

Lesson-5

Planning-II (Strategic Planning)

Learning Objectives

The lesson is an insight into the following topics related to strategic planning:

- The nature and purpose of strategy
- The strategic planning process
- The tools of strategic planning and establishing organizational operating strategies

Nature and Purpose of Strategy

According to the Chinese philosopher Confucius, if the man takes no thought about what is distant, he will find sorrow near at hand. Based on this statement, we interpret that in order to avoid trouble and future adversities one should plan. Strategy, as seen earlier, is the process of determining the major objectives of an organization. It helps in framing the policies and programs that will govern the acquisition. This will, in turn, help in judiciously using and disposing the resources to achieve those objectives.

Strategic planning is sometimes considered simpler. However, in reality it is not so. It is a highly complicated process that calls for a great degree of analytical skill. It involves analyzing the current factors and uncertain future situation external to the organization and fitting them with its capabilities. To succeed, the strategies should be put into practice. Strategic plans are broken down into smaller plans with great details. Some times the detailed smaller plans, through which the strategies are carried out, are called tactics. A strategy gives the direction to the efforts in which human and material resources will be deployed in order to maximize the chance of achieving the selected goals.

After understanding the nature and the purpose of the strategy, let us now look at the planning process.

The Strategic Planning Process

We have already seen the steps involved in planning process. As we have seen earlier, the steps may vary. However, the steps may broadly follow key stages mentioned below:

1. Strategies begin with the input available. The input includes the people, capital, technical skills, managerial skill etc.
2. The company profile decides where the company is today and where it should go. Thus, the top managers of the company decide about the business that they should indulge in or the geographical area of operation etc.

3. The overall objectives are targeted toward the entire activities of the company.
4. Both the external and internal environments are to be considered and evaluated.

Companies may also look for alternatives and may diversify, go international or may also think of joint ventures. The various strategies may have to be evaluated before adopting any of them. The vital requirement of a good strategic planning is consistency. There should be uniformity in planning and should also make provision for the unexpected. In other words, one should be prepared for the worst. There should be a contingency plan in place as well. This can prove to be a smart way to plan strategically.

The Tools of Strategic Planning

After discussing the planning process, let us now look into the actual planning process. In doing so, we will be employing some tools to help us in the process. Let us now examine the tools.

Business Portfolio Matrix

Management thinkers and their associates have over the period of time developed tools to help in planning. Boston Consulting Group (BCG) developed the business portfolio matrix. Figure 5.1 will explain the matrix.

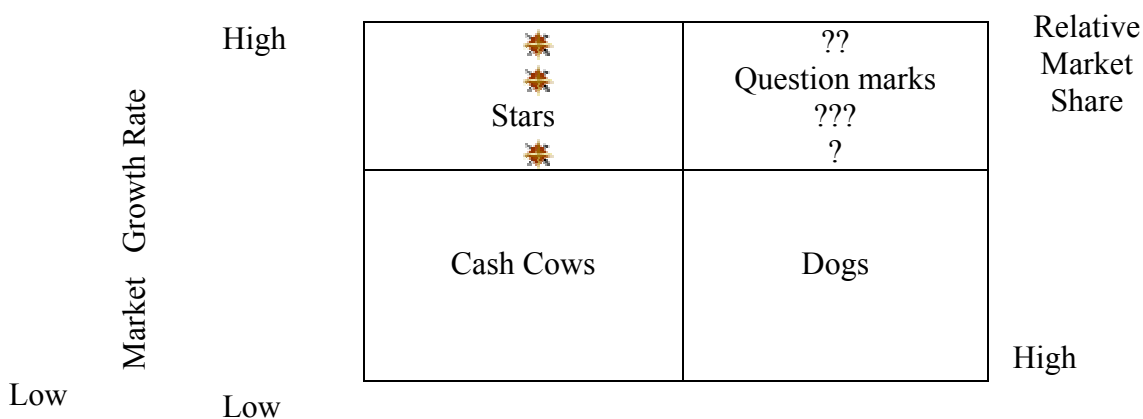


Figure 5.1: Business Portfolio Matrix

The above figure depicts the relation that exists between growth rate of business and the relative market share. Organizations with a relatively high market share and a low growth rate called “cash cows” are well entrenched in the market. Such an organization provides the cash inflow needed for business activities. The businesses in high market share and enjoying high growth rate are undoubtedly “stars.” These give rise to opportunities for growth and profit. Companies with low market share and low growth rate are branded as

“dogs.” They may be the burden on the other business units and are mostly non-profitable. In all probabilities, they can and generally should be disposed of.

In this case, the business in the quadrant of low market share but has a high growth rate. The question is, what is to be done with them? They really form the question marks. They may move either way. They may move to the left to become the stars or downwards to go to the dogs. However, they may need some financial investment and some time before a decision is made.

The above matrix was developed for organizations with several SBUs, i.e. strategic business units. The limitations of the matrix are that the growth rate and the competitive position are inadequate to enable one to take major decisions. Hence, SWOT/TOWS matrix has been introduced for analyzing the situation.

SWOT Analysis or TOWS Matrix

This matrix has a wider scope. However, it does not replace the earlier model. It is not sufficient to merely consider the strengths, weakness, opportunities and threats of an organization. It is important to thoroughly evaluate all of these factors. If you carefully observe the following diagram you will understand the concept better.

	STRENGTHS	WEAKNESS
OPPORTUNITIES	SO	WO
THREATS	ST	WT

Figure 5.2: The SWOT/TOWS Matrix

The above figure provides four alternative strategies. You should also remember that both the internal and external environments have to be kept in mind while considering the model. The four strategies are as follows:

1. The “SO” strategy is the most preferred one. In this strategy, the organization can use its strengths and take advantage of the opportunities available to it. All the organizations would try to reach this state of business.
2. In the “ST” strategy, the threats are taken care of with the strengths of the organization.
3. The “WO” strategy tries to minimize the weaknesses and maximize the opportunities.

4. The “WT” strategy attempts to minimize both the weakness and the threats. In this process, the organization may try to form a joint venture, reduce or even close down the operation.

The core purpose of the business is to produce products or services. The determination of this purpose decides what the organization or the business wants to do. According to Peter Drucker, the two basic functions of any business are as follows:

- Innovation
- Marketing

A business can scarcely survive without at least one of these functions and preferably both. Marketing strategies are designed to guide managers to elicit a behavioral response from the customers. Michael Porter has proposed three generic strategies. These prove as a good starting point for strategic thinking. They are as follows:

- Overall cost leadership
- Differentiation
- Focus

In overall cost leadership the idea is to reduce expenditure within the enterprise. Cost reduction helps in gaining a large market share. “Nirma” is a leading practitioner of this strategy. The limitation of this strategy is that others may also follow suit and may shake the very foundation of the organization. In differentiation, the company tries to achieve superior performance or offer something unique and seeks a leadership status. A good example is Intel. It established itself as a technology leader by introducing new microprocessors at breakneck speed. In focus strategy, the company focuses on one or more narrow market segments or special groups of customers. Instead of serving the total industry with its products or services, the company may choose a specific segment of the market. The company can follow the low cost strategy or differentiation or both. Once the strategy planning has been done, it should work out the detailed supporting programs to be effective. However, a good strategy cannot meet success without proper implementation. In fact, Copernicus- a leading marketing research and consulting firm- has found that many failures of the strategies are due to poor implementation.

According to McKinsey & Co, strategy is only one of the seven elements in successful business practice. The following figure depicts McKinsey’s 7-S framework for business success.

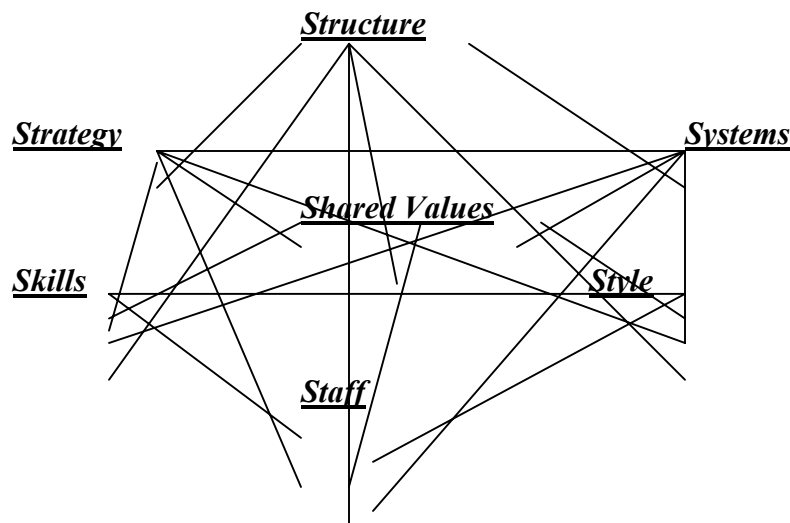


Figure 5.3: McKinsey's 7-S Framework

Let us now examine the reasons why strategic planning may fail and also see what can be done to prevent this.

A recent study in management indicated the following reasons for failure of planning:

- Managers are inadequately prepared for strategic planning
- The premises or the information for preparing the plans is insufficient for planning for action
- The objectives of the organization are too vague
- The SBU's are not clearly defined
- The lack of control on the SBU's. In other words, there is insufficient review of strategic plans
- The link between planning and control is insufficient

The following steps can be taken to prevent these failures from happening:

- Communicating strategies to all key decision-making managers
- Ensuring that the action plans contribute to and reflect major objectives and strategies
- Reviewing strategies regularly
- Developing contingency strategies
- Making the organization structure fit planning needs
- Continuing to emphasize planning and implementing strategy
- Creating a company climate that forces planning

Questions

1. Choose an organization you know and identify its strengths and weaknesses. How does the external environment impact the organization's performance?
2. How can strategies be implemented effectively?
3. How can you distinguish between strategies and policies?
4. Are strategies and policies as important in non-business enterprises (such as a labor union, State Department, a hospital or a city fire department) as they are in a business? Why and how?