

# Successful Strategic Planning Processes

Profitable growth is a fundamental driver of shareholder value. Developing effective business strategies that reliably meet or exceed the market's expectations for growth is the key to delivering superior long-term shareholder returns. Successful strategic planning is not a mysterious process available to an exclusive group of top-performing companies. Value-creating strategies are the result of executive commitment, hard work and a well-defined approach.

Despite good intentions and major resource commitments, few organizations have strategic planning processes that provide an ongoing catalyst for significant strategic dialogue, or that lead to high-impact business strategies. At many companies, a focus on short-term results, detailed financial forecasts and formal presentations skews the process, crowding out attention to key strategic issues. Even in cases where the right issues are identified, little external data is made available, and management teams often lack the time, resources or objectivity to complete the analysis required to challenge the status quo.

We believe executive teams can assemble the data, skills, processes and commitment they need for robust and relevant strategies by learning from the best practices of other firms.

This *Executive Insights* illustrates some practical techniques for managing the development and execution of business strategies. It is distilled from L.E.K. client experiences as well as several recent benchmarking studies we have conducted. In these studies, we identified the best practices in strategic planning across a diverse group of more than 40 top-performing companies worldwide in many industries. Some were the competitors of our clients; others we chose because of their best-of-breed capabilities in strategic planning. Having identified specific best practices both within and outside a client's industry, we determined what practices should be adopted, customized them to the client's specific competitive situation, and incorporated the appropriate changes into a new strategic planning system for that client. While all the techniques recommended below may not be relevant for an individual company, these concepts are being embraced by a growing group of industry leaders.

We discuss best practices in four phases of the strategic planning process: (1) building the foundation for value-creating strategies, (2) implementing strategic planning processes, (3) developing strategy support systems and (4) aligning the organization via strategic programming.

### Building the foundation

Senior management commitment and adequate planning resources were hallmarks of all the top organizations. We cannot emphasize enough that these are essential prerequisites for an effective strategic planning process. To build the kind of foundation that drives a successful, high-performance culture

# Executive Insights

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toward its strategic goals, top-performing companies have introduced the following initiatives:

**They position “maximizing shareholder value” as the governing objective.** It drives their business decisions and daily actions. By contrast, although many firms’ annual reports identify shareholder value as a primary objective, in practice, a range of competing financial, organizational and market priorities often prevent this goal from becoming operational.

**They establish explicit shareholder value goals to create appropriate strategic tension.** Absolute and relative shareholder value goals can be complementary. For instance, doubling the equity market value of a firm every four or five years is an absolute goal while generating top quartile total shareholder returns is a relative goal. To gain business unit alignment and maintain tension in the form of “stretch” goals, these corporate goals are translated into explicit, business-specific value creation and discounted cash flow objectives. This signals the need for change and drives accountability for value creation down into the organization.

**To monitor performance against these goals, they define key performance indicators across the business** so that shareholder value concepts become meaningful at the operating level. They translate value concepts into practical measures that operating managers and employees can understand and influence. This focuses employees’ attention on value-creating activities, and it clarifies trade-offs between performance indicators.

**They reward only superior performance at all levels.** Some set goals above investor expectations, and others reward management only when a business unit outperforms peers’ shareholder returns. A leveraged stock purchase plan is one example of an effective executive incentive being used. To participate, an executive personally borrows money (with a full recourse loan) to buy shares held as collateral for the loan. A portion of this loan can be forgiven based on performance relative to peers. In contrast to stock options, it creates a team of executives with significant capital at risk. For a broader group of employees, rewarding the achievement of financial, operational and market-oriented value driver goals is more appropriate.

**They generate internal demand for market intelligence** as a way to test long-held beliefs or close gaps in management’s understanding of the business. They gather and circulate commercial research about changing customer needs, the company’s ability to meet these needs, distribution channel dynamics and likely competitor actions. Intelligence can be

gathered, structured and synthesized at the corporate level, but it’s also necessary to let it be disseminated and digested at the strategic business unit (SBU) or operating unit level. Demonstrations of how external information enabled other business units to create step-changes in financial performance can galvanize a group and stimulate demand for more market intelligence. Top companies maintain a real emphasis on solid external data, regardless of how much it challenges the status quo.

**They invest in management’s capabilities** to help the broadest group of managers think like strategists. Learning objectives include understanding the external environment, identifying drivers of value and recognizing competitors’ business models. To encourage senior management engagement, one company requires corporate and business unit heads to lead intensive five-

## Benefits to successful strategic planning

- Establishes a common business framework and language for developing strategy
- Enables managers to explore strategic issues from many points of view and identify opportunities to maximize shareholder value
- Clarifies the need for better external data
- Develops an external fact base to validate or refute management’s strategic assumptions and gain greater insights into business opportunities and challenges
- Encourages preparation, cross learning and a shared understanding across businesses about:
  - Market attractiveness and relative competitive position
  - Business model economics
  - Key strategic issues
  - Available strategic options
  - Selected strategies and required changes
- Provides a basis for making strategic choices and portfolio management decisions
- Achieves business unit “ownership” and produces operating line management champions as management teams do the work and develop the strategy
- Creates company-specific learning for management development programs
- Can lead to a profound change in strategy quality and growth in shareholder value

# Executive Insights

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day training programs for groups of 30 managers from across the company. Prior to launching the training programs, formal assessments are used to audit current management capabilities, create individual development plans and identify managers unable to meet new performance expectations. Another company sets explicit training objectives related to strategy for every level of management in the organization.

**They make management's efforts very visible.** Naturally, changes in management are one of the most compelling ways to signal top executive commitment. Some organizations take care to internally publicize strategy meetings in which high-level environmental and strategic issues are reviewed, and where prominent outsiders may have been brought in to speak or consult. The corporate CEO might personally communicate the new strategy, with its explicit objectives, to the organization.

Beyond these specific initiatives, we found the top-performing companies had an ongoing, vigorous strategic dialogue alive within the firm. Strategic dialogue is a critical part of the planning process as it enables a group of managers to explore issues and implications from many points of view. And it keeps strategy constantly in the forefront. As one company put it, strategy becomes the journey, not a passing phase.

To achieve a healthy, lively dialogue, participants must suspend assumptions, communicate freely, move beyond individual bias and respect one another as colleagues. Leadership is looking to create an open and nonjudgmental atmosphere where candid feedback and fresh insights can be heard. This can represent a major behavior change for companies accustomed to formal strategic review sessions focused on reporting. At one of the companies that is highly skilled at strategic dialogue, they told us, "Everyone feels like a strategist." Other techniques that encourage strategic dialogue include:

- Providing formal management training on inquiry and dialogue skills
- Requiring management teams to complete blank data books (including data tables and trend analysis) in advance of strategy review sessions
- Creating peer pressure to review meeting session prework in advance
- Structuring review sessions so that executive committee members lead sessions by asking questions based on prework materials
- Facilitating real-time discussions by not circulating premeeting questions in advance

- Eliminating formal PowerPoint presentations
- Encouraging peer challenge sessions prior to formal review sessions to "pressure test" strategic options

One company explicitly incorporates strategic dialogue at each step of its planning process — including strategy development, performance contracting, performance monitoring and performance feedback. Direct results include greater management engagement, enhanced strategic thinking and learning, the identification of differences in underlying assumptions, and accelerated buy-in and alignment regarding strategic choices. In addition, it brings about a greater understanding among managers of other business units, their successes and their difficulties, so common solutions can be shared.

Done well, strategic dialogue is not chat, conjecture or aimless speculation. It keeps a management group focused on the strategic issues that matter most.

## Implementing strategic planning processes

Beyond building a solid foundation, what innovative strategic planning processes are companies using? What are they doing to move beyond financial analysis and incorporate rigorous strategic thinking into the planning process? A strategic plan could then extend beyond an incremental improvement to a bolder strategy that anticipates the competitive landscape.

And how are they learning to plan for longer time horizons such as three, five, or even 10 years?

We found some innovative planning models being used, and we were able to identify some of the circumstances under which a firm might choose one over the other. The best strategists have more than one model in their arsenal, and reach for the best one to suit the occasion.

For example, the outcome of a strategic performance review (evaluating whether a business unit is "on strategy") and an environmental scan (evaluating whether major threats or unanticipated opportunities exist) would determine whether an intensive, comprehensive strategy work-up is immediately required, or whether a less comprehensive approach that mainly addresses specific issues is applied in a particular planning cycle. If a business is "off strategy" and major unanticipated threats or opportunities exist, the former is completed. Otherwise, a less comprehensive issue-driven strategic planning work-up is used to resolve issues and achieve organizational alignment. Here is a

# Executive Insights

closer view of two planning models we found to include the best elements of external intelligence, well-designed options and risk management:

## Intensive strategy analysis

This approach is intensive, meaning that a management team can analyze its situation and develop a business strategy over a relatively short period of time. While this approach yields important benefits such as a shared understanding of major issues across business units, thoughtful strategies and accountability for execution, it is challenging to complete, and it requires a greater resource commitment than traditional planning.

In this innovative planning model, which some companies call “strategy boot camp,” an SBU completes three different strategic dialogue workshops over a three-month period: Situational Assessment, Option Development and Strategy Selection. Depending on the business situation and the availability of data, the company may choose to engage outside consultants to collect and analyze external market intelligence in order to gain objective information. During sessions, stand-up presentations are not permitted. Instead, members of the executive committee engage in strategic dialogue with members of a business unit or functional leadership team. Executive committee members and business leaders are coached on how to ask good strategic questions. Management not directly involved in a particular session observe discussions, and at the end of each workshop, the executive committee provides verbal feedback to the leadership teams about the quality of their preparation and strategic dialogue.

### Intensive strategy analysis: A three-session approach



**Session one: Situational Assessment.** Completing a Situational Assessment workshop enables a management team to better understand its business situation and to develop an initial set of hypotheses associated with key strategic issues. It can serve to test management’s “mental models” about the business in a systematic and rigorous way. A Situational Assessment has four major components:

- Market attractiveness
- Relative competitive differentiation and cost

- Historical and expected revenue growth, profitability growth and returns
- Key value driver identification and business model economics

**Session two: Strategic Option Development.** Every competitive situation suggests a wide range of alternatives to pursue, so defining and evaluating winning strategic options is a demanding task. Scenario planning frameworks are used by some of the top strategists to assess multiple expected outcomes. Scenarios are sketched out based on key strategic issues, and they alleviate the burden of developing explicit forecasts. Options are then developed to respond to the opportunities and threats described in these scenarios. These options are then evaluated using qualitative criteria (strategic fit and current capabilities) and quantitative, risk-adjusted criteria (net present value analysis).

**Session three: Strategy Selection.** A Strategy Selection conference enables a management team to make a choice regarding which strategy will maximize the value of a business. Each viable strategic option is translated into a series of externally validated assumptions and financial forecasts that can be valued, and appropriate risk management tools are applied. To calibrate management expectations, forecasts are compared with historical performance as well as competitor performance. It is critical to evaluate strategic options under alternative scenarios.

## Issue-driven strategic planning

Issue-driven strategic planning is employed when a business unit is performing in line with expectations and no major discontinuities exist in the market. The primary goal of issue-driven strategic planning is to identify and address particular issues that carry major implications for the value of the business, and to develop and execute initiatives to resolve them, rather than to rethink strategy as a whole. While the time and resources required are much less than strategy boot camp, issue-driven strategic planning maintains a similar emphasis on external data, value-based analysis and strategic dialogue.

An SBU completes two strategic dialogue workshops during the course of an issue-driven strategic planning cycle. In the first workshop, SBU leaders, functional leaders and corporate executives discuss what issues could have the greatest impact on the value of the business. Methods for choosing the topics vary, but the organizations select specific criteria to determine which issues deserve this level of attention. At one company, issues are prioritized based on potential value implications, which they take the time to quantify. Other firms choose issues that have wider applicability to other business units.



# Executive Insights

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Between the first and second workshops, SBU, business unit and functional teams complete extensive external and internal analysis in order to understand the selected issues, create strategic options and develop business cases supporting the alternatives. At the second workshop, the executive committee and business leaders conduct a strategic dialogue session regarding how to resolve the issues. In effect, these issues become the unit of strategic planning, leading ultimately to a series of actionable initiatives that will be programmed into performance management systems and incentives.

These are just two of the most effective planning models we observed. Since different types of strategy work-ups bring good results, companies need to learn to choose approaches and timing based on the needs of individual business units, and be able to draw on whichever approach best fits.

Best practice emphasizes both the quantity and quality of external data needed to create viable strategic options, as well as the number of internal and external points of view needed to assess their potential and risks. The commitment to seeking and considering external data and a range of perspectives sets apart the leading firms from their competitors.

## Developing strategy support systems

The best strategy support systems do not simply enable the strategic planning process to take place; they increase both the efficiency and the quality of strategic planning. They help key insights to be broadcast and understood internally. They ensure current situations are addressed with the full knowledge of historical successes. And they link common solutions and risk reduction measures across business units.

**Corporate planning.** Our research shows that corporate planning is one of the areas where senior executives can make the most impact, by providing resources and setting direction, in addition to helping create a strong planning culture. At its best, corporate planning is used to conduct corporate level planning, facilitate SBU level planning and align business function plans. Corporate planning is in a unique position to increase the value of cross-business synergies and to align SBU planning efforts and business function plans with corporate objectives. It can also enhance the business skills and tools of all levels of planners to improve operational planning.

L.E.K. studies have shown that effective corporate planning groups typically conduct a range of activities:

- Coordinate the data collection efforts to support the corporate-level environmental assessment

- Ensure the consistency of inputs from business functions and units, including consistent context and assumptions
- Conduct or contract external research and interviews
- Synthesize internal and external inputs into business assessments
- Manage corporate level planning of strategic issues and options with cross-business synergies that may be overlooked by managers focused on the performance of their own business unit
- Facilitate SBU level planning activities, including scenario planning, and integrate business functions through meetings and consultative support

Corporate planning is most effective when it is seen as an SBU advocate. For instance, pressure testing SBU plans should be seen as a benefit to the SBU head, not part of corporate level validation. Business skills, innovative planning activities and tools are shared with the business units, in order to improve individual skills so that planning becomes more effective. Some corporate planning groups help teach business units how to extend the time horizons of their strategy options, even in industries with a high rate of change and uncertainty.

The degree to which the planning function is an active participant in versus a facilitator of the business unit planning depends on the level of diversity and centralization of the businesses.

Our experience shows that corporate planning's focus transitions from collaboration to facilitation as an organization's business units grow more diverse and decentralized.

**Analytical tools.** A number of tools and frameworks are used by leading companies throughout the strategic planning process to achieve optimal results. Tools used to identify key strategic issues include external customer research, competitive benchmarking, technology evolution mapping, market segmentation and scenario analysis. An external focus on customer and competitor developments helps an organization identify strategic opportunities as well as threats.

Porter's Five Forces and strengths/weaknesses/opportunities/threats analyses are effective frameworks for assessing market attractiveness and competitive position, while value driver mapping is useful for identifying potential sources of value creation and communicating what is expected of people across an organization.

# Executive Insights

Risk management tools are often employed to assess strategic options and develop ways to mitigate the risk of uncertain futures. These tools allow an organization to apply strategic option development to dynamic and rapidly changing sectors while ensuring that risks are evaluated in a consistent manner across an organization.

**Information technology.** Leading companies develop a culture promoting the use of information technology in the strategic planning process. The top companies use information technology to “de-layer” interaction between hierarchical levels and to cross organizational boundaries.

IT resources provide shared tools to manage the planning process timeline and activities, support decision-making, provide online documentation of the strategy, and communicate the finalized plan. Best practice is to leverage IT to follow up on implementation, with the following benefits: Consistency and quality of data gathering is enhanced, and information is selectively available to all employees. As a result, it is more likely to be used, and the cycle time to conduct manual activities is reduced. Best practice also offers systems that provide information at an aggregate level to corporate functions, and at a detailed level to business units — preferably in a format that managers can query.

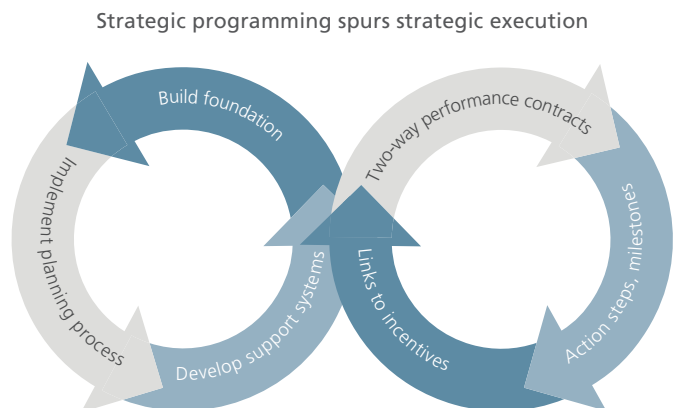
IT also supports communication of ongoing results and the follow-up activities after implementation — not just scattershot but via structured communication that is tailored to the ways that the organization communicates most effectively. The cost-effectiveness of electronic communication can make the broadest access to relevant information relatively easy.

## Aligning the organization via strategic programming

Organizational alignment can be a powerful tool for changing behavior and achieving sought-after performance. While most would agree that managers want to “do the right thing,” misalignment prevents optimal performance by diffusing focus and undermining process credibility.

Organizations need to align people and management systems with the execution of a selected business strategy. To achieve this end, companies are investing in thoughtfully designed communication programs, with the premise that “more is better.” They are also investing in formal programs for tracking actual results against long-term performance commitments, sharing that information appropriately throughout the organization and creating accountability.

This involves defining approved strategies in terms of financial and nonfinancial performance goals, gaining commitment to action plans and milestones, determining management accountability, tracking and providing feedback on performance versus plan on a regular basis, and ensuring that the process has visible and immediate consequences. Some companies find this requires them to develop better financial reporting systems, so they can provide the desired level of performance tracking. For example, one company wanted to set 60% financial and 40% nonfinancial targets for employees. Another company sets objectives around customers’ experience and employees’ learning as well as financial and operational targets. Other companies need better information at the corporate level, so they conduct annual surveys out of the CEO’s office to assess employees’ understanding of the strategy and their role in it, and to solicit employee feedback. Both are valuable inputs to refining the strategy communication program.



Assuming an effective communication plan is in place, strategic programming should include three elements:

1. Approving a strategic initiative should be viewed as the management team agreeing to a two-way performance contract. That is, resource commitments will be met by the company as long as results are on track. The execution of a business strategy should be generously rewarded while the failure to deliver contracted results should have real consequences to the responsible group.
2. Performance and resource contracts should identify key action steps, milestones, accountabilities and multiyear performance goals. Be specific.
3. Making a direct link between strategic initiative milestones and incentives ensures realistic performance targets and spurs successful execution.

# Executive Insights

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Programs for organizational alignment are too often seen as an afterthought, or as being outside the scope of strategy work. Yet for the top-performing organizations we studied, this programming was an essential phase of the strategic planning process.

## **Conclusion: Strategy is worth the price**

Through our work, we have seen a number of critical benefits accrue to organizations with successful strategic planning processes. The best strategic planning provides an “evergreen” process and can help management continuously enhance their competitive position and focus on the key value drivers. Proactive corporate support functions can help standardize the processes and allocate resources to the initiatives that prove the most valuable.

There is no generic way to do strategic planning. The work — and the processes themselves — must be tailored to an individual organization’s markets, strengths and ambition. There are a number of paths to implementing successful strategic planning systems, but few companies have achieved significant improvement without substantial resources. For those who have made the commitment, incremental shareholder returns have far outweighed the investment.

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## About L.E.K. Consulting

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. We are uncompromising in our approach to helping clients consistently make better decisions, deliver improved business performance and create greater shareholder returns. The firm advises and supports global companies that are leaders in their industries — including the largest private- and public-sector organizations, private equity firms, and emerging entrepreneurial businesses. Founded more than 30 years ago, L.E.K. employs more than 1,200 professionals across the Americas, Asia-Pacific and Europe. For more information, go to [www.lek.com](http://www.lek.com).

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