STRATEGIC PLANNING AS AN ORGANIZATION DESIGN EXERCISE

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The major challenge faced by modern day strategic planning efforts is the accelerating rate of change in both the internal and external environments. Most companies are bogged down in traditional approaches that take too long, lack the required flexibility, and produce results that are frequently obsolete before they are implemented. Interactive planning, with its core concept of idealized design, focuses initially on shaping an organization capable of learning continually and adapting so that the improvements implemented make sense.

FOUR PHASES OF STRATEGIC PLANNING

Strategic planning efforts traditionally have four phases: (1) environmental scanning, (2) definition of long-term objectives and shorter-term goals, (3) definition of an implementation strategy, and (4) evaluation and control of the resultant changes (Wheelen, Hunger, Hoffman, & Bamford, 2014, pp. 13–22). During environmental scanning, participants examine both the internal and external environments to discover what is happening and how it might be affecting the organization. A strengths, weaknesses, opportunities, and threats analysis can be used to identify internal strengths and weaknesses as well as external opportunities and threats. The much more comprehensive internal audit can also be used to study the flow of the organization, including inputs, throughputs, and outputs and to identify strengths and weaknesses. Trend analysis is another popular tool, especially when addressing the external environment. Surveys and group brainstorming sessions can be used to facilitate the identification of internal strengths and weaknesses. In larger companies, a department is usually given responsibility for organizing this phase and gathering the desired information.

Another tool frequently introduced during an environmental scan is the reference projection. Its purpose is to identify past and present trends and to project them into the future. For example, car sales have increased an average of 13% during the last 10 years. The project indicates that they will continue to do so for the next five. Reference scenarios are an elaboration of the reference projection. While projections are framed solely in terms of numbers, scenarios add nonquantifiable factors to draw a picture of what will be happening in the future if the defined trend continues concerning the environment, the target population, the competition, and the community.

The second phase of strategic planning is the definition of long-term objectives and shorter-term goals related to each objective; this phase makes use of the information gathered during environmental scanning to decide how the organization is going to improve productivity during the next year, the next two years, or the next five years and to decide what its long-term objectives and shorter-term goals will be. This definition has traditionally been pursued in one of two ways: top-down or bottom-up. In companies that use the top-down approach, a planning department makes recommendations to the board of directors or to top-level management, which, in turn, defines objectives and goals and then passes its decisions down through the hierarchy. Once units receive their marching orders, they are supposed to begin implementing the required changes.

The major weakness of this approach is the lack of input from lower levels in defining objective and goals. While top management has a good idea of the company as a whole and how it fits into the marketplace, top
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management knows relatively little about what is going on below and about what is going on in each individual unit. A strengths, weaknesses, opportunities, and threats analysis or internal audit might provide some of this information, but not in an ongoing manner and not in the required depth. In addition, some of the modifications required by top management might not be possible or might have a negative rather than positive effect on the involved unit or on other units that it interacts with.

When the bottom-up approach is used, the lowest level units are told to develop a list of the improvements they wish to make in terms of products, the manufacturing or service delivery processes, management systems, and the work environment. These lists are then passed up and consolidated at the next level, all the way up the hierarchy. When they reach the top, decisions are made as to which projects should be funded and this information is passed back down. The major problem with this approach is that units are forced to compete blindly for resources because they have little or no idea of how their requests and how their part of the operation fits into the organization's overall priorities.

The primary building block for a strategic planning exercise is obviously the budget. Because companies never have enough money to accomplish everything desired in terms of organization improvement and growth, priorities have to be set. The company has to decide which of its objectives are most important and then allocate funds accordingly. A tool used by corporations during this process is the Boston Consulting Group growth share matrix (Stern & Stalk, 1998, pp. 125–131). It helps identify which product units or businesses should receive funding for projects and which product units or businesses should provide those funds by dividing them into four categories. The first category includes stars, those units that are growing steadily in terms of productivity and the amount of revenues generated so that they need no assistance. The second category includes question marks, units that show potential for growth and increased profitability and, therefore, merit additional financial support. Cash cows are the third category. These are units bringing in more revenue than needed for operational expenses, units that have peaked in terms of potential growth, thus losing their star status, so that they now function as contributors. The final category is dogs. Units in this category are losing market share and have little chance of turning things around. They should be sold off as quickly as possible or liquidated.

The Boston Consulting Group matrix is a simple but effective starting point for defining priorities. It is a flexible tool that can be elaborated on and made more sophisticated in terms of how units in the four categories are described, though, as we shall see, over-sophistication is too frequently becoming the enemy of effective strategic planning.

SHIFTING OUR FOCUS

The third phase of all planning paradigms is the generation of an implementation strategy including the spelling out in detail of action steps necessary for the achievement of goals and objectives. This is followed by the development of a timeline for accomplishment of these action steps, taking into account the need for integration not only of the steps themselves, but also integration of the decided-upon steps with ongoing and everyday activities of the organization.

While most people focus on the definition of the objectives and goals phase of a planning effort as the most difficult and challenging, implementation rapidly becomes the most demanding. The culprit, quite simply, is the increasing rate of change in both the internal and external environments that organizations must effectively deal with if they hope to succeed. For example, while we are implementing action steps in our department, something changes in another department that is triggered
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by a change in its external environment. That department might have lost a key supplier, or a new technology might have been introduced. The involved change affects us only indirectly but requires us to rethink one of our action steps. In turn, the rethinking of that action step requires the rethinking of the related goal. Then, during our period of rethinking, something else happens that requires more rethinking. Then something else happens, generating a nonstop parade of happenings so that we are constantly reevaluating and making changes to our decisions. When do the ongoing changes that make planning so difficult end or even slow down? The real-world answer is, of course, never. In fact, the rate of change is constantly speeding up.

Technology is increasingly important to success in both the primary industry sector and the service industry sector. Technological innovation in these sectors plays a major role in triggering the something and the something else that implementation efforts stumble over. As Donald Schon says, half in jest, "The time required for the diffusion of major technological innovations would appear to be approaching zero as a limit" (1971, p. 24). Later, he adds, "We are no longer able to afford the relatively leisure process of adaptation which has until now allowed us to keep the illusion of a stable state" (1971, p. 27).

This realization leaves us with three alternatives. The first is simply to quit trying to generate a formal strategy. Companies adopting this approach end up basing definitions of their objectives and goals on somebody's gut feeling, usually the CEO's. This approach, at least in the short term, saves a lot of money. But in the long term, it frequently runs into serious problems. The second alternative is to go through the motions to keep up appearances, then to ignore the results and satisfy the desire for improvement by making piecemeal and fragmented changes. The third alternative, the one on which this article focuses, is to think out of the box and look for a nontraditional way to ensure that the company is headed in the right direction and stays headed in the right direction, no matter how many unexpected twists and turns pop up in the road.

The fourth phase of a successful planning effort is the evaluation and control phase. We already know of the problems encountered during implementation of the improvements supporting new organization goals and objectives. Most of these problems result from changes occurring in the customer market, the financial market, and the market for needed resources. By evaluation, we mean keeping track of the obstacles that arise during each step of the implementation process. We must also be cognizant of the fact that an obstacle arising in one part of the company almost invariably creates ripples that affect other parts. Employees need to be capable of adapting when something unexpected occurs. This is the control part of the phase and involves making adjustments when things do not go the way we want them to go.

THE APPROACH TO PLANNING
WE ARE TALKING ABOUT IS VERY DIFFERENT

Russell Ackoff, in his book Re-creating the Corporation, talks about four types of management and planning efforts: reactive, inactive, preactive, and interactive (Ackoff, 1999, pp. 45–60). Reactive planners are constantly trying to return to a previous state, to a time when things were good, or at least when the problems currently faced did not exist. Their challenge is: What do we need to do to get back to where we were? Success in such efforts, of course, is fleeting at best. The obvious reason that the previous and desirable state lost traction was because it could no longer deal with the changes occurring in its environment. These changes are still occurring and will not stop, so regaining a previous state is impossible.

Inactive planners want to stop change. They like the way things are currently and want them to stay that way. But again, change cannot be stopped, and ongoing change forces companies to adapt if they want to remain competitive. The inactive approach to planning does not work either, although it is enticing, especially to companies that are presently doing well.

Preactive planners spend their time trying to predict the future so they can prepare for it and so they can take advantage of what is going to happen. Obviously most corporations and most planning departments still use this approach and base the recommendations they provide to top-level management on trend analysis, reference projections, reference scenarios, and a multitude of other predictive tools. However, the period during which these
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Predictions remain accurate is getting shorter and shorter as a result of the increasing rate of environmental change. Russell Ackoff notes that "preparing for an inaccurately forecasted future is often worse than doing nothing" (Ackoff, 1986, p. 181).

Finally, interactive planners are the ones "thinking out of the box." They are the ones taking the most realistic approach. Instead of trying to reverse change, to stop it, or to predict it, they focus on designing organizations capable of monitoring continuously the changes occurring in the environment and adapting rapidly to them. As a result, at least the initial part of a strategic planning effort in such organizations becomes an exercise in organization redesign.

Interactive planning and organization redesign efforts must have three critical characteristics. If any of the three are lacking, the effort will not produce the desired results. First, they must be participative—truly participative. I have been a corporate consultant for some 20 years now. Whenever I go into an organization, one of the first questions I ask is: How participative is your company; how much involvement does your workforce have in decision making? The answer is always the same. We are very participative. We know the value of involving our workers.

However, when I ask for an explanation of what they mean by participative, the answers break down into four categories. The first category includes "we tell the workers what to do and they do it"; that is participation. The second version is a little less rigid and is built around the approach of asking workers for their opinions and then telling them what to do. The third and most rapidly growing category of responses offers the sentiment that the company allows its employees to make decisions and to help implement the results of these decisions once management approves them. And finally, the smallest category, indeed very small, hires good people, trains them well, and then empowers them to make decisions and implement improvements in their area of expertise. The role of the manager in such a company is, upon request, to facilitate the employees' efforts in any way possible, to address any questions they might have, and to help integrate their efforts with those of other units.

This fourth level of participation is necessary when an organization's goal is to truly become an adaptive learning system. There is no way top-level management can gather all of the information from the environment requisite to success. There is no way a planning department can do so. There is no way middle-level managers can keep track of all the information that is pouring in on top of their other responsibilities. For an organization to learn everything necessary for effective adaptation, every employee has to be continually listening and learning.

The second critical characteristic of interactive planning and organization redesign efforts is that they are integrated organization wide. For the information brought in through true participation to reach the functions where it can be most effectively utilized, channels must be open and passage guaranteed. In-house competition between units and between individuals in those units is no longer acceptable (Roth, 2015, pp. 27–42). Emphasis must be on cooperation and mutual support. Thus, the evaluation and reward process, which more than any other process shapes the corporate culture and makes it either cooperative or competitive, must be designed to encourage cooperation. Without this happening, the necessary degree of organization-wide integration requisite to the necessary level of communication will not occur (Roth, 2014, pp. 24–25).

The third critical characteristic is that the design must encourage continual learning, without which effective participation and integration cannot occur. Employees need to know what resources their organization is seeking, how to look for them, and where to look for them. Employees need to understand how parts of the organization interact, how they support each other, what channels of communication are available, and to whom information concerning change in the external environment should be sent to. Employees need to understand and be committed to achieving the long-range objectives of the organization.

The best way to gain such commitment is to encourage employees to help define the involved objectives. Of course, this approach ties the need for continual learning to the need for participation and the need for organization-wide integration. These three characteristics are interdependent, just like the four phases of strategic planning are interdependent. None of them can exist without the others.
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HOW TO TURN AN ORGANIZATION INTO AN ADAPTIVE LEARNING SYSTEM

As has been noted, the interactive approach to strategic planning begins as an organization redesign process that possesses three critical characteristics. Instead of beginning the planning effort by scanning the environment, companies tend to skip directly to the definition of long-term objectives and shorter-term goals phase. The long-term objective defined at the beginning of all interactive planning exercises is to shape the organizations in a way that allows it to deal most effectively with and to take the greatest advantages of continuous change. The goals defined have to do with reshaping the company's purpose, its structure, and its processes so that it can do so.

The company's purpose has to do with the role it currently plays and the role it ought to play in the larger whole of which it is a part. This whole includes the market, the competition, suppliers, the government, and the community. Its structure includes the different departments that contribute, including finance, accounting, production, marketing, human resources, and research and development. But just as important—or even more important—it includes the interactions between these departments and their subdepartments.

The key processes include communication, access to information, decision making, problem solving, work design training, evaluation, and rewards. In terms of communication, who gets to talk to whom and through what channel? In the old hierarchical management structure, bosses wanted to know what was going on in their unit and where it was going, as well as what was coming into their department and where it was coming from. Thus, a message or request had to pass through several levels. With modern technology and with the network structure becoming increasingly popular, more rapid communication can be facilitated. But at the same time, the channels have become more complex and the involved risk greater.

In terms of access to information, how transparent should an organization be both internally and externally? Who should have access to what information and how should that access be gained? In terms of problem solving and decision making, who should be allowed input? Concerning work design, how much of a say should the people actually doing the work be allowed? When we talk about training, who should be responsible for identifying training needs and who is best suited to deliver the desired training? And finally, with evaluation and rewards, how do we design an approach that encourages cooperation between employees and between units rather than competition or conflict, given that cooperation is an important ingredient to success in the modern-day economic struggle? Once the redesign exercise is completed and the key characteristics embedded, the company will be more effective in its environmental scanning efforts, leading to further improvements.

The tool most often used to accomplish this reshaping is idealized design, the essence of interactive planning. Traditional planning paradigms start where an organization is using information gained from the environmental scanning effort to identify desired improvements. They then prioritize these improvements, basing decisions mainly on the level of need and on budgetary constraints and then begin making them. Idealized design starts by defining what the organization's purpose, its structure, and its key processes ought to be and how they ought to be shaped ideally. Participants focus on modeling the reality they would desire right now for their organization if given the power to make relevant decisions.

The challenge presented by an idealized design exercise is quite simple and reads thus: When you came in this morning you found that your organization was destroyed last night. It is now your job to redesign your part of it as it ought to be, to come up with an ideal model for right now. This approach, once the model is finished, gives the company a comprehensive target to aim for when it begins defining priorities. The approach also generates commitment by getting every employee involved so that a degree of ownership is established. Finally, it unleashes creativity in that anything goes, so long as the suggested improvement does not require technology not yet available, can
survive in the current economic climate, and can adapt continually to meet new circumstances (Midgley, 2000, p. 299).

The idealized design process is obviously participative. A ground rule requires that everyone affected by a designed change must be made cognizant of that change, must be asked for input, and must agree to it before implementation, ensuring integration. And finally, all participants are learning continually about how their piece of the puzzle fits into the whole and about how the whole operates.

An idealized design effort has three phases. A majority of corporate design efforts begin by creating both a mission statement and a vision statement. The mission statement identifies how the corporation plans to progress from where it is, what changes it is going to make, and what priorities it wants to define. The vision statement identifies what the company wants to look like in the future if it can afford the necessary changes.

Interactive planning differs in that during this phase corporations create an idealized design. There is no upfront mission statement because there is no organization to develop a mission statement for. Remember, the company was destroyed last night, so participants are forced to start from scratch and redefine it, including functions, structure, and key processes, in a way that best allows the company to generate the most desirable results. One could say that idealized design combines the mission and vision statements of traditional planning into something we will call a target statement that includes not only a brief explanation of the role that the company wants to play in the larger environment of which it is a part, but also what the company should provide ideally for its different stakeholder groups. These groups include employees, customers, suppliers, investors, and the community.

Once the target statement is completed, idealized design goes on to identify the characteristics that the involved product or systems need to possess to reach the defined target. For example, if the target is to produce and distribute to customers the highest quality widget on the market at a reasonable price, and if at the same time the target in terms of the customer stakeholder group is that customers should be satisfied with their purchase and feel no need to return it, an idealized characteristic might be that no defective widgets should be allowed to leave the assembly plant. In the service sector, for example, if a bank's target is for customers to consider the service delivered by the bank branches superior to those of other banks, the target may include making sure that customers have to wait no more than three minutes for a teller.

After the characteristics have been identified, design elements including the nuts and bolts of how to actualize these characteristics are spelled out. For the widget operation, to ensure that no defective pieces leave the assembly plant, a design element might be that any employee who finds a defect has the right to stop the assembly process until the defect's cause is identified and corrected. Concerning the three-minute wait for customer services at a bank branch, tellers might be given a buzzer to ring if the line grows too long so that employees doing other things can move away from their normal tasks and assist with waiting on customers. This is how idealized design works using target statements, systems characteristics, and design elements. This is how interactive planning works and why it differs greatly from traditional approaches. The only absolute in the economic sector is change, and change is accelerating continually. Companies that want to survive in this increasingly unstable environment have three choices. First, find some way to slow the rate of change. Second, try to predict where the change is leading so that the organization can prepare for it. And third, design the organization so that it is capable of monitoring change continually and adapting rapidly or even shaping it. A growing number of organizations are opting for the last choice, because it makes the most sense.

References


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