Strategic planning

Strategic planning

- Now that we have a general understanding of what management is and how internal and external variables affect organizations, we are ready to examine the functions of management in more detail.
- This lecture discusses strategic planning, the process of selecting objectives for an organization and deciding what should be done to attain them. We will learn about the components of organizational planning, the benefits of formal planning, and the steps in the planning process. Strategic planning provides the foundation for all managerial decisions.

Strategic planning

- The dynamic process of strategic planning is the umbrella under which all management functions fall. Without the benefit of strategic planning, organizations in general and people in particular have no clear way to evaluate the purpose or direction of group enterprise. The strategic planning process provides a framework to guide the members of the organization.
- **Strategic planning is the set of actions and decisions made by management that lead to the development of specific strategies designed to help the organization achieve its objectives.**

Strategic planning

- The strategic planning process is a tool to aid managerial decision making. Its purpose is to ensure sufficient levels of innovation and change in an organization. **There are four major managerial activities within the strategic planning process. These activities are:**
- **resource allocation,**
- **environmental adaptation,**
- **internal coordination,**
- **organizational strategic awareness.**

Strategic planning

- **Resource Allocation.** This process includes the allocation of scarce organizational resources such as funds, critical management talent, and technological expertise.

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- **Environmental Adaptation.** Adaptation should be interpreted in a broad sense. It covers all strategic actions that improve the company's relations to its environment. Companies need to adapt to environmental opportunities and threats, identify relevant options, and provide for an effective strategic fit with the environment. The strategic planning of successful businesses deals with the creation of new opportunities through development of superior product systems, through interaction with government and society at large, and so on.

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- **Environmental Adaptation.** *The entry of the Coca-Cola Company into the caffeine-free soft drink market is an example of environmental adaptation. The organization spent a tremendous amount of time examining environmental opportunities and threats before introducing its caffeine-free products. Royal Crown was the first to introduce a caffeine-free cola, RC 100, to the market. The response of a consuming public interested in a "more healthful" soft drink was encouraging Pepsi then introduced its Pepsi-Free brand. Coca-Cola waited, stalked its competition, and finally introduced a number of caffeine-free products in response to the obviously changing consumer environment.*

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- **Internal Coordination.** This involves coordinating strategic activities to reflect the firm's internal strengths and weaknesses in order to achieve the efficient integration of internal operations.

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- **Organizational Strategic Awareness.** This activity involves instilling a systematic management development approach by building an organization that can learn from the outcomes of its past strategic decisions. **Learning from the past** enables the organization to improve its strategic direction and strengthen its professionalism with respect to strategic management.

Nature of Strategy

- The word strategy evolved from the Greek strategos, "the art of the general." The military background of the word should be no surprise. It was strategos that allowed Alexander the Great to conquer the world.
- **Strategy is a detailed, comprehensive, and integrated plan designed to assure that the mission and objectives of the organization are met.**

Nature of Strategy

- The strategic plan must be supported by extensive research and factual data. In order to **compete effectively** in today's business environment, a firm must commit itself to gathering and analyzing tremendous amounts **of information about the industry, market, competition, and other factors**.
- The strategic plan gives an identity, a personality, to the firm that allows it to attract certain types of employees, as well as not to attract other types. The plan becomes the vision for the organization that guides its employees, attracts new employees, and sells products or services.

Nature of Strategy

- Finally, strategic plans must be designed not only to remain intact for long periods of time, but also to be flexible enough to allow modification and redirection as needed. The overall strategic plan should be viewed as a blueprint that will guide the firm for an extended period of time, with the understanding that a competitive and ever-changing business and social environment makes continual adjustments inevitable.

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- Some organizations, like some individuals, can achieve a degree of success without much formal planning. Moreover, strategic planning in itself does not guarantee success. ***Just as a car with an excellent engine design may fail to perform well because of low-quality gas, an organization that makes strategic plans may fail because of faulty performance in organizing, motivating, or controlling.*** Nevertheless, formal planning can make a number of important, and often essential, contributions to an organization.

Strategic planning

- The modern rate of change and growth of knowledge is so great that **strategic planning is the only way to anticipate formally future problems and opportunities**. It provides the vehicle for top management to plan for the long term. Strategic planning also provides a framework for decision making. Knowing what the organization wants to accomplish helps to clarify what courses of action are most appropriate. Formal planning helps decrease risk in decision making. By making thorough and systematic planning decisions, management reduces the risk of making an incorrect decision due to faulty or inadequate information about organizational capabilities or about the external environment.

Organization's Mission

- **The primary, overall purpose of an organization—its expressed reason for existence—is referred to as its mission. Objectives are formulated to attain the mission**

Organization's Mission

- **Importance of Mission.** The importance of having a suitable mission that is formally expressed and effectively communicated to the organization's people cannot be overstated. The objectives derived from it serve as criteria for all subsequent managerial decision making. If managers do not know what their organization's basic purpose is, they have no logical reference point for deciding which alternative is best.

Organization's Mission

- *For example, if Burger King's managers did not know that the firm's overall objective is to provide the public with inexpensive fast food, they could not logically decide whether to add a $10.00 steak dinner to the menu or to offer a new specialty sandwich retailing for $1.50. Indeed, powerful arguments could be made for the steak, using the rationale that total sales would be greater if the company could get $10.00 for a meal.*

Organization's Mission

- Without a mission as a guide, individual managers would have nothing but their individual values on which to base a decision. The result can be an enormous diffusion of effort rather than the unity of purpose so critical to the organization's success. It is not surprising that enormously successful organizations have a formally expressed, well-communicated statement of purpose.

Organization's Mission

- The mission details the firm's identity and provides direction and guidelines for constructing goals and strategies at various organizational levels. The statement of mission of an organization must convey the following:
- 1. The purpose of the firm in terms of its basic service or products, its primary markets, and its major technologies. Simply, what business is the firm in?
- 2. The external environment that determines the operating philosophies of the firm.
- 3. The organizational culture. What type of working climate exists within the firm? What type of people does this climate attract?

Organization's Mission

- By seeing its mission in terms of defining fundamental customer needs and meeting them effectively, management in effect creates customers to support the organization in the future. As Peter F. Drucker has said, **"There is only one valid definition of business purpose: to create a customer."** If a business makes its mission the creation of customers, it will also make the profit it needs to survive, barring mismanagement in execution.

Organization's Mission

- **Selecting a Mission.** Many managers never bother to select and state their organization's mission. Often the mission seems obvious to them. If you ask a typical small-business person what his or her mission is, the reply probably would be, **"To make a profit, of course."** But if you think through the matter, the inadequacy of profit as the overall mission becomes apparent, even though it is, indeed, an **essential objective**.

Organization's Mission

- **Profit is wholly internal to the enterprise**. Because an organization is an open system, it can survive in the long run only by meeting some need outside of itself. To earn the profit it needs to survive, the firm must look to the environment in which it operates. The environment therefore is where management seeks the overall purpose of the organization. In order to select a suitable mission, management has to answer two questions: **"Who are our customers?" and "What needs of these customers are we able to fulfill?"** A customer, in this context, is anyone using the output of the organization.

Organization's Mission

- The need for a mission was recognized by exceptional managers long before the development of systems theory. Henry Ford, a very profit-conscious manager, defined Ford's mission as **providing the public with low-cost transportation**. He correctly observed that if one does this, one can hardly get away from profits.

Organization's Mission

- Selecting an organization mission that is too narrow, such as profits, hinders management's ability to explore feasible alternatives in decision making. As a result, key factors may not be considered and the subsequent decisions may result in a low level of effectiveness for the organization.

Characteristics of Objectives

- **Specific and Measurable Objectives**. By stating its objectives in specific, measurable terms, management provides a clear reference point for subsequent decisions and for evaluation of progress. Middle managers have guidance in deciding whether to allocate more effort to employee training and development. It also is easier to determine exactly how well the organization is doing with respect to its objectives. As we shall learn, this becomes important when performing the control function.

Characteristics of Objectives

- **Time-Oriented Objectives.** A specific time horizon is another characteristic of effective objectives. They should specify not only exactly what the organ' zation wants to accomplish but also generally **when** the result is to be attained. Objectives typically are set for time spans ranging from long to short. A long-range objective has a time horizon of roughly five years sometimes longer for technically advanced companies. A short-range objective, in most cases, is one of the organization plans to attain within a year Medium-range objectives have a one- to five-year time horizon. Long-range objectives typically are broad in scope. The organization formulates them first. Medium- and short-range objectives are then developed to support the longer-range objectives.

Characteristics of Objectives

- *For example, a long-range productivity objective may be "to increase overall productivity by 25 percent within five years." Consistent with this, management would set medium-range objectives of increasing productivity by 10 percent within two years. It would also establish short-range objectives in such specific areas as inventory costs, employee training, plant improvement, more efficient use of existing facilities, management development, union negotiations, and so forth. These must support the long-range objectives, to which they are directly related, and other objectives of the organization.*

Characteristics of Objectives

- **Attainable Objectives.** An objective must be attainable if it is to make an organization more effective. Setting an objective beyond the organization's capabilities, either due to insufficient resources or external factors, can have disastrous consequences. If objectives are not attainable, employees' needs for achievement may be frustrated and their motivation reduced. Since it is common practice to link compensation and promotions to goal attainment, unattainable objectives may make the means that an organization uses to motivate its people less effective.

Characteristics of Objectives

- **Mutually Supportive Objectives**. Lastly, to be effective, the organization's multiple objectives must be mutually supportive—that is, actions and decisions required to attain one objective should not detract from the attainment of others. For example, an objective of maintaining inventory at a level of 1 percent of sales would not, for most firms, support an objective of fulfilling all orders within two weeks. Failure to make objectives mutually supportive tends to cause conflict between the units of the organization responsible for attaining the stated objectives.

Strategic planning

- After establishing its mission and objectives, management must begin the diagnostic phase of the strategic planning process. The first step in diagnosis is examining the environment. Managers evaluate the environment for three reasons:
- **1. To assess changes that affect aspects of current strategy.** ***For example, increases in jet fuel prices have created a variety of problems for the airlines. They must constantly assess fuel price trends as part of the strategic planning process.***

Strategic planning

- After establishing its mission and objectives, management must begin the diagnostic phase of the strategic planning process. The first step in diagnosis is examining the environment. Managers evaluate the environment for three reasons:
- **2. To determine what factors present threats to the current strategy of the firm. Monitoring the activities of competitors keeps management alert to potential threats.**

Strategic planning

- After establishing its mission and objectives, management must begin the diagnostic phase of the strategic planning process. The first step in diagnosis is examining the environment. Managers evaluate the environment for three reasons:
- **3. To determine what factors present greater opportunities for achieving corporate objectives by adjusting the strategic plan.**

Strategic planning

- **Environmental analysis** is the process by which strategic planners monitor factors external to the organization to determine opportunities and threats to the firm.
- Environmental analysis has several important benefits. It gives the organization time to anticipate opportunities, time to plan for contingencies, time to develop an early-warning system for possible threats, and time to develop strategies that can turn threats into opportunities.

Strategic planning

- In terms of evaluating these threats and opportunities, the role of environmental analysis in the strategic planning process basically responds to three specific questions:
- 1. Where is the organization now?
- 2. Where does top management want the firm to be in the future?
- 3. What must management do to get the firm from where it is now to where it wants to be?

Strategic planning

- Sizing up a firm's resource strengths and weaknesses and its external opportunities and threats, commonly known as SWOT analysis, provides a good overview of whether a firm's business position is fundamentally healthy or unhealthy. SWOT analysis is grounded in the basic principle that strategy-making efforts must aim at producing a good fit between a company's resource capability and its external situation. A clear view of a company's resource capabilities and deficiencies, its market opportunities, and the external threats to the company's future well-being is essential. Otherwise, the task of conceiving a strategy becomes a chancy proposition indeed.