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# Information and Accountants in the Role of Strategic Planning

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# Information and accountants in the role of strategic planning

by Michael D. Akers, CPA and Grover L. Porter, CPA

This article on strategic planning practices is based upon a field study of five world-class companies. The strategic planning practices discussed in this article were extracted from the corporate environment. The information contained in this article, however, is of value alike to CPAs assisting with the enhancement of strategic planning practices in corporations and public accounting firms.

Will your corporation or firm be the next candidate for "downsizing" or "merger?" The news media continually reports of such actions by major corporations (e.g., IBM) and CPA firms (e.g., the Big Eight becomes the Big Six). In today's highly competitive economy, an organization's success or failure can hinge on the effectiveness of its strategic planning.

Strategic planning (i.e., vision and direction) is one of the key characteristics of successful organizations. There is a lack of relevant information in the literature, however, regarding "real-world" strategic planning practices. This field study helps fill this void by revealing the strategic planning practices of five "world class" corporations.<sup>1</sup> This field study also explores the role of accountants in this strategic planning process.

## Strategy formation

While there are several different viewpoints on strategy formation, the basic design school model (See Figure 1) is the one that is widely recognized [Mintzberg, 1990, p. 171]. This model of strategy formation combines the assessment of external factors (impact of the environment) with the assessment of internal factors (strengths, weaknesses, distinctive competencies) to develop strategic plans. The development of strategy through the assessment of external and internal factors necessitates that key members of management develop and examine various types of information. The authors con-

ducted this study to identify the various types of information used in strategic planning and the role of accounting in the process.

## Field study

Interviews were conducted with key executives at each of the five companies. Titles of the individuals interviewed included: vice president - strategic planning services; vice president - planning and policy development; executive vice president - internal consulting; director - business research and analysis; vice president - controller. A summary of these discussions is presented.

## Definition of strategic planning

To determine if there was consensus in the perception of strategic planning, each executive interviewed was asked to define strategic planning. While the responses varied, there were four common themes among the responses:

- is future oriented. (Focus is on what the company *will* be.);
- includes a critical evaluation of the strengths and weaknesses of the organization;
- includes an examination of competitors, customers and markets; and
- focuses on *broad* flexible external issues.

Consistent with the basic design school model, the participants of the field study are assessing external and internal factors in the development of strategy.

## Information for strategic planning

Concerning the information used for strategic planning, there was consensus among the five companies on the following items:

- limited financial information is used;
- limited internal information is used; and
- external information is primarily used.

All five companies indicated that information about the competition (i.e.,

questionnaires regarding customer satisfaction of competitors' products; examination of competitors' products) and information from public sources (i.e., newspapers, journal articles, data bases) were important for strategic planning. Other specific sources of information included: discussions with government experts and contacts in Washington, D.C.; economic forecasts; benchmarking with non-competitors; risk analysis of countries; evaluation of strategy of foreign governments. Although external information is used to a greater degree than internal information, the use of both types of information is consistent with the design school model (Figure 1).

## Creation of strategy

Although the creation of strategy was different for each of the five companies, the process was consistent with the design school model. Rather than discussing the process of each company in detail, a summary of the most significant aspects is provided:

- Strategic planning is an interactive process between divisions and corporate management. Strategy is no longer developed by corporate management exclusively.
- Strategic planning is done on a continuous basis. Meetings were held weekly, monthly, quarterly and annually, as well as on an "as needed" basis.
- Strategic planning is an evolutionary process. Each of the companies is refining and improving the process.
- Strategic planning (future orientation) as compared to long-range planning (financial extrapolations) is a relatively new phenomenon (within the past fifteen years).
- Key components of strategy development:
  - exceeding customers' expectations
  - providing innovative products and services recognized as superior by customers
  - market sharing

## Basic Design School Model

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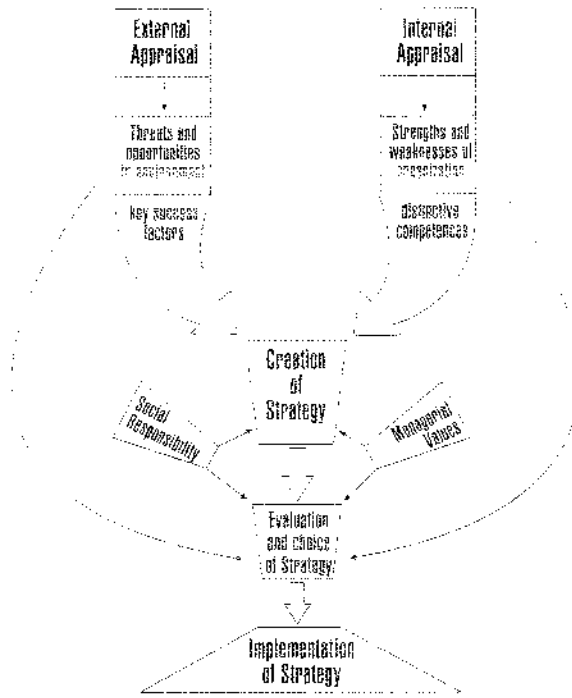


Figure 1. Mintzberg, 1990, p. 171.

- research
- fulfilling responsibilities to community, customers, employees and shareholders

### Role of accounting

Although the participants of the study indicated that limited financial accounting information is used for strategic planning, there was consensus among the five companies that the accounting function is one of the primary groups responsible for the development of strategy. Accountants are viewed as *business* people who are actively involved in the decision making process related to strategy development. The following comment emphasizes the importance of accountants and the limited use of accounting information:

*Accountants' involvement in strategic planning tends to be what they can contribute in that regard to the issues. They may be expected to contribute but not always from the point of view of their specialty.*

Therefore, accountants are expected to contribute to strategy development by analyzing various types of non-accounting information. This does not mean that accounting information and expertise is irrelevant for strategic planning. Accountants can also contribute to strategy development by

analyzing the financial statements of the firm's competitors.

The findings of this field study are consistent with prior research in that accountants are actively involved in strategy development. Prior research, however, found that top level management did not encourage increased involvement of the accountants in the formation of strategy. For the five companies participating in this study, the executive team *expected and supported* the further involvement of the accountants in the strategic planning process.

### Conclusions

The practices revealed by this field study provide a foundation upon which a formal strategic planning process can be built for any organization. Each corporation or firm, however, must develop a strategic planning process that is "tailor-made" to provide that organization with the futuristic guidance necessary for it to remain competitive.

The results of this field study also show that, while limited accounting information is used, accountants are actively involved in the strategic planning process. Accountants should continue to enhance their role in the strategic planning process by helping management to develop a process that will allow the organization to optimize its competitive advantage. ■

### References

1. The five world-class companies who participated in this field study were: Coors Brewing Company; Johnson Controls, Inc.; Minnesota Mining & Manufacturing (3M) Company; Schering-Plough Corporation; and Xerox Corporation. A strategic planning guide specifically prepared for CPAs may be purchased from the AICPA: American Institute of Certified Public Accountants, *Strategic Planning: A Step-by-Step Guide to Building a Successful CPA Firm*, 1993.
2. The illustration is from Henry Mintzberg, "The Design School: Reconsidering the Basic Premises of Strategic Management," *Strategic Management Journal* (March-April 1990), p. 174.

### About the authors

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## Strategic Planning questionnaire

The authors are continuing their research in the area of strategic planning in organizations. If you would be willing to participate in our research project, please answer the following questions and return to:

Dr. Grover L. Porter  
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1. Identify the types of information (financial, and non-financial) used in strategic planning by your firm or company.
2. Identify the role that you play as an accountant in the strategic planning process in your firm or company.
3. Does management encourage or support the role of accountants in the strategic planning process in your firm or company?