

Haines Centre Series on Business Excellence

REINVENTING STRATEGIC PLANNING

The Systems Thinking Approach®



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Chapter 4

Reinventing Strategic Management (Planning and Change)

*"Every moment spent planning saves three or four in execution."
-Crawford Greenwalt, President, DuPont*

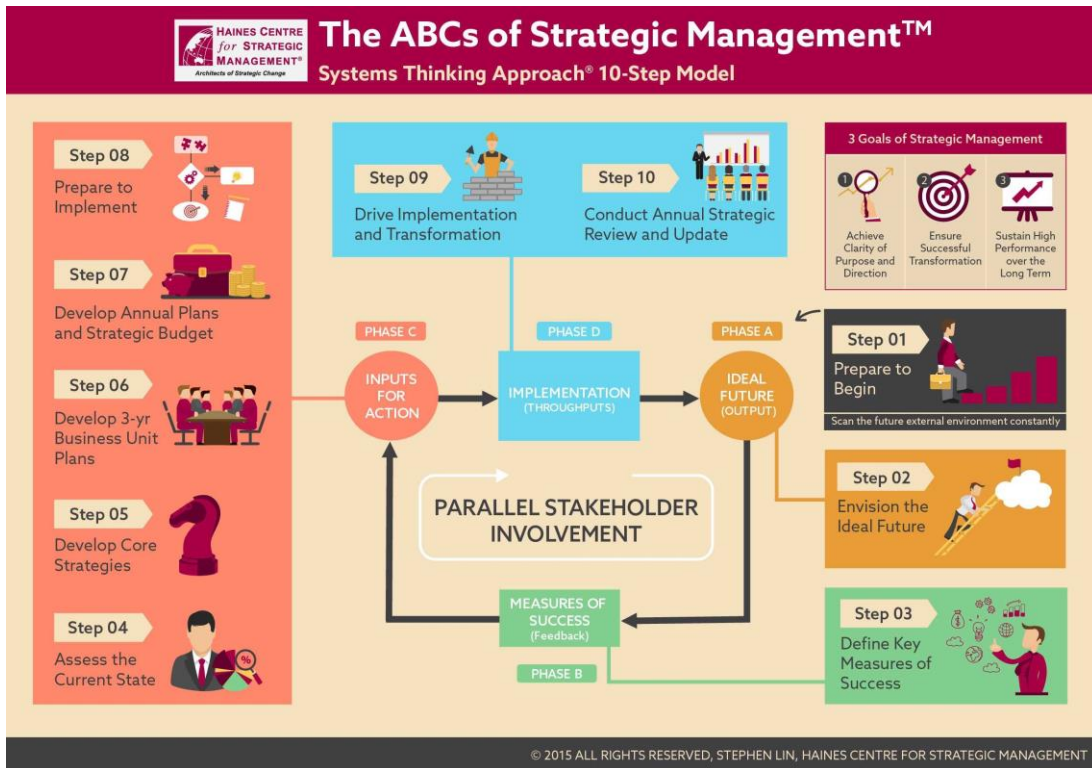
Though most of the ideas presented in previous chapters may seem like plain, old-fashioned common sense, your strategic plan will never see the light of day without a lot of elbow grease and commitment. In my experience, the organizations that are successful are those that are willing to educate and organize themselves, tailor the process, create a clear plan, make the tough choices, and then get on with the process of change.

The plans that fail are often just as good as those that succeed; *the difference lies in the organization's disciplined persistence and commitment to implementation* and its ability to keep the ball rolling over the long term.

Once you're clear on how to use a systems framework for planning, implementing and updating your organizations core strategies, you're ready to begin actual shaping of your plan.

Reinventing Strategic Management

Following the A,B,C,D,E phases in this *Reinventing Strategic Management Model* provides us with a customer-focused systems solution for creating your own high performance organization. It consists of the five phases I've just outlined, within which there are ten clear, practical steps (Figure 4.1)



Phase A - Output - Ideal Future Vision

Step #1) Plan-to-plan - This is the step that assesses, educates, organizes, and tailors the strategic planning process to your organization's specific needs. It includes setting up your core planning team and the concept of a Parallel Process that involves key stakeholders (back to 'people support what they help create'). It also clarifies top management's role in leading, developing, and owning their strategic plan.

Example: During their Plan-to-Plan step, the Hayward Unified school District in CA established a planning team of 15 people. However, because of the district's broad impact on the lives of thousands of families, its parallel process with key stakeholders included over 100 meetings involving 2,000+ people.

As part of the Plan-to-Plan (Step #1), each organization needs to conduct **Phase E, Environmental Scanning**. While the "E" doesn't flow sequentially from A-E, it is actually too important to wait to conduct it. It must be done "up-front" at the beginning. For this reason, we will cover the environmental scanning process in Chapter 6 in more detail.

Step #2) Ideal future vision - This step concerns itself with formulating a vision and dreams that are worth believing in and fighting for. This is where you should focus on your desired outcomes (customer). You also need to

define your mission (reason for being), core values (desired culture) and positioning in the marketplace with your customers vs. the competition.

Example: When you put it all together, you need, in eight words or less, an internally-motivating 'essence' of your Ideal Future; a rallying cry. Ford's *Quality is Job 1* is still the most well known rallying cry today, and is even used liberally throughout their advertising.

Phase B - Feedback - Key Success Measures or Goals

Step #3) Key Success Measures (KSMs) or Goals - It is at this point that you must begin developing ways in which to measure your organization's outcome measures of success toward its vision, mission, and core values.

Example: Some typical KSMs in the private sector include: 1) customer satisfaction (quality, service, customer-responsiveness), 2) employee satisfaction, 3) financial success (revenue, return on investment, profits, etc.), and 4) competitive edge versus the competition (market share, etc.).

Phase C - Input - Today's Assessment & Strategy Development

Step #4) Current state assessment - In this step, you'll analyze the organization's strengths, weaknesses, opportunities, and threats – and contrast them against your vision. There are numerous sophisticated techniques to do this; we'll cover them in the chapter on Current State Assessment. This is where planners have historically spent their time...analyzing today only.

Example: The Palomar Pomerado Health System in California did a thorough analysis of each major health care system in their marketplace. These analyses were crucial in their deliberations on how to compete in an industry of shrinking margins, tougher competition, and calls for government to reform health care.

Step #5) Strategy development - This step develops the core strategies – or major means and efforts – you'll need to bridge the gap between where you want to be in your ideal future vision (Step #2) and your current state assessment (Step #4).

Example: It's important in developing your strategies to remember that less is more. In my doctoral research of 200 financial services firms, the top financial performers had 40% fewer core strategies than the poorer performers. As a result of having fewer, more highly defined core strategies, the top performers remained more continually focused, which resulted in more successful implementation and healthy financial results.

Step #6) Business units & three-year business planning - At this point, your Strategic Business Units (SBUs) in the private sector – or Major Project Areas (MPAs) in the government and not-for-profit sector – that comprise your organization's overall business portfolio are identified and prioritized according to their contribution to your future growth, profitability, and direction. Ideally, three-year business plans for each of these need to be developed along with overall Proforma financial statements on revenue/growth/expenditures/profits, etc.

Example: General Motors is generally criticized for having too many automobile SBUs – Cadillac, Buick, Pontiac, Chevy, Oldsmobile (frequently rumored to be closing), and their newest SBU, Saturn Corporation. They often overlap, duplicate, and compete with one another.

Step #7) Annual plans and strategic budgets - This is where the rubber meets the road – where you develop unit/department annual plans with prioritized tasks and then provide the resources to actually implement your core strategies. *Planning should lead budgeting, not vice versa.*

Example: The city of Yuma, Arizona, now has all city departments with annual plans based on the corporate strategic plan (and organized by core strategies).

Phase D - Throughput - Actions, Implementation, & Change

Step #8) Plan-to-implement - This step serves as a crucial bridge between Goal #1 - developing a strategic plan - and Goal #2 - ensuring the successful implementation of strategic change. Similar to the Plan-to-Plan Step - #1 - it also 'educates and organizes' senior management for the change management process. It establishes a Strategic Change Leadership Steering Committee (SCLSC) and a yearly comprehensive map (i.e., project plan) to guide the changes dictated by the strategic plan. It also develops a rollout and communications plan for the newly developed strategic plan.

Example: At a large suburban school district in central California, their superintendent resigned at the end of strategic planning. However, because they had completed step #8, Plan-to-Implement, they retained a critical mass of both board and management that remained strongly committed to successful implementation.

Step #9) Strategy implementation (and change) - The goal of this step is to transform the strategic plan into all the hundreds of necessary individual plans, programs, and efforts, and to tie a rewards system to it.

Example: The British Columbia, Canada, Environmental Protection Division regularly holds quarterly Strategic Change Steering Committee meetings – along

with highly successful implementation of their strategic plan – through strong leadership. Even in a difficult government setting, they are world renown as the best.

Step #10) Annual Strategic Review (& Update) - A formal Annual Strategic Review and Update of the strategic management systems' results and process needs to be conducted, much like a yearly independent financial audit. In this way, you persistently keep your implementation up and running year after year as a strategic management system – even after the newness has worn off.

Example: Eagle Creek Travel Outfitters never misses this yearly update – hence their continuing financial, organizational, and human successes and growth.

As you would expect, achieving the integrity of all the parts of your organization fitting together with '*watertight integrity*' in support of your vision is extremely difficult. As you can see here, each of the various steps in this planning model incorporate actions and accountability on the part of many different individuals throughout the organization. For example:

Strategic Management Step	Typical Accountability
Plan-to-plan	----- Planning/CEO
Vision/mission/values	----- OD/Training
Business plans	----- Business Units or Bus.Development/Planning
Current state assessment	----- Planning/Bus.Development
Department plans	----- Department heads
Strategic budgets	----- Finance
Compensation/staffing	----- Human Resource
Annual Strategic Review	----- Finance

Looking at this, it's easy to see why the need for a systems framework is so great. **Strategic Management** requires all of the various organizational departments to work together as efficiently as possible. After years of experience in trying to 'build the world's greatest car' – only to fail – it has become obvious that the traditional paradigm of analytical thinking alone wasn't working...and won't work. It has no watertight integrity.

Some Progress: 'Partial' Systems Solutions

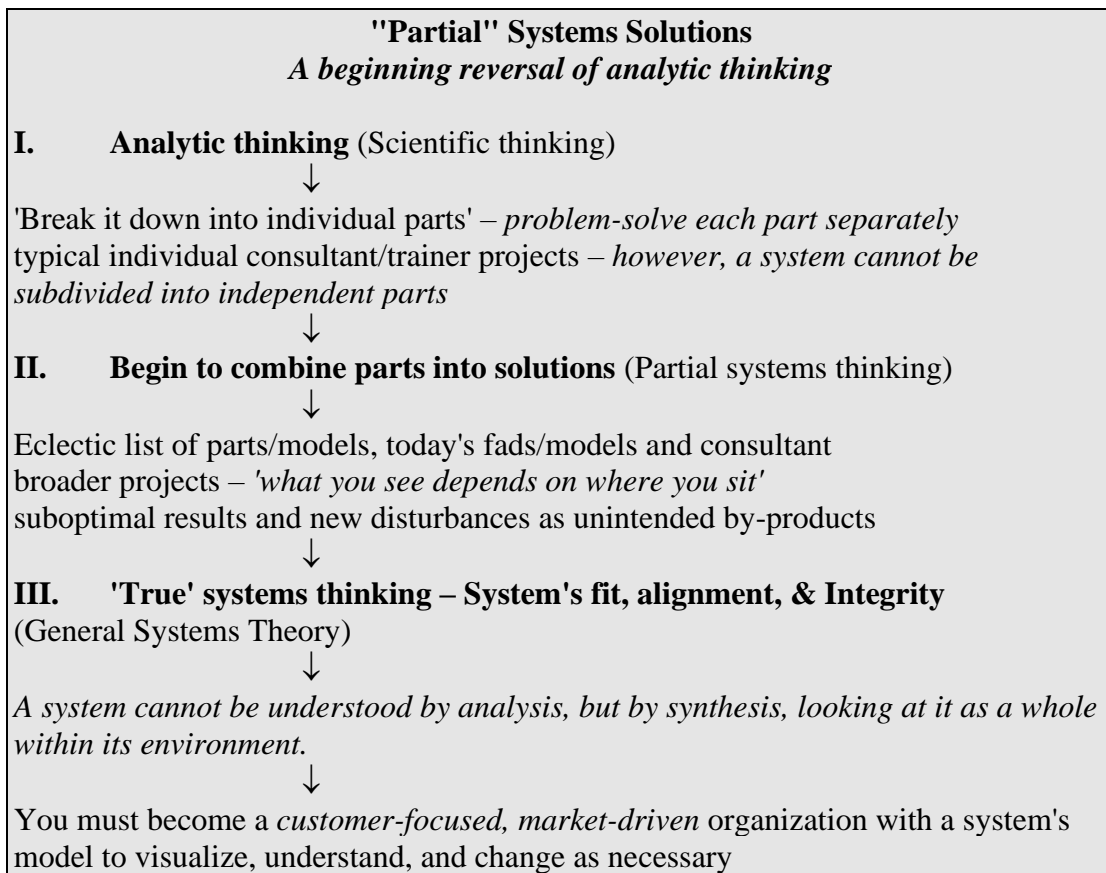
For a long time, organizations got away with approaching the future from an analytical perspective. Problem-solving of current issues was typically handled by analyzing problems, breaking down each part, solving it separately, then moving on to the next one.

Analytical thinking also put the current state of affairs above all other considerations; 'handle today's issues, and deal with tomorrow when it gets here.'

Strategic planning mostly just extrapolated and projected today's issues into the future. This approach worked for organizations for quite a while; even into the eighties. Some businesses are still working this way today and surviving, *but not for long, folks!*

Today, when just about every existing organizational paradigm has flown out the window, organizations are beginning to respond to this with what I call *partial systems thinking*. This seems to be a beginning stage in moving away from the traditional analytic approach and thinking. Organizations are attempting to find integrated answers for individual problems, rather than the earlier way of applying a 'one-time only' solution to a problem that had ongoing implications (see accompanying chart).

It is due to this kind of thinking that we're seeing such an abundance of organizational change trends like value-chain –management, cultural change, systems change, TQM, business process re-engineering, empowerment, and restructuring, to name a few. It's an attempt to begin combining parts of problems into more complete and integrated solutions.



Strategic Planning Leads the Way

The problem with this partial systems approach is that it creates a 'what you see depends on where you sit' environment. As in the 'world's greatest car' example, some things get 'fixed' or 'improved' along the way. However, no provisions are made for questions that arise as a result of changing one area and leaving others as they were.

True systems thinking, on the other hand, studies each problem as it relates to the organization's objectives and interaction with its entire environment, looking at it as a whole within its universe. Taking your organization from a 'partial systems' to a 'true systems' state requires effective Strategic Management and backwards thinking.

As you'll see in the following chart, it is the most important tool you can use for creating the necessary changes organization-wide while tying together all the fads and concepts of others into one framework. Otherwise, how can you understand, much less keep track of, all the brilliant solutions being bandied about today?

Some of these popular solutions include: TQM, customer service, business process re-engineering, empowerment, leadership, visioning, teamwork, self-directed work teams, and more. Each of these solutions is correct and effective in their own right.

However, when viewed in a systems context, they're only partial solutions and therefore are only partially successful for the organizations that use them. On the other hand, if they're looked at as a part of the overall strategic plan, then the plan can 'lead the way' to a fully-successful implementation.

Strategic Planning, Management, and Leadership Leads The Way

Strategic Planning is THE major organizational intervention to develop a shared vision of your future and the values, culture, and business strategies needed to be implemented and managed to get you there.

It is a way to

- accelerate/advance the changes you want to make
- to tie in and increase the importance of other major changes that should be (but usually aren't) corporate strategies with total buy-in/ownership by the organization.

Environment: E Ongoing: Environmental Scanning/Best Practices Research

1. Why: stockholders, stakeholders, customers, society

Outputs: A Step #2: Vision and Mission

2. Who: customer focus
3. What: quality, service, response, cost, profitability

Step #2: Core Values

4. Self-directed work teams
5. Employee empowerment/creativity
6. Continuous improvement
7. GE's Workout (blowout bureaucracy); reinvent government
8. Communications effectiveness; drive out fear

Feedback: B

Step #3: Key Success Measures/Goals

9. Benchmarking/measurement systems (world class comparisons)
10. Employee and customer satisfaction surveys
11. Market research
12. Executive compensation and other rewards practices

Inputs: C

Step #4: Core Strategies

13. TQM/TQL – some of Deming's 14 Points
14. Service management/quality service
15. Speed and response time
16. Business process improvement/reengineering
17. Improved sales and market-driven culture
18. Cost efficiencies, reductions, and productivity improvements
19. De-layering
20. People as our competitive business advantage
21. Culture change
22. Organization structure/design

Throughputs: D

Steps #6–10: Operational Planning and Implementation

23. Annual/operations/tactical planning
24. Annual budgeting
25. Performance management/evaluation system
26. Strategic Change Steering Committee/transition management/Q.M.B.S.–P.A.T.s
27. Annual strategic reviews and updates, management meetings

This is what systems thinking is all about – the idea of building an organization in which each piece, and partial solution, of the organization has the fit, alignment, and integrity with your overall organization as a system – and its outcome of serving the customer.

Seven Levels of Living Systems (A Quick Review)

In Chapter 2 we discussed the key Systems Thinking concept of the Seven Levels of Living Systems articulated in James G. Miller's classic book *Living Systems*.

These seven levels of different living systems demonstrate that each system impacts every other system, and that there is a hierarchy of 'systems within systems'. When looked at from a strategic management perspective, the concept of the different levels really does present a challenge to implementation that planners rarely consider and where we found no solutions in the literature. Thus, we had to literally invent a way in which we think and do business down through the entire organization. It literally had to create an environment in which all systems and sub-systems are linked together to achieve the overall organizational system (or vision).

'Cascade of Planning'

Once your organization has a strategic plan in place, how do you keep it going successfully? How do you keep up your plan's energy, momentum, and focus throughout all the multiple systems' levels that make up your organization?

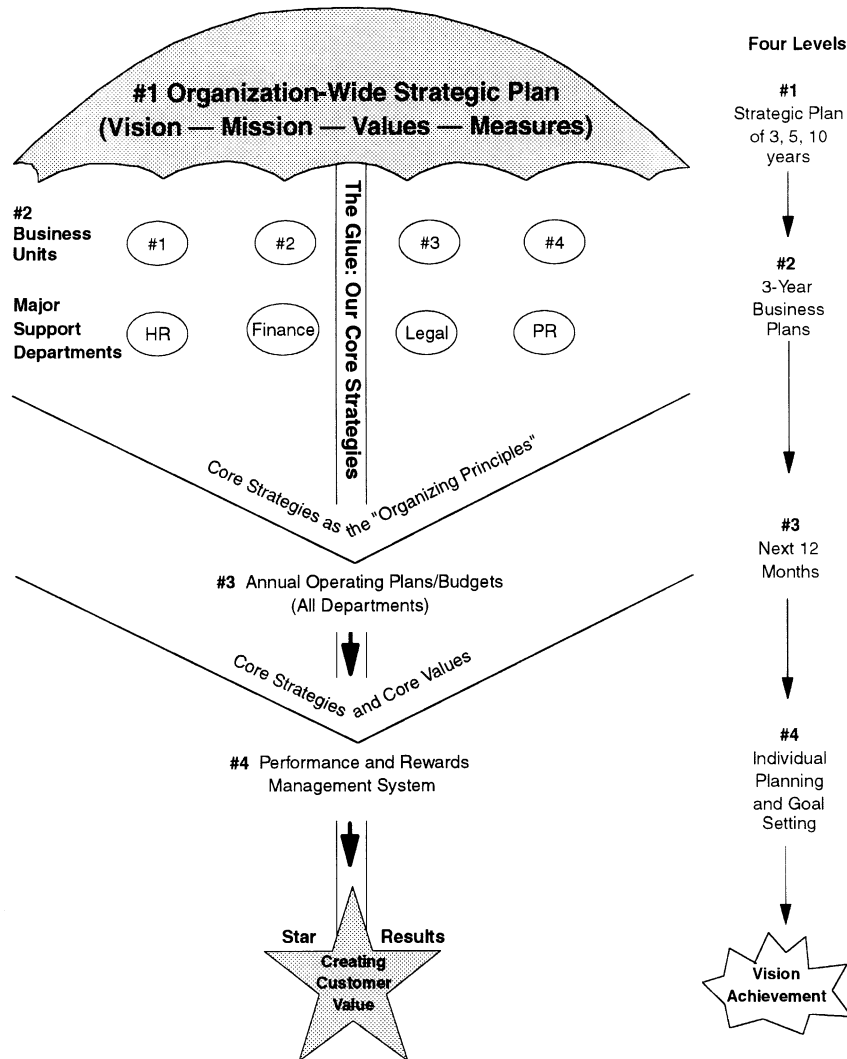
In light of the Seven Levels of General Systems Theory, this is a crucial question. One of its principles is that the minute a system is born (or set in place), it begins to die. It's the principle of *entropy*, and it's in direct opposition to the principle of continuous improvement.

In entropy, there exists the natural phenomenon of incremental degradation, which eventually causes every system to slowly run down. If this isn't clear right away, try not eating or sleeping for two to three days; you'll definitely experience entropy.

This is where the 'Cascade of Planning' comes in. By designing a framework for your strategic plan that automatically includes every level of your organization, you have a built-in protection against entropy. One way to look at it is in terms of your organization having at least three levels of the living systems – individual, group, and organization. This requires you to *'cascade' your planning and change down through each level*. It's the only way your strategic management system can continue to move the plan forward and perpetuate its success.

THE CASCADE OF PLANNING

“STRATEGIC CONSISTENCY YET OPERATIONAL FLEXIBILITY”



Key Use the Core Strategies as the "Organization Principles" at all levels.

If you recognize that all the levels of your organization (departments, units, and people) must work together to align the system's output of serving the customer; you are well on your way to success. In addition to this, the Cascade of Planning ascertains that planning needs to be conducted for every part of the organization, on two levels – 1) the strategic planning level, and 2) the annual planning level:

STRATEGIC PLANNING LEVELS

1) **Organization-wide strategic planning:** You need an organization-wide, three, five, or ten-year strategic plan, defining the organization's vision, mission, core values, and Key Success Measures, along with the core strategies for achieving them (the organizational level is level #5 of Living Systems).

2) **Business unit strategic planning** often-called Business Plans: You need three-year business plans for each business unit, major program area, and major support department within the organization. (This is the fourth level of the seven Levels of Living Systems.)

ANNUAL PLANNING LEVELS

3) **Annual plans for all departments/functional units:** Annual operating plans are needed over the next twelve months (and budgets, too) for all parts of the entire organization. (This is also level #4 of the Seven Levels of Living Systems.)

4) **Individual plans, goals, and objectives:** Individual plans are needed to show how each employee intends to accomplish the goals they must meet in order to carry out the organization-wide strategic plan. You also need to revise your performance appraisals, basing them on core strategies (results) and core values (behaviors). (This is the individual level; level #3 of the Seven Levels of Living Systems.)

The 'Cascade of Planning' also takes into account the fit that must exist between each of the interacting levels of the system that make up the organization. It does this by using the organization-wide core strategies as the 'glue' – or organizing principles – for the two levels of systems, group and individual. This helps to establish the mindset of the organization around thinking about the core strategies needed to successfully carry out the plan. This, in turn, creates a critical mass for the desired change.

Questions to Ponder

- 1) Have you used the four systems elements as your A,B,C,D,E phases to first define your Ideal Future Vision (or outcomes of serving the customer)? Have you completed the rest of the five phases?
- 2) Are you clear on the specific steps in strategic planning, as well as how they relate to the systems model?
- 3) Have you included the Cascade of Planning as a part of your Strategic Management process to ensure it is cascaded down from the organizational level to: three-year plans for business units and major staff support units? Also, do you have 12-month annual departmental plans and individual goal setting?
- 4) Are you clear on what planning documents and performance appraisal format you need to tie it into the Strategic Plan as well.

15 Key Benefits of a Strategic Management System

Many of the organizations with which I've worked have followed through in an excellent fashion by implementing their strategic planning successfully. They've given me specific examples of the benefits they've experienced. Those that have fully implemented their strategic plan have uniformly seen vast improvement in the achievement of their primary outcomes as measured by their Key Success Measures:

Primary, 'bottom-line' outcomes

- 1) Increased market share
- 2) Dramatic increase in stock price
- 3) Improved profitability and cash flow
- 4) Much more satisfied customers as a result of added value (quality, service, responsiveness, etc.)
- 5) Increased employee satisfaction

In addition to these primary 'bottom line' outcomes, the following lists other key benefits culled from their responses over a period of time:

Benefit #1) *Taking a proactive approach to your future*

Having a strategic management system in place enables you to have a proactive adaptation to a changing global world, marketplace, and turbulent business environment, increasing the probability of both the healthy, long-term viability of the organization and job security for your executives, managers, and employees.

Benefit #2) *Building an executive team*

Strategic planning and strategic management enable your executive team to learn to function as a highly effective team in their own right, and in building and supporting your strategic plan. This modeling of cross-functional and horizontal teamwork is key to successful implementation.

Benefit #3) *Having an intensive executive development experience*

Strategic planning is also one of the most intense and best executive development and strategic thinking processes a new or aspiring executive could ever have.

Benefit #4) *Defining focused, quantifiable outcome measures of success*

Phase B – Key Success Measures – enables your organization to develop a focused set of specific and quantifiable outcome measures of success, including customer and employee satisfaction. These become the way to focus on measuring and dramatically increasing your success year after year.

Benefit # 5) *Making intelligent strategic budgeting decisions*

Implementing your strategic plan in an organization-wide systems framework encourages organizational focus and priority-setting to determine precision (i.e., strategic) budget cuts during tough economic times.

Benefit #6) *Clarifying and achieving your competitive advantage*

Advanced level strategic planning and clear positioning enables you to stay ahead of the competition. It helps you clarify your competitive business advantage by providing a more thorough analysis of success factors, environmental influences, and core strategies than conventional, incremental annual planning and forecasting.

Benefit #7) *Reducing conflict; empowering the organization*

A strategic management system motivates and empowers employees as well as reduces or focuses conflict by providing a clear sense of direction with all parts of your organization as a system working together and focusing on the customer.

Benefit #8) *Providing clear guidelines for day-to-day decision making*

A constructive, visionary basis is provided for day-to-day decision-making throughout your organization, making it easier to set priorities about what to do and what not to do.

Benefit #9) *Creating a critical mass for change*

Everyone involved as a key stakeholder has a shot at helping to create your organization's future, rather than being overwhelmed by the uncertainties of change. Remember, people support what they help create.

Benefit #10) *'Singing from the same hymnal'*

In a strategic management system, a process is provided whereby your leadership can communicate organizational goals and core values in a simple language to everyone affected by them. It enables everyone to 'get on the same wavelength', aligning their personal values and professional goals with the direction of your organization as a whole. In today's society, this is essential for every firm to do, as employees have a great ability to provide or withhold their 'discretionary effort.'

Benefit #11) *Simplifying the barrage of management techniques*

Strategic Management enables you, other senior executives, and employees alike to make sense out of the confusion resulting from so many different ideas and solutions coming from the proliferation of management writers today. While many of these writers are convinced that they are providing the best answers for you, some of these answers are in conflict. This only adds to the Chaos that Tom Peters wants us to thrive on! Only an integrated Systems Thinking Approach pulls all of this together.

Benefit #12) *Empowering middle managers*

The A,B,C,D,E systems framework enables middle managers to conduct this process successfully within their own departments, even in organizations where no strategic planning is taking place (see the Environmental Protection Division example earlier in the chapter).

Benefit #13) *Focus, focus, focus*

By creating everything you do fit strategically within the same overall framework, employees are able to continually focus on the desired outcome...and set their day-to-day priorities accordingly.

In today's Internet and .com society of limitless opportunities, this benefit is tremendous if you can be disciplined enough to focus.

Benefit #14) Speeding up implementation

The ability to clarify and simplify strategic management within the systems framework will always speed up the actual implementation of your core strategies. It becomes easier for you to identify problem areas, focus on dealing with them, and then take action.

Benefit #15) Providing tools for dealing better with the stress of change

When a strategic management system is firmly in place, your organization can give your employees the necessary tools to battle the stress of ongoing, revolutionary change. Everyone in your organization will feel better equipped to focus, understand, and address issues within the overall context of your strategic plan.

In Summary:

It is now abundantly clear to anyone still in business these days that Jack Welch was right when he said that what worked before won't work now. The traditional, time-consuming method of analyzing and solving one problem at a time has given way to the sweeping and sometimes obliterating winds of revolutionary change. A fresh new approach is called for, one that can set in place a framework sturdy enough to withstand the ongoing complexities and chaos of change.

During these incredible times of global restructuring, fierce world and national competition, increasing local pluralism, fragmentation and nationalism, and faster technology obsolescence, every organization will need new visions, strategies, programs, and actions.

From extensive experience, I have come to believe deeply that long-term success can only come from a systems approach. It alleviates most common mistakes and provides many, many benefits. In the coming chapters, I will take you step by step through Strategic Management with a systems thinking framework, beginning with Step #1, Plan-to-Plan.

RE-CAP OF KEY CONTENT POINTS

- **Looking at your organization as having at least three levels – individual, group, and organization – you'll need to 'cascade' your planning and change management down to all levels.**

- **Strategic planning should lead the way in integrating many of today's organizational change fads and concepts, such as TQM, business process re-engineering, empowerment, customer service.**

- **Which of the 15 Strategic Management mistakes have you made?**

- 1) Failing to integrate planning at all levels.
- 2) Keeping planning separate from day-to-day management.
- 3) Conducting long-range forecasting only.
- 4) Having a scattershot approach to planning.
- 5) Developing vision, mission, and value statements that are little more than fluff.
- 6) Having yearly weekend retreats as your only planning activity.
- 7) Failing to complete an effective implementation process.
- 8) Violating the 'people support what they help create' principle.
- 9) Conducting business as usual after strategic planning.
- 10) Failing to make the 'tough choices'.
- 11) Lacking a scoreboard. Measuring what's easy; not what's important.
- 12) Failing to define Strategic Business Units in a meaningful way.
- 13) Neglecting to benchmark yourself against the competition.
- 14) Seeing the planning document as an end in itself.
- 15) Having confusing terminology and language.

- **Which of these benefits are still missing in your organization?**

- 1) Having an organization-wide, proactive approach to a changing global world.
- 2) Building an executive team that serves as a model of cross-functional or horizontal teamwork.
- 3) Having an intense executive development and orientation process.
- 4) Defining focused, quantifiable outcome measures of success.
- 5) Making intelligent budgeting decisions.
- 6) Clarifying your competitive advantage.
- 7) Reducing conflict; empowering the organization.
- 8) Providing clear guidelines for day-to-day decision making.
- 9) Creating a critical mass for change.
- 10) 'Singing from the same hymnal' in communicating throughout.
- 11) Clarifying and simplifying the broad range of management techniques.
- 12) Empowering middle managers.
- 13) Focusing everyone in the organization on the same overall priorities.
- 14) Speeding up implementation of your core strategies.
- 15) Providing tangible tools for dealing with the stress of change.

Reinventing Strategic Management (Planning and Change)

Ten Strategic Management Steps: A Checklist

- Step #1) Plan-to-plan:** Educate, organize, and tailor the strategic planning process to your organization's specific needs.
- Step #2) Ideal future vision:** Formulate a vision and dreams – along with a mission and values – that are worth believing in and fighting for.
- Step #3) Key Success Measures/Goals:** Develop ways in which to measure your organization's outcome measures of success.
- Step #4) Current state assessment:** Analyze the organization's strengths, weaknesses, opportunities, and threats; contrast them against the competition.
- Step #5) Strategy development:** Develop the core strategies and primary means for bridging the gap between the present and the ideal future.
- Step #6) Business units & three-year business planning:** Identify and develop three-year plans for your Strategic Business Units and Major Program Areas.
- Step #7) Annual plans & budgets:** Develop departmental/unit annual plans and provide the resources for implementing your core strategies.
- Step #8) Plan-to-implement:** Educate, organize, and tailor your process for ensuring the successful implementation of your plan; establish a Strategic Change Steering Committee and a yearly comprehensive map.
- Step #9) Strategy implementation (& change):** Transform the strategic plan into the necessary individual plans, programs, and efforts; tie a rewards system to it, as well. Implement, monitor, correct, and follow-up the implementation of your plan.
- Step #10) Annual Strategic Review (& Update):** To ensure implementation year after year, even after the newness has worn off, make sure to conduct an Annual Strategic Review & Update.