2.0 Literature Review

Former Shell executive Peter Schwartz reports that when he was a member of its planning group, they "had a tough time sharing ideas among the scenario-planners who were scattered over 120 countries. So we decided to open up the community...[Knowledge is the only kind of wealth that multiplies when you give it away, and computer conferencing can be used as an engine for generating and multiplying that kind of wealth. Shell continues to experiment with computer networking. (Beverly et al 1994, pp 252)

The Shell Oil Company is planning dynamically; it does not do it according to the Framework, but it certainly does it. It looks at things holistically, it integrates technology, it is open to change, and it plans for the long term. Shell has evolved over a century into the kind of organization that knows how to plan and survive. Perhaps some of its success lies in the fact that early in its corporate life it merged and remerged, adding different core competencies and products – learning to change what it did for a living to make a living. (Beverly et al 1994, pp 253)

Strategic planning is the organized process through which such strategic decisions can be systematically and rationally analyzed and made. Without such an organized process, the far-reaching impact of strategic decisions will probably not be foreseen. (John et al 1982)

Henri Fayol, the originator of the model of management, said that effective plans should have four qualities: unity, continuity, accuracy, and flexibility. Unity means that at any one time only one central, guiding plan is put into operation to achieve an organizational goal; more than one plan to achieve a goal would cause confusion and disorder. Continuity means that planning is an ongoing process in which managers build and refine previous plans and continually modify plans at all levels – corporate, business, and functional – so that they fit together into one broad framework. Accuracy means that managers need to make every attempt to collect and utilize all available

information at their disposal in the planning process. Despite the need for continuity and accuracy, however, Fayol emphasized that the planning process should have enough flexibility so that plans can be altered and changed if the situation changes; managers must not be bound to a static plan. (Gareth et al 2000 pp. 237)

Planning is about trying to forecast and predict the future in order to be able to anticipate future opportunities and threats. The future however is inherently unpredictable. How can managers best deal with this unpredictability? This question preoccupied managers at Royal Dutch Shell in the 1970s. Managers at Shell, one of the largest global oil and gas producers, came to the conclusion that because the future is unpredictable the only reasonable approach to planning is first to generate "multiple futures" – or scenarios of the future – based on different assumptions about conditions in the world oil market that might prevail in the future, and then develop different plans that detail what the company should do in the event that any of these scenarios actually occurs. (Gareth et al 2000 pp. 237)

Shell's success with scenario planning influenced many other companies to adopt similar systems. By 1990, over 50 percent of Fortune 500 companies were using some version of scenario planning (it is also called contingency planning), and the number has increased since then. The great strength of scenario planning is its ability not only to anticipate the challenges of an uncertain future but also to educate managers to think about the future – to think strategically. (Gareth et al 2000 pp. 238)

The Importance of an Explicit Strategy (John et al pp. 5 & 6)

The desirability of an integrated and explicit strategy is obvious if one considers the only alternatives. If there is no strategy, or if the strategy is only implicit, a complex organization involving many different decisions and decisions makers will be led toward making a series of unrelated choices in response to the exigencies of many different moments. Such choices are

usually not synergistic (mutually reinforcing), and they may even be contradictory.

Consciously selected strategies are internally consistent in that they allow mutually reinforcing relationships among the resources of a business. Strategies that are only implicit or are poorly devised will often not have this important characteristic. This will result in a weak link in the strategy that may cause the entire strategy to fall.

In addition to having its own merits as an overall plan, a good internally consistent strategy also provides guidance for the many managers who must make tactical choices on a day-to-day basis. The existence and communication of a formal strategy ensures that these lower-level choices will be made in a fashion that is consistent with overall strategy. Without such formal guidance, middle managers are left to infer what the strategy is and what part their own choices might play in implementing it. Thus, the failure to develop and communicate a formal strategy leads to a series of guessing games that are not the stuff of which success is made.

The Need for Strategic Planning (John et al pp. 6 & 7)

Effective strategic planning – because it inherently involves foresight into an uncertain future – will probably always be carried out through a judicious mixture of reason and creativity, of analysis and judgment, of objective criteria and common sense. However, if the logical and systematic basis for planning is missing, it is unlikely that the planning will be effective over the long run. Thus, while there is much anecdotal evidence of casual and informal planning that somehow fortuitously resulted in success, there is also overwhelming evidence that such an approach cannot be relied on to do so,

Anti-planners might say that these failures may not have been avoided through logical planning. This is certainly true. Since these changing business environments were foreseeable, however, it is likely that a systematic and

logical plan would have allowed the companies involved to detect the assess these changes, whereas uncoordinated individual insights did not.

In a broad sense, the concept of corporate planning is universal and independent of geographical context and stage of economic development. Clearly, company management that fails to plan the future activities of the company is neglecting one of its major responsibilities and is courting disaster. However, it may be difficult to understand corporate planning as a concept and to evaluate it as a management practice because corporate planning methods may range from the very simple to the very sophisticated depending on the size of the firm, level of product technology, type of manufacturing operation, management attitudes and extent of government regulation of business. (Ref: United Nations Industrial Development Organization Vienna 1973 pp1)

Corporate planning at the most advance level does not exist in the developing countries. (Ref: United Nations Industrial Development Organization Vienna 1973 pp5) What examples do exist are found in

(a) The local operations of multinational companies with headquarters in the United States of America, the United Kingdom of Great Britain and Northern Ireland or the Federal Republic of Germany; and

(b) The large public sector or privately owned corporations in the more advanced of the developing countries. A prospective technical assistance programme in corporate planning will be of value only if managers already have command of basic skills. Then advance training in management methods and techniques can usefully be introduced.

To plan intelligently requires understanding what opportunities for profit there are in current and potential product lines. Each chief executive with experience in the firm will have accumulated a considerable store of knowledge about these profit opportunities. But since each chief executive necessarily follows some particular career path, he thereby gains less experience in some aspects of the business than in others. Thus a chief executive will be at least somewhat dependent on other employees for advice about what specific goals to adopt and about how these goals should be put into effect. (Richard et al 1995, pp. 123)

Much of this information and advice will come from low-ranking subordinates since it is often these subordinates – the scientists in the laboratories, the engineers in the manufacturing plants, the salespeople in the customer's offices – who will discover new opportunities for products, manufacturing techniques, and sales. The subordinates' contribution to strategic planning will then take the form of advice to superiors on how to pursue these newly discovered opportunities. (Richard et al 1995, pp. 123)

So when top-level managers adopt a new goal for the firm, or decide to pursue some goal in a new way, it is often because a subordinate has urged this new goal upon them. This is precisely what is called "Bottom-up Planning". (Richard et al 1995, pp. 123)

Who Should Do The Strategic Planning (James W. Taylor et al, pp. 12)

A number of people throughout the organisation will be involved in the planning process. Strategic planning is dependent on the availability of information and in most companies information is stored in a number of locations. A smaller group of people will interpret the information and decide what the raw data indicate about the past and the future.

A much smaller group of key executives will make the critical decisions that eventually become the plan itself. Exactly who the people in each of these groups should be varies with the talents and structure of every firm.

However, there is one person whose active participation in the planning is absolutely critical. That is the chief executive officer (CEO) of the firm. Unless that individual participates fully, the odds are that the strategic planning effort will fail. This is true for large and for small companies.

Why the CEO's role is Critical (James W. Taylor et al, pp 12)

Three compelling realities demand that the CEO participates actively in strategic planning. If any of these realities is violated in your organisation, you should not get involved with strategic planning. Instead, invest the same effort in improving operations in today's business while you hope for the best tomorrow. Experience has shown over and over again that there is no escaping this caveat.

The There realities of strategic planning (James W. Taylor et al, pp 13)

Strategic planning is not a system that can be installed as can, for example, a computer system. It is an ongoing process, a way of thinking about things, a way of making decisions. Therefore, strategic planning cannot be delegated.

In virtually every instance where the CEO has delegated the planning function to some lower level, and omitted his active participation, the emphasis shifts from the planning process itself to the "plans book." When the plans book is distributed, managers and others glance over it and then file it away with relief that the tedious task is over for another year. Planning conducted in such an atmosphere is unproductive and makes no impact on the firm's fortunes.

Since the CEO cannot delegate his responsibilities for strategic planning, he must be involved. However, two common problems occur when planning is first attempted, or when efforts are made to improve the results of planning.

One problem is that planning requires a different kind of effort than many CEO's are accustomed to making. Many dynamic CEO's are prone to action activities, to "getting things done." They judge themselves, and feel that they are judged by others, in terms of their tangible accomplishments. Furthermore, they usually gained their experience in one part of the business – manufacturing, finance, and marketing – and tend to give that area of their responsibilities the most attention.

The Purpose of strategic planning (Peter 1980)

The purpose of strategic planning is thus to accomplish a sufficient process of innovation and change in the firm. The purposes of these are to support and enhance the total planning process. Consequently, if a formal system for strategic planning does not support innovation and change, it is a failure. An activity that does not aid in the strategic decision making of the firm is not corporate planning, even though it may seem to involve many of the "right" elements of planning, such as elaborate five-year-plan documents, The five-year plan often does not influence strategic decisions; key executives rely on other decision-making aids. Effective corporate planning does not have to be elaborate or complicated, but it must be logical and focused on the strategic decisions that will have to be taken.

Avoid unnecessary complexity (Robert N. Anthony page 357 para 4

In the need to avoid unnecessary complexity Roberts explains that the tenet has two parts. The first is the idea that "the simplest methods make up the best system." This is just a restatement of the well-known principle of parsimony. Formal control mechanisms, for example, should never be used simply for the sake of sophistication when the same results could be achieved by some method of informal communication. The second part of this tenet is

the need to minimize change whenever possible. The greater the change in any organizational situation, the greater the resistance to it and the greater the likelihood of dysfunctional consequences. Organizations are so complex that change inevitably has ramifications that cannot be foreseen. Unanticipated consequence can appear either locally or in subsystems far removed from the local change.

When your strategy is deep and far reaching, then what you gain by calculations is much, so you can win before you even fight. When your strategic thinking is shallow and nearsighted, then what you gain by your calculations is little, so you lose before you do battle. (Kimberly 2001). Much strategy prevails over little strategy, so those with no strategy cannot but be defeated (Sen Tzu cited in Boar 1998, pp 56)

"If we are really serious about understanding strategic vision as well as how strategies form under other circumstances, then we had better probe into the mind of the strategist" (Mintzberg et al 1998)