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Abstract: Presents the key changes strategic planning is undergoing as reported in the Business Week article of August 26, 1996 on strategic planning.

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Executive Summary

In response to increasing pressure to compete in today's market place, strategic planning is undergoing a significant face lift. The historical approach to strategic planning was an analytical, exclusive, inward focused process. Markets were evaluated on their size and the firm's ability to capture market share. A firm's resources, people, capital, land, and money were the key criteria to success.

The new approach to strategic planning takes a systems view of the environment. It looks at things from the outside of the organization into the organization. It is a democratic process involving people at all levels in the organization plus suppliers and customers. Today's challenge is to figure out ways to develop new markets and to establish leadership positions in these emerging markets, not to gain shares of existing markets.

A firm's resourcefulness, its ability to act effectively and imaginatively, is much more important to success than its resources. Resourcefulness is a verb, and action word. Resources is a noun, a state.

This report offers specific recommendations to guide a firm in implementing the new way of strategic planning.

History of Strategic Planning

The word strategy comes from the Greek word strategos, meaning general of the army. Greek tribes annually elected a strategos to head their regiment. At the battle of Marathon in 490 BC, the strategos advised political rulers about managing battles. In time, the strategos job grew to include civil magisterial duties as well [1].

The first strategic planning methodology for private business was developed in the early 1920's at Harvard Business School. The Harvard Policy Model defined strategy as the pattern of purposes and policies for defining the company and its businesses [1].

In the 1950's strategic planning became a fashionable topic when large firms and expanding business opportunities necessitated looking more systematically at the future. Its purpose was to define the firm's objectives, then establish plans to achieve those objectives and finally to allocate resources through capital budgeting. Strategy was essentially concerned with detailed sequences of actions required to produce expected objectives.

Traditional strategic planning involved a highly structured approach, Blackerby describes the six steps for environmental assessment identifying the factors that impact a firm's vision [1].The first two, identifying strengths and weaknesses of the firm are internal to the firm. The objective is to capitalize on strengths and minimize or eliminate weaknesses.

The third and fourth steps, identifying opportunities and threats are external to the firm. The objective is to capitalize on opportunities and counter threats.

The last two, competition and constraints can be either internal or external.

This approach to strategic planning is abstract, analytical and remote. Only a few executives and business consultants are involved in developing the strategic plan. Often the output is many thick binders of graphs and reports.

A fundamental assumption behind strategic planning at that time was a belief that the future is controllable. Strategic planning was viewed as a deterministic process where all the parameters in the planning process were available and determinable while any indeterminable factors were ignored.

In the 1970s and 1980s users became disillusioned with strategic plans. A crisis emerged about the purpose, usefulness, and applicability of strategic planning. Empirical research showed that some of the assumptions underlying strategic planning did not hold. For example, forecasting the future is very inaccurate. The cost of flawed strategic planning is enormous. One estimate of IBM's and Apple's losses from poor strategic plans is $90 billion and $40 billion respectively [4].

The mental model at this time was to achieve a state, not apply a process. Organizations set goals for their strategic plans and when the goals were met, success was declared and progress stopped. This contrasts with the process approach where the objective is continually improvement towards meeting ever increasing goals. The Japanese call this Kaizen or continuous improvement.

Many business schools are not teaching this new way of strategic planning. Hamel and Prahalad, describe the current state of educating students about strategic planning this way. "Strategy, as taught in many business schools and practiced in most companies, seems to be more concerned with how to position products and business within the existing industry structure than how to create tomorrow's future" [5].

In the 1990's strategic planing is undergoing a face-lift. While the term is the same, strategic planning, the process is completely different. Strategic planning is transforming from an analytical, "inside-out" approach to a customer based, "outside-in" systems approach. Today strategic planning is a democratic holistic process instead of an isolated deterministic process.

Strategic Planning's Face Lift—Where Strategic Planning is Going

"Getting to the future first is more a function of <u>resourcefulness</u> than <u>resources</u>." [5]

In traditional strategic planning, resources were the prime determinate of a firm's success. Resourcefulness was a given. Today, resourcefulness is much more important than resources. Hamel and Prahald say, "A firm can sit atop mountains of cash and command legions of talented people and still lose its preeminent position. Likewise, a firm can sometimes overcome enormous resource handicaps and successfully scale the heights of industry leadership" [5].

Microsoft's spectacular performance against IBM illustrates this. At the start of their relationship, IBM's resources dwarfed Microsoft. For example, IBM had 300,000 employees, Microsoft had fewer than 100. Microsoft used its resourcefulness to become a leader. The initial agreements Microsoft struck with IBM made Microsoft look like a neophyte. IBM got MS-DOS for a fixed price. Microsoft received no royalties for MS-DOS purchased by IBM.

"The future belongs not to those who possess a crystal ball, but to those willing to challenge the biases and prejudices of the establishment" [5].

Microsoft challenged the establishment because it was resourceful and confident. Bill Gates, and Microsoft, had a clear, forward looking vision of the role of personal computers and their dependence on software. Microsoft's resourcefulness inspired them to arrange an agreement where they had the right to sell MS-DOS to third parties without payment to IBM. Just as the resources of IBM dominated Microsoft, the resourcefulness of Microsoft left IBM stuck in the mud as the market flew by them.

Microsoft continues to rely on its resourcefulness more than its resources as it becomes the world's largest software firm.

Resourcefulness is a vital principle, a firm's resourcefulness is much more important than its resources. The task of creating and sustaining resourcefulness is management's. It cannot be delegated.

Democratize the Process—Involve Employees/Suppliers/Customers

Gary Hamel, co-author of Competing for the Future says, "You have to bring new voices into the process. I find it amazing that young people who live closest to the future are the most disenfranchised in most strategy-created exercises" [4].

One of the most important elements in the strategic planning process is the involvement of the right people at all levels. The people who will implement the plan must own the plan.

Unlike traditional strategic planning where an isolated small set of officers and consultants developed the plan, today's strategic planning is a democratic process. Effective strategic planning teams include employees at all levels—employees learning from the outer environment, not just the inner environment. They include suppliers, customers, and industry analysts.

Involvement provides two key benefits. First, it gives the organization a deeper understanding of the environment, opportunities and threats. Second, the high involvement translates into strong commitment. The commitment makes implementation faster and more effective.

To illustrate the extent of employee involvement, Electronic Data Systems, Corporation started a major strategy initiative that involved 2,500 of its 55,000 employees. The group ranged from a 26 year-old systems engineer to a sixtysomething corporate vice-president [4].

Management Commitment

Making radical changes in strategic planning requires top management strong support and commitment. Demonstrating management commitment is difficult because the commitment must be exemplified daily at every opportunity. Management support for the strategic planning process must be shown by attending and participating in meetings, referring to strategic planning's value in every speech, providing meaningful feedback to people who contribute to the process.

Frank A. Schronz, Boeing chairman from 1988 to 1996 led Boeing's revolution. In the early 1990's Schronz and a team of 100 top executives went on study missions to Japan to learn about Japanese business practices. These were not the usual business trips. Schronz insisted that every participant read 18 books on Japanese quality before leaving [3].

In a talk to our Management 520 class, Tom Long told how Bob Galvin, former Chairman of Motorola gained top management's commitment to quality. Galvin would make sure quality was on the agenda of every management meeting. However, this was ineffective. Galvin found that quality was given little discussion. Galvin lead by example. He placed quality as the first item on the agenda. When the quality discussion was finished, he left the meeting. This showed the depth of Galvin's commitment to quality [7].

Outside-In

Strategic planning begins with the customer and works backward to the organization. The classic strategic planning process was "inside-out" where a firm carefully analyzes its strengths and short comings. This is not enough, and can even be destructive.

Arthur Martinez, Sears CEO credits their emerging turnaround to "outside-in" thinking, "Strategy can sometimes be this inside-out, self-absorbed self-examination process. But, they [Slywotsky's Corporate Decisions] have an outside-in view of strategy. I was mightily taken with that, because one of the things that got the company in trouble was its lack of focus on the customer" [4].

Slywotzky, in Value Migration says the customer drives the entire value migration process. The firm starts with learning about the environment, with their current and prospective customers [9].

Hewlett-Packard CEO Lew Platt says, "My role is to encourage discussion of the white spaces, the overlap and gap among business strategies, the important areas that are not addressed by the strategies of individual HP business" [4].

Strategic Implications and Issues

Slywotzky says that new aggressive competitors are successful not because they are capturing market share with hot new products, but because they may be playing by entirely new rules that are redefining their industry. Corporate pomp and circumstance becomes the norm for industrial giants, while smaller companies are relearning what makes customers happy [9].

Team one believes there are three key strategic implications for strategic planning.—learn to forget your past and look to the future, become friends with your customers and focus on purposeful change.

Learn to Forget Your Past and Look to the Future

Institutional memory while valuable in maintaining consistency in an organization is also an anchor stopping organizations from considering fresh, new ideas. Today, one must forget the firm's institutional memory. One must look to the future, to creating opportunities. GE CEO Jack Welch exemplifies the importance of consciously forgetting the past as he transforms GE into a vibrant, growing successful organization.

Slywotzky describes Jack Welch as a CEO without a memory because he looks solely to the future and is not stuck in the past. Welch values presentations that focus on what the customers want and how GE can make money delivering value to the customer. He detests presentations with the theme, "We've always done it this way" [9].

Look to the future. Complacency in an industry is just as dangerous as complacency in a company. Study your industry and look for the opportunties hidden by complacency. Whole industries become vulnerable to new rules when all the incumbents accept more or less the same industry conventions. No vacuum tube manufacturers transformed successfully to transistors.

IBM did a brilliant job avoiding the trap of complacency in personal computers. Of all the mainframe computer manufacturers in the 1970s, only IBM established themselves in personal computers, and that required extraordinary effort to achieve this. The other mainframe computer manufacturers either ignored the changing market or offered feeble approaches.

IBM broke many of their traditional approaches to computers to accomplish this. IBM required set up a "skunk works" operation led by a "wild duck," Don Estridge who had no experience with IBM mainframes. There was tremendous opposition within IBM to the PC project. It took the direct support of the IBM Chairman John Opel to run interference for the PC project to hold of the parts of IBM who rebelled against the PC effort.

Become Friends with Your Customers

"Winning companies know their markets so well, that they anticipate customer needs and design their business to meet them" [9].

"My hero is the TV detective Columbo. He's comfortable acting as if he doesn't know anything while he observes and asks questions that deepen his learning." Scott McNeally, CEO of SUN Microsystems told a group of Stanford MBA students this in 1992. McNeally learns what's happening by going outside of his organization and absorbing, listening, watching and asking simple questions [8].

Traditional CEOs spend little time outside their organization. When they do step out of their environment, their focus is on emoting, not absorbing, expressing, not listening. They give talks, and look intelligent by asking questions.

To learn about new markets, management must empower their employees to understand their customer's environment and needs intimately. Management must demonstrate this by their actions.

Effective strategic planning involves close, continuous communications with customers, existing ones and potential customers. This is an active process not a passive one. Slywotzky suggests a number of things that need to be done [9].

1. Visit your customers' conventions, not your own.
2. Change your company's information diet. Introduce a flow of information about customers financials, buying criteria, systems, costs and so forth.

3. Get out of the office and spend some real time with 10 to 15 of their customers.

Boeing is transforming itself from a secretive, closed organization to open collaboration with its customers. "After years of keeping its design processes top secret, Boeing now provides office space in its 777 building for key representatives of United and Japan Airlines Co. among others. By working side by side, Boeing executives believe they can better anticipate customers' needs and avoid expensive redesigns later" [3].

The current Boeing chairman, Phil Condit described his communications style in the Business Week article. "I try to spend time really understanding where the customer is trying to go, what he's trying to accomplish—how does what we're doing fit into that" [2].

Focus on Purposeful Change

These are three interrelated key words Focus, Purposeful and Change.

Focus means addressing what Joseph Juran calls the "vital few" [6].

Purposeful means making a solid commitment to achieve success with the "vital few" items.

Change means understanding that change is a precondition to success.

Focus

Team One recommends avoiding diluting efforts by trying to do everything. Management complacency and management chaos are equally destructive to success. Organizations who believe that by doing everything to cover their bases to assure success are likely to fail. "Almost as bad as having no clear aspirational goal is having multiple, competing goals [5].

Purposeful For IBM's initial PC, purposeful meant developing a product that retailers and customers wanted rather than follow IBM's established ways.

To be purposeful, the right habits should be developed in the right way. Hamel and Prahalad pose the question, "Why do so many music teachers and sports coaches emphasize developing 'right habits?' Because they know that learning is easier than unlearning" [5].

Hamel describes clear example of little purposefulness. He made a presentation to the top 15 officers of a large multinational company. He put their mission statement on an overhead and asked them for comments. They agreed saying it was their mission statement. What they were looking at was the mission statement of their major competitor! They could not distinguish between their mission statement and their competitors mission statement. That's lack of purposefulness [5]

Change Effective high technology management knows that change is vital to an organization's success. Avoiding change because it is risky and uncomfortable assures stagnation or failure. If a firm makes no changes while it's environment changes, it will be acquired or bankrupt.

One must avoid the complacency that is a natural part success. Too often, organizations believe they are omnipotent and know the future and do not need to change.

An example of this complacency is the CBS TV executive, who, in 1991, told a congressional committee that digital television "defies the laws of physics." He limited his vision to traditional television transmission and did not consider alternatives like cable [5].

Successful organizations look for ways to create new markets and dramatically grow existing ones.

In the pressures to compete in a rapidly changing environment there is a strong temptation to force change throughout the organization. Management must not just promote change, it must describe a clear vision of the target.

Hamel and Prahalad, describe it this way, "Empowerment without direction is anarchy" [5].

Team One has condensed the essence of good strategic planning into one sentence: "Be continually aware of what is happening around you as you create your strategic plans, and be mindful of what is changing around you as you execute them."

GOOD!

* IDEAS presented are all on the surface. More elaboration and explanation needed.

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