

# Chapter 1

## Introduction to Applied Strategic Planning

**IN THE FIFTEEN YEARS** since we published our initial version of *Applied Strategic Planning: How to Develop a Plan that Really Works* (Goodstein, Nolan, & Pfeiffer, 1993) and the accompanying *Consultant's Kit* (Nolan, Goodstein, & Pfeiffer, 1992), much has happened that has changed our world. The growth and importance of the Internet, the globalization of trade, the consolidation of many industries, the growing importance of the environmental movement, and concerns about the limitations of natural resources, especially oil, are but a few of the changes that quickly come to mind. For example, seven of the ten companies with the largest growth in share value over the past decade did not exist twenty years ago (McKinsey & Co., 2006). Each of these changes potentially has important consequences for all organizations. Tracking those changes that have the greatest potential to impact an organization and developing a plan to respond to change is an imperative requirement for organizations.

But over the years our experiences as consultants to organizations have convinced us that most planning processes are poorly conceptualized and even more poorly executed. Our experience has shown strong resistance to planning in most organizations and that it is rarely creative when it is done and, moreover, is largely tactical rather than strategic in nature.

Most planning processes, in fact, result in *long-range rather than strategic plans*. These long-range plans are based on the assumption that we can extrapolate the future from the present. If we simply assume a 7 percent growth rate compounded over the next ten years, we will have doubled our revenues and no one should complain about that. But the idea that no significant changes will occur in our particular environment over the next five years does not meet a test of reasonableness. A genuine strategic plan should involve an effort to consider a variety of futures and develop options for meeting each of these futures.

Strategic planning is critical to the success of any organization. However, McKinsey & Co. (2006) reports that less than half of the almost eight hundred business executives who responded to its online survey

were satisfied with the manner in which their organizations conducted strategic planning. And, although three-quarters of these executives indicated that their organizations engaged in strategic planning, less than a quarter of these executives reported that their organizations used the results of the planning process in making important organizational decisions. The two major suggestions that these executives made for improving their organizations' strategic planning process were, first, to improve the company's alignment with the strategic plan and, second, to develop methods for monitoring the company's progress in implementing the strategic plan. Only slightly more than half of these respondents regarded their strategic plans as fact-based, that is, focused on the most important strategic issues facing the company or built on a shared understanding of the dynamics of their particular market. Finally, these executives raised significant concerns about the ways in which their organizations communicated their strategies to those not involved in the process, how they executed the strategy, aligned the organization to the plan, and measured performance against this strategy.

These findings from one of the world's premier consulting organizations strongly suggest that the template used by most organizations for developing a strategic plan is grossly defective and gives rise to the popular notion that strategic planning is a useless activity mandated by management for its own amusement. Our approach to planning—Applied Strategic Planning—represents our continued effort to address these issues.

We define Applied Strategic Planning as *the process by which the guiding members of an organization envision its future and develop the necessary procedures and operations to achieve that future* (Goodstein, Nolan, & Pfeiffer, 1993.) Both our experience over time and the reports of others who have adopted our approach clearly support our contention that our model provides an organization with both a clarity of direction in which to move and the psychological energy to initiate that movement. Using our model requires that the organization simultaneously develop a strategic plan and a *strategic management* process—one that will ensure that the plan will be successfully implemented.

It is important to note that beginning a plan with a vision of a desired future for an organization leads to a very different outcome than that obtained from any long-range planning process—an extrapolation of current business trends. Beginning with the present and planning a future very much like the present is a far cry from envisioning a desired future and planning how such a future can be achieved. Envisioning involves the conviction that our present actions can influence our future—we can help create our

own future rather than passively accept whatever comes to pass. A powerful well-thought-out vision can become a magnet pulling an organization toward its ideal future. As Peter Drucker said, “If you want to know what the future is, be a part of its development” (Haas, 2006, p. 72).

Before we outline the framework of our model, it is important to recognize that this approach to planning often raises difficult issues for the client system, issues that may have been unaddressed for years. As a result, we have found that Applied Strategic Planning works best when it is facilitated by a skilled consultant external to the client system. The consultant-facilitator works to keep the process moving along and ensures that the important issues are addressed—and, when necessary, that the skeletons in the closet are brought into the light of day.

## The Applied Strategic Planning Model

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Although our approach to strategic planning and our model share many characteristics with other models that are built on best practices in organizational change, we differ in a number of important ways. First and fundamental to our approach to Applied Strategic Planning is that it is “the process by which the guiding members of an organization” actually work together to create the plan themselves. We have more to say about the importance of this approach and its implications in the next chapter on the role of the consultant. One of those implications, which we see as a second difference, is the importance of learning how to think strategically. *Strategic thinking* will be essential for the members of the planning group if their work is to be successful.

Since most managers spend most of their time and energy putting out brush fires—operating tactically or short-term—they often have little training or experience in thinking or acting strategically. Their working lives consists of constantly solving a myriad of crises—human resources problems, customer complaints, equipment failures, inventory shortages—with little time to consider the future direction of the business or how to plan for that future. Thus, we have learned that some reorientation and training about thinking strategically—the critical skill that underlies and serves as the foundation of strategic planning—is required.

In addition to these two key differences in approach are a third difference in approach and two noteworthy elements of the model itself that warrant special attention. The third difference in approach is our continual emphasis on the immediate application of any findings that emerge

from the planning process to the organization's operations, rather than waiting for a final plan to be adopted. Two differences from typical planning processes are so important that we have built them into our model. One is the emphasis we place on identifying and clarifying the personal and organizational values and the resultant organizational culture as the basis for all organizational decision making. A second is the importance of creative envisioning of the desired future state.

It is important to recognize that the Applied Strategic Planning process is one of moving in specific steps from the vague and abstract to the specific and concrete. The process takes the planning group from an inchoate statement of a desired future to a series of specific actions with targeted outcomes and specific milestones through a process of successive approximations.

The Applied Strategic Planning model shown in Figure 1.1 consists of nine sequential steps and two continuous ones—environmental monitoring (input, or managing information from outside the organization) and application considerations (output, or acting promptly on that input). This brief overview will serve to orient you to the model. Each of the sequential steps will be covered in detail in one of the subsequent chapters, but we will discuss each step briefly here as well as provide clarification on the two continuous ones.

### **Environmental Monitoring/Inputs**

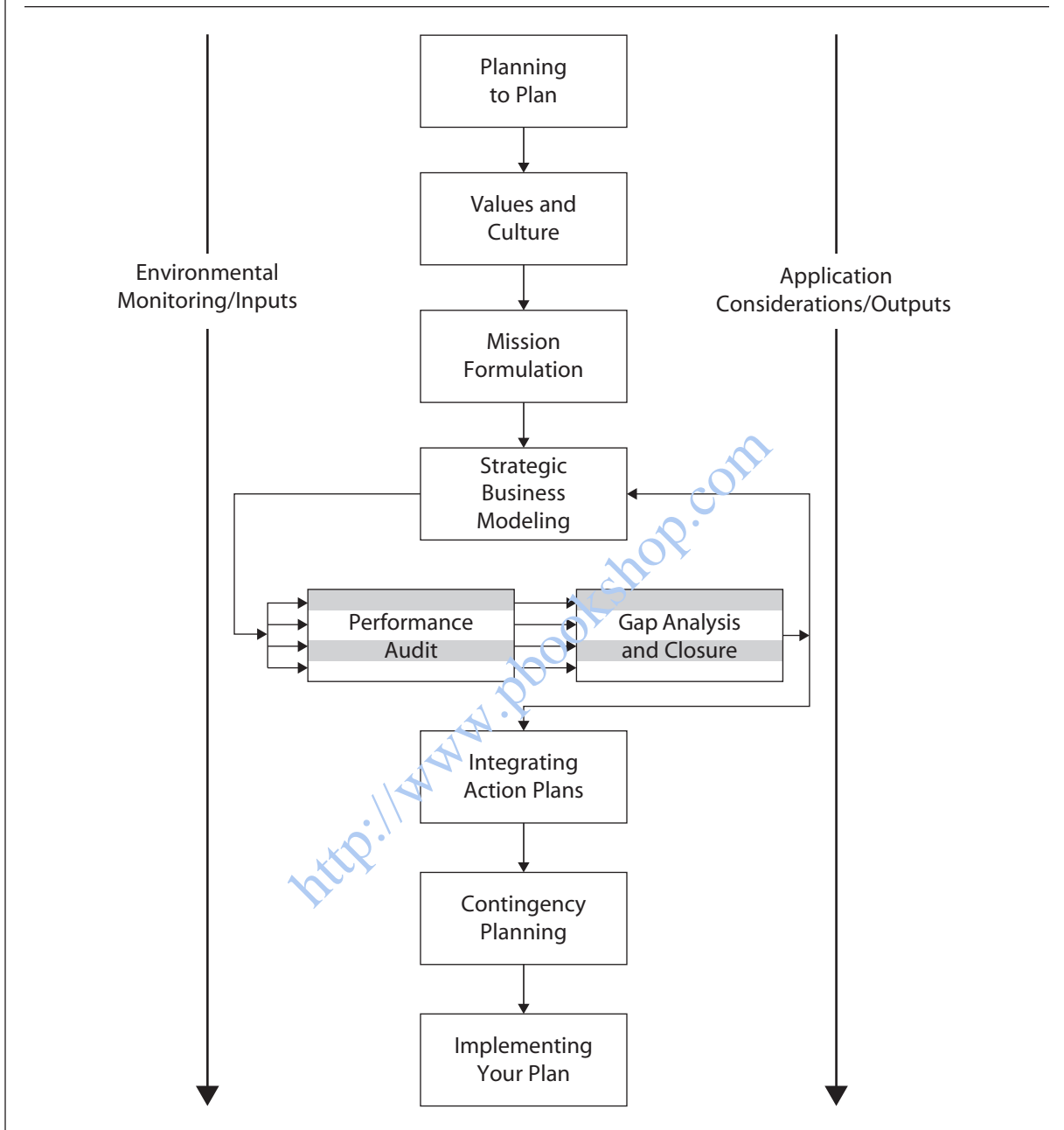
The monitoring of the environment—managing input from inside and outside the organization—conducted by most organizations is woefully inadequate. Most have no forum enabling individual members who have uncovered relevant environmental information to surface that information so that it can be analyzed, researched, and followed up. Our observation is that a great deal of data is floating around in most organizations, but far too little information and knowledge—data understood in an organized fashion.

### **Application Considerations/Outputs**

Implementing corrective actions—output, that is, acting promptly to respond to a possible threat or opportunity—based on what has been learned through the environment monitoring process is an integral part of the Applied Strategic Planning model and comprises the second continuous process—application considerations. For example, if the organization has never organized a “bag lunch” to discuss the latest information

FIGURE 1.1

### The Applied Strategic Planning Model



gleaned from the trade journals, one should begin as soon as possible and the information developed in such meetings should feed the planning process. An application consideration describes the organization's prompt responses to important information, rather than waiting for the completion of the planning process.

## Planning to Plan

Before any planning is initiated, a number of important questions must be answered, including the readiness of the organization to engage in such a process, whether the culture of the organization generally supports a planning process, how committed the organization is to a time- and energy-consuming process, who should be involved in the planning group, how and when the process should be initiated, how others in the organization who are not directly involved in the planning process will be informed about the process, and the time frames for the process.

One of the most important aspects of this stage of the process is choosing the planning group, those who actually will be involved directly in the planning process. Typically consisting of seven to eleven persons broadly representing the management level of the various organizational functions, this group will be expected to commit themselves to a time-consuming and demanding process, usually while fulfilling their regular responsibilities.

## Values and Culture

All organizational and personal decisions are based to a greater-or-lesser degree on the values of the decision makers. One of the unique aspects of Applied Strategic Planning is the attention paid to surfacing and making public the values held by organizational decision makers and the role that these values have played in creating and sustaining the organizational culture. Clarifying values is often the most contentious part of the Applied Strategic Planning process and requires the frequent intervention of a highly skilled facilitator.

## Mission Formulation/Clarification

Once the organization's values have been clarified, the planning group can begin to develop a shared future state for the organization, a critical part of our definition of Applied Strategic Planning. This dream of a better future state for the organization then leads to drafting a mission statement. In relatively general terms, the mission statement answers four critical questions:

- What business are we in? What customer needs are we meeting?
- Who are our customers, both now and in the future?
- How do we intend to go about meeting our customers' needs and wants?
- Why do we exist? What values and basic societal needs are we fulfilling?

The mission statement has two primary purposes: one is to develop clarity within the organization about future direction, and, secondly, to provide a vehicle for communicating that clarity to other stakeholders, including rank-and-file employees. Further, the mission statement should reflect the distinctive competence or competencies of the organization, that is, what distinguishes it from its competitors.

Since many organizations now have mission statements, the task becomes not one of drafting a mission statement, but of clarifying the existing one. In our experience, however, in many cases there is so little resemblance between the old and new mission statements that the activity could indeed be regarded as a *formulation* rather than a clarification.

### **Strategic Business Modeling**

Strategic Business Modeling is the next step in the planning process, where the planning group develops the specific, detailed plans and procedures that will lead the organization from the present to the envisioned future state. Clarifying the mission, or Mission Formulation, was the first step toward transforming the inchoate statement of the desired future into a specific action plan.

Strategic Business Modeling defines the vision of the ideal future in tangible, measurable tools. It specifies what businesses the organization will be in; how success is to be measured, that is, what the *critical success indicators* are; what needs to be done in order to reach such success; the mileposts that must be met to achieve that success; and how the organizational structure, staffing, and culture have to change. In other words, the strategic business model is a detailed plan for how the organization can and will reach its intended goals—how it will fulfill its mission. Strategic business modeling is a time of high creativity as the planning group seeks to describe fully the ideal future for their organization.

### **Performance Audit**

After the planning group has articulated the desired future state and how that state can be achieved, the group must turn its attention to a detailed examination of the present state of the organization, that is, it must conduct an objective, unbiased Performance Audit. The Performance Audit must answer the critical question of how well the organization is performing in conducting its present business plans. Without such an appraisal it will not be possible to determine the organization's capacity to realize its desired future.

## Gap Analysis and Closure

The clear understanding of both the future state desired by the organization and its current capacity presents a critical question: How large is the gap between the organization's present capacity and its desired future? Gap Analysis and Closure asks the tough question of whether the desired future is achievable, given the present condition of the organization and what it will take to close this gap. Identification of the size of the gap indicates whether the desired future state represents a *stretch goal* or *mission impossible*.

## Finalizing Strategic Direction/Integrating Action Plans

Prior to any integration of the various action plans, which are the outcomes of the planning process, it often is necessary to step back, review these outcomes, and consider whether these actions are likely to lead to the desired future state. This review should lead, in turn, to a finalizing of the strategic direction or a return to some earlier steps in the planning process.

Implementing any strategic plan involves creating and then integrating a number of fairly specific and detailed operational plans. Such plans include both one for each line of business and plans for product or services development, human resources, marketing, capital acquisition and budgeting, acquisition of technical resources, creating an adequate communications network, and so on. These operational plans have to be integrated both across the entire organization *and* within each of the functional operations together with time lines and control processes.

## Contingency Planning

Probability and impact are the two important aspects of Contingency Planning. We assume that the basic strategic plan involves the scenario with the highest probability of successful implementation. But there always are other high-impact events that are less likely to occur than those on which the basic strategic plan is based.

These are the events that need to be considered and for which a contingency plan should be developed. If this cannot be done because of time or resources constraints, the strategic plan should include methods for tracking these alternative events so that the organization's strategic plan can be re-examined and necessary changes initiated when it is clear that this is necessary.

## Implementing the Plan

The process of strategic planning requires implementation if it is to be of any use to an organization. The strategic plan should be the template on

which organizational managers base their decisions. The implementation process should be initiated with one or more action steps that are derived from the strategic plan. These may involve a restructuring of the organization, the launching of a new product or service, changes in some senior management positions, a new training program, and so on. Some fanfare and a clear statement by the organization that this change is the beginning of the movement toward the desired future state should accompany the launch.

With this brief overview of the model in mind, we turn our attention to the role of the consultant in the planning process.

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