# strategic planning

## relevant to ACCA Qualification Paper P3

# in practice

**There is general agreement among strategic planning researchers that the strategic planning process consists of three major components:**

- **formulation (including setting objectives and assessing the external and internal environments)**
- **evaluation and the selection of strategic alternatives**
- **implementation and control.**

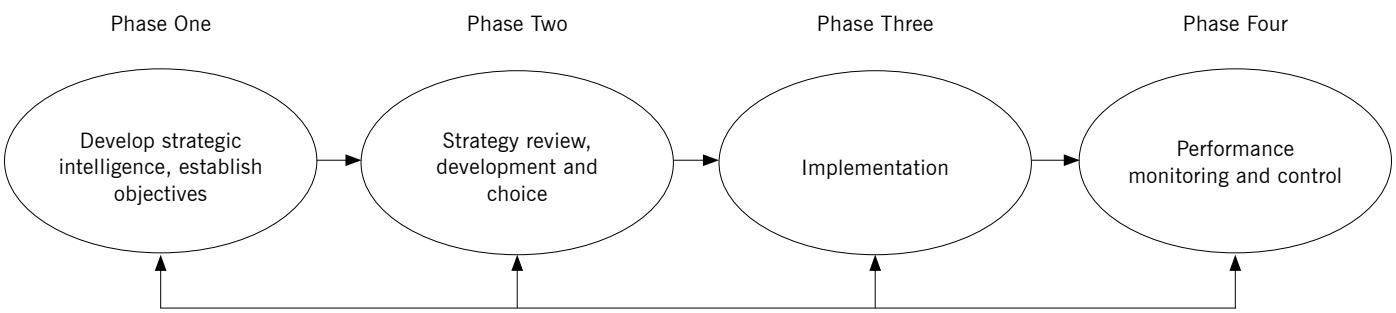
These three processes are thoroughly explored in Paper P3, *Business Analysis*. The paper aims to develop students' skills and judgement in assessing an organisation's strategic position, in developing strategic choices, and in the implementation of selected strategies through strategic action. This article explores how these processes are conducted as part of strategic planning, and the benefits and costs associated with strategic planning.

Organisations face different internal and external contexts. Not only does this imply the development of unique strategies as the outcome of the strategic planning process, it also results in a variation in the ways in which organisations carry out the planning process. This article examines how the strategic planning process is modified to become consistent with the organisation's external and internal environment. These factors are examined by reference to a case study concerning the development of a UK energy company.

### THE STRATEGIC PLANNING PROCESS

Strategic planning is a commonly used management process, employed by organisations in both the private and public sector to determine the allocation of resources in order to develop their financial and strategic performance. Over the past 10 years, Bain and Company's annual survey of the management techniques used by US and European companies finds that about 80% of the companies surveyed use strategic planning, and that the overall level of satisfaction with the technique averages four on a five-point scale. This is a higher rating than that achieved by many other techniques. The strategic planning process is often depicted as a number of interlinked phases, as in **Figure 1**.

FIGURE 1: STRATEGIC PLANNING AND CONTROL CYCLE



**Phase One**
Phase One concerns the development of strategic intelligence relating to the organisation's environment and the resources that are available. Ideally this process should be ongoing throughout the year, developing from the range of information and experience available to the organisation and its managers. The process can be aided by specific activities such as scenario analysis to explore key uncertainties, and also by use of techniques such as SWOT, PESTEL and competitor analysis. Such information enables the managers of business units to question existing strategies, identify further developments for those strategies, and define new strategic choices. Also, in the light of this developing body of intelligence, the CEO, strategic planning staff and senior managers will be able to revise the strategic and financial targets set for the organisation and its constituent businesses.

Establishing objectives for a business area is usually best undertaken in a collaborative manner between central and business level managers. Not only will this result in greater acceptance of the objectives but it can also, on occasion, result in objectives being raised beyond the initial expectations of central management, as business level managers have a more intimate grasp of what might be achieved.

The result of Phase One is often referred to as 'corporate guidance' – a set of objectives, challenges facing the business, and constraints (such as agreed views concerning market conditions and the availability of finance) that form the context for strategy review and development.

**Phase Two**
Phase Two typically concerns the ways in which the managers heading the various business areas respond to the revised objectives. Existing strategies and their effectiveness are formally reviewed and, if appropriate, modified or new strategic choices developed. Again, much of the intelligence work for this phase may have occurred during the preceding year. Phase Two ends with the CEO and the Board agreeing a revised set of strategies for the organisation.

Students completing Paper P3 will have the necessary skills and abilities to make an effective contribution to their organisation's planning process. They should, however, remain sensitive to the need for the planning process – as with any other management process or technique – to be developed in a way which is appropriate to the specific context in which it is to operate.

**Phase Three**
Strategic choice is not, in itself, strategic action. Phase Three concerns the implementation of those strategic choices through the development of business level action plans, cross-business coordinating actions (if necessary), and budgets. To improve the effectiveness of the implementation process, plans should be sub-divided into operational plans, derived from the higher-level strategy. At the operational level, the departmental plans can be broken down into a series of projects with clear stages which will impact on various business processes. At this level, the proper coordination and alignment of IT platforms and systems to deliver and support the implementation process is essential.

Underpinning effective implementation of strategic plans is a properly coordinated budgeting programme, ensuring that plans are appropriately resourced and adequately funded. Finally, strategy implementation depends heavily on effective direction and leadership at senior and lower levels within the organisation to ensure that individuals and teams are properly motivated and committed to the successful implementation and delivery of strategy into action.

**Phase Four**
Phase Four provides time phased indicators for monitoring planned financial performance (including such measures as turnover, margin and return on investment) and the implementation of strategy. Measures of strategic achievement – strategic milestones – may be linked to outcomes such as improving brand awareness and market share. Strategic milestones can be sequenced. For example, in the case of a retailer establishing a business overseas the series of strategic milestones may include the following: finding a suitable partner for market entry; identifying specific locations that have the required revenue potential; resource and market development; business opening and revenue development. Such measurable or 'SMART' objectives, enable the organisation to maintain its focus upon the fundamental purpose of strategic planning, that of achieving financial and

strategic development. The evaluation of outcomes is of little value unless it is linked to control actions. Deviation from intended outcomes triggers a control loop, that may initially involve a review of strategy implementation, possibly a re-examination of strategic choice or, even more fundamentally, a review of the objectives established by Phase One.

The above planning sequence is often depicted as a flow model with activities progressing from one phase to another. Such a linear concept of strategic planning implies that one phase is fully completed before another commences. In reality, the improved understanding developed during Phases Two and Three often requires a review of an earlier phase in the planning process before planning can be said to be completed.

## THE BENEFITS AND COSTS OF PLANNING

Strategic planning is a process for resource allocation and, as such, it provides a foundation for budget decisions. However, the planning process can serve additional organisational roles which will vary in their relative importance depending on the organisation.

Planning provides a basis for controlling business and corporate performance. The planning process controls not only performance but, more fundamentally, the development of strategies by the company's business units. In a multi-business organisation there is often a need to limit the degree to which strategies are allowed to be emergent. The strategic planning process enables corporate management to encourage and shape the emergent process of strategy development that should be occurring at business level.

The planning process acts as a prompt for managers to develop intelligence and question their assumptions concerning the environment in which their businesses operate.

For some organisations there is a need to achieve coordination between business strategies to develop the interdependencies that can lead to the synergies which can underpin the organisation's capabilities. There may also be a need for centralised coordination to manage the way in which the organisation, as an entity rather than as separate businesses, is perceived by groups such as customers and regulators.

The need to plan is largely based upon the nature of the assets and systems of a business, and the limited flexibility of these implies that new circumstances cannot be fully accommodated as they arise. The act of planning attempts to anticipate future uncertainties. It also attempts to devise strategies that will help, as far as possible, to protect core assets from those anticipated uncertainties.

Formal strategic planning has its costs. The process requires the extensive involvement of the organisation's senior management. There may also be the expense of employing staff to specifically lead the planning process. Senior managers must be committed to achieving the plan and, if necessary, part of their remuneration should be based upon achieving planned performance. Owing to the need to be committed to plans, it has often been argued that formal plans reduce the flexibility of an organisation and its ability to respond to events as they arise. In addition, the planning process will fail to be effective unless it is infused with a high quality of strategic thinking. This, in turn, often requires a substantial investment in management development.

Is formal strategic planning worthwhile? A study by Brews and Hunt (1999) of over 600 US firms provides an interesting set of answers. Rather than representing alternative approaches to strategy development, formal strategic planning and emergent strategy processes such as incrementalism (forming strategy through trial and error) complement each other, especially if the business environment is unstable. This is achieved by formal plans being 'fine tuned' during their implementation, modified to take account of changing circumstances. The study also concludes that organisations need to learn how to make strategic planning effective for their particular organisation and its context. As a consequence, it typically takes four years of planning experience before formal planning results in improved organisational performance.

The way in which strategic planning can be developed to suit a changing organisational context is illustrated by the following brief case study concerning PowerGen and its experience of planning in the years immediately following the company's creation.

## PLANNING CASE STUDY: POWERGEN

*PowerGen was formed in 1991 following the privatisation of the UK electricity industry. When nationalised, the main role of the planning process had been to provide the UK Government with control of both the industry's performance and investment. To achieve that role, the planning process was highly centralised. Planning documents throughout the industry followed a specified format, forecasts and strategies were centrally determined and, in the absence of competitive market pressures, the planning process could take the greater part of a year to complete.*

*Privatisation divided the industry into a number of electricity generating companies and progressively introduced a competitive market in electricity. The privatised companies faced the need to achieve a return for their shareholders. For a time, PowerGen continued to take a centralised approach to planning, with business level managers essentially acting to determine the resource implications of the company's centrally determined strategy. By 1992, competitive pressures and the growing diversification of PowerGen, both domestically into gas supply and internationally, required a more devolved approach. The size of the central planning team was reduced and greater emphasis placed upon their role as enablers of divisional and business level planning. To reflect the new devolved approach to planning, the level of detail required in business level plans was reduced to provide a document that required only a few sheets of paper. The devolution of the strategy process was assisted by an extensive process of management development. In addition, in an attempt to respond to the increasingly dynamic business environment, the length of the planning cycle was substantially reduced.*

*By 1993–4 increasing competitive pressure, the regulators 'capping' of the price of electricity, the enforced sale of part of PowerGen's generating capacity, and unforeseen increases in the output of the nuclear sector resulted in a business context in which short-term profitability was harder to achieve. The company responded by changing its planning process. Strategic development was brought more into line with immediate financial performance and the director of finance assumed responsibility for a less devolved planning process that placed an increased emphasis upon control and financial performance.*

*By 1996, several of PowerGen's business initiatives (such as gas and international operations) had developed to a stage where they required greater focus on their strategy development than could be provided by a centralised approach to planning. The company was divided into business clusters, improving the contribution of managers to their strategies and allowing corporate staff to develop targets more exactly matched to the role and potential of each individual business. However, rather than a collection of energy businesses, PowerGen also sought to be an integrated energy company, benefiting from synergies between its gas and electricity businesses and between its UK and overseas operations. This meant that a degree of centralisation had to be retained in order to coordinate PowerGen's objectives and strategies.*

## HOW SHOULD STRATEGIC PLANNING BE ORGANISED?

Strategic planning cannot guarantee strategic and financial success; the lesson of the case study is that organisations need to learn how to plan and must keep modifying the planning process as circumstances change. There are numerous academic studies of the strategic planning process that can provide guidelines on how to organise the planning process.

Strategic planning has been typified by Henry Mintzberg as a centralised process remote from the managers who are involved in the operations of the organisation. In certain situations the planning process will follow a centralised approach. For PowerGen, an initially centralised approach to planning not only reflected their prevailing **corporate management style** and **past experience** of planning but was also consistent with the company's need for centralised initiatives, and the 'top-down' setting of goals to initiate diversification into new business areas. A centralised approach to planning was also consistent with the organisation initially having a narrow **range of businesses**.

Together, customers, competitors, supply markets (including the supply of labour and finance), legal and regulatory factors represent a complex and changing environment to which an organisation needs to adapt while seeking profitable opportunities. In **more complex environments**, planning systems have been found to be more flexible, with plans reviewed more frequently and with shorter time horizons.

It has often been argued that strategic planning is becoming less relevant because plans lose their relevance more rapidly when the **pace of environmental change** increases, because of, for example, changing consumer tastes and technologies and shorter product life cycles. Paradoxically, the Brews and Hunt study of US companies concludes that the less stable the organisation's environment, the greater the need for the organisation to have a high degree of planning capability. Following privatisation, PowerGen engaged upon a substantial programme of management development, an activity consistent with it facing a more demanding planning environment. Such a less stable environment also requires greater delegation of the planning process to the business unit managers, possibly to gain greater insight into the detail of environmental factors, achieve less formality in the planning process and realise shorter time horizons for the resulting plans.

Organisations as well as environments vary in their complexity. For a complex organisation comprised of a number of diverse but **interdependent business units** greater emphasis will be placed upon the co-coordinative role of planning, with the planning system having greater scope and formality in order to manage that coordination. When the role of planning is to help protect inflexible core assets from future uncertainties by anticipating developments in the business environment and developing contingencies, the planning process attracts more effort and is more sophisticated.

The PowerGen case study implies that central management's perception of the **type of performance improvement** that is needed – for instance, strategic performance improvement versus more immediate financial performance improvement – also affects the characteristics of the planning system. The planning system needs to achieve a balance between facilitating adaptation to the outside environment of the organisation (by devolution and the promotion of business level creativity), and the control and coordination of resources through centralisation. For a particular organisation the two approaches need not be mutually exclusive and a balanced approach has been associated with greater long-term financial success. **Volatility in performance** has been associated with increased effort being given to formal strategic planning, possibly as a symbolic activity designed to give the impression to the organisation's stakeholders that senior management is able to control the situation.

## CONCLUSIONS

Participation in the strategy process requires appropriate management development. Students completing Paper P3 will have the necessary skills and abilities to make an effective contribution to their organisation's planning process. They should, however, remain sensitive to the need for the planning process – as with any other management process or technique – to be developed in a way which is appropriate to the specific context in which it is to operate. ■

## REFERENCE


- Brews PJ and Hunt MR, *Learning to Plan and Planning to Learn: Resolving the Planning School/Learning School Debate*, in *Strategic Management Journal* (vol 20, pp889–913), 1991.


**David Jennings is a marker for Paper P3**