

THE CORPORATE STRATEGIC PLANNING PROCESS

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## The Corporate Strategic Planning Process

The corporate strategic planning process is a disciplined and well-defined organizational effort aimed at the complete specification of corporate strategy.

In the words of Andrews (1980):

Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and noneconomic contribution it intends to make to its shareholders, employees, customers, and communities... [It] defines the businesses in which a company will compete, preferably in a way that focuses resources to convey distinctive competences into competitive advantages.

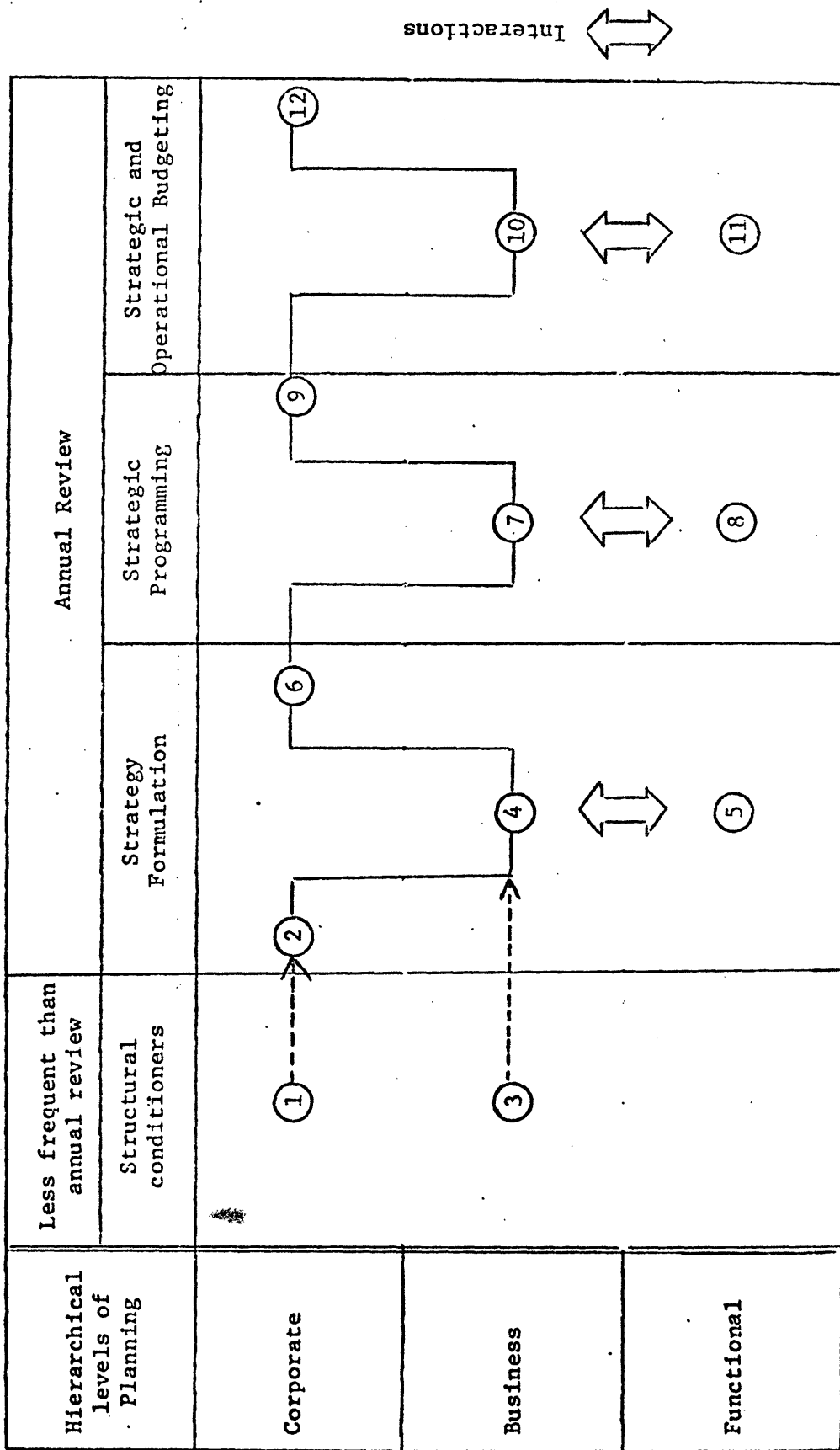
It is a complex matter to describe this process in general terms. We need to identify not only the major tasks that have to be addressed in setting up corporate strategy, and the sequence in which they must be completed, but also the assignment of responsibilities for the execution of those tasks.

There are many hierarchical planning levels that depend very heavily upon the diversity of businesses of the firm, its organizational structure, and the interrelationship between strategy and structure. It becomes clear, then, that the precise specification of a corporate strategic planning process depends on the particular characteristics of the situational setting confronted by the firm. The planning process appropriate for a single business firm with a purely functional organizational structure is quite different from the one suitable for addressing the strategic tasks of a highly diversified multinational corporation. However, we believe that there are some common properties whose adequate use can help in delineating the formal planning process for most business firms.

At the risk of being overly simplistic, we will go back to basics. In Figure 1 we have identified three conceptual hierarchical levels, which have always been recognized as the essential layers of any corporate planning process: a corporate, a business, and a functional level.

Regarding the nature of the planning tasks, we believe it is important to

Figure 1: The formal corporate strategic planning process



- ① The vision of the firm: corporate philosophy, mission of the firm, and identification of SBU's and their interactions.
- ② Strategic posture and planning guidelines: corporate strategic thrusts, corporate performance objectives, and planning challenges.
- ③ The mission of the business: business scope, and identification of product-market segments.
- ④ Formulation of business strategy and broad action programs.
- ⑤ Formulation of functional strategy: participation in business planning, concurrence or non-concurrence to business strategy proposals, broad action programs.
- ⑥ Consolidation of business and functional strategies.
- ⑦ Definition and evaluation of specific action programs at the business level.
- ⑧ Definition and evaluation of specific action programs at the functional level.
- ⑨ Resource allocation and definition of performance measurements for management control.
- ⑩ Budgeting at the business level.
- ⑪ Budgeting at the functional level.
- ⑫ Approval of operational and non-operational funding.

distinguish, first, some activities which have a more permanent character. Although planning is a continuous process which is repeated year in and year out in the life of an organization, there are certain basic conditions that seem to be more permanent and are not significantly altered in each planning cycle. We have referred to them as the structural conditioners of the business firm and thus are represented in Figure 1 by the vision of the firm, and the mission of the business.

At the same time, there are three major tasks which need to be updated and revised at every planning cycle: strategy formulation, strategic programming, and strategic and operational budgeting.

The essence of the message portrayed in Figure 1 is that corporate planning is neither a top-down nor a bottom-up process. It is a much more complex activity which requires a strong participation of the key managers of the firm, where objectives are being proposed from the top, and specific pragmatic alternatives are being suggested from business and functional levels. It is a process that, properly conducted, generates a wealth of individual commitments and personal participation from everybody who has a definitive say in sharpening up the direction of the firm. It is a rich communication device, where the key managers have an opportunity to voice their personal beliefs about the conduct of businesses of the firm, and offers a valuable joint experience as well as an educational opportunity to be shared by key participants.

We provide now a brief description of the content of the corporate strategic planning steps identified in Figure 1.

#### Step 1: The Vision of the Firm

The vision of the firm is a rather permanent statement articulated primarily by its Chief Executive Officer, addressing the following issues:

- 1) Communicate the very nature of existence of the organization in terms of corporate purpose, business scope, and competitive leadership;

- 2) provide a framework that regulates the relationships between the firm and its primary stakeholders: employees, customers, shareholders, suppliers, and the communities in which the firm operates;
- 3) state the broad objectives of the firm's performance in terms of growth and profitability.

The mission of the firm has to be expressed so as to provide a unifying theme and a vital challenge to all organizational units, communicate a sense of achievable ideals, serve as a source of inspiration for confronting the daily activities, and become a contagious and motivating guiding force congruent with the corporate ethic and values.

The vision is a statement of basic principles that set apart those firms which have been able to articulate it in a positive manner from those which lag behind in this respect. There are very few firms which can show well-defined statements of mission.

An individual working for a firm has to become an active collaborator in the pursuit of the corporate purposes; he must share the vision of the firm and feel comfortable with the way in which it is translated or expressed in traditions and values. The behavior of individuals is conditioned by this framework and they must intimately sense that, by following these guidelines, they are fulfilling their most personal needs for achievement. The vision of the firm is a personal drive for their own lives.

Though the vision of the firm is a central thrust for a smooth development of corporate concerns, it is very hard to state it in unambiguous and pragmatic terms, and explain what it takes to develop and communicate the sense of vision. But the proper realization of corporate strategic planning requires, as a first step, that a statement of the vision of the firm be issued. We believe that three major components should be present in such a statement:

- 1) an expression of the mission of the firm in terms of product, market, and geographical scope; and a statement of the way to achieve competitive leader-

ship;

- 2) the identification of the strategic business units (SBU's) of the firm and their interactions in terms of shared resources and shared concerns;
- 3) an articulation of the corporate philosophy in terms of corporate policies and cultural values.

#### The Mission of the Firm

A primary information that should be contained in a statement of mission is a clear definition of current and future expected business scope. This is expressed as a broad description of the products, markets, and geographical coverage of the business today and within a reasonably short time frame, commonly three to five years. The statement of business scope is informative not only for what it includes; it is equally telling for what it leaves out.

The specification of current and future product, market, and geographic business scope communicates the degree of permanence that the business is expected to have. In a widely popular article, Leavitt (1960) warns against excessive marketing myopia. The essence of his message is to allow for a broad enough definition of business scope in order to detect changes in the industry trends, the repositioning of competitors in terms of products, markets, and geographical coverage, and the availability of new substitutes. The contrast between current and future scope is an effective diagnostic tool to warn against myopic positioning of the business.

An example of a mission statement which clearly communicates the three dimensions of the business scope is provided by the Automotive and Industrial Electronics Group of Motorola:

The mission of the Automotive and Industrial Electronics Group is the development and production of electronic modules and power conversion equipment for sale to original equipment manufacturers (OEMs) and the associated replacement parts market.

The product scope centers on volume production of electronic modules, in a variety of manufacturing technologies, for monitoring, control, information transmission, information display, and power conversion:

The market scope is the OEM and replacement market segment for instrumentation, electronic power conversion systems, wire line communication equipment, vehicle power trains, appliances, OE passenger car entertainment, and systems refining visual display capabilities.

The geographic scope is primarily North America and Europe, and secondarily Japan, Latin America, and South Africa.

The other important piece of information that should be contained in the mission statement of a business is the selection of a way to pursue a position of either leadership or sustainable competitive advantage. In this respect, we find Emhart's corporate mission statement to be unambiguously clear:

The businesses within the Company are expected to achieve and maintain a leadership position in attractive industries. A true leadership position means having a significant and well-defined advantage over all competitors. This can be achieved through continuous, single-minded determination to achieve one or both of the following positions within an industry:

1. Lowest Delivered Cost Position

A business with the lowest delivered cost has greater economies of scale than other competitors. Economies of scale are available in the manufacturing, distribution and installation steps where large amounts of costs are incurred. Success at achieving the position of lowest delivered cost is dependent upon identifying and concentrating upon that step where a concentration of effort will produce the most dramatic results.

2. Differentiated Products

Differentiated products are those which offer the customer some important and unique benefit. Typically, patents, trademarks, brand names or specialized skills prevent competitors from copying such products. If a product is truly differentiated, the customer is selectively insensitive to price. Increasing customer price sensitivity is a sign that a product is losing its advantage of differentiation.

### Business Segmentation

The cornerstone of the strategic planning process is the segmentation of the firm's activities in terms of business units. One of the first questions to be addressed sounds deceptively simple, but in practice represents a most challenging and creative analysis: What businesses are we in?

A business can be defined as an operating unit or a planning focus that sells a distinct set of products or services to an identifiable group of customers in competition with a well defined set of competitors. The resulting entity is normally referred to as a strategic business unit, or SBU for short.

It constitutes the level of analysis where most of the strategic planning effort is centered.

Rothschild (1980), a manager of Corporate Strategy Development and Integration at G.E., has listed the following criteria to be met before an organizational component is classified as an SBU:

- First of all, an SBU must serve an external, rather than an internal, market; that is, it must have a set of external customers and not merely serve as an internal supplier or opportunistic external supplier.
  - Second, it should have a clear set of external competitors which is trying to equal or surpass.
  - Third, it should have control over its own destiny. This means that it must be able to decide by itself what products to offer, how and when to go to market, and where to obtain its suppliers, components, or even products. This does not mean that it cannot use pooled resources, such as a common manufacturing plant, or a combined sales force, or even corporate R&D. The key is choice. It must be able to choose and not merely be the victim of someone else's decision. It must have options from which it may select the alternative(s) that best achieves the corporate and its business objectives.
  - Fourth, its performance must be measurable in terms of profits and losses; that is, it must be a true profit-center.
- No organization is a pure SBU, but most SBUs should meet most of these criteria, and all must meet the third one.

A similar notion has been espoused by Arthur D. Little, Inc. (ADL) which defines an SBU as a business area with an external marketplace for goods and services, whose objectives can be defined and strategies executed independently of other business areas. It is a unit that could stand alone if divested from the corporation.

ADL's segmentation criteria is based primarily on conditions determined by the external market place rather than production-cost linkages (e.g., common manufacturing facilities), technical linkages (e.g., common technology), or common distribution channels. They suggest that an SBU is a collection of products and markets that face the same set of competitors, are similarly affected by changes in price, are satisfying a single set of customers, are equally impacted by changes in quality and style, are composed by products which are substitutes of one another, and can be divested without affecting other businesses of the corporation.



In the earlier stages of the application of the SBU concept, the trend was to identify business units which constitute independent viable activities. An important exception to the applicability of this definition is the business firm primarily engaged in a single or dominant business activity with a functional organizational structure. This is a prevalent situation in small enterprises, and it is commonly observed in medium and large size organizations in process oriented industries characterized by high levels of vertical integration.

However, our inability to establish autonomous entities in those cases does not preclude the firm to engage in a plurality of external markets, each one possessing very distinct opportunities and demanding very different competitive efforts. We have to manage a situation in which there is no easy matching between the organizational structure and the strategic focus for different businesses.

A second important exception to the definition of independent business units is the firm which, indeed, can be broken into highly distinct businesses but, if those units were to be managed in a totally autonomous way, unacceptable inefficiencies would result. Very often, a proper strategy should address two primary dimensions among distinct but related business units: shared resources and shared concerns. We can identify situations where different units, in order to be run effectively, have to share some manufacturing facilities or other functional support. Ignoring these potentials will deprive the organization of significant benefits to be derived from shared experiences and economies of scale. The other form of interrelationship that can be found among distinct business units is the existence of shared concerns, like common geographical areas and key customer accounts.

The identification of shared resources opportunities can be based on the value-added chain which covers all the managerial stages related to a product, from product development to delivery of the finished product to the final customer. Now we can apply the experience-curve effect, not only to the final product,

but to every stage in the value-added chain, opening new avenues for increased efficiency when businesses share various forms of functional support. Hax and Majluf (1982a). A typical value-added chain covers the following steps.

Product R&D	Process R&D	Purchasing of Raw Materials	Transportation of Raw Materials	Manufacturing of Parts and Components	Assembly	Testing	Marketing	Sales	Distribution	Retailing
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A simple procedure to diagnose the potentials for shared resources among various business units is to construct a two-dimensional matrix for the appropriate stages for value added and business units of the firm. In each of the resulting cells, a comment can be made on the nature of the potential sharing of resources, if any.

#### The Different Hierarchical Levels of Planning

The considerations that we have just expressed have raised some important issues with regard to the conventional way of managing businesses. Gluck, Kaufman, and Walleck (1982) characterized the definition of an SBU structure as a type of chicken-and-egg problem:

You can only really know the proper definition of an SBU when you have an agreed strategy; different strategic thrusts require the inclusion of different product-market units and functional capabilities within the SBU. But one purpose of the SBU strategy is to provide a framework for planning. Which came first, strategy or structure?

Second, in most companies the planning structure is force-fitted into the current organizational structure, or the other way around. Both are equally unsatisfactory. The planning structure should be shaped around tomorrow's concepts of the business. An organizational structure is responsible for instrumenting today's strategies well; when the two are different, conflict is inevitable.

It should not be surprising, therefore, that no one has been able to prescribe an entirely acceptable definition of an SBU, or describe satisfactorily how to derive an SBU structure. SBU definition remains something of a black art...

In this excerpt, Gluck et al. refer to a situation in which the formal organization structure cannot be logically mapped with the business segmentation scheme, which is one of the two conditions that invalidates the definition

of an SBU as autonomous business unit to which we alluded in the previous section. Their proposal for resolving this problem is to develop a comprehensive strategic planning framework which defines a hierarchy of planning levels composed by five different layers:

- Corporate-Level Planning

To establish the vision of the firm, state corporate objectives and strategic thrusts, define a corporate philosophy and values, identify a domain in which the firm will operate, recognize world-wide technical and market trends, and allocate resources with a sense of corporate priorities.

- Share-Concern Planning

To meet unique needs of certain industry or geography customer groups or to plan for technologies used by a number of business units.

- Shared Resource Planning

To achieve economies of scale or to avoid problems of subcritical mass (e.g., R&D). Whenever a critical resource resides on a function centralized at the corporate level, the development of that functional strategy could be critically important to either determine or constrain a business unit strategy.

- Business-Unit Planning

Business units are defined having external markets and competitors in mind. Most of the strategic planning effort is done at this level, where the business unit manager seeks control of its own market position and cost structure.

- Product-Market Planning

The lowest level at which strategic planning takes place, where typically product, price, sales, and services are planned.

From the prospective of this framework, the essential task is to identify what are the issues to be faced by each hierarchical level, and what is the role that they have to play in shaping corporate, business, and functional strategy. Also, individual responsibilities for developing, implementing, and controlling the proper strategic tasks have to be assigned at all levels in

the organization.

By adopting this way of resolving the dilemma between strategy and structure, we are de facto admitting that there could be two coexistent types of organizations within the firm. One, the formal organizational structure, is designed to deal in an effective manner with the on-going operational tasks, and requires a clearly spelled out hierarchy of responsibilities and authorities allowing little or no reporting ambiguity. The other, the strategic structure, has its own reporting system according to the hierarchical strategic levels we just described. Many managers assume dual roles: operational and strategic, and therefore are measured and rewarded by a dual control system. In the terminology of Texas Instruments, these individuals wear "two hats".

There is also no ambiguity in the strategic reporting structure except that it might not coincide with the operational reporting mechanism. As far as we know, General Electric which was the first organization to adopt formally this dual operational and strategic approach to structuring an organization [Harvard Business School (1981)].

The second condition we have identified in the previous section that limits the definition of SBUs as autonomous entities applies to firms which, though clearly segmented in accordance with largely self-contained business units, do share significant resources and concerns among them.

A very popular way of resolving this issue has been to interpose a new hierarchical level in the organizational structure, normally referred to as group or sector. It represents a collection of distinct but interrelated business units which share resources and/or concerns and, therefore, cannot state strategic plans in a completely independent fashion.

The group or sector management fulfills many roles: it serves as a buffer between the corporate and business levels; it assists in the translation of corporate objectives, thrusts, and planning challenges for the participating SBUs; it assures that the adequate resources and concerns are properly dealt with and developed by business units; and it coordinates the strategic and

operational activities pertaining to SBUs.

Two additional tasks conducted by group managers in some organizations are the allocation of resources among SBUs and the extension of existing businesses into new and related product-market segments. This is particularly true in firms such as General Electric, where the various sectors are differentiated by type of industry. The corporate level lacks an intimate knowledge of the wide array of businesses spanning a broad spectrum of industries, so it delegates to group executives what actually is the management of a fairly complex segment of the corporation, but it retains the responsibility for diversification opportunities into new industries not covered by existing groups.

#### Corporate Philosophy

This is the most subtle of the issues involved in shaping up the corporate vision. A well-formulated corporate philosophy should address, at least, the following issues:

- 1) Statement of the relationship between the firms and its principal stakeholders; namely employees, customers, shareholders, suppliers, communities.
- 2) Definition of broad corporate objectives, normally expressed in terms of growth and profitability.
- 3) Formulation of corporate policies, regarding organizational policies, human resources management (selection, promotion, compensation, rotation), financial policies (particularly in terms of dividends and debt structure), marketing policies, and technologies policies.
- 4) An articulation of the corporate culture reflected in its attitudes and values, its management style, and the problem-solving behavior of its people.

#### Step 2: Strategic Posture and Planning Guidelines

The corporate vision is a rather permanent statement of the central purpose of the organization, its policies and corporate values. Normally, it is not updated at the beginning of each planning cycle but it is subject to a thorough

review at much longer intervals, say every five years or so. However, the vision has to be translated into more pragmatic and concrete guidelines which serve as immediate challenges for the development of strategic proposals at the businesses and major functions of the firm.

This latter set of concerns is encapsulated in what we designate as the strategic posture of the firm, which has to be distilled from the vision of the firm and the situational analysis of the external and internal environments. In Figure 2, we represent these interactions and indicate the primary elements in these strategic activities.

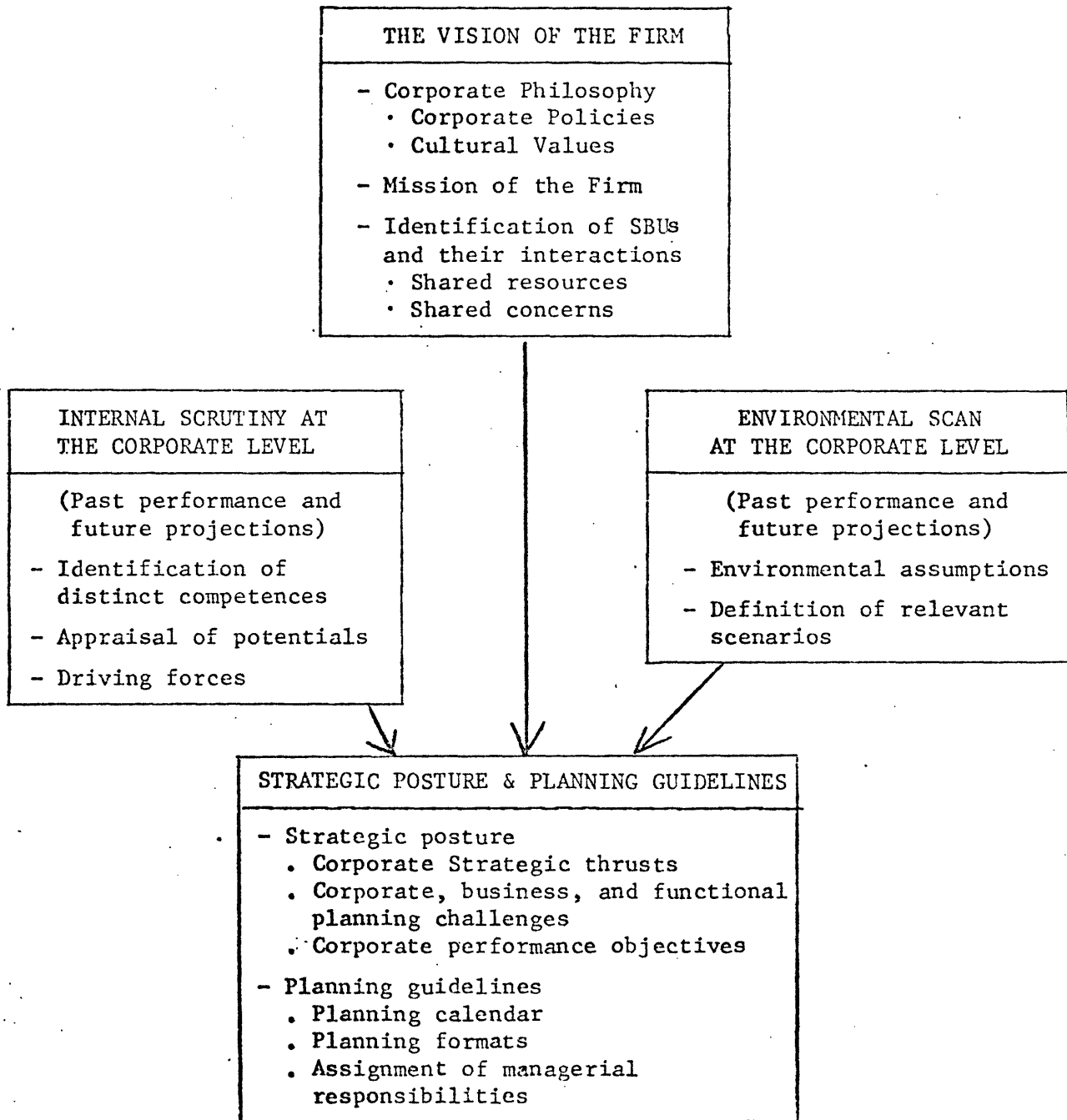
a) Environmental Scan at the Corporate Level

Environmental scan attempts to diagnose the general health of the industrial sectors relevant to the businesses in which the corporation is engaged. It concentrates on assessing the overall economic, political, technological, and social climates that affects the corporation as a whole. This assessment has to be conducted, first, from an historical perspective to determine how well the corporation has mobilized its resources to meet the challenges presented by the external environment; and then, with a futuristic view in mind, to forecast future trends in the environment and seek a repositioning of the internal resources to adapt the organization to those environmental trends.

The output of the environmental scan normally starts with an economic scenario which exhibits the most likely trends affecting the next planning cycle and, possibly, a call for the development of contingency plans addressing either optimistic or pessimistic departures from this most likely trend. Topics to be included in this economic scenario are:

- economic growth: GNP and major influencing factors
- inflation rate
- prime interest rate
- unemployment
- overview of foreign markets, and foreign exchange rates considerations

Figure 2: The Vision of the Firm and Its Strategic Posture



- population growth in critical geographical areas
- disposable income
- growth of critical industrial sectors, such as housing, defense, health, etc.

A second important component of the environmental scan is the projection of global trends in the primary markets in which the firm competes. Although a more

detailed industry and competitive analysis has to be conducted at the business level, it is important to provide some macro-trends mutually agreed upon by corporate officers and key business managers in order to assure a sense of overall consistency in the formulation of business strategy and actual programs.

For a firm competing in a high-technology environment, an essential third ingredient of the environmental scanning process is a thorough analysis of the change of pace of emerging technologies and the threats and opportunities this situation creates to the firm.

Besides economic, market, and technological considerations, a question that deserves special attention is the availability and quality of the supply of human resources. For some firms, this is the most critical and constraining resource. Therefore, it is essential to understand the composition and trends of specially critical professional and technical skills.

Finally, the environmental scan has to address a set of more subtle but, at time, crucial issues pertaining to the political, social, and legal environments. Concrete items which are central to most business firms are regulatory issues, question of unionization, minority concerns, environmentalists pressures, public opinion groups, community activities, etc.

b) Internal Scrutiny at the Corporate Level

The subject of the internal scrutiny at the corporate level is concerned with a broad evaluation of the human, financial, productive, physical, and technological resources available to the corporation. As with the environmental scan, the analysis has to include the historical background as well as the forecasted trends.

What is intended to be distilled from the internal scrutiny at the corporate level is the identification of the major areas of competence existing across the organization which are going to be exploited to achieve a position of leadership.

A tool which could be useful to reflect upon the primary thrust of the firm is what Tregoe and Zimmerman (1980) designate as the driving force. According to their definition, a driving force is a central determinant of changes in the



mission of the firm; i.e., in its product, market, and geographical scope. They suggest that there are nine basic strategic areas, grouped in three broad categories, all of which can decisively affect and influence the nature and direction of any organization. (see Figure 3).

Figure 3: Driving Force and the Nine Basic Strategic Areas

<u>Category</u>	<u>Strategic Areas</u>
Product/Markets	Products Offered Market Needs
Capabilities	Technology Production Capability Method of Sale Method of Distribution Natural Resources
Results	Size-Growth Return-Profits

Tregoe and Zimmerman suggest that, although all nine strategic areas are critically important to every company, one and only one of the nine areas should be the driving force for the total organization. Likewise, for any business unit within the organization, there should be only one driving force, though not necessarily the same as in the total organization. Moreover, the driving force might change as the organization modifies its strategic posture through time, due to changes in the environment, in the competitive picture, in internal capabilities, and in the desire of top management.

The strategic areas identified under the category "capabilities" represent driving forces which are supported by some special kind of functional excellence, while the others address broader issues of business concerns.

c) The Strategic Posture of the Firm

The strategic posture of the firm is a set of pragmatic requirements developed at the corporate level to guide the formulation of business and functional strategies.

This is accomplished through the formulation of the corporate strategic thrusts, the identification of specific planning challenges for the corporation, businesses

and functional areas, and the statement of corporate performance objectives.

### Corporate Strategic Thrusts

The corporate strategic thrusts constitute a powerful mechanism to translate the broad sense of directions the organization wants to follow into a practical set of instructives to all key managers involved in the strategic process. We define strategic thrusts as the primary issues the firm has to address during the next three to five years to establish a healthy competitive position in the key markets in which it participates.

Strategic thrusts should contain specific and meaningful planning challenges for each of the business units of the firm. In addition, depending on the nature of the organizational structure, the strategic thrusts could also contain challenges addressed at the corporate level as well as some key centralized functions.

The mere process of collective reflection upon the strategic thrusts by a group of top managers represent a major advance in the strategic thinking of the firm. This process generates the listing of the primary issues faced by the firms, and the assignment of priorities and identification of responsible individuals in charge of responding to the strategic thrusts. On the surface, it may sound as a relatively simple and straightforward exercise. This is far from being the case. The development of the strategic thrust permits raising the central questions the firm should address for a meaningful strategic development.

There is a significant power in the actions that are set in motion by the definition of strategic thrusts. Regardless of the individual concerns and situational issues residing at every level in the organization, we know that those managers who have been entrusted with the responsibility of responding to strategic thrusts will have to produce proper answers to those questions, mobilizing every unit in the organization in the desired overall direction. This provides an opportunity for all competences and talents in the organization to be thoroughly applied in the pursuit of clearly established lines of action.

Figure 4 illustrates in a very succinct way the statement of strategic thrusts for a manufacturing firm, as well as the assignment of planning challenges to those organizational levels in charge of responding to those thrusts. Notice that there is a priority assigned to those planning challenges, depending on the level of intensity of the necessary participation required. We have formulated these thrusts very concisely. It could be beneficial, in a given situation, to expand the description of each thrust to allow for a better communication of the issues that are intended to be covered.

Figure 4: Statement of Strategic Thrusts and Assignment of Planning Challenges

STRATEGIC THRUSTS	CORP	BUSINESSES			FUNCTIONS	
		SBU-1	SBU-2	SBU-3	MANUF.	TECH.
Reduce production costs	-	1	1	3	1	2
Improve product quality	-	2	1	1	1	2
Develop new products	2	3	1	1	3	1
Increase penetration in key accounts	1	1	2	2	-	-
Increase international participation	1	3	2	1	-	-
Seek diversification outside existing business base	1	-	-	-	-	2
Improve customer service	-	1	3	2	-	2

- Code: 1 Vital  
 2 Important  
 3 Secondary  
 - Not applicable

Corporate Performance Objectives

Normally, the expression of corporate objectives are quantitative indicators related to the overall financial performance of the firm. Typically, corporations choose to express corporate financial objectives via a very limited number of

selected indicators related to total revenues, profit performance, and growth rate.

There is no universal set of indicators used for these purposes. Moreover, the financial targets could be quite different among firms, depending both on external market opportunities and the external competences of the firm.

Various considerations serve as a base to arrive at a numerical expression of goals. First, the historical performance achieved by the corporation; second, the projected trends expected from the existing and new business lines; and third, the financial position of the firm competitors. It is important to recognize the financial performance of the key competitors not only from the perspective of comparative analysis, but also because firms in the same industry attract the same group of investors in the capital markets.

By articulating broad financial expectations, the corporation adds to the challenges implicit in the strategic thrusts but, at the same time, provides a more realistic framework to guide the desirability of proposed action programs that will emerge from the subsequent steps in the strategic planning process.

### Step 3: The Mission of the Business

The basic concept of mission of the business is similar to its equivalent at the corporate level, and is expressed in terms of products, market and geographical scope, together with a statement of competitive uniqueness. However, when applied at the business level, the mission becomes sharper and more detailed. There is a strong influence emanating from the corporate vision and posture statements. However, it is possible that the existing or desirable competitive leadership of a given business might not coincide with that of the overall corporation.

### Step 4: Formulation of Business Strategy and Broad Action Programs

A business strategy is a set of well-coordinated action programs aimed at securing a long-term sustainable competitive advantage.

Prior to the development of strategies for the individual businesses, it is necessary to perform a thorough analysis regarding the current and future business position in terms of two dimensions:

- the non-controllable forces which are associated with the external environment and determine the industry trends and market opportunities; and
- the internal competences residing in the firm, which will determine the unique competitive leadership potential that the firm could mobilize in order to establish a business superiority against competitors.

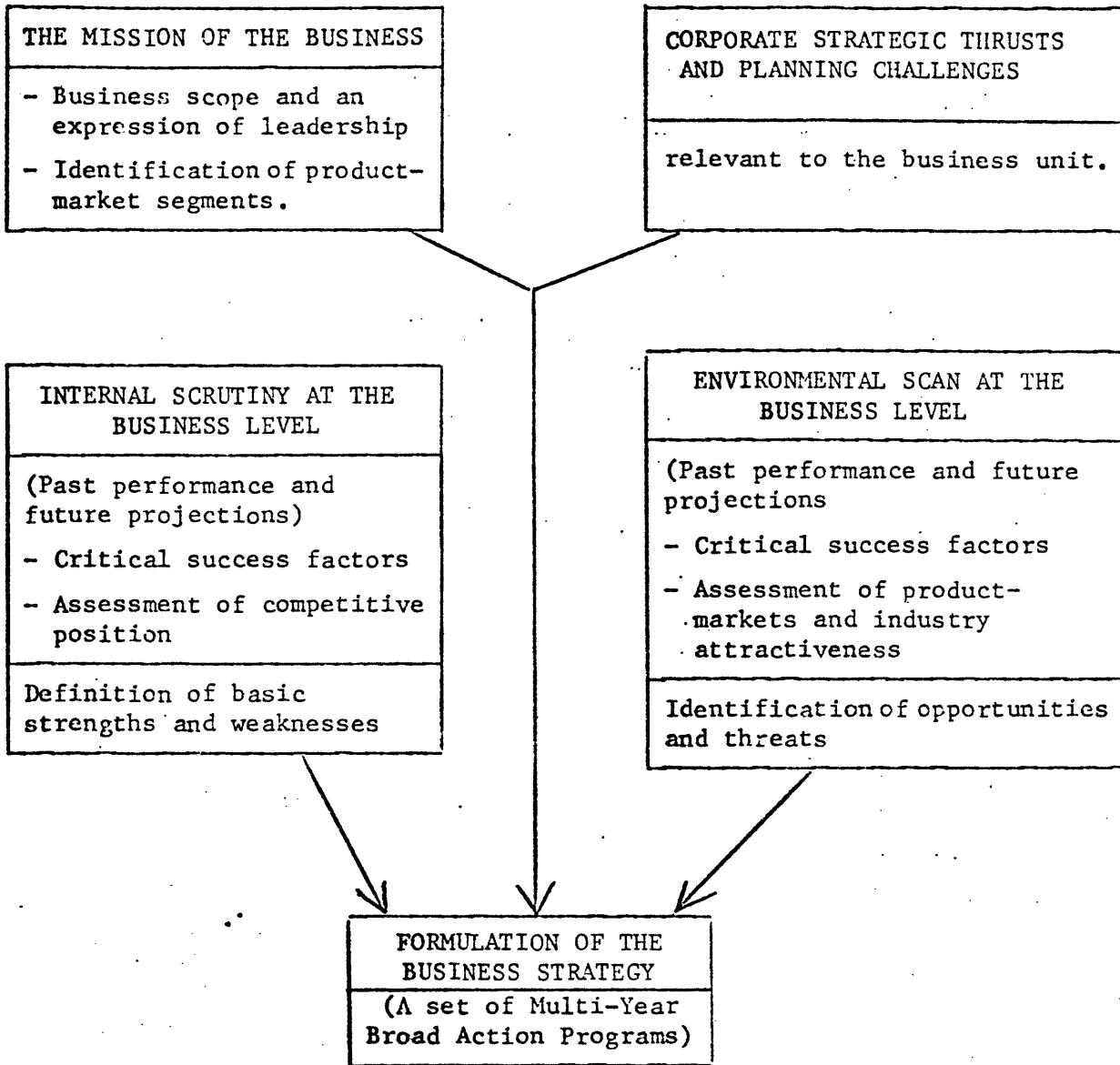
The business strategy constitutes a response to deal with these two dimensions. When addressing the external environment, the strategic orientation will try to take advantage of market opportunities and neutralize adverse environmental impacts; when facing the internal environment, the direction will be to reinforce internal strengths and improve upon perceived weaknesses with regard to competition. Moreover, the business strategy should be guided by directions provided by the corporate level, most importantly those expressed by the strategic thrusts which generate specific planning challenges for the business under consideration (see Figure 5).

During the late 1960's and throughout the 1970's, a planning methodology known as the business portfolio approach was developed to assist managers in addressing these two dimensions of strategic diagnosis. Among them, the most popular are:

- The growth-share matrix, originally developed by the Boston Consulting Group (BCG): Henderson and Zakon (1980a), Hax and Majluf (1982b).
- The industry attractiveness-business strength matrix, originally developed by General Electric jointly with McKinsey: Rothschild (1976), Allen (1979), Hax and Majluf (1982c).
- The life-cycle approach, developed by Arthur D. Little: Arthur D. Little (1979), Osell and Wright (1980).

Recent analyses of the various portfolio management techniques have been

Figure 5: Formulation of Business Strategy and Broad Action Programs



performed by Wind and Mahajan (1981), and Haspeslagh (1982).

Perhaps the most significant and permanent contribution of the portfolio approach resides in the generation of a set of natural or generic strategies to be considered by each business depending on their position in the industry attractiveness and competitive strength dimensions. Although this is a concept that has to be used with a great deal of wisdom, it provides managers with an ability to reflect upon meaningful alternatives for the strategic positioning of each business, which represent natural paths for their development.

The first proposal of generic strategies come from the BCG approach, which relies on desirable market share positioning as a primary input to convey the strategic objectives for a business unit. The categories of market share thrusts initially defined by BCG are:

- Increase
- Hold
- Harvest
- Withdraw or Divest.

Macmillan (1982) expands the strategic roles which could be played by a business unit depending on its position in the portfolio matrix. They are:

- Build aggressively
- Build gradually
- Build selectively
- Maintain aggressively
- Maintain selectively
- Prove viability
- Divest, liquidate
- Competitive harasser.

#### Step 5: Formulation of Functional Strategies and Broad Action Programs

The intensity of the functional participation at this stage of the planning process depends strongly on the characteristics of the organizational structure of the firm. If a firm is heavily decentralized, with strong self-sufficient divisionalized businesses, the role of the functional manager at this step is minimum, since the strategy formulation at the business level incorporates all the necessary functional support. Conversely, a purely functional organization, or a hybrid organization having some strong centralized functional presence, will require a much stronger participation of the functional managers in the formulation of strategies.

There are two forms of functional involvement at this step. One, a relatively passive participation, calls for the functional managers to study the business strategies and broad action programs prepared by businesses and cast a concurrence or non-concurrence vote. If functional managers decide that a business plan is not acceptable because it is judged to contain inadequate or unrealistic commitments in some functional area, the corresponding functional manager will issue a non-concurrence statement. Most of the non-concurrences should be resolved through bi-lateral discussions between business and functional managers. If agreement is not reached, the non-concurrence issue escalates through the organizational hierarchy until it is finally resolved. This planning mode has been adopted by IBM [Harvard Business School (1979)].

The second form of functional involvement is the response that a functional manager has to provide to the corporate strategic thrust, which involves directly his particular function, and it is not contained in any proposed business plan. Normally, actions of this sort represent requirements for increasing the existing competences of a given function in order to create a unique competitive strength, to be transferred in the future to the various businesses of the firm.

These functional responses to strategic thrusts are expressed in terms of broad action programs, containing multi-year milestones, and expressed in fairly aggregate terms. They will, in turn, be supported by a set of specific action programs later on in the planning process.

In the formulation of broad action programs, it might be useful to resort to and environmental scan and internal scrutiny processes, similar to those discussed at the business level, except that this time the focus of attention is the actual standing and proper development of functional capabilities in the firm.

#### Step 6: Consolidation of Business and Functional Strategies at the Corporate Level

This crucial step in the planning process calls for a critical review and



sanctioning at the corporate level of the set of broad action programs proposed by business and functional managers. It requires the involvement of all key executives who share the responsibility of shaping the strategic direction of the firm, and it is conducted normally through a one or two-day meeting, totally dedicated for this purpose. If properly done, it serves as a powerful communication device which allows for the emergence of a clear consensus and a personal commitment of all participating managers.

At a minimum, the following five issues should be addressed at this step.

- 1) Preliminary evaluation of the quality of the proposed broad action programs. The broad action programs developed by business and functional managers in previous steps are supported by the gathering of market and business "intelligence", and represent a rather qualitative set of proposals which are believed to mobilize the businesses in the desired future direction. Usually, there is little of precise quantitative information in these proposals. Notoriously absent at this point is a comprehensive quantitative analysis of the financial implications of the proposed recommended action programs, as well as additional alternatives that can be revised at this point. These financial analyses require much more detailed information, which would be collected in subsequent stages, once an approved broad direction has been selected.

By doing so, we eliminate the frustrations which result from wasting significant amounts of effort to present strategic alternatives that might be turned down later at the corporate level. However, this leaves us with a difficult question to be resolved: how to really assess the merits of the proposals at this stage?

To some extent, this is not an unfortunate situation because, purposely, we do not want to be bogged down with massive amounts of data which will cloud the real issues to be resolved at this step. What is central for this discussion is to have a clear understanding of the integrity of the set of broad action programs as a way of effectively developing the businesses and functions of

the firm. That integrity cannot be grasped by simple numerical exercises.

The acid test is the extent by which the programs truly respond to the strategic thrusts previously elaborated, and their congruency with the vision of the firm.

2) Resolution of non-concurrence conflicts. If bilateral discussions undertaken by business and functional managers to resolve a non-concurrence issue has not resulted in a satisfactory solution, the issue could escalate at this level, where it has to be finally resolved. Depending on the nature of the problem as well as the organizational style, we might not want to address publicly and openly this conflict at the managers' meeting. In this case, efforts should be undertaken to resolve the questions prior to the meeting and merely report on the final decision.

3) Balancing the business portfolio of the firm. This activity spans several dimensions of concern. The most crucial one has to be with short-term profitability vs. long-term development. To some extent, that is also linked to the trade-offs between risk and return. Finally there is a question of cash-flow balance, which does not imply that a balanced portfolio is necessarily optimum, but it serves to address the question of seeking some equilibrium between sources and uses of funds in the organization.

4) Defining the availability of strategic funds, the debt policy, and the maximum sustainable growth. Strategic funds are expense items required for the implementation of strategic action programs whose benefits are expected to be accrued in the long-term, beyond the current budget period (Stonich, 1980).

There are three major components of strategic funds:

- Investment in tangible assets, such as new production capacity, new machinery and tools, new vehicles for distribution, new office space, new warehouse space, and new acquisitions.
- Increases or decreases in working capital resulting from strategic commitments, such as the impact of increases of inventories and receivables resulting from an increase in sale; the need to accumulate larger inventories to provide

better services; increasing receivables resulting from a different policy of loans to customers, etc.

- Development expenses, that are over and above the needs of existing business, such as advertising to introduce a new product or to reposition an existing one; R&D expenses of new products; major cost reduction programs for existing programs; introductory discounts, sales promotions, and free samples to stimulate first purchases; development of management systems such as planning, control, compensations; certain engineering studies, etc.

It is important to recognize these three forms of strategic funds. Although all of them contribute to the same purpose, namely, the improvement of future capabilities of the firm, financial accounting rules treat these three items quite differently. Investment is shown as increase in net assets in the balance sheet, and as annual expenses through depreciation in the profit and loss statement. Increases in working capital also enlarge the net assets of the firm, but they have no annual cost repercussion. Development expenses are charged as expenses in the current year income statement and are not added to assets as investments. These considerations suggest that dysfunctional behavior may result on the part of business managers if they are unwilling to commit themselves to significant strategic expenses whenever they are monitored and rewarded by inappropriately myopic management control systems. Since there are no immediate profitability results derived from these strategic funds, it is important to make a manager accountable for the proper and timely allocation of those expenditures using performance measurements related to the inherent characteristics of the action programs they are attempting to support.

A sound way of calculating the strategic funds is first to forecast the sources of funds forthcoming to the firm. The primary components of the sources of funds are:

- earnings
- depreciation

- new debt issuing
- new equity issuing
- divestitures.

Notice that earnings contain, as part of the cost of goods sold, the normal levels of development expenses which are assigned to the various functions of the organization, in particular R&D.

The second part of the computation requires the forecast of uses of funds, who most important items are:

- dividends
- debt repayment (principal)
- strategic funds
  - new fixed assets and acquisitions
  - increases in working capital
  - increases in development expenses.

Therefore, the total strategic funds (S.F.) availability can be estimated as:

$$\text{total S.F. availability} = \text{total source of funds} - \text{dividend payments} - \text{debt repayment}$$

It is apparent from this relation that the firm debt capacity and financial leverage policies have a significant impact in the ability of the firm to increase its growth. Establishing a sound debt policy, congruent with the company's financing requirements, it is another issue to be addressed at this point. A good treatment of this topic is presented by Piper and Weinhold (1982).

Another useful guide to address the question of corporate growth is the calculation of the maximum sustainable growth of the firm. This represents the maximum growth the firm can support by using its internal resources as well as its debt capacity. A relation proposed by Zakon (1976) to estimate this limit to company growth is:

$$g = p \left[ \text{ROA} + \frac{D}{E} (\text{ROA} - i) \right]$$

where:  $g$  = maximum sustainable growth expressed as a yearly rate of increase of the equity base. (It corresponds also to the increase in the total assets base, because the debt-equity ratio is assumed to remain constant.)

$p$  = percentage of retained earnings

ROA = after-tax return on assets

$D$  = total debt outstanding

$E$  = total equity

$i$  = after-tax interest of debt.

This expression represents a first cut and gross approximation of the maximum sustainable growth, that assumes a stable debt-equity ratio and dividend-payout policy, as well as a fixed overall rate of return on assets, and cost of debt. Although a coarse approximation, this number serves as a guidance for corporate growth that should be taken into consideration at the corporate level.

5) Assigning priorities for resource allocation to each business unit. The previous considerations have allowed us to assess the affordable growth of the corporation and the total funds available for its future development. Having that information in mind, we should now turn our attention to the assignment of priorities to be given to each business unit in terms of resource allocation. This will allow a realistic program to be formulated, which not only will respond properly to the desired strategic direction of each business unit, but also it will be consistent with the financial and human resources in place.

There are various ways to establish those priorities. An adequate expression could be to use the categories of strategic growth previously identified; i.e., build aggressively, build gradually, build selectively, maintain aggressively, maintain selectively, prove viability, divest-liquidate, competitive-harasser.

Steps 7 and 8: Definition and Evaluation of Specific Action Programs at the Business and Functional Levels

The broad and qualitative statements of the strategy formulation phase

have to be translated into concrete tasks which can be subjected to a close monitoring, and whose contribution to the business can be measured in precise quantitative terms. At this step of the planning process, specific action programs spell out, with a clear implementation focus, the detailed tasks which have to be undertaken to support each one of the broad action programs.

A specific action program is a structured, coherent, timed and evaluated continuum of actions, with a clearly defined schedule for completion in a relatively short time span covering, normally, from 6 to 18 months. In the military terminology, they represent the tactical plans that support the strategy.

The definition of a specific action program must include:

- a verbal description
- a statement of priority indicating the desirability of the program for the competitive position of the firm.
  - "Absolute first priority" - postponement will hurt significantly the competitive position.
  - "Highly desirable" - postponement will affect adversely the competitive position.
  - "Desirable" - if funds were to be available, the competitive position could be enhanced.
- the estimated cost and benefits
- the manpower requirements
- the schedule of completion
- the identification of a single individual responsible for its implementation
- the procedure for controlling its execution (normally of the project-control kind, like CPM and Gantt-schedules).

The inclusion of this normalized description of specific action programs greatly facilitates their evaluation and sanctioning at the corporate level. The final approval of these programs is partly based on a qualitative assessment of the strategic positioning of the business or function supported by them, partly on the resources availability to the firm and partly on quantitative

measures of the goodness of the program obtained by using normal evaluation techniques.

A distinctive characteristic of the evaluation process conducted at the corporate level is its incremental nature. In fact, a specific action program can be either added or eliminated depending on the importance and worth assigned to it. The importance of the program is derived from the priority specified in its definition, which amounts to the urgency assigned by the managers more directly affected by it; and from the opinion held at the corporate level with regard to the strategic value of the program for the related business or function. The worth of the program is estimated based on the discounting of expected cash-flow streams at rates which incorporate the business risk. This requires the realization of a marginal analysis supported by market and financial forecasts conditional upon the adoption of the program being proposed. Finally, it is a common practice to address in the cash-flow projections different scenarios that correspond to optimistic, most likely, and pessimistic assumptions. A simple analytical procedure for evaluating specific action programs on an incremental basis is suggested by Rappaport (1981).

Step 9: Resource Allocation and Definition of Performance Measurements for Management Control

At this step of the planning process, top managers are confronted with the difficult task of evaluating the proposals originated at the business and functional levels with a corporate perspective, in order to assign the necessary resources for their proper development. This is not an easy task for two main reasons: one, the inherent difficulty in assigning meaningful priorities to programs which are quite heterogeneous seeking the advancement of many different objectives which make them hard to compare; and two, normally, the flow of proposals contains resource requirements which, by far, exceed the total availability of resources residing in the entire organization. This often presents

top managers with the unpleasant job of having to say no but, at the same time, fully explaining the reasons for that decision without demotivating managers.

The resource allocation process begins with the determination of the total funds available for supporting broad and specific action programs being presented by businesses and functions during the actual planning cycle. This is done by deducting from the total appropriated for investment, those funds which are required to fulfill legal obligations or correspond to previous commitments to an on-going project.

Another point of concern at the corporate level is the coherence between the strategic role assigned to a business, and the one assumed by its managers. Rothschild (1980) discusses a methodology developed by General Electric to check the consistency between investment priorities and resource allocation decisions. It is based on recording and comparing the historical assignments and new demands of strategic funds to detect the degree of aggressiveness implicit in the proposed request as measured in terms of its deviation from the past. Declining, maintaining, moderate increase, and aggressive increases of those requests should be congruent with the strategic directions these businesses are intended to pursue. Otherwise, there is an inconsistency which needs explanation.

In recent years, there has been an increasing attention being given to the concept of value creation as a way of assessing the goodness of the firm and business strategies. Accepting as a primary objective for the firm the creation of value to its shareholders, the question becomes how to measure the potential for value creation implicit in the business and firm strategies. At the firm level, there is a wealth of information contained in the capital markets, which is central to the examination of this issue. Expressed in very simple terms, by comparing market and book values, we can determine if the firm has managed to create or destroy worth to its shareholders. When the firm profitability is above the cost of capital, its market value should exceed its book value, and we can safely say that worth has been created. If, on the contrary, the



profitability does not exceed the cost of capital, the market value is below the book value and we conclude that worth has been destroyed. Fruhan (1979) has performed an interesting empirical study to identify the characteristics of firms which have shown extraordinary capabilities to create value for their shareholders.

At the corporate level, the estimated market value of the firm can be contrasted against the actual value observed in the market, thus obtaining some support for the cost of capital and volatility figures being used in its derivation. The challenge is now to translate the capital-market driven measures of financial performance to the business level of the firm.

The value of the firm's stock is determined by the contribution of the totality of its businesses. Obviously, some of the business might contribute to create value while others might subtract from the value of the firm. At the same time, the cost of capital for each business is not the same, since each one of them has its own inherent risk characteristics. This task is further complicated by the need to assign an equitable share of the total cost of debt borne by the corporation. Moreover, we lack now an external indicator as clear as the market value of the stock to determine how the external capital market is evaluating the contribution of each business. The best we can do to estimate the value of a given unit is to discount the expected future cash flows generated by that business, using as cost of capital the discount rate applied by the market to other firms or entire industries of similar risk.

The final task that has to be executed in this step of the planning process is the development of meaningful performance measurements to facilitate the controlling and monitoring of the broad and specific action programs supporting business and functional strategies. We have commented already upon the need to define specific action programs in a way that permits its control. A more difficult task is to establish control and reward systems for measuring and compensating the effective implementation of long term strategic directions,

represented by the successful completion of broad action programs of business and functions.

#### Steps 10, 11, and 12: Strategic and Operational Budgeting

The result of this planning process leads toward the development of an "intelligent budget", which is not a mere extrapolation of the past into the future, but it is an instrument that contains both strategic and operational commitments. Strategic commitments lead to the development of new opportunities which very often introduce significant changes in the existing business conditions. Operational commitments, on the other hand, are aimed at the effective maintenance of the existing business base.

A way to break this dichotomy within the budget is to make use of strategic funds and operational funds to distinguish the role that those financial resources will have.

Budgeting was the first structured methodology to provide assistance to managers in the planning process; therefore, there is a great deal of solid knowledge residing in most organizations on how to prepare a good master budget (Welsch, 1976). The new concept that has emerged in recent years has been the insistence in separating strategic from operational budgets, in order to sharpen and make more controllable the strategic commitments of the firm.

#### The Merits of Corporate Strategic Planning

The framework we have presented to identify the essence of corporate strategic planning has very strong and powerful contributions to enhance managerial understanding and decision making. Among the most salient accomplishments we could cite the following:

- 1) The planning process helps to unify corporate directions. By starting the process with a proper articulation of the vision of the firm, subsequently extended by the mission of each business, and the recognition of functional competences, the planning process mobilizes all of the key managers in the

pursuit of agreed upon and shared objectives. This unifying thrust could be very hard to accomplish without the formalization and discipline of a systematic process.

- 2) The segmentation of the firm is greatly improved. Organizational theory has always had as a central concern the assignment and proper coordination of tasks to the members of a firm. Rather than relying on simple operational motifs, the strategic planning process contributes a significant enrichment to the firm segmentation by addressing the recognition of the various strategic hierarchical levels and its matching with the organizational structure. A key determinant of this process is not only to seek business autonomy oriented toward serving external markets, but it is also the recognition that shared resources and shared concerns must be truly accomplished to realize all the potentials for the firm.
- 3) The planning process introduces a discipline for long-term thinking in the firm. The nature of the managerial tasks is so heavily dependent on taking care of an extraordinary amount of routine operational duties, that unless a careful discipline is instituted, the managerial time could entirely be devoted to operational issues. By enforcing upon the organization a logical process of thinking, with a clearly defined sequence of tasks linked to a calendar, planning raises the vision of all key managers making them face the need to concentrate creatively some efforts in reflecting upon the strategic direction of the businesses.
- 4) The planning process has an educational purpose. Perhaps the most important of the attributes of a formal strategic planning process is that it allows the development of a managerial competence of the key members of the firm, by enriching their common understanding of corporate objectives and businesses, and the way in which those objectives can be transformed into reality. In other words, the most important contribution of the planning process is the process itself. A mere by-product is the final content of

the "planning book". The engaging communicational efforts, the multiple interpersonal negotiations generated, the need to understand and articulate the primary factors affecting the business, and the required personal involvement in the pursuit of constructive answers to the pressing business questions, is what truly makes the planning process a most vital experience.

### The Limitations of Corporate Strategic Planning

In spite of the many contributions of corporate strategic planning, as in any human endeavor, it has some limitations that, if not properly recognized, could destroy its effectiveness.

#### 1) Risk of Excessive Bureaucratization.

One of the inherent risks in formalizing any process is to create conditions which impose a bureaucratic burden into an organization, stifling creativity, and losing the sense of the primary objectives intended by that process. Planning could become an end in itself, and pretty soon could be transformed into a meaningless game of filling-in the numbers, impairing strategic alertness, which is the central concern of planning.

There is an issue about being able to maintain strong vitality and interest in a process which is time-consuming and repetitive. Often, the initial stages of introducing a well-conceived planning process in an organization is accompanied with an exhilarating challenge generating a strong personal commitment and enthusiasm. As time goes by, the threat of the planning process becoming a routine bureaucratic activity is very real.

There are several ways to prevent this undesirable situation. One is not to force a revision of all the steps of the planning process outlined in this writing; instead, one might conduct a comprehensive and extensive strategic audit, say every five years, and in the interim deal simply with minor upgrading of strategies and programs.

Another approach is to identify selectively each year the planning units that deserve more careful attention in the planning process, either because

of changes in environmental conditions, or due to internal organizational issues. This discriminatory emphasis could help to avoid spending unnecessary efforts on businesses which do not require such attention.

A third organizational device to present bureaucratization is to select each year a planning theme which will require the attention of all key managers in their annual planning effort. Gluck et al (1980), provide examples of possible themes: international businesses, new manufacturing process technologies, the value of the firm products to customers, and alternative channels of distribution.

With regard to the objections raised about the danger of stifling innovation by institutionalizing the planning process, Haggerty (1981), the late President of Texas Instruments, argues very convincingly that institutionalization is the cost we have to pay for durability and staying power of an idea. Commenting on the Objectives-Strategies-Tactics (OST) System at TI, he expressed:

What Texas Instruments' OSI system does is to provide the management with the mechanism for identifying, selecting, and pursuing the strategies and tactics which are to attain the objectives sought. What organizational learning achieves is the building into the culture of the organization the process and the attitudes conceived by one or a few key individuals who fill a leadership role through a fraction of the overall lifetime of the institution and so extend the ideas and the processes and the attitudes of these key leaders beyond the span of either influence or time they could attain as individuals. Such an extension and span in time is essentially what organizational learning is all about.

## 2) Lack of an Integration with Other Formal Management Systems.

Planning cannot be viewed as an isolated activity. Rather, it is part of a set of formal managerial processes and systems whose aim is to improve the understanding of managers in identifying and executing the organizational tasks.

There is an inherent danger in organizations which decide to implement its strategic planning process with a heavy planning department. Although there are legitimate activities that it could undertake, such as collecting the external information, serve as catalyst in the planning process, offer

logistical support for the conduction of the planning process, and assuming an educational role to facilitate the understanding of the planning methodology, it is crucial to understand that planning is done by line executives and not by planners. Moreover, the establishment of heavy planning departments might tend to isolate the planning process from the mainstream of managerial decisions.

Strategic Management, the next stage in the evolution of planning systems, is the response that is being offered today as a way to integrate all managerial capabilities within corporate values and corporate culture to assure effective strategic thinking at all levels in the organization.

### 3) Grand Design vs. Logical Incrementalism.

A question that has been raised is whether creative strategic thinking can ever emerge from a formal disciplined process. Some go even further and question whether it is desirable to commit to a rational grand scheme as a way of projecting the organization forward. A leading scholar who casts a serious doubt about the merits of formal planning is James Brian Quinn (1980, 1981). He regards formal planning as an important building block in a continuously evolving structure of analytical and political events that combine to determine overall strategy. However, he states that the actual process used to arrive at a total strategy is usually fragmented, evolutionary, and largely intuitive. He claims that in well-run organizations managers proactively guide streams of actions and events incrementally toward a strategy embodying many of the principles of formal strategies. But top executives rarely design their overall strategy, or even major segments of them, in the formal planning cycle of the corporation. Instead they use a series of incremental processes which build strategies largely at more disaggregated levels, and then integrate these subsystem strategies step by step for the total corporation. The rationale behind this kind of incremental strategy formulation is so powerful that it, rather than the formal system planning approach, seems to provide an improved normative model for strategic decision-making.

We believe that the notion of logistical incrementalism is not necessarily contradictory to a well-conceived corporate strategic planning process. By that we mean a process which is supported in the corporate values of the organization, that is participatory in character, which has a sense of vision driven from the top, but shared by all key managers, which allows for meaningful negotiations to take place within an organizational framework. This process does not blindly set up long-term objectives, but rather expresses a sense of desired long-term direction and is incrementally attempting to adjust its course of action with a strategic posture in mind.

4) Formal Planning vs. Opportunistic Planning.

Formal planning systems represent an organized way of identifying and coordinating the major tasks of the organization. If all the planning capabilities were to be dependent entirely on the formal planning structure, the firm would be in a highly vulnerable position, unable to face unexpected events not properly foreseen within the assumptions underlying the strategy formulation process. Therefore, coexisting with formal planning, there is another form of planning referred to as opportunistic planning. In Figure 6 a comparison is presented on the characteristics of formal and opportunistic planning.

Figure 6: The Characteristics of Formal and Opportunistic Planning

Factors	Formal Planning	Opportunistic Planning
Timing	System process that follows a prescribed calendar	Responses to unexpected emergencies of opportunities and threats
Scope	Corporate-wide	Usually concentrated on a segment of the corporation
Purpose	Attempts to develop a coordinated and proactive adaptation to the external environment, while seeking internal effectiveness and efficiency	It is based on existing capabilities that permit slack and flexibility to respond to unplanned events

Since opportunistic planning is triggered by unexpected events and it is concentrated normally in a more narrow segment of the corporate activities, it seems unlikely that the triggering event affects all the businesses of the corporation. The key capability that is essential for the prompt response to the external event is the existence of slack. Often, organizations assign untapped financial resources to be quickly mobilized at the discretion of the corresponding manager to meet the unforeseen emergency. This is a form of financial slack. More important, it is what we might call an organizational slack. By that we mean the availability of human resources which are not overaly burdened by their program commitments, so that they can absorb additional duties without experiencing a severe organizational constraint.

There is a need to balance the weight of these two coexisting planning processes. In organizations which rely exclusively on formal planning, they could trap themselves into unbearable rigidities. On the other hand, a firm whose decision making capbaility rests entirely on improved opportunistic schemes, will be constantly reacting to external forces, without having a clear sense of direction. The answer lies in a good compromise between these two extremes. Formal planning, providing a permanent strategic framework, without binding very action of the enterprise, while opportunistic planning allowing for creative responses to be made within that organized framework.

The development of the managerial knowledge and talent required to exercise effectively the opportunistic planning task is in itself a demanding job, which is the essence of the organizational learning issues that were addressed in the previous comments we quoted from Haggerty.

5) A Calendar-Driven Planning Process is Not the Only Form of a Formal Planning System.

Implicit in the sequence of steps that we used to describe the formal corporate strategic planning process was the notion of a calendar-driven system. In fact, many American corporations have adopted variations of this type of



planning approach. However, this is not the only way of addressing a disciplined formalization of the planning activities. The most important alternative to the calendar-driven system is a program-period planning process, instituted in organizations such as IBM and Texas Instruments.

The essence of this process consists in allowing for program initiatives to be generated at any time during the year, as opposed to waiting for the prescribed timing in which broad and specific strategic action programs are supposed to be formulated. However, it is necessary, at a given point in time, to consolidate all the program proposals into a meaningful integrated document. This is what is referred to as period planning. As noted in the IBM Corporation Background Note (Harvard Business School, 1979), an IBM executive remarks: "Strategic decisions are often made in a formal process, but are made visible in an integrated way in the period process". Also it is stated in the same note that period planning then becomes a mechanism for adding up all the bottoms-up generated technical and business activities which are part of the program planning to be sure they make a consistent all.

Program-period planning processes are specially suited for organizations which face a high degree of technical complexity with a rapid pace of change dealing primarily with an integrated business, such as IBM and TI. In those cases, program planning is focused on either product development or productivity improvements in a functional area; while period planning is characterized by its regular, calendar-driven sequence of events.

### Conclusion

There is no unique way to plan, and there is more than one way to plan effectively. The type of business, the managerial competence, the intensity of competition, and the turbulence in the environment call for a planning system coherent with this reality. Moreover, business firms should tailor their systems to fit their corporate culture, organizational structure, and

administrative processes.

A firm does have an appropriate planning system in place when its degree of planning competence matches the degree of complexity of the firm. The environmental changes of the 1970's and 1980's are forcing firms to consider a more comprehensive form of planning, like the corporate planning forecast described in this paper.

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