

world and I believe that the firms are better off as a result.

Strategic planning can be defined as the process of deciding on the objectives of the organization, on changes in those objectives, on the resources to be used to attain those objectives, and on the politics that are to govern the acquisition, use, and, disposition of those resources. Since our economic, political, and natural environment is so turbulent and since the givens of yesterday--stable economic growth, low energy prices, greater certainty due to regulation, etc.--no longer seem given, it behooves the intelligent market participant to plan for contingencies. The literature also identifies several types of strategic planning: extrapolative, business, and portfolio. Extrapolative planning is mostly financial, e.g., given the financial constraints on the firm, what growth opportunities are available? This type of planning does recognize that other constraints exist, e.g., competitors' actions; consumer preference changes; new products; changes in business, labor, and political environments; etc., but views these constraints as they impact on the actions allowable by the financial constraints.

Business planning is personified perhaps by the Boston Consulting Group's famous matrix of cash cows, dogs, question marks, stars, etc.

Portfolio planning investigates various business positionings within a total corporate context so as to assess the firm's overall exposure to risk. It asks (and answers) the questions as to where the firm's money, people, and assets should be deployed and where should they come from so as to maximize the overall firm? It is more of a "systems" viewpoint which seeks for way and how do things fit into a whole.

Obviously, the good planner searches for the variables he/she can control and asks the questions; how to control them and in what amounts so as to attain the objective? Strategy versus other competitors and versus exogenous forces is important. Good planning entails offensive strategies and defensive strategies versus competitors. It also entails planning for changes in the rules of the game. Most of the motor carriers which have done best in the deregulated environment since the Motor Carrier Act of 1980 were planning either actively or passively on the assumption of less regulation and greater market opportunities from 1977 on. Good planning is continuous and involves redefining objectives and constraints as the circumstances change. To coin the often overused phrase from football--you have got to have a game plan in today's environment.

While redefinition implies a plan that is flexible, it is also important that the long run objectives of the entity are set so that a stable operating structure exists in order for the entity to have a direction. The redefinitions are perturbations from the objective or a recognition of a loosening or tightening of a constraint. But the objectives perservere.

Perhaps most important is a need to develop a strategic "style" in the company that allows the breaking down of barriers to the implementation of

the plan. As mentioned above, the concept is old wine in new bottles. The non-recognition of these concepts previously was caused by inflexibility in organizational style; and obsolescence in some executives; a parochialism in some lines of business or geographic areas; a too strong attachment to values, style, tradition for their own sake and not because they would help the entity; and a quest for power but not for the objectives. An attitude must be established within the firm that such planning is important and respected. Too many transportation firms have been dominated by operations in the past and have a difficult time recognizing the relevance of something that can not be directly seen as having a direct connection to the bottom line. To protect its future, a firm must be prepared to respond actively to developments in its environment that could create new opportunities and/or lessen negative impacts. It is difficult to act rapidly, forcefully, and knowledgeably without a plan. A knowledgeable actor can also "make the future happen" since he/she has knowledge of the control variables and what to do with them.

The teacher of strategic planning at Wharton is Peter Lorange. Lorange notes that there has been considerable attention to strategic planning in the last few decades evidenced by the fact that many resources are devoted to it. However, Lorange emphasizes that the effectiveness is not higher than its weakest link. He states that the major tasks of strategic planning (read its weakest link today) are in implementation, whereas the conceptualization aspects seem to be better developed.

As mentioned above, the operations orientation of the carriers seemed to create a difficulty of implementation in the transportation field. The pre-1977 rails and motor carriers seemed to be interested in "toting freight" while other energies were spent dealing with regulators in Washington. Today, with a much smaller regulatory scope, literally anyone can tote anyone else's freight. Thus only the carriers that can plan in an uncertain, highly competitive world are likely to be successful.

#### STRATEGIC PLANNING AT THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

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Strategic planning places a heavy emphasis on systematic approaches but in so doing, must avoid the bureaucratic, the cumbersome and the burdensome. To be successful, strategic planning must be seen as relevant and practical -- it must simplify, not complicate. In light of these requirements, it is important to realize that planning is a skill and not a function -- a skill to be practiced by all levels of management, but especially the top executive group and senior operating officers. Likewise, it is a blend of art and of science. The major challenge to the planner is to provide a framework for a systematic and rigorous analysis without the framework becoming cumbersome. At the same time, the challenge to the operating executive is to recognize that systematic and rigorous planning is

essential to improving the likelihood that future endeavors will be successful. The Port Authority sees a need for strategic planning as never before because of the rapid changes taking place in the operating environment. As the audience is well aware, deregulation of transportation is a good example of the kind of change requiring a strategic response.

To facilitate planning for its future actions in this turbulent environment, an Office of Strategic Planning has been established at the Port Authority. Prior to this, a temporary Committee on the Future was energized consisting of 80 people working for about a year examining the outlook for the region and the agency to discern threats and opportunities so that the Port Authority could begin to think about how it should adapt to the changing needs of the region it serves. The work of the Committee on the Future was conducted during 1978.

The Committee on the Future began its work against an historical backdrop in which during the first fifty years of the Port Authority's existence, the Port region grew at a more or less steady pace. As the economy grew and there were increased demands for transportation and terminal links, the Port Authority stood ready and able to respond with capital project solutions to these clear needs. During this time, there was little debate over the mission of the agency or the generally capital intensive solutions it proposed. However, when the pace of economic growth was abruptly halted in the early 1970's and simultaneously there were sharp changes in society's values concerning the impact of large capital projects on the environment, as well as a beginning of the realignment of responsibility within our structure of federalism, there resulted less certainty on where to apply Port Authority resources consistent with the priorities of the States, and hence, a greater need for strategic planning. For the Port Authority, this major discontinuity in its environment gave rise to the Committee on the Future effort that marked the beginning of formal strategic planning in the agency. Stated in broader terms, two key things have occurred to make strategic planning an essential activity in the Port Authority, most corporate organizations and in a growing number of other public sector organizations. The first is a faster changing environment, while the second is the existence of more complex issues. Together, these factors can operate to produce major discontinuity for almost any organization -- private or public.

While the degree of turbulence has increased significantly in the decade, the world has been growing more complex for a long time. In this regard, decisionmakers have long sensed a need to be less myopic. In response, the 1950's saw the introduction of the concept of "performance budgeting." This process focused on the annual budget and the functional activities that were lines in the budget. Budgets were allocated, usually, on the basis of an extension or contraction (by some rule) of the past budget, and performance was judged by how close the line came to performing within the budget.

In the 1960's, "long range planning" was introduced. This took planning beyond the annual budget. Emphasis was placed on predicting the future, usually by extrapolation of past trends. The idea was to plan for growth, to perform multiyear forecasts and to do some environmental analysis.

By the late 1960's and early 1970's, the terms strategic planning and/or corporate planning were being utilized. The emphasis of that phase was to think strategically. It entailed a systematic look at the external environment and an acceptance of discontinuity in the organization's environment as "normal." Where as resource allocation was static under long range planning, it was viewed as dynamic in this period. The emphasis was on a search for strategic alternatives that maximized trade-off values.

In the 1980's, strategic planning evolved to strategic management. The goal here is to integrate planning with all management functions and to solve the past problems of partial or no implementation of strategic plans. The planning process is to be flexible and creative. Importantly, it recognizes that planning is a continuous process and that to be successful, it must be interwoven with all management systems.

The job of strategic management is to develop plans to make the most of future opportunities and to counteract the adverse effects of future changes. It is a results oriented process to anticipate change and to guide an organization's adaptation to such changes. Perhaps the simplest definition of the process is that it is a systematic application of common sense.

The approach to strategic planning is basically the same whether it is being performed in the private or public sector. What differs is the relative emphasis placed on particular factors. The public sector tends to focus, of course, more on issues of public and legislative policy. In addition, more attention seems to be paid to problems in the public sector rather than opportunities, which tend to consume much of the effort in the private sector. This may be because the public sector operates so much in a fish bowl.

Whether applied to the public or private sectors, there are eight major components to the systematic process of strategic planning: (1) scanning the environment; (2) defining mission, objectives, and goals; (3) undertaking situational analysis; (4) determining "critical strategic issues"; (5) developing alternative strategies; (6) selecting a strategy; (7) implementing strategy; and (8) tracking for corrective action.

Let us examine these components. Over the past two years, the Port Authority has invested considerable energy in developing its environmental scanning process. We have done this in the belief that identifying emerging change in the external environment at the earliest possible point is the kind of intelligence that separates the successful organization from the less-successful in today's rapidly changing environment. We currently have in-house panels of staff experts tracking economic, demographic and social change, including change in the

international economy; change in the relative competitive position of our Port region vis-a-vis other regions with whom we believe we compete for jobs and investment; and we also have a panel whose charter is to look at the long term future to try to identify a range of probable Port Authority futures.

Perhaps the most difficult component of a strategic planning process is that of focusing on mission, objectives, and goals. It is often difficult to measure targets and aspirations in the public sector, partially because public initiatives cannot always be defined in dollars and cents and frequently do not lend themselves to easy quantification. In addition, the mere act of defining mission and goals carries with it an implicit limiting of horizons in the minds of some chief executives.

Somewhat easier to deal with is the situational analysis which views the current and future position and outlook for each business line. It keys on the markets served and the changing needs of patrons or users. It looks at the services provided by the organization as well as the services offered by other providers -- both against the strengths and weaknesses of the entity and those of the other providers. In the context of examining the situation in each business unit, in the Port Authority, we ask each business to make a statement of measurable goals.

Determining the critical strategic issues is the key next step. Although critical issues can relate to internal factors, they most frequently involve a change in the external environment. The critical issue(s) becomes a focusing device for strategy development. In this regard, we have found that when the critical condition or pressure requiring attention can be succinctly and crisply stated, the process of setting measurable objectives creatively is enhanced.

The result desired from the creative examination of the alternatives available for dealing with the critical issues is a strategy. A strategy can be thought of as a broad course of action selected from alternatives as the optimal way to attain major objectives consistent with current policies in light of anticipated competitor actions.

The development of alternative strategies is stressed so that real options (not paper alternatives) are produced. This is regarded as an important discipline to ensure that all trade-offs are covered. Experience demonstrates that it adds creatively to the planning process.

Implementing the strategy requires a plan of its own. This step links strategic planning with the capital and operating budget. However, this should not be seen as a discrete "phase II" activity -- planning, execution and tracking for early corrective action should be a continuous process that is interwoven with all management systems.

This is the process which we follow at the Port Authority -- some components are more developed than others -- but this is our planning road map.

## FUTURE DIRECTIONS FOR FREIGHT TRANSPORTATION

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It is important to stress the linkages between financial inputs and strategic planning. In determining a strategic management plan, one must generally have financial resources to undertake the plan and in many cases, one must be cognizant of the cash flow (i.e., financial impacts) generated by the plan.

Strategic planning has become more important and hence more difficult in recent years because the financial markets themselves are in turmoil. As an example, the security previously associated with equipment trust certificates has gone away both because of court decisions and because of a glut of equipment on the market. From the perspective of the financial markets, turmoil has been created because the need for some external funding has gone away because of the ability to generate cash internally both through tax write-offs and generally improving profits.

Perhaps the most important advice from the financial community to strategic planners is to pay attention to the "ifs" in financial markets rather than to the "givens." This is a ramification of the increased turmoil in the financial markets.

In general, deregulation has been a good event for freight transportation both from the carrier and shipper/receiver points of view (some individual units excepted). This is because the fallout and rationalization has eliminated

The motor carrier industry has seen and will continue to see consolidation into larger corporate units. Those remaining in the industry will survive not because they could cut rates but because they had a cost structure which allowed such rates to be sustainable or could cut costs and still have sustainable rates. In addition, they were able to provide existing or improved service at such rates.

What has happened in the industry is that the firms which could provide high quality service efficiently (accomplished by following a policy of cost control) have and will continue to survive.

A casualty of deregulation, which has made the job of analyzing the industry more difficult from the perspective of the financial community, has been publically collected data. This makes it more difficult to analyze where the industry has been and to predict where it's going. Since much of the data previously publically collected is still collected by the individual firms, theoretically, the data is available. However, the firms will not release the data because it is believed to be proprietary. While this view may seem to be myopic, if a lack of data makes the industry seem more uncertain than it truly is, capital costs will increase for the industry. A neutral collector of the data, e.g., the modal trade association, could alleviate this problem.