

3. Development of Strategic Planning

3.1 Strategic Objective

A broadly defined objective that an organization must achieve to make its strategy succeed.

Strategic objectives are, in general, externally focused and (according to the management guru Peter Drucker) fall into eight major classifications:

- (1) Market standing: desired share of the present and new markets;
- (2) Innovation: development of new goods and services, and of skills and methods required to supply them;
- (3) Human resources: selection and development of employees;
- (4) Financial resources: identification of the sources of capital and their use;
- (5) Physical resources: equipment and facilities and their use;
- (6) Productivity: efficient use of the resources relative to the output;
- (7) Social responsibility: awareness and responsiveness to the effects on the wider community of the stakeholders;
- (8) Profit requirements: achievement of measurable financial well-being and growth.

3.2 Strategic Control

Strategic control can be defined as process of monitoring as to whether to various strategies adopted by the organization are helping its internal environment to be matched with the external environment. Strategic control processes allow managers to evaluate a company's program from a critical long-term perspective. This involves a detailed and objective analysis of a company's organization and its ability to maximize its strengths and market opportunities.

There are four types of strategic control as follows:

1. Premise control: is designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid
2. Implementation control: is designed to assess whether the overall strategy result associated with incremental steps and actions that implement overall strategy.
3. Strategic surveillance: It is designed to monitor a broad range of events inside and outside the company to threaten the course of firm's strategy.
4. Special alert control: is the need to thoroughly and often rapidly reconsider the firm's basic strategy based on a sudden unexpected event.

3.3 The Formulation Strategies

Strategy formation (Classical school)

The initial task in strategic management is typically the compilation and dissemination of the vision and the mission statement. This outlines, in essence, the raison d'être of an organization. Additionally, it specifies the organization's scope of activities and the markets a firm wishes to serve.

Follow-on strategy formation is a combination of three main processes which are as follows:

Performing a situation analysis, self-evaluation and competitor analysis: both internal and external; both micro-environmental and macro-environmental.

Concurrent with this assessment, short- and long-term objectives are set. These objectives should include completion dates.

Implementation plans then detail how the objectives are to be achieved.

Strategy evaluation and choice

An environmental scan will highlight all pertinent aspects that affect an organization, whether external or sector/industry-based. Such an occurrence will

also uncover areas to capitalize on, in addition to areas in which expansion may be unwise.

These options, once identified, have to be vetted and screened by an organization. In addition to ascertaining the suitability, feasibility and acceptability of an option, the actual modes of progress have to be determined. These pertain to:

The basis of competition

Companies derive competitive advantage from how an organization produces its products, how it acts within a market relative to its competitors, or other aspects of the business. Specific approaches may include:

Differentiation, in which products compete by offering a unique combination of features.

Cost, in which products compete to offer an acceptable list of features at the lowest possible cost.

Segmentation, in which products are tailored for the unique needs of a specific market, instead of trying to serve all consumers.

Suitability

- Suitability deals with the overall rationale of the strategy.
- Does the strategy address the mission?
- Does it reflect the organization's capabilities?
- Does it make economic sense?
- Evaluation tools include strength, weakness, opportunity, threat (SWOT) analysis.

Feasibility

Feasibility is concerned with whether the organization has the resources required to implement the strategy. Resources include capital, people, time, market access and expertise.

Evaluation tools include :

- cash flow analysis and forecasting
- break-even analysis
- resource deployment analysis
- this has to be inline with demand forecasting.

Acceptability

Acceptability is concerned with the expectations of the identified stakeholders (shareholders, employees and customers, etc.) with the expected financial and non-financial outcomes. Return deals with stakeholder benefits. Risk deals with the probability and consequences of failure. Employees are particularly likely to have concerns about non-financial issues such as working conditions and outsourcing.

Evaluation tools include:

- what-if analysis
- stakeholder mapping

Implementation

While products and services that fit the strategy may receive additional investment, those that don't must also be addressed, either via consolidation with another product/service, divestment to another firm, immediate retirement or harvesting without further investment.

Additionally, the exact means of implementing a strategy needs to be considered. These points range from:

- Alliances with other firms to fill capability/technology/legal gaps
- Investment in internal development
- Mergers/acquisitions of products or firms to reduce time to market
- Countries such as India and China require market entrants to operate via partnerships with local firms.

Strategic implementation and control

Implementing a strategy involves organising, resourcing and employing change management procedures.

Organizing

Implementing a strategy may require organizational changes, such as creating new units, merging existing ones or even switching from a geographical structure to a functional one or vice versa. Organizing also involves bringing together factors and arranging them in the preferred order and also setting things straight.

Resourcing

Implementation may require significant budget shifts, impacting human resources and capital expenditure.

Change management

Implementing a strategy may have effects that ripple across an organization. Minimizing disruption can reduce costs and save time. One approach is to appoint an individual to champion the changes, address and eventually enlist opponents and proactively identify and mitigate problems.

Alignment

In 2010 the Rotterdam School of Management together with the Erasmus School of Economics introduced the S-ray Alignment Scan, which is a visual representation of strategy measured against the level of understanding and implementation of various parts of the organization. In 2011 Erasmus University of Rotterdam introduced S-ray Diagnostics, a spin-off of this cooperation, focused on measuring strategic alignment of organizations.

3.4 The Formulation of models and contingency planning

A strategy is a broad plan developed by an organization to take it from where it is to where it wants to be. A well-designed strategy will help an organization reach its maximum level of effectiveness in reaching its goals while constantly allowing it

to monitor its environment to adapt the strategy as necessary. Strategy formulation is the process of developing the strategy.

Process

Strategy formulation requires a series of steps performed in sequential order. The steps must be taken in order because they build upon one another. However, there are two processes that are continually performed throughout strategy formulation: environmental scanning and continuous implementation. Environmental scanning is simply the process of paying attention to the external environment for factors that may affect your organization's performance, which will need to be addressed in the strategy formulation process. For example, you will pay attention to what your competition is doing and make adjustments to your strategic plan as necessary throughout the process. Continuous implementation is simply implementing parts of the strategy that must be implemented in order for the next step of the strategy formulation process to be undertaken.

The rest of the strategy formulation must be taken in the following order:

1. Values assessment: Every organization has values, and the strategic plan should align with the organization's values. A value assessment should look into the personal values of the organization's members, organizational values, the organization's operating philosophy, culture and stakeholders.
2. Vision and mission formulation: Once you have a firm handle on organization's values, it's time to establish its vision and mission, which is the foundation upon which your strategy will be built.

An effective vision requires a core ideology and an envisioned future. A core ideology is the force that binds the organization together and consists of core values and core purposes. The core purpose is the organization's *raison d'être* - reason of being. It's why the organization even exists -what it's here for. The envisioned future is your conception of where the organization will be at a specific point in time.

The mission statement states the purpose of the organization in express and unequivocal terms. The mission statement helps to determine the allocation of resources, guides your organizational culture, establishes the boundaries of its activities and helps to facilitate accountability, control, time and performance by providing criteria for mission achievement.

3. Strategy design involves four elements. First, you must identify the major lines of your organization's business or activities, called LOBs.

You then must establish critical success indicators (CSIs), which are just a way to measure progress towards the organization's mission. Indicators should include a target deadline. Indicators can include such things as the return on investment, profit margins, customer loyalty and employee retention.

Next, you need to identify where you will focus your efforts, known as strategic thrusts. Examples of strategic thrusts include focusing on existing products and services, development of joint ventures and strategic alliances, diversification or liquidation.

Finally, you need to figure out what type of organizational culture must be developed to achieve the organization's goals.

4. Next, you will want to do a performance audit analysis, which is a close look at the company's strengths, weaknesses, external opportunities and threats. This is often referred to as a SWOT analysis.

5. The next step is to perform a gap analysis, which is simply to discover any gaps in the organization's performance towards its goals. You can accomplish a gap analysis by asking three questions: what's the organization doing, what does it need to stop doing and what is the organization not doing that it needs to do?

6. Action plan development is really the heart of the strategy - it brings everything together. You develop the goals and objectives for the organization during this stage of strategy formulation. A goal is what your organization wants to accomplish in the long term. The goals are developed from the organization's vision and mission. Goals should be consistent with the organization's culture, be

ethical and be legal. Objectives are short-term goals that help advance the overall long-term goals and relate to all functional areas of your organization such as production, research and development, marketing, human resources, finance and so on.

7. Contingency planning is also a necessary step. Things change that make strategies obsolete. A contingency plan will help your organization more efficiently and effectively adjust to change.

8. Implementation is the final step and is simply putting the strategy into action. In order to be effective, every member of the organization should support the strategy - especially the organization's leadership. If the leader doesn't believe in the strategy, why should you?

3.5 Industrial Analysis Methods

An industry analysis is a business function completed by business owners and other individuals to assess the current business environment. This analysis helps businesses understand various economic pieces of the marketplace and how these various pieces may be used to gain a competitive advantage. Although business owners may conduct an industry analysis according to their specific needs, a few basic standards exist for conducting this important business function.

Facts

Small business owners often conduct industry analysis before starting their business. This analysis is included in the entrepreneur's business plan that outlines specific elements of the economic marketplace. Elements may include the number of competitors, availability of substitute goods, target markets and demographic groups or various other pieces of essential business information. This information is commonly used to secure external financing from banks or lenders for starting a new business venture.

Features

Industry analysis features include a review of the economic and political underpinnings of the business environment. Economic reviews often include an

examination of the industry's business cycle. The business cycle helps individuals understand if the industry is growing, reaching a plateau or in decline. A political review helps individuals understand the amount of government regulation and taxation present in the business industry. Industries with heavy government involvement may have fewer profits for companies operating in these environments.

Considerations

Industry analysis may be conducted using Michael Porter's five forces model. Porter is a Harvard professor renowned for his work in creating a specialized industry analysis model. The five forces model reviews an industries supplier power, threat of substitutes, buyer power, barriers to entry and the rivalry that is created when companies compete for the previous four forces. This standard industry analysis tool helps individuals use a time-tested management procedure for generating intelligent business analysis.

Time Frame

Business owners may need to conduct several industry analyses throughout their company's lifetime. Economic markets are in a constant state of flux and may incur significant changes from shifts in political policy. Although smaller businesses may struggle to conduct an industry analysis in a timely manner, larger or publicly held companies often conduct an analysis each quarter. The results of their analysis are often included in forward-looking statements in quarterly or annual reports.

Expert Insight

Small business owners may need to seek outside help for conducting an industry analysis. Management consultants, public accounting firms or the Small Business Administration (SBA) may provide small businesses with copious amounts of resources regarding various industry analyses. This information can save the business owner valuable time from attempting to reinvent the wheel and create a new analysis when one may already exist from a professional organization.