One appears in a book on another topic (management control):

> Strategic planning is the process of deciding on the objectives of the organization, on changes in those objectives, on the resources used to attain these objectives, and on the policies that are to govern the acquisition, use and disposition of these resources.[5]

Thus, strategic planning involves the development of objectives and the linking of these objectives with the resources which will be employed to attain them. Since these objectives and resource deployments will have impact in the future, strategic planning is inherently future oriented. Strategic planning, therefore, deals primarily with the contrivance of organizational effort directed to *the development of organizational purpose, direction, and future generations of products and services,* and the design of implementation policies by which the goals and objectives of the organization can be accomplished.

Identifying the Need for Strategic Planning

There is a glaring need in modern organizations for more effective strategic planning processes and systems. That need can be exemplified by a variety of symptoms that tend to inhibit an organization from achieving its potential:

[4] For example Ansoff, H. I., *Corporate Strategy*, McGraw-Hill, New York, 1965, p. 5.

[5] Antony, R. N., Dearden, J. and Vancil, R. F., *Management Control Systems*, Richard D. Irwin, Homewood, Ill., 1965, p. 4.

1. A tendency for each manager to view his current domain from the standpoint of the discipline in which he first acquires credentials, regardless of its broader scope and the requirements for more diverse considerations.
2. A "tunnel vision" phenomenon, in which managers fail to recognize the multiple objectives of the organization even though they have moved to a general management position and can no longer afford the luxury of the simplistic efficiency-oriented objectives that are the forté of managers at lower levels.
3. A bureaucratic organizational structure designed more for maintaining efficiency and control in current operations than in fostering long-range innovation.
4. The lack of an "organization" or process designed specifically for fostering the managerial participation and innovativeness for developing new products and services.
5. An assumption that the chief executive or, alternately, a professional planning staff should *do* the planning.
6. An incentive system wherein performance oriented toward the production of short-range results is rewarded more highly than that oriented toward long-range opportunities.
7. The introduction of radically new planning systems into organizations without proper concern for their effect on the motivations and behavior of those managers who must use them.

If these symptoms exist in an organization, it is likely that it is incapable of significantly affecting its future. Organizations possessing these traits are reactive rather than proactive, and whether or not they devote significant resources to planning, they are not likely to be effective planners.

It is a primary objective of this book to show why this is so and how these organizational characteristics can be rectified to permit effective planning.

The Nature and Scope of Strategic Planning

The strategic planning activity in an organization should provide managers with an opportunity to address some basic questions about the organization in a way that they cannot do in the course of their day-to-day operational activities. These critical questions are simply: (a) What has been our "business" or organizational purpose? (b) What is our present business? (c) What should our business be in the future? (d) How can we best act to assure that our business becomes what we want it to be? In addressing these questions the manager must identify and analyze historical fact and culture, present circumstances, and future "images."

WHAT IS STRATEGIC PLANNING?

Strategic planning involves important, high-level organizational choices. A question important to the understanding of the field, therefore is, "How can one identify those crucial choice situations with which strategic planning deals?"

The answer to this question is deceptively simple. *Strategic planning is applicable to any situation so long as:* (a) it is directly related to *overall organizational purposes*, (b) it is *future-oriented*, (c) it significantly involves *uncontrollable environmental forces* that affect organizational performance.

OVERALL ORGANIZATIONAL PURPOSE. A decision aimed at reducing costs in the production department would probably *not* be within the purview of strategic planning since cost reductions are not generally *directly* related to overall purposes. Such activities normally focus on *efficiency* (the way in which inputs are transformed into organization outputs) rather than *effectiveness* (the degree to which outputs achieve organizational purposes). *It is organizational effectiveness (the relationship between outputs and purposes) that is the primary concern of strategic planning.*

Thus, broad decisions regarding new products (e.g., which products to introduce and when) would normally be strategic in nature. But, more detailed elements of the new product situation (e.g., which advertising appeal to use) would not normally be considered strategic to the organization.

FUTURE ORIENTATION. Since virtually any decisions can be argued to be future oriented in the sense that the consequences of the choice will be felt only in the future, the second element of the above definition of strategic planning warrants further explanation. In fact, the idea of "future orientation" is not really explicit, so that it requires an operational definition[6] to make it useful.

Here we shall consider a decision regarding an element of an organization to be *future oriented if the element, at least in part, does not currently exist.* This view therefore takes decisions regarding products, personnel, organizational skills, etc., as being *future-oriented* if one is deciding about such things as products that are not in the current mix, people who are not currently employed, or skills that the organization does not currently possess.

Thus, if one is planning for new products, new skills, new facilities, etc., *and these entities are important to the achievement of the organization's objec-*

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[6] An operational definition is one that relates a concept to the observable criteria which, if satisfied, indicates the existence of the thing being defined. Operational definitions are important in science, where everything must be defined in terms of what would be observed if certain operations were performed. The use of the term here is not precisely that familiar to scientists, but it is closely related to it. See Ackoff, R. L., *Scientific Method,* Wiley, New York, 1962, Chapt. 5.

tives, he is doing strategic planning. Decisions regarding current products, markets, and skills, are not normally strategic in nature, although important *changes* in existing ventures, such as consideration of discontinuing a product are often strategic.

Similarly, a decision about whether to hire a specific individual would not normally be a strategic one (although in the case of a new chief executive or someone with unique talents who can directly help the organization in achieving its overall goals, such a decision could be strategic),[7] and a decision to add some technological forecasting expertise to the planning department would generally not be strategic.

ENVIRONMENTAL FORCES. The third element used in describing the scope of strategic planning is that of environmental forces. *Strategic planning normally involves issues that are significantly affected by a variety of external environmental elements.* Thus, the social, economic, technological, legal, and political factors in the organization's future must be understood before the questions of future strategic purpose or direction can be addressed. To do otherwise would be to select a strategy that could fail if contingencies, such as an economic downturn or a change in political alignments, affected the organization.

Within this three-dimensional realm of future-oriented environmentally-related activities that directly affect overall organizational purpose, virtually *anything that significantly changes the character or direction of the organization* is within the province of strategic planning. Strategic planning is an innovative process, which may affect all of the inputs, outputs, and resources of the organization. Illustrative of such changes are:

Acquisition and disposition of facilities

New markets to be served

New distribution channels

Redesigned organizational structure

New product research and development

Revised dividend policy

New sources of financing

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[7] However the growing body of federal and state legislation directly affecting the relationship between the corporation and its employees tends to make hiring of an employee somewhat "strategic" in nature. Over the past twenty years there has been more than one hundred pieces of such federal legislation. One large U.S. corporation views the hiring of an individual as "strategic" in nature somewhat on par with a capital expenditures decision considering the "ownership costs" commitment that is involved if the employee were to remain with the corporation for a lifetime of work. These lifetime "ownership costs" for an hourly employee have been estimated as $1.7 million, and for a salaried employee $2.2 million assuming a 40-year working lifetime. These costs include cost of wages and benefits for a typical employee.

Mergers and acquisitions

New organizational skills

Executive succession

Thus, strategic planning decisions ultimately will affect the overall "systems" framework (physical, organizational, financial, etc.) within which the organization operates.

THE STRATEGIC-OPERATING DICHOTOMY

This view of the nature of strategic planning establishes a natural dichotomy within the framework of the organization—the current generation of outputs and resources versus future organizational missions and generations of "products" and resources. Strategic planning deals primarily with the latter, whereas other managerial activities (sometimes called management control and/or operational planning) deal with the former.

This dichotomy is conceptually sound because it emphasizes *change and innovation* in organizations. The ability to deal with change and to foster organizational innovation has always been associated with good planning. Indeed, they are the essence of good management.

> For centuries, one of the defining characteristics of a good manager has been his ability to think and move faster than the economic, political, social, and technical norms of the environment in which he operates. It is precisely his ability to anticipate and lead among environmental hazards and opportunities and his skill in organizational modification that have been in demand.[8]

In addition to this conceptual viability, the "existing versus new" dichotomy is operationally practical. Much of the remaining chapters of this book are devoted to demonstrating this practicality. Suffice it to say here that the organization itself, its processes, information, and other salient elements can be structured to accommodate this view. Moreover, in doing so, one is designing an organization that is more likely to survive and to prosper and less likely to be diverted from its purpose than is an organization that is not so structured.

EFFICIENCY AND EFFECTIVENESS. The "existing versus new" viewpoint serves to rather clearly distinguish strategic considerations and activities from operating ones. This is important in part because of the nature of the management activities involved in the two areas.

When managers are concerned with operating decisions, such as the size of a production run, the number of workers to lay off, or the negotiation of the

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[8] Baughman, J. P., Lodge, G. C., and Pifer, H. W., *Environmental Analysis for Management*, Irwin, Homewood, Ill., 1974, p. V (preface).