Chapter 03: Planning and Strategic Management

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One of the key managerial functions is **planning**. Planning is the process of defining the **organizational goals** and defining the **actions** required to achieve those goals. Planning can be formal or informal. In **formal planning**, the goals and actions are very specific and well defined. In **informal planning**, everything is generic in nature and not well defined.

Proper planning can result in several benefits, including:

* Provides **clear direction** about the organization.
* **Reduces uncertainty** regarding actions and goals.
* Ensures proper **utilization of resources**.

Despite these benefits, there are also criticisms of planning. Critics have pointed out the planning can create **rigidity** and **hamper innovation**.

## Planning and Performance

The relationship between proper planning and improved performance seems to exist intuitively, but it actually depends on the scenario. These has been some research regarding this which can be summarized as follows:

* Formal planning leads to higher profit, higher returns on assets and higher financial returns. However, this varies depending on the company. It is true for companies where changes are less frequent, such as a biscuit company, but not for companies where change is frequent, such as a tech company.
* Success depends more on the quality and implementation of the plan than the extent of planning.
* Scenarios where formal planning did not work well were mostly the results of external factors, such as difficult to bribe governments and pesky labour unions fighting for the rights of workers.
* It takes at least 4 years of formal planning before performance starts to be affected.

## Setting Goals

There are two ways by which goals can be established:

* **Traditional Goal Setting** – Under traditional goal setting, the authority decides what the goals are and everyone under them must adjust their actions to meet the goals.
* **Management by Objectives** (MBO) – Under this approach, specific performance goals are jointly determined by employees and their managers. This allows for more flexibility. There are four elements to this:
  + Goal specificity
  + Participative decision making
  + Explicit time period
  + Performance feedback

The steps of a typical MBO are as follows:

1. Jointly set objectives
2. Develop action plans
3. Review actions
4. Give rewards for achieved objectives

## Types of Plans

Plans can be divided based on:

* **Breadth** – The plan can be strategic or operational. **Strategic** plans are broad and generic. They establish the overall goals of the organization and thus cover a longer timeframe. **Operational** plans are specific to performance goals with intricate details. They cover a shorter time frame and contribute to achieving the overall goals.
* **Timeframe** – A plan can be long-term or short-term. A **long-term** plan is any plan that has a time frame longer than 3 years. A **short-term** plan is any plan that has a time frame of 1 year or less.
* **Specificity** – A **specific** plan is one which is clearly defined and leaves no room for interpretation. This is opposed to a **directional** plan which only provides a direction but no clear actions, leaving more room for flexibility.
* **Frequency of Use** – **Standing** plans are ones which have been around for a long time, such as the policy to follow in the case of a break of contract by an employee. **Single-Use** plans are one-time plans created for a specific event.

## Planning Techniques

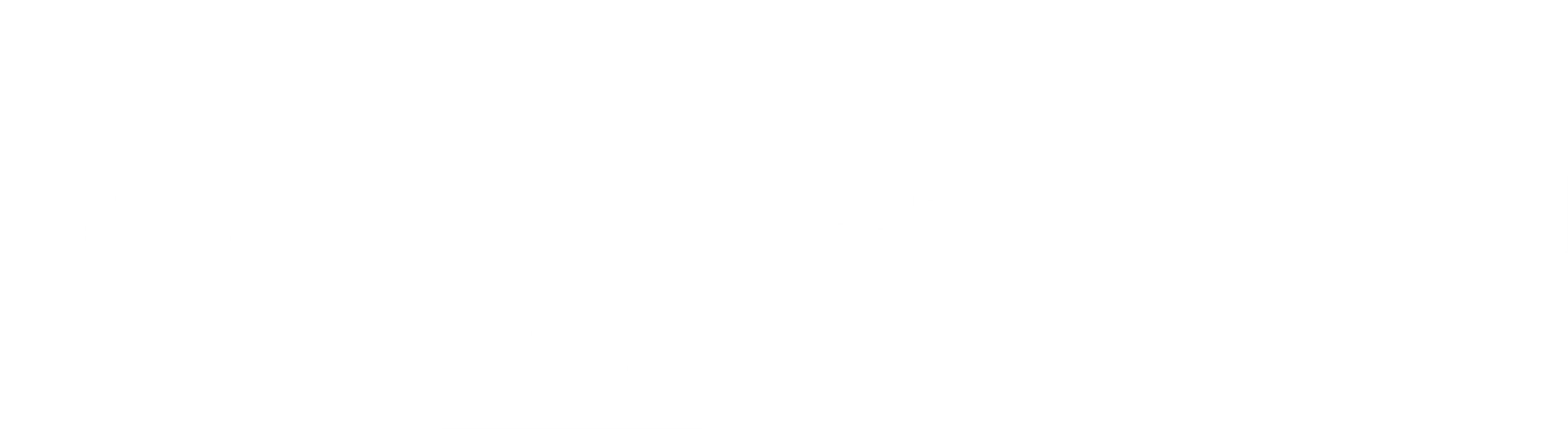
* **Forecasting** – Attempt to predict future events and develop plans accordingly.
* **Contingency Planning** – Identifying alternative plans for outcomes that are different from that expected.
* **Scenario Planning** – A subtype of contingency planning that involves a longer time frame. Multiple scenarios that have occurred in the past are used to plan what to do if those scenarios occur again.
* **Benchmarking** – Develop plans based on the practices of competitors. This type of planning is good for new organizations.

## Strategy

A **strategy** refers to how we do business, how we interact with customers, how we fulfil their wishes. One term that is often used alongside strategies is **business model**, which focuses on two things: whether customers will value the strategy being chosen and whether the company can make money off of it.

One example of a strategy is Dell choosing to start selling products online. At the time, this was a very risky move, especially for an electronics company since customers would want to ensure that the product was not faulty before buying it. To ensure success, Dell had to set up an extensive return policy.

When launching a new strategy, there are a few steps, referred to as the **Strategic Management Process**.



The first step to this process is to identify the organization’s vision, mission, goal and strategies. This is so that the new strategy does not contradict existing strategies or go against the company’s goals.

The second step is to conduct **SWOT Analysis**. This consists of two steps:

1. **Internal Analysis** – In this step, we identify the strengths and weaknesses of the company in reference to the resources they own, the skills of their employees, etc. Anything the company is good at is a strength while anything the company is bad at is a weakness.
2. **External Analysis** – In this step, we analyse the opportunities and threats we are presented with at the time.

The rest of the steps in the strategic management process are fairly straight forward and do not require further discussion.

The five steps above must be performed every time we consider a new strategy, since the information presented to us in the first two steps will change over time and will also be unique to each strategy.

## Types of Strategies

Strategies can be created at one of three levels: corporate, business or functional.

1. At the **corporate level**, we have three types of strategies: growth, stability and renewal.
   1. **Growth** strategies deal with expanding the business in some way. This can be done in one of four ways:
      1. **Concentration** – Concentrate on the primary line of business and expand by either increasing the number of products or the number of markets served. For example, a burger shop opening new locations but not changing the menu.
      2. **Vertical Integration** – Obtain control of inputs or outputs to your business. For example, Netflix moving from licensing shows to producing their own.
      3. **Horizontal Integration** – Buy competitors. For example, Facebook buying Instagram.
      4. **Diversification** – Diversify the product line by entering either a different, but related field (related diversification), e.g., Apple making phones, or by entering a completely unrelated field (unrelated diversification), e.g., Amazon purchasing the grocery shop Whole Foods.
   2. **Stability** strategies come into play when the company is at their limit with regards to their resources and capabilities. There are no significant changes in the organization. It does not grow, but it does not fall behind either.
   3. **Renewal** strategies are for when the company is doing really poorly. Essentially, they try to start the business again. They can use either **retrenchment renewal**, where costs are reduced or underperforming units are shut down, or **turnaround renewal**, where the company is actively making losses and needs to take extreme measures to fix the situation.
2. At the **business level**, individual units within the organization try to give the organization a **competitive edge**. There are 6 factors that can contribute to this:
   1. Threat of new entrants
   2. Threat of substitutes
   3. Bargaining power of buyers
   4. Bargaining power of suppliers
   5. Current-competitor rivalry
   6. Power of complementors

These factors combine to lead to one of the following business strategies:

1. **Cost-Leadership** – Be the company with the cheapest products by having the lowest production cost.
2. **Differentiation** – Be the company with the most unique product.
3. **Focus** – Focus on a specific portion of the market, e.g., a wood company focusing on specifically producing chopsticks used in Japanese restaurants.
4. **Stuck in the Middle** – Due to the dynamic nature of the environment, the organization cannot choose a single type of strategy and must use different strategies at different times.

Among these, cost-leadership and differentiation tend to lead to the most successful companies since they capture the two major types of customers, those who are poor and looking for the cheapest product, and those who are looking to buy something that is special.