Introduction to Strategic Planning

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One of the distinctive characteristics of an emerging company is the significant level of "innovation" associated with its business model, with innovation being thought of as the process of successfully acquiring and implementing new ideas within a business company. Successful innovation increases the likelihood that a company will achieve the extraordinary growth and stakeholder value necessary for emerging status; however, not surprisingly, most new business ideas are never achieved. While the reason may be a lack of commitment or resources, another major obstacle to successful innovation is lack of planning. A substantial amount of literature exists on the importance of strategic planning and it generally is accepted that implementing and maintaining formal planning processes at the appropriate time during the development of the company is an essential element in creating and maintaining competitive advantage.

Strategic planning is a process of carefully and thoughtfully aligning the strengths of a company's business to the opportunities that are available to the company in its chosen business environment. While strategic planning is both a science and an art, it is generally believed that in order for the planning process to be effective on a consistent basis the managers of the company must collect, screen and analyze information about the company's business environment, identify and evaluate the strengths and weaknesses of the company and develop a clear mission for the company and a set of achievable goals and objectives that then become the basis for tactical and operational plans.[1] Strategic planning is an important and essential process for every company regardless of the size of its business and the time and other resources that the company has available to invest in the developing, documenting, implementing and monitoring a strategic plan. The business environment and relevant technologies are constantly changing and new risks and uncertainties will surface on a regular basis.

It is not uncommon for larger companies to employ teams of experts in a dedicated strategic planning unit to work full-time on the planning process and to solicit input from hundreds or thousands of managers throughout the organization. For smaller companies, however, the process is necessarily more informal and compressed and may even be as simple as the founder or chief executive officer sitting down with a handful of key employees to solicit their opinions on where the company should go over the planning period and what investments will need to be made in order to achieve the mutually recognized goals and objectives. Regardless of the context, a variety of factors determine the planning practices that may be adopted by a particular company including environmental conditions, which include both the "specific environment" (i.e., the forces, such as stakeholders, that can be expected to have a direct impact on the ability of the

[1] For detailed discussion of the process and expected outcomes of strategic planning, see the chapter on "Strategic Planning Processes" in "Strategic Planning for Sustainability: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

specific company to obtain the scarce resources required for the company to create value for its owners and other stakeholders); and the "general environment (i.e., the forces that typically will have an impact on the shape and design of all companies, including the company and other companies that are part of the stakeholder network of the company (e.g., economic, technological, political, demographic and socio-cultural forces)); organizational size, complexity and age; the nature of the business engaged in by the firm, top management values and styles; organizational culture; and the initial trigger for commencement of formal planning.

Rao and Suryanarayana argued that companies respond to the specific mix of the above-referenced factors by embracing one of several different approaches to planning they described as follows[2]:

- Top-down approach: Companies adopting this approach operate through fiats from the top of the hierarchy and each strategic business unit (i.e., departments or division) ("SBU") is expected to do as it is told by top management.
- Bottom-up approach: In companies adopting this approach, top management asks each of the SBUs to submit their plans, which are then reviewed by top management and accepted or sent back to the originating SBU for modification. Decentralized companies may find that the various SBU plans, when consolidated, do not add up to the overall targets established by top management and, if this is the case, additional plans will be prepared and/or top management will seek out acquisitions in unrelated business areas to meet the goals it has set.
- Hybrid approach: This approach, generally used in decentralized companies, is combination of the top-down and bottom-up approaches, and begins with top management providing certain guidelines to each of the SBUs. The guidelines should be sufficiently flexible to allow each SBU to develop their own plan taking into account available resources. It is assumed that each SBU will be managed in a manner reasonably independent of other businesses within the firm; however, it is important to establish and maintain vertical communications between top management and the SBUs at different phases of the planning process, including dialogue and negotiation regarding objectives, policies and strategies that results in SBU plans that are best suited for those organizational units yet still fit within the overall targets and objectives established by top management
- Team approach: In small centralized companies where lateral communication between top managers is easier than in large decentralized firms, the CEO, in collaboration with senior managers from different groups within the company, may prepare corporate plans. This practice also exists in some very large companies where the heads of key departments and other SBUs sit together with the CEO on an executive committee.

[2] P. Rao and N.V.S. Suryanarayana, Strategic Planning in India, Articlesbase, http://www.articlesbase.com/business-ideas-articles/strategic-planning-in-india-3187141.html. See also J. Anchor and J. Aldehayyat, Organisational Characteristics and Strategic Planning in an Emerging Economy: the Case of Jordan (2010), http://eprints.hud.ac.uk/7504/.

While the strategic planning approach is fairly well embedded with larger firms, the record is less clear about the role that planning plays in small- and medium-sized enterprises. For example, some studies of strategic planning practices in the US and the United Kingdom have concluded that only a small fraction of small- and medium-sized companies, as few as one in six, had a strategic plan and that such companies were often naïve about planning and development of strategy. On the other hand, there is evidence in other studies of successful high growth small companies in the US that almost 90% of those firms engaged in an assessment and review of their business strategies at least annually. Entrepreneurs often dismiss strategic planning as something that is only associated with larger businesses; however, planning is important for every business regardless of its size, stage of development or business activities.

In general, firms in developing countries lag behind their counterparts in the developed world with respect to the amount and formality of strategic planning; however, researchers have argued that various contingencies may influence the speed with which firms embrace strategic planning including environmental turbulence, organizational structure, firm size, the form of ownership and control of the business and the degree of interest in making changes to operations and increasing business flexibility.[3] For example, Anchor and Dehayyat have noted that as Jordanian companies were being privatized Jordan experienced significantly higher levels of inbound foreign direct investment which, among other things, provided opportunities for the entry and diffusion of management ideas and practices from developed countries including strategic planning.[4] The result of all this was that Anchor and Dehayyat found "considerable similarities between strategic planning practice in Jordan and those which have been found in earlier studies in developed economies" and they also noted that strategic planning probably was able to gain traction in Jordan because there were relatively few barriers to the dissemination of the knowledge elements of strategic planning practice, government attitudes were friendly toward the countries from which inbound investment was coming and many Jordanian managers had been educated and trained in the US, the UK and other developed countries.[5]

This Part serves as an introduction to a larger Library that covers the key steps in designing, implementing and administering a formal strategic planning process. Strategic planning begins with identifying and defining the purposes, goals and objectives of the company including the products to be created and distributed by the company, the target markets that the firm will seek to penetrate, the measures that will be used to evaluate the performance of the firm and its chosen strategy, and the specific tactics in various functional areas that will be used in order to efficiently execute the strategy. In addition, however, strategic planning processes are implemented by effective leaders that understand the importance of continuously being proactive about the unforeseen changes

[3] K. Glaister, O. Dincer, E. Tatoglu, M. Demirbag and S. Zaim, "A Causal Analysis of Formal Strategic Planning and Firm Performance Evidence From an Emerging Country", Management Decision, 46(3) (2008), 365.
[4] J. Anchor and J. Dehayyat, Organisational Characteristics and Strategic Planning in an Emerging Economy: The Case of Jordan (2010), 6.
[5] Id. at 21-22.

in the company's business environment that will ultimately create new opportunities and threats for the company that will challenge its managers to make difficult decisions regarding the direction of the firm, its goals and objectives and how it is organized and led. This Part identifies and describes the fundamental elements of the planning process and desired outputs of that process—a mission statement, a strategy statement, strategic goals and objectives, and tactical and operational plans. Other Parts in this Library discuss how internal and external environmental forces impact the strategic planning process and cover key steps in the strategic planning process including collecting and analyzing information, strategy development using "situation" analysis, preparation of the mission and strategy statements, establishing strategic goals and objectives, preparation of a strategic plan and implementation and monitoring of the company's strategic plan.

While the strategic planning approach is fairly well embedded with larger firms and has been heavily studied with respect to firms in the US and other developed countries, the research work is less abundant and clear about the role that planning plays in small- and medium-sized enterprises and in developing and emergent markets. Accordingly, this Library explores a variety of topics of interest to researchers and managers focusing on comparative aspects of strategic planning activities and techniques including measurement of strategic planning effectiveness, strategic planning and culture—both societal and organizational—and identification and use of strategic planning dimensions such as formality, the level of sophistication, the length of the planning horizon and the specific strategic planning tools and processes. Another Part in this Library includes material on strategic planning in specific national contexts such as strategic planning in developed European countries and in developing countries.

Definitions of Strategic Planning

Simply put, strategic planning can be thought of as a process of carefully and thoughtfully aligning the strengths of a company's business to the opportunities that are available to the company in its chosen business environment. In order for this process to be successful the managers of the company must collect, screen and analyze information about the company's business environment, identify and evaluate the strengths and weaknesses of the company and develop a clear mission for the company and a set of achievable goals and objectives that then become the basis for tactical and operational plans.[6] The strategic planning process allows managers to be proactive in identifying, and responding to, changes in the company's business environment. Companies can use strategic planning to prepare for future events and allocate their resources to take advantage of emerging opportunities and minimize the potential harm from environmental threats such as new competitors and technologies and changes in customer requirements or regulatory guidelines.

[6] For detailed discussion of the process and expected outcomes of strategic planning, see the chapter on "Strategic Planning Processes" in "Strategic Planning for Sustainability: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

While the general concept of "strategic planning" is fairly well understood, meaningful comparison of strategic planning processes requires some degree of consensus regarding what should be included in a working definition of the term. It is common for researchers to describe strategic planning as involving the establishment of objectives, development of strategies and plans to achieve those objectives, and monitoring results using a variety of pre-determined measurements. Griffin noted that strategic planning required attention to resource allocation, priorities and the actions needed to reach strategic goals.[7] Armstrong defined strategic planning as an explicit process for determining the firm's long-range objectives, procedures for generating and evaluating alternative strategies, and a system for monitoring the results of the plan when implemented.[8] Sherman embellished the definition by envisioning and mapping a process engaged in by organizations to critically analyze its external and internal environment; formulate a plan of action based on creating the best fit between the firm's resources and environment opportunities; establish acceptable methods of reducing its own weaknesses and mitigating external threats; identify appropriate tactics for implementing the plan; and then establish methods of measurement that the organization will apply over time to see whether or not the tenets of the strategic plan are leading to the desired results.[9] Hewlett emphasized a different, yet important, element: altering a company's strengths in relation to its competitors efficiently and effectively.[10] Finally, contributing to, and improving, "performance" is a commonly included objective in definitions of strategic planning.[11]

Research on Strategic Planning

While there has been a large volume of empirical studies on strategic planning and its influence on competitiveness and organizational performance, most of the research and analysis has been focused on the US and other developed countries such as the Australia, Canada, Japan and the UK.[12] Hoffman observed that a "plethora of studies" have examined formal long-range or strategic planning and that in most cases these studies provided support for the view that there are differences in the characteristics of

[7] R. Griffin, Fundamentals of Management (4th Ed) (Boston, MA: Houghton Mifflin, 2006).
[8] J. Armstrong, "The value of formal planning for strategic decisions: Review of empirical research", Strategic Management Journal, 3(3) (1982), 197-211, 198.
[9] H. Sherman, D. Rowley and B. Armandi, Strategic Management: An Organization Change Approach (Lanham, MD: University Press of America, 2006), 10.
[10] C. Hewlett, "Strategic planning for real estate companies", Journal of Property Management, 64(1) (1999), 26-30 (cited in N. O'Regan and A. Ghobadian, "Formal Strategic Planning: The Key to Effective Business Process Management", Business Process Management Journal, 8(5) (2002), 416-429).
[11] See, e.g., E. Tapinos, R. Dyson and M. Meadows, "The Impact of Performance Measurement in Strategic Planning", International Journal of Productivity and Performance Management, 54(5/6) (2005), 370-384.
[12] H. Al-Shammari and A. Hussein, "Strategic Planning in Emergent Market Organizations: Empirical Investigation", International Journal of Commerce and Management, 18(1) (2008), 47. For detailed discussion of the strategic planning processes and procedures, see the chapter on "Strategic Planning Processes" in "Strategic Planning for Sustainability: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

"planners" versus "non-planners".[13] According to Hoffman, studies of strategic planning can generally be broken down into two threads.[14] The first one focuses on "planning content" and examines the planning process from the perspective of the "ends" of that process: goals, mission statements, environmental information programs and allocations of internal resources.[15] The second thread is more concerned with "planning processes", specifically the means or methods used as part of a firm's planning system, and research has focused on characteristics of the process such as commitment, system maturity, comprehensiveness, time horizon and importance.[16] Hoffman noted that research on planning processes has been more prevalent in the literature.[17]

Writing in the early 2000s Al-Shaikh commented that "[w]hile research on strategic planning process has proliferated over the past two decades or so, little is known about this issue in the context of developing countries".[18] Similarly, Anchor and Dehayyat, who studied strategic planning in Jordan, commented that "very little has been written at any time in leading journals about strategic planning in emerging markets in general or in the Middle East in particular".[19] It is true that research on the use and effectiveness of strategic planning has been conducted with respect to several emerging and developing countries including Turkey, Jordan, Egypt, Saudi Arabia[20], United Arab Emirates,

[13] B. Boyd, "Strategic planning and financial performance: A meta-analytic review", Journal of Management Studies, 28(4) (1991), 353-374.

[14] R. Hoffman, "The Strategic Planning Process and Performance Relationship: Does Culture Matter?", Journal of Business Strategies, 24(1) (2007), 27-48 (citing B. Boyd, "Strategic planning and financial performance: A meta-analytic review", Journal of Management Studies, 28(4) (1991), 353-374; P. Brews and M. Hunt, "Learning to plan and planning to learn: Resolving the planning school/learning school debate", Strategic Management Journal, 20(10) (1999), 889-913; C. Miller and L. Cardinal, "Strategic planning and firm performance: A synthesis of more than two decades of research", Academy of Management Journal, 37(6) (1994), 1649-1665; and V. Ramanujam and N. Venkatraman, "Planning system characteristics and planning effectiveness", Strategic Management Journal, 8 (1987), 453-468).

[15] R. Veliyath and S. Shortell, "Strategic orientation, strategic planning system characteristics and performance", Journal of Management Studies, 30(3) (1993), 359-381.

[16] N. Capon, J. Farley and J. Hulbert, "Strategic planning and financial performance: More evidence", Journal of Management Studies, 31(1) (1994), 105-110; L. Rhyne, "The relationship of strategic planning to financial performance", Strategic Management Journal, 7 (1986), 423-436; and V. Ramanujam and N. Venkatraman, "Planning system characteristics and planning effectiveness", Strategic Management Journal, 8 (1987), 453-468.

[17] R. Hoffman, "The Strategic Planning Process and Performance Relationship: Does Culture Matter?", Journal of Business Strategies, 24(1) (2007), 27-48 (citing B. Boyd, "Strategic planning and financial performance: A meta-analytic review", Journal of Management Studies, 28(4) (1991), 353-374; and C. Miller and L. Cardinal, "Strategic planning and firm performance: A synthesis of more than two decades of research", Academy of Management Journal, 37(6) (1994), 1649-1665).

[18] F. Al-Shaikh, "Strategic Planning Process in Developing Countries: The Case of United Arab Emirates Business Firms", International Journal of Applied Strategic Management, 1(2), 286, 291.

[19] J. Anchor and J. Dehayyat, "Organisational Characteristics and Strategic Planning in an Emerging Economy: The Case of Jordan" (2010), 5.

[20] S. Ghamdi, "The Use of Strategic Planning Tools and Techniques in Saudi Arabia: An Empirical Study, 22 International Journal of Management" (2005), 376 (strategic planning most commonly used among joint venture firms and firms with the largest revenues, with "analysis of critical success factors", benchmarking" and "what-if analysis" being the most popular techniques, and large percentage of respondents in study did not use any strategic planning tools).

Bahrain[21], Ghana[22] and South Africa; however, Sukle and Debarliev noted that little work had been done on the subject in emerging and developing counties in Eastern, Central or South-Eastern Europe.[23] They went on to note, however, that the situation in many developing countries was changing due to major developments in communication technologies that they argued had led to globalization of all types of industries and business processes and increased foreign direct investment activities in developing countries, all of which was increasing the "dynamic competitive forces of their business environments".[24]

Efendioglu and Karabulut, after noting that "[u]ntil recently, the primary focus of researchers of strategic planning had been United States and developed economies of Europe" and that "[v]ery little research was conducted to examine the understanding and usage of these strategic planning concepts and tools in developing countries and the organizations which form the foundations of these economic systems", speculated that the lack of research in developing countries might be attributed to the fact that the economies in many of those countries were "semi-closed" and dominated by state-owned enterprises operating in an environment in which there was little or no motivation or purpose to engaged in sophisticated strategic planning to obtain a competitive advantage.[25] Efendioglu and Karabulut also mentioned that managers of many of the firms operating in these semi-closed economies lacked the sophistication and training necessary for the understanding and use of strategic planning tools and that those managers were often preoccupied, if not overwhelmed, with meeting the current demands imposed by the state and thus had little time or interest in trying to "worry about tomorrow".[26] Efendioglu and Karabulut cited Mintzberg for the proposition that the effectiveness and utility of strategic planning depended on the existence of uncertainty in the environment and argued that the "relative stability of state controlled economies" in the developing world reduced uncertainty for firms in those countries and thus "there may not have been the same urgency for these firms to engage in strategic processes".[27]

Al-Shammari and Hussein have specifically noted that relatively little research has been conducted on the relationship between strategic planning and firm performance in other

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[21] G. Khan and E. Ali-Buarki, "Strategic Planning in Bahrain", Management Decision, 30 (1992), 3 (concluding that planners in Bahrain had very limited understanding and use of strategic planning tools and concepts).
[22] A. Dansoh, "Strategic Planning Practice of Construction Firms in Ghana", Construction Management Economics, 23 (2005), 163 (finding that civil engineering contractors, with more sophisticated and education ownership, had a much higher acceptance of strategic planning processes and concepts than building contractors and that subsidiaries of multinational firms had a higher level of usage of strategic planning concepts than locally owned firms presumably because of effective managerial technology transfer from the parents of the multinational firms).
[23] B. Sukle and S. Debarliev, "Strategic Planning Effectiveness: Comparative Analysis of the Macedonian Context", Economic and Business Review, 14(1) (2012), 63, 81.
[24] Id.
[25] A. Efendioglu and A. Karabulut, Acceptance and Use of Strategic Processes in Developing Countries, American Journal of Economics and Business Administration, 1(2) (2009), 150, 151.
[26] Id.
[27] Id. (citing H. Mintzberg, The Fall and Rise of Strategic Planning, 72 Harvard Business Review 107 (1994)).

contexts and developing and emergent markets and that the frameworks that have been used to study strategic planning in developed countries may not necessarily be applicable in developing and emerging markets.[28] Greenley has echoed concerns about the universal applicability of specific paradigms for conducting and evaluating the efficacy of strategic planning by commenting: "Although the principles of strategic planning should, of course, have universal application, there may be national differences in strategic planning, country dependent influences from business culture, and influences from different national trading conditions".[29] Similarly, Anchor and Dehayyat noted that "[a] fundamental difference between emerging and developed market economies is the existence in the latter of market supporting formal institutions" and that "[t]hese differences in institutional context between developed and emerging economies mean that strategic planning practice may be different in an emerging market context to that which may be found in a developed market economy".[30] Anchor and Dehayyat also wisely cautioned that "emerging markets are themselves not homogeneous and may display a variety of institutional contexts".[31]

Accepting the reality that relatively little research on strategic planning has been conducted in developing countries the next question is just where researchers should start their inquiries realizing that the processes they are analyzing will typically be far more rudimentary than those commonly used in the US and other developed countries. Dogan et al. studied strategic planning activities of manufacturing firms in a specific region of Turkey and suggested that research activities might focus on the following questions[32]:

- What processes have been put into place with respect to strategic planning and what are the actual tendencies and activities of firms with respect to strategic planning?
- Who makes decisions regarding strategy within firms and what processes, including consultations with other stakeholders and collection and review of information, are followed in order to arrive at those decisions?
- What is the nature of the goals established as a result of the strategic planning process?
- Do the parties involved in the strategic planning process understand the difference between strategic planning and short-term operational planning?
- When making decisions regarding strategic plans, which oral and written sources of information are collected and used by the parties making the decisions?

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[28] B. Sukle and S. Debarliev, "Strategic Planning Effectiveness: Comparative Analysis of the Macedonian Context", Economic and Business Review, 14(1) (2012), 63, 64 (citing H. Al-Shammari and A. Hussein, "Strategic Planning-Firm Performance Linkage: Empirical Investigation from an Emergent Market Perspective", Advances in Competitiveness Research, 15(1&2) (2007), 15).
[29] G. Greenley, "Strategic Planning and Company Performance: An Appraisal of the Empirical Evidence", Scandinavian Journal of Management, 10(4) (1994), 383.
[30] J. Anchor and J. Dehayyat, "Organisational Characteristics and Strategic Planning in an Emerging Economy: The Case of Jordan" (2010), 5-6.
[31] Id.
[32] T. Dogan, L. Alpkan, M. Elci and S. Aren, "Strategic Planning Activities of the Manufacturing Firms in Kocaeli, Turkey", Journal of Global Strategic Management, 5 (June 2009), 97.

One issue that needs to be addressed in studying strategic planning in developing countries is just what the term "strategic planning" means. Al-Shaikh suggested that strategic planning in the context of developing countries should be defined as "a long-term written plan that covers more than one year and contains information about projected earnings, rate of return on investment, breakeven point, projected sales, target growth rate, costs and expenses, and pro-forma financial statements for more than one year."[33] While it is obviously difficult to coin a universally accepted definition of strategic planning the approach taken by Al-Shaikh does touch on several key dimensions including the existence of a documented plan, the duration of the planning period, the business and financial information included in the plan, creation of a budget or set or projections against which performance can be measured and, finally, the establishment of specific quantified goals and objectives with respect to earnings, growth rate, expenses etc. Al-Shaikh noted that while some scholars might argue that a planning period of at least two, and preferably three, years would be a "long-term" plan the shorter period of one year was selected to take into account the fact that many developing countries have yet to embrace the long-term orientation that is typical in developed countries. In fact, thinking out even one year might be disarming for developing country managers used to reacting to daily turbulence in the highly uncertain environments in which there are required to operate. Planning out for three or more years is also difficult to firms in developing countries since many of them are relatively new and have not been in existence for very long and are preoccupied with simply surviving the start-up phase.

The effectiveness of strategic planning techniques has been a popular topic for researchers. Sukle and Debarliev explained that "the effectiveness of strategic planning is associated with achieving formulated objectives, producing better results, or improving the organizational performance as the result of the use of strategic planning process in the companies" and noted that over the last few decades the notion of strategic planning effectiveness has expanded beyond traditional financial criteria to include "many other non-financial, qualitative criteria associated with core business process, customers, employees, organizational learning and innovation and other core areas in the companies important for the overall organizational performance".[34]

Hoffman noted that research regarding the relationship between strategic planning and performance for firms outside of the US has rendered mixed results.[35] For example, researchers failed to find a consistent relationship between the level of formality of strategic planning and the performance on the firm in studies of firms conducted in

[33] F. Al-Shaikh, "Strategic Planning Process in Developing Countries: The Case of United Arab Emirates Business Firms", International Journal of Applied Strategic Management, 1(2), 286, 288.

[34] B. Sukle and S. Debarliev, "Strategic Planning Effectiveness: Comparative Analysis of the Macedonian Context", Economic and Business Review, 14(1) (2012), 63, 66. For fuller discussion of approaches to measuring the effectiveness of strategic planning processes, see the chapter on "Strategic Planning Processes" in "Strategic Planning for Sustainability: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[35] R. Hoffman, The Strategic Planning Process and Performance Relationship: Does Culture Matter?, 24(1) Journal of Business Strategies 27 (2007).

Sweden[36], Canada[37] and the UK[38]. On the other hand, however, other researchers claim to have found support for a positive relationship between planning processes other than formality and performance in studies conducted in Australia[39] and Finland[40] and in a different sampling of firms in the UK[41]. Hoffman himself found that strategic planning processes, particularly planning system maturity and planning impact, were positively related to performance among multinational firms selected across societal clusters—Anglo, Nordic and Germanic.[42]

Objectives of the Strategic Planning Process

Obviously one of the first objectives for strategic planning is to identify and define the initial goals and objectives for the emerging goals—the key reasons for establishing the firm including the products and services to be created and distributed by the company, the target markets that the firm will seek to penetrate at the time that it is launched, the measures that will be used to evaluate the performance of the firm and its chosen strategy, and the specific tactics in various functional areas that will be used in order to efficiently execute the strategy. In addition, however, strategic planning processes are implemented by effective leaders that understand the importance of continuously being proactive about the unforeseen changes in the company's business environment that will ultimately create new opportunities and threats for the firm that will challenge the managers of the company to make difficult decisions regarding the direction of the firm, its goals and objectives and how it is organized and led.

One useful way to look at the strategic planning process is the role that it plays in identifying the "strategic sweet spot" for the company, which is point where the core competencies of the company overlap with the needs of customers in ways that cannot be matched by competitors given then-current conditions in the relevant environment (i.e., technology, industry demographics and regulatory factors). The first step in this process, of course, is a thorough evaluation of the company's own resources and capabilities to identify its strengths and potential sources of competitive advantage. In addition, however, management must undertake a rigorous evaluation of the industry and markets in which the company hopes to compete. With respect to customers the exercise should include a survey of customer requirements and an attempt to segment the customer base in ways that permit more precise alignment of the company's core competencies to customer needs. As for competitors they should be evaluated in the same way as the

[36] L. Rhenman, Organization Theory for Long Range Planning (1973).
[37] G. Sheehan, Long-Range Strategic Planning and Its Relation to Firm Size, Firm Growth and Firm Growth Variability: An Explorative, Empirical Investigation (1975).
[38] P. Grinyer and D. Norburn, "Planning for Existing Markets: Perceptions of Executives and Financial Performance", Journal of the Royal Statistical Society, 138(1) (1975), 70.
[39] D. Burt, "Planning and Performance in Australian Retailing", Long Range Planning, 14(2) (1978), 62.
[40] P. Harju, Attitude of Strategic Managers toward Formalized Corporate Planning (1981).
[41] G. Smith, "Planning for Productivity", Long-Range Planning, 13 (1980), 52.
[42] R. Hoffman, "The Strategic Planning Process and Performance Relationship: Does Culture Matter?", Journal of Business Strategies, 24(1) (2007), 27.

company with an eye toward discerning their strengths and weaknesses and the strategic direction they have selected.[43]

Management Participation in the Planning Process

In order for strategic planning to be successful and meaningful there must be active and enthusiastic participation from multiple levels of management within the firm in order to bring the most experience to the planning process and ensure that plans are made based on the full and current information about the operational activities of the firm and conditions in the marketplace. Managers at the highest level of the company—the chief executive officer and the senior executives of all of the key functional groups and other business units—are charged with defining the strategic mission of the company and selecting and articulating the company's overriding goals and objectives. Other members of the management group are responsible for collecting the information that the executive group needs in order to engage in long range planning, which usually means reports that include necessary data about operations, finances, competitive conditions, technological trends, and other important characteristics of the external environment in which the firm is operating.

Active involvement of all managers throughout the company in the planning process is also required because a company's strategy is not only firm-wide goals and objectives but also a comprehensive set of tactical and operational plans that impact the activities of everyone inside the company. While senior executives should expect to pour over and digest mountains of information about every aspect of the company's business their key role is to establish general, long-term goals and objectives for the firm that will usually take more than just one annual planning period to achieve (e.g., long-term growth of revenues, market share or product lines; improved profitability; and/or building a "best of class" customer service function). It then falls to the managers of each business unit and department to identify and implement the specific ideas, or tactics, that are best suited to achieving the goals and objectives set at the top of the company. These tactical plans address very important and practical questions for each unit or department: what needs to be done, how it will be done, what resources are needed to do it, how will those resources be acquired and managed, and how will progress be tracked and evaluated. Tactical plans typically cover one year or less and require the same type of information needed to set overall goals and objectives—financial information, operational performance data, and information on markets and the external environment in general. The supervisors below the business unit and departmental managers also play an important role in the strategic planning process by the way in which they develop and enforce the operational plans that serve as guides for the day-to-day activities of the specific employees that they oversee. The supervisors are responsible for the "nuts and bolts" of executing the tactical plans and do so through scheduling, budgeting, setting and enforcing standards (i.e., policies, procedures, methods and rules) and identifying and procuring necessary

[43] D. Collis and M. Rukstad, "Can You Say What Your Strategy Is?", Harvard Business Review, April 2008, 82-90, 89.

resources (e.g., personnel, information, capital, facilities, machinery, equipment and materials).

The recognition that planning is a collaborative exercise may require some changes in the company's management style and company culture. In order to create and implement the most effective strategy managers must be open to innovation, change, and new ways of doing business and communicating. Specifically, management must be willing to accept and embrace employee participation and set up a whole set of procedures and practices that support the planning process. For example, if the plan includes performance targets, appropriate changes in the incentive and reward systems in the firm may be required. If the traditional approach to decision making within the company has been "top down" and managers and employees at lower levels of the organizational hierarchy have simply accepted directives from the senior management team without question or advance consultation it can be expected that the transition to collaborative planning will be difficult. There may be deep reservoirs of distrust and fear that will depress the flow of new ideas and critical feedback that is so necessary to effective planning.

Fundamental Elements of the Planning Process

Strategic planning has become increasingly complicated with the introduction of new theories and supporting technologies that attempt to incorporate the seemingly unlimited number of variables that firms must consider when grappling with the challenge of anticipating future changes in their external environment. However, the fundamental elements of the planning process—the key initial steps and activities—have generally remained the same and thus provide entrepreneurs and others members of the management team of an emerging company with a roadmap to launch and maintain their strategic planning activities:

- Define the mission of the firm, which is a statement of the purpose of the company typically described in a formal "mission statement." The mission statement should be clear and concise summary, generally no more than a single sentence, which summarizes what the firm does and provides direction for managers and employees as the types of decisions that should be made with respect to the operational activities of the company and the opportunities that should be pursued. A mission statement is not effective unless each employee is able to recite it from memory.
- Conduct a comprehensive SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis to develop the foundation for the strategic plan. This type of analysis forces the management team to make a thorough internal assessment of the company's distinctive competences and the areas in which the company lags behind competitors and/or is unprepared for identifiable changes in the business environment. An external assessment is also required to identify strengths and weaknesses of competitors, emerging technologies and changes in customer habits and requirements.
- Define strategic goals and objectives, which are the performance milestones that must be attained in order for the company to advance from its current position—identified in the SWOT analysis—to the position suggested by its mission statement. Goals and objectives are both quantitative—return on investment, earnings per share, gross

revenues, profit margin and market share—and qualitative—improve workforce skills and implement best practices for project management and operations, and must be defined in such a way that progress can be tracked and evaluated. Whenever possible, the key strategic goals and objectives should be succinctly summarized in a short strategy statement that becomes as familiar to all managers and employees as the mission statement.

- Develop tactical plans based on the selected goals and objectives of the company and operational plans that support execution of the elements of the tactical plans. Tactical and operational planning is necessary in order to ensure that managers and employees at every level in the company act in a manner that is consistent with pursuit of the company's strategic goals and objectives.
- Develop processes for continuously monitoring the effectiveness of the plan and identifying changes in the company's business environment. Monitoring is done to ensure that the plan is being executed correctly and to uncover methods for improving the planning process. In addition, monitoring is the best and only way to really identify when changes in the plan, as well as the company's overall strategic goals and objectives, are needed. Information collected from the monitoring processes should be used as valuable input for the next planning cycle.

Formal strategies are created for the purpose of defining and pursuing ambitious long-term goals and objectives—targets that the firm wishes to achieve by certain dates that fall outside of the usual short-term planning period of six to twelve months. The time period to be covered by the strategic planning process should be dictated by the length of time that the company is willing and able to commit its current resources. Strategic plans typically extend no longer than five years and may go out only two or three years for many emerging companies given the dynamic rate of change in their business environments and the fact that their limited resources at the time of launch demand a focus on goals and objectives that can reasonably be achieved within a relatively short period of time in order to survive and attract additional resources. Strategic planning has usually been done on an annual basis with planning activities concentrated into several weeks or months immediately prior to the beginning on each annual planning period (e.g., for companies operating under calendar year plans and budgets the planning process would be scheduled for October and/or November prior the beginning of the year to be covered by the plan). However, many firms, particularly emerging companies operating in dynamic environments in which changes can and do occur quickly, have abandoned their annual plans in favor of continuous planning processes that make it easier for the company to readily identify new opportunities and make the necessary changes in course required to take advantage of them.

Strategic Planning Dimensions

Comparative studies of strategic planning techniques and processes across firms and societal borders is facilitated through the use of "dimensions" such as formality[44], the

[44] P. McKiernan and C. Morris, "Strategic Planning and Financial Performance in UK SMEs: Does Formality Matter?", British Journal of Management, 5 (1995), 31. See also Al-Shammari and Hussein,

level of sophistication[45], the length of the planning horizon[46], specific strategic planning tools and processes[47], various types of organizational flexibility: operational, financial, structural and technological[48] and characteristics of the strategic planning process itself such as "intensity".[49] After their own extensive review of the relevant literature from both developed countries and emerging markets, Sukle and Debarliev argued that the preferred approach was to use a wider list of strategic planning dimensions, along with both financial and nonfinancial measures of organizational performance, and created a model for their study of strategic planning which is discussed elsewhere in this Library that included the following dimensions: the formality of strategic planning, the use of strategic planning techniques, management and employee participation in strategic planning and the barriers to implementation of strategic planning.[50]

Rao and Suryanarayana suggested that important dimensions of strategic planning included the completeness of the planning cycle, depth of analysis, degree of formality, the extent to which staff and corporate planning specialists are used, linkage among the plans of various organizational units, the methods used to introduce and promote planning, the degree of documentation generated during the planning process, the scope of participation in the planning process and, of course, the role of the founder and/or chief executive officer in planning.[51] For their part, Anchor and Dehayyat suggested that the practice of strategic planning could best be understood by looking at the purpose of strategic planning; the approach to planning; involvement and participation in strategic planning; the contents of the strategic plan; commitment to strategic planning activities; the time horizon of planning and the updating of the strategic plan; the processes used for

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who divided firms into three classes based on the level of formality with respect to strategic planning: non-strategic planners, incomplete strategic planners and strategic planners. H. Al-Shammari and A. Hussein, "Strategic Planning-Firm Performance Linkage: Empirical Investigation from an Emergent Market Perspective", Advanced in Competitiveness Research, 15(1&2) (2007), 15.

[45] R. Robinson and J. Pearce, "Planned Patterns of Strategic Behavior and Their Relationship to Business-Unit Performance", Strategic Management Journal, 9 (1988), 43.

[46] L. Rhyne, "The Relationship of Strategic Planning to Company Performance", Strategic Management Journal, 7 (1986), 423.

[47] K. Meers and C. Robertson, "Strategic Planning Practices in Profitable Small Firms In The United States", The Business Review, 7(1) (2007), 302; and G. Baker and J. Leidecker, "Does It Pay to Plan?: Strategic Planning and Financial Performance", Agribusiness, 17(3) (2001), 355.

[48] S. Kraus, R. Harms and E. Schwarz, "Strategic Planning in Smaller Enterprises: New Empirical Findings", Management Research News, 29(6) (2006), 334.

[49] See, e.g., W. Hopkins and S. Hopkins, "Strategic Planning-Financial Performance Relationship in Banks: A Causal Examination", Strategic Management Journal, 18(8) (1997), 635; K. Glaister, O. Dincer, E. Tatoglu, M. Demirbag and S. Zaim, "A Causal Analysis of Formal Strategic Planning and Firm Performance Evidence From an Emerging Country", Management Decision, 46(3) (2008), 365; and P. Risseeuw and E. Masurel, "The Role of Planning in Small Firms: Empirical Evidence From a Service Industry", Small Business Economics, 6(4) (1994), 313.

[50] B. Sukle and S. Debarliev, "Strategic Planning Effectiveness: Comparative Analysis of the Macedonian Context", Economic and Business Review, 14(1) (2012), 63. For fuller discussion of each of these dimensions, see the chapter on "Environmental Forces and Strategic Planning" in "Strategic Planning for Sustainability: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[51] P. Rao and N.V.S. Suryanarayana, Strategic Planning in India, Articlesbase, http://www.articlesbase.com/business-ideas-articles/strategic-planning-in-india-3187141.html.

environmental scanning; top and line management involvement in strategic planning; and the use of strategic planning tools and techniques.[52]

Contextual Factors and Strategic Planning

Researchers have found indications that the relationship between strategic planning and firm performance may be mitigated to some degree by contextual factors relating to the firm including the size of the firm, the size and type of industry, the rate of environmental change or "turbulence", the type of strategy adopted by the firm and societal culture.[53] For example, several researchers have found that firm and industry size affected firm performance in meta-analyses of the relationship between performance and strategic planning.[54] Rogers et al. found that strategy moderates the relationship between planning and firm performance, a conclusion ratified by others including Schneider and Barsoux and Veliyath and Shortell.[55] Anchor and Dehavyat observed that the literature on strategic planning, in both developed and emerging economies, includes indications that organizational characteristics such as the size and age of the organization and the nature of its business influence the degree to which firms engage in formal strategic planning.[56]

Organizational Size

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[52] J. Anchor and J. Dehayyat, "Organisational Characteristics and Strategic Planning in an Emerging Economy: The Case of Jordan" (2010), 8.

[53] P. Brews and M. Hunt, "Learning to plan and planning to learn: Resolving the planning school/learning school debate", Strategic Management Journal, 20(10) (1999), 889-913; C. Miller and L. Cardinal, "Strategic planning and firm performance: A synthesis of more than two decades of research", Academy of Management Journal, 37(6) (1994), 1649-1665; and I. Goll and A. Rasheed, "Rational decision-making and firm performance: The moderating role of environment", Strategic Management Journal, 18(7) (1997), 583-591. See also the chapter on "Environmental Forces and Strategic Planning" in "Strategic Planning for Sustainability: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[54] B. Boyd, "Strategic planning and financial performance: A meta-analytic review", Journal of Management Studies, 28(4) (1991), 353-374; and C. Miller and L. Cardinal, "Strategic planning and firm performance: A synthesis of more than two decades of research", Academy of Management Journal, 37(6) (1994), 1649-1665.

[55] P. Rogers, A. Miller and W. Judge, "Using information processing theory to understand planning/performance relationships in the context of strategy", Strategic Management Journal, 20(6) (1999), 567-577, 574; S. Schneider and J. Barsoux, Managing across cultures (2nd Ed) (New York: Prentice Hall, 2003); and R. Veliyath and S. Shortell, "Strategic orientation, strategic planning system characteristics and performance", Journal of Management Studies, 30(3) (1993), 359-381.

[56] J. Anchor and J. Dehayyat, Organisational Characteristics and Strategic Planning in an Emerging Economy: the Case of Jordan (Huddersfield, UK: Unpublished Working Paper. Emerging Markets Research Group University of Huddersfield, 2010), http://eprints.hud.ac.uk/7504/ (citing, e.g., G. Greenley, "Does strategic planning improve company performance?", Long Range Planning, 19(2) (1986), 101-108; C. Schwenk and C. Schrader, "Effects of formal planning on financial performance in small firms: a meta-analysis", Entrepreneurship Theory and Practice, 17(3) (1993), 56-63; T. Powell, "Untangle the relationship between strategic planning and performance: the role of contingency factors", Canadian Journal of Administrative Science, 11(2) (1994), 124-144; W. Hopkins and S. Hopkins, "Strategic planning-financial performance relationships in banks: a causal examination", Strategic Management Journal, 18(8) (1997), 635-652; and J. Rudd, G. Greenley, A. Beatson and I. Lings, "Strategic planning and performance: extending the debate", Journal of Business Research, 61 (2008), 99-108).

Anchor and Dehavyat noted that organizational size is a widely studied contingency variable and argued that since size is closely associated with formalization in general it is likely that larger organizations are more likely to identify and adopt formal strategic planning as a means for improving control and coordination.[57] In contrast, smaller organizations can be expected to have less interest in formal strategic planning because "their environments are comprehensible and their internal operations manageable by a single person or small team" and thus there is less perceived need for systematic formal scanning, extensive internal analysis or preparation of lengthy and detailed long-range plans. Their survey of empirical studies on the issue led them to conclude that adoption of formal strategic planning methods was positively associated with organizational size[58]; however, they commented that smaller organizations have shown increasing interest in planning as a valuable tool in improving their operational performance.[59]

Strategic planning activities among small businesses have begun to attract more and more interest in the research community and, in fact, research studies reviewed by Balasundaram provided broadening support for the proposition that strategic planning has a positive effect on the performance of small businesses.[60] Researchers have speculated that this relationship exists for a variety of reasons including providing small business owners with a structure for decision making and enabling them to take a long-term view, enabling organizations to better prepare for and to deal with the rapidly changing environments that most of them face and facilitating the establishment of goals and objectives against which the progress of the organization can be measured.[61] There has been some debate regarding the value of formalizing the planning process for small businesses with some researchers arguing that formalization provides the firms with a framework that is useful in maintaining their existing size and capability and growing if they wish[62] while others have cautioned that too much formality distracts small business

[57] See P. Blue, "A formal theory of differentiation in organizations", American Sociological Review, 35(2) (1970), 201-218; D. Miller and C. Droge, "Psychological and traditional determinants of structure", Administrative Science Quarterly, 31 (1986), 359-560; J. Child, "Organisational structure, environment, and performance: the role of strategic choice", Sociology, 6 (1972), 2-22.

[58] See, e.g., H. Mintzberg, "Strategy-making in three modes", California Management Review, 16 (1973), 44-53; H. Mintzberg, The Structuring of Organizations (Englewood Cliffs, NJ: Prentice-Hall, 1979); R. Robinson and J. Pearce, "Research thrusts in small firm strategic planning", Academy of Management Review, 9(1) (1984), 128-137; J. Fredrikson and T. Mitchell, "Strategic decision process: performance in an industry with an unstable environment", Academy of Management Journal, 27(2) (1984), 199-243; and C. Stoner, "Planning in small manufacturing firms: a survey", Journal of Small Business Management, 21(1) (1983), 24-30.

[59] See, e.g., W. Baker, H. Addams and B. Davis, "Business planning in successful small firms", Long Range Planning, 26(6) (1993), 82-88; M. Berry, "Strategic planning in small high tech companies", Long Range Planning, 31(3) (1998), 455-466; and M. Peel and J. Bridge, "How planning and capital budgeting improve SME performance", Long Range Planning, 31(6) (1998), 848-856.

[60] N. Balasundaram, "Incidence of Strategic Planning in Small Business: An Overview", Petroleum-Gas University of Ploieşti Bulletin, Economic Science Series, Vol. LXI (No. 3) (2009), 11-18 (citing C. Schwenk and C. Shrader, "Effects of Formal Strategic Planning on Financial Performance in Small Firms, A Meta – Analysis", Entrepreneurship Theory and Practice, 17(3) (1994), 53-64).

[61] C. Orpen, "Strategic Planning, Scanning Activities and the Financial Performance of Small Firms", Journal of Small Business and Entrepreneurship, 11(1) (1993), 62-72.

[62] A. Gibb and M. Scott, "Strategic Awareness, Personal Commitment and the Process of Palling in the Small Business", Journal of Management Studies, 22(6) (1985), 597-631; and M. Lyles, I. Baird, J. Orris

owners from engaging in strategic thinking and proactive awareness of their environment and suppresses creativity and spontaneity.

However, in spite of the evidence that strategic planning has a positive effect on the performance of small businesses, a number of research studies have found, unfortunately, that planning activities among those businesses are "informal, unstructured, and irregular, supported by insufficient and ineffective information, usually obtained through informal sources, and reactive rather than proactive".[63] Gibb and Scott found that small business owners almost never used written strategic plans or put their future strategies into formal written documents and that they generally did not feel that written plans were useful for smaller firms.[64] Balasundaram observed that the generation and evaluation of ideas in many small businesses is mainly characterized by the personal judgments of the owners and managers of those businesses and that such ideas are often not clearly articulated and based on insufficient information and limited knowledge of the market place, customers' needs, technology and governmental support policies. The reasons given for the apparent lack of formality in small business planning are not surprising and include lack of time, cost, expertise, information, training, education and skills of owner-mangers.[65]

Wang et al. speculated that the propensity of many small business owners to ignore that evidence that strategic planning leads to increased firm performance and dispense with formal strategic planning activities may be attributed to the fact that those owners are less motivated by business performance than they are by intangible goals such as autonomy, personal satisfaction and lifestyle.[66] If this hypothesis is true the analysis of the use of strategic planning among small businesses must take into account a whole range of factors that might influence the motivations and ambitions of small business owners and managers including education, gender, ethnicity, social marginalization, family commitments and personal aspirations. According to Wang et al. it is important to consider the initial motivations of small business owners for launching their firms since these will have a significant influence in determining whether they will pursue profit/growth maximization, a path that creates a more urgent need for formal strategic planning, or personal fulfillment goals.

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and D. Kuratko, "Formal Planning in Small Business: Increased Strategic Choices", Journal of Small Business Management, (1993), 38-50.

[63] N. Balasundaram, "Incidence of Strategic Planning in Small Business: An Overview", Petroleum-Gas University of Ploieşti Bulletin, Economic Science Series, Vol. LXI (No. 3) (2009), 11-18 (citing A. Gibb and M. Scott, "Strategic Awareness, Personal Commitment and the Process of Palling in the Small Business", Journal of Management Studies, 22(6) (1985), 597-631).

[64] A. Gibb and M. Scott, "Strategic Awareness, Personal Commitment and the Process of Palling in the Small Business", Journal of Management Studies, 22(6) (1985), 597-631. See also H. Mintzberg and J. Waters, "Strategies, Deliberate and Emergent", Strategic Management Journal, 11(1) (1985), 62-72.

[65] R. Robinson and J. Pearce, "Research Thrusts in Small Firm Strategic Planning", Academy of Management Review, 9(1) (1984), 128-137; and C. Shrader, C. Mulford and V. Blackburn, "Strategic and Operational Planning, Uncertainty, and Performance in Small Firms", Journal of Small Business Management, 1989, 45-60.

[66] C. Wang, E. Walker and J. Redmond, "Explaining the Lack of Strategic Planning in SMEs: The Importance of Owner Motivation", International Journal of Organisational Behaviour, 12(1) (2007), 1-16 Volume 12 (1), 1-16.

Organizational Age

Anchor and Dehavyat felt that the age of a company would influence the likelihood that the company would adopt formal strategic planning practices and they speculated that established companies would be more likely to be aware of strategic planning practices than firms that had just been launched.[67] They noted, however, that newer companies might have an interest in strategic planning regardless of their relative lack of experience if they perceived that planning would be helpful in quickly setting a direction and plan for growth and development. Anchor and Dehavyat observed that even though firm age had long been identified as a potential influence on the rate of adoption of strategic planning there had been relatively little empirical research on the subject; however, those studies that had been conducted often produced some support for the proposition that the adoption of planned (versus emergent or reactive) strategies was positively related to the age of the company.[68]

Industry Context

Still another contingency variable discussed by Anchor and Dehavyat in relation to the use of strategic planning was "industry" and they noted that certain industries had consistently produced higher rates on invested capital than others and that researchers had hypothesis that "industry context", determined in large part by analysis of its current structure and historical evolution, would impact differentially on strategic planning.[69] However, the results from empirical studies have been less than conclusive and Anchor and Debavyat noted that researchers in the UK had found no significant difference between the manufacturing and service sectors in that country regarding the use of strategic planning techniques nor had Australian researchers uncovered any significant difference between tourism and manufacturing companies in that country with regard to the use of strategic planning techniques.[70]

Rate of Environmental Change

[67] J. Anchor and J. Dehayyat, Organisational Characteristics and Strategic Planning in an Emerging Economy: the Case of Jordan (Huddersfield, UK: Unpublished Working Paper. Emerging Markets Research Group University of Huddersfield, 2010), http://eprints.hud.ac.uk/7504/.

[68] Id. (citing J. Bracker and J. Pearson, "Planning and financial performance of small, mature firms", Strategic Management Journal, 7(6) (1986), 503-522; W. Lindsay and L. Rue, "Impact of the organisation environment on the long range planning process: a contingency view", Academy of Management Journal, 23(3) (1980), 385-404; and D. Slevin and J. Covin, "Strategy formation patterns, performance, and the significant of context", Journal of Management, 23(2) (1997), 189-209).

[69] Id. (citing M. Porter, Competitive Strategy (New York: Free Press, 1980)).

[70] Id. (citing (citing K. Glaister and R. Falshaw, "Strategic Planning: still going strong?" Long Range Planning, 32(1) (1999), 107-117 (UK manufacturing and service sectors); and A. Athiyaman and R. Robertson, "Strategic planning in large tourism firms: an empirical analysis", Tourism Management, 16(3) (1995), 199-205 (Australian tourism and manufacturing companies)).

The external environment confronting a firm plays a significant role in the importance of strategic planning by the firm and the tools that it uses to engage in planning.[71] Changes in the external environment of a firm, such as increased competition due to globalization, have been cited by theorists as a reason for firms to enhance the formalization of their strategic planning processes on the assumption that planning can assist firms in anticipating and responding to changing events.[72] Evidence from the US is that firms in that country has shifted toward engagement in more extensive and systemized strategic planning as the level of environmental uncertainty and complexity in their markets has increased.[73] In his study of strategic planning in the oil industry, which has been characterized as having a turbulent environment, Grant noted that while strategic planning certainly has become more difficult firms have continued with planning and created a set of new techniques such as scenario planning.[74] Grant also noted that among oil companies strategic planning processes had become more decentralized and informal with time horizons shortening consistent with the increasing speed of environmental changes. Others, however, have found that as the business environment becomes more complex and unstable firms turn toward more formal, complete long-range planning processes and that the movement toward formality in such circumstances tends to have a positive influence on firm performance.[75] Another thing to be understood from the research on strategic planning and the environment is the way in which firms used the planning process as a means for institutional learning.

Institutional Environment

Glaister et al. observed that practices regarding strategic planning in emerging countries are influenced more by the institutional environment (i.e., government intervention, political instabilities, inflation level, state business relations, incentives or lack thereof)

[71] For detailed discussion of sources of uncertainty in the organizational environment that might influence firms to embrace more formal strategic planning processes, see the chapter on "Environmental Forces and Strategic Planning" in "Strategic Planning for Sustainability: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[72] I. Goll and A. Rasheed, "Rational decision-making and firm performance: The moderating role of environment", Strategic Management Journal, 18(7) (1997), 583-591; R. Grant, "Strategic planning in a turbulent environment: Evidence from the oil majors", Strategic Management Journal, 24(6) (2003), 491-517; and P. Brews and M. Hunt, "Learning to plan and planning to learn: Resolving the planning school/learning school debate", Strategic Management Journal, 20(10) (1999), 889-913.

[73] M. Javidan, "The impact of environmental uncertainty on long-range planning practices of the U.S. savings and loan industry", Strategic Management Journal, 5(4) (1984), 381-392; and S. Kukalis, "The relationship among firm characteristics and design of strategic planning systems in large organizations", Journal of Management, 15(4) (1989), 565-579.

[74] R. Grant, "Strategic Planning in a Turbulent Environment: Evidence from the Oil Majors", Strategic Management Journal, 24(6) (2003), 491-517.

[75] S. Brown and E. Eisenhardt, "The Art of Continuous Change: Linking Complexity Theory and Time-paced Evolution in Relentlessly Shifting Organisations", Administrative Science Quarterly, 42(1) (1994), 1-34; K. Eisenhardt and L. Bourgeois, "Politics of Strategic Decision Making in High Velocity Environments: Toward a Mid-Range Theory", Academy of Management Journal, 31(4) (1988), 737-770; and W. Lindsay and L. W. Rue, "Impact of the Organisation Environment on the Long-Range Planning Process: A Contingency View", Academy of Management Journal, 23(3) (1980), 385-404.

than by the values associated with societal culture.[76] This observation is consistent with those that have argued for the relationship of the external environment to the use of formal strategic planning techniques and follows from the assumption that the institutional environment is complex, and often unstable and unpredictable, and thus must be addressed through strategic planning techniques that identify opportunities and threats within that environment that need to be taken into account as firms decide what strategies to adopt and what changes might be necessary in order to fit within their institutional environment. Some of the factors mentioned above, such as government intervention in the private sector, state-business relations and incentives that are offered by the state for certain activities, can certainly be expected to influence planning activities of firms in the private sector.

Organizational Strategy

A number of researchers have argued that it is possible to identify various distinguishable categories of strategic organization for firms. One of the most popular typologies, which has been found to be valid in a variety of firms and industries, was developed by Miles and Snow and classifies firms as following one of four strategies: defender (narrow focus and efficiency), prospector (innovativeness), analyzer (balancing cost controls with flexibility and adaptability) or reactor (no consistent strategy or organizational approach).[77] Hassan studied the relationship between the strategic orientation of firms in the Malaysian construction industry, as represented by their place within the Miles and Snow typology, and the strategic planning process that they followed and noted that firms adopt different strategic orientations based on their assessment of their external environment and the resources readily available to them.[78] Hassan found significant correlations between strategic orientation and strategic planning processes including the following: prospector-oriented firms put more effort into all stages of the strategic planning process (i.e., strategy formulation, implementation, evaluation and control), had a higher degree of top management involvement and interest in the strategic planning process and used more formalized strategic planning techniques; strategic orientation was correlated with the degree of involvement of top management and senior quantity surveyors in all stages of strategic planning while there was only little involvement among junior quantity surveyors and administration staffs in strategic planning process; and the degree of formalization of strategic planning depended on the defender strategic orientation—in other words, defender firms tended to have more formalized planning processes to ensure that all employees of the firm knew the objectives of the firm and their responsibilities in what was likely to be a difficult period. Hassan's results were

[76] K. Glaister, O. Dincer, E. Tatoglu, M. Demirbag and S. Zaim, "A Causal Analysis of Formal Strategic Planning and Firm Performance Evidence From an Emerging Country", Management Decision, 46(3) (2008), 365-391.
[77] R. Miles and C. Snow, Organizational Strategy: Structure and Process (New York: McGraw Hill, 1978). Miles and Snow noted, in particular, that the choice of strategy impacted organizational structure and other elements of organizational design such as recruitment policies.
[78] H. Hassan, "The Relationship between Firms' Strategic Orientations and Strategic Planning Process", International Journal of Business and Management, 5(11) (2010), 35-49, 36.

similar to those of other researchers who identified strategic orientation as one of the factors that influence the implementation of strategic planning.[79]

The "Strategic Palette": Inspiration with Caution

In their 2015 book, "Your Strategy Needs a Strategy", Reeves et al., all of whom were serving as consultants for Boston Consulting Group at the time, identified a small number of primary strategies that leaders should include in their "strategic palette" and thus have available for deployment in appropriate situations. The consultants argued that visualizing strategy based on the palette approach was an appropriate acknowledgement that no single strategy fit every scenario and that leaders would need to be able to both switch between strategies and artfully blend strategies to create new approaches.

The primary strategies that should be included on the palette were described as follows in a review of the book that appeared in *The Economist*:

- The "classical strategy": This strategy was traced back to the 1950s and was succinctly described in the review as "find a good niche, develop a plan to dominate it, then muscle up". Such a strategy, long popular in business school classes, requires developing and maintaining core competencies that are competitive advantages (e.g., cost controls, logistical savvy etc.) and a sustainable network of suppliers, distributors and customers. Typical practitioners of the strategy mentioned in the review included Procter & Gamble, Walmart and UPS. The problem with relying too much on this strategy is that it assumes stable markets, an environment that is increasingly harder to find in today's competitive world.
- The "adaptive, evolutionary approach": A strategy that has become popular among technology firms, this approach was described in the review as "trying lots of small things and then backing whichever ones work". In practice, a fashion retailer might first produce a new line of clothing in small batches and then transition quickly to "scaled up" production if and when market interest is confirmed. Central to this strategy is investing resources in explaining new ideas and products to the market when they first come out in order to both generate potential interest and collect feedback necessary to implement changes before additional cash and other resources are ploughed into production.
- The "blue-ocean approach": Described as a "visionary approach", this strategy calls for the firm to "generate a compelling new idea—a whole new market, with you at its center". While Apple's development of the iPhone and iPad are certainly compelling and spectacular examples of the successful application of this strategy, the obvious challenge is educating potential customers that they really do need the proposed product or service and building sufficient excitement and demand.
- The "shaping approach": The review described this strategy as "working with partners to create new markets". The review pointed out that firms may turn to either private- or public-sector partners. One example of private partnerships was the way that Apple and Google have worked with small developers to create ecosystems of applications for their respective mobile services. An illustration of public-sector partnering was the success of Novo Nordisk, a Danish pharmaceutical company, in capturing a large percentage of the insulin market in China by working with physicians and health authorities in that country to increase awareness of diabetes and encourage diagnosis and treatment.
- "Renewal": This strategy is generally reserved for firms that have gotten into trouble and calls for the following: "refocus the business decisively, preserve capital, free resources to apply to areas of

[79] A. Aragon-Sanchez and G. Sanchez-Marin, "Strategic Orientation, Management Characteristics, and Performance: A Study of Spanish SMEs", Journal of Small Business Management, Journal of Small Business Management, 43(1), 287-308; F. Gimenez, Miles and Snow's Strategy Model in the Context of Small Firms, 44th ICSB World Conference, Italy (1999); N. O'Regan and A. Ghobadian, "Perceptions of generic strategies of small and medium sized engineering and electronics manufacturers in the UK: The applicability of the Miles and Snow typology", International Journal of Manufacturing Technology Management, 17(5) (2006), 603-620.

growth". One illustration provided was AIG, the large insurance conglomerate bailed out by the US government during the depths of the Great Recession in the 2000s. In order to survive AIG divested a number of businesses and product lines and rigorously restructured its remaining units to reduce overlap and rivalry.

- The "ambidextrous" approach: This approach encourages and expects that firms can and will be able to shift quickly and efficiently among two or more of the strategies described above and even use multiple strategies at the same time for different purposes. The review described how each division of PepsiCo had two groups: one group was tasked with remaining competitive using a strategy of continuously improving the efficiency of businesses that were to be maintained their current form and the other group was looking for ways to "disrupt" current ways of doing business before competitors found the answer.

The review complimented Reeves et al. for offering a clear taxonomy of strategies; however, it is also pointed out that the success of the "palette approach" depended heavily on the ability of leaders to recognize and overcome difficult contradictions. For example, while the niche-domination approach suggested by the classical strategy often turns on reducing choices for consumers in order to keep costs down the adaptive strategy is based on offering several new choices in order to find the best product or service option to focus on in the future. The review also noted that firms used to practicing the classical strategy tend to prefer being closed and acting defensively and that these characteristics will make it difficult for them to engage in the sharing with outside partners that is required in order to pursue a shaping strategy. Another impediment to ease of use for the palette approach is the inevitable mistrust and rivalries between managers pursuing different strategies in the same market at the same time. Certainly a group tasked with maintaining the status quo through cost reductions and incremental changes to an existing product will be loath to share information with another group established to topple the traditional foundation in the same market and roll out new products and solutions. The result will be internal stress and strain and wasteful investment of cash and other resources.

Sources: "A palette of plans", The Economist (May 30, 2015), 66; M. Reeves, K. Haanaes and J. Sinha, Your Strategy Needs a Strategy: How to Choose and Execute the Right Approach (Cambridge MA: Harvard Business Press, 2015).

Organizational Culture

Strategic planning should be a collaborative exercise and, as such, may require changes in the company's management style and company culture. In order to create and implement the most effective strategy managers must be open to innovation, change, and new ways of doing business and communicating. Specifically, management must be willing to accept and embrace employee participation and set up a whole set of procedures and practices that support the planning process. For example, if the plan includes performance targets, appropriate changes in the incentive and reward systems in the firm may be required. If the traditional approach to decision making within the company has been "top down" and managers and employees at lower levels of the organizational hierarchy have simply accepted directives from the senior management team without question or advance consultation it can be expected that the transition to collaborative planning will be difficult. There may be deep reservoirs of distrust and fear that will depress the flow of new ideas and critical feedback that is so necessary to effective planning.

Societal Culture

A number of researchers have argued that societal culture does have an impact on organizational processes relating to planning and decision making and on perceptions of strategic strengths and weaknesses.[80] Hoffman believed that there were several different ways that societal culture might influence the strategic planning process.[81] First of all, since culture shapes the way that people within an organization think, behave and evaluate it is reasonable to assume that culture would influence the processes used to make plans and the decisions that form the foundation for those plans.[82] Second, variations among culture with respect to critical values and beliefs can be expected to have an impact on a variety of management processes including strategic planning.

Research has been carried out on the relationship of strategic planning to all of the most widely recognized dimensions of societal culture. With respect to uncertainty avoidance Hoffman observed that the attitudes of individuals in different societies regarding their ability to "control" their environment are likely to influence their perceptions regarding value and effectiveness of strategic planning. For example, researchers who had examined managerial practices among managers from different cultural clusters had found that in those cultures that perceived a greater control over their environments and where there was a higher tolerance for ambiguity firms tended to "use a more rational/analytical, top down approach to strategy making".[83] In contrast, managers operating in societal cultures where it was believed that individuals had less control over their environment, and where high uncertainty avoidance prevailed, were predicted to take a "less methodical approach" to strategic planning and decision making. Other researchers have argued that high uncertainty avoidance leads to increased planning activity, a higher perceived importance of planning and a longer planning time horizon while firms operating in low uncertainty avoidance cultures prefer to use more flexible, short-term planning processes.[84]

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[80] P. Haiss, Cultural Influences on Strategic Planning (1990); D. Brock, D. Barry and D. Thomas, "Your forward is our reverse, your right, our wrong: Rethinking multinational planning processes in light of national culture", International Business Reviews, 9(6) (2000), 678; G. Hofstede, Culture's Consequences (2nd Ed.) (2001); R. Hoffman and W. Hegarty, "Top Management Influence on Innovations: The Effects of Executive Characteristics and Social Culture", Journal of Management, 19(3) (1993), 549; S. Schneider and A. De Meyer, "Interpreting and Responding to Strategic Issues: The Impact of National Culture", Strategic Management Journal, 12(4) (1991), 307; and R. Hoffman, "The Strategic Planning Process and Performance Relationship: Does Culture Matter?", Journal of Business Strategies, 24(1) (2007), 27.

[81] R. Hoffman, "The Strategic Planning Process and Performance Relationship: Does Culture Matter?", Journal of Business Strategies, 24(1) (2007), 27 (citing D. Brock, D. Barry and D. Thomas, "Your forward is our reverse, your right, our wrong: Rethinking multinational planning processes in light of national culture", International Business Reviews, 9(6) (2000), 687).

[82] Id. (citing S. Schneider and J. Barsoux, Managing Across Cultures (2nd Ed.) (2003); and G. Hofstede, Culture's Consequences (2nd Ed.) (2001)).

[83] Id. (citing S. Schneider and J. Barsoux, Managing Across Cultures (2nd Ed.) (2003)).

[84] G. Hofstede, Culture's Consequences (2nd Ed.) (2001); P. Haiss, Cultural Influences on Strategic Planning (1990); and D. Brock, D. Barry and D. Thomas, "Your forward is our reverse, your right, our wrong: Rethinking multinational planning processes in light of national culture", International Business Reviews, 9(6) (2000), 687.

Hofstede observed that the manner in which the strategic planning process is structured is likely to be influenced by the level of power distance in the societal culture.[85] In that regard, Brock et al. concluded that a top-down highly structured planning approach will be preferred in high power distance cultures.[86] Nauheimer hypothesized that in countries such as the US where power distance was low and democratic values in the workplace were celebrated, planning would be more dynamic with greater communication flow and active inputs from employees at the divisional level. In contrast, in countries where power distance was higher and people accepted orders from managers and were extremely uncomfortable challenging those orders, Nauheimer expected that strategic planning would be very transparent albeit smooth.[87] Another study concluded that managers were more likely to tap into the experience of subordinates and allow them to participate in decisions when the societal cultural values included egalitarianism and low power distance; however, supervisorial authority and formal rules played much bigger roles in the making of decisions—and subordinate participation was minimal or non-existent—in societies characterized by hierarchy and power distance.[88]

Brock et al. observed that there is more variety and flexibility in the planning processes used in in individualistic cultures while cooperation and conformity to the same process is expected when planning is conducted in collectivist cultures.[89] According to Steensma et al., tight, structured planning processes are preferred in competitive, masculine culture because they are more likely to achieve desired results.[90] In turn, flexible and bottom-up planning processes are more popular in feminine cultures.[91] Nauheimer suggested that differences among societies with respect to masculinity and femininity might come into play when disagreements arose during the planning process.[92] Finally, variations

[85] G. Hofstede, Culture's Consequences (2nd Ed.) (2001).

[86] D. Brock, D. Barry and D. Thomas, “Your forward is our reverse, your right, our wrong: Rethinking multinational planning processes in light of national culture”, International Business Reviews, 9(6) (2000), 687.

[87] M. Nauheimer, On Studying the Strategic Planning Process in Large Companies: Theoretical Perspectives and Evidence (2009), http://www1.unisg.ch/www/edis.nsf/SysLkpByIdentifier/3429/$FILE/dis3429.pdf

[88] P. Smith, M. Peterson, S. Schwartz, A. Ahmad, D. Akande, J. Andersen et al., “Cultural Values, Sources of Guidance and Their Relevance to Managerial Behavior—A 47-Nation Study”, Journal of Cross-Cultural Psychology, 33(2) (2002), 188. See also B. Sukle and S. Debarliev, “Strategic Planning Effectiveness: Comparative Analysis of the Macedonian Context”, Economic and Business Review, 14(1) (2012), 63, 85 (results from studies of developing countries appeared to indicate that participation by larger numbers of managers at lower levels of the organizational hierarchy is likely to increase as the level of power distance in the societal culture declines).

[89] D. Brock, D. Barry and D. Thomas, “Your forward is our reverse, your right, our wrong’: Rethinking multinational planning processes in light of national culture”, International Business Reviews, 9(6) (2000), 687.

[90] H. Steensma, L. Marino and R. Weaver, “Attitudes Toward Cooperative Strategies: A Cross-Cultural Analysis of Entrepreneurs”, Journal of International Business Studies, 31(4) (2000), 591.

[91] D. Brock, D. Barry and D. Thomas, “Your forward is our reverse, your right, our wrong’: Rethinking multinational planning processes in light of national culture”, International Business Reviews, 9(6) (2000), 687.

[92] M. Nauheimer, On Studying the Strategic Planning Process in Large Companies: Theoretical Perspectives and Evidence (2009), http://www1.unisg.ch/www/edis.nsf/SysLkpByIdentifier/3429/$FILE/dis3429.pdf

between societies with regard to their long term orientation might be expected to influence the length of planning horizons.[93]

Management of the Strategic Planning Process

In order for strategic planning to be successful and meaningful there must be active and enthusiastic participation from multiple levels of management within the firm in order to bring the most experience to the planning process and ensure that plans are made based on the full and current information about the operational activities of the firm and conditions in the marketplace. Managers at the highest level of the company—the CEO and the senior executives of all of the key functional groups and other business units—are charged with defining the strategic mission of the company and selecting and articulating the company's overriding goals and objectives. Other members of the management group operating at higher levels in the organizational structure are responsible for collecting the information that the executive group needs in order to engage in long range planning, which usually means reports that include necessary data about operations, finances, competitive conditions, technological trends, and other important characteristics of the external environment in which the firm is operating. In addition, managers at the business unit and departmental levels should be expected to identify and implement the specific ideas, or tactical/operational plans, that are best suited to achieving the goals and objectives set at the top of the company.

Based on their extensive survey of research on dimensions of strategic planning, Sukle and Debarliev offered the following list of suggestions to managers for improving the effectiveness of their strategic planning efforts[94]:

- Strategic planning should be a formalized, explicit and ongoing organizational process with uniform planning procedures (see table below), a long-term time horizon (i.e., three or more years) and regular progress reviews.
- Organizations should select and implement an appropriate set of strategic planning techniques and ensure that managers and employees involved in the planning process have the requisite knowledge and skills to properly use the chosen techniques.
- Senior management should encourage involvement in the strategic planning process by managers at lower levels and all other employees in the organization and should take steps to increase the awareness of those persons of the importance of strategic planning and the roles that they can and should play in the planning process.
- Specific efforts should be made to identify the presence, and rectify the adverse influence, of various barriers to strategic planning implementation and effectiveness such as crises that distract attention from implementation, inadequate leadership and direction by departmental managers, lack of overall strategic goals and understanding of such goals by the staff, insufficiency of employee training and instruction, delays

[93] Id.

[94] B. Sukle and S. Debarliev, "Strategic Planning Effectiveness: Comparative Analysis of the Macedonian Context", Economic and Business Review, 14(1) (2012), 63-93, 88-89.

in implementation and ineffective coordination during implementation, inadequate communication and inadequate information systems for control activities.

Strategic Planning Checklist

- Has the company developed and clearly defined a clear mission statement or overall sense of direction?
- Has the company decided upon a clear definition of the nature of its business, the markets in which it intends to operate, and the products and services it wishes to offer to customers?
- Has the company clearly articulated the values that it intends to honor and follow in the way it which it conducts its business affairs?
- Has the company identified and clearly described realistic and objectively definable and measurable business goals and objectives?
- Has the company established a regular process for periodically evaluating its performance against its stated business goals and objectives and determining whether changes to those goals and objectives are necessary?
- Has the company established a formal procedure for collecting, storing, organizing, reviewing and disseminating information regarding the company's external environment?
- Has the identified and describe the four or five key strengths and weaknesses of its business?
- Did the process of developing the current strategic business plan include serious and thorough consideration of several possible alternative strategies and is it clear why the company ultimately decided to pursue the chosen strategy?
- What are the key assumptions regarding environmental factors that have been made in developing the company's forecasts for the planning period?
- How effective has the CEO been in involving all of the members of the senior management team and employees in the planning process?
- Has the strategic plan been clearly and effectively communicated to employees and what steps have been taken to address any concerns that employees may have raised with regard to the implementation of the plan and potential consequences to the employees?
- Does the strategic plan include a realistic timetable for implementation including milestones that can be used to chart whether the company is making adequate and timely process toward its overall goals and objectives?
- Does the company have the tools and resources in place to measure performance against the forecasts, goals and objectives included in the strategic plan?

Skills Required for Successful Planning

Obviously a number of skills are required in order for managers to successfully conduct the planning process. For example, managers must develop the capacity to identify various alternative options and then select those options that are most suitable for the firm and its resources. This requires training in decision making techniques, including cost-benefit-analysis and computation of risk-adjusted return on investment. Many managers must also receive training and experience in planning techniques, including opportunities to actually implement their plans in their companies. Before any formal strategic planning process is implemented the practices within the company may be rudimentary at best—managers of each department simply produce budgets and forecasts of future revenues and use this information as a basis for requesting the funds thought to be necessary to cover operating expenses. What is lacking in this approach is any detailed research on environmental factors, market trends, or the activities of competitors. Care should also be taken not to rely excessively on outside consultants in whatever planning process that may be used. Under this scenario, consultants come to the firm, interview the managers, and return with a completed plan for approval. This approach misses important opportunities for managers to be involved in the planning process and also makes it less likely that the plan will be implemented due to a lack of real emotional commitment to something that is largely the work of outsiders.

Chief Strategy Officer

"Strategy", both formulation and execution, is important for businesses of all sizes and research indicates that many companies fail, or experience disappointing results while remaining in operation, because of issues relating to strategy. While the chief executive officer ("CEO") is ultimately responsible for all important decisions regarding the direction of the company and its business, including the strategic direction of the company, firms are realizing that there is value to creating a separate position within the executive team for a person who will focus almost exclusively on developing and managing strategic planning processes, generating strategic alternatives for the CEO and other C-suite executives to consider and, perhaps most importantly, acting as a mentor and change agent within the organization to facilitate effective execution of the chosen strategy. While different titles for this position may be used, it is common for the role to be designated as the "chief strategy officer", or the "CSO".

The CSO was the subject of an extensive study described by Breene et al. in an October 2007 article published in the *Harvard Business Review*.[95] Breene et al. began by going through a sample of large global companies to identify executives who were either considered, or considered themselves, to be the chief strategy executives within their organizations, a process that led to creation of a database of more than 200 senior managers. In order to get a handle of what the role and responsibility of the CSO entailed, the researchers analyzed press releases and media coverage of over 100 CSO appointments and conducted in-depth interviews with CSOs from various industries and a divergent backgrounds.

Breene et al. cited several reasons why more and more large companies are adding a CSO to their executive teams:[96]

- Companies need to cope with an increasingly dynamic and unpredictable business environment that includes complex and sophisticated organizational structures, rapid globalization, new regulations and pressure to innovate. A CEO cannot deal with all these challenges simultaneously and needs help on key initiatives such as strategy execution.

[95] R. Breene, P. Nunes and W. Shill, "The Chief Strategy Officer", Harvard Business Review (October 2007), 85.
[96] Id. at 86.

- Strategic planning is no longer done by appointment one or two times a year and, in fact, the consensus is that development of strategy must occur in a continuous, not periodic, process and that important decisions regarding the strategic direction of the firm must be confronted and made all the time.
- CEOs have realized that overseeing execution of a chosen strategy is a full-time job and that a CSO plays an invaluable role in explaining and interpreting the strategy to line managers and other employees and make sure that those people act in a manner that is aligned with the goals and expectations of the leadership team rather than their own definition of strategy.

The increased use of a CSO position can also be attributed to the lack of a suitable alternative within the traditional executive team structure. Breene et al. noted that while it is true that the CEO is ultimately responsible for the "vision and strategy" of his or her company, the reality is that the CEO has too many other demands on his or her time to do justice to all of the activities assumed by an effective CSO. Among other things, the CEO of a global business must deal with the challenges of operating across multiple time zones, cultures and regulatory environments. CEOs of large companies must oversee a complex network of business units and alliances and keep up with new trends in technology and customer preferences. The CEO must also worry about delivering short-term performance, a situation that makes it very difficult for a CEO, who is seeing his or her average tenure shrink, to take long-term strategic objectives seriously. Breene et al. also pointed out that it is the CEO who must be the face of the company to a wide array of external stakeholders including shareholder advocates, members of the financial community, regulators and legislators, environmental activists and non-governmental organizations ("NGOs"). Breene et al. reported that one study had found that, on average, top management spent less than three hours a month discussing "strategic issues", including mergers and acquisitions, or making strategic decisions.[97]

Adding "strategy" to the portfolio of other members of the executive team, such as the COO or the CFO, has been criticized by those who argue that those executives will likely be hamstrung by conflicts of interest. Breene et al. quoted from an article published in the *Harvard Business Review* in 1979 in which an executive explained the difficulties a COO might have in overseeing "strategy": "a fundamental conflict between what is easy to execute and what is *right* to execute often leads the chief operating officer away from the tougher decisions".[98] This is not to say that all COOs will be unable to participate effectively in strategic decisions and execution; however, there will be issues to the extent that a COO is charged with delivering short-term operational results. The CFO has a similar dilemma, particularly as the holder of that position has become the principal communicator to a financial community fixated on quarterly results. It is easy for the CFO to get bogged down in explaining variances from earning estimates and neglect to emphasize long-term strategic initiatives and the competitive advantages associated with the company's intangible assets, human capital and capacity to innovate. While the aforementioned conflicts are real,

[97] Id. at 91.
[98] Id. at 93 (quoting from W. Wommack, "The Board's Most Important Function", Harvard Business Review (September-October 1979), 48).

it does not mean that a COO or CFO will welcome a CSO. A CSO will necessarily intrude on traditional ways of handling operational and financial issues and Breene et al. pointed out that when a CSO is hired "[t]he CEO may need to do a hefty amount of evangelizing and relationship management to get the top team to buy in to this restructuring of the org chart".[99]

Breene et al. summed up the various reasons that companies have taken to creating a CSO position and assigning important and challenging responsibilities to the persons who are appointed to fill the role. First, the CSO can proactively assume ownership of the decision making process for each new strategic opportunity that arises for the company. This means that the CSO can bring together all the parties required to reach a decision and get them engaged in the opportunity from the very beginning. Second, since their role is focused on strategy, CSOs have the time to reach out to the heads of business units throughout the organization to make sure they are acting in ways that are consistent with the company's strategic plan. Third, a CSO brings a strategic perspective to analyzing and assessing opportunities that might have otherwise been vetted purely from a financial lens. Fourth, the CSO can assist the CEO and the rest of the company by developing and maintaining top notch strategy development and execution capabilities that include both internal resources and a sophisticated network of outside consultants. Finally, Breene et al. point out that many CSOs are interested in the position because they would like to run the entire business at some point in the future and many of the skills required of a CSO are necessary for being an effective CEO. As such, companies may use the CSO position as a tool in the overall succession-planning process.[100]

Role of the Chief Strategy Officer

Arriving at a universally-accepted description of the role of a CSO is impossible; however, the description provided by Breene et al. of the role played by Brian Schreiber, the chief strategy executive at AIG when research for their article was being conducted, is extremely helpful and illustrative: "formalizing the company's strategic-planning processes, forging new working relationships and synergies across the organization … establishing greater transparency and accountability for those people carrying out the company's strategy … [being] … the point person for assessing whether strategic initiatives, at all levels of the organization, are in line with the company's standards and objectives".[101] Strategy execution is central to the role of the CSO and Breene et al. reported that their analysis of their survey results revealed three critical tasks for an effective CSO, all of which taken together formed the "very definition of strategy execution"[102]:

- ***CSOs must engender commitment to clear strategic plans.*** While the CSO is one of several members of the leadership team involved in developing the company's strategy, he or she is the focal point of the leadership team's efforts to ensure that the strategy is

[99] Id. at 93.
[100] Id. at 92-93.
[101] Id. at 86.
[102] Id. at 89-90.

clarified for all interested stakeholders including the leadership of the company and every business unit and function. This involves making sure that all employees understand the details of the strategic plan and how their specific roles and activities are connected to achieving the goals included within the plan. Success in this task is based on the CSO's communication skills, knowledge of the business and the intricacies of the plan and his or her connections throughout the organizational hierarchy.

- ***CSOs must drive immediate change.*** Explaining and clarifying the strategic plan is important and essential; however, the CSO must also act with a sense of urgency and push the organization to embrace and execute the change effort embedded in the plan as quickly as possible in alignment with the schedules included in the plan. The actual activities of the CSO as a catalyst for change depends on the particular goals and imperatives outlined in the plan and some CSOs may be focusing on "growth" while others may be pushing for more "innovation". When growth is the issue the CSO will work with the executives of the sales, marketing and acquisition functions to identify attractive new markets and/or promising acquisition candidates. When innovation is the key the CSO will be engaged with product development, process improvement and marketing research and analysis.
- ***CSOs must drive decision making that sustains organizational change.*** Creating, approving and evangelizing a strategic plan are just the first steps in the process and execution of the plan itself will require navigating a continuous series of decisions by the members of the leadership team and others within the organization charged with achieving the goals and results stated in the plan. The CSO should be perceived as an objective arbiter of conflict and must be able to, in the words of Breene et al., "walk into anyone's office and test whether the decisions being made are aligned with the strategy and are creating the desired results". They must be both candid and tactful in pointing out problems that others may be having in the execution phase and must be able to provide a practical perspective that may run counter to traditional ways of thinking within the company. CSOs must also be good listeners and accept feedback and built it into their own change efforts.

McKinsey & Company identified 13 "facets" of the role of the CSO that provided additional insights into some of the activities and contributions of the position.[103] The facets fell into three general categories—generating insights, enacting and enabling strategic decisions and owning specific value levers—as follows:

- Generating insights: "competitive-advantage officer", trend forecaster, portfolio optimizer
- Enacting and enabling strategic decisions: "performance challenger", strategic capability builder, resource allocator, decision-process facilitator, plan facilitator
- Owning specific value levers: business developer, project deliverer, "innovator", government/regulatory strategist, strategy formulator

[103] M. Birshan, E. Gibbs and K. Strovink, "Rethinking the Role of the Strategist", McKinsey Quarterly (November 2014); and M. Birshan, E. Gibbs and K. Strovink, "What Makes a Great Chief Strategy Officer", Harvard Business Review (May 14, 2015).

McKinsey surveyed a group of nearly 350 senior strategists from around the world and in different industries to see which of these facets they considered the most important to their efforts and used cluster analysis on the survey results to identify the following five CSO "archetypes" described in an article by Birshan et al.[104]:

- ***Architects:*** Key facets included "competitive advantage officer", "performance challenger" and business developer and Birshan et al. described this group, which included 40% of the respondents in the survey, as strategists who "make the most of their talent for using fact-based analysis to spot industry shifts and to understand their own companies' sources of competitive advantage as a foundation for clear, differentiated strategies". For architects, who are most closely linked with the traditional role and focus of strategic planning, "organic growth" is the chief concern and they invest a lot of time in driving business performance to attain tough organic targets set by reference to competitors.
- ***Mobilizers:*** Key facets included strategic capacity builder, "performance challenger" and project delivery and Birshan et al. described this group, which included 20% of the respondents, as focused on "developing the strategic muscle of their companies, building capabilities, and delivering special projects. Mobilizers work to synthesize strategy into action and their emphasis on building capabilities is designed to improve decision making at all levels within the organization to make sure that managers make decisions that are aligned with the overall strategy.
- ***Visionaries:*** Key facets included trend forecaster, "innovator" and business developer and Birshan et al. described this group, which included 14% of the respondents, as focused on "scanning the landscape for trends and shocks that may create opportunities and risks for the business" and identifying "opportunities for creating unique sources of value that can keep the strategy ahead of external trends and competitors". Visionaries tended to be most prevalent among CSO operating in fast-moving technology and consumer products markets where innovation played a particularly important role.
- ***Surveyors:*** Key facets included trend forecaster, business developer and government/regulatory strategist and Birshan et al. described this group, which included 14% of the respondents, as "strategists who define themselves by spotting potential disruptions and quickly advising their businesses on the impact and opportunity such shifts could produce". Like visionaries, surveyors are interested in trends; however, surveyors tend to pay more attention to the long-term horizon. Surveyors are common among companies engaged in relatively slow-moving regulated industries any they often take on additional roles in dealing with external stakeholders (i.e., overseeing lobbying activities, allocation of governmental relations resources and communicating personally with interest groups).
- ***Fund managers:*** Key facets included portfolio optimizer, resource allocator and decision-process facilitator and Birschan et al. described this group, which included 12% of the respondents, as strategists who are particularly focused on "reallocating resources and optimizing the corporate portfolio of their businesses". Fund managers are comfortable with analytics that can be used to push for reallocation of organizational resources and are also skilled at influencing other executives to reallocate resources

[104] Id.

away from traditional cash cows into new and often unfamiliar areas that offer the best future opportunities for maintaining and growing the business.

Based on interviews with 24 CSOs at UK companies that were part of the FTSE 100 Index Powell and Angwin developed a typology of four CSO archetypes: internal consultants (focused almost exclusively on strategy formulation by themselves or with their strategy team); specialists (chosen for highly specialized skills that were not present within the organization, such as someone tapped to focus primarily on mergers-and-acquisitions activities or governmental relations); coaches (facilitators, who focused on strategy formulation with the business units to help the business units develop strategies that the board and CEO would approve); and change agents (focused on working with business unit heads to implement strategies).[105]

Essential Ingredients for Being a Successful Chief Strategy Officer

Breene et al. sifted through all of the data and the ideas provided by some of the respondents interviewed for their survey described above to come up with a short list of what appeared to them to be "essential ingredients" and "high-level principles" that successful CSOs consistently applied to carrying out their roles and responsibilities[106]:

"Mind the time horizons": Breene et al. cited Baghai et al. for the proposition that all executives divide their energies across three "strategy horizons": short-term efforts to extend and defend the company's current core business ("horizon one"); medium-term efforts to launch and build emerging businesses ("horizon two"); and activities designed to create viable long-term options for the company ("horizon three"). Breene et al. found that while CSOs spend a significant amount of their time on each of the horizons, their primary focus was generally on horizon two, a finding that distinguished them from other members of the executive team who generally spent more time on both the short and long term aspects of strategy. Breene et al. argued that CSOs are uniquely positioned among the company leaders to act as "the guardian of that space one to three years out, when the decisions made (or not made) today will show consequences". As explained by one CSO interviewed for the article, in practice this means that the CSO must ask the following questions: "What implicit decisions have we made that need to be explicit? Or what decisions have we not made that we need to make, because we're heading down a path and it's going to be hard to reverse course?"

"Balance strategy formulation and execution": While the CSOs surveyed by Breene et al. generally tended to divide their time and attention almost evenly between strategy formulation and execution, the researchers found in their interviews with some of the respondents that more emphasis was placed on execution. Illustrative explanations provided by actual CSOs included "[m]oney is made executing, not strategizing" and "[w]e can have

[105] T. Powell and D. Angwin, "The Role of the Chief Strategy Officer", MIT Sloan Management Review (September 18, 2012).
[106] R. Breene, P. Nunes and W. Shill, "The Chief Strategy Officer", Harvard Business Review (October 2007), 85, 91-92.

the best plan in the world, but if we can't execute, we won't be able to pay the bills". Almost half of the CSOs surveyed relied extensively on external consultants for formulation of strategy, thus reserving more of their own time and their internal resources for focusing on execution activities.

"Exert influence appropriately": Being skillful and adept at exerting influence on other executives within the company was crucial to the success of CSOs questioned in the survey. Among other things, this required that the CSO be able and willing to rigorously access prospective strategic changes, such as launching a new product or embarking on a major new strategic alliance, and use the results of that assessment to persuade other executives that the opportunity is worth taking (or that it would be best to pass and simply stay the course for the time being). Ability and credibility with respect to persuasion also turns on the CSOs demonstrable knowledge of how the company work and how a specific proposal fits into all the ideas that are on the table and other projects that have already been launched. CSOs must also be mindful of other tools available to them to exert influence including "direct authority" (i.e., simply being a C-level executive) and "reflected authority" that comes from the perception that when the CSO speaks he or she does so with the implicit or explicit support of the CEO.

"Develop IT and HR smarts": In addition to their ability to "exert influence appropriately, the most successful and effective CSOs in the survey group had also been able to acquire deep knowledge in two key functional areas: technology and human capital. While technology management is often turned over to another member of the executive team, such as a "chief technology officer", the CSO have a high level of technological savvy given that many new strategic initiatives involve some overriding technological aspect (e.g., new products and services, new business models and improving processes). Human capital is important because strategies are implemented by people, not machines or bank accounts, and CSOs need to understand the needs and concerns of managers and employees and be mindful of the fit between a proposed strategy and the company's embedded organizational culture.

Other suggestions on "what makes a great chief strategy officer" were offered by Birshan et al. from McKinsey & Company who argued that effective CSOs are making a difference within their organizations by moving away from "traditional strategic planning", which they described as "a march in lockstep toward a series of review meetings and deliverables", to a process that is based on a review of strategy on a continuous basis and frequent reallocation of resources as necessary to address changes in the environment and capitalize on new opportunities; investing more time in building capabilities throughout the organization, such as by training managers and other key employee on how to create a business plan and craft and present well-informed strategic proposals; and influencing the other members of the executive team to be more comfortable with shifting resources away from traditional businesses ("cash cows") toward new products and technologies that offer the company a chance to be truly disruptive in the marketplace.[107] Birshan et al. stressed that the wide

[107] M. Birshan, E. Gibbs and K. Strovink, "What Makes a Great Chief Strategy Officer", Harvard Business Review (May 14, 2015).

range of potential roles and responsibilities for the CSO position makes it essential for the CSO and the CEO set priorities so that the CSO can be engaged in ways that are most valuable and effective. In addition, care should be taken to ensure that all members of the executive team understand what the CSO is trying to do and how his or her roles align with the duties and activities of other C-level executives. In some cases the CSO will assume responsibilities that had previously been performed by the COO and/or CFO and any changes should be thoroughly vetted and explicitly discussed among the parties involved and then communicated throughout the organization. The CEO should carefully watch how executives interact with the CSO and guard against conflicts among the executive team that will undermine the chances of success for the CSO.

Personal and Behavioral Traits of a Successful Chief Strategy Officer

Their survey of more than 200 persons holding what amounted to the CSO position at a large global company led Breene et al. to observe that there was no one single path or predictable professional background that led someone to that role; however, they felt that a pattern of common traits did emerge and that a CSO was generally someone "who wield the authority, and have the complex range of skills, to make strategy happen".[108] Breene et al. compiled the following list, presented in order of relative importance, of some of the most important personal and behavioral traits necessary for someone to be a good candidate for assuming the CSO position[109]:

- ***Deeply trusted by the CEO.*** Given the wide scope of authority and responsibility that is often vested in the CSO, including active engagement in resolving companywide challenges and leading the company's efforts to take advantage of new opportunities, a strong bond of trust between the CSO and CEO is essential. While it isn't strictly necessary that the CSO and CEO have an extensive prior professional and personal history between them, such a relationship is helpful and CEOs often reach out to long-time colleagues when looking to fill the CSO position at their firms. On average, CSOs in the survey group had known their CEOs for five years before beginning their work as the CSO. Breene et al. commented that "the CSO at times functions as a sort of 'mini CEO'" and brings diverse experience to his or her role that cuts across functional specialization and often includes executive and operational responsibility for large organizational units.
- ***A master of multitasking.*** A CSO must be able to switch quickly and seamlessly between activities and environments given that surveys have shown that the typical CSO may be involved with ten or so major business functions and activities during a particular period and those functions and activities will range far and wide to include competitive analysis and market research, long-range planning and mergers and acquisitions. One CSO interviewed by Breene et al. reported that "[o]ver the course of a week, I'm spending time on consumer innovation, business process outsourcing, financial structure, international expansion, communications … [and] … acquisitions".

[108] R. Breene, P. Nunes and W. Shill, "The Chief Strategy Officer", Harvard Business Review (October 2007), 85, 87.
[109] Id. at 88.

- ***A "jack of all trades".*** More than four out of five of the participants in the survey conducted by Breene et al. had a professional background that had not been primarily focused on strategic planning and most of them brought significant line-management and functional experience in disparate areas (i.e., technology management, marketing and operations) with them to their new duties as a CSO. That said, most of them had also spent time on formulating strategy, either as management consultants or by doing strategy-related work internally for their companies.
- ***A "star player".*** The more successful and effective CSOs bring with them a long and impressive list of business results throughout their earlier careers and Breene et al. commented that they usually viewed the CSO job "as a launching pad, not a landing pad". As such, while they are ready and able to act as mentors, coaches and advisors they see themselves first and foremost as being "doers" focusing on execution rather than just planning for the future.
- ***A doer, not just a thinker.*** While the CSO typically divides his or her time roughly equally between strategy development and execution, their bias is toward actively engaging in implementation activities, tasks which the CEO is simply too busy to take on directly which are obviously essential to the success of any strategic plan that might be developed.
- ***The guardian of "horizon two".*** Using the model developed by Baghai et al. for the proposition that strategic planning can be conceptualized in three "horizons", Breene et al. noted that while other members of the executive team are focused primarily on short-term ("horizon one") and long-term ("horizon three") issues, the CSO must assume the role of guardian of the crucial medium-term ("horizon two"), which is the crucial period for actual strategy execution (e.g., launching and establishing new products or businesses) that extends out one to four years into the future.
- ***An "influencer", not a dictator.*** While the authority associated with having a C-level title is relevant, the more effective CSO is someone who is able to persuade others to follow and take action by influence based on tangible and relevant characteristics including deep industry knowledge, connections throughout the organizational hierarchy of the company, and an ability to communicate effectively with people at all levels in that hierarchy. Connections and the ability to effectively communicate internally are often facilitated by previous experience with the company: Breene et al. found that 84% of the CSOs in their survey were internal hires and that their average time with their companies before assuming the CSO position was nearly eight years.
- ***Comfortable with ambiguity.*** As noted above, the focus of the CSO is on a crucial period several years down the road and the results of his or her efforts to execute a chosen strategy will not be known for some time. Moreover, strategy, by its very nature, evolves and changes in line with unforeseen events in the company's external environment. All of this means that a CSO must be able to cope, and be comfortable, with ambiguity.
- ***Objective.*** In order to be effective the CSO must be perceived as being objective, fair and able to act free of partisanship, emotion or given into pressure from others with strong personalities.

Monitoring and Evaluation of Progress against the Plan

Regardless of the specific strategic planning processes, companies must be sure that they create adequate controls so that activities carried out in furtherance of the strategic, tactical and operational plans can be monitored and evaluated. This serves several important purposes including making sure that the plans and their associated activities are being executed property and on a timely basis and that adjustments can be made as necessary in order to remedy weaknesses in the original plans and/or adapt to unforeseen changes in the company's business environment. As part of the control processes the company should define short-term milestones for key strategic goals and objectives in order to be sure that the company is on the right path as it chases end results that may be several years down the road in the planning process. Similarly the controls should be used as a way to test assumptions about changes in the business environment during the planning period. For example, if the strategy is based on specific expectations regarding the pace of development of a particular technology the control processes must include a means for gauging how that technology is actually emerging. Controls are so important that firms often make significant investments in technical resources to manage the planning process and the ability to identify the need for changes in strategy and execute those changes quickly and efficiently can be an important competitive advantage in and of itself particularly in the dynamic markets in which emerging companies compete.

Measurement of Strategic Planning Effectiveness

Sukle and Debarliev surveyed the various ways that researchers have attempted to measure the "effectiveness" of strategic planning techniques and argued that "the effectiveness of strategic planning is associated with achieving formulated objectives, producing better results, or improving the organizational performance as the result of the use of strategic planning process in the companies".[110] They noted that attempts to measure strategic planning effectiveness had traditionally been limited to using financial criteria that provide a scorecard of the financial performance of the company; however, they pointed out that new approaches to assessing organizational results and performance adopted over the last few decades had expanded the notion of strategic planning effectiveness to include "many other non-financial, qualitative criteria associated with core business process, customers, employees, organizational learning and innovation and other core areas in the companies important for the overall organizational performance". These changes are welcome since strategic planning is believed to improve organizational performance in a number of complex, and often subtle, ways such as by improving coordination, communication and control activities[111] and it is therefore necessary to factor measures of those improvements into the analysis.

Barney reported evidence of four major approaches to measuring firm performance—survival as a measure of firm performance, stakeholder approaches to performance measurement, simple accounting measures of performance and adjusted accounting

[110] Id. at 66.
[111] O. Meilich and A. Marcus, "Strategic planning and decision making" in G. Morcol (Ed.), Handbook of Decision Making (Boca Raton, FL: CRC Press, 2007), 433-456, 441-442.

measures of performance—and noted that accounting measures were by far the most popular tools for performance measurement due, in part, to the emphasis that early trainers of strategic planning placed on the relationship between strategy and improving accounting measures of performance.[112] For Drucker, five measures of firm performance were considered to be necessary and sufficient for managers: market standing, innovative performance, productivity, liquidity and cash flow and profitability.[113] Recently, however, a wide range of new tools and approaches have emerged to assist managers in developing strategy and measure the effectiveness of those strategies in positively influencing firm performance: activity-based management, value-based management, the balanced scorecard, benchmarking and customer relationship management.[114]

Sukle and Debarliev noted that while there are a number of definitions and approaches to measuring organizational performance, the general consensus seems to be that many of the methods that have been used suffer from significant limitations and unduly narrow focus and that the better way to address the issue is to apply a "multidimensional approach" that uses the following multiple criteria for assessing the effectiveness of the strategic planning: (1) increased effectiveness in achieving the organization's objectives; (2) leads to developing a sustainable competitive position; (3) leads to building commitment to action among line managers; (4) leads to developing a shared vision for the organization; (5) leads to a good fit between the external environment and the internal capabilities; and (6) assists managers in considering the future implications of the current decisions.[115] In order to satisfy these criteria, both financial and nonfinancial measures of strategic planning "success" should be used in order to supplement traditional accounting-based measures of business performance with both nonfinancial measures of firm performance (e.g., the level of customer satisfaction, customer loyalty, employee satisfaction and shareholder satisfaction with results)[116] and measures of the efficiency of strategic planning design (e.g. seeking commitment to the long-range planning, setting explicit goals and assigning implementation responsibilities to specified individuals/groups)[117].

[112] J. Barney, Gaining and Sustaining Competitive Advantage (Upper Saddle River, NJ: Prentice Hall, 2002)
[113] P. Drucker, "If Earnings Aren't the Dial to Read", Wall Street Journal, October 30, 1986.
[114] L. Digman, Strategic Management: Competing in a Global Information Age (Mason, OH: Thomson Learning, 2002).
[115] B. Sukle and S. Debarliev, "Strategic Planning Effectiveness: Comparative Analysis of the Macedonian Context", Economic and Business Review, 14(1) (2012), 63-93, 67-68.
[116] See also N. O'Regan and A. Ghobadian, "Formal Strategic Planning: The Key to Effective Business Process Management", Business Process Management Journal, 8(5) (2002), 416-429) (stressing that the assessment of organizational performance has been moving from efficiency based measures to a greater emphasis on meeting customer needs and ensuring customer satisfaction) and Rudd et al., who studied the relationship between various types of flexibility with respect to strategic planning and, among other things, employee satisfaction and retention. J. Rudd, G. Greenley, A. Beatson and I. Lings, "Strategic Planning and Performance: Extending the Debate", Journal of Business Research, 61 (2008), 99–108.
[117] B. Sukle and S. Debarliev, "Strategic Planning Effectiveness: Comparative Analysis of the Macedonian Context", Economic and Business Review, 14(1) (2012), 63-93, 67 (citing P. Phillips and L. Moutinho, "The Strategic Planning Index: A Tool for Measuring Strategic Planning Effectiveness", Journal of Travel Research, 38(4) (2000), 369-379).

For their own study of strategic planning effectiveness in the Republic of Macedonia Sukle and Debarliev used a combination of financial and nonfinancial measures of organizational performance and other indicators of strategic planning effectiveness. With regard to organizational performance they relied on assessments of the following variables: overall profit achieved, sales volume achieved, market share achieved, return on investment, levels of customer loyalty achieved, levels of employee satisfaction with their jobs, levels of employee retention and shareholder satisfaction with the achieved organizational performance.[118] With regard to the effectiveness of strategic planning techniques, Sukle and Debarliev asked respondents in their survey to provide their opinions on the degree to which those techniques increased effectiveness in achieving the organization's objectives, led to developing a sustainable competitive position, led to building commitment to action among line managers, led to a good fit between the external environment and the internal capabilities, and assisted managers in considering the future implications of current decisions.[119]

Hoffman noted that research regarding the relationship between strategic planning and performance for firms outside of the US has rendered mixed results.[120] For example, researchers failed to find a consistent relationship between the level of formality of strategic planning and the performance on the firm in studies of firms conducted in Sweden[121], Canada[122] and the UK[123]. On the other hand, however, other researchers claim to have found support for a positive relationship between planning processes other than formality and performance in studies conducted in Australia[124] and Finland[125] and in a different sampling of firms in the UK[126]. These findings are consistent with those found by researchers who studied planning processes other than the formality of the system in the US and found a positive correlation between such processes and relevant measure of firm performance.[127]

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[118] Id. at 76-77.

[119] Id. at 76 (citing S. Elbanna, "Planning and Participation as Determinants of Strategic Planning Effectiveness", Management Decision, 46(5) (2008), 779-796, 785).

[120] R. Hoffman, "The Strategic Planning Process and Performance Relationship: Does Culture Matter?", Journal of Business Strategies, 24(1) (2007), 27-48.

[121] L. Rhenman, Organization theory for long range planning (New York: Wiley, 1973).

[122] G. Sheehan, Long-range strategic planning and its relation to firm size, firm growth, and firm growth variability: An explorative, empirical investigation (Unpublished doctoral dissertation, University of Western Ontario, Canada, 1975).

[123] P. Grinyer and D. Norburn, "Planning for existing markets: Perceptions of executives and financial performance", Journal of the Royal Statistical Society, 138(I) (1975), 70-97.

[124] D. Burt, "Planning and performance in Australian retailing", Long Range Planning, 14(2) (1978), 62-66.

[125] P. Harju, Attitude of strategic managers toward formalized corporate planning (Turku, Finland: School of Economics, 1981).

[126] G. Smith, "Planning for productivity", Long-Range Planning, 13 (1980), 52-63.

[127] B. Boyd, "Strategic planning and financial performance: A meta-analytic review", Journal of Management Studies, 28(4) (1991), 353-374; P. Brews and M. Hunt, "Learning to plan and planning to learn: Resolving the planning school/learning school debate", Strategic Management Journal, 20(10) (1999), 889-913; C. Miller and L. Cardinal, "Strategic planning and firm performance: A synthesis of more than two decades of research", Academy of Management Journal, 37(6) (1994), 1649-1665; and B. Shrader, L. Taylor and D. Dalton, "Strategic planning and organizational performance: A critical appraisal", Journal of Management, 10(2) (1984), 149-171.

Hoffman believed that strategic planning should enhance firm performance since planning assists firms in focusing on "salient environmental trends" and defining the firm goals, both of which would appear to be crucial in navigating the changing global environments in which firms must operate and compete today.[128] Moreover, he believed that strategic planning was so important to performance for multinational businesses that strategic planning processes should be positively related to performance among multinational firms representing a variety of societal cultures and, in fact, the results of his study across societal clusters—Anglo, Nordic and Germanic—confirmed that in each of these clusters there was a positive relationship between strategic planning, particularly planning system maturity and planning impact, and firm performance.

Suggestions for Successful Strategy Execution

Neilson et al., a group of consultants from Booz & Company, a global management consulting firm, compiled and analyzed extraordinary amounts of data collected from more than 25,000 employees at 31 companies, and applied their own experiences in working with hundreds of other companies, to identify and rank the traits that made organizations effective at strategy execution.[129] They noted that while the first move that companies typically make when seek to execute a new strategy is to restructure the business, in fact there were four "fundamental building blocks" and that two of them appeared to be much more important than the others and thus should be the initial and primary focus of the strategy execution process. The building blocks, in order of importance, were designing information flows, clarifying decision rights, aligning motivators, and making changes to the organizational structure. Neilson et al. brought the themes together by suggesting that "[e]xecution is the result of thousands of decisions made every day by employees acting according to the information they have and their own self-interest".[130]

Neilson et al. created a list of "the 17 fundamental traits of organizational effectiveness" with respect to implementation of strategy, each of which was ranked in order of their relative influence.[131] Five of the top eight traits were related to "information" and included the following:

- Important information about the competitive environment gets to headquarters early.
- Information flows freely across organizational boundaries.
- Field and line employees usually have the information they need to understand the bottom-line impact of their day-to-day choices.

[128] R. Hoffman, "The Strategic Planning Process and Performance Relationship: Does Culture Matter?", Journal of Business Strategies, 24(1) (2007), 27-48.
[129] G. Neilson, K. Martin and E. Powers, "The Secrets to Successful Strategy Execution", Harvard Business Review (June 2008), 61. See also G. Neilson and B. Pasternack, Results: Keep What's Good, Fix What's Wrong, and Unlock Great Performance (New York: Random House, 2005).
[130] Id. at 62.
[131] Id. at 63-66.

- Line managers have access to the metrics they need to measure the key drivers of their business.
- Conflicting messages are rarely sent to the market.

Neilson et al. stressed that headquarters will only be able to provide guidance about opportunities and trends in relevant business segments if it is able to obtain, analyze and disseminate information to managers and employees involved in operational activities that are closer to the company's ultimate customers. They made it clear that information must flow horizontally across different parts of the company so that the company is not held back by individual units acting as isolated "silos". Dissemination of information also allows the company to build a strong bench of managers with knowledge of all aspects of the company's business activities. Sharing information goes beyond numbers and includes face-to-face discussions among different groups that build mutual understanding and trust and serve as a foundation for the collaboration that is necessary for the use of team to engage with customers and complete other relevant projects. Finally, information helps managers and other employees make the best decisions possible with an understanding of how their choices are likely to impact the bottom line and the company's progress toward its strategic objectives.

Three of the top seven traits were related to "decision rights" and included the following:

- Everyone has a good idea of the decisions and actions for which he/she is responsible.
- Once made, decisions are rarely second guessed.
- Managers up the line get involved in operating decisions.

Neilson et al. pointed out that companies need to be aware that blurring of decision rights will inevitably occur as they mature and grow. During the early stages of business when the company is relatively small it is fairly easy for everyone to have an idea of what others are doing and seeking and obtaining a decision from a colleague is a quick and straightforward process. Problems arise when growth brings turnover among the management team and continuously changing expectations regarding consultations and approvals, generally reinforced by more formal rules. The byproduct of all this can be a lack of clarity among managers and employees as to where their accountability begins and ends and how much authority they have to act on their own in pursuit of what they perceive their specific role to be in the overall strategic plan. Another issue relating to problems with respect to decisions is that it can impair the company's ability to move quickly to address problems and/or take advantage of opportunities.

The following traits were ranked ninth and tenth and were related to "alignment of motivators": the individual performance-appraisal process differentiates among high, adequate and low performers; and the ability to deliver on performance commitments strongly influences career advancement and compensation. Managers and employees working in a system where motivators were aligned with performance could expect that they would be fairly rewarded in relation to their colleagues if they excelled at execution and consistently delivered on their individual performance goals. This was consistent with the other building blocks in that it pushed everyone in the organization to seek information to make sound decisions.

Finally, the following three traits related to "structure" were ranked thirteen through fifteenth on the list:

- Promotions can be lateral moves (from one position to another on the same level in the hierarchy).
- Fast-track employees here can expect promotions more frequently than every three years.
- On average, middle managers here have five or more direct reports.

Neilson et al. pointed out that structural changes are relatively easy to announce and come with high visibility that demonstrates that a change initiative is in the works; however, Neilson et al. argued that structural changes along produce little more than short-term gains in efficiency and will not be effective over the long run unless they are accompanied by better decision making rules supported by a free flow of information.

Neilson et al. argued that once companies knew and understand the issues and practices that were most important for effective strategy execution, they could implement targeted initiatives to improve their execution capabilities. Suggestions that were offered, and the "building blocks" they were intended to impact, included the following[132]:

- Focus corporate staff on supporting business-unit decision making (decision rights)
- Clarify and streamline decision-making at each operating level (decision rights)
- Focus headquarters on important strategic questions (decision rights)
- Create centers of excellence by consolidating similar functions into a single organizational unit (decision rights, information flows)
- Assign process owners to coordinate activities that span organizational functions (decision rights, information flows and alignment of motivators)
- Establish individual performance measures (decision rights and alignment of motivators)
- Improve field-to-headquarters information flow (information flows)
- Define and distribute daily operating metrics to the field or line (information flows)
- Create cross-functional teams (information flows and aligning motivators)
- Introduce differentiating performance award (aligning motivators)
- Expand non-monetary rewards to recognize exceptional performers (aligning motivators)
- Increase position tenure (information flows and structure)
- Institute lateral moves and rotations (information flows and structure)
- Broaden spans of control (structure)
- Decrease layers of management (structure)

[132] Id. at 67.

Neilson et al. cautioned against trying to implement too many of the initiatives, which they referred to collectively as a "transformation program" at one time and recommended that companies turn first to implementing practices that will positively influence freer flow of information and clarification of decision rights throughout the organization. Once those areas have been improved, the executive team can turn to alignment of motivators and identifying and implementing the structural changes that will help institutionalize decision rights, information flow and collaboration among the right people. Neilson et al. summed up the sequence of transformation of strategy execution as follows: "… [ensure] that people truly understand what they are responsible for and who makes which decisions—and then [give] them the information they need to fulfill their responsibilities. With these two building blocks in place, structural and motivational elements will follow."[133]

McKinsey's 10 Timeless Tests to Measure Strategy Effectiveness

Companies, particularly their CEOs and chief strategy officers, need ways to assess whether their efforts relating to formulation and execution of strategy are effective and steering the company toward added value and competitive success. McKinsey & Company has developed the following 10 test questions that it uses to measure the likelihood that a strategy will "beat the market":

- Will your strategy beat the market?
- Does your strategy tap a true source of advantage?
- Is your strategy granular about where to compete?
- Does your strategy put you ahead of trends?
- Does your strategy rest on privileged insights?
- Does your strategy embrace uncertainty?
- Does your strategy balance commitment and flexibility?
- Is your strategy contaminated by bias?
- Is there conviction to act on your strategy?
- Have you translated your strategy into an action plan?

The questions were developed through conversations with hundreds of senior strategists from companies all around the world engaged in a divergent range of industries and markets. While McKinsey believes that the tests do reflect what good strategies focus on intuitively, a large survey of 2,135 executives conducted by McKinsey found that few strategies pass more than three of the tests. Explanations of each of the tests, as well as references to further reading, are available in C. Bradley, M. Hirt and S. Smit, "Have you tested your strategy lately?: Ten timeless tests can help you kick the tires on your strategy, and kick up the level of strategic dialogue throughout your company", McKinsey Quarterly (January 2011).

Strategic Planning for Sustainability

The International Institute for Sustainable Development, in a book on business strategy for sustainable development published in the early 1990s in collaboration with Deloitte

[133] Id. at 70.

and the World Business Council for Sustainable Development, offered the following definition of "sustainable development" in the context of business enterprises[134]:

> "For the business enterprise, sustainable development means adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future."

The definition not only captures the traditional concerns of business enterprises with respect to preserving and maximizing the value of their financial capital, but also introduces several additional elements that would need to factor into the strategic planning, management information and control and measurement systems for the enterprise: the interests of, and greater accountability to, stakeholders other than shareholders, such as lenders, customers, employees, suppliers and communities impacted by the enterprise's activities; the preservation and enhancement of the human and natural resources that everyone, not just the individual enterprise, will need in the future; and continuous improvement of reporting practices.[135] Embracing sustainable development need not constrain economic activities; however, those activities must be carried out in a manner that not only avoids irreparably degrading or destroying human and natural resources but actually makes them stronger and more sustainable. In other words, it is not sufficient to reduce wasteful uses of natural resources, what is needed are innovative eco-efficient products and processes that actually improve the environment that also open up profitable business opportunities that put more people to work doing things that improve their wellbeing and the lives of those who depend on them and share their communities.

Businesses seeking to incorporate sustainable development into their strategic planning and operations face a number of practical challenges such as the following[136]:

- Sustainable development is a concept that is not amenable to simple and universal definition, rather it is fluid and subject to changes over time in response to increased information and society's evolving priorities. There are so many issues that can reasonably be placed under the umbrellas of environment and social responsibility and the apparent importance of any one of those issues can change almost overnight in light of political events and acts of nature. The challenge for any single business is to select an issue or cause that will resonate over a long period of time, which is one reason why it is frequently recommended that the mission or purpose of a sustainability-focused business be broadly defined, as opposed to a niche.

[134] Business Strategy for Sustainable Development: Leadership and Accountability for the 90s (Winnipeg, CN: International Institute for Sustainable Development, 1992).
[135] For detailed discussion of the application of strategic planning for sustainability-related issues and opportunities, see A. Gutterman, Strategic Planning for Sustainability (Oakland CA: Sustainable Entrepreneurship Project, 2019), available at www.seproject.org.
[136] Business Strategy for Sustainable Development: Leadership and Accountability for the 90s (Winnipeg, CN: International Institute for Sustainable Development, 1992).

- While there is a growing consensus that businesses need to be involved in sustainable development in order for the entire movement to have an impact, the precise role of business in contributing to sustainable development remains indefinite. Moreover, the form and size of contribution that a particular business can make will vary depending on the sector in which the organization is operating and the size of the organization. Each business needs to assess its own core competencies and determine how they can best be deployed to make an impact on a sustainable development problem.
- While most business leaders know how to steer a business when profitability is the sole objective, there is no consensus among those leaders as to best balance between narrow self-interest (i.e., increasing shareholder value, regardless of the impact on other stakeholders) and acting in ways that are for the good of society as a whole. Being a sustainable business does not mean abandoning the profit motive, since profits are needed in order for the business itself to survive and provide the goods and job opportunities expected from its customers and workers, but it does mean that the leaders of the business will need to adopt different approaches to financial profitability and accept and measure additional "bottom line" objectives (i.e., the environmental and social dimensions of the so-called "triple bottom line" used to measure sustainability).
- Businesses must confront and overcome difficult tradeoffs as they implement sustainable business practices. For example, an existing business may decide that it wants to invest in manufacturing technologies and processes that will ultimately result in drastic improvements in energy use efficiency and significant reductions in pollution; however, since it may take several years for a new plant using these technologies and processes to be built the question for the company is whether to shut down its existing plant immediately, and risk losing market share and displacing hundreds of workers, or continue to operate the plant using technology and processes that cause substantial harm to the environment.
- One of the advantages of focusing on the financial performance of a business is that there are a wide array of quantitative and objective measures that can be used to determine if the business in the right track; however, when it comes to environmental and social issues business leaders are often confronted with a dizzying and technically ambiguous array of terms that make it difficult to settle on the approach course of action. For example, while "sustainable forest management" sounds like a worthy objective, many critics argue that simply replacing trees that have been used for commerce is not sufficient since it does not make up for the harm to the biodiversity of the forest caused by the original harvesting. Additional research on these issues is necessary and the result will influence how businesses act in the future.
- The path toward become sustainable development is a long one and businesses need to set reasonable expectations for any given point in time along the journey. For example, improving environmental performance is generally a reasonable way to start the process as opposed to ambitious and costly investments to achieve full sustainability development within a short period of time. In order to fend off criticism about the speed of the process, businesses need to be transparent about their plans and communicate regularly with stakeholders regarding the impact of current

initiatives and planning for new projects that will be implemented in the future. Stakeholder engagement of this type is also a good opportunity to proactively explain the tradeoffs that the company is making, such as a decision on the issue described above to keep an older and less eco-efficient plant open to maintain employment in the community while working on the new facility that will be operated with advanced technology that drastically reduces damage to the environment.

Stakeholder Analysis

Sustainable entrepreneurs should begin their strategic planning process by conducting a "stakeholder analysis", which involves identifying all of the parties that are or will be directly or indirectly affected by the operational activities and engaging with each of them to identify all of the issues, concerns and information needs of those stakeholders with respect to the proposed sustainability activities of the business. The need for stakeholder analysis differentiates sustainable entrepreneurship from traditional entrepreneurship in that it recognizes that the business is not just accountable to its shareholders, but also to a wider range of groups and constituencies that not only includes shareholders but extends outward to creditors, regulators, employees, customers, suppliers, governments, the scientific community and educational institutions, the communities in which the business operates and public interest groups and other members of civil society who are affected, or who consider themselves affected, by the impact that the business activities of the company on the biosphere and social capital.[137]

When identifying and engaging with stakeholders, the sustainable entrepreneur must consider each distinguishable line of business and each community in which the company will be operating. While the shareholders may be the same for every line of business and location, the interests and concerns of local communities will certainly be different from place to place. Dialogue, often referred to as "engagement", is the key to collecting information and forging a relationship with stakeholders and sustainable entrepreneurs need to identify and implement the best ways to communicate. With respect to local communities, for example, establishing a community advisory board is often a good solution. Similar types of "working groups" can be used for discussions regarding the expectations of employees, suppliers and investors.[138]

The byproduct of the initial engagement process with the various stakeholders should be a detailed description of the needs and expectations, both short- and long-term, of each of the groups with respect to sustainability-related outcomes of the activities of the company. The description should provide a foundation for analyzing how the activities of the company impact each of the stakeholder groups, either positively or negatively,

[137] Business Strategy for Sustainable Development: Leadership and Accountability for the 90s (Winnipeg, CN: International Institute for Sustainable Development, 1992).

[138] Dialog with investors is important since the implementation of sustainable development necessarily involves tradeoff between pure profit-seeking and environmental/social objectives and the company needs to be sure that investors understand and accept the actions that the company may take with respect to sustainability that might have an adverse impact on traditional return on investment metrics.

and allow the company to create a scorecard for its stakeholder relationships that can provide ideas for specific initiatives and serve as a tracking system for performance.

Sustainable entrepreneurs need to understand that the initial stakeholder analysis is just the first step in a long, continuous and constantly changing relationship with each of the groups and that those relationships will need to be monitored on an ongoing basis. The strategies for collecting information and engagement mentioned above, such as the community advisory boards and other working groups, should be formalized and integrated as permanent pieces of the company's strategy process. In addition, the company's business plans and reports should have separate discussions of stakeholder engagement strategies and outcomes based on the scorecards that have been created for measuring stakeholder relationships.

Stakeholder analysis is also a valuable tool for identifying and, hopefully, remediating in advance, potential conflicts among the expectations and needs of the different stakeholder groups. For example, consumers and activist groups will generally expect the company to design their products so that they can be built and used in an eco-friendly manner; however, this approach may require manufacturing methods that employees fear may cost them their jobs. Investors may also be worried about the costs associated with eco-design and how their returns on investment will be impacted. Having these potential conflicts surface at an earlier stage allows the sustainable entrepreneur to seek out innovative solutions and explain them to each of the groups involved. In the scenario described above it may well be that consumers would be willing to pay a premium for the properly designed product, thus addressing the concerns of investors, and that the company win over employees to the design changes by offering additional training and emphasizing the psychic benefits of being involved in the development and distribution of products that promote sustainable development.

Sustainable Development Policies and Commitments

Once the sustainable entrepreneur has received and assessed the input from relevant stakeholders and developed a good idea of their concerns and expectations, that knowledge and information should be used to develop and articulate the basic values, mission and goals of the company with respect to sustainable development and lay out the corresponding targets for the performance of the company against those goals. The responsibility for formulating the policy of the company with respect to sustainable development, and selecting the specific objectives or commitments that the company will pursue, lies with directors and senior management, all of whom should be visibly involved in the process beginning with stakeholder engagement and continuing through dissemination of the policy and objectives among the stakeholders.

The policy statement is generally stated fairly broadly and lays out the company's mission with respect to sustainable development based on the expectations and needs of all of its stakeholders. The policy statement should be inspirational and should be designed to influence the behavior of management, employees and other groups such as stakeholders as they go about their day-to-day activities and make decisions about issues relating to the company's overall strategic plan. In other words, the policy statement is an expression of the values upon which the company's business is being conducted and when the policy statement is drafted and adopted by the directors and senior management they are explicitly setting the "tone at the top" of the organization with respect to sustainable development, something that is essential to success of sustainability projects.

Several things should be considered when drafting the objectives. First, each of them should be clear and concise—this is not the time for adding the details associated with the strategies that will need to be implemented to attain the objectives. Second, an effort should be made to express them in measurable terms, since the company and the interested stakeholders will need to track performance with respect to each of the objectives. Finally, for larger businesses it will be necessary to determine the appropriate level of aggregation. For example, the initial objective or goal may be to reduce waste at all of the company's locations by a specified percentage; however, the situation at each location will likely be different and the attainable reduction at some locations may be less than the overall goal while other locations will be able to exceed the overall goal.[139]

When drafting and reviewing its objectives and commitments, the company should obviously consider whether or not they are actually attainable and consistent with the company's business strategies and core competencies. In the ideal situation, the objectives will follow naturally from the goals that the company has already established using traditional profit-focused principles and the performance measures for the objectives can simply be added to the existing KPIs. The more likely scenario, however, is that the company will find that existing strategies are not sufficient to achieve the sustainable development objectives and/or in conflict with those objectives. In either case, the directors and senior management may have to revisit the company's strategies and modify them before releasing a finished list of sustainable development objectives. The most common example of this is the need to adjust return on investment goals to take into account the short-term costs of implementing technologies and processes necessary to achieve the environmental targets.

At the same time that the company is debating and selecting its initial objectives with respect to sustainable development it should also be setting up a monitoring system that assists the directors and members of the senior management team to keep abreast of developments that may impact the content and/or implementation of the objectives. Among other things, the monitoring system should be robust enough to include new and proposed legislation; emergence of, or modifications to, industry practices and standards; strategies and practices of competitors; activities, policies and concerns of community and special interest group policies; where applicable, concerns of trade unions; and development relating to technologies that have, or may have, an impact on the activities of the company and/or those of the company's stakeholders. In the past, monitoring

[139] The specific goal for each location will be set out in detailed objectives for that location and a secondary measure of performance, apart from the overall objective for waste reduction company-wide, might be what percentage of the locations achieved their specific goal.

focusing on sustainable development topics has often been delegated to an environmental and/or social issues committee or group that then reports back in to the directors and senior managers; however, if sustainable development is really going to be at the core of the company's overall mission the environmental scanning associated with it should be fully integrated into its strategic management processes.

Implementation Planning

As the company goes through the process of identifying, vetting and approving the sustainable development objectives and commitments, attention also needs to be paid to translating the policy and the accompanying objectives into operational terms, a process that requires the development of an implementation plan. The plan will be expansive and will impact the entire organization including corporate culture and employee attitudes; organizational design and structure, particularly the responsibilities and accountability of everyone in the organization with respect to the sustainable development objectives and commitments; information reporting systems; management systems and operational practices. During the planning process the objectives and commitments will necessarily remain fluid since they should not be finalized and announced to the world unless and until the company has a clear and reasonable plan for implementation. As the plan develops consultations with stakeholders will be needed and ideas from stakeholders should be solicited about how best to realize their needs and expectations. While all stakeholders are important, input and participation from employees is essential since they will be the one called upon to implement the plans and will likely feel significant disruption to the ways in which they have worked in the past. The input from stakeholders will likely cause a series of modifications to the plan, as well as to the upper tier goals and objectives. Eventually the plan will be ready for review and approval by the board of directors following presentation by the senior management at the same time that the board signs off on the policy and related objectives and commitments. Given the breadth of the organizational changes that will likely be required, it should be expected that the plan will cover three to five years and provide for milestones that will hopefully be achieved every six to twelve months.

Before an effective and reasonable implementation plan can be prepared, the company needs to know where it stands with respect to how its activities in their current state line up against broadly accepted sustainable development principles and the needs and expectations of its stakeholders. Insights must come from a self-assessment that covers the company's overall strategy and its operational activities, management philosophies and systems, relations with stakeholders and the functionality of the information systems that will be relied upon to generate the data about sustainable development performance that must be reviewed by company leaders and reported to stakeholders. At the self-assessment stage the company can rely on questionnaires that have been prepared by industry groups and outside organizations such as the Global Environmental Management Initiative and Ceres and bring in outside consultants that can help facilitate the process.

The results of the self-assessment need to be put into context by comparing them to the status and performance of comparable organizations as well as industry standards and norms and expectations that have been established by external groups. Comparisons can be made through a review of public disclosures by comparable organizations and data compiled by industry associations and programs that have been formed explicitly to collect and catalogue sustainable development information. Comparison allows the company to identify the gaps between what it is doing and what others are doing and provides a sense of the reasonable targets that the company can establish for improving its sustainable development profile. The senior management of the company should create a set of goals and objectives and a strategy, timetable and milestones for each goal and objective. The strategy should not only be approved by the board of directors, it should also be fully vetted by all of the key players inside the organization to ensure that they have had a chance to contribute to the process and can "buy in" to the strategy because they have participated in its formulation and believe in its objectives.

While the board of directors and senior management will retain ultimately responsibility for the success of the company's sustainable development goals and objectives, responsibility for overseeing and tracking the company's progress toward the sustainable development objectives and commitments should be assigned to a specific group within the organizational structure that is provided with the resources and authority required to discharge its duties. When creating the strategy and the accompany implementation plan, the following steps and issues should be part of the process[140]:

- The job descriptions of everyone in the organization, managers and employees, should be reviewed and revised to integrate specific sustainable development roles, responsibilities and accountability. Everyone needs to know their place in the plan and to whom they are expected to report.
- Changes to the organizational culture will be required, as will retraining of employees to empower them to carry out their new roles and responsibilities. As part of this process, reward systems and incentives will also need to assessed and modified to align with the activities required to achieve the sustainable development objectives and commitments. It is also likely that new skills and experience will need to be added to the workforce and the human resources department will need to understand the needs of the company and set up new recruiting initiatives.
- Changes to the strategic planning processes should already have begun as the sustainable development objectives and commitments were being developed; however, at the implementation stage an investment must be made in the resources and skills necessary to handle stakeholder engagement and external monitoring.
- Each of the sustainable development objectives and commitments will have their own unique set of metrics, most of which will be new to the company, and this means that the company's management information systems will need to be changed in order to ensure that everyone has access to the information they need in order to be sure they are on track with the new metrics and see their progress toward achieving the objectives and commitments.

[140] Business Strategy for Sustainable Development: Leadership and Accountability for the 90s (Winnipeg, CN: International Institute for Sustainable Development, 1992).

- The company's marketing research efforts will need to be overhauled to place customer attitudes and expectations regarding sustainability front and center. While customers as a group will be consulted during the stakeholder engagement process, detailed market research, including interviews and tests, will be needed to determine the best way to position the company's sustainable development initiative and the related features in its products and services. The results of this research should be reflected in updated plans with respect to pricing, sales, marketing and promotion. Companies often find that existing markets will need to be redefined and that new markets should be added.
- The engineering and product design groups will need to determine what changes must and can be made to products and processes in order to achieve the sustainable development objectives and commitments and satisfy the needs and expectations of the company's stakeholders. The company should not commit publicly to a specific leap in the energy efficiency of its products until it is satisfied that progress can be made in a manner that does not endanger the company's ability to survive financially or adversely impact another group of stakeholders (e.g., displacing a large number of workers). Specific consideration should be given to regulatory requirements, industry standards and benchmarking.
- Suppliers are key partners in any company's efforts with respect to sustainable development and other stakeholders, such as customers and human rights activists, will hold companies accountable for the social responsibility (or lack thereof) of their suppliers. This means that everyone involved in the procurement process must be trained in supply chain management and held accountable for the products procured from vendors and the manner in which those products are produced.
- The sustainable development objectives and commitments cannot be realized unless the company remains profitable throughout the process and is able to survive and thrive to the point where the objectives have been achieved. As such, the implementation plan must be supported by comprehensive financial planning that takes into account and addresses all of the capital requirements that must be satisfied in order for the plan to be successful including making sure that capital required for investment in new technologies and other resources will be available at the appropriate times during the three to five year span of the plan. Among the issues to be considered is the impact of the sustainability focus on attracting capital from outside investors and the availability of tax incentives and financing through governmental programs.

The process of creating an implementation plan for sustainable development is extremely challenging and will require a thorough understanding of the tools associated with organizational design. In addition to the issues described above, senior management needs to be acutely aware of potential barrier and sources of resistance to the changes that will be needed in order to implement the plan effectively. The transition toward a stronger focus on sustainable development will inevitably upset people in the organization who prefer that things continue as they have always been and individuals and groups will be reluctant to embrace change and agree to new roles and reporting channels. As such, it is essential that senior management involve everyone in the organization in the planning process and refrain from finalizing the plan until those who will be responsible for executing the plan have had a chance to voice their concerns and ask about the uncertainties that are bothering them.

Measures and Standards of Performance

Internal management control, as well as the ability to create and disseminate external reports, depends on developing appropriate means for measuring performance and assessing the resulting metrics against internal and external performance standards. Accordingly, implementation of the sustainable development program will require upgrade to the company's information systems to ensure that they are capable to supporting the creation of the reports needed by management and external stakeholders. The information that is required, and the type of performance that will be measured and reported, will vary depending on the specific sustainable development objectives and commitments. Governmental and public agencies, as well as other participants in the industry in which the company is operating, play an important role in establishing standards and identifying the expected performance targets. For example, it is commonplace for companies to track and report emission levels and/or working hours that are lost due to illness or accident and the measuring procedures of the company should be set up in a way that tracks those metrics accurately and facilitates comparisons to internal targets and the performance of comparable companies. External standards, measures and reporting systems often take a significant time to develop and gain acceptance and companies often need to make their own decisions about the best way to measure performance for their specific sustainable development objectives and commitments. In those situations, the goal should be a cost-effective solution that simultaneously meets the needs of managers and the applicable external stakeholders.

Reporting and Auditing

As discussed above, the company's information systems need to be set up in a way that allows for creating the metrics necessary to track the performance measures that are most appropriate for each of the sustainable development objectives and commitments. In order for this process to be effective, the company must be able to use the information to generate clear and meaningful reports for both managers and the company's stakeholders in order to allow them to make their own assessment of how well the company is doing in pursuing and achieving its objectives and commitments. Sustainable development reporting actually has several dimensions, each of which will require a different form of report, albeit based on essentially the same pool of information:

- Internal reports need to be created for members of the board of directors and the senior executives of the company so that they are able to monitor the implementation of the company's sustainable development objectives and commitments using appropriate performance metrics and make decision about the strategies and methods that are being used for implementation. Portions of these reports will also be distributed throughout the organization so that managers responsible for specific activities have good information about how their teams are performing and contributing and can make appropriate adjustments at their levels in the organizational hierarchy. Internal reporting includes not only data from information systems but also qualitative reports from line managers regarding their assessment of how their team is doing with respect to achieving sustainability targets and periodic oral and written reports from senior executives to the directors on overall progress or problems associated with sustainable development.

- External reports have been required for shareholders of companies subject to the reporting requirements imposed by federal regulators (i.e., the Securities and Exchange Commission) and securities exchanges; however, those reports have typically been limited to information on financial performance and governance structures. External reporting relating to sustainable development performance requires sufficient information to allow all of the company's stakeholders—not just shareholders, but also creditors, employees, customers and the general public—to hold the company and its directors and senior executives accountable for the company's stated financial, environmental and social objectives and commitments. External reporting also provides a basis for ongoing discussions with stakeholder as part of the company's stakeholder engagement process.
- Regulatory reports, beyond those that may be required by federal securities regulators and securities exchanges, may be required by various governmental agencies at all levels. In general, these reports are required in order to track the company's compliance with specific regulations pertaining to environmental and social issues. In addition, if the company is formed and organized as a social benefit corporation, it will need to comply with applicable state law reporting requirements that call for information regarding the success of the company's efforts to pursue and achieve the specific public benefits set out in its charter documents.

As sustainable development has emerged as an important issue and consideration for businesses, particularly larger companies used to preparing detailed financial reports for their shareholders, attention has turned to finding ways to integrate the "results" of sustainability initiatives into traditional methods of reporting on economic activity. For example, a company that does not invest in technologies and other measures designed to reduce the adverse impact of its operations on the environment can be expected to report higher net profits due to its decision not to incur the costs associated with mitigating environmental harm. On the other hand, a company that does make those investments will likely have lower net profits than the first company, at least at the beginning of the investment cycle, and its economic performance vis-à-vis the first company will be poorer. In order to incentivize the second company, and others, to make the investments associated with a sustainable development objective or commitment to reduce environmental harm, there needs to be an accepted reporting method that allows for companies to disclose and explain the financial impact of their sustainability initiatives so that shareholders and other stakeholders can make their own assessment about the company and, hopefully, reward the company for its efforts in spite of the impact on profitability measures.[141]

[141] The issue of valuating contributions to environmental and social wellbeing also appears in the use of aggregate measures such as "gross domestic product", which has traditionally been based solely on output

The strategy and formatting for external reporting varies among companies. In some cases, several different special reports were be prepared by the specific stakeholder audiences such as employees. Other companies include separate sections on environmental and social benefit activities in the same annual reports in which they present their financial results. Regardless of how sustainable development reporting is integrated with financial reporting, companies should consider publishing, no less frequently than annually, a free-stand report on their sustainable development activities in order to highlight once again their policies, objectives and commitments and explain in details their implementation plans and the measurable progress that has been achieved.

The need to prepare reports relating to sustainable development activities creates another important process for companies: internal audits to ensure that the information included in the reports is accurate and complete. Auditing has long been a feature of financial reporting and companies reporting on sustainable development also need to engage in systematic, documented, periodic and objective evaluation of how well the organization is doing with respect to implementing its sustainable development objectives and commitments and complying with relevant policies and procedures. Internal auditing for sustainable development requires a multi-disciplinary team that includes engineers, scientists, auditors and attorneys with the necessary experience in both the substantive issues and the art and science of the testing and sampling associated with audit practice. Auditing is not only data-driven, but also includes insights from interviews, inspections and simple observations of employees engaged in their day-to-day duties. Interactions with external stakeholders will be needed during the audit process to confirm their impressions of company activities. Some companies draw on outside audit specialists to serve as consultants to facilitate the audit process.

and does not take into account the present value of conserving natural resources for use in some future period.

About the Author

This chapter was written by Alan S. Gutterman, whose prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, *Business Transactions Solution*, is an online-only product available and featured on Thomson Reuters' Westlaw, the world's largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 90 books on sustainable entrepreneurship, leadership and management, business law and transactions, international law and business and technology management for a number of publishers including Thomson Reuters, Practical Law, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, Business Expert Press, Harvard Business Publishing, CCH and BNA. Alan is currently a partner of GCA Law Partners LLP in Mountain View CA (www.gcalaw.com) and has extensive experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Berkeley Law, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on corporate finance, venture capital, corporate governance, Japanese business law and law and economic development. He has also launched and oversees projects relating to sustainable entrepreneurship and ageism. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Alan and his activities, and the services he provides through GCA Law Partners LLP, please contact him directly at alangutterman@gmail.com, follow him on LinkedIn (https://www.linkedin.com/in/alangutterman/) and visit his website at alangutterman.com.

About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) was launched by Alan Gutterman to teach and support individuals and companies, both startups and mature firms, seeking to create and build sustainable businesses based on purpose, innovation, shared value and respect for people and planet. The Project is a California nonprofit public benefit corporation with tax exempt status under section 501(c)(3) of the Internal Revenue Code dedicated to furthering and promoting sustainable entrepreneurship through education and awareness and supporting entrepreneurs in their efforts to launch and scale innovative sustainable enterprises that will have a material positive environmental or social impact on society as a whole.

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