BBA SEM – V

FUNDAMENTALS OF STRATEGIC MANAGEMENT

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UNIT 2: STRATEGIC PLANNING PROCESS

- CONCEPT OF STRATEGIC PLANNING
- NEED AND IMPORTANCE
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STRATEGIC PLANNING

CONCEPT

Planning is related with future. A planning process involves different degrees of futurity.

Some parts of the organisation require planning for many years into the future while others require planning over a short period only.

For instance, capital expenditure is related to long- term period while budget for a year is of short-term nature. The former is called strategic planning or long-range planning.

'Strategic planning' may be defined as the process of determining the objectives of the organisation and the resources to be used to attain these objectives, as also the policies to govern the acquisition, utilisation and disposition of these resources.

Examples of strategic planning in an organisation are—diversification of business into new lines, planned growth rate in sales, type of products to be offered, etc. Strategic planning encompasses all the functional areas of business and is affected within the existing and long- term framework of economic, technological, social and political factors.

It also involves the analysis of various environmental factors—particularly with regard to how an organisation relates to its environment. Generally, for most of the organisations, strategic planning period ranges between three to five years.

NEED OF STRATEGIC PLANNING

Regardless of whether your business is a small start-up or one of the biggest players in the market, you will likely have heard stories of how other organisations have achieved success through well thought-out strategic planning.

1. It outlines a clear path for your company

No business can hope to succeed by not having a plan and simply hoping to stumble across success.

A strategic plan works like a roadmap, clearly defining the best route for your organisation to take in the years ahead. Whether it covers one, three or five years into the future, a strategic plan can help guide your organisation to meet the challenges that lie in wait.

2. It brings a sense of focus

Because a strategic plan establishes a direction for your business to take, it will help it sharpen its focus in order to get there.

Strategic planning can therefore help your organisation develop the right goals and targets and help everyone focus their efforts into meeting them.

3. It improves your business's self-awareness

Taking the time to establish a comprehensive strategic plan means your business has a better awareness of its strengths and weaknesses and where it stands in the market, both individually and in relation to competitors.

4. It gives your employees something to work towards

Strategic planning isn't just beneficial for those highest up in the management hierarchy – it gives everyone in the organisation a sense of purpose.

With a definitive mission and clear goals and objectives to work towards, your staff will know their efforts count towards something and will be motivated to do their job.

IMPORTANCE OF STRATEGIC PLANNING:

1. Financial benefits:

Firms that make strategic plans have good sales, low costs, high EPS (earnings per share) and high profits. Firms have financial benefits if they make strategic plans. Companies like Reliance, Infosys, Tata, Wipro, Deloitte, etc. are the giants who report good financial results as a result of sound strategic planning.

2. Guide to organisational activities:

Strategic planning guides members towards organisational goals. It unifies organisational activities and efforts towards the long-term goals. It guides members to become what they want to become and do what they want to do. It focuses on specific goals making it clear for members to know the direction towards which they have to move. Earning profits is less meaningful than earning a growth rate of 10% per year.

Paying high dividends is less meaningful than paying dividends at the rate of 40%. Meeting society's needs is less meaningful than providing free education to school children of a specific community. Allocation of resources and attempts to meet the goals is facilitated through clear specifications in strategic planning. It makes the objectives operational and provides right direction to organisational activities.

3. Competitive advantage:

In the world of globalization, firms which have competitive advantage (capacity to deal with competitive forces) have better sales and financial performance. This is possible if they foresee the future. Future can be predicted through strategic planning. It enables managers to anticipate problems before they arise and solve them before they become worse.

4. Minimise risk:

Strategic planning provides information to assess risk and frame strategies to minimise risk and invest in safe business opportunities. Chances of making mistakes and choosing wrong objectives and strategies, thus, get reduced.

Risk is inherent in every business and failure to anticipate risk through strategic planning is almost sure to lead the business to failure unless otherwise proved by chance. Lack of strategy, framing wrong strategies or ineffective implementation of strategy cannot be afforded by business enterprises operating in the dynamic, changing and risky environment.

5. Beneficial for companies with long gestation gap:

The time gap between investment decisions and income generation from those investments is called gestation period. During this period, changes in technological or political forces can affect implementation of decisions and plans may, therefore, fail. Strategic planning discounts future and enables managers to face the threats and opportunities. Huge capital investments in projects is followed by expected financial returns.

6. Promotes motivation and innovation:

Strategic planning involves managers at top levels. They are not only committed to objectives and strategies but also think of new ideas for implementation of strategies. This promotes motivation and innovation. It also provides motivation to people at lower levels when they know their efforts are contributing towards organisational goals.

Satisfied workforce is the strength of the organisation. It saves huge costs on reducing absenteeism, labour turnover, role conflicts etc. It promotes discipline in the organisation and enhances human resource effectiveness and also organisational effectiveness.

7. Optimum utilisation of resources:

Strategic planning makes best use of resources to achieve maximum output. Resources are scarce and strategic planning helps in their use in the areas where they are required most.

General Robert E. Wood remarks, “Business is like war in one respect. If its grand strategy is correct, any number of tactical errors can be made and yet the enterprise proves successful.” Effective allocation of resources, scientific thinking, effective organisation structure, coordination and integration of functional activities and effective system of control, all contribute to successful strategic planning.

PROCESS OF STRATEGIC PLANNING:

Strategic planning is not a single task. It is an integrative assembles of several tasks that are distinct, yet interrelated. These tasks cover a multitude of issues, differing in nature and determining different treatments. Together, these tasks lead to the formulation of the corporate strategy of the firm.

1. Clarifying the mission of the corporation

Clarifying the mission of the corporation is the first task in the strategic planning process. In fact, strategic planning originates at the point a corporation imagines of its mission. The mission is an expression of the corporate intent. The mission justifies the organisation and legitimizes the corporation stands for. The mission would carry the grand design of the firm and communicate what it wants to be. It clarifies the very purpose of the corporation. It also represents the corporation's guiding principles. It will indicate broadly the businesses it will be in and the customer needs it will seek to satisfy. The mission is shaped by the capabilities and vision of the corporation's leaders. The business philosophy of the founders and present leaders of the corporation is securely lodged in the mission.

2. Defining the business

Defining the business is the next task. Defining the business correctly is a pre-requests is selecting the right opportunities and steering the firm on the correct path. Without defining its business correctly, the firm cannot set its corporate objective in a proper manner. For formulating the strategy, too, proper definition of the business is an essential pre-requisite. Even for understanding what constitutes its relevant environment and for making its environmental search effective, the firm fumble in the strategic planning task because they lack a proper definition of the business they are engaged in.

3. Surveying the environment

Survey of the environment is central to strategic planning. For a business firm, all its opportunities are embedded in the environment. Likewise, all its threats are also hidden in the environment. No wonder then, environment survey forms a vital part of the strategic planning process. Environmental survey does not stop with providing clues on the environment. It helps formulation of strategies in line with the opportunities emerging in the environment.

In its attempt at environment survey, basically, a firm gathers all relevant information relating to the environment and analyses them in detail. It analyses the macro-environmental factors as well as the environmental factors that are specific to the business concerned. Under the macro-environmental factors, the firm studies the demographic, socio-cultural and economic scene. It also studies the political environment, the legal environment and the government policies covering various areas. As regards environmental factors that are more specific to the business concerned, the firm studies the emerging trends in the industry, the structure of the industry, the nature of competition and the scope for invasion by substitute products. It also studies the market and the customer closely. It examines alternative technologies that are emerging and their relative cost-effectiveness.

The significant point is that the scope of the studies under environmental survey is not confined to the firm's existing businesses. The firm adopts a mega frame of reference and looks beyond the borders of its existing businesses, because both opportunities and threats can emerge from many sources. After analyzing all aspects relating to environment in detail, the firm prepares an opportunity – threat profit (OTP).

4. Internal appraisal of the firm

Internal appraisal of the firm is the process of assessing the corporation's capabilities and resources, strengths and weaknesses and core competencies and competitive advantages. While environmental survey may help identify the opportunities in the environment in areas of interest to the firm, the firm obviously cannot tap all these opportunities. It has to select the ones it would like to pursue.

(i) Strength- weakness analysis

It has also to find out whether it has the requisite capabilities for tapping the selected opportunities and the required defenses against possible threats. To facilitate this task, the firm attempts an internal appraisal, taking a close look at its resources, strengths and weaknesses and competitive advantages. This again, is an elaborate exercise. While a small enterprise may be in a position to straightaway list out its strong points and weak areas, it is not easy at all for large multi-business corporations to arrive at a correct picture of its strength and weaknesses, especially when one's strength or weakness has to be reckoned against that of competition and the changes taking place in the environment. The firm assesses carefully its capabilities in the various areas, such as marketing, finance, human resources, operations, R & D and general management. It develops its strength – weakness profile.

(ii) Assessing competitive advantage

The firm also has to examine which of its perceived strengths actually constitutes a competitive advantage for the firm. The firm compares itself against competition and develops its competitive advantage profile (CAP). The process of internal appraisal also throws up the capability gaps of the firm, i.e. the gaps between its existing capabilities and the needed capabilities for tapping the opportunities spotted through the environmental survey. The internal appraisal will give concrete clues to the firm on this vital matter.

(iii) Appraisal of the businesses

Apart from carrying out a strength-weakness analysis and profiling its competitive advantage, the firm also carries out a through appraisal of each of its businesses. In fact, an analysis of strength-weakness and competitive advantage is done specifically for each of the businesses. However, what is more fundamental in this exercise is the assessment of the health of each of these business units so that the firm can decide on what is to be done with each of them.

5. Setting the corporate objectives

Once the firm has clarified its mission, defined its business and scanned its environment and internal capabilities, it is ready to set its corporate objectives. The main task here is to decide the extent of growth the firm wants to achieve. The firm examines its present level of performance, its achievable level of performance over the planning period, say five years, and its aspirational level of performance. It addresses the question: given its strengths/ competitive advantage/ resources on the one hand and the business opportunities emerging in the environment on the other, what level of growth it should aim at? Balancing the opportunities with the organization's capabilities and ambitions, the firms' figures out its growth objective.

In addition to growth, there are certain other key determinants of corporate success which apply to all firms, profitability, productivity, technology, competitive position, human resources, social responsibility and corporate image. Wise organisations set objectives in all these areas because corporate growth and success is multidimensional in character.

The objectives are set in a measurable and time-bound manner. Objectives are, after all, a statement of the result the firm seeks in a given area, in a specific time frame. Setting the objectives with clarity is of crucial significance. When the objectives are clearly and unambiguously laid down, it serves two vital purpose – it facilitates the corporation's progress along its intended mission; it also makes the march smooth; and it ensures that the corporation marches forward with minimum errors, least wastage of resources and minimum diffusion of effort. After setting the objectives with maximum possible clarity, the firm must also prescribe their hierarchy/ priority.

6. Formulating the corporate strategy

The main function of corporate strategy is to provide strategic direction to the firm. It is corporate strategy that ensures the fit between the firm and its environment. It is the tool with which the firm matches its growth needs with the promises and threats of the environment. It is the route map chosen for navigating the firm through all the fluctuation and turbulence the firm may face.

It clarifies the quantum and nature of growth the firm will purse, as well as its direction, pace and timing. It prescribes to what extent the firm can be adventurous in its drive for growth. It finally sets the pace of the corporation's total growth, and thereby it's future and overall prospects.

(i) Generic/ grand strategies

Since corporate strategy basically seeks to chalk out the product-market posture of the firm, much of the strategy formulation task revolves around developing the product-market choice. In this endeavor, the firm explores different alternatives before opting for a particular posture. There are certain generic strategy alternatives by exploring which the firm can carry out this exercise.

Basically there are four such generic strategy routes: stability, expansion, retrenchment and combination. These are referred to by some as grand strategies and by some others as generic strategies. These four generic strategy routes carry a large array of sub-strategies or strategy modes for the firm to choose from.

(ii) Strategy choice

After raking a close look at generic strategy routes, the firm selects a particular route or combinations. The firm is inclined towards a particular generic strategy or a particular combination depending on the unique realities it faces. The firm then tries to project the effect of the alternatives in terms of changes/ additions/ deletions to the firms' existing product market posture. It also tries to clarify the competitive advantage and synergy which each alternative would require/ use. The firm then evaluates the strategy alternative more closely. Keeping OTP and CAP as the reference frame, it examines what strategy/ strategy modes are appropriate for the firm. In particular, the firm examines the resource requirement of the different strategy options and checks the resource availability. It assesses the trade-offs of the alternatives. The likely impact of the chosen strategy, its repercussion on the corporation's structure, systems, etc. are also assessed.

Appraisal of the existing businesses of the firm is an important part of strategy formulation and strategy choice. In this exercise, the firm reviews the existing businesses, takes stock of the situation in each of them and assesses their prospects. It examines the approach it should take with respect to each business – what should be done with each of them? Build? Maintain?

Harvest? Divert? To what extent? At what pace? It decides which businesses are to be cultivated through fresh investment and care, which ones are to be given mere maintenance without committing much of further investment, and what businesses it should phase out.

(iii) Allocating resources

The firm then allocations resources to the various businesses so they can attain the growth expected of them. Resources are allocated in terms of money, people and facilities. In any multi-business corporation, allocation of resources among businesses is a complex exercise. The firm has to weigh various issues. What would be the optimum allocation to each business? Can funds be withdrawn from one particular business and given to another? What should be the allocation for launching a new business or the acquisition of a business from outside? The answer depends essentially on the priority assigned to a given business and the growth expected of it. Resources given to a particular business determine and delimit the strategy it can pursue. The firm keeps this fact in view while allocating resources to the various businesses, existing and new ones.

(iv) Strategy operates at two levels – the corporate level and the business unit level

The corporate strategy finally gets expressed in terms of what would happen to the various businesses of the firm. The business level strategies take their cue from the corporate strategy. The latter guides the individual businesses and assigns the relative priorities to them. And these priorities determines the scope of these businesses and their growth sector – the quantum, direction and timing of their growth. The corporate strategy also guides them in their investment plans on plant, machinery, process, etc. this however does not mean that at the business unit level, there is no scope or freedom for strategizing, once corporate strategy has taken shape. Business nits have to carry out their environmental survey, internal appraisal, objective setting, strategy formulation and strategy choice. Hence, the various businesses have ample scope for strategizing at the respective unit level. Competitive strategy is their arena.

7. Monitoring the strategy

The strategy has to be monitored and adjustments that become necessary have to be brought about. What is to be monitored here essentially is the compatibility of the strategy with the environment as well as the internal realities. In certain cases the very objectives decided upon may require reassessment. In other words, neither the strategy nor the objectives could be considered untouchable. Nor can the firm treat the strategic planning task as one-shot affair and assume that the whole job is over once a strategy has been chalked out. This essentially is the purpose of monitoring.

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