UNIT 1

Module 5

Strategic Planning

Strategic control is the process used by organizations to control the formation and execution of strategic plans; it is a specialised form of management control, and differs from other forms of management control in respects of its need to handle uncertainty and ambiguity at various points in the control process.

Importance of Strategic Planning

Every successful company has a plan and knows where it is going in the future. Taking the time to review the company's past performance and predict its future performance provides a roadmap to follow.

1) Gives a sense of direction to all teams

It is very significant for management and company employees to realize the importance of strategic planning as well as to follow the actions proposed by that planning.

Often, with the increase in work pressures and the need to satisfy customer demands and meet strict deadlines, the company loses its responsibility and moves away from real goals and targets.

And, by adopting the strategic planning aspect, each and every team member gets a sense of direction and knows where to go with a properly structured plan in mind. It is absolutely imperative to have a long-term vision for the organization to grow in the market.

2) Competitive advantage in the market

A company with an action plan and a strategy in mind, accomplishes its goals and objectives before its competitors in the market, gaining competitive advantage.

Strategic planning involves the study of market conditions, research on the next moves of competitors, the creation of innovative product ideas and customer satisfaction.

3) Innovation

As discussed in the previous point, understanding the importance of strategic planning and following it, the company creates products and services that highlight aspects of innovation.

As well as in strategic planning and in the contributions of the internal team, external parties and specialists; the company plans the offer strategy, unique and exclusive in the market, and will certainly increase sales, profit margins and brand value.

4) Make the company proactive by nature

Realizing the importance of strategic planning helps the organization to be more proactive, rather than being reactive to future issues and problems in achieving goals and objectives.

Although the achievement of all short term and long term goals, problems and issues will arise, as long as the company follows the fundamentals of strategic planning, it becomes more proactive in predicting the problems that are coming.

5) Increases productivity and operational efficiency

With the right strategy and plan, there is an increase in productivity and operational efficiency levels for the entire company.

The team knows and understands all tasks and how to perform them in the most efficient and effective way.

A properly formulated strategic plan acts as a plan or roadmap for the company to achieve its objectives. It also helps to maintain harmony with members and departments, as well as a positive and healthy work atmosphere.

6) Higher sales and profits

When the company follows strategic planning in each of its facets and business operations, it is rapidly moving towards achieving the goal of greater sales and profits. For instance, if a company isn't getting its target clients, having a strategic plan to meet the goals could help. The team responsible for such targets might hire an SEO company that can carry out the digital marketing strategies and help them become visible online to the potential customer base. This could not only boost sales but also help the website rank higher in terms of visibility amongst competitor websites. Therefore, hiring a digital marketing company could prove to be a boon for your business to kickstart as they would identify the product opportunities of the clients and curate their ads around that.

7) Keeps employees motivated

As mentioned above, following the strategic planning route helps the company to have a sense of direction and employees are well aware and informed about how to achieve the assigned short and long term goals. And when they are given the tasks and responsibilities according to their knowledge and professional qualifications, together with the appropriate rewards, they feel highly motivated and do their best.

8) Attracts financial investors

The company continues to require investments and financial funds from third parties, such as banks, private equity and investors, in order to expand its business, offering an innovative range of products and services to customers.

9) Minimizes risk

Any and all commercial and sectors domains must work with the risk factor in question. But, if the company realizes and follows the importance of strategic planning and makes each movement understand the nuances and intricacies, the risk factor is minimal.

Strategic Planning Prosses

There are more different ways to approach strategic planning depending on the type of business and the granularity required. Most strategic planning cycles can be summarized in these five steps:

- Identify: A strategic planning cycle starts with the determination of a business's current strategic position. This is where stakeholders use the existing strategic plan – including the mission statement and long-term strategic goals – to perform assessments of the business and its environment. These assessments can include a needs assessment or a SWOT (strengths, weaknesses, opportunities and threats) analysis to understand the state of the business and the path ahead.

- Prioritize: Next, strategic planners set objectives and initiatives that line up with the company mission and goals and will move the business toward achieving its goals. There may be many potential goals, so planning prioritizes the most important, relevant and urgent ones. Goals may include a consideration of resource requirements – such as budgets and equipment – and they often involve a timeline and business matrix or KPIs for measuring progress.

- Develop: This is the main thrust of strategic planning in which stakeholders collaborate to formulate the steps or tactics necessary to attain a stated strategic objective. This may involve creating numerous short-term tactical business plans that fit into the overarching strategy. Stakeholders involved in plan development use various tools such as a strategy map to help visualize and tweak the plan. Developing the plan may involve cost and opportunity tradeoffs that reflect business priorities. Developers may reject some initiatives if they don't support the long-term strategy.

- Implement: Once the strategic plan is developed, it's time to put it in motion. This requires clear communication across the organization to set responsibilities, make investments, adjust policies and processes, and establish measurement and reporting. Implementation typically includes strategic management update. A strategic plan is periodically reviewed and revised to adjust priorities and revaluate goals as business conditions change and new opportunities emerge. Quick reviews of metrics can happen quarterly, and adjustments to the strategic plan can occur annually. Stakeholders may use balanced scorecards and other tools to assess performance against goals with regular strategic reviews to ensure that plans stay on track.

Types of strategic plans

Strategic planning activities typically focus on three areas: business, corporate or functional. They break out as follows:

- Business: A business-centric strategic plan focuses on the competitive aspects of the organization creating competitive advantages and opportunities for growth. These plans adopt a mission evaluating the external business environment, setting goals, and allocating financial, human and technological resources to meet those goals. This is the typical strategic plan and the main focus of this article.

- Corporate: A corporate-centric plan defines how the company works. It focuses on organizing and aligning the structure of the business, its policies and processes and its senior leadership to meet desired goals.

- Functional: Function-centric strategic plans fit within corporate-level strategies and provide a granular examination of specific departments or segments such as marketing, HR, finance and development. Functional plans focus on policy and process such as security and compliance while setting budgets and resource allocations.

- Strategic Management

In simple terms, strategic management is the implementation of the strategy. As such, strategic management is sometimes referred to as strategy execution. Strategy execution involves identifying benchmarks, allocating financial and human resources and providing leadership to realize established goals.

- Strategy Map

A strategy map is a planning tool or template used to help stakeholders visualize the complete strategy of a business as one interrelated graphic. These visualizations offer a powerful way for understanding and reviewing the cause-and-effect relationships among the elements of a business strategy.

Limitations of Strategic Planning

1. Lack of knowledge

Strategic planning requires lot of knowledge, training and experience. Managers should have high conceptual skills and abilities to make strategic plans. If they do not have the knowledge and skill to prelate strategic plans, the desired results will not be achieved. This limitation can be overcome by training managers to make strategic plans.

2. Interdependence of units

If business units at different levels (corporate level, business level and functional level) are not integrates and coordinated, it can create problems for effective implementation of strategic plans.

3. Managerial Perception

In order to avoid developing risky objectives and strategies which they will not be able to achieve, managers may land up framing sub-optimal goals and plans. Sometimes, short-term commitments also defer making on-term strategies.

4. Financial considerations

Strategic planning requires huge amount of time, money and energy. Mangers many be constrained by this consideration in making effective strategic plans.

Strategic Implementation

Strategic implementation refers to the process of executing plans and strategies. These processes aim to achieve long-term goals within an organization.

Strategic implementation, in other words, is a technique through which a firm develops. It utilizes and integrates new processes into the structure of an organization. This ensures that the culture, resources, people, and systems all follow the strategies put in place. Strategic implementation can be a driving force for your brand in a competitive market.

Implementation in the Strategic Management Process

A new strategy doesn’t start with the implementation. Instead, strategy implementation follows three other stages in the process of strategic management. The first step is to identify your mission, vision, values and objectives. This is done by performing research and organizational analysis. This analysis concerns itself with all aspects of a business.

There are several steps involved in the strategic implementation process. Several prerequisites can determine the success of a strategy in the long term.

1. Building an organization that puts strategies into action

Before strategic implementation can succeed, organizations need to have implemented a proper structure. This implies that different parts of the organization are linked together. Relationships between different positions, roles, and departments are transparent.

A part of this step also requires the formulation of a proper organizational climate. This assumes the cooperation and development of personnel. Employees and leaders need to be committed, determined and efficient to convert purpose into results.

2. Supplying resources to strategy-essential activities

Some strategies rely on software or products to effectively translate into the day-to-day. Organizations should also allocate resources to training and development for their staff. Strategies rely on the resources being available to implement new systems.

3. Developing policies which encourage strategy

Policies must go hand in hand with the new strategy as it is being implemented. Leaders need to provide their teams with specific sets of rules and guidelines. Everyone knows what behaviours are expected of them in light of the new strategy. This could be as simple as encouraging employees to ask for feedback at the end of customer service interactions. This policy might be part of an improved customer-experience strategy.

4. Employing policies and programs that aid continuous improvement

Programs and policies should be implemented as and when the need arises. This requires agile thinking from team leaders, as well as continuous feedback and analysis. Communication is crucial to ensuring strategies can be evaluated and improved.

5. Use reward structures to achieve the best results

Implementation can be significantly aided by setting up a reward system. This can encourage the right behaviours. Rewards can be implemented in the form of recognition or benefits within the organization. The positive impact of a new strategy should also continuously be broadcasted to all members of the organization.

6. Periodically review the strategy

At regular intervals, the strategy should be reviewed. This allows leaders to identify if the implemented strategy remains relevant to the organization. As firms operate in more dynamic environments, changes may occur at any time. It is essential to review and change policies that no longer serve a distinct purpose. Strategies can become misaligned with the brand's objectives.

Importance of Strategy Implementation

- Achievement of objectives: Strategy implementation is important for the achievement of organizational objectives. Mere crafting a strategy is not sufficient for achieving organizational objectives; it needs to be implemented properly.

- Utilization of money and effort: For the formulation of strategies, a significant amount of money and efforts are invested. With the implementation functions, this investment is justified.

- Evaluation of the strategy: Whether the formulated strategy is appropriate or not, can be judged only by its implementation. It the objectives are achieved properly then it can be said that the strategy formulation task has been done correctly.

- Identification of loopholes: It helps identify the loopholes in strategy formulation. Only the proper implementation of strategy can ensure correct identification of mistakes and lapses.

- Taking corrective measures: Implementation of strategy guides the strategic manager to initiate corrective measures.

- Measuring manager’s efficiency: Good strategy and good strategy implementation and execution are the most trustworthy signs of good management. So, strategy implementation helps measure management’s efficiency of an organization.

- Increasing competitive capabilities: Good strategy plays an important role in increasing the competitive capabilities of an organization. This can be ensured only by the effective implementation of a strategy.

Limitations of Strategy Implementation

1. Ineffective communication

The most mentioned problem in strategy execution is bad communication. This means communication that is too vague, too late, too early, too much, too little, to the wrong people, or otherwise ineffective. Some even go as far as saying that successful strategy is all about communication. While this is a substantial exaggeration, ineffective communication is an important inhibitor.

2. Ineffective alignment

Bad strategy execution is also often seen as a misalignment problem. Alignment refers to achieving coherence and consistency between different levels of strategy: corporate strategy, business strategy, functional strategy and operational strategy. When there is misalignment, the overarching corporate strategy gets diluted at lower levels, resulting in silo behaviour and not everyone being on the same page.

3. Ineffective change management

Strategy usually involves a lot of changes. Accordingly, managing change is an important aspect of strategy execution. Problems in this area include resistance, lack of commitment, no buy-in, and keeping up appearances. These are largely emotional and mindset problems, resulting from not having involved and engaged people enough throughout the organization during strategy generation and execution.

4. Ineffective performance management

As they say, what gets measured, gets managed, and what gets managed gets done. Therefore, performance management is a key ingredient of successful strategy execution. If done ineffectively, this leads to problems such as unclear or missing objectives and targets, wrong use of measures and performance indicators (KPIs), failing resource allocation, or counterproductive incentives.

5. Ineffective project management

Good strategy execution requires systematic follow-up and project management. The lack thereof is a fifth key problem in strategy execution. It comes with missing or conflicting priorities, unclear responsibilities, exceeded budgets, bad time management, delays, and poor or missing leadership at various levels in the organization.

6. Ineffective strategy

Not a pure strategy execution problem, but one that is often hindering effective strategy execution: having an unclear, unfitting, unconvincing, uninspiring, non-actionable or otherwise ineffective strategy. Effective strategy execution asks for a strategy that is executable in the first place, without that, failure is built in before the execution even starts.

Strategic Control

An organization needs to integrate its strategy and control systems to ensure that strategy helps the organization in achieving its goals. Strategic control specifically aims at ensuring that the organization is maintaining an effective alignment with its environment and moving toward achieving its strategic goals.

Strategic control is the process used by organizations to control the formation and execution of strategic plans; it is a specialised form of management control, and differs from other forms of management control in respects of its need to handle uncertainty and ambiguity at various points in the control process.

3 Types of Strategic Control

Strategic controls are mainly of 3 types:

1. Financial Controls.

2. Output Controls.

3. Behaviour Controls.

1. Financial Controls

Financial control systems are concerned with the financial resources of an organization. Financial resources are regularly flowing into the organization, and are also flowing out of the organization.

Some of the financial resources are held by the organization for internal use or some other reasons. Managers use financial control systems to measure a company's financial performance.

For effective financial control, they establish financial goals (e.g., growth, profitability, returns to shareholders) and then measure the actual achievement of those goals.

The most popular tools of financial controls are budgetary control, financial statements, ratio analysis, and financial audits. Budgetary control is implemented by using a budget, which is a plan expressed in numerical terms.

Budgets also help them in making comparisons from year to year and even across departments and divisions. Financial statements mainly include a balance sheet, income statement, cash flow statement, and funds flow statement.

Ratio analysis is concerned with the calculation of financial ratios to assess the financial health of an organization. The important ratios that are usually used as parts of financial control include liquidity ratios, debt ratios, coverage ratios, and operating ratios.

Financial audits include an internal audit by an organization's staff and External audit by qualified chartered accountant firms.

2. Output Controls/Operations Control

In the case of the output control system, managers forecast performance goals for each unit and employee. They forecast the actual performance of the units' end employees.

Lastly, they compare the actual performance against the goals already set for them.

When the performance of employees or units is linked to the reward system, the output control itself provides an incentive structure for employee motivation in the organisation.

Output control may take two forms; screening control and position control.

The first one concerns itself with meeting standards for product or service quality during the actual production process/performance process. The latter deals with the quality of products after completion of the transformation process.

3. Behaviour Controls

A behaviour control system refers to a comprehensive system of rules and procedures. These are prescribed to direct the behaviour/actions of employee at each level of the organisation. Rules and procedures standardize the way of reaching the goals.

Two forms of behaviour control are;

i. Operating budgets

ii. Standardization

The operating budget: includes the allocations of resources that need to be used for achieving goals by managers. Most commonly, managers at one level allocate to managers at a lower level a specific amount of resources to use to produce goods and services.

Standardization: denotes the degree to which a business-unit specifies how decisions are to be made so that employees' behaviour becomes predictable.

Importance of Strategic Control

- Measuring Progress

Strategic control can help measure organizational progress. As a strategy is chosen or implemented, an outcome is determined based on the likeliness. In strategic management, it’s important to measure results during and after implementation. This allows timely corrective actions as well.

- Feedback For Future Action

Since strategic management is continuous, it helps in recycling actions that are essential for achieving the objectives of an organization. This acts as inputs for making adjustments and implementing them in other future processes.

- Reward and Recognition Based on Performance

A reward system based on performance that recognizes employees throughout the implementation period is crucial for performance, desired outcome and talent retention. The purpose of strategic control is to let managers identify changes in circumstances and allow them to modify strategies.

Process of Strategic Control

- Determine What to Control: The first step in the strategic control process is determining the major areas to control. Managers usually base their major controls on the organizational mission, goals and objectives developed during the planning process. Managers must make choices because it is expensive and virtually impossible to control every aspect of the organization’s

- Set Control Standards: The second step in the strategic control process is establishing standards. A control standard is a target against which subsequent performance will be compared. Standards are the criteria that enable managers to evaluate future, current, or past actions. They are measured in a variety of ways, including physical, quantitative, and qualitative terms. Five aspects of the performance can be managed and controlled: quantity, quality, time cost, and behaviour.

 Measure Performance: Once standards are determined, the next step is measuring performance. The actual performance must be compared to the standards. Many types of measurements taken for control purposes are based on some form of historical standard. These standards can be based on data derived from the PIMS (profit impact of market strategy) program, published information that is publicly available, ratings of product / service quality, innovation rates, and relative market shares standings.

Strategic control standards are based on the practice of competitive benchmarking – the process of measuring a firm's performance against that of the top performance in its industry. The proliferation of computers tied into networks has made it possible for managers to obtain up-to-minute status reports on a variety of quantitative performance measures. Managers should be careful to observe and measure in accurately before taking corrective action.

 Compare Performance to Standards: The comparing step determines the degree of variation between actual performance and standard. If the first two phases have been done well, the third phase of the controlling process – comparing performance with standards – should be straightforward. However, sometimes it is difficult to make the required comparisons (e.g., behavioural standards). Some deviations from the standard may be justified because of changes in environmental conditions, or other reasons.

 Determine the Reasons for the Deviations: The fifth step of the strategic control process involves finding out: "why performance has deviated from the standards?" Causes of deviation can range from selected achieve organizational objectives. Particularly, the organization needs to ask if the deviations are due to internal shortcomings or external changes beyond the control of the organization.

 Take Corrective Action: The final step in the strategic control process is determining the need for corrective action. When standards are not met, managers must carefully assess the reasons why and take corrective action. Moreover, the need to check standards periodically to ensure that the standards and the associated performance measures are still relevant for the future.

The final phase of controlling process occurs when managers must decide action to take to correct performance when deviations occur. Corrective action depends on the discovery of deviations and the ability to take necessary action. Often the real cause of deviation must be found before corrective action can be taken. Causes of deviations can range from unrealistic objectives to the wrong strategy being selected achieve organizational objectives. Each cause requires a different corrective action. Not all deviations from external environmental threats or opportunities have progressed to the point a particular outcome is likely, corrective action may be necessary.

Michael Porter's Competitive Strategies

During the 1980s Professor Michael Porter from the Harvard Business School developed the model of generic competitive strategies. He called the strategies generic as they can be undertaken by businesses of any size or type, even it they are non-profit organisations

He argued that companies only have three strategies to choose from:

1. Cost leadership
2. Differentiation
3. Focus

Porter also believed that before a company decides which strategy to adopt, it must know its competitive scope: "the breadth of its target market, the range of products it wishes to produce, the distribution channels, the type of buyers and geographic areas it wants to serve and the related industries it will be competing in"

1.cost leadership strategy: It is aimed at the broad mass market and requires actions like cost minimisation in Research & Development, service, sales force, advertising and so forth. By doing this the company will sell its product for a smaller price than its competitors, but still achieve reasonable profit. This also creates an entry barrier for new market entrants, as it would be difficult for them to match the low cost of the existing producer.

2.Differentiation strategy: It is aimed at the broad mass market as well, but this time creating a product which must be perceived as unique by its customers, for example through design, image, technology, customer service, dealer network and so on. The strategy aims to gain customer loyalty and therefore making the buyer insensitive to a high price. This again will also make entry into the market more difficult for new entrants.

3.Focus strategy: It concentrates on serving only a certain niche market as either a cost leader or with a differentiation strategy. “In cost focus a firm seeks a cost advantage in its target market only, in differentiation focus a firm seeks differentiation in its target segment”.

Major Limitation

Like any other model Porter’s strategies show risks and problems. The main issue identified by Professor Porter is the problem of “being stuck in the middle”. He argues that every company must adopt one of his strategies; otherwise it will be left with no competitive advantage.