Module

03

IEEKMA4116
Edition 1

Planning and Strategic Planning

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Contents

Introduction

This module discusses the first function of management, which is planning. According to Fayol (2013), there are five functions of management, which include planning, organizing, staffing, directing, and controlling. There are two learning activities in this module, namely planning, and a variation of planning, strategic planning. Planning includes many variations ranging from the formulation of vision, mission, and policies, to the formulation of programs, once there are details of activities along with the funding budget. Planning has both positive and negative sides. On the positive side, planning will help to direct the company's activities. Target achievement can be better monitored with planning. The function of control is greatly assisted by the function of planning, resulting in the two functions being an essential pair to monitor the operation of the company.

On the negative side, planning rigidifies the implementation of activities. The best planning is probably found in communist countries, where everything is planned for the citizens. Central planning is in place from the very core of the government. However, the communist state model does not seem to have succeeded in promoting better public welfare. The conditions faced by companies are very dynamic and can change quickly. Therefore, flexible planning is needed (agile planning)[1]. Fundamentally, such planning will be prepared for the changes that may occur in the future.

Strategic planning is closely related to the function of planning. Strategic planning aims to plan where the company will be heading in the future. With strategic planning, the company is expected to not be swayed by changes. Strategic planning involves formulating strategies that can bring the company to a certain position in the future. This type of planning is strategic in nature, thus it will have a major impact on the company. Of course, planning a strategy that has a long-term impact will be different from planning activities or programs that are short-term in nature.

The mistake that often occurs is equalizing strategic planning with activity planning.[2] Strategic planning often assumes that the world is constant, when in fact it changes very dynamically. Strategic planning requires an analysis of current conditions and resources, similar to a SWOT (Strength Weakness Opportunity, and Threat) analysis. Then, based on the SWOT analysis, a strategy that will be implemented to achieve a certain position in the future is formulated. The implementation of these strategies requires a committed set of resources. After a few years, the strategic plan needs to be re-evaluated. The strategic planning cycle is then repeated.

Learning Activity 1 discusses planning. Planning has many benefits as it improves coordination, reduces uncertainty, and is used for control. Planning includes several types such as the planning of missions, goals, strategies, policies, procedures, rules,

1 Di Fiore, Alessandro, Planning Doesn't Have to Be the Enemy of Agile, Harvard Business Review Digital Articles. 9/13/2018, p5-10. 6p.

2 Mintzberg, Henry, The Fall and Rise of Strategic Planning, Harvard Business Review, January-February, 1994.

programs, and budgets. Learning Activity 1 also discusses Management by Objectives (MBO), which is a participatory goal-setting process. A Balanced Scorecard seeks to balance the aspects that are important to drive an organization's development, which includes the perspectives (aspects) of financial, customer, internal business processes, and innovation and learning. The next learning activity discusses strategic planning. Strategic planning is considered a long-term plan. It is needed to keep the company from drifting in the midst of uncertainty. Strategic planning helps the company to move towards the desired point. Strategic planning is done by formulating the company's strategy. Managers need to understand the variations in strategic planning, to optimally implement strategic management.

After reading this module, you are expected to be able to explain about:

1. the controversy of planning;
2. types of planning;
3. the process of planning;
4. situational planning;
5. obstacles and how to solve them in planning;
6. management by objectives;
7. strategic planning process;
8. levels of strategy;
9. strategy implementation;
10. obstacles in strategic planning.

Learning Activity 1

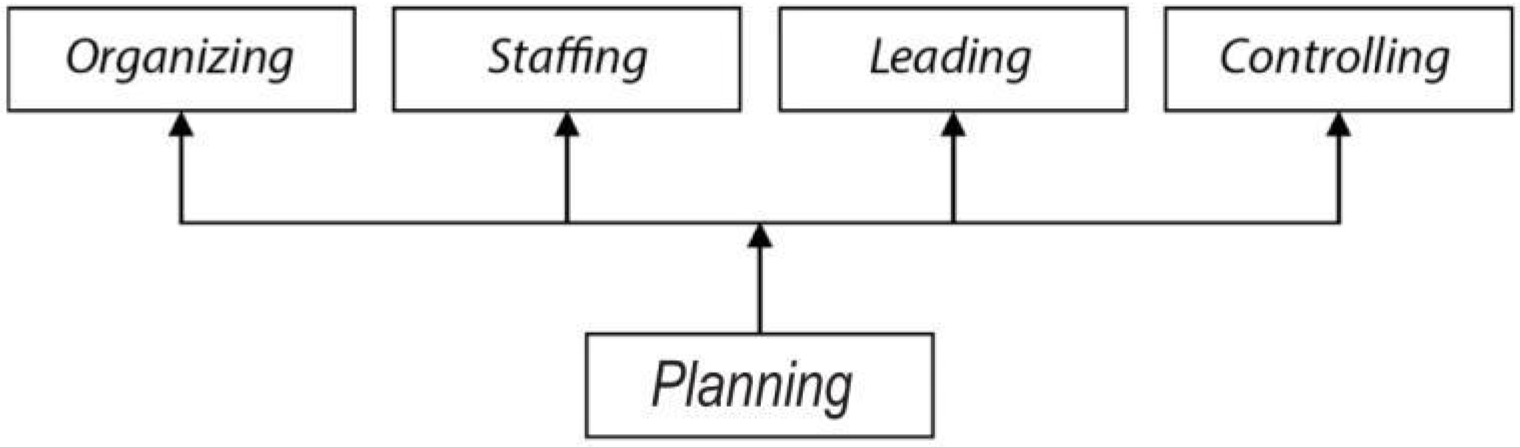
Planning

Planningis the first function in the management function, ahead of the other functions. This section consists of four chapters which all deal with planning. Chapter six deals with planning in general, chapter seven with strategic planning, chapter eight with decision-making, and chapter nine with tools that can be used in planning.

Every human being and organization engages in planning. Although it may seem like a simple matter, formal planning such as management planning is relatively novel. Management planning was an important part of the management revolution that began to develop in the early 20th century. Now, organizational planning can be found in almost every organization, business, government, education, and more. Nowadays, planning is also incorporated into almost every part of the organization. If in the past planning was only done by the Production Department to plan production, now planning is included in other sections such as Marketing and Human Resources. If in the past planning was more associated with manufacturing organizations, now planning can also be found in service organizations. Currently, planning is something mandatory that must be done by every organization.

A. PLANNING

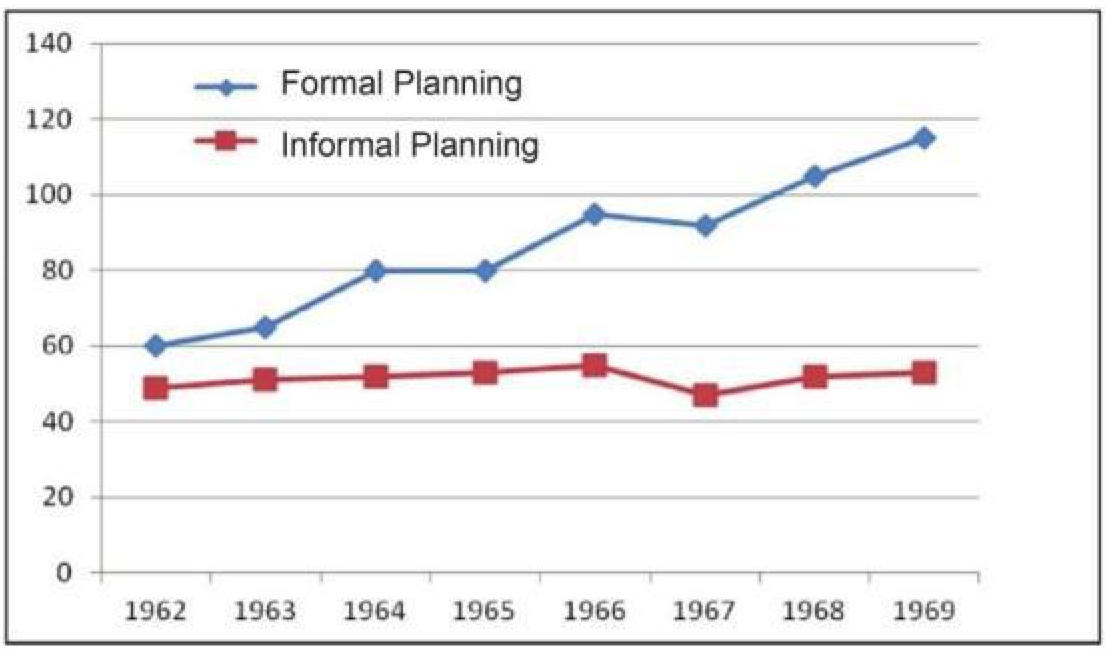
Planning, with all of its variations, is meant to help organizations in achieving their goals. Planning is an essential principle for an organization. Since the next management functions are organizing, staffing, leading, and controlling, planning must support the remaining four management functions. This will be illustrated by the following Figure 3.1.



Source: Arranged by the Author

Figure 3.1
Planning and the Four Other Management Functions

Planning can minimize the risk as well as the uncertainty of action. By assuming certain future conditions and analyzing the consequences of each action, uncertainty can be reduced and the probability of success increased. Research shows that companies that use formal planning have a higher pre-tax profit trend than companies that use informal planning in 1960-1970. The results of the study are clear evidence of the importance of planning to help achieve organizational goals.



Source: DW Karger, Integrated Formal Long-Range Planning and How to Do It, Long Range Planning, Vol. 6, 1973.

Figure 3.2
Profit Improvement Planning and Trend

1. Positive and Negative Sides of Planning

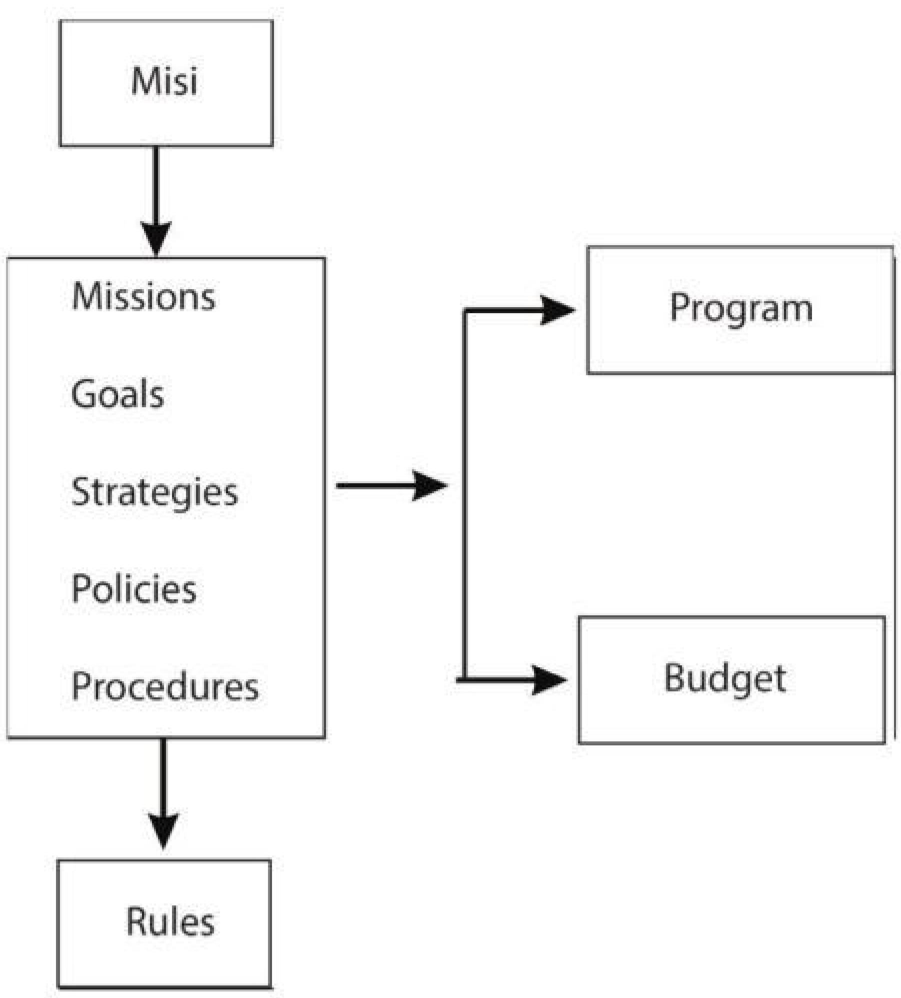
At first glance, it appears that planning has nothing but a positive side to it. But planning, in addition to having a positive side, also has a negative side. One of the positive sides of planning is that it helps managers to see the future beyond the present time. Managers who are only concerned with the present time have a limited view that can endanger the survival of the organization. Another benefit of planning is better coordination. Coordination can occur, both between departments or sections within the organization and between current and future decisions. Another benefit of planning is that with planning, organizational goals can be better emphasized. Since organizational goals are the starting point of planning, managers will always be reminded of these goals. Thus, planning explicitly includes the steps needed to achieve the organization's goals.

If planning cannot be implemented properly, however, managers' valuable time and effort will be wasted. Overemphasis on the planning function is also unfavorable as other managerial functions will be neglected. Managers must maintain a balance between the planning function and other functions so that organizational goals can be achieved. If planning is not done properly, the positive side of planning will never be obtained.

In general, the benefits of planning certainly outweigh the disadvantages of planning. Research shows that managers view the planning function as relatively more important than other functions. More than 65 percent of managers rank planning higher than other functions such as control, public relations, or management meetings.

2. Several Types of Planning

Planning comes in many varieties. Some variations of planning will be discussed in this section. These variations include Mission, Goals, Policies, Procedures, Rules, Programs, and Budgets Planning.



Source: Arranged by the Author

Figure 3.3
Types of Planning

Figure 3.3 shows that programs and budgets represent missions, goals, policies, procedures, and rules. While the budget supports the program.

a. Mission or purposes

In society, each entity has its own role to fulfil. The role then determines the mission or purpose of their existence in that society. If they do not have a mission or purpose, then the entity is practically unable to exist in a society. The mission of a business entity is usually to produce and/or distribute economic goods or services. University entities have a mission of education and research. Government entities have a mission to run the government bureaucracy.

Some books distinguish mission from purpose. Purpose has a broader meaning than mission. The purpose of a business entity is to produce and distribute goods and services. The entity executes this purpose by accomplishing its mission, which is to produce a specific product line. For example, producing transportation equipment fulfills the purpose of producing transportation equipment. This book, however, will not distinguish the two from one another.

The mission of an oil company can be defined as providing the world with energy through petroleum. The mission of a chemical company can be defined as improving life through chemistry. Sometimes it may be difficult to define a mission. For example, a conglomerate company engaged in many business sectors cannot define its mission specifically. Some define the mission of a conglomerate as simply "synergy". A clear definition of mission is an important requirement for the formulation of organizational goals. Managers should always ask, "What is our business? What should our business be? What can we do to contribute to society?". A more appropriate approach to answering these questions is to ask "What functions do we perform? Who do we serve?" For example, a railway company may define their function as providing transportation services and moving goods from one place to another. The mission of the company could be defined as providing transportation services. Note that if the railroad company defines itself as a railroad company then the definition is too narrow.

Table 3.1
Mission Example

Organization	Mission
Bank	Creating quality services with a certain variety to meet the financial needs of other organizations or individual consumers.
Computer Company	Becoming a company that solves problems in administration, processing, and communication
Department of Labor	Managing labor administration issues, creating and monitoring such regulations, and taking necessary measures to safeguard the safety and welfare of the workforce
Food Company	Meeting the world's need for quality food at an adequate price.
Large conglomerates	Translating new technologies into marketable commercial products.

b. *Goals*

Goals are the result to which organizational activities are directed. Goals are the end point of the planning, organizing, staffing, leading, and controlling functions. They are the most basic organizational plan. The organization as a whole has a specific goal, however, other departments or parts of the organization will also have their own goals. The goals of the organizational parts must contribute to the goal of the organization as a whole, even though the goals of the parts aren't exactly the same as one another. For example, the overall goal of the organization is to earn a certain level of profit. Then, the goal of the production department is to produce merchandise. The marketing department's goal is to get the goods into the hands of consumers. All objectives, although different, are consistent with each other and contribute to the overall goal of the organization.

c. *Strategy*

Strategy is commonly used in the military as a "master plan" to destroy the enemy. The term is now commonly used in other fields, such as business. The context of competition is still apparent in the term of strategy. Thus, a business strategy is a strategy in regard to other competitors. Strategy is a general/principal plan to achieve organizational goals through the selection of necessary alternative courses of action and the allocation of resources necessary to achieve those goals. A bus company has a mission of providing transportation. Then, the company can set the goal of making a profit by providing land transportation services. Strategies to achieve this goal can be set by providing general passenger transportation and goods/cargo transportation. Other bus companies may prefer to focus on the general passenger transportation strategy. A car company has a strategy of producing cars for lower middle-class consumers, while other car companies prefer to focus on the upper middle class such as BMW and Mercedes. Other car companies such as General Motors prefer to produce a full line of cars, aimed at the middle class.

Thus, strategy along with mission and goals reflects and communicates what the organization wants to be. The strategy will not describe the specific details of how the organization will achieve its goals. Such specific explanations can be seen in more specific plans such as programs or budgets.

The statement that strategy involves an element of competition, even though the term is used in a business context, can be seen in the strategy of Japanese car companies during their entrance to the US market in the 1970s. Faced with US car companies such as General Motors and Ford which produced large cars, Japanese companies offer the production of small cars that are fuel-saving. It was the right strategy because, during the fuel crisis, people would prefer fuel-saving cars to those that aren't.

d. Policies

Policies are also considered as plans because they're the general statements or understandings that help in directing decision-making, particularly affecting the thinking process rather than the actual action itself. Oftentimes, policies are presented in the form of unwritten statements. The CEO of a bank dislikes the development of schools with degrees (MBA or MM) because he thinks that being a good banker can only be achieved through experience. Schools tend to distract the bankers from their "banker" focus. This policy then translated into actual decisions such as minimizing the amount of schools for their employees. Bank employees are commonly provided with only short-term banking trainings.

Policies limit decision-making to certain areas and ensure that decisions are consistent and directed towards organizational goals. Policies can eliminate repetitive analysis. Policies give room for initiative in decision-making. Policies can be found at any level of the organization, from the highest to the lowest one. Policies can also be found in organizational departments such as marketing or finance departments.

Here are some examples of policies.

1) Employees are not allowed to accept gifts from suppliers, except for token gifts or promotional items. Note that although the policy restricts gifts from suppliers, tokens and promotional items can still be interpreted further.
2) Divisional managers can set the prices of goods in such a way that (a) an increase in price may increase profit margins, but is consistent with the overall product strategy, (b) a decrease in price will not result in substantial losses, and is consistent with the overall product strategy. If the company has a specific product strategy, such as mass products (cheap products with adequate quality), price increases are not expected to disrupt this strategy. Price increase or price reduction initiatives are still possible as long as they are consistent with the organization's objectives, which are subject to further interpretation.

Creating policies that are consistent with organizational goals is not an easy task. There are several reasons for this. First, some policies are not put in writing. Second, initiative and autonomy in policies can result in considerable variation in decision-making.

e. Procedures

Procedures are also a variety of plans because they specify how an activity is to be handled in the future. Procedures affect actions rather than the thinking process. Procedures describe in detail how an activity should be conducted. Usually, procedures are explained chronologically. Procedures can be found at all levels of management, as well as in departments or parts of the organization. General procedures apply to the organization as a whole. Furthermore, they can be reduced to more specific procedures that apply to smaller parts, such as divisions or departments. Procedures often cross departmental boundaries. For example, the procedure for returning damaged goods from consumers will go through the marketing department (after-sales service) before entering the production department (inventory). If a customer asks for their product to be reimbursed (for instance, if the company has a policy of allowing damaged products to be reimbursed in cash), the procedure will enter the area of the finance department. The link between policy and procedures is quite close. Procedures are a more detailed explanation of organizational policies. For example, the company's policy is to give a day off or vacation to certain places every year. Procedures are then developed to clarify the steps that employees will take to obtain the vacation. Perhaps the procedure requires employees to report to the finance department for salary matters or to report to the staffing department so that a replacement can be determined during the vacation.

f. Rules

Rules are plans that are chosen from several alternatives, and must be done, or not at all. Rules are the simplest form of plans. Rules require certain specific actions to be performed, or not performed, depending on the situation at hand. Rules are related to procedures in the sense that they help in directing actions, but do not specify a time sequence. Procedures can even be seen as a series of rules. For example, an order-receiving procedure consists of a series of rules. For instance, if an order is received, a check will be made to determine if the ordered item is in stock. Once there is a confirmation of the presence of the goods in stock, the goods are immediately shipped, and then billing is made by the finance department. Some rules are not related to specific procedures. For example, the prohibition of playing games in the workspace is not related to existing procedures.

Although difficult at times, policies need to be separated from rules. Policies are more directive in the way of thinking in decision-making, while rules are more directive in actions. If in policy there's room for creation, participation, or change from a predetermined policy then in the implementation of rules, there is no longer any room for deviation from the rules that have been predetermined. Procedures and rules have something in common. in the sense that there is no room for deviation.

g. Program

A program is a complex network of objectives, policies, procedures, rules, assignments, steps to be taken, resource allocations, and other elements that must be carried out based on the chosen alternative action. Usually, capital and budget are used to support programs. Examples of programs are new product development, supervisory quality improvement programs, and product quality improvement programs. It can also be a light program such as a program carried out by one supervisor to improve the morale of his subordinates.

A large program will consist of other smaller programs. A new product manufacturing program will consist of a sourcing program, a new product design program, and a production layout design program. Coordination is very important because the failure of one program can derail the main program.

h. Budget

A budget is a plan expressed in numbers. When talking about financial budgets, the plan is expressed in monetary units. Budgets cover various aspects and departments. For example, the operational budget relates to the operations of the organization, the capital budget relates to the investment activities, and the marketing budget relates to the marketing activities. Budgets, besides being a planning tool, are also good control tools. Therefore, budgets will be discussed more in the chapter on financial control. Budgets come in many varieties, from fixed budgets to flexible or variable budgets, to zero-base budgets. The main benefit of a budget is to get members of the organization to plan.

B. PLANNING PROCESS

The planning process can be seen in the following Figure.

Source: Arranged by the Author

Figure 3.4
Organizational External Environment Planning Process

After studying the external environment, planning begins with the organization's mission. From the organization's mission, organizational goals are then derived. Organizational goals are the key to organizational effectiveness.

Goals serve several functions. First, they provide and unify the direction in which the organization should move. Through goals, every member of the organization knows where the organization is going and understands the importance of that goal point. Second, goals and the goal-setting process will influence planning. Good goals and setting will lead to good plans. Then, good plans will help actualize good future goals as well. Third, goals can serve as a motivational tool for employees. Goals that are challenging and specific enough can encourage employees to work harder. Finally, goals serve as an effective evaluation and control tool.

Organizational planning based on organizational goals can be grouped into three types of planning: strategic, tactical, and operational. Here are the types of plans, timeframes, and plan makers.

Table 3.2
Types of Planning

Plan Types	Time Frames	P. Makers
Strategic	Long term (> 5 years)	Top Management
Tactical	Mid-term (1-5 years)	Top and Middle-Level Management
Operational Management	Short term (< 1 year)	Middle-Level and Lower-Level

Source: Arranged by the Author

1. Strategic Planning

A strategic plan is a long-term plan to achieve strategic goals. The focus of this plan is the organization as a whole. A strategic plan can be seen as a general plan that describes the allocation of resources, priorities, and steps needed to achieve strategic goals. Strategic objectives are usually set by the top management. Top management determines "where the organization should be" in the long term. Managers may have the problem of precisely how far (in the future) strategic planning can go. The principle of commitment can be used to answer that problem. The principle basically says that after conducting a long-term planning analysis, the manager will commit funds only after he manages to anticipate the rate of return on the costs incurred. Expenditure is an investment and is only incurred if the return on the investment is good enough. Strategic planning will be discussed more in a separate chapter.

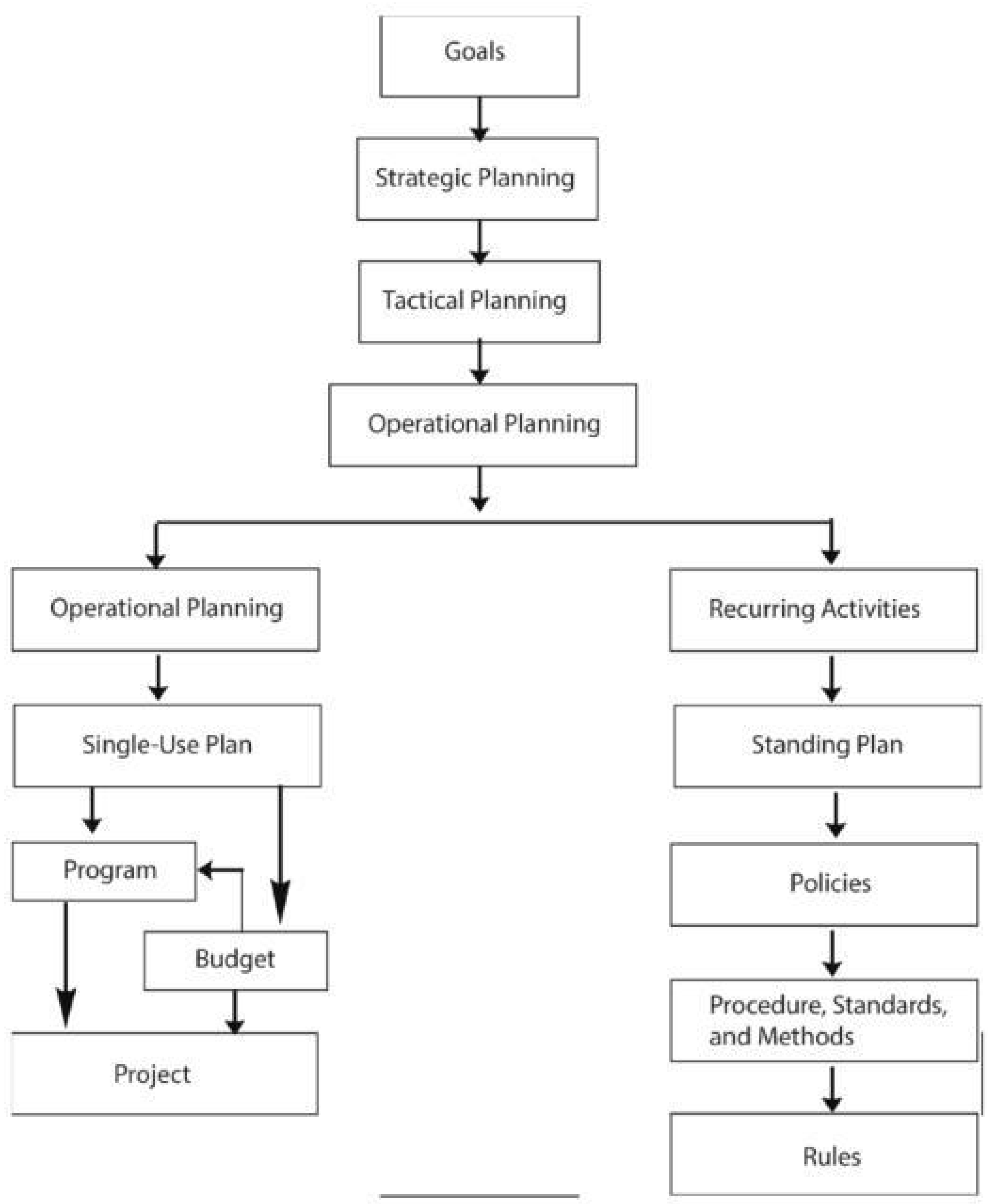
2. Tactical Planning

Tactical planning is intended to achieve tactical goals, which is to implement a specific part of the strategic plan. This plan has a shorter timeframe than the strategic plan and has a narrower and more specific focus. In terms of war, we often hear the phrase "winning the battle to win the war" or "even if you lose one battle, you can win the war". The battle in this case is a tactical plan, while the war is a strategic plan. While strategy focuses on resources, environment, and mission, tactical plans focus on people and actions.

Tactical objectives are usually derived from strategic objectives. For example, a company has a strategic plan to stabilize the supply of raw materials. The tactical plan is then developed by purchasing raw materials from supply companies. Another alternative to the tactical plan is to build its own factory that will supply the raw materials. A company has a strategic plan to enter the global market. To achieve this goal, the company may develop tactical plans such as building a factory in the European market or building a factory in the Asian market. The construction of the factory reflects a more concrete action, with clear resources (funds to build the factory), and a clear timeframe (target completion time).

3. Operational Planning

Operational planning is derived from tactical planning, it has a narrower focus, shorter timeframe, and involves lower-level management. There are two types of operational plans, namely single plans (one-time use) and standing plans (multiple-time use). Single plans are more suitable for specific objectives, which are then scrapped once the objectives have been achieved. A standing plan is a standardized plan that is more suitable for achieving goals that arise repeatedly. Figure 3.5 below illustrates operational planning.



Source: Hanafi, 2019

Figure 3.5
Operational Planning

a. *Single-Use Plan*

An example of such planning is when a company plans for expansion. The company then develops various single-use plans, such as the creation of a new factory, the attraction of new personnel, marketing analysis, and others. Some types of single-use plans are programs, projects, and budgets.

1) ***Programs***. A program is a one-time plan for a large set of activities. It may include objectives, steps needed to achieve those objectives, policies, procedures, rules, organizational units, or people responsible for each step. Programs are discussed more in the previous section.
2) ***Proyek***. Projects are part of smaller-scope programs. Assignments and time targets in projects are clearly defined. For example, a company has a program to build a new warehouse. Then, supporting projects are then developed, such as the layout of the warehouse, the recruitment of warehousing personnel, and the project of moving goods from the old warehouse to the new warehouse. Each project is the responsibility of a specific person and that person is given specific resources and time targets.
3) ***Anggaran***. A budget is a plan expressed in terms of numbers, which can be either quantity numbers or monetary unit numbers. Budgets are covered extensively in control.

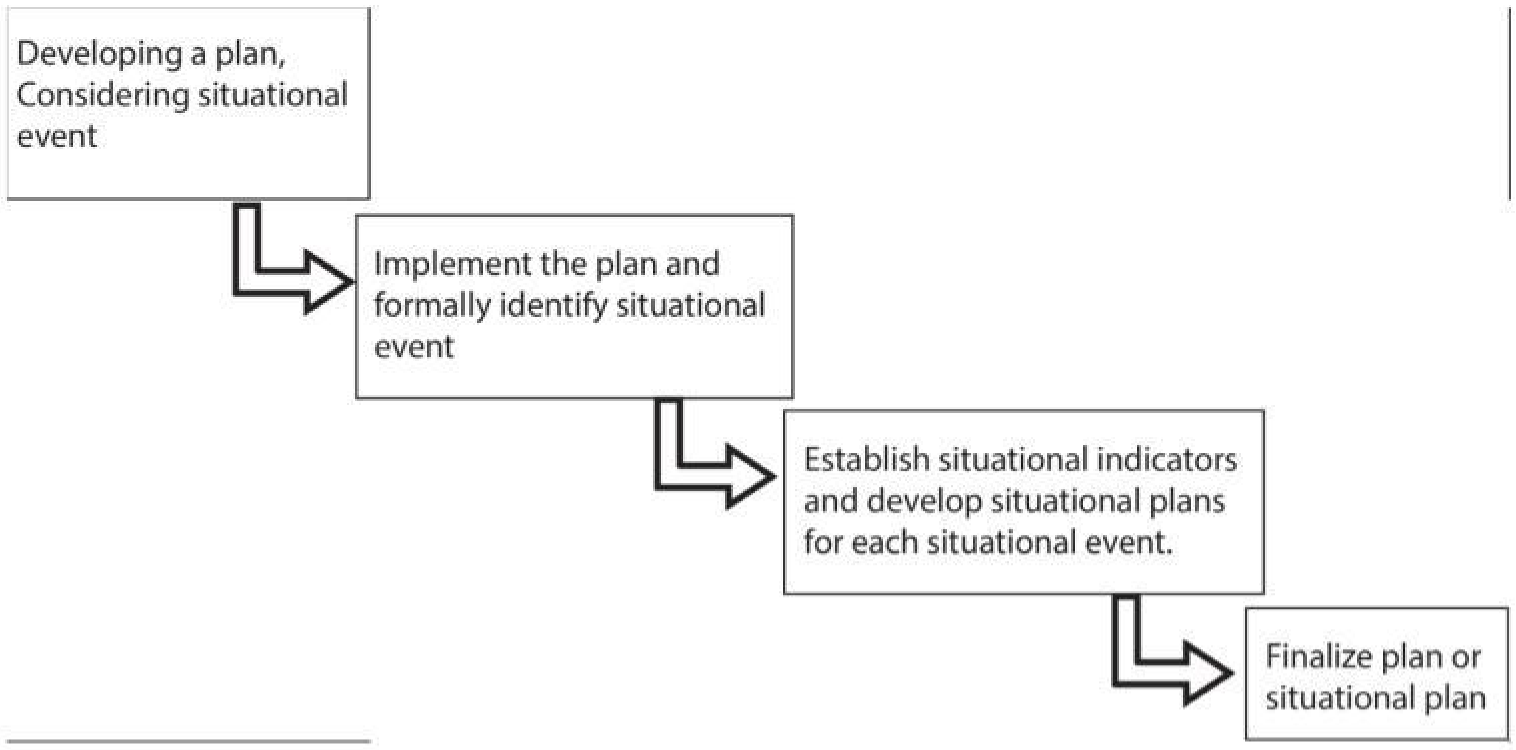
b. *Standing Planing*

If an activity occurs repeatedly, a series of plans are developed to direct the said activity. A standing plan will save managers time and effort because the repetitive situation is handled with a standardized plan. Some examples of standing plans are policies, standard operating procedures, and rules.

1) ***Policies***. Policies are decision-making guidelines that primarily direct the way decisions are made, rather than specific actions. This policy has been discussed in the previous section.
2) ***Procedures***. Procedures are more specific than policies and are guidelines that lead to the required actions. The necessary steps are described in detail and are usually organized chronologically. For example, a new recruitment procedure involves receiving a file of job applicants, storing the file, calling prospective applicants, conducting standardized tests on the applicants, interviewing the applicants, and deciding whether or not to accept the job. This procedure has already been discussed in the previous section.
3) ***Rules.*** A rule is a specific statement of whether an action should be taken or not based on the situation. As such, rules are actions themselves, not guidelines that direct decision-making. For example, a company may have a rule that if an applicant does not answer the company's call, the applicant is dropped from the job application.

C. SITUATIONAL PLANNING (CONTINGENCY)

Situational planning is a type of planning that incorporates different planning alternatives if certain conditions occur. For example, if plan A does not work then plan B will be implemented. The following figure represents a situational plan.



Source: Hanafi, 2019

Figure 3.6
Situational Planning

The first stage is to conduct the typical planning process, which will be further developed by taking situational events into account. In the second stage, the planning is then executed and situational events are formally identified/formulated. Indicators of a situational event are that it is an event that is formulated/determined. If these indicators indicate the occurrence of situational events, alternative situational plans are carried out. If there is no situational event, however, the original planning will be carried out.

For example, an organization plans to open 100 new outlets in the next ten years based on the premise of normal economic conditions. Then, a situational event is formulated to anticipate poor economic conditions. Indicators are then developed, such as the two indicators of inflation and sales rate. If inflation reaches 10 percent in the next two years, or if sales decline by 20 percent, the economy is considered unfavorable for expansion plans. The opening of new outlets will then be lowered to 50-75 new units.

The situational events selected were those that were expected to have the most serious effect (impact) on the implementation of the organization's plan. Situational planning is especially useful for organizations with dynamic environments, where uncertainty and change are common phenomena..

D. PLANNING AND MANAGEMENT LEVELS

The previous chapter explained that top management requires more conceptual skills, while lower-level management requires more technical skills. The type of planning also differs based on the level of management. Top management is more involved in strategic planning which has a long-term focus, while lower-level management deals more with operational planning which has a short-term dimension. Table 3.3 below describes the ideal time that management can spend based on their level.

Table 3.3
Planning and Management Levels

Position	today	1 week in advance	1 month in advance	3-6 month in advance	1 year in advance	1 year in advance	3-4 year in advance	5-10 year in advance
President Director	1%	2%	5%	17%	15%	25%	30%	5%
Vice President	2%	4%	10%	29%	20%	20%	13%	2%
Manager	4%	8%	15%	38%	20%	10%	5%	
Supervisors	6%	10%	20%	43%	10%	9%	2%	
Department Manager	10%	10%	25%	39%	10%	5%	1%	
Section Supervisors	15%	20%	25%	37%	3%			
Group Supervisors	38%	40%	15%	5%	2%			

Source: Hanafi, 2019

E. OBSTACLES AND THEIR SOLUTIONS IN PLANNING

Planning and goal-setting have possible obstacles. Understanding the obstacles and how to overcome them is therefore quite important. Table 3.4 below summarizes the barriers to planning and ways to overcome them.

Table 3.4
Planning Obstacles and Solutions

Main Obstacles	Inappropriate goals Inappropriate reward system Complex and dynamic environment Reluctance to set goals or give up alternative goals Reluctance to change Constraints Poor understanding of the environment Poor understanding of the organization Lack of self-confidence
Overcoming Obstacles	Understanding goals and planning Communication and participation Consistency, revision, and improvement Effective reward system Helping individuals to set goals Overcoming reluctance to change

Source: Hanafi, 2019

1. Obstacles to Effective Planning

Inappropriate goals can be an obstacle to effective planning. For example, if the goals are unrealistic, then members of the organization will not be enthusiastic to plan. If goals emphasize quantity and overlook quality, effective planning will also be hindered. If a plan solely focuses on the output/sales or production with no regard to employee satisfaction, the plan will be inaccurate. However, employee satisfaction is a difficult thing to measure.

Inappropriate rewards can also be a hindrance. For example, one manager manages to increase productivity by 1 percent from a target of 0. This can be considered a success. But another manager, being overly ambitious, manages to increase it by 10 percent against a target of 15 percent. The latter manager would not be considered as successful because his achievement was below the target, and will eventually stop being as aggressive the following year. The emphasis on the short term as opposed to the long term also leads to imbalances in planning.

Complex environments may also make effective planning difficult. For example, computer companies (such as IBM or Microsoft) operate in a rapidly changing environment. In 1991 the internet was not yet visible and companies like Netscape or Yahoo did not exist. Within five years these companies were big enough to pose a serious threat to Microsoft or other software companies. Computer companies are characterized by very dramatic changes that make planning all the more difficult.

The decision to set new goals and allocate resources to achieve those goals means letting go of other goals. Sometimes such decision is difficult to make, at least psychologically. Typically, we tend to want to achieve everything, even when it's not possible. As a result, we may feel reluctant to focus on just one goal.

Some members of the organization are reluctant to make changes. Uncertainty about the outcome of the change leads to this sentiment. They are also reluctant to give up the benefits they have gained from the current situation. Sometimes they know the disadvantages of proposed changes are a good thing. This reluctance makes them reluctant to plan, thus hindering effective planning.

Members of the organization experience restrictions. For example, being too busy, managers only have a very limited amount of time. Managers are then unwilling to plan because they believe they do not have the time. Sometimes managers might also feel that the resources available are too limited and unable to support their proposed plan. In this case, effective planning will be hampered as well.

Organizational members who do not understand the external environment tend to resist change. They do not realize that the environment is always changing, and therefore planning is required, or they are uncertain about their path. They will then be unwilling to plan.

Planning requires good coordination with other parts of the organization. If an organizational member does not understand the organization, they cannot adapt their proposed plan to the plans of other departments. Therefore, they will be reluctant to propose plans.

To carry out the plan, the organizational member must feel confident that he/she has the ability to carry out the plan to achieve certain goals. If the manager does not have confidence, he will hesitate to implement plans or try to achieve challenging goals.

2. Overcoming Obstacles

One important way to overcome planning obstacles is to understand the purpose of planning and the goal-setting process. While planning and goal-setting are not panaceas to solve all problems, they can help in improving decision-making.

If organizational members understand the importance of planning, they will be willing to focus on specific goals, and let go of other less relevant goals.

Although plans and goals are set from the top, they must be communicated downwards. It is even better if every member of the organization who will be implementing the plan is involved in the planning process. Communication and participation can increase commitment to implementing the plan.

Consistency between higher and lower goals as well as consistency between section or departmental goals should be maintained. Since the process of goal setting and planning is a dynamic one, improvements or revisions should always be made. Some organizations have even begun to revise planning at progressively shorter intervals. New product launches are reduced from, for example, three years to only one year. The shorter new product cycle is expected to increase the effectiveness of new product planning.

The appropriate reward system will encourage effective goal-setting and planning. Under an appropriate reward system, everyone will be treated fairly. Sometimes the reward system is set up in such a way as to encourage certain behaviors. For example, to encourage risk-taking, a manager may promise not to penalize wrong decisions. This will hopefully encourage risk-taking, and at the same time encourage creativity.

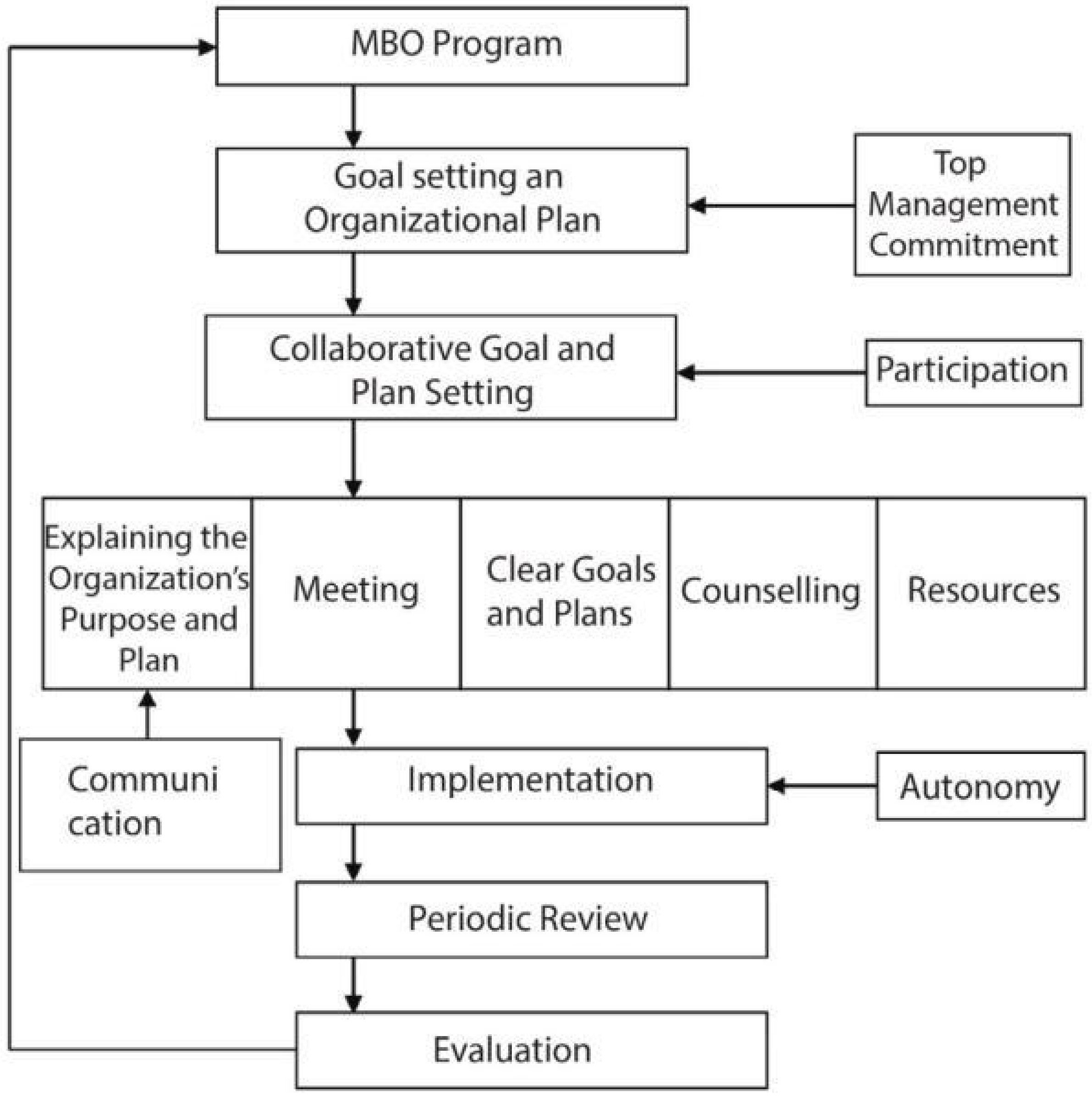
Another way to overcome obstacles is to help individuals set goals. Managers who do not have sufficient knowledge or information about the organization and its environment can be assisted by creating adequate information systems. Employee development programs are expected to increase managers' social and informational networks, as managers are able to meet people from different backgrounds. Managers who lack confidence can be assisted in setting realistic goals, which may not be too difficult, but not too easy either. If they succeed in achieving the goals they set, their confidence will increase.

Reluctance to change can be eliminated in several ways. First, by involving them in the planning and goal-setting process. In addition, information about the plan, the expected benefits, other consequences that may occur, and the requirements needed for the success of the plan need to be disseminated to the members of the organization. A good information system will also help to overcome obstacles, as successful completion of a plan will boost confidence as well as the willingness to accept a new plan. Negative consequences that may arise from planning need to be anticipated. For example, if the merger plan results in layoffs, no-layoff guarantees or other alternatives can be put forward to convince the importance of the plan.

F. MBO (MANAGEMENT BY OBJECTIVES)

Management By Objective is a participatory goal-setting method popularized by Peter Drucker through his book The Practice of Management (1954). MBO is a formal or semi-formal method that starts with goal setting, implementation, and then continues with evaluation. The purpose of MBO is to encourage subordinate participation and to clarify and communicate goals, as well as the expected results of achieving these goals. The key to the MBO method is participation and communication in goal setting or planning. Alongside management information systems, electronic data processing, organizational development, and direct costing, MBO is currently one of the 13 most popular management techniques. This MBO technique is also increasingly applied, both in business organizations and non-business organizations.

MBO starts from positive assumptions about people. According to McGregor's X and Y theory, people can be seen into two types of characteristics: X and Y. The X characteristic assumes that people basically dislike work, and therefore must be forced to work. The Y characteristic assumes that people basically like to work and want to achieve something, and therefore able to push and direct themselves. MBO starts by assuming that people basically have the Y characteristic. MBO aims to utilize these characteristics optimally by providing a supportive environment. The MBO process can be seen in Figure 3.7 below.



Source: Drucker, 1954

Figure 3.7
The MBO Process

MBO starts from the overall goals and plans of the organization. Then, from these goals and plans, managers meet with their subordinates to discuss lower-level goals and plans aimed at achieving these organizational goals and plans. The discussion and collaboration on goals and plans go through several stages. First, managers communicate organizational goals and plans to subordinates. Then, subordinates and managers conduct a meeting. Subordinates and managers work together to determine the goals and plans to be achieved by subordinates, which will contribute to the overall goals and plans of the organization. Goals and plans are attempted to be set in a clear form, quantification of plans and goals needs to be done so that they can be verified. For example, sales growth targets are expressed in numbers, for example, a 10% increase in sales in the coming period. In the meeting, the manager can provide the necessary consultation so that subordinates are able to set goals that are challenging enough, but also still realistic. Then, subordinates are assigned the necessary resources to carry out their plans and objectives. At this stage, participation in goal setting and communication between subordinates and managers is essential.

After that, subordinates are given enough autonomy to implement their plans. At the end of the period, periodic reviews and evaluations are conducted. The periodic review and evaluation are then carried forward into the MBO meeting for the next period. It is even better if the periodic review is conducted before the end of the period. For example, if the program period is one year, a quarterly review can be conducted. If there is any deviation, it can be immediately analyzed and then revised.

1. Effectiveness of MBO

An important benefit of MBO is that it encourages employee motivation. To support a successful MBO, several elements are required. These elements are as follows.

a. **Commitment.** The success of MBO requires high management commitment, especially commitment from top management.
b. **Top Goal Setting.** An effective MBO program starts with top management. The goals to be achieved must be clearly stated and measurable. The goal of increasing sales is stated as "5% next year". Subordinates are able to understand the goal and can understand what is expected of them. Managers and subordinates must work together to synchronize subordinates' plans with top management's plans and goals.
c. **Individual goals.** Individual objectives must be clearly stated. The person responsible should be clearly stated as well.
d. **Participation.** No explanation yet.
e. **Communication**. Managers and subordinates should have intensive communication in the goal-setting process. Managers usually communicate top management goals, and subordinates discuss what needs to be contributed to support these goals.
f. **Autonomy in Implementation**. Autonomy of implementation encourages creativity and commitment of subordinates. Autonomy provides freedom within certain limits.
g. **Review of achievements.** Reviewing the progress that has been achieved can provide feedback which can provide input for improvement.

2. Weaknesses of MBO and How to Overcome

Although MBO seems good enough, it is not always effective in practice. The weakness of MBO is caused by two things: (1) inherent weaknesses of MBO, and (2) external weaknesses. The first example, is the considerable time and energy required in the MBO process, the amount of administrative work, and the willingness to learn MBO to become an effective technique. While the second category involves weaknesses that can theoretically be eliminated. Here are some examples of the second category.

a. Lack of Top Management commitment. The organization implements MBO, but the lower management does so without sufficient support, proper autonomy, and sufficient resources from the top management.
b. Some MBOs overemphasize quantitative aspects, administrative work, or record-keeping aspects. Managers who do not have enough patience end up simply suggesting or assigning plans to their subordinates.

c. Authoritarian management style that does not support MBO. Managers who have such style of management need to be retrained to align their leadership style with MBO.
d. Changes in the organization. For MBO to be effective, unsupportive organizational structures must be removed. If such structures still exist, then the effectiveness of MBO will be hindered. Management must also support the process of change. If managers do not have the will to change, then MBO will not be effective.
e. Human relations skills. Communication and participation require good interpersonal skills. Managers or subordinates who do not have these skills require special training before entering MBO.
f. Difficult coordination and goal setting. Setting challenging but realistic goals is not an easy task. Coordinating between goals, inter-section goals, and top-low goals is not an easy job as well. Failure to do so will hinder the effectiveness of MBO.
g. Dependence on others. The achievements of some managers will depend on others. For example, the marketing manager will depend on the production manager. If the demand for one of the products improves but the production department is unable to produce, then the marketing manager cannot meet his target. This kind of dependency can be frustrating for managers and can hinder the effectiveness of MBO.
h. Unsupportive reward system. Linking achievement to rewards is a good thing, although it can reduce productivity. Managers who seek the safe path will set their goals low or simply achievable. This way, targets can be achieved easily. However, this does not support an effective MBO. Managers should be careful in this regard.

To support an effective MBO, there are several steps that can be taken:
a. ensuring the presence of top management commitment;
b. training and educating managers in the use of MBOs. Effective MBO requires specific skills that must be learned;
c. setting goals clearly. Objectives are set realistically and clearly as they will be used to evaluate performance;
d. developing effective feedback. MBO implementers need feedback so that their progress can be constantly monitored. Prompt feedback allows for quick corrections if there are deviations;
e. encouraging participation. Participation is an important element in MBO. Managers should encourage participation even if the participation may result in the manager feeling a loss of power. Autonomy and participation are important elements to increase the effectiveness of MBO.

G. *BALANCED SCORECARD* (BSC)

The Balanced Scorecard (BSC) is a strategic planning and management tool developed by Robert S. Kaplan (Harvard Business School Professor) and David P. Norton (business consultant). BSC originated from the dissatisfaction with financial indicators to measure the performance of an organization. Traditional financial indicators, such as Return on Assets (ROA), did not seem to measure innovation and continuous improvement well, even though these are the essential elements of today's organizations. Managers need to acquire more comprehensive indicators that can depict the organization's operations well.

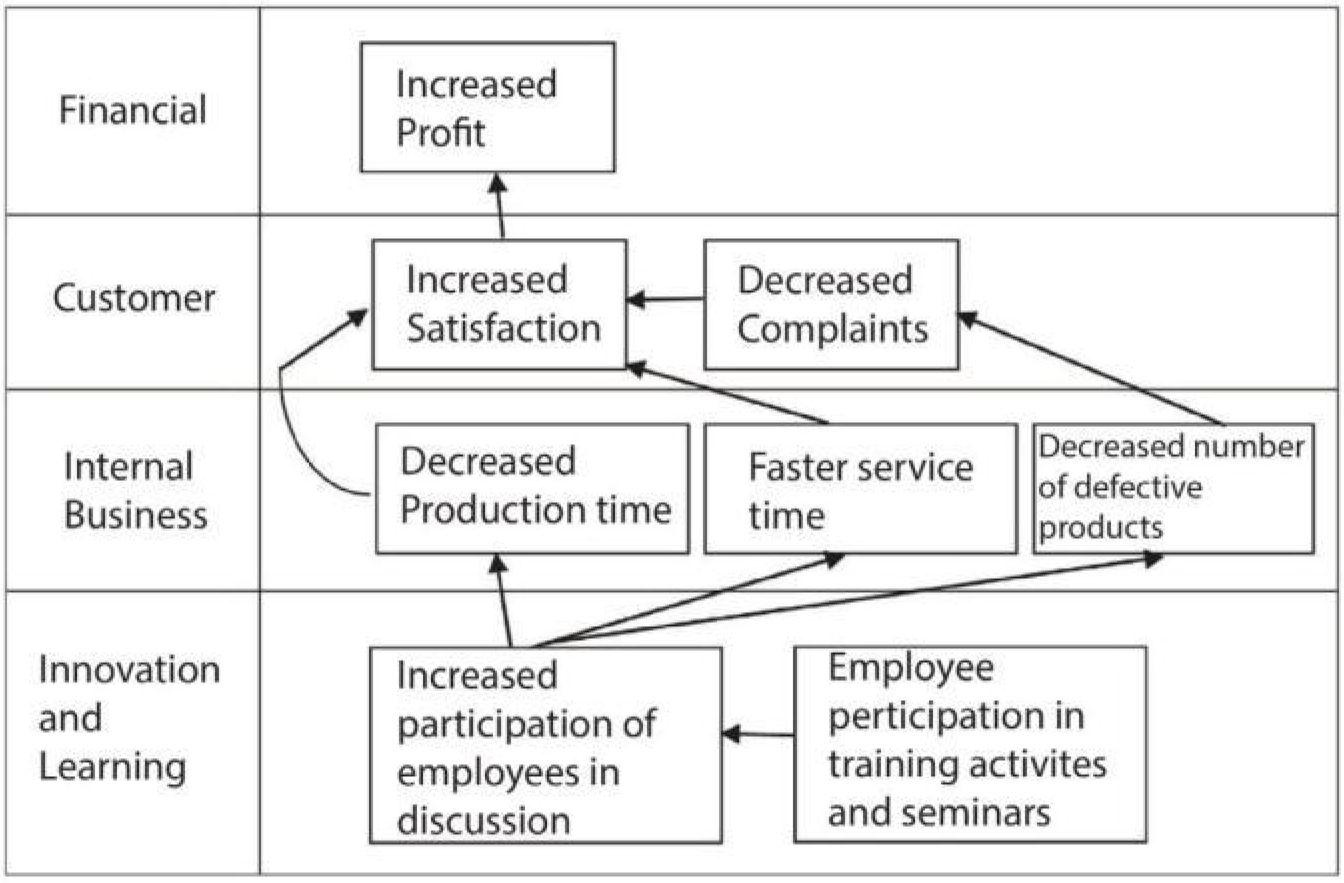
Organizations have short-term and long-term goals. Often the two goals conflict with one another. For example, to gain short-term profits, companies seek efficiency by cutting their costs, including costs needed for research and development The results of research and development are usually visible after a long period of time. By cutting research and development costs, the company might be able to gain a large profit at the time. However, in the long run, the company might be faced with the risk of declining competitiveness.

The balanced scorecard tries to balance the important elements of the organization. More specifically, the BSC includes the four following elements.

1. Financial perspective.
2. Customer perspective.
3. Internal Business perspective.
4. Innovation and Learning perspective.

For each perspective, goals, measurements, and necessary initiatives are established. Then, links are made between perspectives so that eventually the company's vision and mission will be achieved.

The following illustration will provide an example of the BSC application. Suppose there is a computer company. The computer company wants to increase its profit, while improving and maintaining its business processes. The company wants to maintain its level of competition. By using BSC, the company needs to conduct strategy mapping. Suppose that strategy mapping using four perspectives is formulated as follows (see Figure 3.8 below).



Source: Adapted from Kaplan and Norton, 1996

Figure 3.8
Strategy Mapping

The goal of the financial perspective is formulated as increasing profits. To achieve this goal, there are strategies applied from the customer perspective, namely increased satisfaction and decreased complaints. If customers are satisfied, they will purchase more products from the company. To increase customer satisfaction, some internal business processes are improved, such as speeding up production time, speeding up service time, and reducing the number of damaged products. To support these business processes, the key is employees who are always willing to learn. The company encouraged its employees to attend training or seminars to strengthen their knowledge and skills. Then, the company organizes internal discussions to evaluate the company's activities and services. In these discussions, employees are expected to actively participate and provide solutions to existing problems.

In Figure 3.8. In Figure 3.8, the proposed initiatives are shown, starting from the most basic, human resource capabilities, to the final result, increased company profits. Financial indicators are often considered as lagging indicators, while HR capability indicators can be considered as leading indicators. If managers pay too much attention to lagging indicators and neglect leading indicators, the company may lose competitiveness in the future. Note how the link between one initiative and another initiative or goal is clarified (see arrow lines) as well. Thus, the cause-and-effect relationship becomes clear. Managers are forced to evaluate the impact of their actions.

After strategy mapping, the next step is to develop measurement indicators. Measurement indicators are needed to allow managers to evaluate the progress of goal achievement. Table 3.4. below illustrates the formulation of objectives and measurement indicators for those objectives.

Table 3.4
Objectives and Measurement Indicators for Financial, Customer, Internal Business, and Learning Perspectives

Perspective	Goals	Measurement Indicator
Financial	Increased Profit	Profit Increased ROA growth of 5% per year. ROA above the average for the industry
Customer	Increased Satisfaction	Satisfaction is measured by monthly surveys of buyers of the company's products
	Decreased Complaints	The number of complaints that enter the company's system, measured on a monthly basis
Internal Business	Decreased Production Time Calculated as follows:	365 days/sales/supplies of finished goods. Faster Service Time Calculated from the time of the incoming order until the product leaves the company's warehouse.
	Decreased number of Defective Products	Calculated from the number of products that are defective (damaged) every month
Innovation and Learning	Increased Participation of Employee in Discussion	Measured by the number of employees who attend weekly discussion activities to discuss activities and solve problems that arise
	Employee participation in training activities and seminars	Number of employees who participated in training activities, seminars, and improvement of knowledge and skills.

Source: Arranged by the Author

The BSC is formulated for the corporate level, divisions, and lower units. The process is referred to as cascading. Through this process, consistency in achievement of goals across all layers of the organization will be achieved. BSC is useful for organizations to

1. communicate what it wants to achieve;
2. align day-to-day work with the strategy;
3. prioritize projects, products, and services;
4. measure and monitor progress towards achieving strategic targets.

BSC is a comprehensive methodology to achieve an organization's vision, mission, and goals, which incorporates four perspectives, identifies initiatives needed to achieve specific goals. Thus, the link between the initiatives and the goals to be achieved becomes clear.

Exercise

To understanding of the material above, please complete the following exercise!

You have just been appointed as President Director of a telecommunications company. The sector includes companies such as Telkom and Indosat. Your first task is to re-evaluate the company's planning. Formulate a comprehensive plan, starting from vision, mission, objectives, programs, strategies, policies, and procedures, for the telecommunication company.

Key Ideas for Exercise Answer

Read the types of planning mentioned in this Learning Activity. Understand each type of plan. The types of planning range from the broadest (mission) to the narrowest (programs and procedures). Apply these types of planning to the telecommunications company.

Summary

Planning is the first and the most important function of management. Planning is beneficial as it improves coordination, reduces uncertainty, and is used for control. There are several types of planning: mission, goals, strategies, policies, procedures, rules, programs, and budgets. The planning process starts with the mission of the organization, which then continues with goals and strategic planning. Strategic plans are aimed at achieving strategic goals. From both, objectives and tactical planning are then derived, which then derives operational goals and plans. There are two types of operational plans: standing plans and single-use plans. Single-use plans are for non-recurring activities while standing plans are for recurring activities. Situational planning is planning that is useful in situations of uncertainty. In these plans, if there is an event, an alternative plan will be established.

Top management deals more with strategic planning, while lower-level management will deal more with operational planning. Managers need to understand the obstacles and ways to overcome them in planning so that planning can be done effectively. MBO is a participatory goal-setting process. MBO departs from positive human assumptions, namely that humans have type Y behavior. Participation, communication, and autonomy are characteristics of MBO. MBO is expected to increase job satisfaction and employee achievement. More than that, managers need to understand the obstacles and ways to improve the effectiveness of MBO. The Balanced Scorecard seeks to balance the aspects that are important to drive organizational development, which includes the perspective of finance, customers, internal business processes, and innovation and learning.

TERMS INDEX

Mission	Strategic Planning	Situational Occurrence
Goals	Tactical Planning	Situational Indicator
Strategy	Operational Planning	MBO
Policies	*Single-use plan*	Y Characteristic
Procedures	*Standing plan*	X Characteristic
Rules	Non-Recurring Activities	
Programs	Recurring Activities	
Budgets	Situational Planning *(Contingency)Balanced Scorecard*	

Formative Test 1

Choose the correct answer!

1) A specific statement of whether an action should be taken or not based on the situation at hand, is ....
   A. procedure
   B. goal
   C. policy
   D. rule

2) Transportation companies formulate this statement: We move both goods and people. The statement is an example of ....
   A. vision
   B. mission
   C. goal
   D. objective

3) Plans expressed in numbers are referred to as ....
   A. vision
   B. policy
   C. budget
   D. goal

4) Long-term planning is referred to as ... planning.
   A. tactical
   B. strategic
   C. operational
   D. budget

5) If plan A does not work then plan B will be conducted. This type of plan is called ....
   A. operational planning
   B. situational planning
   C. strategic planning
   D. tentative planning

6) Here is an example of barriers in Planning ....
   A. effective communication
   B. effective compensation system
   C. understanding the purpose of planning
   D. reluctance to change

7) The formulator of the Balanced Scorecard is ....
   A. Peter Drucker
   B. Robert Kaplan dan David Norton
   C. Henry Mintzberg
   D. McKinsey

Use key answers for Formative Test 1 which is located at the end of this module to determine the correctness of your answer. To make sure your mastery of the learning materials use the following formula.

$$\text{Level of mastery} \quad \frac{\text{Number of correct answers}}{\text{Number of test item}} \times 100$$

Level of master is as follows

<70%	70% - 79%	80% - 89%	90% - 100%
lower than expected	adequate	good	very good

When you attain level of mastery 80% or more, very good, you may continue to Learning Activity 2. Otherwise you have to review the material of Learning Activity 1. Pay attention to parts which you don't master yet.

Learning Activity 2

Strategic Planning

We have discussed planning in the previous learning activities. The following learning activity discusses a very important type of planning, which is strategic planning. Strategic planning will determine the survival of an organization. Many organizations survived for merely one generation. Once the founder dies, the organization goes into decline. However, this does not apply to every organization, as many of them manage to survive, and even grow for decades. Companies such as Coca-Cola, AT&T, and Walt Disney are examples of companies that continue to operate even after the deaths of their founders.

Strategic planning often results in quite dramatic maneuvers. For example, in the United States, the Greyhond bus transportation company is currently handled outside of the original Greyhond management. Faced with an increasingly anti-smoking environment, Philip Morris diversified into other businesses such as food and beverages. Today, Philip Morris is a healthy company, even though the cigarette industry is a relatively negative growth industry.

Strategic planning is becoming increasingly important as environmental uncertainty increases. If managers can anticipate changes in the environment, they will be at the forefront of capitalizing on opportunities resulting from these environmental changes. For example, if managers conclude that the computer and telecommunications industries will unite in the future, managers can prepare to produce products that have computing and communication capabilities.

A. DEFINITION AND COMPONENTS OF STRATEGY

The concept of strategy originated as a military term. It is derived from the Greek word strategeia, which means the art or science of being a general. Although the term is now used in other fields such as business, the competitive context is still present. The concept of strategy includes both planning and decision-making components. By combining the two, a strategy is known as a grand plan.

The concept of strategic management began to receive attention after the second world war. There were several reasons for this. First, the business environment became increasingly uncertain.

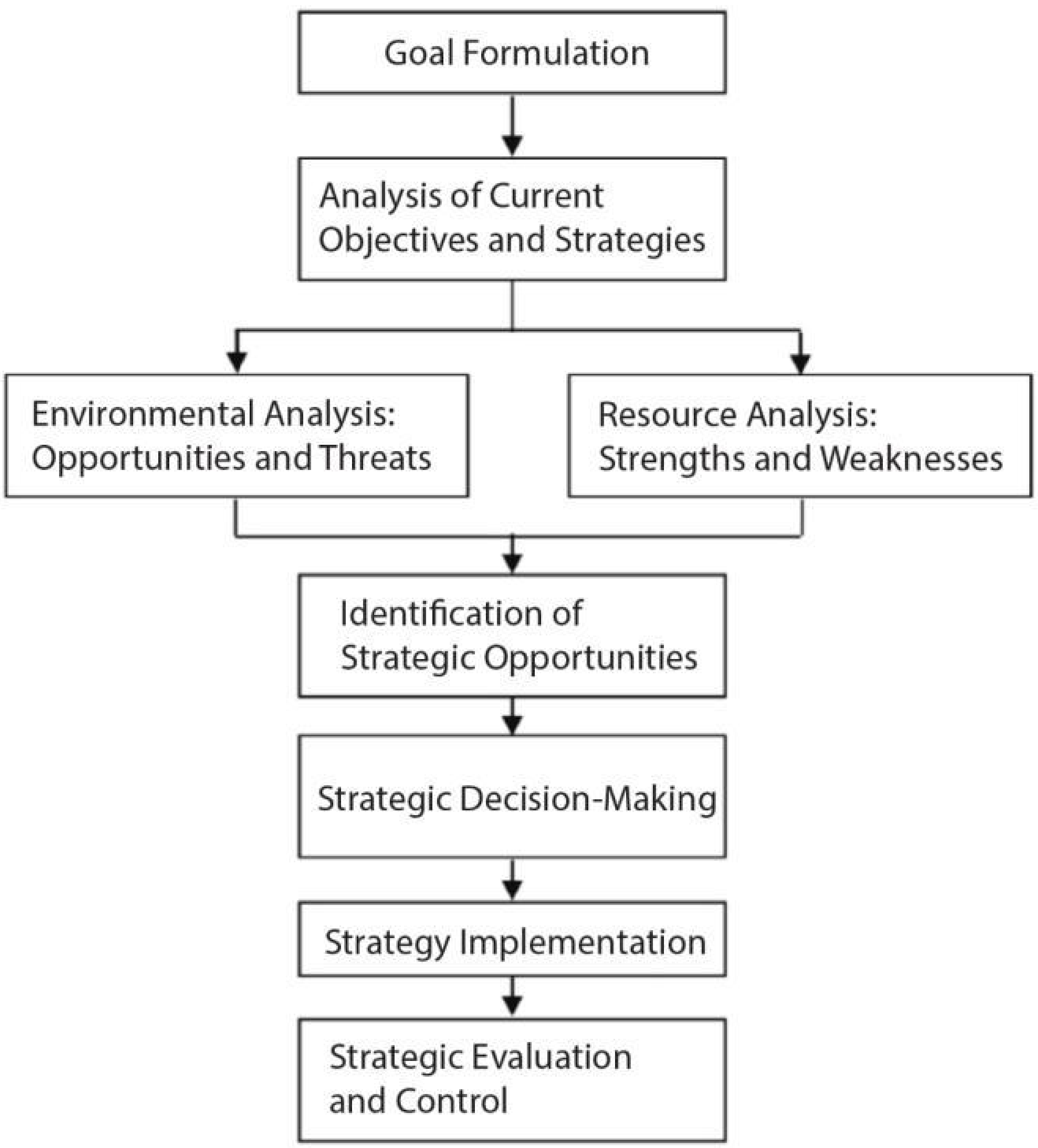
The lifespan of a product or innovation is becoming shorter. Second, business organizations are becoming larger and more complex. Unifying or integrating the needs and interests of diverse units becomes a difficult job. Strategy is defined as follows:

Strategy is the establishment of the basic long-term goals of an organization, the selection of alternative courses of action, and the allocation of resources necessary to achieve those goals.

There are several keywords in the definition of strategy. The strategy emphasizes action to achieve a goal, as well as the goal itself. The process of generating ideas is important, more than the ideas themselves. How the strategy is determined is also important to note. Finally, the definition of strategy implicitly assumes the relationship between the environment and the organization is unstable and unpredictable.

B. STRATEGIC PLANNING PROCESS

The strategic planning process can be seen in Figure 3.9 below.



Source: Stoner *et al*. 1995

Figure 3.9
Strategic Planning Process

The strategic management process is characterized by the efforts to achieve goals through organizational strategies and policies. Thus, the first step, is the establishment of goals. The second step is to determine the strategy to achieve these goals. Strategy implementation then shifts to an administrative issue. Managers deal with strategy implementation such as the reactions of organizational members and the politics of strategy implementation. The final step is strategic control which provides feedback on the progress made in implementing the strategy.

1. Mission and Goal Formulation

An organization's mission and goals are the starting point of strategic planning. Mission is the purpose of an organization's existence in a society, which gives meaning to the existence of the organization. The organization's mission is the function performed by the organization in a society. In general, a company's mission will usually be the production and/or distribution of economic goods and services.

The fundamental questions in the formulation of mission and purpose are "What is our business?" and "What should our business be?". Although they might seem simple, the answers to these questions are not obvious. Several things must be taken into account to answer these questions.

a. **Organizational History**. The history, background, and personality of the founder will determine the characteristics of an organization. Organizations founded by conservative founders will tend to have conservative characteristics. These characteristics do not change easily.
b. **Competitiveness or organizational capabilities.** The organization will carry out a mission to provide their best. Companies like McDonalds have to think long and hard about entering the computer business. McDonalds has successfully developed the ability to run a food business, not a high-tech business like computers.
c. **Organizational Environment.** The organizational environment will determine the opportunities and threats faced by the organization, which in turn will determine the organization's mission. Rapidly growing telecommunications provide opportunities for telecommunications businesses, the internet, and so on.

The characteristics of good mission and goals are:

a. **Market-focused, not product-focused.** The question "who will we serve" is more important than "what will we produce?" The focus on the external environment is more important and decisive than the focus on the internal environment of the organization.
b. **Achievable**. Good missions and goals can open up new opportunities, but should not divert the organization from a realistic mission. For example, the mission of a small computer manufacturing company is for Indonesia to become an important global actor in computer business, which seems unrealistic because it will compete with giant companies like IBM or Compaq.

c. **Motivating**. Provide direction as well as motivate members of the organization.

d. **Specific**. Specific goals can provide direction and guidance in decision-making. The following Table 3.5 clarifies the difference between specific and non-specific goals.

Table 3.5
Examples of Specific and Non-Specific Goals

Non-Specific Goals	Specific Goals
Obtaining adequate profits. Improving after-sales service.	• Obtained an ROA (Return on Assets) of 2% by the end of this year. • Reduce damaged products by 10% this year. • Obtained a score above 6 for customer satisfaction, using a scale that has been developed.
Improving employee capabilities and skills	• Obtained a top 10 rating in a rating conducted by a consumer rating agency. • Increased the number of employees with computer skills by 10% this year • Provided sales skills training to 100 salesmen in six months and increase the sales rate by 10% this year.

Source: Arranged by the Author

2. Analysis of Current Objectives and Strategies

The next stage is the analysis of current goals and strategies. If the organization has implemented formal strategic planning before, evaluating the current goals and strategies will be easier. The current goals and strategies will probably be similar to what the goals should be. Sometimes there are situations where drastic changes have to be made in strategy. In the course of an organization, the organization itself will go through some changes. This may cause the organization to no longer fit with its environment. The environment of the organization will also change and consequently lead to the same outcome. Over time, managers of an organization may lose "interest" in the mission they first strove for. Managers in such cases need to be "reminded" of the original mission.

If the organization does not currently have a clear or written mission and purpose, the mission and purpose can be inferred from the day-to-day behavior of the organization. Top management can be the focus of attention. Behavior, problem-solving, and ways of achieving goals can be analyzed to conclude the organization's mission, goals, and strategies.

3. Environmental Analysis

The environmental analysis aims to look at changes in the environmental, demographic, political, social, and economic, which will affect the organization. By understanding the organization's mission, goals, and strategies, you will have a framework through which you can see what influences will have the greatest effect on the organization. Changes in an organization's external environment can result in both opportunities and threats, depending on how the organization reacts.

For example, demographic changes can lead to strategic opportunities. For instance, a successful family planning program in the 1970s resulted in a shift in demographic composition. The proportion of young children is decreasing due to family planning, while young children in the 1970s will grow up in the 1990s. Companies can follow the development of this cycle by producing goods for adults or families such as washing machines, refrigerators, and so on. General Motors (GM) is a car company that has successfully followed the demographic development of the US population. GM makes an increasingly complete line of cars following the development of the growing and varied middle class of the United States. GM became big by following the growth of the middle class in the United States. Conventional types of planning (as discussed in the previous module) are no longer adequate to cope with such environmental changes. If the organization does not make the necessary changes, then changes in the external environment will threaten the organization, even if the threat is indirect. A good competitor will anticipate changes more quickly, take advantage of opportunities, and kill your organization.

To obtain information on changes in the environment, a strategic information system needs to be developed. The system will filter relevant information, which becomes an input for top management for strategic decision-making. Some organizations have employees or secretaries who summarize relevant information or news from newspaper magazines as input for top management. In addition, a more formal method can be developed, namely by developing a database. Complaints or comments from external parties, such as customers and suppliers, can be an important source of information. A more detailed discussion of these methods can be found in the management information system module. Statistical forecasting methods, such as regression and operating system models can also be used in filtering such information. Regression, for example, can be used to estimate the demand trend for a product over the next ten years. Statistical forecasting methods combined with qualitative analysis will result in more accurate predictions.

4. Resource Analysis

Resource analysis is conducted in parallel with environmental analysis, through which the strengths and weaknesses of the organization are analyzed. These strengths/weaknesses represent the competitiveness of an organization. The relevant question to this matter is "how do our strengths compare to the strengths of competitors?" If it is not possible to face competitors directly, then the organization can use a differentiation strategy. For example, if a competitor has excellent creative strengths (like IBM or Microsoft), the organization can develop other strategies that do not directly confront the competitor's creativity. A possible strategy is to develop products at low prices. To achieve such a low cost, all non-essential costs can be cut.

5. Identify Strategic Opportunities

The previous two analyses are often referred to as SWOT (Strength Weakness Opportunity and Threat) analyses. Analysis of the environment and resources will result in a prediction of the results obtained using the current strategy. Managers can also use new strategies that are expected to change future results. The strategic opportunity is the gap between the situation where the organization uses the goals and strategies formulated in the goal-setting process against the situation where the organization uses the current strategy (with no changes). Strategic opportunities arise if the organization sets new and more challenging goals, or if there is fierce competition that prevents the organization from achieving the previously set goals.

6. Strategic Decision Making

Once a strategic opportunity is identified, the organization can develop several strategic alternatives to take advantage of the opportunity. Then, managers will evaluate these alternatives. Several criteria can be used to evaluate said alternatives.

a. The strategy and its components must be consistent with the organization's goals and policies.
b. Resources and efforts can be focused on critical issues that can separate important problems from other problems that are not important.
c. Strategies can achieve the intended goals. Or in other words, strategies show the likelihood of success in achieving goals.

From these evaluations, managers will then select the best alternative. The alternative may fit within the organization's current resources or it may not. If not, then new resources will have to be acquired. For example, when IBM decided to market its PCs through direct sales, it had no expertise in this area, as it had been relying on authorized dealers. IBM then attracted executives (outside resources) with experience in direct sales. A good strategy includes the following.

a. **Scope**. he scope of the strategy describes what markets the organization will enter. The organization may enter a limited or a broad market.
b. **Resource allocation**. Strategy explains how resources will be allocated to achieve goals. For example, if the company wants to return to its original business, managers will sell unrelated divisions and move resources to divisions related to the basic business of the organization.
c. **Competitiveness**. The strategy should incorporate capabilities that the organization has better than its competitors. A strategy built on capabilities that the organization does not have is not an optimal strategy.
d. **Synergy**. Strategies should aim to make optimal use of synergies within an organization.

7. Strategy Implementation

Strategic planning must be executed to achieve the desired goals. If it cannot be implemented, then the strategic plan will only be a mere plan on paper. The implementation of the strategic plan must consider several factors to ensure the effectiveness of the plan.

8. Strategic Evaluation and Control

Managers must always evaluate the progress of the strategic plan implementation. Strategic control is the control of the implementation of the strategic plan. Two questions are relevant in this activity, namely: (a) whether the implementation of the strategic plan is in accordance with the original plan, and (b) whether the implementation can achieve the desired goals.

C. LEVELS OF STRATEGY

There are three levels of strategy: corporate level, business unit level, and functional level

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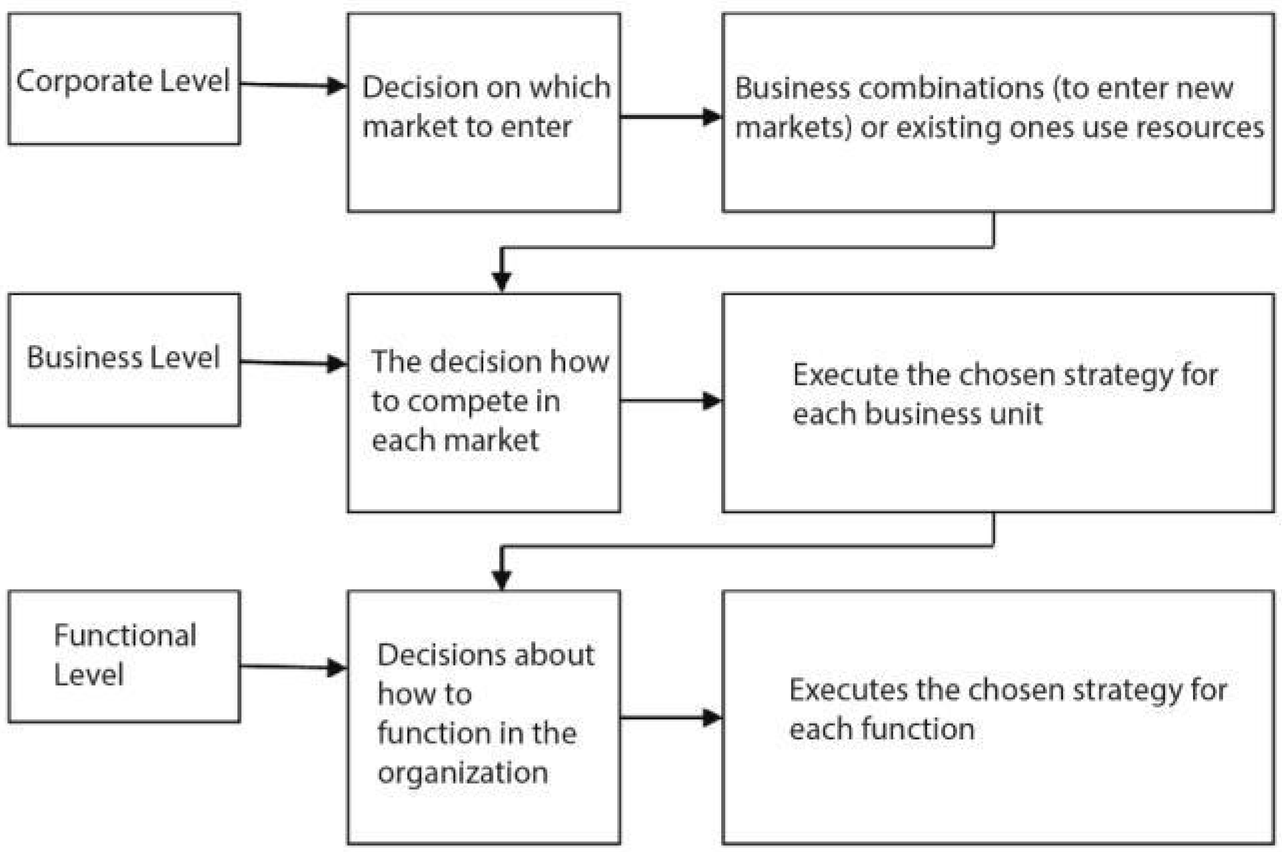


Source: Hanafi, 2019

Figure 3.10
Levels of Strategy

1. Corporate Level

Strategy at this level is formulated by top management. At this level, the strategy covers the entire organization, not just one particular business unit or function. Some fundamental questions can be asked as follows.

a. Which consumers will we serve today (what is our business)?
b. Which consumers will we serve in the future (what is our business in the future)?
c. What do consumers want?

d. What are the strengths we have in serving consumers?
e. Do we want to be the market leader?
f. How will we allocate resources?

For this level of strategy, Peter Drucker suggests eight areas that are relevant in developing the strategy. These eight areas are: market position, innovation, productivity, financial and physical resources, profitability, manager performance and responsibility, worker performance and attitude, and social responsibility.

Table 3.6
Strategy Dimensions

Strategy Dimensions	Strategy Example
Market Position	Establish the company's products as high-quality and premium-priced products.
Innovation	Become an industry leader in innovation, with a focus on application innovation.
Productivity	Produce goods efficiently to offer products at low prices and adequate quality.
Financial Resources	Use debt aggressively to lower the capital and physical costs
Profitability	Gain profit by increasing asset turnover rate.
Manager Performance and Responsibility	Use manager promotions from within the organization.
Worker Performance and Attitude	Developing employees through internal training and internal developments.
Active Social Responsibility	Actively respond to environmental demands and social expectations of society

Source: Arranged by the Author

2. Business Unit Level

The business unit strategy focuses on operations relevant to a particular business unit. The fundamental question to be asked in the formulation of this strategy is, "How will we compete in the markets we have entered?". For each market selected, there are several alternative strategies available, such as entering the market with a low price or offering a premium price.

If the organization has several business units operating in different markets, a corporate strategy will be required. Business units are left to determine their strategies, as they better understand the competition in their markets. While top management oversees the business units to ensure they are consistent with the corporate strategy, and plans for necessary changes. For companies operating in a single market, the business unit strategy will be the same as the corporate strategy. If the company wants to expand into other markets, a corporate strategy will be required.

3. Functional Level

Functional strategies are aimed at organizational functions, such as marketing, finance, research and development, operations, and human resources functions. For example, in marketing, the strategy of developing existing products is preferred over developing new products, and the production strategy focuses on production with the most modern technology.

Some of the questions in Table 3.7 are highly relevant.

Table 3.7
Questions for Functional Strategy

Marketing
Where do our customers buy our products, and why do they choose our products?
How do customers buy our products, through direct dealers, or in the direct market?
How is the after-sales service?
What is the best pricing strategy for our products?
Production
Will we produce the components ourselves or purchase them from external sources?
What is the optimal production quantity?
What is the inventory policy?
Finance
Finance
Where and how to obtain capital?
How much cash to hold, how much dividend to distribute?
How much working capital is maintained?
What is the desired level of debt? Human resources?
How to attract labor and/or managers?
What is the compensation policy?
How is the relationship with the workforce?

4. Corporate-level strategy

There are two types of approaches to corporate strategy: the value-based approach and the corporate portfolio approach.

a. Value-based approach

In this approach, the beliefs and values of an organization's managers and employees on how the organization should be run are central in setting the long-term direction of the organization. This approach tends to develop gradually and provides a more general direction rather than a specific plan. Over a long period of time, cooperation between members of the organization, along with interaction with its environment, will form a certain pattern of work. Company way will be formed and shape the organization's strategy. Large companies like Johnson & Johnson or Japanese companies use this approach.

b. *Corporate portfolio approach*

In this approach, top management is required to evaluate several business units. Then, by considering the internal and external situation of the organization, a strategic plan is formulated to optimize the organization as a whole. This kind of approach usually involves top management only, as it tends to be analytical and rational, and is mainly driven by opportunities in the market. Conglomerate-style companies with diverse business units are suitable for this kind of approach.

c. *General strategy*

The general strategy is the overall framework formulated at the corporate level by the top management. It is typically used for companies with a single market or companies that produce similar lines of product in limited amounts. There are three types of general strategies: growth, stability, and retrenchment.

1) Growth Strategy. Growth strategies can be carried out by doing internal or external development. Internal development may take a long time, while external growth can be accomplished quickly by purchasing an existing company. If the organization chooses to do external growth, the organization will then diversify. This diversification can be done horizontally. If the organization purchases another company that produces similar goods to the organization then it engages in what is called as related diversification. If there is no link between the organization with the company it purchases then the diversification is referred to as unrelated diversification.

   The acquisition of businesses through the purchase of other businesses operating in the more or less same industry is referred to as vertical growth (vertical integration). For example, to maintain a stable supply of inputs, a company that manufactures bags and shoes may buy a company that produces leather. Such integration is referred to as backward vertical integration. If growth is directed forward, the strategy is referred to as forward vertical growth strategy (forward integration). For example, a bag and shoe-making company may buy a chain of outlets (shoe and leather stores) to connect with its customers better. A growth strategy will be appropriate if the organization retains its resources and the market opportunity remains to be utilized. Most organizations today view international markets as a source of growth.

2) Retrenchment Strategy. A retrenchment strategy is carried out by shrinking operations by cutting or eliminating unprofitable activities. If the organization has unprofitable activities, excessive costs, or is entering a diverse market that it has never entered then a retrenchment strategy would be appropriate. If the price competition intensifies, the organization will lose funds, thus making a withdrawal strategy more appropriate by cutting costs and reducing dividend payments.

3) Stability Strategy. The stability strategy is carried out to maintain the current situation (status quo). Organizations that apply this strategy is aiming to survive. Organizations that do not have sufficient resources or a market that can still be utilized might use this strategy. The stability strategy involves risks as competitors may try to invade the organization. Stability strategies are sometimes employed after a period of growth or retrenchment.

d. *Business portfolio strategy*

The starting point of a business portfolio strategy is the strategic business unit. A strategic business unit is a separate division within an organization. It has its own mission and competitors and is an independent and distinct business unit. When General Electric (GE) wanted to analyze its diverse business, GE managers described the company as a portfolio of business units. A total of 43 strategic business units were identified. One example of such unit is the cooking product's unit that produces toasters, ovens, and microwaves. Other companies, such as General Foods and Union Carbide followed suit by developing their business unit portfolios as well. Once the strategic business units were identified, the next step was to classify the units.

e. *Matrix Boston Consulting Group (BCG).*

The matrix was developed by the Boston Consulting Group for GE. The matrix categorizes business units based on market growth rate (high or low) and relative market share (large or small). Then, it analyzes the ability of a business unit to generate cash. There are four groups in the matrix: question marks, stars, cash cows, and dogs. Figure 3.11 below shows the matrix.

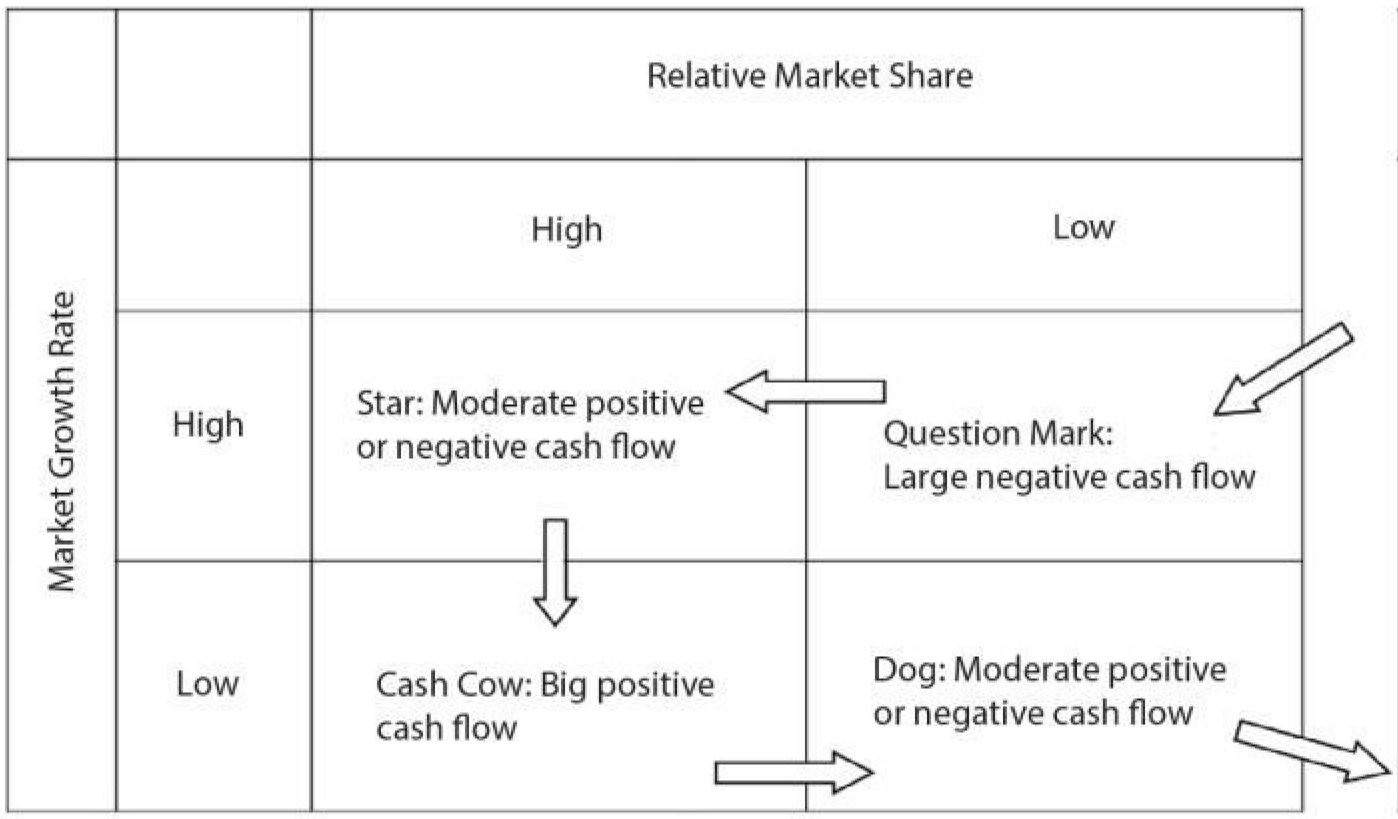


Figure 3.11
BCG Matrix

Question Mark. Business units in this category have a low relative market share with a high growth rate. In general, a business unit that has a new product will be placed in this group. Being new, this business unit is not yet able to generate enough cash, sometimes even negative. However, this unit has good prospects because it has a high growth rate. If the organization can provide sufficient funding, this business unit can be pushed into the star group.

Star. After passing the question mark stage, the business unit will enter the star group. At this stage, investment is needed to build infrastructure and support the growing product, such as building a distribution network. A large market share allows the business unit to generate substantial cash inflows. But since the investment expenditure is quite large, the net cash inflow will not be too large.

Cash Cow. After passing through the star stage, a product will experience a decline in its growth rate. The product is going through a stage of maturity in this group. The investment required is not very large at this stage, while the cash inflow generated is quite large. Therefore, this group generates a sizable net cash inflow.

Dog. In the dog stage, the product suffers a decline. There is not much investment made at this stage, and the cash-generating capacity isn't large as well. The product lines in this group generate a modestly positive or negative cash inflow.

Intergroup relations. In an organization, the composition of business units must be maintained in balance. An organization that has too many cash cows or too few stars will not be particularly healthy because the future prospects of the organization may not be very bright. An organization with too many question marks is also unbalanced because the cash cows are needed to fund the growth of the question marks. The cash cows are also needed to fund the question marks to become stars, which determine the future fate of the organization.

5. Business Unit Level Strategy

a. Porter's strategy

One of the most popular business unit strategies was developed by Michael Porter. According to Porter, the level of profit of a business is determined by two things: the attractiveness of the industry and the strategy of the business in its industry. High attractiveness accompanied by the right strategy will result in a high level of profit for an organization.

b. Industry attractiveness

Industry attractiveness is determined by five forces that take advantage of the company through the bargaining process. The five forces are: the threat of new products, the power of suppliers, the power of customers, the threat of substitute products, and competition within the industry.

Barriers to entry. If barriers to entry are strong enough, the industry will be attractive. These barriers can be market-based or regulatory. If the government decides to limit the number of firms in an industry, then the regulation becomes a barrier to entry. Associations are often used by entrepreneurs to block the entry of new firms into an industry. One way an association works is by asking a prospective firm to obtain a recommendation from an existing firm, which is unlikely to recommend the prospective firm. As such, associations are useful for reducing competition in an industry. However, there are industries that have naturally high barriers to entry. For example, to enter the utilities industry (such as electricity or telecommunications), a large amount of investment is required, especially for investment in fixed assets of electrical equipment such as electricity generators.

Porter (1985) identifies several barriers to entering an industry:

1) economies of scale. High economies of scale make it difficult for prospective firms to enter an industry. Companies that cannot achieve high economies of scale will have a weakness because they cannot produce efficiently.
2) product differentiation. If the product differentiation is high enough, the prospective company will have to spend a lot of money to attract consumers away from the current product.
3) capital requirements. High capital is required to purchase fixed assets, promotional expenses, etc.
4) access to distribution. Prospective firms that have difficulty penetrating marketing distribution will increase barriers to entry.
5) government regulations.

Supplier strength. Suppliers can take advantage of a company in several ways. If employees join a labor union, they may strongly demand a wage increase. US car companies (General Motors, Ford, and Chrysler) have a disadvantage in terms of wages because their employees belong to worker unions that constantly demand wage increases once their employment contracts expire. If not, these employees will go on strike. If there are many suppliers, the industry has a strong bargaining position because the company has many choices. The industry can increase its bargaining power by threatening, for example, to manufacture the components of a product itself.

Customer strength. Customers can have strong bargaining power over the organization. For example, the tyre industry has relatively few buyers. The majority of tyres will be taken up by a small number of car companies. Since the buyers are institutional, they are characterized as rational. Since the tyre industry does not have a large selection of buyers, it is in a weak position against car companies. The opposite example of this is the pharmaceutical industry. Buyers are in a weak position because medicines are products a consumer must purchase to live a healthy life. Consumer dynamics will also lead to changes in the balance of power. Consumers of medicines will join certain institutions, perhaps through company health programs. By joining forces, they have greater power in dealing with the company.

Threat of substitute products. If the threat of substitute products is large enough, the industry or company has limited power because buyers have alternative choices. For example, the railroad industry has substitutes in buses and airplanes, sugar has substitutes in synthetic sugar, medicines have substitutes in traditional medicine. Traditional typewriters have declined with the introduction of substitute product, the computer, which is able to perform typing tasks better and more efficiently.

Industry competition. The more intense the competition in an industry, the less attractive the industry will be. There are several things that affect competition. If barriers to exit are high, firms in an industry have no choice but to stay in the industry. If the industry's firms have a high fixed cost component, competition will increase as these firms find it easier to cut prices and use idle capacity. If firms in the industry are relatively homogeneous (roughly the same size), competition will be more intense. If there is a large firm in an industry, it will usually act as a leader, while others will follow it.

c. *Generic strategy*

According to Porter (1985), an organization can choose from three alternative strategies, namely: differentiation, low cost, and focus.

Differentiation. With this strategy, the organization tries to differentiate its products to be more distinct from its competitors' products. Then, the organization can charge a premium price for its product. Differentiation can be done through several attributes, such as quality, design, and service. Companies like IBM and Rolex use differentiation based on quality attributes.

Low-cost leadership. The strategy focuses on low costs and sets the lowest price. Low costs can be achieved through production efficiency, design, achieving economies of scale, or other means. Companies such as Wal-Mart (a retailer that offers discounted prices) are examples of successful companies with a cost leadership strategy.

Focus. With this strategy, the organization tries to serve a small (specific) consumer segment that is not yet served by large organizations. Large companies do not want to enter small segments because they don't see these segments as economical to serve.

d. Criticisms of porter's theory

Identifying attractive industries is a relatively easy job. But the execution of the strategy is not as easy as it sounds. For example, we can identify great jobs, such as those held by movie stars and directors of large companies. But becoming a movie star or a company director is a difficult job in itself.

6. Functional Strategy

Functional strategies are aimed at functions within the organization, such as marketing, finance, production, human resources, and research and development. Since each has different objectives, the strategies need to be coordinated with each other. The following Table 3.8 shows the areas within each function where functional strategies can be formulated.

Table 3.8
Functional Strategy

Marketing	Product Composition Market Positioning Distribution channel Sales promotion Pricing
Finance	Capital structure Debt policy Asset management Dividend policy
Production	Quality Productivity improvement Government Regulation Factory location Technology

Human Resources	Human resources policy Trade union policy Employee development
Research and Development	Product development Technology forecasting Patents and licenses

Source: Arranged by the Author

a. *Marketing strategy*

Marketing strategy is perhaps the most important strategy there is. The following marketing strategies can be adopted by the organization.

Table 3.9
Marketing Strategy

Market\Product	Current Product	New Product
Current Customers	Market Penetration	Product Development
New Customers	Market Development	Diversification

Source: Kotler dan Keller, 2016

Market penetration strategy involves increasing sales in the current market. Companies can lower their prices to encourage sales, increase advertising, and increase product usage; for example, shampoos are better used twice. Product development involves improving or changing existing products or offering new products to existing markets. For example, a shampoo company develops a conditioner for its existing market. Market development is done by catering to new markets. For example, a shampoo company develops new shampoos aimed at children or specifically for men or women. The company can also take advantage of new geographical markets, such as exporting the shampoo. A diversification strategy involves creating new products for different markets. Related diversification is done by producing products that are related to the current product. Unrelated diversification has no relation to the current product. An example of related diversification is a shampoo company that produces bath soap, while an unrelated example is a shampoo company that produces electronic goods.

b. Production strategy

The production function includes the activity of transforming raw materials into final products or services. Strategic decisions include factory location, factory size, inventory control, and product design and development. For example, if a company wishes to get closer to its customers, it may build a factory close to the market. Another alternative is to build a factory near raw materials or near labor. Wal-Mart built a warehousing facility that connects its stores to the warehouse. The entry and exit of goods are recorded electronically so that low inventory levels can be immediately replenished through electronic orders.

c. Financial strategy

The finance function includes fund-raising and allocation activities. The search for funds aims to minimize the explicit costs of funds, such as interest rates, and the implicit ones, such as flexibility. Meanwhile, the allocation of funds aims to find investment opportunities with the highest rate of return. Financial strategies include using more debt to lower interest rates, even though flexibility is reduced, using funds generated from within (profits), and providing credit aggressively to increase sales.

d. Research and development

Research and development has the aim of developing products so that they don't go out of date. Research and development strategies can focus on application research with the aim of producing commercial products. Research strategies can also be directed at improving existing products.

e. Human resource strategy

The human resources function includes the activities of attraction, training and development, compensation, and contact with government or regulatory authorities. An aggressive attraction strategy can be employed if the organization adopts a growth strategy. The strategy of attracting the best personnel (for example, graduates with high GPAs from famous universities) is carried out if the company has a differentiation strategy and always wants to be a leader in innovation.

D. STRATEGY IMPLEMENTATION

1. Strategy and Structure

Through the study of the development of large companies, such as DuPont, Sears, and General Motors, business historian Alfred Chandler observed the relationship between strategy and structure. Organizations undergo changes in strategy due to changes in demographic, social, political, and economic factors. The change in strategy then results in an imbalance in the internal conditions of the organization. Changes in structure are needed to overcome these problems and optimize the organization. Thus, it can be concluded that strategy results in structural changes; in short, structure follows strategy.

According to Chandler, organizations go through three stages of development, from unit structure to functional to multidivisional. When just established, the organization is small, with a single product and a single location, and decision-making is centred on the founder. As the organization grows—larger sales volume, more locations—it transforms into a unit company with administrative offices that handle inter-unit coordination, specialization, and standardization.

The next step is vertical integration. The organization still has its original product but expands its scope by buying a raw material supplier or a distributor of its products. Such vertical integration creates new problems in terms of moving the products and raw materials through the various functions of the organization. The organization then turns into a functional organization with marketing, production, and other functions, along with formal budgeting and planning. Functional managers became decision makers.

In the third stage, the organization then expands into different industries and diversifies its products. New problems arise because the organization must choose which products and industries to enter. To address these issues, the organisation transforms into a multidivisional structure. The structure has several divisions that are relatively autonomous. Divisional managers made short-term decisions, and the head office was responsible for long-term decisions.

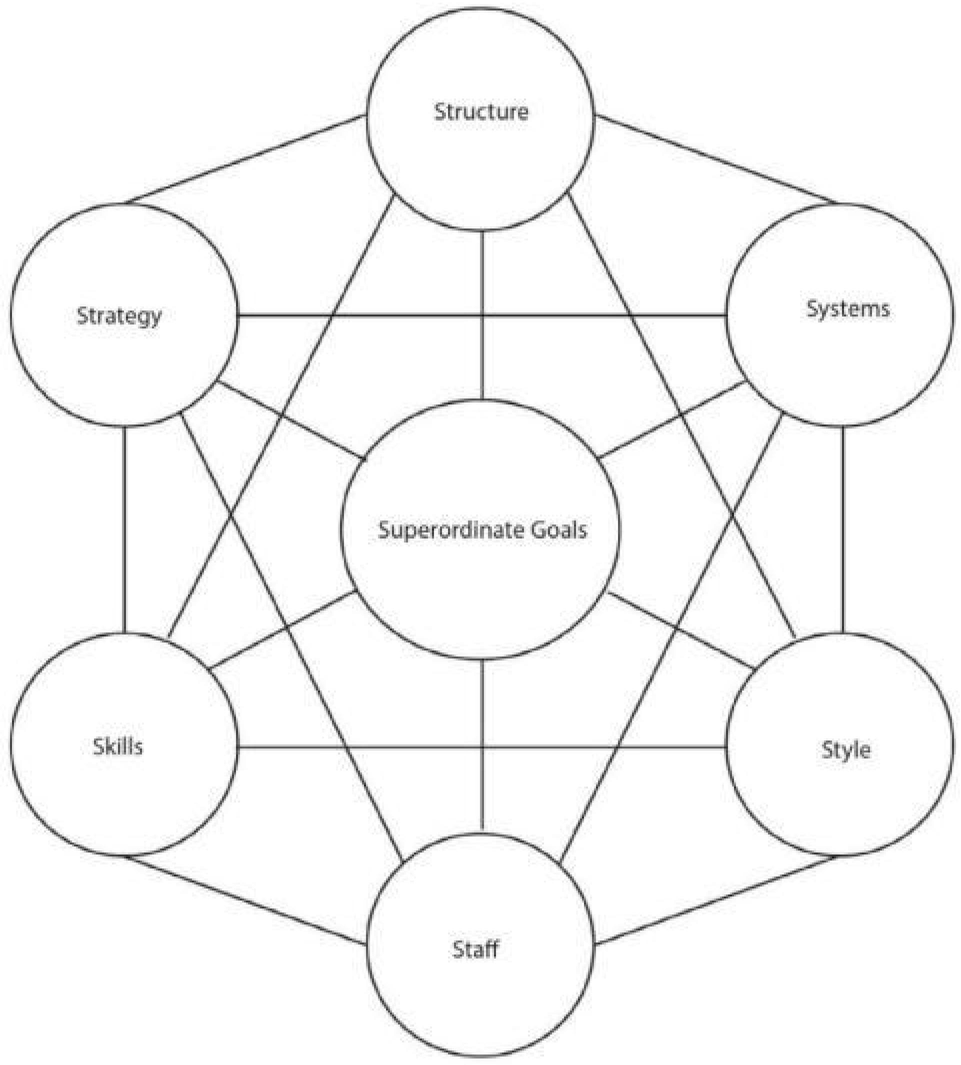
These structural changes are not always smooth. They often result in turmoil, and the founders of the organization or the old management are often forced out. Company founders are usually highly entrepreneurial but have no ability or interest in organizational structure issues.

2. The 7-S Model

The 7-S model was developed by Thomas J. Peters and Robert H. Waterman of the McKinsey consulting firm. According to them, neglecting one of the seven Ss will result in slow change, disruption, and even destructive change processes. The seven Ss interact with each other and are equally important. Certain situations will result in certain factors being the main drivers of the change process. The seven factors are as follows:

a. strategy.
b. structure.
c. systems
d. superordinate Goals (organisational goals or missions).
e. skills.
f. staff.
g. style (pattern of behavior or decision-making).

Figure 3.12 below shows the seven factors.



Source: Peters dan Waterman, 1985

Figure 3.12
Picture of 7-s

Strategy. Strategy has been discussed extensively in this learning activity. The implementation of a strategy is more difficult than the planning itself.

Structure. Structure will be discussed in the module on organizing. Successful businesses will always change their structure in response to environmental developments or demands, such as organisational strategy.

Systems. Systems include formal and informal procedures that allow the organization to function. Examples of systems are accounting, budgeting, and training systems. An organization with a multidivisional structure must have an accounting system that allows per-division information.

Superordinate Goals. This category includes concepts, values, and aspirations that unify the direction and activities of the organization. The mission and goals of the organization may include this category. Mission and goals become shared values among organization members. Often the mission and goals are summarized into a simple slogan, such as the Ford car company, which has the slogan "Ford, quality is number one job."

Skills. This category includes known capabilities that an organization has. For example, Procter & Gamble has skills in marketing product management, DuPont is famous for its research, and IBM is known for its innovation.

Staff. Staff or employees are important assets of an organization. Good treatment of staff or employees will determine the success of the organization. The human resource management module talks about this.

Style. This category includes patterns of action and decision-making in an organization. Successful organizations have managers who are actively involved and show their commitment to the organization's operations.

According to their observations, a good organization has eight attributes.

The eight attributes are as follows.

a. Bias for action. Although the organization takes an analytical approach to problem solving, action is also a prominent feature. "Do it, fix it, try again," is their catchphrase.
b. Close to the customer. Successful organizations always learn from customers. Delivering the best for the customer—quality, service, and reliability—is second nature and should always be done.
c. Autonomy and entrepreneurship. Entrepreneurship and risk-taking are highly encouraged. Organizations like Sony Corp. are even overwhelmed by the creativity of their employees. Sony Corp. has never been short on new product ideas. Some organizations even say, "Make sure you make enough mistakes!"
d. Productivity comes through people. There is a high level of attention paid to employees, which in turn drives organizational productivity.
e. Hands-on, value driven. Successful organizations are based on their ability to achieve goals. Managers of successful organizations are characterized by a willingness to be hands-on or take a practical approach in their management. Roy Kroc of McDonald's or Sam Walton of Wal-Mart always visit their restaurants or retailers to ensure that they meet their desired standards.
f. Stick to what you are good at. Successful organizations always focus on their capabilities. They will not be tempted to enter other businesses that they are not good at. Except for a few specific cases, focusing on basic capabilities will increase the likelihood of becoming a successful organization.
g. Simple structure, lean staff. The organizational structure is kept simple, and the number of managers is not too large.
h. Decentralization-centralization combination. Decentralization and autonomy provide opportunities for creativity, while the centralization of some important matters ensures the organization stays on track with its mission or plan. The combination of the two gives birth to creativity and direction in accordance with organizational goals.

3. The Role of Top Managers (CEOs)

Top managers have an important role in strategic planning. First, top management formulates the strategy; second, top management implements the plan. Top management institutionalises the strategy in order to put it into action. Institutions are values, norms, roles, and groups that develop to achieve certain goals. Educational institutions, for example, aim to educate people. Institutions do not always have to have a physical form. An educational institution may have the physical form of a university building, but it also has the non-physical forms of a curriculum and lecturer-student networks. In implementing a strategy, managers will develop a system of values, norms, roles, and groups aimed at achieving a goal.

Organizations can use top management from within (promotion from within) and also from outside (promotion from outside). Apple Computer, for example, used Willia Sculley from Pepsi Co., and IBM used Lou Gestner from Nabisco. The use of outside or inside top managers has disadvantages or advantages, as shown in Table 3.10 below.

Table 3.10
Advantages and Disadvantages of Internal Promotion

Advantages	Weaknesses
Promotion from Within	
Understand the situation and people in the organization.	Adapting to changes in strategy is not easy.
Has established a network of suppliers, other managers, and subordinates.	Old commitments will hinder the hard decisions needed to implement the new strategy
Symbolizes the organization's commitment to the employee's career in the organization.	Becoming a symbol of change is challenging.
Promotion from Outside	
Outsiders are already familiar with the new strategy.	Has high costs, both due to high compensation (salary) and costs during the adjustment process.
The outside manager is freed from the existing network, so he or she can have more freedom.	The perfect candidate may not be found and therefore compromises are made
Enthusiasm for outside managers is usually high.	The uncertainty of getting the right person is higher.
Symbolizes the need for change.	Insiders may feel unhappy because they want the position.

Source: Arranged by the Author

The use of outside or inside managers has strengths and weaknesses depending on the situation at hand. Here are four situations related to the use of outside or inside managers.

Table 3.11
Situations and Required Changes

Required Changes	Evaluation of the Organization's Past Achievements	
	Effective	Non-Effective
Many	Selective Combination Use existing managers through promotions and transfers, if their skills are up to the new role, if not, look for new managers from outside.	Rotation Outside managers are a top priority to provide the necessary skills, motivation, and enthusiasm.
Few	Stability Using existing managers. Internal promotions are the main focus for retaining, rewarding, and developing managerial talent.	Reorientation Outside managers become necessary to eliminate weaknesses and communication problems. Managers from within are used, where possible, through promotion or transfer.

Source: Arranged by the Author

a. Selective combination

If the organization undergoes considerable strategic change, but due to environmental fluctuations rather than poor performance, a selective combination may be chosen. For example, while developing the PC, IBM brought in a new manager for direct marketing. Outside managers brought new ideas, while inside managers helped integrate the ideas with the existing organization.

b. Rotation (turbulence)

If the organization needs a major change in strategy due to poor performance, an outside manager is expected to save it. Outside managers bring new ideas, are not bound by old commitments, and are therefore freer to make new strategic changes. Chrysler brought in Lee Iacocca and IBM brought in Lou Gestner when IBM was in crisis because mainframe computer sales were falling.

c. Stability

In situations where little strategic change is needed and past performance is good, managers from within are the best choice. They understand the organization's situation and already have an established network.

d. Reorientation

If the organization's past performance has been ineffective and strategy change is not required, a mix of inside and outside managers is a good idea. For example, when Apple faced competition from IBM, it brought in outside managers and combined them with existing managers. Apple then used a differentiation strategy, differentiating itself from IBM.

E. UNDERSTANDING BARRIERS TO STRATEGY IMPLEMENTATION

Although strategic planning can be used for any type of organization (including non-profit organizations), there are some possible barriers. Certain aspects of strategic planning may obstruct strategy implementation.Managers may also not fully understand the planning process and implement the plan inappropriately. The following are some of the factors that can hinder formal planning:

1. conflict between the formal planning process and management style.
2. inappropriateness of formal planning for small organizations.
3. considerable planning costs.
4. an excessive emphasis on quantity aspects.
5. the vulnerability of formal planning to unexpected events.

These factors can be controlled by reducing the level of planning formality. Planning costs can also be reduced by using personnel within the organization rather than outside consultants.

The economic principle of benefits exceeding costs can be used for this. In addition to these factors, there are several others that can hinder the implementation of strategic planning. These factors are as follows:

1. formal planning is not accepted by managers.
2. some aspects of formal planning are not understood by managers.
3. managers at some level are not included in the planning process.
4. the main responsibility for formal planning is devolved to staff.
5. long-term plans are assumed to be unchanging.
6. complex and expensive planning systems are chosen.
7. good planning is simply avoided.
8. insufficient information is available.
9. forecasting and budgeting are mixed up with planning.
10. managers get caught up in the details of planning and forget about other important aspects.

These factors can be reduced if managers are trained to understand planning and are involved in the planning process. Managers should also be constantly reminded of the underlying purpose of strategic planning.

Strategic planning is not always successful. There are some conditions that cause strategic planning to fail. Here are some conditions that can make strategic planning fail:

1. Strategic planning tries to cover a lot of ground. For example, strategic planning tries to include 20 goals. The organization may find it difficult to focus on these numerous goals. Organizations need to sharpen and prioritize their goals, reducing them to a few key ones.
2. Strategic planning can fail because of a lack of clarity in the vision, goals, and strategies. For example, a university formulates a vision to have an international reputation. This may still be too broad. The vision needs to be complemented with clearer objectives. For example, the international formulation is translated into three objectives: (1) graduates work for multinational companies; (2) lecturer articles are published in international journals; and (3) the university cooperates with international institutions such as the Asian Development Bank, foreign universities, and others. If the goal is to increase customer satisfaction, then the goal is still too broad. The goal needs to be complemented with strategies and initiatives to achieve the desired goal. For example, the initiative is to use Total Quality Management with the aim of reducing customer complaints and increasing the repurchase rate of to reduce customer complaints and increase repurchase rates from existing customers.
3. Lack of support and commitment from organizational members. To obtain this support and commitment, the strategic planning process must involve all elements of the organization. Proposals from all levels of the organisation are accommodated, discussed, and an agreement that will be carried out jointly is formulated.
4. The implementation of strategic planning does not go well. In the end, all plans must be implemented to produce results. No matter how good the plan is, if it is not accompanied by good implementation, it will not produce the desired results.
5. Poor strategy. The strategy developed during strategic planning turns out to be a bad strategy. The bad strategy might be generated because it is just a copy of another organization, is too ambitious and unrealistic, and cannot accommodate environmental changes. Managers must understand how to make strategies work effectively. Managers also need to make necessary adjustments to the strategies that have been formulated so that the organization can adapt to environmental changes.

Strategic planning is not immune to criticism. Strategic planning is considered to have made the organization too rigid and unable to adjust to changes in the environment properly. Organizations that cannot adjust to the environment will experience setbacks. Strategic planning is considered rigid as its concept is derived from the military. The military uses strategy in its wars. Military strategy focuses on setting goals, gathering intelligence, and then trying to formulate ways to achieve the goals. Battle conditions are usually characterized by a few things that don't change much; for example, the past can be a good predictor of the future (troop sizes don't change quickly), good data is difficult to obtain (hence the need for intelligence), and clear direction or orders are needed (in war conditions, there is not much time for discussion; firm and clear orders are needed). Business conditions that are relatively stable and do not change much would be compatible with using such strategic planning.

However, today's conditions are different from those of the 1980s or 1990s. With the development of technology and globalization, the future has become more difficult to predict. Uncertainty is even higher. Data is more readily available. Communication flows are becoming more complex.

Under these conditions, an adaptive strategy is required. With such a strategy, managers will set goals to achieve and develop strategies for certain scenarios. The organisation is always willing to learn and experiment in order to find the best way to achieve its objectives. The rigid model of strategic planning, where key strategies are formulated at the corporate level and then passed down, is no longer reliable. More appropriate is the delegation of decision-making to the lowest units, which face the field directly. Strategy, of course, can change according to the needs on the ground and in accordance with changing conditions. This strategy model is called Adaptive Strategy.

Exercise

To understanding of the material above, please complete the following exercise!

You have just been appointed as the President Director of a telecommunications company. This sector includes companies such as Telkom and Indosat. Your first task is to re-evaluate the company's planning. Formulate a strategy for the company, including:
1) generic strategy: differentiation, low cost, or focus;
2) ther strategies, such as marketing strategy, financial strategy, and other strategies.

Key Ideas for Exercise Answer

Read some of the various strategies in this learning activity. Apply these strategies to the telecommunications company. First, evaluate the company's environment, its competitors, and other relevant components. Then, evaluate the strengths and weaknesses of the organization. Based on this evaluation, strategies can be formulated.

Summary

Strategic planning is an important type of planning. Some tasks cannot be accomplished using ordinary types of planning. This planning is becoming increasingly important because of the rapid changes in the environment and the increasing complexity of organizations. The strategic planning process begins with the formulation of mission and goals, analysis of current goals and strategies, analysis of the organization's environment and resources, identification of strategic opportunities, strategic decision-making, strategy implementation, and evaluation of strategic planning.

There are several levels of strategy: corporate, business unit, and functional. Corporate strategy can be formulated through a value approach or a corporate approach. The formulation of corporate strategy can be done through general strategy or portfolio strategy, such as the Boston Consulting Group (BCG) technique. Meanwhile, business unit strategy formulation can use the generic strategy developed by Porter. There are several levels of strategy: corporate, business unit, and functional. Corporate strategy can be formulated through a value approach or a corporate approach. The formulation of corporate strategy can be done through general strategy or portfolio strategy, such as the Boston Consulting Group (BCG) technique. Meanwhile, business unit strategy formulation can use the generic strategy developed by Porter. Functional strategies are aimed at organizational functions such as marketing, finance, production, and human resources.

In strategy implementation, the structure of the organization will change as structure follows the strategy. The 7-S model explains why some organizations can grow successfully. In strategy implementation, top managers (CEOs) play an important role. Top managers can be brought in from outside the organization or drawn from within it. Each approach has its own advantages and benefits, depending on the situation the organization faces. Moreover, managers need to understand the barriers to strategy formulation and implementation.

TERMS INDEX		
Strategy Component	Value-based approach	Cost leadership
Strategic Gap	Portfolio-based approach	Focus
Strategic Opportunity	Backward vertical integration	Structure
Environmental Analysis	Forward vertical integration	Alfred Chandler
Resource Analysis	Linked horizontal integration	7-S Model
SWOT Analysis	Unrelated horizontal integration	CEO
Management Information	BCG matrix	Selective combination
System	Michael Porter	Stability
Strategy Tiers	Industry Attractiveness	Turnaround
Corporate	Generic Strategy	Reorientation
Business Unit	Differentiation	
Functional		
Tom Peters & Bob Waterman		

Formative Test 2

Choose the correct answer!

1) Some keywords of strategy are as follows, *except* ....
   A. strategy emphasizes actions to achieve goals
   B. strategy emphasizes goals
   C. the process of idea generation is important
   D. the idea itself is important

2) The characteristics of good mission and goals are ....
   A. product-focused
   B. very ambitious
   C. motivating
   D. broad

3) The strategic planning process starts from ....
   A. goal formulation
   B. analysis of objectives and current strategies
   C. strategy evaluation
   D. strategy implementation

4) The strategy of making a company's products different from its competitors so that consumers are willing to buy at a higher price is called ....
   A. focus
   B. low cost
   C. differentiation
   D. barrier to entry

5) According to the Boston Consulting Group matrix, a business unit that is slow to grow, however generate a large amount of cash, is called ....
   A. cash cow
   B. dog
   C. star
   D. question mark

6) Thomas J. Peters and Robert H. Waterman introduced the model of ....
   A. five forces of competition
   B. differentiation strategy
   C. boston consulting group matrix
   D. 7-S

7) To increase sales, the company placed an advertisement saying that shampoo X will effectively eliminate dandruff if used every day. Previously, market research showed that the average consumer used the shampoo every three days. The marketing strategy is called ....
   A. market penetration
   B. product development
   C. market development
   D. diversification

8) Formulation of strategies that change according to needs is called as ....
   A. adaptive strategy
   B. strategic planning
   C. situational strategy
   D. scenario strategy

Use key answers for Formative Test 2 which is located at the end of this module to determine the correctness of your answer. To make sure your mastery of the learning materials use the following formula.

$$\text{Level of mastery} = \frac{\text{Number of correct answers}}{\text{Number of test item}} \times 100$$

Level of master is as follows

<70%	70% - 79%	80% - 89%	90% - 100%
lower than expected	adequate	good	very good

When you attain level of mastery 80% or more, very good, you may continue to the next module. Otherwise you have to review the material of Learning Activity 2. Pay attention to parts which you don't master yet.

Case

PT Pos Indonesia amidst the Digital Era

PT Pos Indonesia has a long history. The company is one of the oldest companies in Indonesia. PT Pos Indonesia was established in Batavia on August 26, 1746, during the Dutch colonial period by the then Governor General of the Netherlands, G.W. Baron Van Imhoff. Initially, this company was intended for the citizens of the Netherlands, especially traders, to secure their letters and trade documents.

The history of the modern PT Pos Indonesia we know today began in 1995, when the status of the Post and Giro Public Company was changed to Limited Liability Company (Ltd. or PT). PT Pos Indonesia focuses on post and giro. In its glory days in the 1990s, mail posts were the staple of the company, as it was the primary means of communication at the time. Fixed-line telephones were still expensive, and their distribution was still uneven. There was also little competition at the time. PT Pos also handles goods delivery and remittances. Back then, money was sent by postal money order. In addition, the company also sold postal-related items, such as seals, stamps, seal paper, and others.

With the passage of time and the emergence of new technologies, PT Pos Indonesia started to get exposed to negative impacts. The emergence of the internet and digital technology has made PT Pos Indonesia's traditional service, mail delivery, less relevant. With the emergence of digital technology, people no longer send letters by post, but by email. To extend congratulations, people now use SMS or WhatsApp messages. The sale of postal-related items like stamps is also declining. In 2003–2008, PT Pos suffered a loss of Rp 606.5 billion[1].

To improve the company, the government, as the owner of PT Pos, issued regulations that allowed PT Pos to transform its business. PT Pos Indonesia does not only run the mail, package, and finance businesses; it also runs other businesses through holding companies, such as PT Pos Logistics Indonesia, PT Pos Properti Indonesia, and PT Bhakti Wasantara Net. PT Pos is also trying to enter other fields of business, such as retail, city courier, e-commerce, air cargo, and insurance. The company currently has a large number of assets, including over 4,000 post offices spread across 24,000 service points, and has covered all cities and provinces in Indonesia. PT Pos reaches almost all sub-districts in the country.

To face the digital era, PT Pos has made efforts to carry out a number of transformations. The transformation includes the presence of the "Posgiro mobile" application, which is present on cell phones. PT Pos aims to improve its user experience. Giro at PT Pos is encouraged to be used as a means of payment, including salary management. However, although PT Pos has tried to enter the digital sector, competition in the sector is quite fierce. Currently, there are many more aggressive

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3 https://www.kompasiana.com/fery87654/5d357c400d82306a55032c72/pt-pos-indonesia-bangkrut-akh-cuma-isu-ternyata?page=all, downloaded on December 7th 2019

payment applications such as OVO, GoPay, Dana, and others that are willing to provide large discounts to encourage consumers to use their services. These competitors are willing to lose money, however, state-owned enterprises' (SOEs) ability to lose money is very limited. Burning money seems difficult for SOEs to do, let alone aggressively.

PT Pos is thinking of other alternatives to compete. Rather than competing[4] directly with more agile digital start-ups, PT Pos is thinking of becoming their partner. Therefore, they can utilize PT Pos's services and strengths. Among its strengths is PT Pos's sizable and extensive network of assets. Creating your own network is very expensive, and it can only be done at a high fixed cost. Why don't these start-ups use the PT Pos network? For example, instead of building their own expensive warehouses, why not rent PT Pos warehouses that are already spread across Indonesia? This alternative makes a lot of sense, though of course, it won't be as easy as it sounds.

Discussion Questions

1. In facing the digital era, what strategic planning do you suggest? Try to do the SWOT analysis, then formulate a strategic plan for PT Pos Indonesia!
2. The alternative of making PT Pos Indonesia a partner and backbone of digital startups is a logical alternative. Evaluate the feasibility of the alternative! Are there any critical factors that need to be observed by PT Pos?

4 https://www.merdeka.com/uang/wawancara-dirut-pos-indonesia-transformasi-pak-pos-di-era-digital.html, downloaded on December 7th 2019

Answer Key to Formative Test

Formative Test 1

1) A
2) D
3) C
4) B
5) B
6) D
7) A

Formative Test 2

1) D
2) C
3) C
4) A
5) D
6) A
7) A
8) A

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