

STRATEGY FORMATION: BEYOND STRATEGIC PLANNING



A BRIEFING PAPER FROM LA PIANA ASSOCIATES, INC.

WHAT IS STRATEGY?

STRATEGY generally refers to the choices an organization makes about how to accomplish its mission. To be successful, a nonprofit must have a clear vision (the future it seeks to create), a powerful mission (purpose), and sound values. Based on this foundation, it can determine the goals it must achieve in order to advance its mission. It then must decide how – what strategies it will use – to achieve these goals.

To be sustainable, nonprofits must regularly examine and adjust their strategies as situations change and opportunities arise. Today, scarce resources and a constantly shifting environment are forcing many nonprofits to reconsider their current strategies or to explicitly undertake strategy development for the first time. All indications are that future success will require much more rapid strategic rethinking and repositioning than are now the norm in the sector.

At present, nonprofits most frequently look to traditional strategic planning as the primary tool for forming strategies. Strategic planning is generally described as an inclusive, collaborative process that involves the following activities:

- ◆ Developing an understanding of the organization's history,
- ◆ Rigorously assessing and developing consensus on the mission,
- ◆ Systematically examining the external environment,
- ◆ Identifying the goals that will mark advancement of the mission, and
- ◆ Determining ways (strategies) to achieve these goals.

Ideally, strategic planning should make the organization more “strategic” – that is, better able to meet the challenges of a dynamic environment. Experts stress that the most important outcome of strategic planning is to instill strategic thinking in

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the organization; they generally agree that strategic planning is only useful if it supports strategic thinking and leads to strategic action by management.

OUR EXPERIENCE WITH STRATEGIC PLANNING

LA PIANA ASSOCIATES has facilitated strategic planning processes for many groups. We have seen the benefits of strategic planning, particularly as it solidifies and motivates staff and board around the organization's vision, mission,

and values. Additionally, the process encourages communication and inclusiveness, which is especially important in organizations that have a culture of formal, less open communication.

Despite these benefits, we are keenly aware of the limitations of strategic planning, especially for nonprofits that cannot afford the time and expense that traditional strategic planning requires. In response, we created our own simplified process for enabling nonprofits to successfully develop a flexible strategic plan that can guide them into the future. While this process has definite benefits, we have also observed that these are often unrelated to forming effective strategies and incorporating strategic thinking into operations on an ongoing basis.

In our experience, formal strategic planning all too often is not an effective tool for strategy formation. Many other researchers, in both the business and the nonprofit sectors, have arrived at the same conclusion.

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TO ADDRESS the need for alternatives to strategic planning, in late 2003, La Piana Associates launched an initiative to identify, develop, and disseminate alternatives to strategic planning for forming organizational strategies. This

project, called *Strategy Formation: Beyond Strategic Planning*, is supported by the W. K. Kellogg Foundation and the David and Lucile Packard Foundation, and is conducted in partnership with the Hawai'i Community Foundation. The first phase of this two-year project entails broad research, including a focus on what can be learned from the business literature. We have conducted interviews of leaders and academics in both the

business and the nonprofit sectors to learn their viewpoints on, and experiences with, strategy formation and strategic planning.

In this paper we summarize what we have learned at this early date in the project's life. We include a brief review of the reasons underlying the growing dissatisfaction with strategic planning, and the experience of the business

sector with the alternatives that have evolved. Additionally, we summarize the findings from our interviews with nonprofit leaders.

THE LIMITATIONS OF STRATEGIC PLANNING

UNFORTUNATELY, the desired outcomes of strategic planning – creating or strengthening a culture of strategic thinking and management – are all too often not realized. For example, Paul Light, of the Brookings Institution, found that: “According to a review of 66 separate studies of strategic planning, the link between planning and organizational success is weak at best.”

What leads to these less-than-optimal outcomes? A critical limitation of strategic planning is that it creates too great a separation in time between *thinking* and *doing*. A nonprofit typically requires 9-12 months to complete a strategic planning process. During this time it is often difficult for the nonprofit to respond to emerging opportunities or threats, because it has not yet agreed upon a

“direction,” and is thus worried that any new commitments it makes will be out of line with the official strategic direction, which is still forthcoming. The organization is essentially “on hold,” unable to move until its strategic plan is completed.

The usual strategic planning process also requires significant resources – both funds, and staff and board time. Experts, with good reason, stress that the process must be inclusive. But, in order to achieve this, day-to-day work is often compromised; and, at times, it comes to a grinding halt. This is particularly true for small organizations.

Typically, the process requires environmental research, which is expensive and time-consuming, and thus is often out of reach for resource-thin organizations. Further, it is often counterproductive for nonprofits that function in rapidly changing environments and that need to be quicker and more nimble in developing strategies for moving ahead. The “environmental scan” presupposes that the nonprofit's world will remain relatively stable, or at least that the changes it will experience are foreseeable. Otherwise, the scan is nothing more than a snapshot in time: “*This is how the world looks to us today.*” This is problematic. In dynamic and unpredictable environments, such as the sector is currently experiencing, the forward-looking environmental scan may quickly become a glance in the rearview mirror.

Moreover, despite the desire to be inclusive, planning is usually carried out by a select group of board and staff leaders. Yet the plan itself must be implemented throughout the organization. This typically includes many individuals who had little involvement in the creation of the plan, and thus may have little investment in its success.

Increasingly, nonprofit executives find that their performance assessment is tied to achieving specific goals articulated in a strategic plan. This admirable attempt at accountability by nonprofit boards can result in leaders working very hard to accomplish goals that have become less important in light of newly emerging opportunities. In the worst case, the plan's goals may be rendered irrelevant by shifts in the external environment and the subsequent responses that are required.

Thus, both the process and outcomes of strategic planning can be more detrimental than positive. According to strategy theorist

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Henry Mintzberg, “Strategy and planning are two words that do not go together.” The traditional strategic planning process can cause nonprofits to lose valuable time, expend scarce resources, and divert their attention from more strategic activities. And, finally, organizations may overlook or dismiss promising, but unanticipated, opportunities since they are not “in the plan.”

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THE BUSINESS SECTOR’S EXPERIENCE

THE LIMITATIONS of strategic planning have long been known in the business sector, where it rose to prominence in the 1950s, and fell from grace in the 1970s. It is interesting to note that, at about the same time that business strategists began to see the limitations of strategic planning, in the mid 1970s, nonprofits embraced the practice. It has now become standard and has achieved the status of a near-requirement in the sector.

Strategic planning has been studied extensively by leading business thinkers. In fact, the business sector has generated a substantial body of literature on strategy formation. Little of this knowledge, however, has been adapted for use by nonprofits. Given the heavy reliance of nonprofits on strategic planning, it is worthwhile to examine the experience of the business sector, and to draw from it as applicable.

ALTERNATIVE APPROACHES TO STRATEGY FORMATION

IN THE LATE 1990s, Henry Mintzberg and his colleagues reviewed the strategic management literature of the past fifty years, identifying ten distinct “schools of thought” on how businesses actually form strategy, as opposed to how they talk about it. Planning is just one of the approaches they identified, yet the nonprofit sector has latched on to it as if it were the only legitimate way to address this essential challenge.

Kevin Kearns categorized strategy formation into three approaches: *Analytical* (driven by data), *Visionary* (driven by the leader’s vision of the future), and *Incremental* (a gradual process of finding the right answers through trial and error). Strategic planning, in this articulation, is an analytical approach.

Our review of the literature revealed other alternatives – some of which are variations of the above. These include a *learning model*, in which incremental strategic decisions are based on the organization’s ongoing, collective experience; *entrepreneurship*, in which a charismatic and perceptive leader provides the strategic drive for an organization; *positioning*, in which a nonprofit stakes out a unique niche within a market; *muddling through*, in which managers make decisions in reaction to events rather than in anticipation of them; and *people first*, in which strategy is preceded by selection of the “right” people.

Approaches such as these represent an exciting set of strategic options for the sector. These and other alternatives have potential to address the gap between the need for flexible, accessible, and sound processes for forming effective strategies on an ongoing basis, and the sector’s over-reliance on inadequate, one-size-fits-all strategic planning processes to achieve these ends.

NONPROFIT LEADERS’ EXPERIENCE

STRATEGY is at the heart of good nonprofit leadership and ultimately accounts for much of the success or failure of a nonprofit enterprise. Sound strategic decisions also lead to financial sustainability. Our interviews with twenty-two strategic-thinking nonprofit leaders revealed that alternatives to strategic planning are being used successfully throughout the sector. However, these success stories are not widely known, as the nonprofit leaders who practice them may have limited opportunities to share their practices with their peers. Moreover,

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strategic thinking is intuitive to many of these leaders; they don't necessarily identify themselves as doing anything unusual.

NEXT STEPS

A KEY PURPOSE of the project is to surface effective, alternative methods of strategy formation and to share these approaches with nonprofit leaders in ways that will be most useful to them. In the next phase we will develop practical tools that leaders can apply in their organizations to support strategic thinking and strategic management. Along the way, we will share drafts of these tools with capacity builders and others, seeking their input.

Following this, we will pilot the tools with a sample of nonprofits, whose feedback will help us further refine the tools. While every nonprofit

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is unique, we will seek to determine whether some of the alternatives are more generally effective than others and/or whether there are specific organizational characteristics that influence which alternative will be most effective for an organization. Following the pilot phase, we will disseminate the tools and the project's findings broadly to the sector.

A key objective of the project is to share knowledge broadly in the sector. This paper is just one part of our effort to achieve this end and is intended to stimulate an ongoing discussion. We are extremely grateful to all the business leaders, consultants, and nonprofit leaders who have taken the time to share their experiences and knowledge with us. We will seek additional input continually over the course of the project. Our purpose is to aggregate and synthesize this knowledge into tools to be shared with the entire sector.

If you have questions or would like to share

your thoughts and experiences with us, please contact Michaela Hayes, Director of Research and Development, at 510-653-0282 or hayes@lapiana.org. As the project progresses, we will issue periodic updates. Currently, our Web site, www.lapiana.org, has a section dedicated to this project where we will periodically post updates.

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LA PIANA ASSOCIATES INAUGURATES NEW SERIES OF BRIEFING PAPERS

LA PIANA ASSOCIATES, a management consulting firm serving the philanthropic and nonprofit sector, is continually engaged in research and development activities aimed at bringing new and promising practices to the sector. Some of these efforts – such as our Strategic Solutions project, which developed tools and knowledge about strategic restructuring – are well known, as evidenced by the 4,000+ visitors to our Web site (www.lapiana.org) each month. Other research efforts are under development. In order to share our learning and engage the sector in a dialogue on an important and interesting topic, we will occasionally produce a briefing paper, such as this one, highlighting an aspect of our current R&D agenda.

