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How strategic planning can help us through the present world crisis

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In times of turbulence our first reflex is often to begin solving immediate short-term problems. This is wholly justified when financial survival is at stake as in the present worldwide financial/economic crisis. It is however clear that short-term thinking will not get us out of this crisis. In fact, short-term thinking is one of the causes of the present crisis and similar events in the past.

Many people in the financial, political and business worlds may well think that this crisis illustrates the failings of Strategic Planning and Scenario thinking. We argue in this article that the crisis is to a large extent caused by a lack (or even absence) of long-term thinking and that we should use the methodology of Strategic Planning to get through this crisis.

We urge the business community not to sit back waiting till Governments and the world of finance have regained control of the situation. They might be waiting for a long time. Instead we need to look within and analyse where our own planning, our assumptions and our anticipation have failed. This will give new insights to assist getting through and using opportunities to come out stronger. In the end it will have to be businesses that get us out of the recession.

The urgent need for strategic planning

In good times Strategic Planning is considered by many as an optional exercise. In difficult times the verdict is often that it has failed. In a real crisis even mentioning the words 'strategy' and 'planning' is not exactly popular. In our view proper use of Strategic Planning should have anticipated the possibility of the present crisis and allowed businesses, politicians and the financial community to recognise the signals and respond timely.

We recall the success of strategic/scenario thinking in Shell in the 1970-1972 period that allowed the company to anticipate the 1973 oil crisis. Rabobank experienced similar benefits from advanced strategic planning using scenarios. The 'Future of Wealth Allocation' scenarios developed before the 9/11 crisis and later the '2003 Interest Rate Scenarios' developed and used before the credit crisis have helped to indicate potential risks and the options of how to turn these risks into strategic opportunities.

Both organisations make extensive use of scenarios in their strategic planning processes. Both have shown that one can imagine extreme events, recognise the signals and at least be

[1] Paul de Ruijter, Henk Alkema and Saskia Stolk are the authors of *Klaar om te wenden. Handboek voor de strateeg* (translation: *Scenario based strategy. The art of strategy in an uncertain world*). This handbook for strategy was published in February 2011.

able to respond. We urge businesses not only to respond to the present crisis by short-term problem solving and waiting for the storm to pass, but to respond to their particular situation using strategic planning methodologies.

The Strategic Planning Process

The model pictured below shows a sequence of processes. On the right-hand side we show the Planning part of the model where management has a guiding and supportive role. On the left the operationals are shown where management is fully in charge.

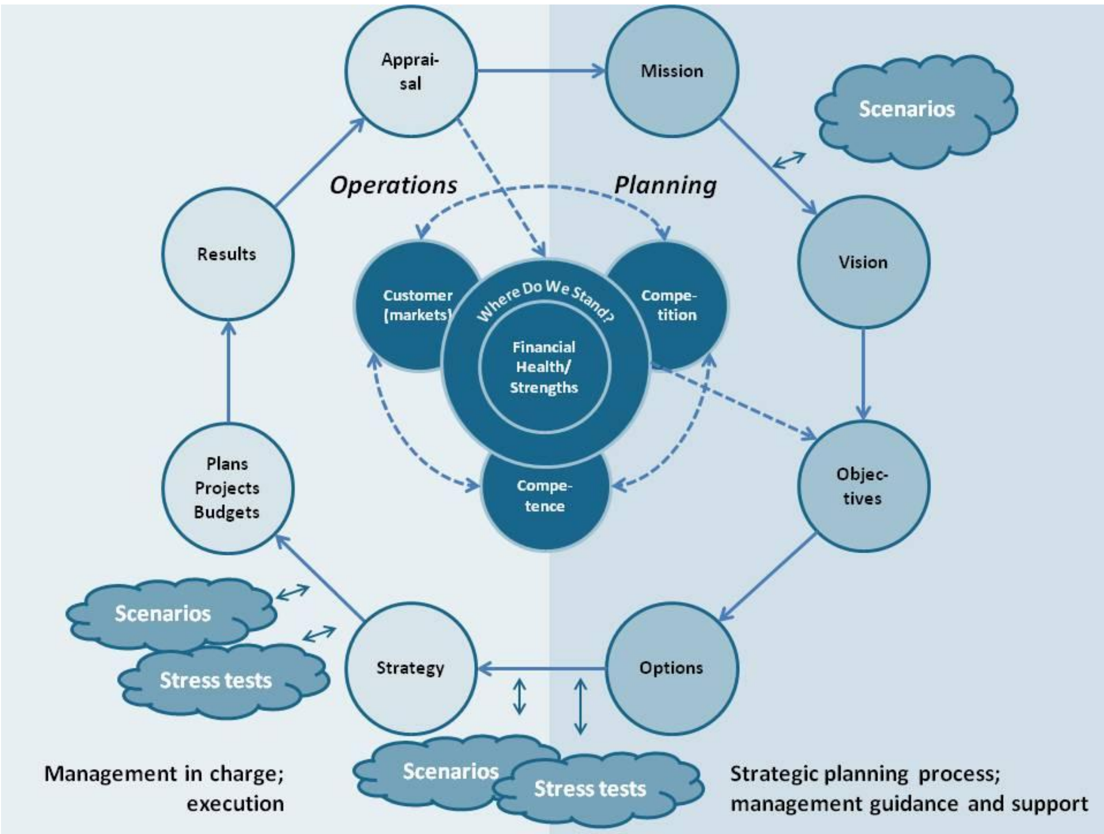

Figure 1: Strategic planning process

Some of the elements in this model, such as ‘mission’, apply to the entire organisation. Other topics, such as ‘objectives’, vary per level (corporate, division or business unit level). The heart and pillar of the entire strategic planning process is to ensure financial health and strength of the business over time. Its long term survival depends on it. Financial health is the topic that should receive every organisation’s first and foremost attention. Not because business is only about money, but because in the end all values concerning businesses are expressed in the language of money. Think of, for example, customer value, employee value (salaries and benefits), value created for suppliers, value created for banks (returned as interest), value to the government (tax), societal value (employment) and last but not least shareholder value.

This process is organised differently in every company or organisation. The model shown above is an example of what a strategic planning process might look like for a business. An important characteristic of the process is that it is cyclical and iterative. A manager constantly travels this process in his mind, which creates the awareness to continuously be able to notice weaknesses and to adapt to changed circumstances. An annual cycle focused on appraisal is generally used in business.

Every spin through the strategic planning cycle, regardless of whether it is a quick or a more comprehensive one, starts with an assessment of the financial health of the organisation and the question "**where do we stand**?", both financially and vis-à-vis clients, competition and competences (the 3 C's) . While doing this, it is not enough to only think about profit and loss. Assets, liabilities and *risks* should also be considered. In the past, a company might have been making huge profits, but if risks and liabilities were amassed and assets are facing potential large write-offs, the business might not be financially healthy. Here one will need scenarios to make a financial assessment. One will need to assess financial risks. What if customers can no longer pay for products or services, (new) competitors start a price war, competencies become irrelevant, or markets abroad are lost?

From the central question "where do we stand?", eight steps follow. The **mission** of an organisation is the answer to the question "who are we and what do we do?". Defining the mission requires a profound analysis of our current position: what we do (our profession), the business principles we have, and whom we serve (*raison d'être*). Which customers will continue to choose us over competitors, based upon true distinctive competencies? Whereas the mission defines who you are and what you do, the **vision** tells us where you want to go and what you want to be. A vision is a desired end state for the future (a hypothetical point of reference used to map out strategic choices). **Objectives** are in fact the quantitative translation of the vision into specific goals. Before you can decide on a strategy, you need to review your **options** (different ways to reach your objectives, such as specialisation, differentiation, mergers or acquisitions). The selected options are put in sequences contingent with different possible future scenarios. Together, they form a dynamic **strategy**.

Strategy is translated into practice in the form of **plans, projects, budgets** and execution. Analysis of plans, projects, and budgets is a great opportunity to take real strategic decisions. Continuously measuring **results** enables you to have a grip on the situation. **Appraisal** – comparing planned outcomes and actual results – tells you where you stand and is essential to preserve financial health. If appraisal shows that results are not as they should be, direct action is necessary. Unfortunately, in practice this is not always done, which can then lead to problems becoming bigger. Only with the complete strategic planning cycle in mind, one can determine whether operational adjustments are enough, or change of strategy is required.

Scenarios play a highly important role in the strategic planning process. Given the inherent uncertainty about the immediate future, you cannot simply continue 'business as usual'.

Therefore, the scenario space (thinking space) chosen, or at least considered, should be broad and allow for 'unwelcome' events or fundamental 'game changes'.[2]

It is important to realize that each element of the strategic planning process has its own timing. On the level of operations, making plans and executing them is a continuous process. Other elements of the process are not continuously looked at, but receive attention a few times a year or with longer intervals. For example, on the highest corporate level, the planning of projects is approved once or twice a year, and other moments are reserved for the appraisal of the project outcomes. Strategy, mission and vision are only reviewed as and when necessary.

The use of strategic planning: weaknesses observed in practice

Whereas the urgency of strategic planning is clear, practical mistakes made in the past have unfortunately fostered the unjustified idea that strategic planning has failed.

Do you really know where you are now?

Throughout the entire strategic planning process and therefore also in everyday business life it is essential to 'know where you are'. Have you got the right information? Are you kept aware of problems and weaknesses, are you told what lives at different management levels, are mistakes reported? Are your financial figures telling the whole story?

In our experience it would be useful to foster a culture within a company where there is no fear of bringing problems into the open. In many cases, when things go wrong, it is evident that the signals were there but that reporting was inadequate. People are 'blinded by strategy' and therefore tend to ignore weaknesses (warning lights).

More generally, in an organisation there is insufficient self-criticism, a too optimistic view of capabilities and competitive position and too much optimism in assumptions and expectations when preparing budgets and projects.

Growth is not a helpful target

Growth dominates the debate on countries and companies. Growth of GDP (itself a questionable summary of the state of a nation) is considered so important that when an economy experiences two quarters of contraction (this is even called 'negative growth') a recession is upon us. It is perhaps the absence of Strategic Planning at country level that is responsible for the inability to anticipate and deal with difficult times. It is the competitiveness of a nation that should be the target.

The world of individual businesses is different. Almost every business has experience with drastic changes in demand, competition, costs and technology. Unfortunately many (often spurred on by analysts) feel that they always have to grow: most strategies have growth as a target. They do not realise that not everybody can grow; in fact, it is impossible for all of us

[2] For more thoughts about the scenario space required by the current turbulence, we would like to refer to our article 'Chess or Go' (November 2010, www.deruijter.net/uk).

to increase our market shares. Growth is achieved by the strongest competitors and by newcomers. Growth is earned by winners. Big(ger) is not always beautiful. Lack of growth need not by definition be a bad thing.

Short term vs. Long term: act anti-cyclic

Ideally, activities like mergers, acquisitions, restructuring and destructuring should be done as a part of strategy, preferably not out of necessity. Yet, some decisions might be urgent now, because they were not taken when there was still room to manoeuvre. Paradoxically, in a crisis the focus tends to shift towards the short term – whereas a crisis is exactly the time in which decisions should be taken with long-term effects and implications in mind. In times of growth, businesses should abandon areas where they are weakest and close down non-efficient plants and equipment. In a crisis situation this is more painful and sell-offs deliver less. Even worse, selling those assets eventually create new low-cost competition using your old written off assets! Therefore, never leave the long term out of mind or you will always lag behind.

Question your certainties, embrace uncertainty

Particularly in an uncertain, turbulent world, there is always a temptation to let yourself be blinded by strategy and to reassure all stakeholders. The paradox is, however, that the more you stress that "everything is under control", the more stakeholders will question you. Stakeholders (employees, shareholders, clients etc) all know that there is a crisis, and by reassuring you will only flag that you have no clue what is going on, thus creating more uncertainty! Show that you embrace uncertainty, and that you are making the effort to plan for all possible scenarios.

Increase the scenario space

As mentioned earlier, scenarios should allow for 'unwelcome' events or fundamental 'game changes'. The scenario space is often limited by a lack of imagination, or a false sense of certainty. The 9/11 Commission Report describes how a lack of imagination led to a situation in which significant signals were ignored, just because people failed to imagine what could happen. With the 9/11 terrorist attacks, the idea of using an aircraft as a weapon of mass destruction, for example, only very slowly worked its way into the thinking of aviation security experts. Although some government agencies were concerned about dangers of aircrafts being hijacked and had speculated about various scenarios, those scenarios were not fleshed out and tested, let alone turned into constructive preventive action.[3] This would have required an open mind and scenarios that enabled what all great movies do, the 'suspension of disbelief'. The question should shift from "this scenario cannot happen", to "what would indicate it is happening, and how can we be prepared?". Envisaging what-if situations enables us to anticipate future problems and recognise signals early.

[3] *The 9/11 Commission Report. Final Report of the National Commission on Terrorist Attacks Upon the United States* (2004), pp. 344-6.

M&A is not the panacea

M&A is often overrated as a strategy. First of all, in many organizations there is a boundless optimism about synergies and the ability to absorb other cultures. Apart from that, the possibility to "grow yourself out of problems" is a myth. Yes, you might hope that a 'knight in shining armour' will 'merge' with your company and solve all your problems. And yes, there will appear to be great takeover candidates. But in practice, M&As have a bad track record. A quick marriage in times of crisis is seldom a solution.

Destructuring; the art of letting go your weaker businesses

The opposite of M&A – investing for growth – is destructuring: untangling parts of your activities/organization before restructuring.[4] Demergers can be very rewarding, if you choose the right timing. Timing of buying and selling is crucial. Many organizations suffer from a lack of patience and buy too much in good times, for prices that are too high. In bad times, they do not have time to think of the best way to get rid of their weak activities. Instead, they have to sell them at any price.

Although it may feel unnatural, organizations should divest in good times, when there is enough time to deal with your weaknesses. Instead of "buying high and selling low", divesting in good times enables an organization to make money with its weaker parts in good times and save money in times of turbulence, because less profitable activities were already stopped before. Selling off in a panic is rarely a good idea.

A quick spin around the strategic planning cycle

Weaknesses in strategic planning, or total lack of it, have led to spectacular mistakes. Long-term strategic planning and being prepared for unforeseen events were everything but common, as the financial crisis of 2008 proved. We are experiencing turbulent times, in which many organisations are either in denial or in panic mode. It would be very unwise, however, to wait until the macroeconomics have been sorted out – you could wait forever! But taking 'drastic decisions' in a panic to appear 'a strong leader' is not the way either.

Fortunately, it is never too late to introduce strategic thinking in the planning process, even when in the middle of a crisis. Normally, it would be recommended to (re)visit all steps of the whole planning and execution of the strategic planning process on a regular basis. But in times of crisis, we do not have years to review strategy. A quick spin of the strategic planning process is needed, in which all scenarios and all options are open for discussion and taboos no longer exist. The strategic planning process is compressed, to make sure all steps receive attention in a very short time frame.

[4] While working for Andersen Consulting on "The changing structure of the global chemical industry" (Financial Times Energy 1999), Henk Alkema coined the word 'destructuring'. Shell Chemicals had applied destructuring in its Select and Focus strategy of the 1990s.

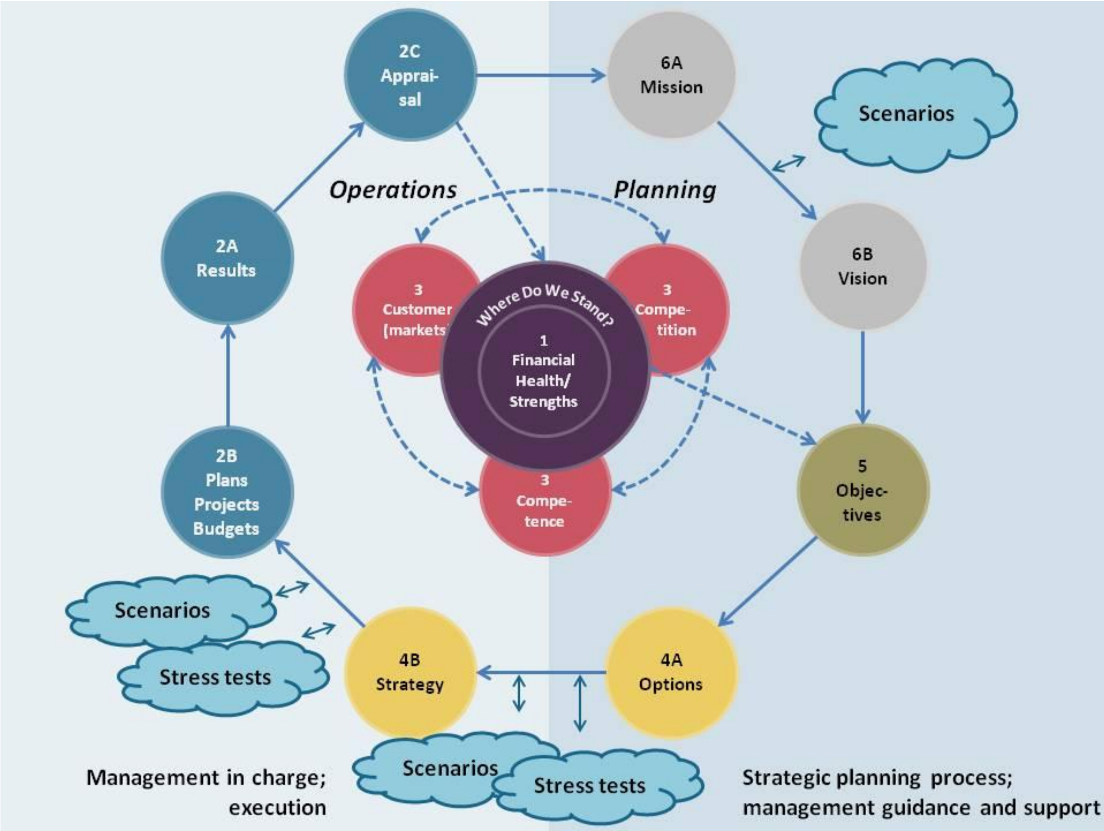

Figure 2: A quick spin through the strategic planning process in times of turbulence

1 Where do we stand?

A quick spin of the strategic planning cycle starts with the question in the heart of the scheme: ***where do we stand***? What is happening in your business area? What are immediate problems? What are threats? And what does that mean for the financial health (on a corporate level, but also on the level of divisions and business units)? Although businesses are experiencing turbulent times, this does not automatically mean that their financial health is as bad as that of, for instance, countries or financial markets.

2 Results, plans and appraisal

The second step consists of three elements: **results**, **plans**, and **appraisal**. First of all, results are gathered. Next, they are compared with the initial plans. Assumptions underlying every plan, project and budget (for instance the volume of demand, competition, prices, and market share) are compared with actuals; they may have been proved wrong. Given the new situation, what makes sense now?

The comparison of plans and assumptions with results and actuals is called appraisal. Appraisal gives us insight into the weaknesses of our planning and it is in fact a reality check. It enables organisations to recognise unforeseen outside effects and to identify where their assumptions, certainties, and plans took them the wrong way. It is essential to take direct action in response to appraisal. That is often not the usual response of companies. Many times, weaknesses and operational failure are tolerated.

3 The 3 C's

When the appraisal is completed, the **3 C's** are considered to find areas where remedial action is needed. Are the weaknesses the appraisal showed related to **customers** (which customers are loyal and can afford us, which are we losing or do we allow to be lost), **competition** (who is winning, who is losing, what can we learn, how can we differentiate), or **competence** (where are we really good, and what incompetences are now becoming clear)?

4 Options and strategy

Revision of strategy can also be necessary in response to appraisal. Actually, the biggest strategic decisions are often taken in times of crisis, when it is easier to stop projects or reduce budgets than in times of growth. Appraisal is turned into strategic **options** and **strategy** to take immediate, short-term strategic action where it is urgently needed. The purpose of this is to actually tackle the weaknesses that underlie the underperformance, to secure the long-term survival and financial health of the organization in any scenario. This may require fundamental choices between strategic options!

In times of crisis, some options are swept off the table, exit options may need to be exercised and new options emerge. The time of action is the moment to exercise call options and put options: are there any cancellation clauses in contracts (put options) you should exercise or new opportunities (call options) you could grasp? The action might take different forms, such as crisis plan(s) flowing from scenario-based stress tests new style or a review of (the timing of) projects. An organisation might also decide to prepare to exit its weakest parts or to revise budgets.

5 Objectives and plans

To implement the restated strategy, new realistic **objectives** and **plans** have to be formulated and adopted. This requires the inclusion of, and active dialogue with, internal and external stakeholders. All stakeholders will want to know what the implications are for them.

This is also a good moment to use scenarios and stress tests. If the appraisal showed that some parts of our planning are weak under the current circumstances, what will happen if one of our worst case scenarios materialises? Would we survive such a situation?

Linked to the issue of pretending to be in control in times of turbulence, is the wrong use of stress tests. It is all too easy to say that "we can weather all storms"; "we have passed stress tests". This may only indicate that your stress tests were not severe enough. The purpose of stress tests is not to prove that you are strong, but to show where your weaknesses are.

Most stress test exercises start with scenarios of what might happen to threaten the business. In practise those scenarios will be passed and a false sense of security is created. Many banks easily jumped the hurdle of the 2010 European Union stress tests for banks and only a few appeared to be vulnerable. Shortly after that, many banks proved to have problems not showing up in the tests. Different banks proved to be very different in terms of risk profile. To use the same test for different banks proved to be wrong.

In these times of great turbulence we need new kinds of stress tests tailored to show weaknesses in individual banks (or other businesses) by showing circumstances where their operations would suffer. Having identified those weaknesses, businesses could then find ways to improve their resilience

6 Mission and vision, business principles, standards and culture

At the end of our quick spin through the strategic planning cycle, the **mission** and **vision** need to be reconsidered. Do they still suit the organization, even with its new plans, objectives and strategy? Is our vision still attainable? If not, the mission and vision will have to be adapted. If the definition of the mission changes, the vision will automatically change along with it.

In this process, **business principles, standards and culture** should not be overlooked. These are most at risk in times of crisis. However, business principles, standards and culture should be adhered to as long as possible and they should be the last to be abandoned.

Strategic planning in times of turbulence

The world has been in 'crisis' for more than a decade now. Remember the dotcom bubble burst in 2001, 9/11, the Iraq invasion in 2003, the $140 Oil price hike in 2007, the US housing crisis, the US Credit Crisis and now the European Debt crisis? With each crisis the focus tended to be on solving yesterday's problems. And each subsequent crisis came as a surprise to most leaders. But what is next? Do we turn our back to the future, or do we look ahead and embrace uncertainty?

Looking back, the end of the 1971 Teheran Agreement, the subsequent volatility in the oil market and the consecutive crises of 1973 and 1979 together created a decade of turbulence. Apart from immediate economic effects, the two oil crises also had many secondary, macroeconomic and political effects. For instance, the oil price influenced inflation rates. Economic growth decreased and led to stagnation. This resulted in increased unemployment and collapsing housing markets. This chain of effects created a long period of turbulence, which was much more profound that just 'a single crisis' and not something that could be 'solved' right away.

Right now, we are living a similar period of volatility and turbulence. After the roaring nineties, the 2001 dotcom bubble was the beginning of a decade of financial turbulence, in which we experienced enormous upswings and downswings. Because of this turbulence, many organisations have shifted their focus from long-term strategic thinking to short-term problem solving. Since they were caught by surprise by unexpected developments time and time again, they have given up strategic thinking "since the future is unpredictable anyway". They are overtaken by events and they live from crisis to crisis in a survival mode.

However, as argued above, precisely in times of crisis it is essential to focus on the long term and to think and act strategically. Instead of distinguishing the dotcom bubble, the American housing bubble, the credit crunch and the current debt crisis as individual crises, we could also just say that we are a experiencing a period of serious and increasing turbulence. There are different ways to deal with this turbulence. One of them is to give attention to all stages of the strategic planning process, and to be aware of your mission, vision and strategy and their interface with the turbulent circumstances in which your organisation operates. Only a long-term focus and a strategic approach will allow your organisation to survive and to emerge stronger.

About the authors

Paul de Ruijter (MSc. in Business Engineering from the University of Twente) (Business Engineer, University of Twente) has been a strategist since 1992. Paul de Ruijter learned the trade at Shell Group Planning in London. He is the director of De Ruijter Strategy, developing and steering scenario and strategy projects. Over the years, he has helped organisations such as the Rabobank, Dutch Shipbuilding Association, Dutch Food and Consumer Product Safety Authority, Dutch Ministry of the Interior and Kingdom Relations, Dutch Ministry of Defence, the International Energy Agency and the World Business Council for Sustainable Development with their conversations about strategy and guided their explorations of the future. Paul de Ruijter is the (co-)author of several books, including Overheid en industrie, Regeren is Vooruitzien, Oog voor de toekomst, Scenarios for Success, Vereniging met Toekomst and Klaar om te wenden.

Henk Alkema (Doctor of Chemistry, University of Groningen). After 10 years at Shell Research (Amsterdam) joined the new Shell Group Planning division in 1971, where he worked with Ted Newland on Long-Range Planning and Technology Forecasting. Their work in 1971-1972 resulted in controversial scenarios regarding high oil prices during the period 1971-1985, which were included in the first set of Shell scenarios in December 1971. 1972 saw the completion of supporting Individual Producer Government Take/Production Strategies, which had already played a key role in the reasoning behind the price scenarios. This early work led to an ongoing interest in strategic planning during Alkema's further career at Shell and his subsequent work for Booz Allen Hamilton and Andersen Consulting (1994-2000).

Saskia Stolk (MA with Distinction in European Studies, University of Amsterdam and MA with Distinction in Romance Languages and Cultures, University of Groningen/University of Barcelona) is a writer/researcher at De Ruijter Strategy. During her studies, she attended a work placement at the Dutch Embassy in San José, Costa Rica, where she researched the options open to Dutch entrepreneurs in Central America in the area of sustainable energy. Saskia is co-author of Klaar om te wenden (Ready for change), published in 2011.