
ENVIRONMENTAL ASSESSMENT: THE KEY TO A PROACTIVE STRATEGIC PLANNING PROCESS

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“It (management) has the choice of being reactive (waiting for events to take shape clearly before responding) or proactive (anticipating the shape of events and acting quickly) with respect to the information it gathers.” (16, pp. 21)

While most large corporations currently have a planning horizon of five years or more, many are practicing long-range planning and not strategic planning due to an insufficient data base. Environmental analysis provides the data base for planning premises upon which corporate objectives and strategies are developed. To the extent those premises are based upon an incomplete environmental analysis, the resulting plans are less than proactive, at best, and of questionable strategic effectiveness at worst.

The study reported in this paper found the type of environmental analysis utilized in many companies to be inconsistent in scope or length with their planning horizon. The purpose of this paper is to emphasize that proactive, strategic planning can take place only if management has an appropriate data base. A typology, based on scope of environmental analysis and planning horizon, was derived from empirical research and is reported here to highlight differences in planning posture.

Strategic Planning

Most management theorists and practitioners view formal strategic planning as an essential ingredient for effective organizational performance (11, 18, 23). The premise is that in order to survive and prosper, every organization must develop an acceptable environmental alignment. The role of strategic planning is to assist the organization in developing an appropriate fit with an uncertain and turbulent future environment (8, 21, 22).

While the need for strategic planning is widely recognized, the appropriate components are subject to less agreement (1, 17). In addition, some researchers suggest that the appropriate elements change as the organiza-

tion evolves over time (9, 13). However, the strategic planning literature does suggest some commonalities. Strategic planning is usually viewed as a continuous process including the following activities: 1) establishing a mission, 2) setting objectives, 3) doing an environmental analysis, 4) conducting an internal audit, 5) developing and assessing alternative strategies, 6) selecting a strategy, and 7) implementing and controlling the selected strategy (5, 8). Of particular relevance to this paper is the third activity, environmental analysis.

Wilson (22) emphasizes the importance of environmental analysis, particularly issues identification and analysis, as a focal point in the planning process. Strategic planning involves the total business environment, and the forces in that environment are increasingly interconnected. Specific issues in the environment may quickly impact on management's freedom in decision making and on corporate profitability. However, the integration of environmental issues in strategic planning and decision making is incomplete. Most practicing planners focus on traditional economic, technological, demographic, and political trends and fail to give comparable weight to other issues.

In addition to the aforementioned seven steps of strategic planning, the time dimension is frequently mentioned as an important element in the development and implementation of strategic planning (3, 14). Empirical research suggests that most firms recognize the importance of a formal process and consider 5 years as a satisfactory time horizon for long-range planning (2). However, if the environmental analysis process is not of sufficient rigor to assess the whole external environment, including emerging social trends, comprehensive strategic planning cannot exist. In an approach consistent with the recommendation of Schendel and Hofer (20) and Saunders and Thompson (19), Carroll and Hoy (6) claim that the strategy formulation process is incomplete without incorporating social issues. A clarification of the three basic types of environmental analysis programs used by corporations is discussed in the next section.

Environmental Analysis

Environmental analysis consists of three different but related aspects which, unfortunately, have been used somewhat synonymously in the literature: environmental scanning, environmental monitoring, and environmental assessment. "Scanning" focuses on the attempt to identify socio-political trends and issues and may be either sporadic or ongoing. Newsletters, trade associations, and consultants have emerged which provide reports specializing in trends regarding specific topics, industries, and/or geographical regions. Scanning, in short, attempts to keep the organization's top management abreast of general environmental happenings.

"Monitoring" suggests an ongoing, systematic effort to keep abreast of selective items. Monitoring focuses on specific issues, trends, or special interest groups; actively involves some organizational members; and tends to have a near-term orientation. A thorough scanning system includes monitoring.

"Assessment" is the most critical and the most difficult aspect of environmental analysis. The purpose of environmental assessment is to analyze environmental trends and issues for relevance to the specific organization and to generate an appropriate "fit." Assessment of trends can indicate potential regulatory or tax reforms as well as labor or market implications resulting from, for example, two-career families and single parent families. Appropriate offensive and/or defensive strategies may then be developed and policies implemented. Ideally, an environmental synergy takes place within the decision process in which social and economic factors blend into one and facilitate an optimal corporate response. So-called "areas of convergence" (10) may then be maximized which integrate, for example, community action programs with market development strategies. Such synergy is especially appropriate for highly visible oligopolistic companies in which image and other non-price factors are especially important in the marketplace (7).

To fully exploit an issue's profit potential or limit its possible liability, a company must begin examining an issue during its precursor stage. As indicated in Figure 1, the life cycle of an issue is marked by increasingly stronger signals. An issue does not suddenly appear without prior indication. Identifying and assessing signals relatively early in the precursor period can lead to corporate action before the issue has totally crystallized.

As the issue matures, corporate options become limited, more reactive. Lacking an appropriate business response, the societal expectations of today become political issues tomorrow, legislated requirements the next day, and litigated penalties the day after. The discretion of corporate response funnels from semi-autonomous to defensive to compliance (22).

Environmental assessment, more than scanning or monitoring, 1) meets the objective of providing early warning of emerging issues, and 2) provides the necessary lead time for developing proactive strategic responses. Assessment fulfills the last step by framing specific issues to provide the necessary information to focus upon appropriate strategic responses. Such a framework would include definition of the issue, its strategic significance, future possibilities of the issue, impact on the industry and company, and a set of action plans.

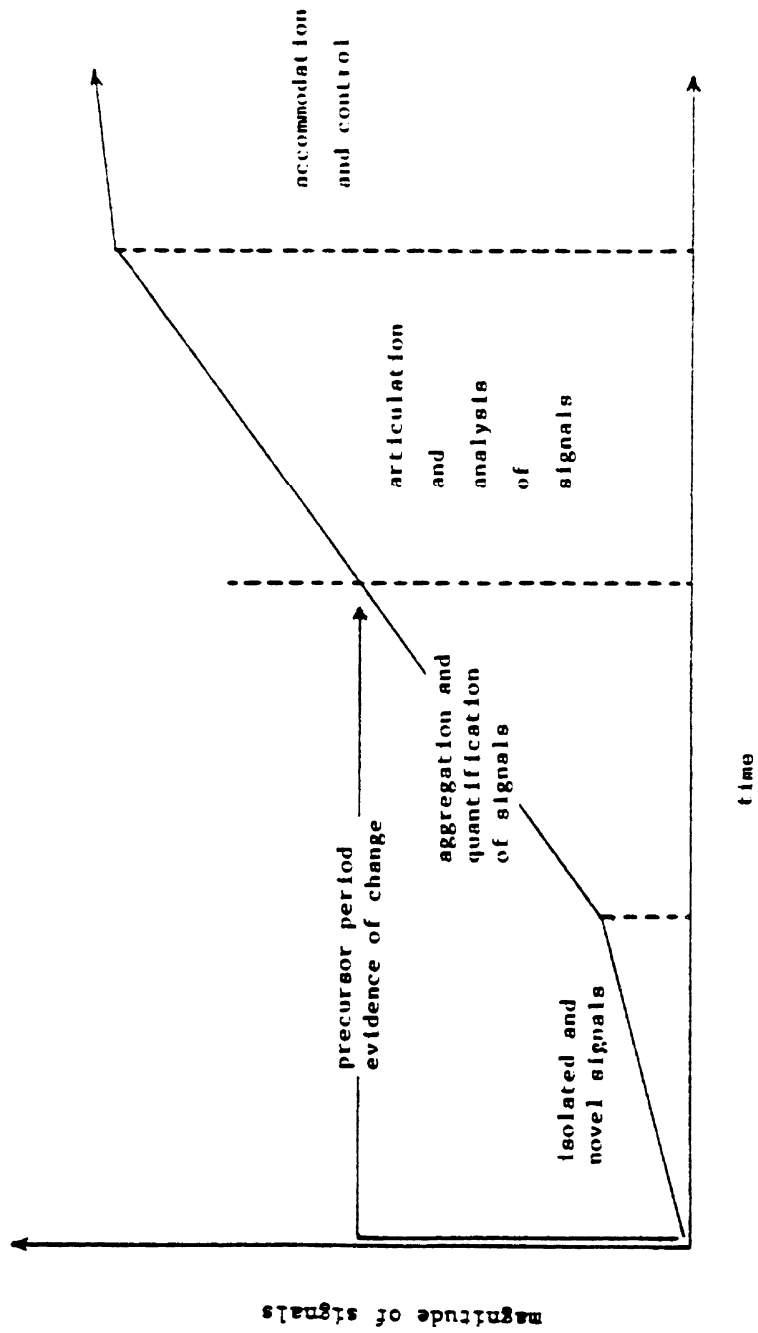
The Study

Planning Posture

Two prerequisites for strategic planning, planning horizon and scope of environmental analysis, were used to classify planning posture. These two

Figure 1

Life Cycle of an Issue*



* Adapted from Wilson, 1982, p.7.

factors were selected because without them proactive strategic planning cannot take place.

The specific questions used to classify respondents were the first two questions of the questionnaire:

1. Of the time periods provided below, which most closely correspond to the time period your company applies when forecasting the following trends:

	Trends Toward:	Approximate Number of Years					
		0	1	3	5	10	15 or more
a.	population changes	()	()	()	()	()	()
b.	concern about the environment	()	()	()	()	()	()
c.	concern about privacy	()	()	()	()	()	()
d.	changing sex roles	()	()	()	()	()	()
e.	increasing role of government	()	()	()	()	()	()

2. How would you describe the time period covered by your company's long-range plans? (Check the most appropriate statement)
 - a. () Our corporate plans do not exceed 1 year.
 - b. () We try to plan for the next 2 or 3 years.
 - c. () Our long-range plans cover approximately 5 years.
 - d. () Within obvious limits, we attempt to develop long-range strategic plans to cover the next 10 years.
 - e. () Other (please explain) _____.

The five trends used in question 1 consist of two types. The first two trends and the fifth trend (population, environment, and government) are well established trends and are considered legitimate components of the task environment, as are interest rates, competition, and materials. The other two trends (privacy and changing sex roles) may be better classified as emerging trends. These trends are still evolving, and their full impact on the business community is uncertain. However, companies currently assessing these trends can be proactive in the development of personnel programs and, if appropriate, in the marketplace with their products or services.

A company practicing no formal environmental analysis and utilizing only informal and sporadic scanning techniques would be consistent with a

reactive firm having a tactical planning orientation. If a company were focusing on specific trends and monitoring them thoroughly for five years, it still would only have incomplete environmental data to do proactive strategic planning. However, if the company utilized a comprehensive and continuing assessment program including issue identification and analysis, a sufficient data base would exist for carrying out proactive strategic behavior. These three categories in combination with the planning horizons determined the assigned posture for each corporation.

Sample

The sample consisted of 520 companies from the Ernst and Ernst *Corporate Disclosure Report*. While 151 companies responded to a questionnaire survey, 31 companies were unable or unwilling to participate and 5 questionnaires were not usable. The effective usable response rate was thus 115 companies (22 percent) with the typical respondent being a corporate level executive in personnel or human resources. The fact that respondents were not part of the planning department is particularly relevant. The typical respondents are the recipients and users of strategic plans and have no vested interest in the development of those plans as do members of the planning department. Therefore, responses from functional executives may better reflect the degree to which environmental forecasts have been utilized in the planning process and by the corporation in general.

The 115 companies consisted of 89 industrials and 26 nonindustrial (banks and insurance) corporations. Kanuk and Berenson (12) have reported that when a significant nonresponse bias exists, those sampling units that were among the last to respond more closely resemble nonrespondents than do sampling units which were among the first to respond. Tests to determine the extent of correlation between "speed of response" and various characteristics (including the industrial/nonindustrial classification) of responding firms were conducted. None of the correlations computed in this research were found to be statistically significant. This suggests that the extent of nonresponse bias may be minimal.

Results

Frequency counts of the replies to question one are summarized in Table 1. The environmental analysis activities of each company were consistent with the limited scanning, selective monitoring and comprehensive assessment options discussed earlier. In addition, the results generally support the premise that the majority of firms emphasize traditional variables (i.e., population shifts, environmental concern, and role of government) when forecasting trends.

TABLE 1
ENVIRONMENTAL FORECASTING ACTIVITIES

	Approximate Number of Years					
	0	1	3	5	10	15 or more
Population Changes						
Industrial	5	4	6	34	21	8
Nonindustrial	1	5	0	8	5	3
Total	6	9	6	42	26	11
Concern about the Environment						
Industrial	6	7	10	35	13	4
Nonindustrial	6	1	0	11	3	1
Total	12	8	10	46	16	5
Concern about Privacy						
Industrial	17	21	17	11	6	1
Nonindustrial	4	3	1	13	0	2
Total	21	24	18	24	6	3
Changing Sex Roles						
Industrial	13	19	14	17	10	1
Nonindustrial	5	2	1	9	2	3
Total	18	21	15	26	12	4
Increasing Role of Government						
Industrial	4	23	13	26	9	1
Nonindustrial	0	1	3	15	2	2
Total	4	24	16	41	11	3

The long-range planning horizons (question two) for sampled firms is reflected in Table 2. These findings strongly support the results of earlier studies which claim that most large corporations emphasize a five year or more planning horizon (2). When planning horizon and environmental analysis responses are combined, three qualitatively different profiles emerged.

TABLE 2

LONG-RANGE PLANNING HORIZONS FOR INDUSTRIAL AND NONINDUSTRIAL FIRMS

	Approximate Number of Years			
	<1	2-3	5	10
Industrial	1	4	60	24
Nonindustrial	0	1	19	6
Total	1	5	79	30

Twenty-nine companies definitely had a near-term or reactive posture. This category includes companies with both three and five year planning horizons, but environmental analysis is limited to short term projections of traditional trends only. Forty-five companies utilized a five year planning horizon and forecast all three traditional environmental trends for a similar time period. However, the two less established trends were not included in the environmental analysis. Finally, forty-one companies used a five year or longer time horizon and covered all traditional trends for a similar time period. The two less established trends were included for a minimum of three years, though generally covered five years. The consistency of the scope and length of external forecasts within each group was surprisingly high. In fact, of the 115 companies studied, only four questionnaires required a judgmental rather than a routine decision as to its classification.

Strategic planning posture for each firm was thus determined by combining the length of the planning horizon for the firm with the scope and length of its environmental analysis. Scope consisted of both traditional and emerging trends and length was determined by the number of years each trend was forecast. Three types of postures clearly emerged from the synthesis and can be profiled as follows:

Reactive (R): Utilizes a three-to-five year planning horizon, but environmental assessment is very limited both in scope (number of trends) and length (zero-to-three years). N = 29.

Long-Range (L): Utilizes a five year planning horizon and five year or more environmental assessment horizon, but scope limited to three well established trends: population, concern about the environment, and role of government. Less established trends not included in environmental assessment. N = 45.

Strategic (S): Utilizes a five year or longer horizon for both planning and environmental assessment of established trends. More emerging trends, trends, changing sex roles and concern about privacy, tend to also be projected for five or more years but may have an horizon of only three years in some cases. N = 41.

In order to assess possible differences in planning posture due to the corporation's industrial or nonindustrial classification the following null hypothesis was established:

Ho: The Strategic Planning Posture is independent of the industrial/nonindustrial classification at the 0.05 level.

The breakdown of strategic planning posture by industrial and nonindustrial firms is found in Table 3. A chi-square test resulted in a statistic of 9.4573 which had an alpha value of 0.0088. Such a finding is significant at even the most conservative levels. Thus, the null hypothesis was rejected and it appears that the adopted strategic planning posture is related to the industry classification.

Closer examination of expected and actual frequencies indicated industrial firms were more likely to adopt five year planning and environmental assessment horizons while limiting their scope to traditional variables (an L posture). Nonindustrial firms were more likely to adopt an S posture with its inclusion of emerging trends.

TABLE 3

**BREAKDOWN OF STRATEGIC PLANNING POSTURE
BY INDUSTRIAL AND NONINDUSTRIAL FIRMS**

INDUSTRY TYPE	POSTURE CLASSIFICATION		
	R	L	S
Industrial	22	41	26
Nonindustrial	7	4	15
Total	29	45	41

Chi-Square = 9.4573

d.f. = 2

alpha = 0.0088

DISCUSSION

The major finding reported in this study supports the literature in that the strategic planning process differs greatly among firms with regard to environmental analysis (4, 9, 15). Even among firms with similar planning horizons, the analysis of social and political environments appears to be either:

- (1) a very limited scanning program — R,
- (2) the monitoring of historically proven important societal trends — L,
- (3) a comprehensive assessment including emerging trends — S.

However, can strategic planning truly be anticipatory if the environmental analysis activity does not assess trends during the precursor stage (22) of their life cycles? Similarly, if strategic planning implicitly assumes proactive behavior, practitioners and researchers must distinguish between long-range planning and strategic planning. The extrapolation of a three-year operational plan to five years cannot be considered truly strategic if the plan incorporates analysis of only part of the whole social-economic-political-technological environment. Insufficient environmental analysis produces questionable planning premises and facilitates monolithic planning in which operational and strategic plans are developed by the same people using the same data bases. Yet, policy and corporate objective decisions require information different than that needed for annual functional goal statements. Only if strategy formulation utilizes comprehensive environmental assessment of the whole external environment to incorporate emerging social issues can the process be complete (6, 19, 20).

The mere existence of a comprehensive set of external forecasts does not ensure their utilization in the strategic planning and decision making process. Informal or periodic forecasts of various trends could be developed but then omitted when making strategic decisions. This omission is especially possible when the environmental analysis effort is limited to sporadic or informal environmental scanning. The existence of comprehensive environmental assessment is thus a necessary but not sufficient indication of a proactive posture.

If respondents had been members of the planning department, no inferences could be made as to the role or value placed on environmental assessment in the actual strategic decision. However, as respondents were functional executives in the personnel/human resources department, their awareness of such forecasts suggests that the sufficiency criterion was also met. That is, external forecasts were not perceived as dead-end reports but were internalized into the decision making process. The result is an organization whose environmental assessment is consistent with a proactive posture.

The classification of firms into three distinct planning postures on the basis of (a) planning horizon, and (b) types of environmental analysis (limited, traditional, comprehensive) presents several questions which require further research. The major question, for which several possible explanations exist, concerns the significant differences in posture between industrial and nonindustrial firms. The more emergent trends (i.e., changing sex roles and privacy) may more quickly impact insurance companies and banks in the market place as well as in the internal personnel function. For example, the Trend Analysis Program (TAP) of the American Council of Life Insurance specifically facilitates environmental assessment. Corporate visibility, proximity to the consumer, and legal and regulatory history are other possible explanations for the industry differences.

Despite the industrial/nonindustrial difference, it is noteworthy that of the 89 industrial firms, 29 percent were classified S. Therefore, an S classification is not limited to nonindustrial firms. The sample population contained less than 20 percent nonindustrial firms. Further research should incorporate an equal sample base to eliminate the possibility of an unintended sample bias limiting the observation of R or L classifications of nonindustrial firms.

SUMMARY

While the findings reported in this paper strongly support other studies which claim that the preponderance of large corporations have a five year or longer planning horizon, the diversity of environmental analysis activities questions the degree to which many of these corporations are exhibiting a proactive, strategic planning posture. There appears to be a definite qualita-

tive break into three categories of environmental assessment programs: (1) R — firms having only very limited environmental scanning programs, (2) L — firms doing environmental monitoring of established trends only, and (3) S — firms practicing comprehensive environmental assessment programs including emerging trends.

“L” and “S” firms both practice environmental analysis, but the capability of their respective data bases to generate proactive decisions differs greatly. The “S” firms are more likely to be assessing trends during the precursor stage of an issue’s life cycle. Such early assessment is critical to the development of an effective proactive posture. When evaluating environmental analysis programs, care must be taken to include the scope of the environment. Researchers and practitioners need to distinguish between an environmental analysis of what may now be the “traditional” socio-political environment (i.e., demographics, governmental programs and well established trends) and a more intensive analysis of the whole social-economic-political-technological environment including precursors of “new” trends and issues.

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