

Does Formal Strategic Planning Really Help?

ELMAR Contribution by J. Scott Armstrong

March 16, 2005

Some experts recommend that firms should adopt a flexible (informal) approach to developing marketing strategy. Formal planning, they say, can be a straightjacket that harms performance, especially when there is much uncertainty and change. Research has shown this to be incorrect.

Not all approaches to formal planning are useful. Consider Porter's Five Forces, experience curves, mission statements, focus groups, SWOT, scenarios, and portfolio matrix methods like BCG. These methods are popular. Using Google, I searched for these terms plus the word "planning" and found from 940 sites for experience curves, to 2,330,000 for scenarios. However, I am unaware of any evidence that these procedures lead to better planning. On the contrary, there is evidence that some of these procedures are harmful to performance.

Some formal planning procedures do work.

To identify effective formal planning procedures, I reviewed research on corporate planning. This led to the development of a five-step formal planning process with explicit (written) procedures for:

1. determining the firm's long-range objectives,
2. generating alternative strategies,
3. evaluating alternative strategies,
4. monitoring implementation and outcomes, and
5. gaining commitment from those who will be affected by the plan.

Laboratory studies with small groups show that use of each of these steps improves group performance.

But does this five-step process help in large organizations? To address this, I searched for comparative empirical research on corporate planning procedures in firms and other organizations. Some of these studies looked at performance (e.g., profits) after formal planning procedures were introduced. Some compared organizations that used these procedures with those that did not. Also, in an experimental study, organizations received funds for planning, but for half the organizations the funds were contingent on following the five-step planning process.

Overall, formal planning was more profitable in 20 studies (including the experimental study), and harmful in only 3 (there were 5 ties). What is remarkable about these results is that with the exception of the experimental study, none of the organizations followed all aspects of the formal planning process. In many cases, one might judge the implementation of the process as poor.

And, of course, there were often factors other than the planning process that might affect performance.

Since completion of my reviews, I have become aware of 14 recent studies, and formal planning was superior in 13 of them. Thus, despite problems with implementation and assessment, formal planning was associated with better performance in nearly 80% of the 42 studies and poorer performance in fewer than 8% of them.

Formal planning works under some conditions.

These results are also remarkable because, judging from the research, formal planning is only expected to be useful for situations involving:

- Large changes, such as for mergers, or when new products are introduced, or when a firm makes major changes in its marketing,
- High uncertainty, such as when facing changes in the economy or changes in government regulations,
- High complexity, where different parts of an organization need to work together, or
- Inefficient markets, where prices do not provide signals.

Because these conditions are common, however, many organizations could use some or all of the five-step process to improve performance.

Few, if any, organizations use this five-step procedure for planning.

Descriptive studies of planning show that few organizations use aspects of this five-step procedure. I have never encountered an organization that uses all steps, so I would appreciate hearing about such organizations.

[The above findings have been described in a series of papers available in full text under "Strategy and Planning" at <http://jscottarmstrong.com>. Additional studies are summarized in George Boyne's "Planning, Performance and Public Services," *Public Administration*, 79 (2001), 73-88.]