Models of the Strategic Planning Process

ETERPRISE OBJECTIVES (Are they stated, realistic, must specify)	
ENTERPRISE STRATEGISTS	
DETERMINE THE PRESENT AND POTENTIAL ENVIRONMENTAL THREATS AND OPPORTUNITIES	**APPRAISAL** Search the environment for governmental, technological, competitive, and social factors. (DEMOGRAPHICS)
DETERMINE THE ENTERPRISE'S COMPARATIVE ADVANTAGES COMPARATIVE WEAKNESSES	Consider the size/distribution of resources and strengths and weaknesses.
CONSIDER STRATEGIC ALTERNATIVES	**CHOICES** To assure that the most appropriate strategy is chosen.
MAKE YOUR CHOICE OF STRATEGY *(must be based on Firm's strengths)*	
DEVELOP ORGANIZATION'S STRUCTURE AND CLIMATE	**IMPLEMENTATION** To match structure to the chosen strategy.
DEVELOP SHORT AND MEDIUM RANGE POLICIES, PLANS, AND PROGRAMS.	To assign human, material, financial, and ideational resources as Required by the strategy.
EVALUATE THE STRATEGY	**EVALUATION** To assure that the strategy achieves the objectives.

Basic Elements of Strategic Planning

A. Reasons for Strategic Planning
   1. To anticipate future problems and opportunities (look ahead)
   2. To provide employees with clear goals and enterprise directions
   3. To systematize important business decisions to make the enterprise more effective

B. Conditions for Decision Making to Start
   1. A gap must exist between the desired state and the existing state.
   2. The gap must be large enough to be perceived as requiring attention
   3. The decision maker must be motivated to reduce the gap
   4. The decision maker must believe he can do something about the gap.

C. Formal Objectives are important because:
   1. They define the organization and its environment.
   2. They help coordinate decisions and decision makers.
   3. They provide performance standards.

D. The Choice of Objectives is Affected if:
   1. Realities of external environment and power relationships
   2. Enterprises resources and internal power relationships
   3. Value systems of the top executives

E. Factors Changing Organizational Objectives:
   1. Increased demands from enterprise coalition groups
   2. Changes of marginal aspiration levels
   3. Crisis

F. Points for More Effective Management
   1. Share privileged information
   2. Guard against superficial actions
   3. Gain control of time
   4. Never forget the "big picture"

Environment appraisal and Analysis

A. Factor Making Up the Environmental Threats and Opportunities Profile:
   1. General environment factors
      a. Environmental factors are those characteristics external to the enterprise which executives should monitor, such as:
         i. Governmental policy
         ii. Demographic changes
         iii. Conditions of the economy
   2. Supplier Factors
      a. Material/supply prices and availability
      b. Technological
   3. Market Factors
      a. Industry competitive structure
      b. Demand for product (level, rising, or declining)
      c. Status of new products

B. Environment of Decisions: Items which affect decisions
   1. Attitudes and experiences of the strategic planners
   2. Age of the enterprise

3. Size and power of the enterprise
4. Technology/Volatility of the environment
5. Geographic dimensions of the enterprise
6. Business (es) the firm is in or could be in

Appraising the Firm's Strategic Advantages

A. Factors for the Firm's Strategic Advantage Profit
   1. Marketing
      a. Competitive structure and market share
      b. Efficient/effective market research system
      c. Product mix
      d. Product service line
      e. Channels of distribution/geographic coverage
      f. Pricing strategy
      g. Sales force
      h. Effective advertising
      i. Marketing promotion and packaging
      j. After-purchase service
      k. Evaluation of marketing policies

   2. Operations
      a. Raw materials cost and availability
      b. Inventory control systems
      c. Facilities utilization and location
      d. Degree of vertical integration
      e. Management information systems
      f. Production equipment
      g. Production design, scheduling, output, and quality control
      h. Costs relative to competitors
      i. Research and development unit
      j. Patents and other legal protection

   3. Finance and Accounting
      a. Cost of capital relative to industry
      b. Capital structure/leverage flexibility
      c. Owner/stockholder relations
      d. Tax advantages
      e. Available resources
      f. Financial planning/budgeting systems and procedures
      g. Accounting systems

   4. Personnel and Management
      a. Employee/management quality
      b. Labor costs
      c. Union relations
      d. Personnel relations policies
      e. Corporate image
      f. Organization structure and size
      g. Strategic planning system
      h. Enterprise record for researching objective
      i. Influence with regulating agencies
      j. Management experience and track record

Considering Alternative Strategies

A. Two steps to choice phase of strategic planning.
   1. Generation of strategic alternatives
   2. Choice of the best alternative

B. Strategies
   1. **Active/offensive strategy**: planners move the organization before they are forced to react to threats and opportunities.
   2. **Passive/defensive strategy**; planners react to environmental pressures only when forced to.
   3. **Programmed strategy**; detailed and integrated plan which is difficult to change once implementation is begun.
   4. **Flexible strategy**; allows shift in thrust of plan when warranted by conditions.
   5. **Contingency strategy**; allows planner to choose best of several strategies based upon an estimate of the conditions.

C. Alternative Strategies
   1. **Stability Strategy**
      a. Continue in same or similar business sectors
      b. Pursue same or similar objectives
      c. Focus on incremental improvement of functional performance
      d. Best when the firm is doing well in the industry with a future and when the environment is not excessively volatile.
   2. **Growth Strategy**
      a. Internal Growth: raise speed of increase in sales. profits, and market share of current product-service line.
         i. Increase demand and encourage new uses for present products-services.
         ii. Expand sales into additional sectors of the economy.
         iii. Expand sales into additional geographic areas.
         iv. Expand sales using new pricing strategy.
         v. Introduce minor product modifications to new segments of te market.

      b. Horizontal Growth
         i. Diversification (concentric growth) strategy: add products that are similar with respect to technology, production, market channels, customers.
         ii. Conglomerate strategy: add new products or services not significantly related to the present line.

      c. Vertical Growth
         i. Backward integration strategy: firms enter business of supplying some of its present inputs.
         ii. Forward integration strategy: firms enter channels closer to the ultimate consumer.

   4. Retrenchment Strategy
      a. Firm tries to improve its performance by:
         1. Focusing on functional improvement, especially cost reduction.
         2. Reducing number of functions it performs
         3. Reducing products and markets served (upon to and including liquidation)

b. Cutback and turn-around strategy
   i. Temporary reductions to improve efficiency.
   ii. Used to counter short-run environmental pressures divestment strategy.

c. Divestment Strategy
   i. Firms get out of certain lines of business and sells off units, divisions, or separate companies.
   ii. Used when firm has:
      a. Inadequate market share or sales growth.
      b. Low profits in given division.
      c. Technological change requiring excessive resources
      d. Antitrust regulations.

d. Captive company strategy
   i. Firm becomes captive of its present or potentially largest customer.
   ii. Assures adequate profitability.

e. Liquidation Strategy
   i. Firm perceived as unable to compete.
   ii. Personal reasons of owner (e. g…retirement)
   iii. Better opportunities perceived in another business

5. Combination Strategy
   a. Stability in some divisions, growth in others.
   b. Stability in some divisions, retrenchment in others.
   c. Retrenchment in some areas, growth in others.
   d. All three major strategies in different areas.
   e. Any combination of the major strategies.

Choosing the Strategy

A. Select the most crucial factors from the strategic advantage profile and the environmental threat and opportunities profile. Systematically compare them with each strategic alternative.

B. Factors Affecting Management Criteria for Strategy
   1. Management perceptions of external dependence.
      i. Dependence on owners, competitors, customers, the government, and the community.
      ii. The more dependence the less the flexibility of strategic choice.
      iii. The more volatile the market sector the greater the need for flexibility of strategic response

   2. Management Attitudes Towards Risks
      i. Risk averse
      ii. Risk neutral
      iv. Risk seeking

   3. Managent awareness of past strategies
      a. may eliminate some alternative choices.

4. Management Power Relationships
    a. Division of power requires the use of bargaining.
    b. Centralized responsibility means less documentation and quantitative data are available for the selection.
    c. Larger commitment of resources means a greater tendency to use formal analysis.

Implementing the Strategy

A. Implementation of the Strategic Choice Involves:
   a. Organizational implementation
   b. Policy implementation

B. Ensure Organizational Structure and Climate Support the Strategy
   a. Types of Organizational Styles
      a. Primitive structure (boss-employees)
      b. Functional structure (boss-staff-employees): works best in a stable environment/small product line..
      c. Divisional structure: works best in a changing environment, complex product line

   b. The best style is the one which fits the organization's:
      a. Size
      b. Volatility
      c. Complexity
      d. Personnel characteristics
      e. Environmental dependence

   c. Ensure the Right People are in the Right Jobs
      a. Consider the manager's education, experience, and leadership style.

   d. Develop Policies, Plans, and Procedures
      a. Cover the areas of:
         1. Operations
         2. Finance and accounting
         3. Personnel
         4. Marketing and logistics
         5. Research and development

Evaluating the Strategy

A. Evaluate to compare the results of the strategy with the Firm's Objectives

B. Requirements for the Evaluation Process
   1. Motivation to evaluate: must directly reward the managers for performance.
   2. Feedback system to provide data for evaluation: require a management information system and complete recording of results.
   3. Criteria for evaluation
   4. Decisions about the outcome of the evaluation

C. Evaluation Phase Must Be a continuing Process.

DEFINITION: **Strategy** is a unified, comprehensive, and integrated plan designed to assure that the basic objectives of the enterprise are achieved.

Strategic Planning is that set of decisions and actions which leads to the development of an effective strategy.

Proposition Businesses which develop formal strategic planning systems will be more effective in achieving their objectives than those which do not.

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DEFINITION: **Environmental Appraisal** is the process by which strategic planners monitor the economic environmental supplier technological and market settings to determine opportunities and threats to their enterprise.

Environmental Analysis consists of decisions made to react to, anticipate, or ignore environmental cues.

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DEFINITION: **Board of Directors** is a group of individuals who legally are responsible to stock-holders for the following duties:

- Ensure continuity in the management of organizations: replacing or retiring of ineffective managers.
- Be responsible for the proper use of stockholders' resources.
- See that the managers take prudent actions with regard to corporate objectives.
- Approve major financial and operational decisions of the management
- Represent the company with other organizations and bodies in society.
- Maintain, revise, and enforce the corporate charter and bylaws.

DEFINITION: The **Top Managers** are those chief operating officers whose responsibility it is to make the major decisions for the firm. Normally they are the inside members of the board of directors. They may be called **president, vice-president, or administrator** or have other titles, depending on the institutions history.

Proposition Strategic Planning is most effectively performed by top management. In larger firms, the executives may receive staff assistance from corporate planning staff.

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DEFINITION: **Decision Making** includes all the processes thought and action that lead to a choice.

Organizational Objectives are those ends which the organization seeks to achieve by its existence and operations.

Proposition In successful firms, managerial values will match the characteristics of the firms' environments.

Objectives are formed for an organization when its top managers react to complex interplay of the demands of groups in the environment and insides the firm. The managers incrementally adjust the objectives considering these demands and their own values.

Objectives change frequently in firms whose task environment and technology are violated.

DEFINITION: **Official Objectives** are those vague, general objectives which firms say they seek on official occasions, as in annual reports, in public statements by top management, and in the company charter.

Operative objectives are those ends sought through actual behavior of the organization.

Proposition No sizable firm exists whose only objective is profit maximation for more than a very short time.

As time goes on objectives tend to get more specific.

A firm whose strategy fits the needs of the firm's environment will be more effective.

The major causes of growth, decline, and other large-scale changes in firms are factors in the environment, not internal developments.

DEFINITION: **Environmental Search** is accomplished through three techniques (a) information gathering, (b) spying, (c) forecasting.

Environmental Factors are those characteristics external to the enterprise which experts feel the executives should monitor. These characteristics are (1) general environmental factors, (2) supplier factors, (3) market factors.

Environmental Threat and Opportunities Profile is a systematic evaluation of environmental factors weighted by the significance of each factor for the company.

Actual Techniques used for Environmental Search and Analysis are those methods of information gathering, spying, and forecasting which executives use in examining the environment as determined by research.

Proposition Most Top Managers gather information about the environment verbally primarily from subordinates and friends or acquaintances in the industry.

Most managers *react* to environmental change. They do not anticipate or plan for it.

The older the enterprise relative experienced the executive, the narrower the focus of the search of the environment.

The more powerful the enterprise relative to its competitors, the less it will focus on the competitors sector of the environment.

The less dependent the enterprise is on one or few customers, the less it will focus on customer sector of the environment.

The less dependent the enterprise is on the government for subsidy and the less regulated the enterprise is, the less it will focus its environmental analysis on the political sector of the environment.

The less dependent the enterprise is on one or a few supplies, the less it will focus its environmental analysis on the supplier sector.

The greater the volatility of the technological environment, the more managers must focus on the technological sector of the environment.

The more restricted the geographic area in which the firm operates, the less widely it must reach the environment.

DEFINITION: **Appraising the Strategic Advantages:** Appraising the firm's strategic advantages is the process by which executives analyze the firm's material, financial, ideational, and other resources to determine where the firm has significant strengths so that it can exploit the opportunities and meet the threats of the environment.

Proposition A firm whose strategy fits its environment, considering its strategic advantages, will be more effective than one which does not.

DEFINITION: **Strategic Advantage Profile** is a systematic evaluation of the enterprise's strategic advantage factors weighted by the significance of each factor for the company in its environment.

Active or Offensive Strategy is one in which the strategic planners move the organization before they are forced to react to environmental threats or opportunities.

Passive or Defensive Strategy is one whose major characteristic is to react to environmental pressures only when forced to do so by circumstances.

Programmed Strategy is one which is planned in such a detailed and integrated way as to make it difficult to change, once the strategy has begun to be implemented.

Flexible Strategy is one which allows for shifts in the thrust of the plan when conditions warrant it.

Contingency Strategy requires the planner to choose the preferred strategy given the best estimate of conditions and other strategic choices.

Stability Strategy is one that an enterprise pursues when:

- It continues to serve the public in the same or very similar sectors as defined in its business definitions.

- It continues to pursue the same or similar objectives, adjusting the level of achievement about the same percentage each year as it has in the past.
- Its main strategic decisions focus on incremental improvement of functional performance.

Proposition In an effective stability strategy, companies will concentrate their resources where the company presently has or can rapidly develop a meaningful competitive advantage in the narrowest possible product-market scope consistent with the firm's resources and market requirements.

As firms get older, they become more conservative and are more likely to pursue a stability strategy.

DEFINITIONS: **Combination Strategy** is a strategy that an enterprise pursues when:

- Its main strategic decisions focus on the conscious use of several grand strategies (stability, growth, retrenchment) at the same time in several divisions of the company; or it plans to use several grand strategies at different future times.
- Its objectives and business sector served may be the same or change depending on how it applies the grand strategies of growth and retrenchment.

Proposition Simultaneous combination strategies are most likely to be effective in times of business cycle change; **for example**, they are more likely to be effective in recovery and recession than in the heights of prosperity or the depths of recession.

DEFINITION: **Growth Strategy** is one that an enterprise pursues when it increases its level of objectives upward in a significant increment, much higher than extrapolation of its past achievement level. The most frequent increases indicating a growth strategy is to raise the market share and/or sales objective upward significantly.

Proposition In highly competitive, volatile industries, firms that do not plan for growth will not survive.

Firms which have the most effective growth strategies grow from a base of proven competitive abilities in present lines of business, organize divisions or departments to promote new opportunity in growth fields, and take moderate risks.

DEFINITION: A growth strategy is a **diversification strategy** if in adding new products or services, the strategic planners choose those products or services that are in different SIC codes but are similar to the present product-service line in one of several ways: technology, production, marketing channels, customers.

A growth strategy is a **conglomerate strategy** if the new products or services added are not significantly related to the present product-service line in technology, production, marketing, marketing channels, or customers.

Proposition Internal growth and development tend to take priority over diversification from within, unless the latter is supported, stimulated, and directed by top management.

DEFINITION: A **merger** is combination of two or more business in which one acquires the assets and liabilities of the other in exchange for stock or cash or both companies are dissolved and assets and liabilities are combined and new stock is issued.

A **horizontal merger** is a combination of two or more firms in the same business and aspects of the production process.

A concentric merger is a combination of two or more firms in similar businesses.

Proposition Mergers fail to come to be and fail after consummation more frequently for human reasons than any other reason.

DEFINITION: **Conglomerate Merger** is a combination of two or more firms in businesses which are not closely related by technology or production processes or markets.

Proposition In general, merged companies have grown less than the sum of the growth rates of the separate companies.

In general, the stockholders of the merging firm are worse off than if the firm had not been merged.

In general, horizontal and concentric mergers were more effective than conglomerate mergers for their stockholders.

DEFINITION: **Vertical Integration** is a growth strategy which is characterized by the extension of the firm's business definition in two possible directions from present.

A **backward integration strategy** has the firm entering the business of supplying some of the firm's present inputs.

A **retrenchment strategy** is one that an enterprise pursues when it decides to improve its performance in reaching its objectives by:

1. Focusing on functional improvement, especially reduction of costs.
2. Reducing the # of functions it performs by becoming a captive company.
3. Reducing the # of the products and markets it serves up to and including liquidation of the business.

Proposition When financial return from a unit drops below the minimally required level for a reasonable period of time, the unit should be divested.

An effective manager-owner will sell the company when its present liquidation value is more than the discounted present flow of the firm's future flow of income (modified normative economic theory model).

DEFINITION: **Strategic Choices** is the decision which selects from among the alternatives considered the strategy which will best meet the enterprise's objectives. The choice involves selection of criteria, evaluation of the alternatives against these criteria and the actual selection.

Proposition Effective companies hold formal meetings, involving all or most of top management, to make strategic choices and to record the criteria used.

The strategic choice is limited by the extent to which the firm is dependent for its survival on owners, competitors, customers, the government, and the community.

The more dependent the firm, the less flexibility it has in strategic choice except in crisis conditions.

1. The more dependent the firm is on a few owners (or family), the less flexible it is in its strategic choice.

2. The more dependent the firm is on its competitors, the less it will be able to choose an aggressive strategy. (***Dependent*** *is defined as relatively weak in competitive struggle.)*
3. The more dependent the firm is for its success and survival on a few customers, the more responsive the effective firm will be to their wishes.
4. The more dependent the firm is on the government and community, the less responsive it will be to market conditions and owners' desires.

The strategic choice is affected by the relative volatility of market sector the firm choose to operate in. The more volatile the sector, the more flexible the strategic response needs to be effective organizations.

The more centralized the responsibility for the decision made, the less documented and quantitative the data available for selection; and the greater the time pressures, the greater the independency to use judgment.

Bargaining is used when the power for making the decision is divided within the organization, and the issue under consideration is contentious.

The greater the prior agreement on objectives (and responsibility for selection), the greater the availability of documented and quantitative data and staff specialists, and the larger the relative commitment of resources, the greater the tendency to use analysis.

DEFINITION: **Implementation** is the process by which the top managers assure that the strategic choice is communicated to the enterprise. The process involves also the organization of people and resource to reinforce the choice. Finally, implementation involves the development of consistent functional policies which will reinforce the strategic choice.

Organization is the dividing up of the work among groups and individuals (division of labor) and making sure the subparts are linked together to assure that they will work together effectively (coordination).

Proposition As firms move from single product to dominant product to concentric to conglomerate diversification, they will, if effective, move from functional to divisional organization structure.

Strategic change without structural adjustment leads to economic inefficiency.

Organizations whose strategy is to operate in a stable environment and which are small and have a single product or market will be more effective with a functional organization.

Organizations which operate in a moderately dynamic environment, are large, have businesses which are technologically intense, and, where the economies of scale are not important, have severely limited time duration of projects or products will be most effective in adaptive organization structure.

Organizations which operate in a dynamic environment, are large, and, where economies of scale are important, have intensive technologies and marketing, and in which a large percentage of budget goes to innovation, will be more effective in innovative organization structure.