

Strategic Planning in Unstable Environments

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This article draws from a multinational survey of 886 firms to show that as environmental instability increases so does planning. However, certain planning dimensions are more strongly associated with environmental instability: in particular generative planning and transactive planning. The two other planning dimensions – Symbolic and Rational Planning – are more strongly associated with firm size than with environmental instability. Planning dimensions might therefore serve different purposes. The implications for managers and academicians, and a case study illustrating how they are being implemented at General Electric in the US, conclude the article.

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Introduction

Ask managers about the state of their competitive environment and most will confirm that product life cycles are shortening, technology is changing faster and faster, customers are becoming more demanding and competition is intensifying. Simply put, environments are not getting more stable or any easier to compete in, and therefore an important question is how should planning adjust in the face of these more challenging contexts? This article sheds light on this question. Strategic planning is decomposed into four dimensions and the effect of environmental instability on each is tested. To identify factors other than environment that explain differences in firm-level planning we also find that planning duration, planning decentralisation and firm size can have an impact. How each planning dimension correlates with firm performance is also explored, and the article concludes with implications for managers and suggestions for further research. Finally, to provide insights into how some of our findings are being implemented, we report on some recent changes at General Electric (GE), one of the world's best-managed companies.

Our findings are important to managers for many reasons. We show that planning increases as environmental instability grows. However, we also show that factors within management's control (the extent of time that planning has been underway and the decentralisation of planning) are stronger at explaining increases in planning than external environmental conditions. Further, two

planning dimensions in particular are strongly associated with environmental instability (Generative and Transactive Planning), indicating that of the four dimensions these are the most sensitive to environmental instability. In addition, Firm Size more strongly associates with the other two planning dimensions (Symbolic and Rational Planning), suggesting that these dimensions are better at providing structure and stability as firms grow than they are as tools to deal with environmental instability. Planning dimensions might thus serve different purposes. Finally, we find that three planning dimensions associate with improved performance. Unexpectedly Symbolic Planning does not.

Some early clarification is warranted. We do not investigate planning capabilities per se directly but only whether planning increases/decreases as environmental instability, planning decentralisation, firm size etc. change, and then whether better performance is associated with increases in planning levels. Though the positive planning/performance correlations do indicate superior performance is associated with higher planning levels, whether the planning of our sample firms correspond to the highest standards of planning is not evaluated. Nevertheless, that an improvement in the levels of three planning dimensions associates with enhanced organisational performance suggests these are behaviours adopted by high-performing firms in unstable environments, regardless of the absolute levels of planning noted among our sample.

Strategic planning and environment

Though planning is unequally distributed across firms, the reasons for this remain mostly unknown.¹ Environment has long been suggested as a moderator of planning, but initially its role was controversial: early studies rejected formal planning in favour of incrementalism in unstable environments, and concluded that environment moderated the type of planning that firms should conduct: in stable contexts formal planning was recommended; in unstable contexts incrementalism was preferred.² More recent studies found both formal and incremental planning present in unstable environments, and provided evidence to reject the hypothesis that environment moderates planning type on an either/or basis. An alternative hypothesis that planning in unstable environments includes both formal and incremental planning, and possibly other types of planning too, was thus supported.³ To test this proposition we measured four dimensions of planning and investigated how environmental instability impacted each. Our hunch was that in stable environments less planning would be observed, and that in unstable environments the opposite is true: more planning across multiple dimensions would be noted. Our findings show this to be so.

Below we explain how our four dimensions originated and why each should positively associate with performance. Study methodology, results and limitations follow, and GE's planning changes implemented over the past few years and the study's implications for managers and academicians conclude the article.

Strategic planning dimensions

Conventional wisdom now accepts strategy formation involves a complex and diverse set of processes that incorporate a wide range of organisational behaviours and capabilities. Contradictory and paradoxical organisational competences are involved: broad vision and attention to detail; bold moves and incremental adjustment; decisiveness and reflection.⁴ Hart captured this complexity in five modes, each representing unique elements of strategy formation.⁵ Our multidimensional conceptualisation of strategic planning was based on this framework, but with amendment.

Hart's strategy-making *modes* were reconceptualised into strategic planning *dimensions* owing to the composition of Hart's framework and measurement protocols.⁶ Though purporting to model strategy formation, only one of Hart's five modes (the Rational Mode) directly measured planning, and his Generative Mode fell outside the ambit of planning altogether. Hart's Generative Mode was

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