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Strategic Planning at Five World-Class Companies

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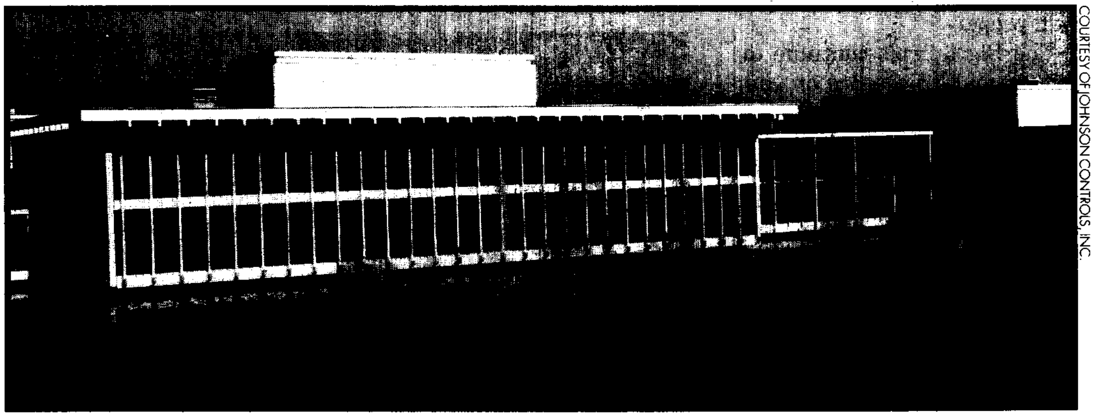
STRATEGIC PLANNING

At Five World-

Management accountants are key players in the process.



COURTESY OF JOHNSON CONTROLS, INC.

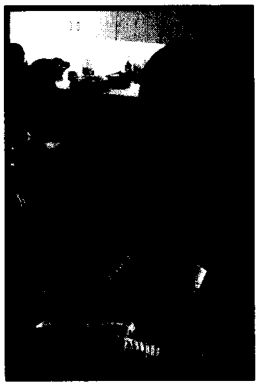
BY MICHAEL D. AKERS, CMA, AND GROVER L. PORTER, CPA

"A little information is a valuable thing," smirked J.R. Ewing as he paid his informant. With the information provided by the rogue CIA agent, J.R. would be able to implement his strategic plan for Ewing Oil Company. Now he would be able to take over his major foreign competitor.[1]

Most successful executives do not follow the unethical and often illegal information-gathering practices of the infamous J.R. Ewing, but they certainly realize the importance of information for strategic planning. They know that strategic planning offers the best way to deal with their changing world.

Strategic planning evolves through four sequential phases (see Figure 1):

> *Phase 1. Basic financial planning*—seeking better operational control through meeting budgets.
> *Phase 2. Forecast-based planning*—seeking more effective planning for growth by trying to predict the future beyond the next year.
> *Phase 3. Externally oriented planning*— seeking increased responsiveness to markets and competition by trying to think strategically.
> *Phase 4. Strategic management*—seeking to manage all resources to develop competitive advantage and to help create the future.[2]



COURTESY OF 3M COMPANY

3M products help to keep daily life from "coming apart."

Strategic planning is a central concern of strategic management but not the whole of the top management job. One widely recognized conceptual model of the structure and process of systematic corporate planning is shown in Figure 2. Although formal strategic planning may have a great many other characteristics, the basic concept deals with the vision for and direction of the organization. This view is expressed well in the definition: "Strategic planning is the systematic and more or less formalized effort of a company to establish basic company purposes, objectives, policies, and strategies and to develop detailed plans to implement policies and strategies to achieve objectives and basic company purposes."[3]

Information is central to successful strategic planning. In a 1993 survey regarding information for strategic decisions, the Conference Board used a framework (see Figure 3) that lists major types of information sources: internal, external, financial, and physical. The key executives who responded to that survey indicated that their top four information priorities related to physical (nonfinancial) information concerned with the future: strategic goals, market research data, technology forecasts, and capacity planning. Of the 16 kinds of information included in the framework, traditional management accounting information was ranked only 12th in importance by the respondents.[4]

THE FIELD STUDY

Our field study of five world-class companies revealed more details regarding information used for strategic planning and the role of man-

Class Companies

agement accountants in this process. We interviewed key executives at Johnson Controls, Coors Brewing Company, Schering-Plough, Xerox, and 3M Company to find out how their companies did strategic planning. (See sidebar at right for a partial list of their titles.) Issues addressed included the distinction between strategic and long-range planning, the strategic planning process, information used for strategic planning, and the role of accounting in strategic planning.

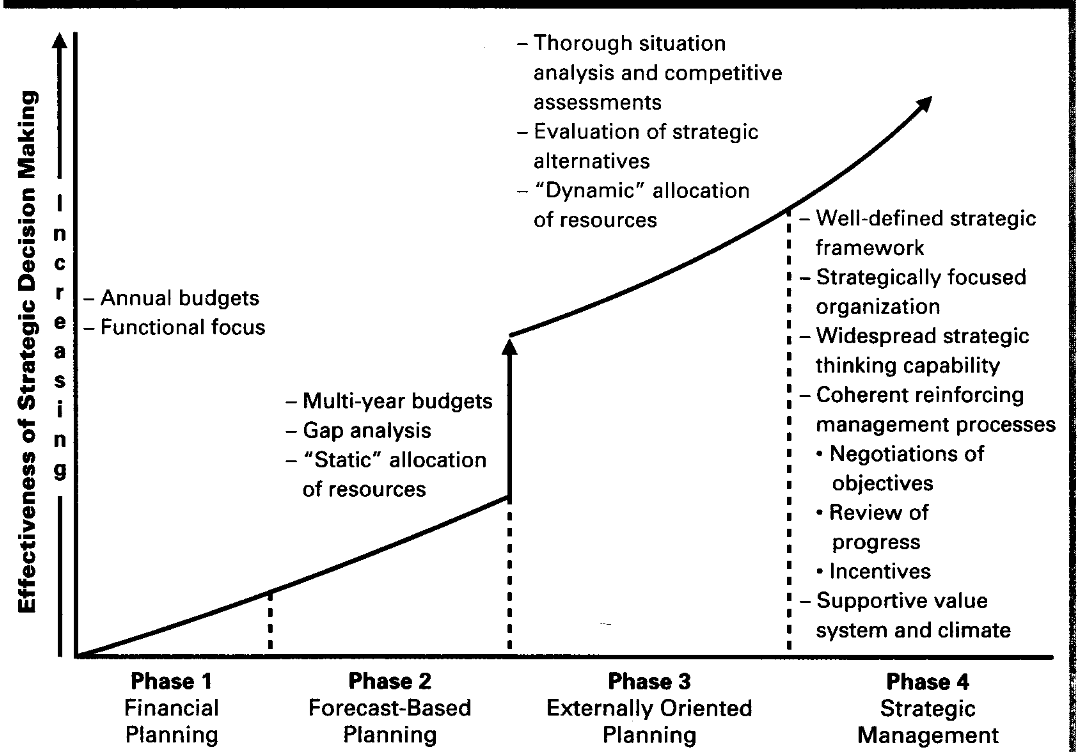
Previous research on this topic has shown that "strategy" has been defined in several different ways, both in the literature and the marketplace. Strategic planning and long-range planning often are used interchangeably. We asked our interview subjects to define both terms so we could determine any differences in their perception of the two.

STRATEGIC PLANNING

In defining strategic planning, the participants consistently identified four key aspects of the process. First, strategic planning is future oriented—it focuses on what a company will be in the future. Second, it includes a critical assessment of the strengths and weaknesses of the company. Third, it includes analysis of competitors, customers, and markets. Fourth, strategic planning focuses on broad, flexible, external issues and therefore uses limited financial information. These four points are illustrated in the comments of the participants:

- "Strategic planning implies that you have to think a lot more about the competition and about the outside world. It's more change oriented."

Figure 1. PHASES IN THE DEVELOPMENT OF STRATEGIC PLANNING



Source: Adapted from F. Gluck, S. Kaufman, and A. S. Wallock, "The Four Phases of Strategic Management," *The Journal of Business Strategy*, Winter 1982, p. 11.

SOME INDIVIDUALS INTERVIEWED

Vice President–Strategic Planning Services

Director–Strategic Planning

Manager–Corporate Business Strategy

Executive Director–Corporate Technical Planning

Vice President–Planning and Policy Development

Manager–Long-Range Planning

Executive Vice President–Internal Consulting

Director–Business Research and Analysis

Executive Vice President–Operations

Senior Vice President–Marketing & Operations

Executive Vice President–Finance

Vice President-Controller

Controller

- "Strategic planning is not a whole bunch of numbers ... It's very qualitative."
- "Looking at our company and what our company is capable of doing and then looking at the industry and our major competitors and analyzing their capabilities and then from that putting together a plan that will help us achieve our objectives."

LONG-RANGE PLANNING

All the participants noted that long-range planning is drastically different from strategic planning. The definitions of long-range planning generally were consistent and focused on three key points. First, long-range planning is operational. Second, it includes projected financial statements for several years based partially on historical information. (Such projections were viewed as "an enormously wasteful exercise.") Third, long-range planning is internally focused so provides no information on the competition.

The participants in our study see a clear distinction between strategic planning and long-range planning. Yet despite the recognition of this distinction and the acknowledgment of its importance, these companies have used strategic planning only in the past 10 years. This finding was particularly surprising in light of the literature available on strategic planning.

The strategic planning process was different for each of the five companies—not surprising because they operate in distinctly different industries. Still there were some similarities, which we will show in the following overview of the strategic planning process for each company.

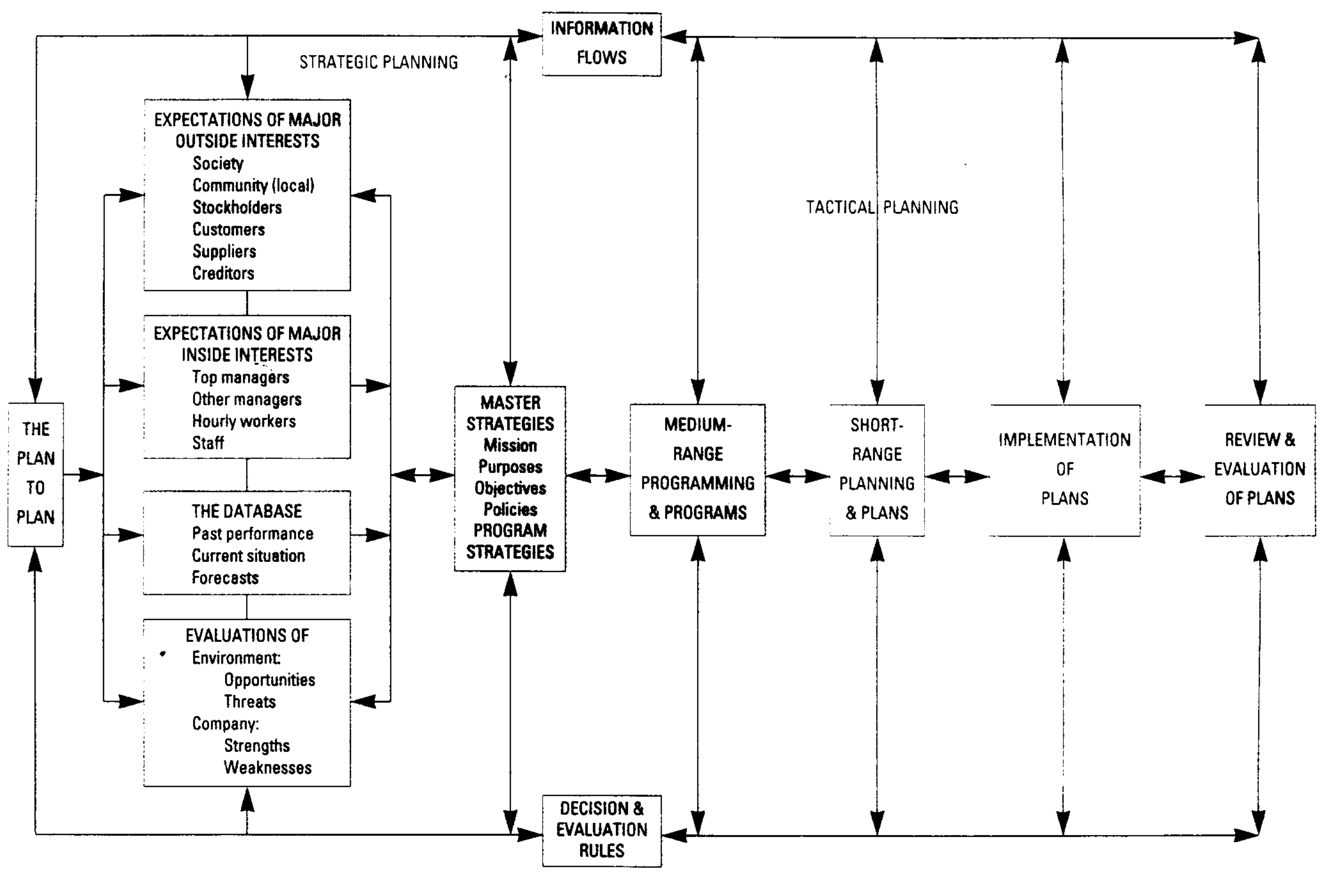
Johnson Controls, Inc. At Johnson Controls, Inc., strategic planning is done primarily by the four divisions. Corporate does not plan but, rather, *facilitates* planning by the divisions. "Divisions make their own strategic plans, and we (corporate) try to give some discipline to the process of developing the plan and also through the process of reviewing the plan. It is more bottom-up than top-down."

"We believe strategy itself involves the formulation of plans to 'beat the other guy'—so there has to be competition involved in the process of strategy formulation. We as a company, except in the most general sense, don't have competitors. But our businesses have competitors in their own areas in which they play so they have strategies and we as a company have strategic guidelines."

Johnson Controls has seven strategic guidelines:

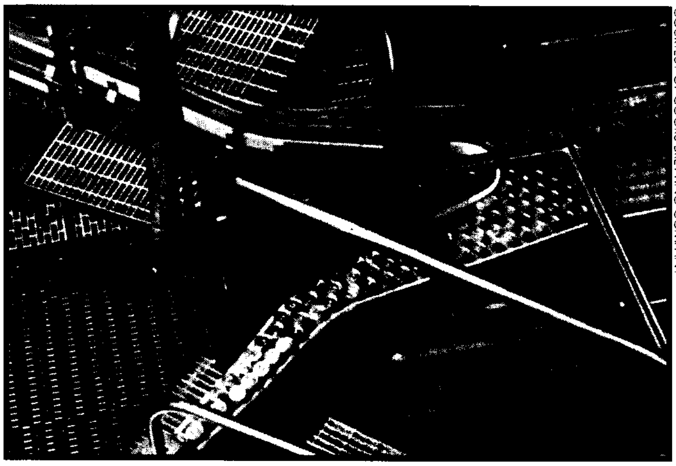
1. The underlying principle of corporate strategy will be to *exceed our customers' expectations* by providing value through improving qual-

Figure 2. STRUCTURE AND PROCESS OF SYSTEMATIC CORPORATE PLANNING MODEL



Credit line: STRATEGIC PLANNING: What Every Manager Must Know by George A. Steiner. Copyright © 1979 by The Free Press, a Division of Simon & Schuster Inc. Reprinted with permission of the publisher.

ity, service, and productivity. We will strive to understand our customers, be responsive to their needs, and innovate in partnership with them.
2. Each business will develop competitive advantage through proprietary or differentiated products, services, and processes. These innovations may result from technology but may also come from creative solutions to every aspect of the business.
3. Key to our strategy is market share leadership, which provides the critical mass for investments in technology, people, and equipment to lead in cost and quality.
4. Each business will have world-class products and maintain worldwide awareness of market trends, competition, and technology.
5. Individual business strategies will be established through joint involvement between corporate and operating unit management. The development of market-driven strategic thinking, planning, and managing will be stressed at all levels.
6. Internal development and acquisitions related to our core businesses will provide growth by building on our strengths.
7. The company will balance individual business risks through diversification. Selective resource allocation also will be used to strengthen profitability and growth.


COURTESY OF COORS BREWING COMPANY

A maze of cans being processed at Coors.

The guidelines are used in the strategic planning process, which is an ongoing, interactive dialogue between corporate and the divisions. The divisions develop annual strategies, which are reviewed by the corporate office. Priorities are established and agreed on. Budgets and forecasts are developed later as a financial expression of the strategy. Projections used to be for a five-year period but now are for a three-year period because "the last two years weren't worth much." Special situations are addressed during the year on an as-needed basis. The strategic plans of each of the businesses also are reviewed quarterly when the key operating people and corporate staff meet in management committee.

The divisional annual strategy is action oriented, focuses on the issues sensitive to the priorities, and is brief but substantive. The substance of the strategy is more important than the style. To allow maximum individuality with respect to the development and presentation of the strategy, format requirements are minimal, and standardized forms are not used.

The strategic plans are used primarily as a vehicle to focus on key issues and as a framework for decisions and resource allocations. The review process ensures joint corporate and operating unit agreement.

Strategic plans, which used to be considered highly sensitive and secret, are now more widely available to individuals within the organization. This change occurred in the last three or four years to increase employees' understanding of the direction the company was taking. "The more people know about it, the better they can all push in the same direction . . . ."

Coors Brewing Company. At Coors Brewing Company, the last three years have seen a focus on the future (strategic planning). Top management now is looking forward several years to determine where the company should go. The approach to strategic planning has shifted. Strategy and capital allocation are still the responsibility of top management, but the top-down approach has changed to a more interactive approach.

The company's strategic planning committee consists of six members, three of whom are board members. This committee meets once a month for two to three hours and on an impromptu basis about three times a year. The CEO and the five executive vice presidents also meet every Friday for two hours to discuss broad-level issues.

Coors Brewing Company has identi-

Figure 3. A FRAMEWORK FOR EXECUTIVE INFORMATION

		Internal		External	
		Past	Future	Past	Future
Financial	Numeric	Management Accounting	Budgets & Forecasts	Competitors' Results	Brokers' Forecasts
	Text	Results Narrative	Five-Year Plan Framework	Brokers' Review	Press Opinion
Physical	Numeric	Operating Performance	Capacity Planning	Market Share	Market Research
	Text	Performance Commentary	Strategic Goals	Trade Media Coverage	Technology Forecasts

Source: Andrew Tank, *Information For Strategic Decisions*, The Conference Board, New York, N.Y., 1993, p. 8.

fied four purposes of strategic planning:

1. To help develop vision and strategic goals,
2. To drive the achievement of vision and goals,
3. To provide tools to measure progress toward goal achievement,
4. To provide tools to guide tactical and operating business decisions.

The strategic planning process is based on the Vision, Goals, and Strategic Management and Tracking System. The Vision has four key aspects:

1. We are an innovative team marketing products and services recognized by customers as superior.
2. We are a global company that is growing and profitable.
3. We trust, support, and really care about each other, our customers, suppliers, stockholders, and community.
4. Our work is challenging, exciting, and fun.

The eight strategic goals at the time of the field study are recognition of innovation, price/value rating, sales volume, return on equity, growth/profitability (established brands), quality relationships (employees), favorable attitude of vision and values by various groups, and international markets. Coors's strategic plan is characterized by market-driven timing, goal-driven resource allocation, integration of annual and five-year plans, integration across line organizations, and communication of the strategic plan.

Strategic planning is an evolving process at Coors. Although the company says it is making progress, it also acknowledges there is room for improvement.

Schering-Plough Corporation. At Schering-Plough, prior to 1982 the real strategic planning was done "off line by the CEO and his staff." Now it is part of the formal planning process. The CEO is the chief strategist—he determines the focus of the business and communicates it to the rest of the organization. While this method implies a top-down approach, the process actually is interactive (top-down, bottom-up). The divisions and the corporate staff, including the CEO, hold discussions to identify and determine key issues. The strategic plan of Schering-Plough focuses on several areas: research, market product opportunities, cost containment, and business development—partnerships and alliances that make sense to the business.

Annual planning (strategic and operational) is a formal process that occurs throughout the year. The Operations Committee (OC), which includes the CEO (chairman), chief operating officer, and executive vice presidents for administration, finance, worldwide operations, and products, meets in January to discuss corporate issues. (Corporate issues do not affect the divisions.) Then the CEO and his staff meet with division presidents, also in January, to identify and determine major issues. Division presidents select either a special task force or individuals from their division to prepare White Papers regarding the issues. "There is nothing hard and fast about the guidelines of the White Paper. The overall guideline is to present whatever is necessary to address the issue in depth and with excellence."


COURTESY OF SCHERING-PLOUGH CORP.

Products such as Coppertone suntan lotion from Schering-Plough help protect families from getting burned.

During February the Operations Committee meets with the division president of worldwide pharmaceutical operations for an in-depth review of both year-to-date results compared with planned results and expectations for the remainder of the year. In March the Committee meets with the division president of products to discuss actual versus planned and the expectations for the remainder of the year.

The Operations Committee meets in April to discuss corporate issues, and then the strategic planning conference is held in May. Three days of the conference are used for presentations of the White Papers to the management group and CEO, and one day is devoted to analyzing the papers.

During June the Operations Committee meets again with the division president of worldwide operations. At that time, the CEO and his staff also make final decisions about the strategic issues presented in the White Papers and evaluate corporate issues. The Committee meets again with the division president of products during July.

In September the Committee reviews the operating plans, which pertain to the next year and the two thereafter. "The reason for doing that is to see whether the CEO is satisfied with the targets (financial) that are being set for the next year and to make any adjustments to those targets." The Committee reviews research operations in October.

During November the Committee meets primarily to discuss corporate issues, although issues from the divisions also can be presented and discussed. It reviews the final one-year plus two [years] operating plans in depth over a three-day period in December. One day is devoted to pharmaceutical, another day to health-care products, and another to consolidation, corporate departments, tax, cash, and treasury and foreign exchange issues. The Operations Committee also meets any time a special issue arises that needs to be addressed immediately.

Xerox Corporation. The CEO, who is the chief strategist, and the corporate office are "the primary determinants of strategy" at Xerox. They are assisted by Corporate Business Strategy (CBS), a seven-member group that reports directly to the CEO and supports the six-member team of the corporate office. The CBS director is "the facilitator to enable the corporate office to address the right issues, the right metrics ... "

CBS is responsible for communicating corporate strategy to the divisions. Each division has a vice president of strategy and is responsible for developing its own strategic plan. The CBS group also reviews the strategies of the divisions to make sure they are in line with the company's strategic plan.

Each division creates a three-year plan that serves as a contract between the office and the division president. Because the contract is not a standardized form, developing it is the division president's responsibility. These contracts include enabler-based metrics and result-based metrics. An example of an enabler-based metric would be the processes the division president has implemented to make the sales force more systems aware. A result-based metric would be the competence level of the sales force. The contracts are used in the evaluation process of each division president.

The development of corporate and divisional strategy is based on the priorities and philosophy of the Xerox Corporation. The four priorities are customer satisfaction, motivation and satisfaction of Xerox people, improved return on assets, and increased market share. The components of the philosophy of Xerox are:

We succeed through satisfied customers.
We aspire to deliver excellence in all we do.
We require premium return on assets.
We use technology to develop product leadership.
We value our employees.
We behave responsibly as a corporate citizen.

Priorities are listed in the order of their importance, but components of the philosophy are not.

For strategic planning purposes, priorities and philosophy are not considered mutually exclusive.

Benchmarking is used extensively and focuses on the four priorities.

Strategic and annual planning is a formal process conducted throughout the year. During January the corporate office examines the strengths and weaknesses of the company along with the strategy. During April and May the divisions develop strategic plans based on the boundaries established by corporate, which then reviews the division strategies.

Information for Strategic Planning

Analysis of competition. Information about the competition includes:

- Board members and schools they attended,
- Consulting firm used,
- Last position of key vice presidents,
- What the competition is doing,
- Strategy that is broadly discussed in the annual report,
- Volume and brand advertising,
- Information obtained by examining competitors' products, and
- Questionnaire regarding customer satisfaction with competitors' products.

Daily monitoring of public information:

- Newspapers,
- Magazines,
- Journal articles (technical and nontechnical),
- Databases:
  -Dialog,
  -Nexus,
  -Lexus,
  -Data Resources, Inc., and
  -10K, 10Q.

Analysis of customers:

- Demographic profile and
- Questionnaire regarding customer satisfaction with the company's products.

Discussions with consultants, Wall Street analysts, government experts, and contacts in Washington, D.C.

Benchmarking with noncompetitors.

Research—internal and external.

Economic forecasts.

Political issues.

Strategy of foreign governments.

Risk analysis of countries.

Geographical issues.

Technology issues.

The divisions receive guidance in the preparation of their annual plans from the corporate office during June and July. Then they develop the plans, which cover a period of 18 to 24 months, during the period of August through October. The annual plans are finalized and approved in November.

Xerox copy machines pass through the high-volume final test area.

3M Company. The CEO is the chief strategist, and his strategic guidance is based on six key points:

1. Establish clear global leadership in attractive industries. Gain leading market share, nurture preeminent core competencies.
2. Maintain a kaizen-relentless, never-ending pursuit of quality up/cost down.
3. Be transitional. Think global/act local.
4. Invest to win. Be best of breed.
5. Growth is the engine. EPS (earnings per share) is the measure.
6. The raison d'etre is superior stakeholder performance: for employees, self-fulfillment; for the customer, exceeded expectations; for management, psychic and monetary satisfaction; for the community, citizen opportunity/service; for shareholders, financial rewards.

The CEO drives strategy through four vice presidents who are chief operating officers (COOs). The interactive process between the CEO and the four COOs is continual. 3M considers strategic planning a bottom-up, top-down approach because it is interactive.

3M also uses a strategy committee and strategic business centers, which interact continuously. The strategy committee consists of the four COOs, the chief financial officer, the chief technical officer, and the vice president of strategic planning services. It has two important functions: to validate, approve, and challenge the definitions of the strategic business centers and to allocate resources. The strategic business centers are run by group vice presidents.

3M's strategic map is based on five key points.

1. 3M identifies attractive industries.
2. R&D drives 3M in satisfying customer needs.
3. 3M is a manufacturing company.
4. 3M pursues market leadership.
5. Operating units drive the business.

3M also believes it is moving from phase three (externally oriented planning) to phase four (strategic management) in the strategic planning process (see Figure 1).

INFORMATION FOR STRATEGIC PLANNING

There was consensus among the five companies that strategic planning uses only limited financial information. Mainly it uses external information, such as information about the competition and information from public sources. The sidebar on p. 29 lists information the five companies use for strategic planning.

What is the accountants' role? The five companies also agreed that the accounting function and accountants are important to the strategic planning process. The accounting function is considered one of the primary groups responsible for the development of strategy as evidenced by the following comments: "There are three guiding groups in the company that develop strategy—the marketing group, the operations group, and the finance group [includes accounting]." "The major movers in developing the plan are the marketing people in the business and the financial [includes accounting] people in the business."

- Accountants are considered strategic business accountants and are an integral part of the business decision-making process.
- Accountants are involved actively in the strategic planning process and are considered key members of the business team. They do not merely crank out the financial statements.
- Accountants have three primary roles: strategic, control, and required (such as tax returns and Securities & Exchange Commission filings).

Accountants' knowledge of the financial statements, however, is still beneficial to the strategic planning process. One company noted that its management accountants contributed by analyzing competitors' financial statements.

The results of our study support some of the findings of a 1988 study conducted by Fern and Tipgos in which they surveyed controllers and chief executive officers of Fortune 500 companies.[5] They found that controller involvement in strategic planning was high and that controllers were enthusiastic about increasing their participation in strategic planning. CEOs, however, rated controller involvement from moderate to significant and were not enthusiastic about increasing controllers' involvement in strategic planning. Consistent with the previous study, the findings of our study show that management accountants are involved actively in strategic planning and that controllers' and accountants' participation has increased. Now, however, top-level management indicated that accountants were considered key members of the strategic planning team and were involved significantly in all aspects of the process.

Despite the acknowledgment of the importance and involvement of accountants, there also was consensus that while accounting information is used extensively for long-range planning, only limited accounting information is used for strategic planning. The following comments support this view:

- "Accounting information supplements other information used for strategic planning, but it is used primarily for long-range planning, which includes the development of forecasts and budgets."
- "While the strategic plan may contain little accounting information, accounting information is useful for the process."
- "I don't think the financial statements today are really the key to our strategic planning process."

Our research shows that strategic management (strategic planning and control) is one of the characteristics of successful organizations. Our field study also reveals successful strategic planning practices (for example, vision and direction) of five world-class companies. These practices provide a foundation on which any company can build a formal strategic planning process, but every company must develop its own "tailor-made" strategy that will let it remain competitive in a global economy.

The results of our field study also show that, while limited accounting information is used in the strategic planning process, management accountants are active participants. They should continue to enhance their role in strategic planning by helping management develop, implement, and operate a strategic planning process that will allow the company to optimize its competitive advantage(s). Successful organizations will remain competitive because of the vision and direction provided by the strategic plan, which incorporates information from several sources, including management accountants. ■

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[1] These comments are based on the *Dallas* television series.

[2] F.W. Gluck, S.P. Kaufman, and A.S. Wallock, "The Four Phases of Strategic Management," *The Journal of Business Strategy*, Winter 1982, pp. 9-21.

[3] George A. Steiner, *Strategic Planning*, The Free Press, New York, N.Y., 1979, p. 15.

[4] Andrew Tank, *Information for Strategic Decisions*, The Conference Board, New York, N.Y., 1993, p. 8.

[5] Richard H. Fern and Manuel A. Tipgos, "Controllers as Business Strategists: A Progress Report," MANAGEMENT ACCOUNTING®, March 1988, pp. 25-29.