C E

Center for Effective Organizations

Rebellion and Revolution in Strategic Planning (or "Building a Strategic Architecture")

CEO Publication
G 06-2 (491)

Larry Greiner

Dept. of Management & Organization
University of Southern California
Marshall School of Business

Tom Cummings

Dept. of Management & Organization
University of Southern California
Marshall School of Business

March 2006

Rebellion and Revolution in Strategic Planning (or "Building a Strategic Architecture")

CEO Publication
G 06-2 (491)

Larry Greiner

Dept. of Management & Organization
University of Southern California
Marshall School of Business

Tom Cummings

Dept. of Management & Organization
University of Southern California
Marshall School of Business

March 2006

Working Draft - Not for Circulation without Authors' permission

Rebellion and Revolution in Strategic Planning
(or "Building a Strategic Architecture")

by

Larry Greiner and Tom Cummings
University of Southern California

Strategy consultants, managers and scholars have long relied on formal strategic planning to embody and implement their more abstract concepts of strategic management. But recently and surprisingly, many CEOs and their management teams have turned away from traditional strategic planning, including its formal models. No longer do they see this kind of planning as relevant and useful for providing direction when faced with markets that are changing rapidly, global in their complexity and demanding immediate results. So for many CEOs and their companies:

- Gone are large planning staffs.
- Gone are detailed planning books.
- Gone are five and ten year time frames.
- Gone is a reliance on outside and expensive consultants
- Gone are complex and abstract models for analyzing strategy
- Gone is the cherished assumption of planners that implementation doesn't begin until a plan is conceived.

What to do?

This shattering of old ideas has provoked a variety of reactions from managers. Many believe that strategic planning of any kind is no longer possible. Others have reverted to dysfunctional responses, such as changing CEOs more frequently than necessary. A few still cling to old bureaucratic planning as an annual ritual, not knowing what the replacement should be. Some idealistic CEOs play the "vision" game asking their managers to project what they want their firm to become (e.g. "We will move from being a hotel company to become a resort company", while other more pragmatic CEOs play the "mission game" ("we are the leading supplier of cell phones in the U.S."). We don't regard either of these statements as strategies--the "vision" exercise lacks substance and could lead a management team to walk off a cliff holding hands, and the "mission" statement is merely descriptive of what already exists without addressing the future.

Our 20 year journey through the minefields of strategy research and consulting has led us to conclude that strategic planning is still essential but in a radically different form and format. We begin by discussing how "rejectionist" managers are currently getting by without strategic planning. Then we turn to the long history of knowledge about strategic management that has evolved to the present day, which sets the stage for more dynamic approaches making up what we call the new architecture of strategic management. This innovative structure provides a focused direction for the firm, while allowing for greater flexibility, opportunism and responsiveness in today's turbulent and unpredictable world.

In making our case, we describe a top management group creating a successful strategic architecture. We conclude with attention to the details of the methods and processes needed to design dynamic plans and architectures. Our belief is that "the answer" resides in the details, which are the specifics of how a firm builds an effective strategic architecture to fit its situation.

Seeds of Destruction

Frustrated managers have rejected once popular formal methods of strategic planning that are based on long time horizons, lengthy studies prepared by staff experts and outside consultants, and highly detailed recommendations with time tables. Consider the reasons and excuses told to us by many CEOs who have rejected any kind of planning:

- "We can't design plans that encompass and understand our global market that is so diverse and complex."
- "Our markets are being upset daily by continuous cost cutting and outsourcing to Asian manufacturers, which makes any planning seem ridiculous."
- "We are only living in the short term--there is no long term because of quarterly demands from investors and analysts for immediate results."
- "Our industry has been racked by acquisitions and takeovers that only make us live for daily survival. I could be gone tomorrow."
- We paid several million dollars to a strategy consulting firm and by the time they reported back the market opportunities were gone."

For these managers, the current competitive environment appears too unpredictable and full of surprises for any plan to anticipate. Their world, as they see it, is too full of uncertainty where market forces will not bend to the certainty of planning. As one CEO told us: "How can one rationally plan for irrational events."

Replacements for Plans

Faced with a seeming inability to plan using yesterday's tools, many CEOs are pursuing a wide range of non-planning activities in attempts to improve performance and give direction to their firms, most of which, in our opinion, are likely to prove futile and lead to failure. Among them are:

- <u>Politics over vision</u>- Key players exercise their power in a political game to see who will prevail in leading the firm. The result has more to do with personalities than strategy, with someone winning or a series of compromises.
- <u>Reliance on annual budget</u> - Financial numbers become the driver of the company. The focus is on short term goals, controls and budgets without awareness for the marketplace.

- New CEO as savior - Hire a new CEO to revitalize the firm. Unfortunately, research shows that firms with new CEOs rarely improve performance.

- Ad-hoc decision making - Management moves reactively from one problem to the next where one-off solutions become a firefight but lack consistency in direction.

- Plaque on the wall - Clichés and slogans without strategic substance like "the customer comes first" or "make a quality product" are posted on walls, websites and distributed to employees on cards.

- Delegated planning - Top management shifts the burden of planning to lower level units, but these groups usually stumble over the same issues that perplex their senior managers.

- Grow sales and cut costs- Annual exhortations and demands from senior management to boost the top and bottom lines, assuming that employees will find a way to get there.

Even when employing a combination of these scenarios, these firms will continue to be whipped around by markets and competitors, leaving them directionless. So what do they do? Should organizations have a strategic plan? How can a company's management plan in an environment of continuous change?

We doubt the answers will come from the strategy consultants whose revenues depend on the size, scope and length of studies--the ingredients of traditional planning. CEOs are increasingly reluctant to pay big fees and wait for answers. Nor are they likely to come from strategy scholars who seem trapped within their narrow academic disciplines.

Planning Is More Essential Than Ever, But....

Throughout modern management, strategic plans have always existed. However, knowledge about what is "good" strategic planning has gone through several iterations over the years. Strategy scholars and consulting firms have often propelled this new knowledge. A short history of these developments is instructive:

- Strategic planning began in the late 1940s and 50s at the Harvard Business school with the "business policy" course and its case discussions about the overall challenges facing senior managements in determining the direction of firms. Students were trained to develop and hone their analytical and judgmental skills to solve unique problems and identify opportunities for a given situation.

- The 1960s and 70s saw the growth of formal planning systems and large corporate planning staffs to draw up action plans--such as occurred at General Electric with close to 300 in its planning staff. Strategy scholar Igor Ansoff proposed large scale decision models for weighing strategic alternatives.

- Then in the 1980s, knowledge about strategy became more theoretical and intellectual, with new concepts to categorize and analyze strategies and markets of firms, such as the Boston Consulting Group portfolio theory and Michael Porter's

- five forces for determining competitive advantage. Consulting firms built large strategy practices while performing analytical studies for millions of dollars.

- The 1990s witnessed a contrarian trend away from theory toward emphasizing implementation and execution. The disease of "analysis paralysis" inherited from the prior stage had prevented many strategies from being realized. Jack Welch abandoned GE's planning staffs and used his leadership style and meetings to create new programs for improving performance, such as Workout and Six Sigma. Consulting firms shifted ground as they began to physically move into firms for long periods to assist with "hands-on" implementation.

Why Plan?

Today, the next era of strategic planning is being invented because of many forces driving the need for strategic plans--among them are:

- Expanding global markets with intense competition require that firms with limited resources develop focused strategic plans with priorities for the allocation of investments and personnel.

- Rapid technological and scientific advances leading to new products and ways to market them are requiring strategies and plans to promote innovation and the use of new selling channels such as the web.

- Employees are spread across the world, coming from different cultural backgrounds. Many are in virtual jobs connected only by email without close supervision. Plans are needed to organize and unify these employees around common expectations and goals.

- Many Boards of Directors, sensitive to governance scrutiny, are now asking for strategic plans. They are no longer satisfied by what the CEO tells them about the company's future. A written plan helps the Board to review and monitor the performance of the management team.

Strategic plans are clearly needed to provide focus, coherence, unity and a rationale for allocating resources. Yet this time around these plans must be assembled in a different way that fits more responsively to fast moving and highly competitive markets. What should these plans look like? How can they be structured to hasten implementation and preserve flexibility without descending into a bureaucracy of endless meetings and excessive detail?

Strategic Architecture

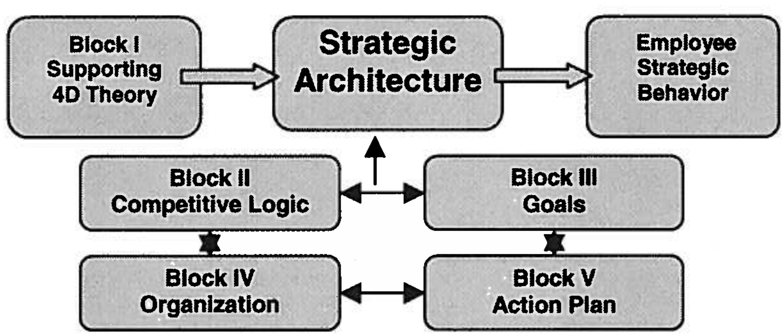
To deal with this new dynamic environment, we propose that firms construct what we call a "strategic architecture" that guides employees to strategic decisions. This new architecture prefers simplicity over complexity, speed over delay, breadth over narrowness, specificity over vagueness, and action over deliberation.

The purpose of a strategic architecture is to provide a framework that points the firm in a clear direction but allowing for adjustments along the way. It needs to be sustainable for several years, while also promoting flexibility, timeliness and creativity in decision making. This architecture represents the firm's "business model with legs", an anatomy containing specific elements that cue and guide employee behavior, decisions and investments.

Strategy consultants and scholars have long ignored the need for a surrounding architecture of this kind to guide strategic decision making. We find it nowhere in the literature. Instead, they propose rather narrow and abstract models of strategy and strategic planning. Henry Mintzberg, one of the strategy gurus, has noted a variety of differing ways for defining strategy--it's a plan, or a pattern of decisions, or a market position or a new perspective. Marketing experts focus mainly on positioning, distribution and promotion. Economists prefer to analyze the structure of industries and the dynamics of competition. Behaviorists believe strategy resides as a vision in the minds and eyes of the firm's leadership. Still others see strategy as the result of compromises emerging from political intrigue among senior management. On the business side, managers typically view strategy in terms of a strategic plan drawn up in an annual ritual where they list major issues and action steps--and then return to business as usual.

We approach the origins and functions of strategy and strategic planning quite differently. It is more than an annual plan--it is the need for an overall architecture that consistently and coherently joins the firm to the market. This architecture must be designed in a conscious and systematic way, not left to chance where conflicting decisions among managers cancel out each other, or where policies become the prisoner of tradition, or where managers fall prey to self-serving political behavior. It must be simple, practical, understandable and have the commitment of employees.

An effective architecture, in our view, must be assembled from five building blocks that serve to orient the firm and its employees toward a successful position in its marketplace. Within this framework, flexible and timely decisions can occur.



Block I - Supporting 4D Theory

Knowledge about strategy and strategic planning has a long history of reliance on new theories, frameworks and models to highlight key variables, as well as offering an underlying logic to tie variables into a coherent but often complex explanation. These models typically draw on the disciplines of economics, marketing and organization, but unfortunately they are usually restricted to a single discipline, leaving them open to criticism for narrowness. The BCG model relies on economics to show how "cash cow" products can feed growing "star" products, but this theory is limited to diversified companies with a wide range of products at different life stages. Michael Porter's five forces model uses economics and marketing to analyze and identify opportunities in industries, but leaves out the discipline of organization, which is essential for creating and carrying out a plan. While these models are intriguing and useful within themselves, they only specify a few trees within a large forest. In our experience, most managers have difficulty in using complex models to analyze their situations.

We prefer a more comprehensive and understandable theory covering all three disciplines, which permits the building of a complete strategic architecture. Our "4D model" is based on the well known SWOT model--strengths, weaknesses, opportunities and threats--which is open to all disciplines that transcend the firm and its markets. However, we don't use the SWOT model in its common application as an auditing tool where consultants and managers list points under each label. We take SWOT a step further to propose our 4D theory of four possible matches where the internal organization interacts with its external environment.

External Environment

Internal Organization	**Threats**	**Opportunities**
Strengths	*DETOURED* Match	***DESIRED*** Match
Weaknesses	*DOOMED* Match	*DOUBTFUL* Match

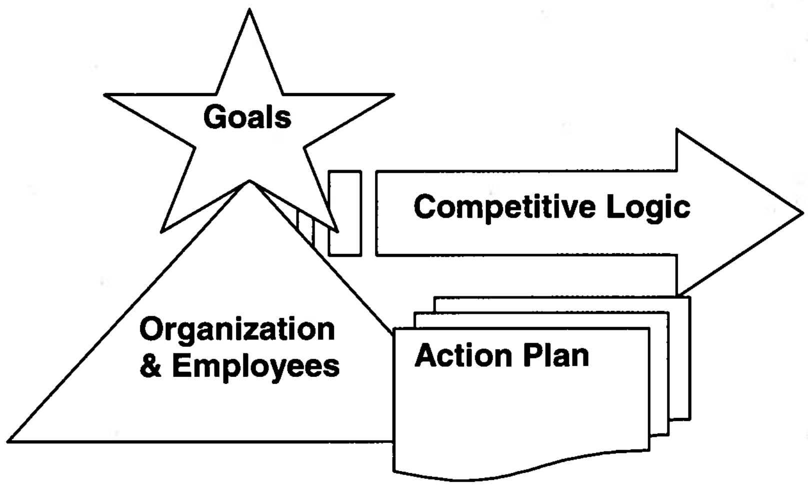
4D Theory

4D theory advises managers to pursue the *"desired"* box where internal strengths if the firm are aligned with carefully identified external opportunities. This particular value proposition is widely supported by strategy and organization research; success is achieved by pursuing opportunities related to one's competencies, not in diverting attention to weaknesses or in fighting off threats. An example of a *"desired"* match from our consulting experience is a 3 star hotel chain in Miami with little international experience deciding to limit its market to the southern U.S., instead of going international with a possible 5 star acquisition in Mexico, even though both promised equally good growth opportunities.

As for the other three matches; the "*doomed*" match suggests that a strategy of leading from weakness to counter threats is likely to fail--as in the case of Sears trying to challenge Wal-Mart or Costco. Or a strategy of leading from strength to counter threats diverts attention away from promising opportunities--the *"detoured"* match--is represented in the case of Time Warner- AOL merger. Finally, a "doubtful" strategy of leading from weakness to go after opportunities tends to yield *"doubtful"* results, as when Ebay entered Japan without a Japanese partner and later had to withdraw

We explain 4D theory to our clients at the kickoff of the planning process. They typically experience difficulty in identifying their own SWOT, so we prompt them to discuss and agree on a consensus SWOT before attempting to create their strategic architecture. The 4D model serves a useful purpose by providing a logical rationale for the overall architecture, but it still remains an abstract theory that must be grounded through concrete analysis and planning tailored to a company's unique situation.

There are four additional and more specific blocks that form the foundation of the new architecture. They translate 4D theory into action. These four (competitive logic, goals, organization, and action plan) act together in forming the anatomy of the strategic architecture. The competitive logic provides the direction to the market; the goals give the standards to shoot for; the organization lines everyone up in the right places; and the action plan puts it all in motion. Under this framework, if designed right, employees are guided and conditioned to behave and make decisions with positive strategic consequences.



Alignment is required across the four blocks so as to reinforce each other and optimize the resulting strategic impact. We have arrived at these four blocks after experimenting with several different blocks over the years in various projects, the test being which ones helped most to move the firm forward in a new direction. We examined blocks on leadership, rewards, and systems, but while important these blocks seem to follow naturally once the architecture is designed and moving. Our goal is to avoid complicated academic models and to maximize the strategic effect through specifying a clear and simple (but not overly simple) model that is easy for all employees to understand and implement. Every organization must decide on their specific blocks but we recommend these four from trial and error experience.

Block II - Determine Competitive Logic

a. Identify market position for products/services

The statement begins with a value proposition concerning the firm's unique economic/marketing formula that it will follow, which we call its "competitive logic". This specifies how its products and services are to be positioned and priced in the market relative to competitors. 4D theory is used in deciding how certain strengths are to be matched against specific opportunities identified in the market. It depends on what customers want in the way of value, and then backing up in the value chain to identify how a firm's strengths can be used to satisfy these needs for a premium. The competitive logic is similar in its wording to what many have previously called "strategy", but it cannot stop here if the competitive logic is to take on a real life.

b. Create tiebreakers to attract and retain customers

The logic is not complete unless it identifies what will attract and retain customers. Most competitors have good products, up-to-date technology and hard working employees. So the question becomes one of identifying the few key features that will lure customers away from competitors with similar products/ services. More than one tiebreaker is usually required, and rarely are they summed up by price; instead, more subtle features are essential to create a difference in the eyes of customers.

Block III - Set Key Goals

a. Decide financial goal

Next, it is essential for a client's senior management to establish a single, clear, quantifiable financial goal to be achieved over a two to five year time period. A challenging but realistic financial goal provides not only a motivating and unifying target but it helps to screen future investment decisions and assure consistency with the competitive logic. Too many organizations set a plethora of financial goals that dilute focus and divert energy away from strategic accomplishment.

b. Create rallying goal

A second important goal, the "rallying goal", also needs to be established to motivate the wider workforce, which is unlikely to identify with abstract numerical financial goals. The rallying goal provides a collective purpose for their actions. Successful implementation relies on front line employees believing in where the firm is going and behaving its tiebreakers.

Block IV. Align Organization and Employees

a. Design basic organization structure

This element requires the design of a formal organization structure which aligns tasks and people with the competitive logic and goals--without which the strategy might easily remain a plaque on the wall. There are many possible organization designs for a management group to consider, ranging from functional to matrix and centralized to decentralized. The task here is to design only the important and necessary changes consistent with the logic and goals, without going into deep detail.

b. Create shared values

The culture of the firm also makes up the architecture that goes into the statement. Senior managers need to set and act out new values that reinforce the competitive logic and goals, especially the tiebreakers. These might be reflected in expressing a "high concern for customer service", or expecting "staff groups to be service oriented" toward the line organization. The firm's leaders become the role model for emulating new values through their daily behavior.

Block V - Launch Action Plan

a. Determine key initiatives

This last element translates the prior elements into a limited set of initiatives and action steps. Without an action plan, strategic planning remains a futile exercise. We find that implementation works better if only 4 to 6 major initiatives are created; too many cause employees to lose focus, divert energy and make accountability vague.

b. Specify action steps for each initiative

While each initiative sets a general direction and objective, it needs specific action steps under each initiative to create real movement for not only the initiative but the entire architecture. Each initiative usually requires 3 or 4 action steps to move ahead. Each action step needs to be evaluated for its costs, benefits and feasibility in moving the firm ahead.

Mega Creates its Strategic Architecture (all names disguised)

The Mega Corporation, with revenues exceeding $900 million, was the fifth largest marketer of liquefied petroleum (commonly called propane) in the U.S. Headquartered in Denver, Mega employed 2,500 people and served over 300,000 domestic, industrial, agricultural, and motor fuel customers nationwide through a network of wholesale and retail outlets. Mega was a major subsidiary of Alpha Industries, a $3.5 billion diversified corporation that had recently been taken private in a leveraged buy out (LBO).

Six months after Tom Rice became CEO of Mega, he invited one of his former MBA professors, Mark Drake, to visit the company as a consultant. Drake and Rice had remained close friends and colleagues since Rice's graduation ten years before. On Mark Drake's initial visit to Mega, he interviewed his senior executives for their SWOT assessment, as well as issues that "they believed needed to be addressed in the development of a long-term strategic plan". The consultant reported back that Rice's executives wanted a strategic plan, and so Drake gave recommendations for how to proceed. A series of retreats with a specific format was recommended.

The first retreat was organized around three broad topics: strategy for the company, organization structure, and the top management team. The retreat was held at a "no frills" hotel (requested by Rice), lasting from Friday noon to Sunday noon. Rice and his seven senior executives, all of whom were members of Mega's executive committee, attended the retreat, along with Mark Drake. Rice requested that Drake serve as moderator so that Rice could participate with the others, saying:

> "The group is looking to me too much, and I don't have all the answers. They have to become more active and vocal with their points of view."

In opening the retreat, Rice told the group, "I have no hidden agenda. I just want us to dive in and see where it takes us." Drake began with a short lecture on SWOT and presented the results from his interviews. Several flipcharts were filled when a heated interchange took place between Tom Rice and two members of his team:

Rice: "Why do you guys see so many threats and so few opportunities?"

March: (VP of Transportation) "Because the market for propane is so mature and customers for propane are limited."

Cook: (VP of supply) "Besides, even if we could sell more propane, we don't hove enough money for investments because all our cash goes to Alpha to pay off the LBO debt."

Rice: "I feel that we can take control of our own destiny, no matter what the others say. Let's don't blame others for why we can't take control."

The group nodded in silent agreement. Mark Drake then intervened to suggest that the group divide into two sub-groups for the purpose of, "Identifying two to four alternative strategic directions for Mega, along with the pros and cons for each alternative." Two hours later, the sub-groups reported back to the total group, causing a debate over two strategic alternatives favored by members of the two sub-groups: (1) diversification away from propane, or (2) an exclusive focus on propane, selling off other unrelated assets. Although Mega had already diversified into a limited number of non-propane businesses before Rice was appointed CEO, several members of the group were not as pleased with this direction,

The second day of the retreat again involved the use of sub-groups to examine the issue of determining the best organization structure for Mega. The sub-groups met after the consultant gave a short lecture to everyone on various structural alternatives, along with describing the conditions under which each might apply. In their later sub-group reports, one group proposed a decentralized product structure divided between industrial and retail divisions, while the other group advocated staying within the current functional organization structure.

The ensuing discussion became argumentative and wandering, with one member finally observing, "We can't solve this problem until we decide on our overall business strategy." Everyone seemed to agree, at which point Rice suggested that the group return to the strategy discussion. The second consultant then gave a brief lecture on designing a strategy/mission statement. He told the group that the statement should, "sum up the company's desired identity, be brief and clear, written, and made understandable to all employees." Two new sub-groups were assigned and each met to draft suggested statements of strategic direction for Mega.

At the end of the second day, each sub-group presented surprisingly similar strategy statements. Both groups seemed in agreement as they used phrases such as, "concentrate exclusively on the propane industry," "become more marketing oriented," "make acquisitions," and "set high financial goals." Their sub-group discussions had determined that Mega, despite being in a mature industry, could still "clean up", as they put it, because its major competitors were "badly managed" and there were many small "mom and pop" operations that might sell out.

The remaining discussion centered on how high their financial goals should be; a central concern was how could Mega still generate cash for Alpha while also making investments in acquisitions and additional marketing programs? A way out of this dilemma was identified when one member proposed selling the non-propane assets, closing down low profit propane outlets and cutting operating costs. When another member suggested that the company should try to "double profits in five years," Tom Rice said, "I could get very excited by that goal, and I know I can sell it to Alpha."

The retreat ended on Sunday with Tom Rice complimenting the group and leading them in a discussion about follow-up steps. It was agreed what each person should draft a separate strategy statement and send it to a coordinator, Bill Hope, for final drafting a single statement. Rice asked that the final draft be, "subject to some hard market and financial analysis," and that, "it should be tried out in some group meetings with middle managers for their reactions." Rice then announced that the group should meet again in six weeks for a second retreat to, "ratify a new strategy statement and resume discussion on organization structure."

The second retreat began with a presentation by Bill Hope of a final draft strategy statement. Everyone quickly indicated approval, with one member thumping his agreement on the table. For the rest of the morning, two sub-groups met to evaluate the statement against a number of criteria provided by the consultants, including these questions: "Is it realistic in its assumptions about the marketplace and what might be achievable?" "Is it sufficiently clear and easy to communicate?" "Do you find the statement exciting and challenging?" "Is it sufficiently enduring?" Is it selective enough to aid in screening major investments and decisions?"

When the two groups returned, they reported that the draft statement met most of the suggested criteria. In addition, they wanted it shortened to include a more explicit focus on propane and greater emphasis on marketing. Jim Dunn then drafted an abbreviated statement over lunch. When Dunn read the following redrafted statement to the group in its afternoon session, spontaneous applause broke out:

> "Mega is a leading marketer and distributor of propane and closely related services. We set aggressive financial goals and achieve growth through market development and acquisitions. Our people establish a competitive advantage in selected market segments through a unified effort that demands:
> - A strong marketing orientation
> - High standards of safety
> - Outstanding service "before our customers need us"

The retreat ended with Tom Rice expressing his personal commitment to the new strategy statement. And then he added, "We need to do some more thinking about our organization structure, so let's keep talking about it until our next retreat in one month."

The planning process continued through two more retreats, ending with implementation steps. The substance of their written strategy statement served as a foundation for developing detailed implementation plans. Mega's new strategy was announced at a large employee meeting with a band and a banner reading, "Double in Five Years." Other changes included a new organization structure with additional marketing and acquisition departments; the purchasing division was combined with distribution to speed up service; two layers of management were integrated into a single layer; all staff departments were consolidated under one manager reporting to the CEO so as to give better service to the line organization; over 38 managers moved voluntarily to new positions; five acquisitions took place; additional training was conducted in customer service and safety for the sales force; new trucks were purchased and old ones repainted. In less than three years, Mega doubled its revenues and profits.

Analyzing Mega's New Architecture

Mega succeeded in creating a new and successful strategic architecture to guide its future decisions relative to the marketplace. Below is an analysis of this architecture based on the key building blocks:

I. Determine Competitive Logic

- **Mega examples:**
  - **Market Position:** "Leading marketer of propane in select geographic markets, priced slightly higher than competition, and growing through increased sales and acquisitions of inefficient competitors."
  - **Customer Tiebreakers:** "Strong marketing orientation with emphasis on service and safety."

For Mega, the competitive logic builds off the *"desired D "* in 4D theory where specific strengths are used to exploit matching opportunities. Previously Mega was pursuing a very different competitive logic where it led from weakness--diversifying out of propane into unrelated products; not being selective in choosing its geographic markets; lacking a marketing, service and safety orientation; and failing to consider acquisitions. In contrast, the new statement provides a revised competitive logic in which Mega: 1) returns to focus on propane, selling off unrelated assets for cash to use in acquisitions; 2) prices itself slightly higher in select markets; 3) emphasizes new tiebreakers of marketing, safety and service to attract concerned customers willing to pay a premium; and 4) launches an active acquisition program to buy up inefficient competitors.

Mega chooses to utilize its strengths in propane to match against new opportunities identified in the marketplace. Extensive discussion was required to uncover how to do this. They recognized that propane is an undifferentiated product and therefore price sensitive, but it is also a dangerous product clearly important to customers. In addition, these same customers require good service because they depend upon propane for heating and cooking. Many of Mega's competitors did not provide this level of service. So Mega's management bet that customers would be willing to pay two cents more per gallon of propane for these features. And they were right. The marginal revenue from this premium fell directly to Mega's bottom line

II. Set Key Goals

- **Mega Examples:**

  - **Financial goal:** "Double Sales and Profits in Five Years"

    Mega's only financial goal in the past was to generate cash to pay off interest on the LBO debt. However, it set a new financial goal of "doubling sales and profits within 5 years", which established a high standard requiring Mega to drive growth from both sales and acquisitions.

- **Rallying goal:** "Double in 5"

  Mega's rallying goal is similar to its financial goal but stated as "double in 5" with no reference to sales and profits. This rallying goal gave new hope to Mega's employees, suggesting that the company was indeed on the move, and that increased career opportunities would become available with growth.

III. <u>Align Organization and Employees</u>

- **Mega Examples:**

  - **Organization Structure :** New marketing and acquisitions departments, purchasing combined with distribution, all staff under one manager

    Mega made organizational changes that reinforced its competitive logic by setting up new departments and combining others. The marketing department was necessary because Mega had previously concentrated solely on distribution, and the acquisitions department was established to identify and pursue likely targets. The one manager for all staff, plus combining purchasing with distribution were intended to provide greater service to customers.

  - **Shared Values:** Unified teamwork, service, and safety minded

    Training programs and recognition programs were also created to implement new values of safety and service across the work force. Managers received favorable performance appraisals for reinforcing these values through their behavior. All corporate staff departments, including HR, IT, legal and accounting, were placed under a single manager reporting to the CEO, so as to assure that the value of service was practiced internally. Previous marketing research makes clear that internal service is essential to reinforce the behavior of employees in providing service externally to customers.

IV. <u>Launch Action Plan</u>

- **Mega Examples:**

  - **Initiative #1:** Assure service and safety to customers
    Action Steps:
    1. Train employees for service and safety
    2. Purchase new trucks and put drivers in uniforms
    3. Combine supply with distribution

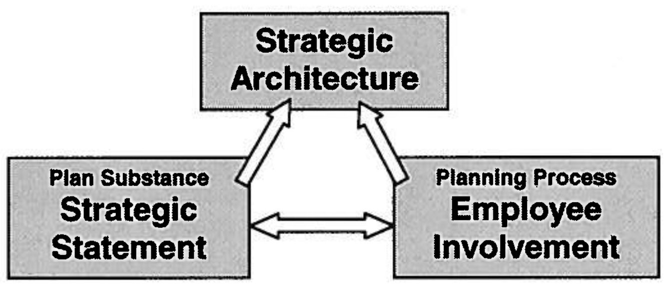
    The first major initiative at Mega was to implement its tiebreaker of improving service to customers. Action steps here included putting all front line employees through service training, along with purchasing new trucks to emphasize the tiebreakers of reliability and safety. All of these actions helped to persuade customers to pay two cents more per gallon than the prices charged by less reliable competitors.

- **Initiative #2:** Move ahead with making acquisitions
  Action Steps:
  1. Establish small acquisitions group reporting to CEO
  2. Study which assets can be sold off and establish their value
  3. Identify likely acquisitions

Springboards - Strategic Statement and Employee Involvement

No strategic architecture can happen in practice without first being designed and implemented. The content of the five blocks have to be tailored to the uniqueness of each company, just as happened at Mega. Essential for implementation are two springboards to action: 1) the written plan itself, including its substance and format, and 2) the process and methods used to prepare the plan, including who should prepare it and with what tools. The substance of the plan is easily affected by the processes used; for example, a plan prepared by staff planners might well look very different from one prepared by line management. An outside consulting firm might use quantitative methods that place more emphasis on data gathered outside a client than on the qualitative views of management.

We prefer to call the written plan a "Statement of Strategic Direction" to avoid the common perception of a "plan" that lists only "to do" steps. And for the process we emphasize methods that utilize "employee involvement" in the design and implementation of the statement leading to the strategic architecture.



Statement of Strategic Direction (the "plan")

Rarely is the format for recording content on a strategic plan specified in the literature. No research exists to say that a certain format is better than others. Some organizations simply list major issues and propose solutions. Others vary their formats each year depending on circumstances and the players. Still others regularly set performance goals, which are turned into annual goals, operating plans and a budget. None of these, in our opinion, results in a lasting strategic architecture to assure competitive success.

For the first springboard in building the strategic architecture, we ask the management to prepare a written "statement of strategic direction". The statement (plan) is organized into a format that records and sets in place the four blocks that form the foundation of the strategic architecture. As each block is addressed by the management group, we ask them to word it as a brief but specific guideline that is stated simply in bullet points and in understandable terms. The entire statement can usually be contained on one page. The Mega case is an example.

Employee Involvement (the "process")

The second springboard is the planning process, which requires decisions about who to involve and how the plan is created. Too often this process is limited solely to the executive committee or delegated to experts at planning. We use a process that relies on "employee involvement," which begins with senior management but shortly reaches out to include middle and lower levels where customer reactions are impacted.

We have found that the management group has the capability, knowledge and experience to create a viable statement. Another benefit of involving the management is that they will "own" the statement and architecture, and be more committed to its execution. They may not agree with each other, and will have to discover through discussion what will work and brings them to consensus. Strategic thinking becomes a collective activity, not the product of a single brilliant mind. That is why we provide a forum and structure to encourage and guide debate, as well as to stimulate creative insights. We utilize a series of retreats for this purpose, usually conducted for two to three days away from distractions of the office. Previously, we tried half-day meetings at headquarters but found them continually interrupted and unproductive, resulting in lack of depth and lost continuity between one meeting and the next.

Retreat Example of Plan and Process

The discussion agenda for our retreats is organized sequentially around each block of the architecture, which is discussed by the group and their conclusions are put into the written statement of strategic direction. At times, we have to circle back on elements, as happened at Mega. Here is how a typical retreat unfolds:

1. The retreat starts with an introduction by the CEO who expresses his/her seriousness toward developing a new strategic plan. We then give the SWOT summary and hold a discussion to test for agreement on the findings.

2. We explain the goal of writing a strategic statement as the main product of discussion. We describe the elements in the statement with a short lecture on the current state of knowledge about strategic planning. Also, we indicate that the statement should be worded more as a set of specific "guidelines" in the form of bullet points on one page, instead of a highly detailed planning document.

3. We make continuous use of sub-groups with 4-5 people to discuss each element in the statement. We find the quality of content is advanced and reinforced when two or three sub-groups meet separately and report back to the total group. Our experience is that the sub-groups usually agree when giving their overall conclusions. We ask the CEO to move around between groups, observing the conversation, but not participating and avoiding too long in any sub-group.

4. Among the five building blocks, the most challenging task for the group is to determine the competitive logic, which requires identifying a match between a unique market opportunity and internal strengths. The discussion of goals requires a target that is consistent with the logic and will also unify the management. The

discussion of values is not too difficult because they are closely related to the tiebreakers set earlier.

5. The issue of organization structure is the most sensitive topic for the participants because it threatens people's power positions. We avoid talking about specific persons for positions; rather, we ask the sub-groups to identify alternative structures with pros and cons, including their preference. The CEO can take the alternatives under advisement and then make a decision later after the retreat ends. Personnel changes are usually decided by the CEO outside the retreat structure.

6. A volunteer drafts a statement of conclusions each evening for conclusions to that point, so as to provide a model of what a strategic statement should look like. This draft is distributed to the participants for review at the start of the second day. The group indicates areas of consensus and suggests revisions. After this point, members of the group draft conclusions and complete the statement. Initiatives and action steps are saved until the preceding blocks are developed.

7. The first retreat ends with reading aloud a rough draft statement prepared by a volunteer from the group. It is reviewed carefully and discussed by the group before departing (if they have not completed work on a draft at the first retreat, we discuss what needs to be considered prior to the next retreat). Usually, we complete work on a workable draft in two retreats separated by 3-5 weeks.

8. The completed draft must be reviewed in meetings with middle managers for further discussion and feedback. Led by pairs of senior executives these meetings ask middle managers if the draft statement is sufficiently realistic and inspirational; will it work and can they get behind it? What suggestions would improve it? Their reactions are fed back to a designated manager for preparation of a redraft to be presented at the second retreat. These meetings start the process of extending the change process to the larger workforce.

9. The redrafting at the second or later retreats is followed by a focus on initiatives and action steps. All individuals in the group are asked beforehand to come prepared with proposals. Sub-groups are then asked to meet, combine their individual proposals into one consensus report, making sure that their recommendations are consistent with the other elements.

10. A concluding topic is follow-up steps. Who will do what, when and where? We also discuss how to communicate the statement widely to employees and involve them in moving ahead. A small task group reporting to the CEO is appointed to monitor implementation and continuing follow-up. It is likely that three to four months will be required to complete initiation of action steps.

Planning Roadmap

We have offered only one approach to strategic planning that we believe can be successfully applied in a turbulent and unpredictable environment. However, our methods should not be regarded as "the answer", nor should they be applied like a cookie cutter to horn shoe the organization into a model. Rather we hope to suggest a roadmap of principles and methods that others can use to construct their own strategic architecture. For these efforts, there are several criteria and principles that should be kept in mind:

Format of Plan:

- An architecture should be constructed that is comprehensive, covering key external and internal factors that will leverage an effective strategy, focusing especially on the market niche to be occupied, as well as the financial goals and the organization structure that will align strategy with employees.

- We prefer an architecture that builds off a theory where strengths exploit matching opportunities. It should be focused but flexible. Firms cannot do everything, and extensive research supports the added value of focus. Flexibility allows for a variety of spontaneous actions and decisions within a given architecture.

- A format should be used to organize and specify the content of a plan, assuring that it is comprehensive and that key elements are addressed. It can be simple in number of elements, as we only use four. But they must effectively relate the organization to its market opportunities.

- The plan must be concrete, brief and stated in writing. Without a written plan, the strategy is left open for misunderstanding and varying interpretations by key players to suit one's personal agenda.

- The time frame for the plan should likely not be longer than 5 years. A company needs time to build momentum and its competitive advantage. Over time certain elements within the architecture and under management control like organization, goals and initiatives can be altered in response to changing events.

Process for Planning:

- Strategic planning does not have to be conducted only at the CEO and corporate levels--major functional and business sub-units can develop their own strategic plans in ways described here.
- The plan needs to be prepared by current management who will have to own and implement the plan, and perhaps assisted by consultant facilitators. The answers for a new strategy are likely found in the heads of managers.

- A special format and forum needs to be designed for managers to discuss and create a plan. The agenda for discussion should be organized around the elements in a format that will provide a skeleton for a new strategic architecture. Sufficient time should be provided for open discussion and reflection without outside distraction.

- The plan needs to be completed rapidly--can't wait 6 months for a consulting study and then a year to discuss and implement. The world is moving too fast. Should be able to complete plan within one or two months at most, and implementation should begin immediately.

- The workforce must be brought into the plan. This is where the rubber meets the road and they need to behave the plan with some uniformity if customers are to be secured and if products and services are to be produced with the quality demanded by the plan.

- Final results depend on active follow-up by senior and middle management. Once set in motion, the activity of strategic planning does not have to be performed annually as a matter of ritual; rather, it should be continuously monitored and updated. New initiatives can be added as needed.

Look Before Leaping

If firms are to compete effectively in tomorrow's world, they must create an overall strategic architecture instead of an annual laundry list of action steps. However, no strategic planning process is going to succeed without other important surrounding conditions being satisfied:

- The CEO (or leader of unit) needs a mandate from the Board (or above) to develop a strategic plan.
- The CEO must be involved and supportive in developing a plan, as well as respected by key subordinates.
- The top team must be stable with no immediate changes in personnel planned.

Even when these conditions are met, it may be necessary to use expert facilitators to help the top team manage its way through the planning process. These helpers should be respected as expert at both strategy and process, as well as capable of questioning and confronting entrenched opinions among the management group.

Planning is Here to Stay

Tomorrow's leaders must embrace more dynamic forms of strategic planning to cope with fast moving global markets where change, uncertainty and surprise are constant challenges. Gone are the cumbersome planning methods of the past where large gaps existed between thinking and doing. Innovative and flexible strategic architectures are now required for organizations to gain focus, act unified, and respond rapidly. These new more dynamic planning approaches must catch up with and get out front of the real world.