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THE ESSENTIALS FROM STRATEGY&

Successful Strategic Planning

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In times of great uncertainty, strategic planning must shift from a bureaucratic, linear process to a more targeted approach that is both analytic and creative.

by Richard Verity and Simon Mills

Strong strategic planning is critical to the success of every organization. It is the process by which strategy is translated into concrete short-term actions. It can also be a vehicle for deciding which markets are important to your company's future, and which capabilities you will need to reach those markets effectively.

Over the years, the exercise of strategic planning has created strong advocates and fierce critics in equal measure. The recent financial crisis has renewed many people's skepticism about strategic planning — as unimaginably bleak scenarios forced businesses to rapidly recast their most fundamental business assumptions and recalibrate their priorities. But there is no reason to be skeptical if you orient your strategic planning process to the unique needs of your company. Together, the following five pillars of corporate strategic planning ensure that your processes are up to the challenges of today's dynamic business environment.

1. Tailor Your Process to Your Business

Just as *strategy* means different things to different people, so strategic planning has spawned different approaches across the decades. Some are data-rich analytical approaches in which measurable outcomes are expected; others are more artistic, with an emphasis on execution and expectations of achieving an intrinsically satisfying result. The best companies achieve an appropriate blend of art and science. The right blend for your company depends broadly on two factors: the characteristics of the business and the role the corporate center assumes in steering the business.

If you have a mature, homogeneous company operating in a relatively stable environment, you will be best served by long-term, proactive decision making, supported through scientific approaches to strategic planning. When your operating environment is more volatile, diverse, and immature, then the lighter-touch dynamic and artistic approaches to strategic planning will be more relevant to you.

Your approach to planning should also be strongly influenced by the role of the corporate center. An active, heavily centralized core with a strong role in business management will demand a great deal of involvement in the strategic planning process. Companies with such a core typically set direction from the top, providing both overall targets and detailed business-level planning. This ensures that both the corporate center and the business units will have similar conceptual tools and data to manage the business portfolio and performance in the short term, medium term, and long term.

However, if your corporate center follows a system like that of a financial holding company, it will demand particular results but maintain a hands-off management

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approach. This will require far fewer strategic planning inputs from local business units — just enough to evaluate the long-term portfolio decisions within the mandate of the corporate core, and enough to keep track of basic overall performance.

The best strategic planning promotes dynamic and outside-the-box strategic thinking underpinned by rigorous analysis. It results in formalized plans featuring measurable outputs. It tailors both the planning process and the underlying architecture of business unit data to each business unit, while ensuring that sufficient commonality across business units is retained for comparison and consolidation. The corporate planning team should be involved in the process in a way that is consistent with the management model, and a healthy tension should be established between the corporate center and the business units, resulting in productive strategic dialogues.

2. Accommodate External Perspectives

Today's business environment, with its pervasive uncertainty, creates challenges for strategic planning teams. The number of variables at play and the range of possible outcomes have never been greater. Your comprehensive strategic planning process should acknowledge the possibility of several different scenarios (stories about alternative futures that may affect your business). This will help you develop and test your strategic options.

Typically, three to five scenarios will be enough to establish a range of plausible outcomes, without overwhelming your thinking. Design each scenario to describe a possible end point that is different enough from today's world to force you to think about the challenges and opportunities you may face sometime soon. Use a different combination of key driving forces to generate each one: For example, one might contain a new disruptive technology, and another might present an economic reversal (positive or negative). Each scenario description should include its probability and business impact. Focus on the underlying sources of uncertainty, considering external as well as internal perspectives.

Develop some of your scenarios using an objective and analytically sound understanding of consumers, customers, channels, and competitors, drawing on multiple external data sources, and a network of external advisors. Meanwhile, use creative thinking to generate other scenarios that contain potential surprises or issues you might face in unlikely — but still plausible and potentially business-threatening — situations. Then test your proposed business plans by flexing the key value drivers, imagining what would happen to that plan under different potential futures. With each adjustment, a different outcome emerges. This process enables you to stress test your plans and highlight key sensitivities.

Encourage strategy dialogues during the planning process, between business management teams and corporate strategists. These will give you a forum for assessing opportunities and threats and formulating an aligned strategic response. Wargame-style simulations are increasingly employed as a technique for testing a company's overall resilience when it is faced with a variety of scenarios.

3. Create a Performance Culture

When strategy execution falls short of expectations, poor performance management is often a contributing factor. Use strategic planning to begin a cycle of performance management, establishing targets that are subsequently measured, monitored, and embedded in performance incentives and reports.

Your plan should identify the value drivers that become embedded in key performance indicators (KPIs). But don't limit your measurement to internal KPIs. Extend it to include external indicators that reveal progress toward your strategic plan. Because of the current degree of uncertainty and change, you will need to closely monitor these indicators. Early warnings of deviations in your plan will give the organization a better chance of adapting and adjusting its focus as required.

Good data and monitoring are critical, but not sufficient alone. Hold regular face-to-face meetings to enable strong performance management. Establish these as respected forums for strategic discussions and business performance reviews; this will spread a sense of ownership for the plan and overall performance. In addition, treat each plan as a performance contract with management. That will create a logical flow from planning targets into management incentives, with a good balance between individual and business targets. In your discussions, include constructive critiques of plans and performance at various levels (within business units, and between the corporate center and the business units), explore root causes of performance deviations, and talk through corrective actions.

Done well, *performance management* contributes to a *performance culture*. A performance culture is one in which all employees' empowerment is facilitated, there is widespread management by fact and by process, plans reflect the organization's capability, capability improvement is aligned with the strategy, and continuous improvement is achieved. You can promote a performance culture by establishing formal connections between the planning process and other processes — tactical, operational, and day-to-day processes — that involve the broader organization. For example, the sales and operations processes can be formally linked to the planning process through regular meetings that address planned versus actual sales.

4. Be Execution Oriented

Many companies struggle to generate the results intended by their strategy. That's because strategy execution is less clearly defined and understood than strategy development; further, whereas strategy is often developed by a small group of strategists in the organization, strategy execution is the responsibility of the organization at large. Booz & Company research shows that a company's performance is largely influenced by four organizational building blocks: decision rights, information flow, motivators (such as incentives), and structure (the lines and boxes of the hierarchy). These are known as the four building blocks of an organization's DNA. Taken together, they define an organization's culture. (See "The Four Bases of Organizational DNA," by Gary Neilson, Bruce A. Pasternack, and Decio Mendes, *s+b,* Winter 2003.)

Of these four attributes, information flow and decision rights matter most to strategy execution. Therefore, you must set up your strategic planning process to promote them. This means that you should not develop your strategic plan in a vacuum, with only a small group of strategists who are disconnected from the rest of the organization. Instead, improve information flow by involving a virtual network of strategic planners across the organization, right from the start. This will promote sharing of insights, strategic thinking, alignment, collaboration, and ultimately a deep-rooted understanding of the strategic plan and a greater sense of ownership among more people.

Define decision rights and accountability rigorously; articulate them clearly, and assign them to the right people. Accountability should be clear to avoid passing the buck, but the work and accountability should be appropriately cascaded to motivate the lower levels of the organization. Also, link decision rights and accountability transparently to your performance incentive schemes.

5. Promote Efficiency

Strategic planning is a multilayered, multi-frequency process that must be engineered for efficiency. Combining a top-down and bottom-up approach is key to minimizing cycle time. In your planning processes, emphasize strategic discussions, align everyone on key business initiatives, and set targets before you undertake detailed planning. This top-down alignment and direction sets clear boundary conditions for developing detailed business plans. It also minimizes the number of iterations that are required to align plans between local businesses and the corporate center.

Optimize the planning process further by simplifying it, and by standardizing your data structures. Focus on key drivers of value; eliminate discretionary detail that is not required for business steering purposes. Your information technology infrastructure can yield further efficiency benefits to the process by consolidating planning data, integrating it with actual reporting, supporting the process workflow, and facilitating data integrity.

The Context of Coherence

As we said at the beginning of this article, every company's strategy should be distinctive. In your planning process, you will want to create the context for your decisions by identifying those factors that distinguish your company from all others. These will include a considered choice about the markets you most want to reach, and a careful and accurate assessment of the small number of capabilities that allow you to do some things better than anyone else. (See *The Essential Advantage: How to Win with a Capabilities-Driven Strategy,* by Paul Leinwand and Cesare Mainardi [Harvard Business Press, 2010]).

A good planning process will move your firm toward coherence — and greater coherence leads to added value. Moreover, although all businesses will take different routes to their destination, the five best practices of strategic planning outlined above will apply regardless. With careful attention and dedication, you can evolve your current planning process into one that is more tailored, more accommodating of external perspectives, more aligned with a performance culture, more execution oriented, and more efficient. The results will be worth the effort. +

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