

## **Making Strategic Planning Work**

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**Abstract:**

**“Strategic planning” is a misunderstood and maligned managerial tool. Most organizations have tried it but relatively few actually achieve success in strategic planning. The experience of Countrywide Financial Corporation demonstrates how strategic planning can be used as a key lever for change and describes the benefits that accrued to it through this process.**

**Stanford Kurland, the Company’s COO, was focused on longer range issues for the company, but most of the other members of Countrywide’s senior management were more focused upon short term competitive success in their own divisions. Kurland engaged Eric Flamholtz to assist with developing a more sophisticated approach to strategic planning at Countrywide. Flamholtz introduced: 1) a template for organizational assessment and development, and 2 a systematic process for strategic planning that had been applied elsewhere with considerable success.**

**The new planning process s became a corporate priority. It led to significant changes and benefits at Countrywide, including a strategic shift in corporate direction. Specifically, the company’s new strategic mission involves transitioning from a mortgage company to a diversified financial services company. To reflect this shift, the company changed its name from “Countrywide Credit Industries” to “Countrywide Financial Corporation.”**

**The planning system has also led to a variety of other significant organizational benefits including: A constructive forum for elevating management’s focus from tactical and operational concerns to broader strategic challenges; a shift away from a “silo mentality” to a “Countrywide perspective”; a clear set of priorities to guide operating unit activities and decision-making; measurable objectives that emphasize linkages across organizational boundaries; and greater understanding and communication of the plan throughout the organization.**

**In 2004, Countrywide’s Strategic Planning Department received an award for leading edge strategic planning in large for-profit enterprises Association from the Association for Strategic planning.**

## **Introduction**

“Strategic planning” is one of the most misunderstood and maligned managerial tools. Entire books have been written to explain why it can not work<sup>1</sup>. Most organizations have tried it and many claim to do it, but relatively few companies actually succeed in strategic planning. However, the experience of Countrywide Financial Corporation explains how one organization embraced strategic planning as a key lever for change and the tremendous benefits that accrued to it through this process.

Although there has been a great deal written about strategy and strategic planning, many people remain skeptical about whether it actually works. This chapter presents an actual example of how a large successful company, Countrywide Financial Corporation (“Countrywide”), has successfully applied an approach strategic planning, which has had significant impact and benefit to the company. First we will provide some background about Countrywide, and then we will describe the approach to strategic planning and the results of its application.

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<sup>1</sup> See Henry Mintzberg, *The Rise and Fall of Strategic Planning*, The Free Press, 1994.

## **About Countrywide**

Countrywide Financial Corporation is a consumer financial services business. Since 1969, the Company has grown from a small entrepreneurial venture to a very large (Fortune 200) international company. Today, CFC consists of 17 major business units, operating in 5 business segments- mortgage banking, insurance, capital markets. In 2004, the Company had more than \$ 8 billion in revenues, more than \$58 billion in assets, and more than 35,000 employees.

### **The Catalyst for Change and More Sophisticated Strategic Planning**

The late “90s were a period of industry consolidation with the entry of retail banking behemoths such as Wells Fargo and Washington Mutual into the mortgage banking segment. Much of Countrywide Financial Corporation’s success had been achieved by its “branded” price leader strategy. However, with the entry of the large retail banks into the consumer financial services market, the industry dynamics had changed considerably. By 1999, Countrywide was still amongst the top players in its space, but the organization had lost the leadership position it had enjoyed in the early 1990s.

In late October 1999, Countrywide Financial Corporation invited Eric Flamholtz, Professor of Management at UCLA’s Anderson School of Management and President of his own consulting firm, to its annual planning. He was there to present a framework for thinking about building organizations capable of sustaining long term success, and adapting to environmental changes through strategic planning. He was also asked to

facilitate a preliminary planning session for Countrywide to get it to look more at the longer terms issues.

Stanford Kurland, the Company's COO, had been working on longer range issues for the company, but most of the other members of Countrywide's senior management were more focused upon competitive success in the current as opposed to the future market. They also believed that they were very good at strategy, and the company's financial performance reflected this.

The session triggered the realization that, even though the company was performing well, it was necessary to extend management's thinking beyond incremental performance improvement goals and begin to address longer term, environmental issues as well as changing competitive dynamics.

### **Industry Consolidation.**

One of the key themes of Flamholtz' presentation concerned industry consolidation and the possibility of a "winner take all" situation. The argument was that there would ultimately be three major players in any business space or segment (a classic oligopoly), collectively controlling 70% or more of market share: No. 1 at least 40%, No. 2 at least 20 % and No. 3 at least 10%. The remaining share would be divided among many smaller "boutique" players. Examples include: the aircraft industry in which Boeing and Airbus control the top two positions; the express package delivery industry with UPS and FedEx at the top two; and Home Depot and Loews in the home improvement retail space.

There was a great deal of discussion about this scenario. Some believed that this concept was not likely to occur in financial services in general and mortgage banking in particular. At that point in time, no mortgage player had more than 4-5 % of market share. Others, like Kurland and Mozilo, had a different perspective believed that it might be possible.

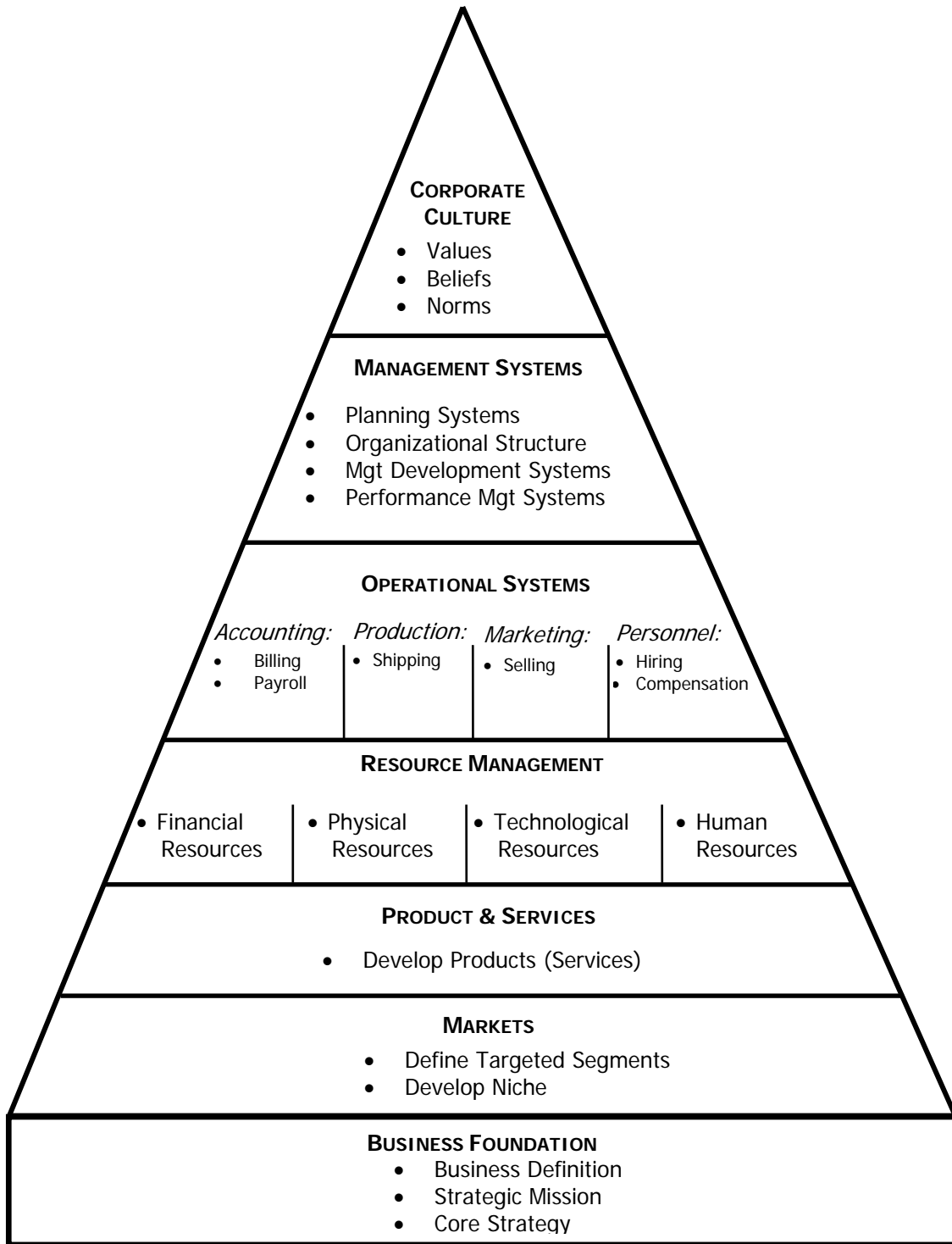
Countrywide, at one time the largest mortgage banker, was now (in 2000) fourth in the mortgage industry. The company's larger competitors, with greater financial resources, had grown through acquisitions (a strategy that was not available to Countrywide because of capital constraints). Countrywide's core strategy – being the “branded” price leader – was becoming increasingly difficult to sustain. Thinking was beginning to change, but it was going to be an evolutionary process.

### **A Template for Organizational Assessment.**

Another aspect of this session was the presentation of a template for organizational development and assessment. This template is known as the “Pyramid for Organizational Development.” It is shown in Exhibit 1. This is a framework developed by Flamholtz (1995) and used to assess the strengths and limitations or developmental needs of companies.

This template was used to assess the strengths and areas for further development at Countrywide. It was clear that Countrywide was relatively strong at the bottom four

levels of the Pyramid, but needed further development at the top two levels, which include management systems and culture management.



## **EXHIBIT 1**

At a minimum, this session was a catalyst to changes in thinking among the senior leadership at Countrywide, then still called Countrywide Credit industries. It got everyone thinking about the future of Countrywide, and convinced people of the need to do a more formal and systematic job of strategic planning. As Angelo Mozilo stated, “we were focused upon the hedgerows; this got us thinking over the next hill.”

Stan Kurland became the sponsor or champion of the development of an enhanced capability of strategic planning at Countrywide, and Eric Flamholtz and his firm was hired to assist the company in developing this capability.

### **Taking Strategic Planning to the Next Level**

Planning has always been a part of Countrywide’s culture. The company has always had a well established strategic planning function, and the leaders of the operating groups have always prided themselves on their strategic capabilities. However, the growth and diversification experienced during the 90’s made the business more complex.

Management needed to address not only new industry segments and larger operating units, but increased organizational complexity as well. The entrepreneurial spirit combined with a measure of autonomy that had long been part of Countrywide’s culture now presented a management challenge. While it helped to create a vibrant, nimble

operating environment, management recognized the need to avoid counterproductive organizational “silos” and foster a spirit of cross-organizational cooperation.

### **Countrywide’s “Old” Planning Process**

Prior to 1999, Countrywide employed a very traditional strategic planning process. Like most companies, it devoted a few days a year to planning. The company also conducted informal brainstorming sessions as needed, but the sessions usually centered on “issues of the day” or urgent matters.

Countrywide had always been, a very entrepreneurial company, with many decentralized operations. In the late 90’s, the company employed more than 11,000 people, operating in 500 locations. There was however, great variation in the approaches taken to planning throughout the company. The entrepreneurial culture often tempted management to focus upon immediate concerns rather than the longer term issues.

Planning sessions were typically conducted with a small core of senior executives. The “main” strategy was developed at the top of the company and then “pushed down” into the operating divisions. Management also demonstrated a penchant for establishing entirely new sets of priorities each year.

The company’s relatively informal approach to planning had worked quite well for a long time; however, management realized that there were certain problems. Some of the problems of the “old” planning process were that: 1) the informal style of planning

limited management's ability to achieve synergies and efficiency across the organization, 2) "herding" the divisions to work across organizational boundaries required a great deal of time and effort by the COO, 3) tracking initiatives was difficult, and 4) constantly changing priorities caused senior managers to be less inclined to "fully engage" in the planning process.

### **The Need for Change in Planning**

Not surprisingly, as the size and complexity of the organization steadily increased, management ultimately reached a point at which it had to acknowledge that Countrywide had outgrown its planning process. During the fall of 1999, management decided to change its approach and make planning a corporate priority.

For the first time, management focused on the development of a rigorous strategic planning process. Management viewed the creation of this new approach as an opportunity to embed in the planning cycle principles that would foster better alignment and establish a common planning standard across business units.

In a complex company like Countrywide, there was a need to create alignment among all of the business units to ensure that all move in concert to achieve the desired overall results. (The same is true of virtually all complex business, ranging from Citigroup to GE, and from IBM to Unilever.)

### **Countrywide's "New" Approach to Strategic Planning**

Stan Kurland, Countrywide, COO, realized that the company needed a new, more sophisticated strategic planning process. A new approach was necessary to manage the

company's rapid growth and to regain its industry leadership. The intent was to evolve from a company that embraced planning to one that possessed a fully integrated and effective long-term planning process/system.

The company took several steps to modify the planning process and supporting infrastructure. First, Stan Kurland, decided to make the process a corporate priority. Next, management dedicated the proper level of resources to strategic planning, restructured the planning process throughout the company, defined or redefined the participation of various organizational players in the process, and developed a methodology for staying focused on priority objectives.

### **Planning as a Corporate Priority.**

Although there is no way to really know why planning fails at so many companies, one might suspect it is because planning does not really receive the proper attention, effort, and support. Countrywide's management made the process of planning important at every level within the company. The process was "sponsored" at the highest levels of the organization. The COO played a very visible role in the process from the beginning, because he believed it was critical to obtaining "buy-in" throughout the organization.

### **Dedicating Resources to Support Planning.**

Management poured resources into the planning function. The Strategic Planning department was charged with managing the high level administration of the strategic planning process so that the executive team could focus on the big picture rather than getting mired in the details. Having a formal group of people to support the process

reduced the routine responsibilities of the operating executives involved in the planning process and eliminated the resistance and barriers that typically arise when managers are asked to deliver more without additional resources. Another function of the planning group was to provide analytical support for the newly created “Priority Objective” teams, as explained below. The company also provided trained facilitators to each division to assist in creating their plans. The planning group launched a “train the trainer” program, with the assistance of an outside consulting firm. This effort prepared key individuals within each division who are now designated “divisional planners.”

### **Restructuring the Planning Process.**

Initially, there were approximately 60 people involved in the planning sessions. Since there were no consistent guidelines for determining who needed be involved in the process, management erred on the side of including more people. Eventually, management concluded that 60 was too large a group to permit effective planning. This served as a basis for the planning group to “rationalize” the corporate planning body. As a result, the company formed two groups to be charged with marshalling the planning process – the Executive Committee and the Managing Directorate. The mandate of the Executive Committee was to support the CEO and COO in providing corporate-level oversight and leadership for the planning process throughout the entire company. Ultimately, the group was expected to become one of the leading sources of corporate-level strategy and vision. The committee’s membership included the CEO, the COO and their direct reports (Senior Managing Directors) as well as a select group of Managing Directors. Similarly, the Managing Directorate (all Managing Directors) were held

accountable for providing division-level oversight and leadership for the planning process.

### **Adopting a Common Planning Template.**

Although there are many approaches to planning, Countrywide chose to adopt the method developed by Eric Flamholtz.<sup>2</sup> He had previously developed and used this methodology with such diverse companies as Starbucks, PacifiCare and Navistar International as well as with many other companies.

The approach implemented at Countrywide had two major components: 1) a planning framework or conceptual “platform” and 2) a planning process.

The planning framework used is shown schematically in Exhibit 2. The process begins with an environmental scan to assess the market, competition and trends. Once the external assessment is completed, the next phase is an organizational assessment. This involves determining the strengths and limitations or areas for development of the organization in several key areas. The organizational assessment component of this process is based upon “The Pyramid of Organizational Development,” as shown above in Exhibit 1.

Once these assessments have been completed the organization then reviews its “business foundation.” This involves reviewing the business concept, strategic mission, and core strategy of the organization. The “new” business foundation then becomes the basis for

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<sup>2</sup> For further discussion of this method of strategic planning see, Eric Flamholtz and Yvonne Randle, *Growing Pains: transitioning from Entrepreneurship to Professional Management*, Jossey-Bass publishers, 2000, chapter 7.

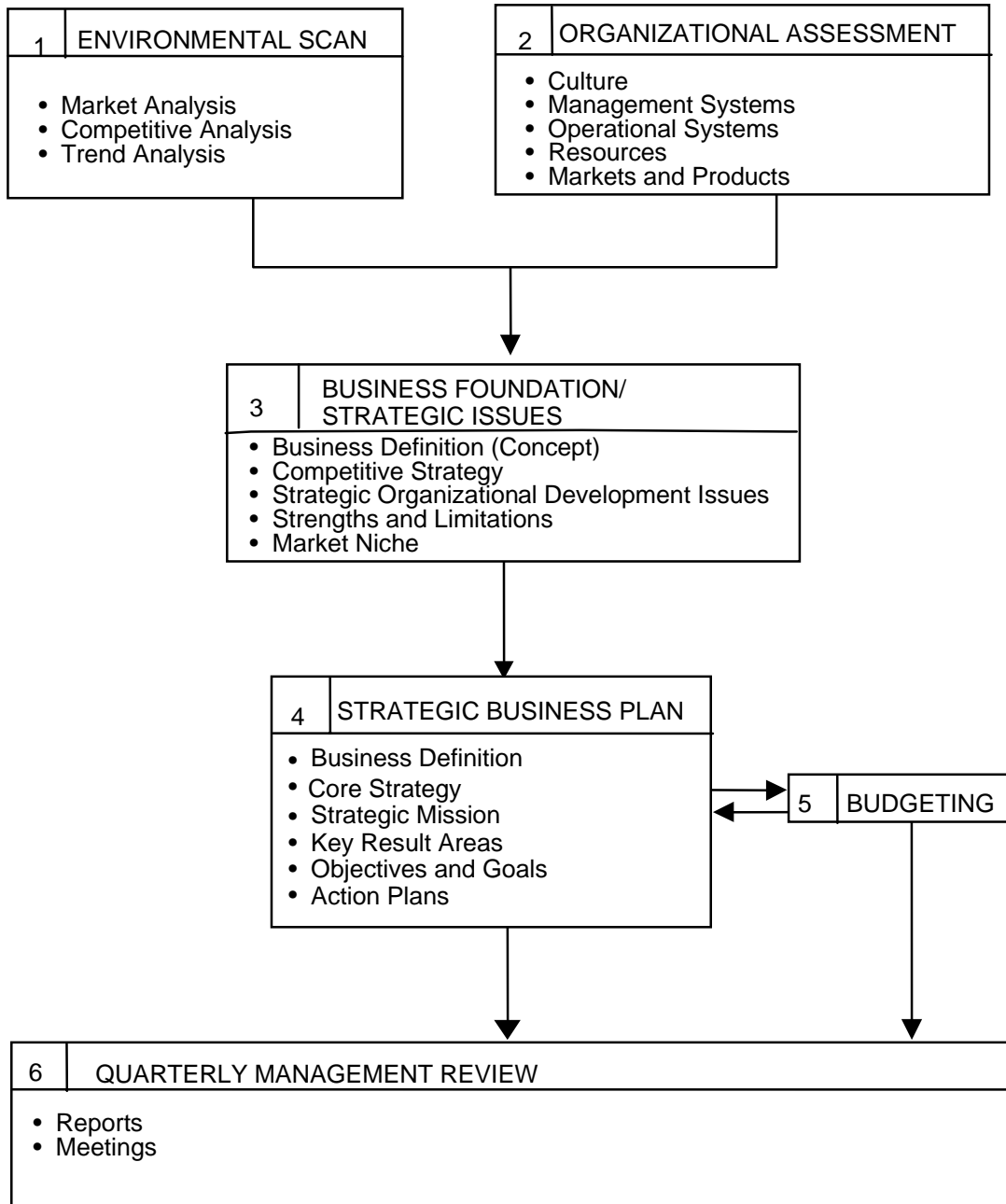
the development of objectives and goals in each of the company's "key result areas," the critical areas of organizational success or performance.

These are operationally defined as the six strategic building blocks contained in the Pyramid of Organizational development. Research has shown that there are six key "building blocks" of successful organizations: markets, selected, products or services offered, resources and how they are managed, operational systems, management systems (including the planning system,) and corporate culture. Research has also shown that these key variables are linked to financial performance and explain approximately 55-75 % of financial performance, measured in terms of gross margin and EBIT (Earnings Before Interest and Taxes).<sup>3</sup> Objectives are developed in each of these key result areas. Objectives are defined as things that the organization wants to achieve in each key result area. For example, an objective might be to increase market share or increase profitability. The objectives are broad and relative undefined. They are accompanied by "smart goals," goals which are specific, measurable, actionable, realistic, and timed dated.

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<sup>3</sup> See Flamholtz and Aksehirili (2000); Flamholtz and Hua (2002 A); Flamholtz and Kurland (2005).

**Exhibit 2**  
**Flow Diagram of the Strategic Planning Process**



## **Developing “Priority Objectives”.**

Although there are many objectives in any strategic plan, a well thought out set of “Priority Objectives” – key objectives that receive the most management focus – is one of the “secret ingredients” that makes planning work at Countrywide. These objectives are derived from the strategic mission and are in line with the overarching theme of striving for dominance in our business space. In addition, the Priority Objectives have been organized into an acronym (the word “dominance” as shown in Exhibit 3) creating a mnemonic device that facilitates spreading the strategic message throughout the company.

### **Exhibit 3**

#### ***Countrywide's Priority Objectives: D.O.M.I.N.A.N.C.E.***

**Diversification Expansion**

**Operational Efficiency**

**Market Share Growth**

**Internet Supremacy**

**New Strategic Alliances**

**Accountability & Responsibility**

**Nullify Capital Disadvantage**

**CHL Portfolio Retention**

**Expense Control & Cost Leadership**

## **Crafting an Approach to Issues of “Linkage” and “Follow-Through.”**

Two critical challenges to making strategic planning work in any organization involve:

1) Creating linkages across organizational units and 2) Ensuring that business units follow-through on plans. These things are deceptively simple, but essential to extracting real value from strategic planning. Countrywide’s solution was to create “Priority Objective Teams” – cross-functional teams responsible for providing corporate oversight of and continued focus on initiatives designed to support the Priority Objective, tracking the progress of the initiatives and monitoring divisional plans to ensure objectives are adequately addressed.

Team members were determined based on the organizational units most impacted by the objective. The Managing Director of the unit most affected by the objective was appointed to chair the team. The head of the next most affected unit became Vice-Chair. Other members included interested parties from corporate functions and other parts of the company. Teams sizes range from 5 to 10 members. Teams meet regularly with the planning group to provide updates and reports on key metrics. Also, to further emphasize the importance of the Priority Objectives, the teams were required to make regular progress reports throughout the year to the CEO and COO.

## **Monitoring Progress Throughout the Organization.**

Countrywide has also developed electronic scorecards to facilitate monitoring the progress made against each Priority Objective. The scorecards measure key financial and non-financial metrics for each objective. They are designed to allow real time

performance tracking against established criteria for each objective. Scorecards also facilitate the mapping of responsibility and accountability for objectives and related measures to appropriate teams and divisions. In all, the scorecards represent a tangible reporting system that fosters communication among management.

Countrywide was able to accomplish this in a period of about two years. The implementation of a strategic planning system is an evolutionary process, dependent on varying internal and external factors. By its nature, the strategic planning process can never be seen as entirely complete or perfected. As a result, Countrywide continues to refine its strategic planning process, and to-date it has delivered some very significant results.

### **Changes Resulting From Strategic Planning**

To what extent can we conclude that Countrywide's adoption of a more sophisticated approach to strategic planning had value to the company? The new strategic planning process at Countrywide has led to some significant changes. The benefits Countrywide has derived from the strategic planning process have been both direct and indirect, as described below.

#### **A Shift in Corporate Strategic Direction**

One of the most important changes resulting from the new planning process has been a subtle but significant strategic shift in corporate direction. Countrywide's Business Foundation was changed to better reflect the expected outcome of the company's diversification efforts. The old Business Foundation (see Exhibit 4) centered on the

“mortgage banking business.” Although by 2000 CFC was a family of companies which included a wide array of consumer and institutional financial products and services, management continued to view the business as primarily a “mortgage banking operation.” This mind set implicitly made the non-mortgage aspects of its operation almost second class citizens.

The former Strategic Mission was to be the leading or dominant player in this space. The Core Strategy was to be the low cost provider and build a brand name.

Exhibit 4

**Countrywide's Old Business Foundation**

*Business Definition:* Mortgage banking

*Strategic Mission:* To become the dominant mortgage banking company

*Core strategy:* To be the low price leader and have brand recognition.

### **Countrywide's New Business Foundation.**

As a result of the planning process Countrywide changed its business foundation. The company changes from a focus upon mortgages to a focus upon financial services with mortgage banking at its core. Its mission involved transitioning from a mortgage company to a diversified financial services company. The new business foundation is shown in Exhibit 5.

## Exhibit 5

### **Countrywide's New Business Foundation**

#### *Business Definition*

A diversified financial services company with mortgage banking at its core

#### *Strategic Mission*

- To dominate residential mortgage lending and finance
- To stabilize core earnings growth
- To complete the transition to a full diversified financial services company with mortgage banking at its core

#### *Core Strategy*

Enable our employees to deliver best-of-class and value-added products and services to our customers through superior technology and processes

## **Shift in Business Foundation led to Change in Countrywide' Name**

As a result of the subtle but profound shift in the concept of the business enterprise, the company changed its name from “Countrywide Credit Industries” to “Countrywide Financial Corporation.” This name change was a symbolic reflection of the shift in the company’s identity and self perception from a mortgage company with some diversification to a financial services company with a world class mortgage banking business at its core. This is a subtle but profound change to symbolically reflect this shift in vision and strategy.

### **Other Benefits from the new planning process**

According to the management team, the planning system has also led to a variety of significant organizational benefits including

- A constructive forum for elevating management’s focus from tactical and operational concerns to broader strategic challenges facing Countrywide
- A shift away from “silo mentality” that now encourages divisional leadership to make decisions from a “Countrywide perspective” as well as a divisional perspective
- A clear set of priorities to guide operating unit activities and decision-making
- Measurable objectives that emphasize coordination and linkages across organizational boundaries

- “SMART goals” – goals that are specific, measurable, action oriented, realistic, and time dated –the company learned to convert objectives into measurable initiatives and goals
- Greater understanding and communication of the plan throughout the organization
- A highly sophisticated planning process that is consistently applied throughout the company
- Another benefit of the strategic planning system has been the development of the senior management team in terms of increased sophistication in strategic thinking.

### **External Validation of Countrywide Planning System**

In addition to this report of the benefits and impact of the Countrywide System for strategic planning, there is also additional independent evidence of its value. In 2004, Countrywide’s Strategic planning Department was honored by the Association for Strategic planning with the 2004 Richard Goodman Strategic Planning Award for large for profit enterprises. The award honors organizations at the leading edge of strategic planning practice. This provides independent verification of the value of the system developed at Countrywide.

### **The Bottom Line: Countrywide Financial Performance**

The ultimate test of anything is its impact on the “bottom line” or shareholder value. To what extent can we conclude that Countrywide’s adoption of a more sophisticated approach to strategic planning had economic value to the company?

In May of 2004, Barron's Magazine listed Countrywide as number 2 on their list of the five hundred largest companies in terms of their returns to stockholders.<sup>4</sup> Of course, not all of the company's financial performance is attributable to its strategic planning. However, the strategic planning process contributed to shift in strategic direction and mind set, which, in turn, contributed to overall financial performance. Although Countrywide benefited from the effects of lower interest rates on refinancing, so did its competitors, which did not fare as well in the Barron's rankings.

### **Lessons Learned: Making Strategic Planning Work**

What can be learned from Countrywide's experience in applying a more sophisticated approach to strategic planning? The experience of Countrywide offers many key insights into the factors that allow strategic planning to work. At Countrywide, several things were required to make the change in strategic planning system, which, in turn helped to transform the business:

- Sponsorship at the highest levels of the organization
- An organizational culture that embraces planning, i.e., the way things are done around here
- A sound but user friendly methodology or template
- A process that cascades throughout the entire organization
- Dedicated planning resources that add value by **supporting** the planning process

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<sup>4</sup> Vito J. Racanelli, "Barron's 500 Triple Crown: The Best Companies for investors" Barron's May 17., 2004., p. 31-32

- Equal emphasis on process implementation as on actual planning activities.

These things can be viewed as prerequisites to making strategic planning work and add value to organizations.

### **Conclusion**

Although there has been a great deal written about strategy and strategic planning, many people remain skeptical about whether it actually works. Strategic planning is not just a technology; it is a way of life. Like any technology, it requires a great deal of hard work to make it operational. Since there are many demands upon peoples' time, it requires sponsorship to highlight its importance.

Having a strategy is not the same as having a strategic planning system. Virtually all organizations have strategies, but not all have strategic planning systems.

This chapter has presented an actual example of how a large successful company, Countrywide Financial Corporation ("Countrywide"), has successfully applied an approach strategic planning, which has had significant impact and benefit to the company. We hope that others can benefit from our experiences.