Session 7

4. Design and Planning Strategy

4.1. Concept of design and planning

Strategic planning helps determine mid- to long- term goals and what areas to focus on.

It is harder to do in development sector as there is often a great amount of unmet need, which one intervention alone cannot tackle. Management guru Peter Drucker famously said that in for-profit organizations', success can easily be equated to profit. In non-profits, however, the bottom line is a 'change in human beings', which is significantly harder to plan for – but not impossible.

The plan

Many elements of strategic planning are the same across the board, but there is no single formula. Planning can take three weeks or three months, depending on the size, scale and longevity of organizations'.

But before the planning, do a reality-check, get feedback and meet stakeholders and beneficiaries in your target communities. Also, make the staff do field visits to help them connect with the cause.

So who should be involved in the strategic planning process? Usually a director or manager from each functional area of your organization is needed to consider all aspects of work. Managers should brief their teams about the results of planning, inform them about structural changes and be open to feedback.

Key areas

During the process, a few things you should decide on are:

Your vision: What is it that you want to achieve? Setting a vision of the future you want to create is crucial to guide everything your organization does from here on – even if you feel you are 10, 20 or even 50 years away from achieving it. Don't shy away or dismiss it.

The problem: What does your organization believe the problem is that it is trying to tackle? What are its root causes?

Encouraging everyone to understand the problem is crucial when coming up with new strategies and solutions.

Once your problem and its root causes are defined, decide how you can claim your organization is changing that. That is, define your theory of change and set out the stages of your intervention. Many organizations' can also have a short-term and long-term theory of change – the short one feeding into the long.

Core Values: They will form the culture of your staff. Respect, humility, solution-focused – whatever values you feel are crucial for your organization to flourish should be clarified.

Short-term goals: Arguably the hardest part of strategic planning is creating shorter term goals and visions for next three or five years. What are your target numbers of beneficiaries for the next three years? Short-term goals help priorities and keep you away from creating over ambitious work plans for staff that won't be met, and won't realistically contribute to your long-term vision.

Put plan into action: Many organizations' create a strategic plan, but fail to execute it. Setting goals for your teams are worthless without actually holding yourselves accountable to them. Based on the strategic plan and your three-year goals and vision – chart out yearly plans for your organization. Ideally, team-heads should create their department's own plans. From this, they can create monthly work plans for themselves, and depending on whether management sees fit – attach monthly targets to these as well.

Programmed monitoring frameworks are crucial to start developing or reinvesting in at this stage.

At the end of the yearly plan make sure each team has a target and that they know what it is. Ensure you remember that this end-of-year target meets up with the three-year target set in strategic planning.

Creating a Logical Framework Analysis (LFA) and Indicator Performance Tracking Tables (IPTT) are key to programmer monitoring and should keep senior management up to date on what is happening at four different levels: activities (what your organization does on a daily basis, what it 'sends out' to the world), outputs (what happens as the result of an activity – the workshop itself and organizing it would be the activity, whereas the attendance of the workshop would be an output), outcomes (what happens as a result of your output – did one of your attendees change their lifestyle because of the workshop?) and goals (what your ultimate target is).

Creating the LFA and IPTT are greater tasks within themselves and help you to monitor goals and targets.

4.2. The concept of corporate strategy

Corporate strategy as a strategy that recognizes the factors that are currently affecting the firm and its competitors and the factors that may affect the firm and its competitors in the future. The firm develops policies and practices to establish a new and creative role that will address those factors, giving the firm the competitive advantage.

Approach

Corporate strategy is concerned with reach, competitive contact, managing activities and interrelationships and management practices, according to Quick MBA. Reach means identifying issues that are corporate issues such as deciding which types of businesses the corporation should involve it with and deciding how the business will be combined and overseen. Competitive contact means deciding where the focus areas for competition are within the corporation. Managing activities and interrelationships involves developing financial and personal relationships with other business units so the firm may have a good rapport with those other businesses. Managing activities involves deciding on a centralized, direct, leadership or decentralized, indirect, leadership that relies on outsides influence, persuasion and rewards.

Types

Within the corporate strategy, there are three subtypes. A growth strategy seeks to expand a firm's sales, profits and market share. Typical growth strategies include: a concentration strategy, market penetration through efficient service of a limited product; a vertical integration strategy, the firm takes on additional responsibility -- i.e., begins supplying the product or distributing the product; and a diversification strategy, concentric diversification adds different products into the mix that are related to the firm's existing products and conglomerate diversification adds products into the mix that are not related to the firm's existing products. A stability strategy is used when a firm is satisfied with its current situation and seeks to keep that situation "as is,' according to Reference for Business.

4.3. From competitive advantage to corporate strategy

Businesses are always looking for a competitive advantage, a way to stand apart from the masses and to offer something that's just right for a specific target audience. Therein lies the secret. Competitive advantage requires identifying a specific target audience with a clearly defined need, developing and delivering a high-quality and appropriately priced product or service and doing it better than anybody else.

Target Audience with Clearly Defined Need

Effective business strategy begins with focusing on the particular needs of a target audience. Cooks who wanted a faster way to cook food welcomed the microwave. Busy people on the move wanting a fast, affordable way to communicate with others embraced the cell phone. Businesses that are able to identify an audience and meet their needs better than their competitors will find themselves with a clear competitive advantage.

Delivering a High-Quality Service

Competitive advantage means just that: being better than the other available alternatives that your target audience has and, in the process, achieving an advantage. It's not enough to be "just as good as" the competition. Successful strategic advantage falls to those who can deliver a product or service that is better in some way and that is more meaningful to the target audience, says Lin Grensing-Pophal, a marketing consultant and the author of "Marketing with the End in Mind." High-quality is defined differently by different people, she says, and encompasses all elements of the marketing mix—product, price, place (or access) and promotion.

An Appropriate Price

Determining an appropriate price depends on the market and the competitive strategy that the business has selected. Is a Starbucks coffee worth $4 to $5? It is if Starbucks customers are willing to pay that much. Starbucks caters to a different audience than McDonald's, for instance, which sells coffee for much less. Appropriate price will be determined by the competitive position that a company hopes to achieve relative to its competitors and the weight of its brand image.

Being the Best

Being the best—at whatever it is—is the key to achieving competitive advantage for a business. Whether that means the best price, the easiest access, the best quality or the best service, successful companies find a way to differentiate themselves from the masses.

4.4 Strategic alliances

A strategic alliance is an agreement between two or more parties to pursue a set of agreed upon objectives need while remaining independent organizations. This form of cooperation lies between Mergers & Acquisition M&A and organic growth.

Partners may provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property. The alliance is cooperation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves technology transfer (access to knowledge and expertise), economic specialization, shared expenses and shared risk.

Terminology

Various terms have been used to describe forms of strategic partnering. These include ‘international coalitions’ (Porter and Fuller, 1986), ‘strategic networks’ (Jarillo, 1988) and, most commonly, ‘strategic alliances’. Definitions are equally varied. An alliance may be seen as the ‘joining of forces and resources, for a specified or indefinite period, to achieve a common objective’.

There are seven general areas in which profit can be made from building alliances.

Typology

One typology of strategic alliances conceptualizes them as horizontal, vertical or inter-sectorial:

Horizontal strategic alliance: Strategic alliance characterized by the collaboration between two or more firms in the same industry, e.g. the partnership between Sina Corp and Yahoo in order to offer online auction services in China.

Vertical strategic alliances: Strategic alliance characterized by the collaboration between two or more firms along the vertical chain, e.g. Caterpillar's provision of manufacturing services to Land Rover;

Intersectional strategic alliances: Strategic alliance characterized by the collaboration between two or more firms neither in the same industry nor related through the vertical chain, e.g. the cooperation of Toys "R" Us with McDonald's in Japan resulting in Toys "R" Us stores with built-in McDonald's restaurants.

Another typology distinguishes between four forms of strategic alliances: joint venture, equity strategic alliance, non-equity strategic alliance, and global strategic alliances:

Joint venture is a strategic alliance in which two or more firms create a legally independent company to share some of their resources and capabilities to develop a competitive advantage.

Equity strategic alliance is an alliance in which two or more firms own different percentages of the company they have formed by combining some of their resources and capabilities to create a competitive advantage.

Non-equity strategic alliance is an alliance in which two or more firms develop a contractual-relationship to share some of their unique resources and capabilities to create a competitive advantage.

Global Strategic Alliances working partnerships between companies (often more than two) across national boundaries and increasingly across industries, sometimes formed between company and a foreign government, or among companies and governments.

Advantages/Disadvantages

Advantages

- The advantages of forming a strategic alliance include:
- Allowing each partner to concentrate on their competitive advantage.
- Learning from partners and developing competencies that may be more widely exploited elsewhere.
- Adequate suitability of the resources and competencies of an organization for it to survive.
- To reduce political risk while entering into a new market.

Disadvantages

- Risk of losing control over proprietary information, especially regarding complex transactions requiring extensive coordination and intensive information sharing.
- Coordination difficulties due to informal cooperation settings and highly costly dispute resolution.
- **Agency costs:** As the benefit of monitoring the alliance's activities effectively is not fully captured by any firm, a free rider problem arises (the free rider problem seems to be less pronounced in settings with multiple strategic alliances due to reputational effects).
- Influence costs because of the absence of a formal hierarchy and administration within the strategic alliance.

Stages of Alliance Formation

A typical strategic alliance formation process involves these steps:

Strategy Development: Strategy development involves studying the alliance's feasibility, objectives and rationale, focusing on the major issues and challenges and development of resource strategies for production, technology, and people. It requires aligning alliance objectives with the overall corporate strategy.

Partner Assessment: Partner assessment involves analyzing a potential partner's strengths and weaknesses, creating strategies for accommodating all partners' management styles, preparing appropriate partner selection criteria, understanding a partner's motives for joining the alliance and addressing resource capability gaps that may exist for a partner.

Contract Negotiation: Contract negotiations involves determining whether all parties have realistic objectives, forming high caliber negotiating teams, defining each partner's contributions and rewards as well as protect any proprietary information, addressing termination clauses, penalties for poor performance, and highlighting the degree to which arbitration procedures are clearly stated and understood.

Alliance Operation: Alliance operations involves addressing senior management's commitment, finding the caliber of resources devoted to the alliance, linking of budgets and resources with strategic priorities, measuring and rewarding alliance performance, and assessing the performance and results of the alliance.

Alliance Termination: Alliance termination involves winding down the alliance, for instance when its objectives have been met or cannot be met, or when a partner adjusts priorities or re-allocates resources elsewhere.

Strategy Development

- Features common to transactions that are natural candidates for strategic alliances are:
- High impediments to comprehensive contracting resulting in a major degree of contract incompleteness

- High complexity minimizing the auxiliary potential of the body of law for resolving issues not specified in the contract
- Both allies have to invest in relationship-specific assets resulting in potential for mutual hold-ups
- Excessive cost for one party to develop the expertise to carry the transaction itself (e.g. due to experience curve)
- Transitory or uncertain character of market opportunity making a merger or vertical integration unattractive
- Need for a local party in a country due to regulatory environment (as is often the case in China)