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Strategic Planning Situations Demand, Management Plans

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Abstract

Strategic planning is long-term, wide ranging and critical to organizational success, in terms of the costs of the resources it affects and the outcomes it envisions. It focuses on the organisation as a whole. Managers consider the organisation as a total unit and ask themselves what must be done in the long-run to attain organizational goals. The most successful managers are those who are able to encourage innovative strategic thinking within their organisations. Against this background, a modest attempt has been made in this paper to discuss different facets of strategic planning process.

Keywords:

Management by plans, Contingency Planning, strategic choice, strategic planning, SWOT Analysis.

Introduction:

Strategy encompasses the objectives and sub-plans of the organization and a plan of action for the achievement of those objectives and sub-plans in competitive environment. It considers not only ends, but also means. A strategy is, therefore, a declaration of intent. It defines what the organization wants to become in the longer term. The overall aim of strategy at corporate level will be to match or fit the organization to its environment in the most advantageous way possible. Strategies form the basis for strategic management and the formulation of strategic plans. Emphasis is occasionally placed on determining strategy according to a particular situation and in other cases the environment is picked out for analysis to arrive at the strategy. Some specify a review of market scope and a few mention competitive position. Strategy in a management context refers to an available course of action that an organization needs to identify and evaluate with a view to pursuing it. Strategy is not synonymous with long-term plan, but rather consists of an organization's attempt to reach some preferred future state by adopting its competitive position as Circumstances change.

Technological advances, economic liberalization and various socio-political developments have resulted in unprecedented rate of change. One of the consequences of this acceleration has laid emphasis on strategic management. Strategic management is concerned with the following vital business decisions:

- What business to be in?
- What markets to serve?
- Which needs to meet?
- What products to offer?
- Where to locate facilities? etc.

These questions arise more frequently than ever before.

The business does not conform to one standard pattern. But by reducing the confusion of reality to some basic elements, patterns of strategy have become examinable. Eleven such elements that apply to the majority of business strategy writing are proposed by *Simmonds* as follows:

i. Strategy is applicable to business within defined boundaries. While the boundaries may change, the strategy applies at any specified time to actions affecting a delimited area of demand and competition.

ii. There are direct competitors. These competitors sell essentially the same products or services within the defined demand area. Indirect competitors operate outside the defined business and their products are not direct substitutes. Indirect competition is usually ignored or covered by the concept of price elasticity of demand.

iii. There is zero-sum competition between the direct competitors for the market demand, subject to competitive action affecting the quantity demanded.

iv. Demand within the defined market varies over time. This variation in demand is largely independent of supplier strategies and is often referred to as the product life cycle. At its simplest, it is depicted as a normal curve over time with regularly growing then declining demand.

v. Strategy unfolds over a sequence of time periods. Competition evolves through a series of skirmishes and battles during the product life cycle.

vi. Single period profit is a function of (a) the price level ruling for the period, (b) the accumulated volume experience of the firm, and (c) the firm's achieved volume as a proportion of capacity.

vii. Market share has intrinsic value. Past sales levels influence subsequent customer buying, and costs reduce with greater single period volume and accumulated experience.

viii. Competitors differ in market share, accumulated experience, production capacity, and resources. Competitors are unequal, identified and positioned.

ix. Objectives differ. Firms composed of ownership, management and employee factions and operating a range of different businesses have different objectives. Strategic business thinking, however, will usually express these as different time and risk preferences for performance within an individual business, measured in monetary terms.

x. Within a given situation, a core of strategic actions will determine changes in competitive position. Non-strategic or contingent actions will support strategic actions and should be consistent with them, but will not change competitive position significantly.

xi. Identification of an optimal core of strategic actions requires reasoning and diagnosis, is not attained through the application of a fixed set of procedures, and is situational. In short, thinking is required.

Formulating Strategic Plans

Strategic planning is a systematic, analytical approach which reviews the business as a whole in relation to its environment with the object of the following:

- Developing an integrated, coordinated and consistent view of the route the company wishes to follow and
- Facilitating the adaptation of the organization to environmental change.

The aim of strategic planning is to create a viable link between the organization's objectives and resources and its environmental opportunities. The strategic planning is practiced differently depending on the situation and type of organization namely:

i. Family run organizations
ii. Global and multinational corporations
iii. Form exit in high competition or monopoly
iv. Stage of technology
v. Kinds of products and services
vi. Investment needed for the project
vii. Market penetration desire etc.

As *Mintzberg* has pointed out, strategy formulation is not necessarily a rational and continuous process, He believes that, while most of the time management pursues a given strategic orientation, changes in strategies, when they do occur, happen in brief quantum loops. In practice, *'a realized strategy can emerge in response to an evolving situation'. Dignam* also believes that strategy making is not always a rational step-by-step process. He suggests that most strategic decisions are event driven, not programmed. They are expressed as preference rather than as exercises in applied logic. Strategy formulation, according to *Dignam*, is about correct decision-making, not about the formulation of detailed plans. The most effective strategists are usually creative, intuitive people, employing and adaptive and flexible process. There is a great deal of truth in what *Dignam* says but there are still strong arguments for adopting a systematic approach to the formulation of strategic plans.

A Systematic Approach is necessitated:

There are three stages in strategic planning. They are:

Stage I: *Strategic Option Generations*

At this stage, a variety of alternatives are considered, relating to the firm's product and markets, its competitors and so forth. Examples of the strategies might be:

a) Increase market share
b) Penetration into international market
c) Concentration on core competencies
d) Acquisition or expansion etc.

Stage II: *Strategic Options Evolution*

Each option is then examined on its merits.

a) Does it increase existing strengths?
b) Does it alleviate existing weaknesses?
c) Is it suitable for the firm's existing position?
d) Is it acceptable to stakeholders?

Stage III: *Strategic Selection*

It involves choosing between the alternative strategies. This process is strongly influenced by the values of the managers in selecting strategies.

A systematic approach to formulate strategic plans consists of the following steps:

i. Define the organization mission and its overall purpose.

ii. Set objectives and definitions of what the organization must achieve to fulfil its mission.

iii. Conduct environmental scans by internal appraisals of the strengths and weaknesses of the organization and external appraisals of the opportunities and greats which face is (SWOT Analysis)

iv. Analyze existing strategies and determine their relevance in the light of the environmental scan. This may include Gap Analysis to establish the extent to which environmental factors might lead to gaps between what is being achieved and what could be achieved if changes in existing strategies were made. ln a corporation with a number of distinct businesses, an analysis of this portfolio of businesses can take place to establish strategies for the future of each business.

v. Define strategic issues in the light of the environmental scan, the gap analysis and, where appropriate, the portfolio analysis. This may include such questions as the following:
   a) How are we going to maintain growth in a declining market for our most profitable product?
   b) In the face of aggressive competition, how are we going to maintain our competitive advantage and market leadership?
   c) What action are we going to take as a result of the portfolio analysis of our strategic business units?
   d) To what extent do we need to diversify into new products and markets and in which directions should we go?
   e) What proportion of our resources should be allocated to research and development?
   f) What are we going to do about our agıng machine tools?
   g) What can we do about our overheads?
   h) How are we going to finance our projected growth?
   i) How are we going to ensure that we have the skilled workforce we need in the future?

vi. Develop new or revised strategies and amend objectives in the light of the analysis of strategic issues.

vii. Decide on the critical success factors related to the achievement of objectives and the implementation of strategy.

viii. Prepare operational, resource and project plans designed to achieve the strategies and meet the critical success factor criteria.

ix. Implement the plans.

x. Monitor results against the plans and feed back information which can be used to modify strategies and plans.

Approaches in Strategic Planning

It is important to operate a planning process which will not only produce realistic and potentially rewarding plans but will also secure the support of all those involved in implementing them. There are three approaches that can be adopted to strategic planning:

a) A top-down process, in which managers are given targets to achieve which they pass on down the line.
b) A bottom-up process, in which functional and line managers in conjunction with their staff submit plans, targets and budgets for approval by higher authority.

c) An iterative process, which involves both the top-down and bottom-up setting of targets. There is a to-and-from movement between different levels until agreement is reached. However, this agreement will have to be consistent with the overall mission, objectives and priorities and will have to be made within the context of the financial resources available to the organization. The iterative approach, which involves the maximum number of people, is the one most likely to deliver worthwhile and acceptable strategic plans.

Contingency Planning

Planning is made on the basis of certain assumptions and conditions. If the conditions change drastically, the selected plans may have to be discarded altogether. The business firms are exposed to continuous changing economic environmental conditions. Therefore, a business organization should be well prepared to deal with contingencies i.e. unforeseen and other critical developments. A contingency plan is a plan to cope with such unforeseen consequences which mark major deviations from the strategic planning process. Such contingency plans are formulated in advance to take care of unknown events and unexpected challenges. They make the future through their proactive planning and advanced preparation. The advantage of contingency planning is that when external opportunities occur contingency plans could allow an organization to capitalize on them quickly.

Linneman and Chandran have suggested that contingency planning consist of a seven step process. They are as follow:

Step 1 Identify the beneficial and unfavourable events that could possibly derail the strategy or strategies.

Step 2 Specify trigger points. Calculate about when contingent events are likely to occur.

Step 3 Asses the impact of each contingent event. Estimate the potential benefit or harm of each contingent event.

Step 4 Develop contingency plans. Be sure that contingency plans are compatible with current strategy and are economically feasible.

Step 5 Assess the counter impact of each contingency plan. That is, estimate how much each contingency plan will capitalıze on or cancel out its associated contingent event. Doing this will quantify the potential value of each contingency plan.

Step 6 Determine early warning signals for key contingency event. Monitor the early warning signals.

Step 7 For contingent event with reliable early warning signals, develop advance action plans to take advantage of the available lead time.

Strategic Planning System is advocated

The formal strategic planning is advocated for the following reasons:

- The increase in size of companies will increase its risk.
- It improves the quality of management's decision making by encouraging creativity and initiative by tapping the ideas of the management team.
- The economic environment of business is fast changing.

- The reduction in entry barriers has intensified the competitive spirit.
- The long-run survival and growth of a business firm requires a well-planned decision making, evaluation and control systems
- The long-term, medium-term and short-term objectives, plans and conflicts can be made consistent with one another.

Fallacies in Strategic Planning

The major fallacies identified in strategic planning are as follows:

- The strategic planning models fail to account for how strategic are made.
- Empirical studied have not demonstrated that planning necessarily contributes to improved performance.
- Strategic planning occur often in an annual cycle.
- Formal planning discourages strategic planning.
- Planning gives an illusion of control even through the forecast assumptions on which it is based are wrong.
- Political behavioural issue– trying to appease the powerful stakeholders.
- Future is mostly unpredictable or uncertain. There exists many unforeseen contingencies.
- Normally, formal planning was treated as an exclusive top management function keeping away the operational staff.
- Where learning is needed, where future is uncertain, strategic thinking cannot be divorced from implementation.
- Planning assumes that the environment can be forecast and that its future behavior can be controlled.

Pitfalls in Strategic Planning

The common pitfalls in strategic planning are as follows:

- Non-availability of correct and accurate data.
- Doing strategic planning only to satisfy accreditation or regulatory requirements.
- Failing to communicate the plan to the people who execute the plan.
- Top management making intuitive decisions that conflict with formal plan
- Failing to use plans as a standard for measuring performance.
- Delegating tasks to a few persons rather than involving all managers.
- Failing to involve key employees in all phases of planning.
- Failing to create an environment conducive of change.
- Lack of flexibility and creativity.
- Strategic planning is a costly exercise, as well as, time consuming.
- Strategic planning usually restricted to hard business concern, leaving without proper attention for soft issue like customer, quality, labour productivity, social concerns etc.
- Strategy planning sometimes become a routine exercise without having proper attention to strategic issues.

- The planning is isolated from the external groups that critically affect the company like labour unions, consumer advocates, social service organization etc.

Conclusion

The business firms face an almost infinite number of alternative strategies from which to choose. Rational views of decision making advocate that all alternatives be evaluated. Realistically, firms must concentrate their analysis on a much smaller number of feasible alternatives. Strategic planning is focused on making optimal strategy decisions. It is management by plans. It is about choosing things to do. So, it is an analytical process due to several benefits reaped, a strategic planning system in an organization is advocated. However, strategic plans must be formulated taking into consideration major fallacies as well as pitfalls.

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