Strategic Planning and the Management of Change

Planning methods pioneered by leading industrial corporations hold promise for developing countries

Nagy Hanna

In today's fast-changing, uncertain environment, developing economies need to respond to change quickly and effectively. Yet in government and business, the planning practices commonly used are based on concepts and techniques developed in a period when the past could be reliably projected into the future. Moreover, institutional values, structures, controls, information systems, and measures of performance and incentives are typically not well adapted to managing change.

Corporate executives in the industrial countries have faced similar kinds of problems. Since the late 1970s, some of the leading companies in industrial countries have been developing a method of planning that emphasizes adaptation, learning from experience, and integration with other managerial responsibilities. These practices are spreading within the United States, Europe, and Japan. This article summarizes lessons of their experience that are relevant to the business and public service institutions of developing countries.

Ways of managing change

Until recently, the management of change has typically been a peripheral activity—if the future is predictable it is reasonable for managers to concentrate on the efficiency of current businesses and the implementation of rather stable plans. But when many companies realized that a great many of their businesses and products did not even exist a few years ago, the need for change moved to center stage. For managers, correct decisions about the direction, timing, and implementation of change became even more important than attaining high levels of efficiency in current operations.

Traditional corporate planners responded to this realization by developing more and more sophisticated models to project the past into the future. The models paid little attention to understanding the motives and needs of customers or beneficiaries, the relative advantages of possible competitors and collaborators, or the forces underlying change in the surrounding environment. Sooner or later these approaches fell short of expectations, as managers found that the greatest effects on their organizations resulted from unexpected shifts in the environment that were only obvious after the fact.

In the 1970s, many well-known corporations such as General Electric, IBM, Citicorp, and Volvo adopted strategic planning. This transformed the orientation of their planning, to deemphasize preoccupation with prediction and to shift attention toward understanding the surrounding environment, the distinct needs of various segments of their markets, and the strengths and weaknesses of competitors and collaborators. The understanding gained is used to identify the opportunities and problems created by environmental change. The strengths and weaknesses of the organization are then contrasted with these opportunities and problems in order to define the businesses that the organization should be in, and the patterns of resource deployment and links to the external environment that would be necessary for success in these businesses.

Recently, planning practices have evolved further, as it has been realized that what seem to be rationally and fully articulated strategies and plans often fail to be implemented. To build understanding and commitment for implementation, planning has to become a basic responsibility of management, and strategic thinking must be diffused throughout the organization rather than seen as the exclusive task of central planners. Strategic or structural changes in large organizations require not only management of the process of strategy formulation, but also appropriate organizational structures, systems, incentives, and skills that are mutually reinforcing. Strategic changes can be sustained only if they are supported or induced by changes in the organization's culture (shared values and beliefs).

Elements of strategic planning

Defining the businesses to be in. Traditional planning and management practices have tended to project demand based on past trends and to define businesses in terms of specific products. As an example of such "marketing myopia," the railroad companies did not stop growing because the need for transport declined but because, being product-oriented instead of customer-oriented, they defined themselves as suppliers of *railroad* transport rather than *transport.* The challenge is to get away from the notion that customers need specific products, and to ascertain and act on their customers' real needs.

Strategic planning aids organizations to redefine their businesses as necessary and to seek opportunities to apply their competitive advantage to satisfy customers. Companies such as DuPont and 3M provide excellent examples of creating a continuous stream of new products through continuous reexamination of what businesses they are in or should be in. In the telecommunications industry, IBM, AT&T, and NEC are redefining their business as "communication-based systems" and the "office of the future," using broader concepts than computers or telephones.

Segmenting the market. Traditional planning practices tend to project the total demand for a given business on the basis of broad trends and the mix of products or services provided in the past. By contrast, strategic planning shifts attention toward defining the *distinct* needs of particular beneficiaries, customer groups, or markets. The market is segmented so as to enhance understanding of these distinct needs and facilitate the formulation of strategies to meet them, by developing and exploiting the organization's strengths.

Choosing a competitive strategy. For leading corporations "competitive advantage" is at the heart of strategy. A competitive strategy is chosen on the basis of the attractiveness of each business or market to be served (or the centrality of each business to the overall mission) and the organization's strengths and weaknesses relative to those of its competitors. In those priority businesses, the organization then identifies the activities that would be critical to creating a competitive advantage in each. Competitive strategies are continually reviewed, because the sources of competitive advantage change frequently as a result of changes in an industry's structure and underlying economic and technological characteristics.

Competitive strategies specify the basic approach that a firm is pursuing—for example, to become a low-cost producer, like Texas Instruments; to be unique in some respects widely valued by buyers, like IBM; or to serve a segment of the market in a superior way, like SAS. Each strategy imposes different requirements on the firm. For example, at Emerson Electric, low retail costs and production costs are promoted by an organizational culture that encourages cost-consciousness, frugality, discipline, and attention to detail. At Hewlett-Packard, the provision of unique services is facilitated by innovation, the encouragement of individuality, and risk taking.

Portfolio management, resource allocation. Under traditional planning practices, the mature businesses of a diversified company tend to get the bulk of new investments. In contrast, strategically planned institutions allocate resources according to needs and the potential contributions that the various businesses can make to the total organization. Portfolio management techniques are used to encourage top managers to redeploy resources to position the organization for tomorrow's business and abandon in a disciplined way past, marginal, and resource-consuming activities.

One portfolio technique is the growth-share matrix. Here various businesses of an organization are grouped into strategic business units and then displayed along two dimensions: market attractiveness (measured by growth potential and other considerations) and competitive position (measured for example by market share). The organization can allocate resources among its business units according to their positions on the matrix, with a view to using the resources generated from mature businesses, and from candidates for contraction or divestiture, for investment in fast-growing businesses where the organization enjoys a competitive advantage.

Timing is one of the most critical elements of resource redeployment to position the organization to take advantage of opportunities. A long-term view and phased strategy, coupled with investment in time and resources, are often necessary to master the key factors for success in a new market segment. Honda and Seiko, for example, entered the low-price end of their markets and moved gradually toward the higher end as they built up technical know-how and experience in design and marketing.

Dealing with uncertainty. Strategic planning differs from earlier approaches to dealing with the future. Instead of trying to eliminate uncertainty or predict a single future, a growing number of large corporations, such as Shell, develop alternative scenarios to illuminate the range of possible futures and uncertainties, and the forces that are likely to shape them. These scenarios do not merely quantify alternative outcomes of obvious uncertainties; they help structure the future into predetermined and uncertain elements. This understanding serves two purposes. The first is protective: anticipating and managing risk. The second is entrepreneurial: discovering strategic opportunities and options of which managers were previously unaware. At Shell, these scenarios played a critical role in helping top management cope with the range of uncertainties faced in the energy industry during the 1970s.

Japan's case illustrates the use of scenarios in national economic management. The Ministry of Trade and Industry (MITI) engages many business, government, and opinion leaders in the process of sharing long-term visions of the future. These long-term visions are based on a broad understanding of the future of the global economy, the comparative strengths of Japanese industries, the driving forces for change, and national priorities. These long-term visions are used to elicit consensus and commitment among various segments of business and society and for clarifying the broad thrusts for strategic change. This process allows for initiative and detailed planning at lower levels but within a clearly understood strategic framework.

Changes in the planning process

In companies such as General Electric and Citicorp, the management of strategy has become a continuous process, and is used to guide and focus all planning and managerial activities. Recent adaptations to the planning process have emphasized selectivity, simplicity, and flexibility so as to focus the process on generating the right questions and the essential information, on addressing the critical issues, and on enhancing dialogue and communication among all levels of management. Many organizations have developed a process of "strategic issue management" to identify and resolve issues as they arise. Common to their approaches is the disciplined way in which issues are anticipated, assigned priorities, and systematically resolved.

These changes in the planning process imply a changing role for staff planners. At corporations like Wang, General Electric, Citicorp, and Abbott Labs, planners no longer plan for others, but use the planning process to supply managers, who are the strategists, with the means to make decisions based on an integral and long-term view of the business.

Organizational aspects

Apart from changes in the planning process, organizations using strategic planning have shaped their structures, resource allocation processes, and information and control systems to be consistent with this form of planning. Organizations such as Merrill Lynch, General Motors, General Electric, Volvo, and First Chicago Bank have, for instance, used the planning process to divide their businesses into strategic areas and then restructured their organizations accordingly. Many of them have created a shared framework of objectives and accountabilities within each business unit, thus facilitating decentralization and enhancing the organization's ability to respond quickly to the changing requirements in each business segment.

Control over resources can be organized in the same way as responsibility for formulating strategy. At the highest level, top management allocates resources among business units in proportions appropriate to the roles assigned to them, thus concentrating on funding strategies rather than projects or particular investments. Within each business area, resource allocation is progressively delegated to the managers with the appropriate levels of knowledge about the needs of market segments and about opportunities for constructive interaction among programs.

Information and control systems can be organized in a similar way. For top management, the information systems concentrate on the information needed to identify and analyze strategic issues and on the early detection of major changes in the environment, while the control systems concentrate on tracking performance against objectives and plans, and on facilitating decentralization within a strategic framework for accountability. For lower management, information systems concentrate on understanding client groups and enhancing sensitivity to the market.

Service-oriented organizations, such as Citibank, were among the first to develop extensive information networks to understand their environment, clients, and competitors, and bring critical issues quickly to managers' attention. These networks have become a key factor in their competitive advantage.

Making it work

As the strategic planning process was institutionalized, corporations gained insights into the conditions needed for its effectiveness. First, planning must be seen as a core responsibility of managers. Planning processes must be led and "owned" by top and line management, integrated with other managerial systems, enriched by the involvement of employees and clients, and reinforced by all other organizational capabilities.

Second, organizational change must be led by top management. Often, change is threatening to established interests and powers and is contemplated as a last resort, by which time it becomes costly and perhaps too late. Leadership is critical for overcoming resistance to change.

Third, successful planning is inextricably linked with execution: it benefits from experimentation and feedback and other means of organizational learning. The role of planners is to facilitate and intensify these learning processes and to design pilot changes that can get strategies clarified and refined so that they can be acted upon.

Fourth, planning should concentrate on ideas and issues, not data collection and procedures. The planning process should promote a genuine dialogue among all levels of management on key assumptions, strategic issues, and choices.

Fifth, "good" plans can fail unless those responsible for their implementation are committed to them. In particular, leading organizations have learnt that as they redefine their businesses, they are also engaged in redefining skills, capabilities, and motivations. Organizations with heavy investment in—and competitive advantage derived from—human resources begin their design of strategy by recognizing the strengths and weaknesses of their staff and management. They seek continuous improvement and adaptation of their capabilities, rather than to develop optimal strategies and then seek the necessary human resources.

These organizations experiment and adapt their incentive systems and corporate cultures to ensure that appropriate weight is given to long-term objectives and success factors in their industries. Some, such as Texas Instruments, have developed budgetary and reporting systems that distinguish operational accountability, for the short-term performance of mature businesses, from accountability for the long-term development of future businesses, products, and capabilities. Other organizations have extended the period over which performance is judged, in an attempt to reward decision making that builds up the organization's long-term strength.

Relevance to LDCs

There is great potential for strategic planning and management in developing countries. In a fast-changing, resource-scarce, and increasingly competitive and deregulated environment, strategic management capabilities are becoming imperative for institutions to adapt at a low cost and to remain effective and relevant to the needs of the society. The following outlines possible applications for private and public enterprises, for public service institutions and development programs, and for national economic management.

The uncertain export environment for developing countries creates a need to develop new products and markets. Business organizations in many Latin American countries, for example, are having to adjust in response to trade liberalization and drastic adjustments in macroeconomic policy. Those who survive are companies able readily to adapt the mix, quality, and prices of their products—that is, to manage strategically. Private enterprises in much of the developing world must strengthen their capabilities for strategic planning and management, if macroeconomic policy reforms and industrial restructuring are to yield their intended benefits.

Public enterprises have at least as much trouble adapting to change, partly because of the rigid and detailed oversight and control exercised by their supervising ministries. Many of these systems are now being reformed. Public enterprises must learn to plan and manage strategically if they are to take advantage of the new environment and to restructure themselves effectively.

Public service institutions can also benefit from developing strategic management capabilities to cope with the growing needs for effective social services and economic infrastructure, under stringent budgetary constraints and great demographic pressures. For example, some educational institutions have adapted portfolio management techniques to clarify priorities among their educational programs and services. By introducing strategic management, public service institutions can develop various means to involve, understand, and differentiate among their beneficiaries, and devise ways to mobilize the demand and design the supply or service provided for each group. The success of the Indian Institute of Management at Ahmedabad, and of the Indonesian family planning program, is closely associated with their practice of strategic management.

At the national level, strategic management has become a critical capacity for anticipatory adjustment and sustainable development. Several East Asian countries, notably the Republic of Korea and Japan, have taken a positive and active approach to managing change—through articulating a vision of the future, encouraging investments in promising technologies, research and development, and investing heavily in appropriate training and education systems.

In Japan, for example, through the Ministry of Trade and Industry and through the banking system, resources are directed to promising industries, and weak industries are induced to phase themselves out. Such an industrial policy makes the same kinds of hard choices made by corporate strategists, while taking into account political factors and the need to develop a broad national consensus. This process of industrial restructuring is viewed as continuous and necessary for long-term national development.

Lessons for LDCs

Experience with strategic management suggests some key lessons for developing countries:

- Planning systems must be created and adapted over time to fit the specific institution and its environment.
- The primary benefit of strategic planning lies in engaging participants in thinking strategically about the future, not in producing a single planning document. Participation influences participants' thinking, and hence the decisions they make. The role of local planners and external assistance personnel is to stimulate and assist the line manager who must become the planner.
- The support, involvement, and commitment of top managers are critical to effective strategic planning. External assistance personnel should ensure that the planning process conforms to these managers' needs and styles.
- The critical role of top managers as leaders of institutional change points to the urgent need to build leadership skills within organizations and throughout the education system.
- To be effective, strategic planning must be reinforced by changes in other managerial processes, incentives, skills, communications systems, and organizational structure and culture.
- Since practices become more effective as people learn from experience, a phased strategy for institutionalizing planning is necessary. In the early stages of a planning system, planning should be kept as simple, informal, and as close to the concerns of management as possible. Even after its successful introduction, top managers, planners, and external consultants must periodically search for ways to revitalize the system.
- Lastly, planning techniques and practices need to be adapted to fit the cultures and conditions of particular countries, building on the strength of local resources and local styles of entrepreneurship and leadership. ■

Nagy Hanna
a US citizen, is Acting Chief of the Institutional Planning Division of the Bank. He holds a PhD from the University of Pennsylvania and previously worked in corporate and national planning.