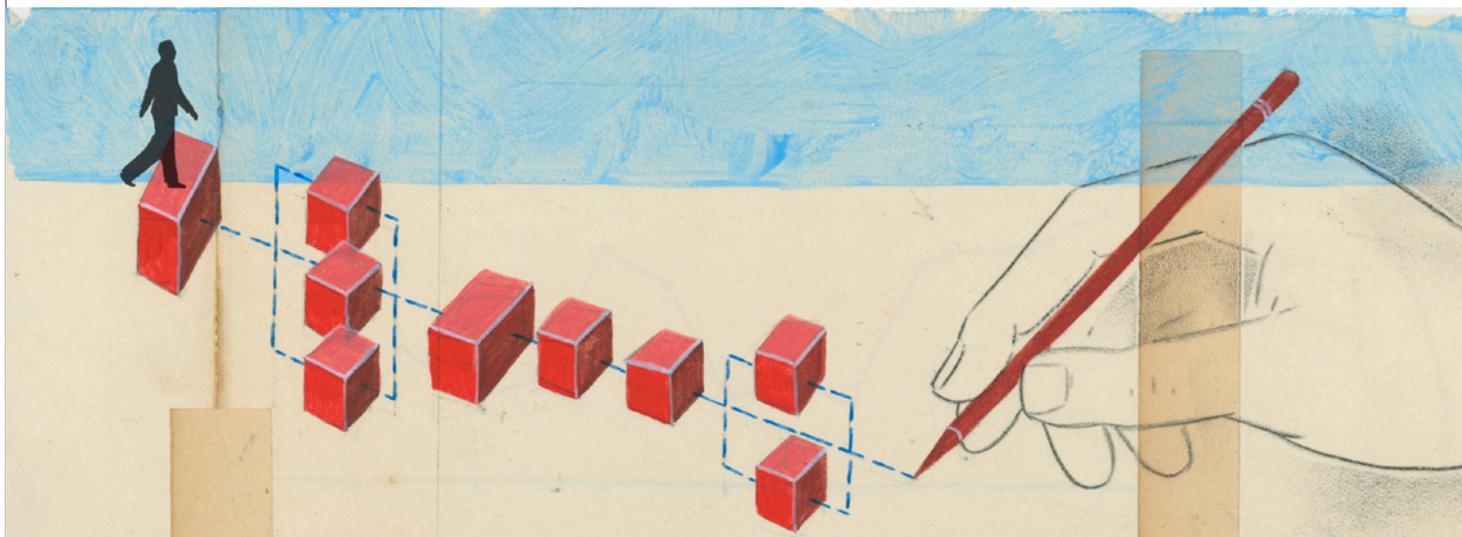


Improving strategic planning: **A McKinsey Survey**



Leigh Wells

Most companies have a formal strategic-planning process but don't use it to make their most important decisions, according to a recent survey.

Fewer than half of respondents are satisfied with their company's approach to making strategic decisions; top-level executives are happier than others.

Greater satisfaction could come from improving companies' ability to align their people with their strategic plan and from monitoring progress against the plan.

Improving strategic planning: **A McKinsey Survey**

Executives say their companies could be a lot more effective at developing a strategy and implementing strategic plans, and they suggest some areas for improvement.

Strategic planning is critical to the continued success of any organization, yet fewer than half of the executives who responded to a new online survey conducted by *The McKinsey Quarterly*¹ say that they are satisfied with their company's approach to planning strategy. Further, although more than three-quarters of the respondents report that their company has a formal strategic-planning process, fewer than a quarter say

that the process is key to making their most important decisions; senior executives—most important, the CEO—drive decision making. The executives also raise significant concerns about the way their company executes the strategy, communicates it, aligns the organization with it, and measures performance against it.

¹*The McKinsey Quarterly* conducted the survey in late July and early August 2006 and received 796 responses from a worldwide panel of executives. All panelists' responsibilities are primarily financial or strategic, and they work in a wide range of industries for organizations with revenues of at least \$500 million.

Who decides?

More than half of all respondents say that at their company the important strategic decisions are made by a small group of senior managers, including the CEO (Exhibit 1). Perspectives vary on who leads this decision making. Thirty-nine percent of those with a strategic-planning process in place say that the CEO leads their company's process. However, in one of many notable differences between C-level executives² and other survey respondents, 46 percent of the C-level respondents say that the CEO (or the person holding an equivalent position) leads the process. Only 34 percent of other executives concur; they are much more likely to attribute leadership to a chief strategy officer or a strategy group that exists at the corporate or business unit level.

²Board members, CEOs, CFOs, and other top executives.

Exhibit 1

A small group decides

% of respondents¹

Which choice best describes the way important strategic decisions are made in your company?



¹All data weighted by GDP of constituent countries; respondents who answered 'don't know' are not shown; figures sum to 100% because of rounding.

Greater satisfaction

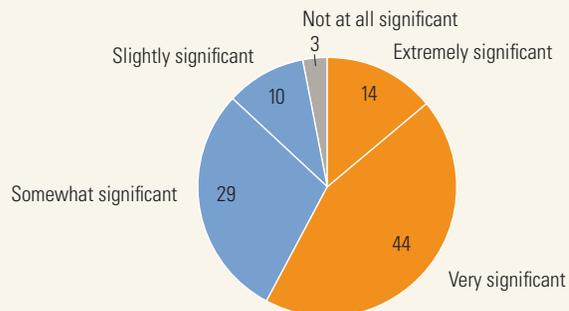
No matter who leads the decision making, executives at companies that make good use of a formal process seem to be more satisfied with strategic planning. Among respondents whose companies have a formal process, more than half say it plays a significant role in developing corporate strategy (Exhibit 2). That percentage is far higher—79 percent—among those who also say they are satisfied with their company’s approach to strategy development. There is additional support for the conclusion that using a formal process leads to greater satisfaction: compared with only 16 percent of respondents who report dissatisfaction with their company’s approach, 55 percent of those who are satisfied say that their strategic-planning group is among the most influential groups in making strategic decisions.

Exhibit 2

How much does the process matter?

% of respondents who indicate their company has formal strategic-planning process¹

How would you describe the role that the strategic-planning process plays in developing your company’s strategy?



¹ All data weighted by GDP of constituent countries; respondents who answered ‘don’t know’ are not shown; figures sum to 100% because of rounding.

Board involvement

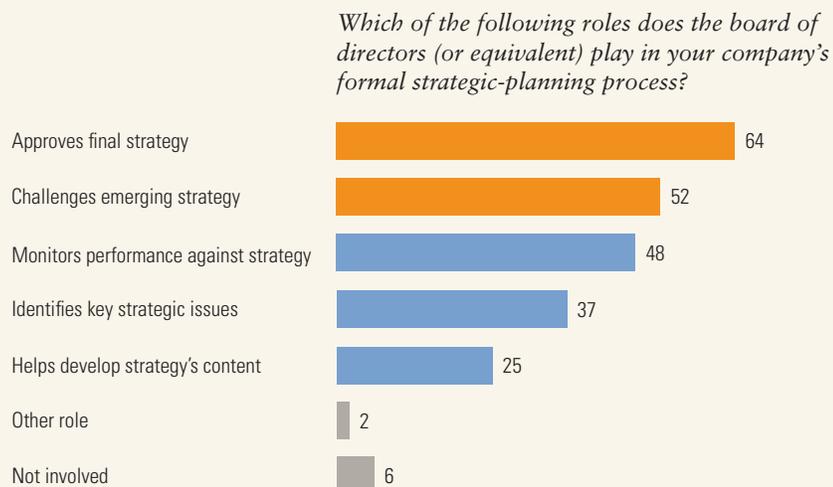
Most respondents say that their company's board of directors focuses on a few roles in planning strategy. Boards are seen to be most active in challenging strategy during the development process and in approving the final strategy (Exhibit 3). Only 25 percent of respondents say that their board is actively involved in developing the content of the strategy.

Apparently, most respondents find the current role of their board satisfactory: only 7 percent believe that greater involvement by the board would improve their company's strategic planning. However, this view may be shortsighted. Respondents who are satisfied with their company's approach to strategic planning are twice as likely as dissatisfied respondents to say their boards help develop strategy. In addition, boards where respondents are satisfied are twice as likely to monitor the company's progress against the strategic plan and three times as likely to spend time identifying key strategic issues facing the company.

Exhibit 3

What do boards do?

% of respondents who indicate their company has formal strategic-planning process¹



¹ All data weighted by GDP of constituent countries; figures do not sum to 100%, because respondents could select multiple answers; respondents who answered 'don't know' are not shown.

Failure to launch

A significant number of respondents express concern about executing strategy. Some 28 percent say that their company produces a strategic plan that reflects the company's goals and challenges but is not effective. Another 14 percent say the strategy and plans for executing it are not necessarily aligned with each other. The experiences of executives whose companies have formal planning processes and who are satisfied with the results may explain how their companies have avoided these pitfalls. Among these respondents, 67 percent say aligning management with the strategy is an element of the strategic-planning process; only 40 percent of dissatisfied executives say so. Similarly, 78 percent of those who are satisfied, compared with only 26 percent of those who are dissatisfied, say their process leads to explicit objectives that are communicated well throughout the company.

These concerns are reflected in respondents' suggestions for improving their company's approach to strategy development. Their top two suggestions are improving the company's alignment with the strategic plan and developing a method to monitor progress against the plan (Exhibit 4).

Exhibit 4

Making it better

% of respondents who indicate their company has formal strategic-planning process¹

Of the following potential changes in your company's approach to strategy development, which would you choose to implement if you could?



¹ All data weighted by GDP of constituent countries; figures do not sum to 100%, because respondents could select up to 3 answers.

Room for improvement

Monitoring progress is an area where many executives see room for improvement. Only 56 percent of respondents say that their company currently tracks the execution of its strategic initiatives. Whether or not respondents are in a strategic-planning group, they agree that a top priority for such groups is spending more time developing these metrics.

Executives' concerns about executing and aligning strategy are likely exacerbated by a perceived lack of integration between the company's strategic-planning group and its human-resources group. When asked to consider strategic planning's integration with several major corporate functions, respondents rank HR as second-to-last in terms of degree of integration. Respondents who are dissatisfied with their company's strategic planning see the least integration. Of these, only 14 percent say planning is completely or mostly integrated with HR, and 59 percent say the two groups are integrated slightly or not at all.

Companies don't particularly focus their strategic planning on new opportunities for growth. Fewer than half of all respondents say that their company's approach includes identifying growth opportunities outside the core business. Among those who use a formal planning process, just 57 percent say that this process is substantially integrated with their company's business-development function. In addition, respondents don't see business development as a top priority for strategic decision makers to spend more time on.

Process points

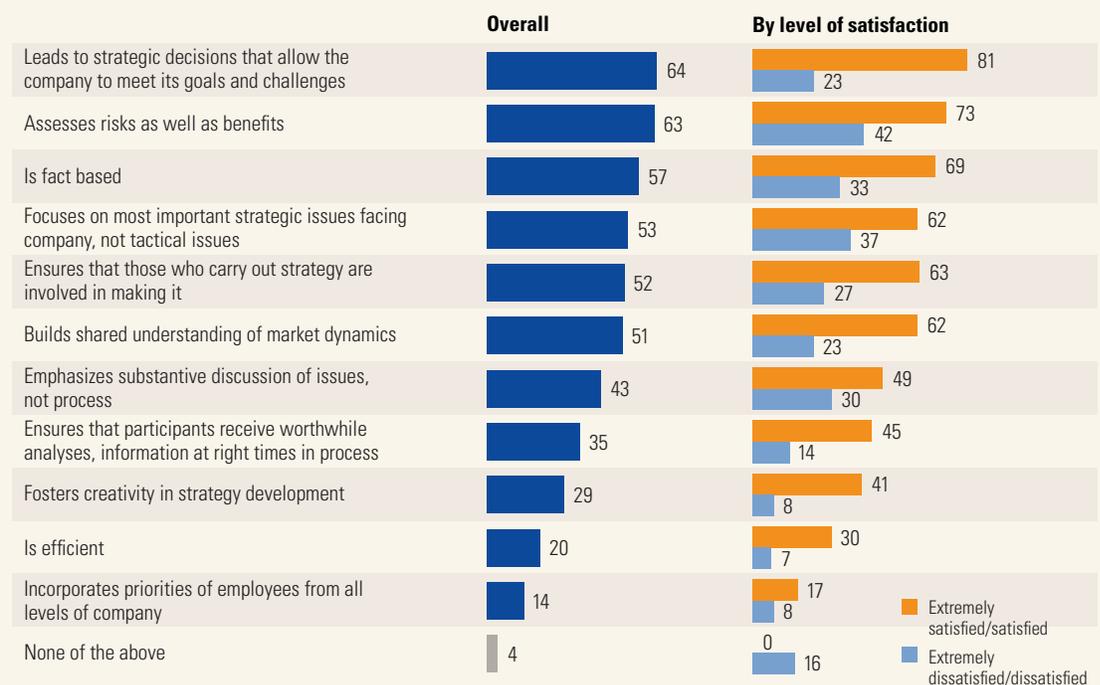
Respondents at companies with formal planning processes describe the qualities of those processes in a variety of ways (Exhibit 5). That variety leads to a surprising lack of focus on some issues that are often considered central to strategy making. For instance, only 53 percent of respondents say that their process focuses on their company's most important strategic issues, rather than on tactical issues. (Similarly, responding to a separate question, only 55 percent of respondents say that issues, rather than a calendar-based planning cycle, drive their company's approach to strategic planning.) And among those who are dissatisfied with the process, only 23 percent say strategic planning leads to decisions that allow the company to meet its goals and challenges.

Exhibit 5

What's working?

% of respondents who indicate their company has formal strategic-planning process¹

What characteristics define your company's formal strategic-planning process?



¹ All data weighted by GDP of constituent countries; figures do not sum to 100%, because respondents could select multiple answers; respondents who answered 'don't know' are not shown.

Where you stand depends on where you sit

The way executives characterize their strategic-planning process depends considerably on their rank (Exhibit 6). C-level executives have a generally rosier assessment of the process. In addition, they are more likely, by a margin of 53 to 46 percent, to be satisfied with the overall approach. However, the relatively low number of C-level executives who say the process ensures that participants receive worthwhile analyses and information at appropriate times dovetails with another finding of the survey: C-level executives—and no other respondents—think internal consulting should be one of the highest priorities for strategic-planning groups to spend more time on than they do now.

Exhibit 6

Different views on the formal planning process

% of respondents who indicate their company has formal strategic-planning process, by role¹



¹ All data weighted by GDP of constituent countries; figures do not sum to 100%, because respondents could select multiple answers; respondents who answered 'don't know' are not shown.

Satisfying discussions

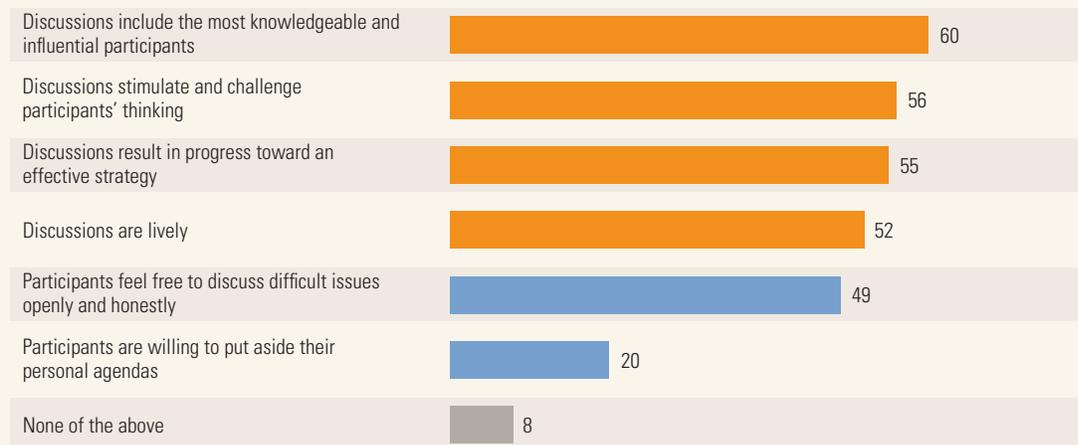
A sizable share of respondents say that their conversations during the planning process are substantive and lively (Exhibit 7)—unless they are dissatisfied. Indeed, among respondents dissatisfied with their company’s strategic-planning approach, 28 percent say that their company’s strategic discussions include no such positive elements.

Exhibit 7

The quality of discussion

% of respondents who indicate their company has formal strategic-planning process¹

Which of the following statements accurately characterize the discussions that take place among participants during your company’s strategic-planning process?



¹ All data weighted by GDP of constituent countries; figures do not sum to 100%, because respondents could select multiple answers; respondents who answered ‘don’t know’ are not shown.

With and without a seat at the table

Just as executives of different ranks have different perspectives on the formal process, the survey respondents have remarkably different views on what strategic-planning groups do, depending on whether or not they participate in one themselves (Exhibit 8). This disparity appears to underline the problems with communication about strategy that executives note elsewhere. The biggest disagreement concerns whether strategy groups perform internal consulting: two-thirds of respondents who are in a strategy group, compared with 29 percent of others, report spending time on this activity.

In addition, C-level respondents are less likely than others are to say their strategy group spends its time on internal consulting and far more likely to say that's what the group *should* be spending time on. For them, internal consulting is the second-highest priority, while for non-C-level respondents, it falls to number eight.

Exhibit 8

Different perspectives on strategy groups

% of respondents who indicate their company has formal strategic-planning process, by area of functional responsibility¹

Which of the following activities are performed by the person or group making strategic decisions in your company?



¹ All data weighted by GDP of constituent countries; figures do not sum to 100%, because respondents could select multiple answers; respondents who answered 'don't know' are not shown.

² For example, investment bank.



Contributors to the development and analysis of this survey include **Renée Dye**, a consultant in McKinsey's Atlanta office.

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