# Does Strategic Planning Still Fit in the 2000s?

Collective Wisdom…Fresh Ideas

By: Jim Mackay, Managing Partner
The Berkeley Consulting Group

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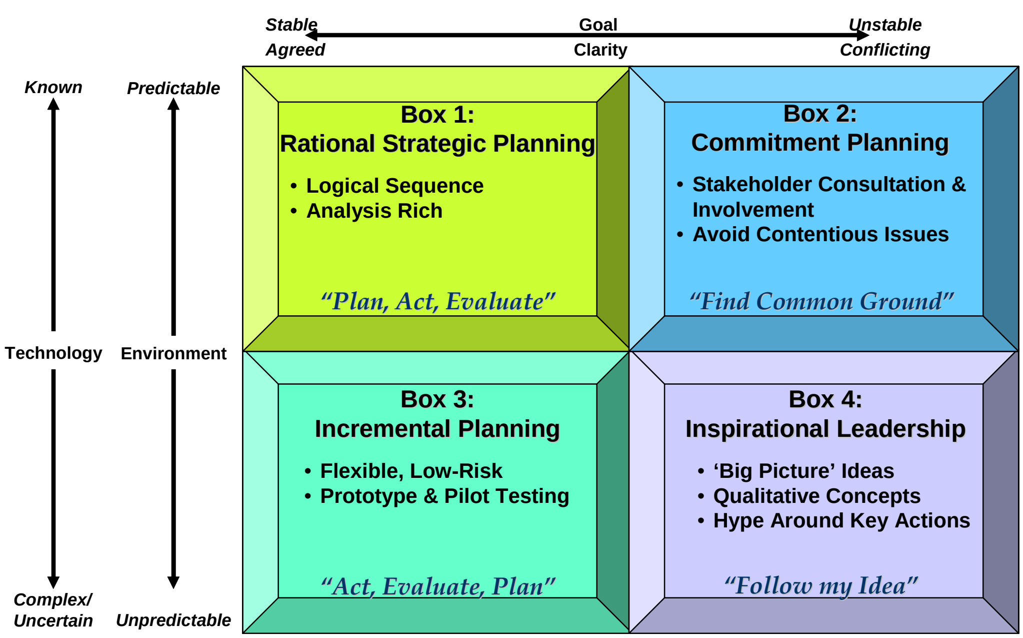
In April 2004, a few Berkeley associates and I joined about 100 professionals in the strategic management field to address the question of whether strategic planning is still relevant. This happened at a session hosted by the Strategic Leadership Forum www.slftoronto.com, entitled *'Are you Tired of Strategic Planning'*. At the session, I recalled a contingent approach to strategic planning that I had developed some time ago. I described it to the group who found it sufficiently intriguing that I prepared this article.

## 'Strategic Planning' Never Fits All Situations

Over two decades ago, even in the 'heyday' of strategic planning processes, my colleagues[1] at the time realized that the 'rational' strategic planning process being used by many did not fit all situations.

- The obvious limitation of applying the strategy model was the emergence of dramatic and discontinuous environmental and technological change. Hence, how could one develop plans for such an uncertain and unpredictable future market?
- The process also came up short for many public sector organizations simply because elected bodies are not good at setting clear goals and sticking to them.

Our thinking[2] led to the four-box matrix (what else would strategy consultants come up with?) displayed below.




1 I was a Partner with Hickling-Johnston Ltd., a strategic and organization change firm that merged with Mercer in the mid-80s.
2 While there are doubtless some business writers who inspired our thinking (the contingent theorists like Thompson or Lawrence and Lorch), the four-box matrix emerged without direct attribution to others. It was a Mackay 'think-piece' that Hickling-Johnston consultants used in materials on strategic planning at the time.

Our idea was that organizations needed a sense of direction and a way to manage the big decisions beyond an annual budget. While developing a strategic plan using rational business school know-how did not always work, there needed to be a way to 'plan or lead' organizations in their context. Voila, the four-box matrix. It gave some guidance to setting up a process for providing strategic leadership in uncertain and ambiguous situations.

## The Contingent Model for Strategic Planning

'Strategic Planning' in this context (as it was at its height of popularity) is a rational approach for a company to define goals, competitive positioning and major directions including investing effort and resources to meet goals. The process includes a strategic scanning and analysis component, generating and evaluating alternatives, the development of an explicit strategy, and implementation initiatives including resources allocation, functional strategies, organization design and people. The process has typically been integrated into a multi-year business planning cycle where strategic planning leads to operational planning and annual budget preparation.

Turning to the model itself, the two axes of the four boxes are as follows:

**Vertical Axis — Complexity/Predictability of Technology & Environment**

The vertical axis combines two factors:

- ***Complexity of Technology*** — How well is the relationship between investing resources and getting results? Do we know what outputs come from a given set of inputs? Or is it complex and somewhat unknown?
- ***Uncertainty of the Environment*** — Is the external political, industry and market environment predictable or unpredictable? To what extent is it changing in ways we can not predict and in ways which have major consequences for the market?

**Horizontal Axis — Ambiguity of Goals**

The horizontal axis deals with how clear and agreed the organization's goals are:

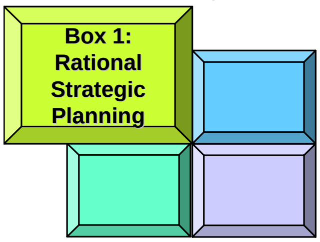
- Have the goals been defined and clearly communicated? Do we know what we are trying to accomplish?
- Are the owners/stakeholders agreed about the goals? Or are there conflicts about the goals leading to unstable goals in which case they may change next month?

This is where the application to the public sector started. Many public sector organizations' owners (the government) have ongoing debates about priorities — prevention vs. care, enforcement vs. development, this year vs. the long term. This is after all one of the great strengths of democracy — responding to the public and balancing diverse interests. Of course, it is a great weakness if you wish to apply rational strategic planning!

## The Four Boxes Define Different Overall Approaches to 'Strategic Leadership and Planning'

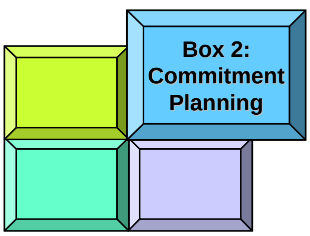
The idea is that the characteristics of an organization's situation should prescribe what 'planning approach' makes sense. In fact, for the CEO or top management, it defines the approach to providing strategic leadership in terms of strategic direction. For simplicity, we define four styles or types of planning.

**Rational Planning for Predictable Environments with Stable and Clear Goals**




In this situation, the rational strategic planning school makes sense. This approach follows a 'plan, act, evaluate' sequence of thought. The strategic planning process can be a front-end to the operational and annual planning cycle.

**Commitment Planning for Clear, Predictable Environments with Ambiguous and Unstable Goals**




The second situation proposes that the owners are not in agreement or are ambiguous about the goals. As we suggest above, this is often the case for many public sector organizations. However, it is also quite applicable to businesses, at least for periods where there are ownership struggles or disagreements at the top management and Board level.

Likewise, it is applicable to organizations that are a part of a larger system or collective where individual unit goals might differ from what is good for the whole or for other parts — for example, a hospital within a regional health care system of other organizations, or a joint venture of two private companies.

In these situations, commitment planning makes sense. This is the search for common ground:

- The process is king — needs to ensure that the right 'stakeholders' are consulted and engaged in the process.
- The fundamental contentious issues — those which divide the owners or stakeholders — are avoided.
- Resulting documents typically contain generalities and 'motherhood' statements in terms of broad values and mission statements.
- The focus is about finding common ground around initiatives or programs of change — acceptable programs that everyone can buy into. As a result, 'testing' conclusions is critical before finalizing the plan.

In some ways, the plan that comes out bears some similarities to the incremental planning approach in that incremental initiatives tend to emerge. However, in this case, there is a set of action initiatives that everyone can buy into or that are acceptable instead of ones that reduce risk in uncertainty. What James Brian Quinn[3] referred to as 'logical incrementalism' covers this commitment planning process as well. There is a school of thought in the public sector starting with C.E. Lindbloom[4] and carrying on with Aaron Wildavsky[5] that also studies this process.

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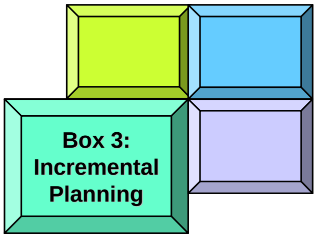
[3] Author: Strategies for Change Logical Incrementalism
[4] Author: The Science of Muddling Through
[5] Author: Implementation

**Incremental Planning for Complex Unpredictable Environments with Stable, Agreed Goals**



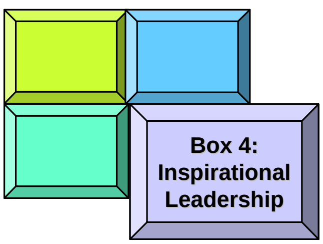

The third situation requires that the organization be more flexible since it does not know how its efforts are going to turn out because of either complexity or market uncertainty. In this situation, incremental planning makes sense.

An 'Incremental' Planning Approach does not lead to a master strategic plan. Instead the output is a set of incremental initiatives — ones that are flexible, reversible and involve limited risk. The idea is to invest in bite-sized, testable actions.

- **Some Innovation and Experimentation** — Naturally, where there is complexity about what works in the market or technology, some effort makes sense to invent new approaches that do work — that means innovation planning or experimenting. Innovation planning leads to introducing pilots or prototypes which test the market.

- **Scenarios Planning** — Despite environmental uncertainty, one can still prepare for surprises and possibilities by using what has become known as scenario planning. This method is little understood and poorly applied for the most part. In the scenario planning process, the idea is not to figure out what one future to bet on. Instead, the process helps define what actions make sense in all cases — being insensitive to the uncertainty of which scenario of the future may come to pass. Scenario Planning is intended to identify incremental, 'safe fail' or reversible initiatives and plans. Therefore, it is actually a form of incremental planning.

**Inspirational Leadership for Complex, Unpredictable Environments with Unstable & Conflicting Goals**




The fourth situation defies rational planning. Essentially, these are situations where the future is unknowable and the owners are unclear about what they want. Not surprisingly, many simply muddle through as best they can in these circumstances.

Nonetheless, clearly some companies have developed bold innovative strategies in these uncertain and ambiguous settings. Typically in these cases, strong charismatic leaders are personally associated with the bold and innovative strategies. The process appears to be more about leadership than planning.

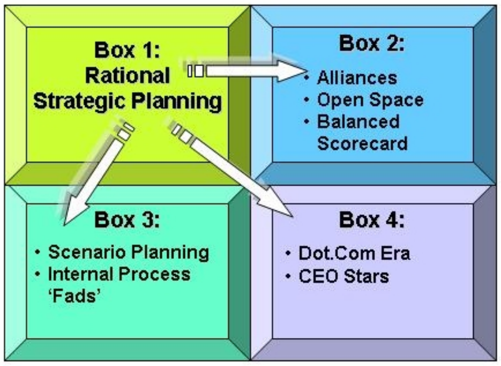
- Driven by strong charismatic leaders.
- Often based on new business concepts or models — new approaches to the uncertainty out there.
- Strategies often based on a simple and 'big picture' concept of how the market will evolve.
- While based on a concept or model, clear action investments and initiatives proposed and strongly marketed to stakeholders inside and outside the company.

Owners and investors/funders who are not in agreement about what to do need to be convinced by simple and bold ideas since rational analysis doesn't work.

This obviously applies in private business — remember the concept of financial services supermarkets in the 1980s, convergence of content and technology in the 1990s! This applies to the public sector too where public entrepreneurs invent new approaches to service systems like health or regulation without much research or evidence and sell it to the ruling party.

## Over the Past Two Decades, Organizations Have Moved into Boxes 2, 3 and 4

The past two decades have clearly seen organizations move away from Rational Strategic Planning (Box 1) and into the three other boxes even more than we had envisaged back in the early '80s.




On the diagram, we see some examples of those shifts:

- Scenario planning emerged as a way to deal with uncertainty in the late 80s and early 90s (actually in the late 60s and early 70s as well) but was little understood.
- Many of the fad processes to fix the internal skills of companies appear to be based on a recognition of the difficulty of predication and a reliance on building the competence and internal know-how to respond to whatever comes — hence, quality management, CQI, customer service, business process reengineering, core competence, and so on. These can be seen as Incremental Planning responses.
- Joint Venture and Strategic Alliances in the 90s gave rise to commitment planning approaches, big time.
- Of course, we saw inspirational leadership approaches in the dot.com era with individual stars pitching new concepts and business models.
- Many recent technologies for engaging employee and stakeholder commitment, such as 'open space' and 'appreciative enquiry' can be seen as responses to situations of high uncertainty and disagreement about goals.
- Likewise, the 'balanced scorecard' is essentially a response to goal ambiguity — if we don't know which is most important, let's develop plans for all goal areas. Balanced scorecard methods are not that good at creating integrated strategies.

## Does Strategic Planning Still Fit in the 2000s?

Even the 'rational' strategic planning model will always have its place. It does lead to a useful and necessary framework for many companies — statement of mission, visionary goals and values. It creates a sensitivity and shared understanding about external threats and opportunities. It creates a stock-taking about internal strengths and weaknesses. Sometimes it even leads to a realistic definition of what distinguishes the organizations from others in the field.

However, it is clear that the effort and payback is only worthwhile when the circumstances are right — new leadership, clear changes in the market, new technology and so on. These circumstances will not arise every year!

## Developing Strategic Direction Still Matters

Over the past decade or more, another school of thought has gained popularity — 'implementation is everything' school. The focus is on building commitment internally and engaging people in execution of strategy. While the emphasis on strategic implementation is understandable, that still does not address the issue of how do companies develop a sound strategic direction. The content of good strategy is still relevant! In *'What Really Works',* HBR July 2003, research showed that successful organizations still had and communicated a clearly stated focused strategy!

So, we still need to develop and maintain a strategy that makes sense, is either flexible enough or can be adjusted as things change and lessons are learned about what works! Yet, how do we do that?

This is where the four-box matrix offers a way to think about what process or approach works in your organization's situation. Maybe we all need to think about how to help leaders whose organizations are operating in settings described by Boxes 2, 3, and 4.

**About the Author**

Jim Mackay leads The Berkeley Consulting Group and Berkeley Feedback & Development Inc (BFDI). For almost thirty years, Jim has provided strategic advice to CEOs, Boards and top management in the private and public sectors. Jim specializes in strategic direction setting, organization design, mergers and governance. Globally, Jim coaches top managers on organization leadership, often using BFDI's 360 feedback tool. Jim is also an Adjunct Professor of Strategic Management at the Schulich School of Business, ranked in the top 25 MBA schools world-wide. Since 1985, he has overseen MBA groups conduct strategy field studies in a vast array of industries to earn their MBAs. Jim is also a Certified Management Consultant (C.M.C. 1979) and a graduate of the Ivey Business School and University of Toronto.