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Strategic planning pdf ebook

In this sequel their well-received previous collaboration for HBR, Strategic Planning in Diversified Companies (January-February 1975), Peter Laurenge and Richard F. Vancil take the reader through the steps needed to implement and advance official strategic planning efforts. They identify six issues that top management must address along the way: corporate goals communication, goal-setting process, environmental scanning, the attention of subordinate managers, the role of corporate planner, and linking planning and budgeting. The authors take on these problems separately, in each case analyzing how they can be solved both in small companies and in large ones - the main distinguishing factor is whether the company is engaged in business in one industry or in more than one industry. Each business carries out strategic planning, although the formality of this process varies greatly from one company to another. Conceptually, the process is simple: leaders at all levels of the hierarchy must ultimately agree on a detailed, comprehensive action plan for the coming year; they come to an agreement on the basis of a number of steps, ranging from delineating corporate objectives to preparing a profit plan for one to two years. However, developing this process by deciding who is doing what is ever possible can be challenging, and this is vital to the success of planning efforts. A strategic planning system is nothing more than a structured (i.e. developed) process that organizes and coordinates the activities of the managers who make the planning. No universal, ready-made planning system exists for a simple and obvious reason that companies differ in size, diversity of operations as they are organized, and style managers and philosophies. An effective planning system requires situational design; it should take into account the position of a particular company, especially in size and diversity. By providing some guidelines in this article for the development of strategic planning systems, we caution the reader to recognize that, for reasons just stated, such generalizations can be treacherous. We don't want to assign a planning system to your organization; You have to make tailoring. However, some useful generalizations are possible, especially when distinguishing between large and small companies, as well as between highly diversified and less diversified companies. The size and variety of operations tend to go hand in hand, although exceptions to this rule are common. Some major airlines, for example, are in the same business, and a number of mini-conglomerates with sales of less than $100 million have subdivisions in disparate industries. For convenience here, we'll talk about companies like or large, defining these labels in terms of the typical characteristics shown in the exhibition Exhibit I Characteristics Small and Large Companies While your company may not neatly fit any set of characteristics, understanding why an effective strategic planning system differs in these two types of companies can allow you to develop a system that fits your situation. Note that the characteristics of small companies also describe a typical division in a large, diversified business. Thus, ceeres in such companies can follow our discussion at two levels at the same time: (1) in their role in corporate planning and (2) in their strategic planning role for their own small business. There are six issues on which a choice should be made in the development of a strategic planning system. With each question the right choice for large companies will be different in most cases from that for small companies. Issues: communication of corporate performance goals, goal-setting process, environmental scanning, attention of subordinate managers, role of corporate planner, as well as linking planning and budgeting. We'll describe each of these questions in turn and discuss briefly why design choices differ in two corporate settings. The announcement of corporate targets is a common hurdle in developing a formal planning system when second-tier managers ask headquarters for guidelines to focus on preparing their strategic plans. These managers, not knowing how to complete the job, may ask, implicitly or bluntly: Tell us where you want us to go and the performance you expect from us, and we'll give you a plan of how to achieve it. These issues are not unreasonable, but joining them may violate the purpose of strategic planning. Determining how targets should be reported and how specific they should be is an important issue in the design of a planning system. When the president of a small company (or CEO of a diversified company) initiates the strategic planning process, he shares his thoughts on business goals and strategies with his functional subordinates. In most situations, however, it does not explicit its performance goals. Instead, he asks his functional managers to develop a set of action programs that will implement the business strategy in accordance with its goals. At the pharmaceutical company we observed, NIOKA's manufacturing and marketing functions jointly proposed a number of possible programs to develop various new medicines and modify existing ones. But often, of course, this programming process involves only one department. Typically, interested managers that there is no need to anticipate the results of their planning efforts by trying to set goals up to This will take a long time and burdensome, and can lead to false expectations among functional managers. The programming process is much more focused on analyzing alternative actions than on achieving corporate goals, primarily because functional managers involved in programming tend to (correctly) have a parochial point of view. They have a somewhat shorter time horizon than the president, and focus on their business areas. The president is the one who chooses the agenda to achieve the goals he has set for the business. Functional managers don't need to know the president's goals, only that he wants managers to recommend the best set of programs. Because of its focus on action, the programming process usually has no continuity from year to year. Business goals and strategies may remain the same, but every year you need to review all existing programs and try to develop new ones. As a result, while programme activities typically use a three to five-year time horizon, management pays little attention to the preliminary objectives set out in the previous year. Instead, the focus is on the current situation, the best set of action programmes to date and the development of an achievable goal for the coming year. The diversity of the portfolio of enterprises in large companies is often so great that it limits the opportunities of senior management for in-depth perception and familiarity with each business. Consequently, management must rely on relatively unlimited input from units. Department heads are as good as they have assured corporate management in the form of broad goals, but as a rule, top management should postpone the development of a statement on the objectives of the corporation. Typically, a division manager is in a better position to assess the potential of his business if he has an open mind of corporate expectations. The delay also allows top managers to change their approach to this task. In the absence of a formal strategic planning process, top management may have developed clear goals for itself; however, it could not be sure of the feasibility of the objectives if it was viewed in the context of a set of independently set fission goals. The department's recommendations encourage better work to set corporate goals. From the point of view of the unit manager, should he or corporate management set goals for the unit? This question is sometimes posed as a choice between top-down and bottom-up goal setting. In fact, of course, leadership at both levels must align the objectives of separation. However, the important question remains: what level in the hierarchy should initiate this process? In a homogeneous the same question arises with regard to the general manager and functional managers. Design Design the planning system can have a big impact on how the problem is resolved. Goals that stem from a small company's programming process are tied to an approved set of action programs. Until the president decides on the programs, no functional manager can set goals for his field of work. Thus, choosing a set of action programs more or less automatically defines performance goals for each functional block. Many small companies, such as the pharmaceutical concern we talked about, set out functional goals for each department because of the interdependence of all departments. Thus, in a sense, functional goal-setting is a top-down process. Functional managers offer action programs, but the president, with his business perspective, defines programs and goals for his functional subordinates. In a large company with a relatively diversified group of enterprises, capacity limits at the corporate level dictate a more or less bottom-up approach. Divisions initiate most of the setting of goals, as this requires a deep knowledge of the industry set of business conditions. Creating an effective corporate-division climate to set goals in a large company is not easy. During the first year or two official planning efforts, the best approach in most cases is to allow the initiative to recommend the purpose of the separation to rest with the department manager. This approach gives him support in managing his business and encourages strategic thinking at the divisional level. Later, after corporate and division managers gained experience in creating a mutually acceptable set of division goals, the division manager's annual offer of separation goals would be more limited than in the early years. In the division, the manufacturer of consumer goods we know, the early years of the planning process were seen frankly as an experience for division managers in drawing up operational plans, as well as for senior management in training to value the strategic challenges of each business of the company. The cumulative experience of negotiating a goal over the years has made the process more effective. Corporate governance can contribute to this development by creating a system that maintains the right balance from top to bottom/bottom. One way to achieve this balance is to keep a clear statement about corporate goals for the first year or two, requiring the unit manager to recommend targets for his unit. The strategic planning system for environmental scanning has two main functions: the development of a comprehensive, coordinated and consistent long-term promote the corporation's adaptation to environmental change. When implementing and developing such a system, companies usually in its integrative aspects. The design of the system, however, should also include an environmental scanning function to ensure that planning efforts are also fulfilling their adaptive mission. Corporate governance, of course, provides subordinates with a set of forecasts and assumptions about the future business environment. Since each manager, at least initially, develops strategic plans for their area of responsibility more or less independently of their colleagues, all managers should have access to the same set of economic and other environmental projections. Environmental scanning in small companies is a strategically oriented task that can go far beyond simply collecting data on markets, competitors and technological changes. A company that, for example, holds a significant market share of products used by middle- and high-income and young people, can make considerable efforts to analyse demographic trends and changes in per capita income. A fairly accurate forecast of the size of the market in five years can be made and it would be useful to assess the potential of the company's growth. The task of monitoring detailed environmental changes in large companies is too complex to be carried out only by top management. It is therefore expected that the Division's management will examine an external environment that may be relevant to their specific businesses. In these circumstances, headquarters usually make only a few environmental assumptions, mainly economic forecasts. Environmental scanning can play another important role in large companies that are interested in diversification through acquisitions. In one diversified electronics and high-tech company that intended to reduce its reliance on defense contracts, the vice president in charge of planning spent most of his time looking for acquisition opportunities. After establishing close ties with the investment community and some consultants, he disseminated information about his company's intentions. Focusing the attention of subordinate managers in strategic planning efforts, where should second-tier managers direct their attention? What role do the division manager, functional manager and top management play? We will look at these issues in terms of whether the plans should be more quantitative or better, more concerned with financial details or strategic analysis. Preparing a functionally coordinated set of action programs for a small company can require a lot of cross-functional communication. Much of this interchange is most effectively expressed in dollar or other quantitative terms, such as the number of employees, units of production and square meters of area The use of financial or quantitative data is suitable for two reasons: (1) it helps each functional manager to understand the size of the proposed program and makes him think The consequences of its implementation; (2) This allows the president to choose more confidently the set of programs that will be implemented. The pharmaceutical company previously mentioned, for example, focuses on the flow of funds that one would expect from the various strategic programmes proposed by the functional departments. In practice, the financial and quantitative aspects of functional planning are gradually detailed as the programming process continues, culminating in very specific plans that make up the operational budget. In a diversified large company, top management wants each division to take strategic perspectives in a timely manner, and the management of the division will focus primarily on achieving this prospect. In particular, in the early years of the planning programme, department heads should be allowed to develop as many financial details to support their proposals as they deem desirable. As a result, they can generate more financial details than is necessary for strategic business planning. Thus, after a year or two, the corporate requirements for financial details to support separation proposals should be clear and should be clearly minimal. Department heads should be asked to shift their focus to identifying and analysing strategic alternatives, using their expertise to quickly assess financial impacts. Of course, this goal was one of the goals from the beginning, but it is difficult to achieve from the beginning. The inability to shift the focus is even more dangerous; planning becomes a numbers game and never achieves its goal. Given that the head of the division may never have seen, much less prepared, long-term financial forecasts for his business, their compilation should be a useful activity. Such predictions help him to lengthen the time horizon of his thinking; they oblige him to make his intuitive economic business model clearer, which in turn allows him to predict changes in financial performance. As a result, the initial efforts of the head of the planning department tend to be financially focused and in many respects similar to the long-term budget. Corporate governance must develop the requirements of the system to mitigate the pressure that initiating formal planning creates for the unit manager. One important caveat for a CEO of a large company is that he should never allow himself to be so involved in business planning that he takes on the job of planning manager. The situation we investigated concerned the newly appointed president of a multinational company in the consumer business whose experience was mostly in marketing. He could not resist the help of one of his units in developing a detailed, more aggressive marketing plan. Such intervention often prevents the division from coming up with a realistic plan he can make a commitment. At the same time, the quiet resistance actually postponed the idea of the president. The role of a corporate planner One of the main issues in the development of the planning system is where the corporate planner fits. Strategic planning is a line control function; the surest way to disaster is to have plans prepared by staff planners and then be issued to line managers. Strategic planning is essentially a people-interactive process, and the planner is the only one in the cast of characters involved. For this process to function effectively, it must have a clear understanding of its proper role. The corporate planner function in small and large companies is completely different. In a small company (or a large company's product division), the planner serves as an assistant to the president for staff planning (or general manager). By coordinating the planning activities of functional managers, he is concerned about the President's problem of choosing the best set of action programs. Only the president and his planning assistant have a common business perspective of choice, and an aide should do most of the analysis. In this role, the planner can become a very influential member of the executive team of the president (or general manager). If he uses his power sensitively, he should not lose effectiveness with his colleagues running functional departments. They can assess the need for cross-functional analysis of software alternatives. Managing the planning process is an almost random role for the assistant, as it simply formalizes the analysis that leads to a coordinated set of action programs. In a large company, the organizational status of corporate planners can be of considerable symbolic importance in conveying to unit managers the importance of formal strategic planning and the difference between it and conventional budgeting. The role of the planner is initially to be a catalyst, encouraging line managers to adopt strategic orientation. It helps corporate management better allocate resources between departments, in part helping division managers strategically plan their business. But it should not be tempted to become more involved in the development of plans, otherwise it may lose its effectiveness. Maintaining and coordinating the system is the main function of the planner as planning efforts evolve; it follows its evolution and maintains consistency. His tasks are very different from the main analytical role of the planner in a small company. Linking planning and budgeting steps to a typical planning system is an orderly, gradual process of commitment to certain strategic alternatives. the step, at least in theory, is related to previous ones. From a financial point of view, this link can be very clear; for example, a profit forecast for the unit's the first planning cycle could be a commitment to the operating budget's profits for the next year. While few companies expect to achieve this financial link in narrowing the choice, all parties involved in the process must understand the intended relationship between cycles. How quickly this narrowing should be is a situational design issue that depends on a particular corporate setting. The close relationship between planning and budgeting indicates that more strategic commitments have been made at an earlier stage. On the other hand, free communication implies that the narrowing process is slower and will be largely delayed during the budgeting phase of the process. Exhibition II shows examples of slow and rapid narrowing of profiles. Please note that the company, which is virtually unstriced in the early stages, is tasked with addressing a large number of strategic issues during the budgeting phase. This means that either the company is equipped with an adequate organization to handle the huge and peak budget load, or it will neglect some options in general, with the likely result that the quality of its distribution decisions is suffering. Exhibit II Slow against the rapid narrowing of profiles in the planning process a small company with little variety in its activities may wish to adopt an early or rapid narrowing process, as functional and corporate executives are involved are well acquainted with the strategy of several businesses in question. Functional managers can then go directly to developing action programs to continue implementing this strategy. The quantitative financial link between selected programmes and the budgets received is feasible, and strong communication of this kind is common practice. In a large company, communication tends to be weaker and the narrowing process more gradual. During the start-up phase, top management should give division managers enough time to devote strategic thinking about their business, but lower-level managers should remember to differentiate this activity from long-term budgeting, with the associated requirement to meet divisional performance. However, as the system evolves, management can gradually accelerate the narrowing process without jeopardizing the creative aspect of planning. The natural result of this progress is a more accurate definition of the link between the planning cycle and the budgeting cycle. A major heavy equipment manufacturer, which we know of, for example, has tightened the link between planning and budgeting. Senior leaders believe that this development is a natural consequence of their increasingly cohesive strategic point of view. Overall, significant differences between the planning procedures used in the two types of companies we have reviewed. The issues that management should address, and our attempt to try That is good practice in small and large companies, summarized in Exhibition III. Exhibition III Approaches to planning system design issues in companies that are not very diversified and functionally organized, and product units of diversified corporations-top management continues strategic thinking about the future of the business. In such companies, a formal process that helps to organize this reflexive activity is often not needed, taking into account several participating managers. Instead, formal strategic planning focuses on developing and reviewing innovative strategy action programs. The planning system reflects this focus: setting goals from top to bottom, communication with the budget is tight, and the staff planning officer plays an important role as a cross-functional program analyst and environmental scanner. In companies that operate in several industrial sectors and are organized into product departments, initiating a formal strategic planning process is one of the main tasks. The first year or two of such efforts should be seen as an investment in strengthening the competence of department heads in planning; winning more informed decisions at the corporate level should wait until the system matures. If the planning system is to survive as more than an exercise in pushing numbers into empty spaces on neatly designed forms, it should evolve rapidly across multiple dimensions. However, a mature system can be invaluable in helping corporate and unit managers make more informed and more coordinated strategic decisions. Any company - really any organization - is a dynamic organization, the situation of which can be changed. Accordingly, in order to remain effective, the planning process is an ongoing task that requires vigilance and understanding on the part of management. 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