THE ROLE OF STRATEGIC PLANNING IN MODERN ORGANIZATIONS

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ABSTRACT: There is a very important relationship between strategic planning and performance management. Performance management is really about setting and achieving goals at the employee level, and identifying and fixing barriers related to achieving those goals. But where do the goals come from? That's where strategic planning comes in. Strategic planning (and also tactical planning), are methods a company, and its individual work-units define their goals and objectives. In turn, those goals and objectives are used to determine and analyze the goals and objectives of each employee in a work unit. This is called cascading of goals. When done properly, setting employee goals should rely on the goals of the particular work-unit, which gets its goals from the planning done by the next bigger work unit, and so on. That's why the setting of individual goals and objectives should be done once the goals and objectives of the work-unit are established. No enterprise will be successful today without a solid, integrated strategic plan driven by a clear vision and supported by a strong performance management system.

Key words: strategic planning, organization, performance management.

JEL codes: L26, L21

Introduction

Strategic planning has long been used as a tool for transforming and revitalizing corporations, government agencies and nonprofit organizations. Recently, however, skepticism about planning has been on the rise. Political and economic uncertainty is the norm and the pace of technological and social change has accelerated. There is some disillusionment with planning efforts that can't keep pace.

Rather than expose some fatal flaw in strategic planning, they reflect a basic misconception about the purpose and value of strategic planning and what it takes for a plan and the process to succeed. Indeed, the process can prove pointless and frustrating and the end product of dubious value when care isn't taken to set clear, realistic goals, define action steps explicitly, and elicit the views of major stakeholder groups.

Yet few tools are better suited to help address the staggering array of challenges brought about by a changing environment. A successful strategic planning process will examine and make informed projections about environmental realities to help an organization anticipate and respond to change by clarifying its mission and goals; targeting spending; and reshaping its programs, fundraising and other aspects of operations.

Literature review

1. Strategic Planning – what is/isn't

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Although operational planning and strategic planning are intertwined, it is the latter which should be the driver. The short-term plans and systems should be driven by the longer-term perspective. Because of this more emphasis should be placed on strategy, and the title ‘strategic planning’ began to take over from ‘corporate planning’, but the latter persisted as a description, although many might have applied the more strategic orientation. The change was largely a shift of emphasis, not necessarily initially of the overall approach to the process of planning which still tended to focus on formal plans achieved through a corporate-wide process. The links that were intended from this shift of emphasis were not always achieved, and even much later research14 found that very few organisations were succeeding in driving the organisation through the strategy, and integrating that strategy into the annual budget and the objectives and actions of managers throughout the organisation.

Despite its intentions, the corporate planning phase had not given equal strategic attention to every aspect of the organisation, and 90 per cent of all effort was spent on marketing, finance and merger/acquisition. As with any generalisation, this statement was not universally true.

At the same time as the environment was becoming more turbulent, there was a growing awareness that the nature of competition was changing, was more global, and that some competitors were behaving in a way that was different from the historical pattern. Later this began to develop into more structured thinking about global competition, but by this time strategic planning had itself evolved into its next phase.

Although the strategic planning phase put more concentration into strategy in relation to the business environment, markets and competitors, the most common process was still based on the preparation of corporate-wide plans, with submissions from the various business units being discussed with top management of the organisation. Some processes became very bureaucratic, bringing the danger that completing the annual round of forms was a more pressing task than strategic thinking.

What was often missing was an emphasis on implementation, and a close relation between the analytical and behavioural aspects of management. It was the growing awareness of the shortfalls of the strategic planning phase, the way in which many organisations tried to overcome them, and the work of researchers and theorists that moved many organisations gently into the next phase.

2. Strategic Management

The existence of strategic management in a job title does not inevitably mean that an organisation has changed to the new approach, and the position is further complicated by the fact that there are many different strands of thought about how strategic management should be applied.

What is different about strategic management? First, it is about managing strategically as well as planning, so although the planning part may still be important, it is only a component. Strategic planning tended to focus on the ‘hard’ aspects of the external environment, and was concerned with markets and the products to supply them. It was about the formulation of strategy rather than its implementation. Strategic management includes the internal elements of organisation, such as style, structure and climate, it includes implementation and control, and consideration of the ‘soft’ elements of the environment. It is about the management of the total organisation, in order to create the future. What makes strategic management really different is the emphasis on managing the organisation through and by the strategic vision and the strategy, with the realisation that the soft issues in management may be more important in achieving this aim than the analytical processes.

The earliest concepts of planning were predicated on the assumption that the principles and concept were right for all businesses, although there might be some need for minor adaptation to fit the style and circumstances of particular organisations. Thus it was not expected that every planning system would be applied in precisely the same way, but the concept would be recognisable, and any differences would be in detail rather than the main ideas. This in fact was never true, partly because the fit of the universal concept to particular circumstances was never that precise, partly because new slants to the old concepts were being promoted all the time, and partly because many companies neglected to include many of the key elements when they applied the concepts.

This idea of the 'right' way to do things persists in much of the literature to the present day, although there is probably more understanding of the reasons why changes have to be made to fit company circumstances, and in any case many of the modern ideas are intended to bring out the differences between organisations.

There can only be one justification for introducing strategic management into an organisation: a belief that it will lead to a successful future, and is more likely to do this than any other way of running the business. Indeed there is no sound reason why any chief executive should want to use this approach to management unless he or she had this belief.

It is a fact that many companies throughout the world practise some form of strategic management, and this provides circumstantial evidence that a body of chief executives hold this conviction. However, when we look more deeply into this, we find that what they all do under the name of strategic management is immensely variable.

Unfortunately, many of the benefits of a planning process are difficult to prove in absolute terms. This is because once planning is introduced, the company changes, and it is never possible to compare what has happened with what would have happened under different circumstances. It is rather like changes in the economic policy of a government. One can speculate – as the opposition parties usually do – that another and often totally opposite course of action would have led to better results. Such arguments can only rest on logic, economic theory and idealistic belief. It is never possible to turn the clock back, and neither is it conceivable that two economic solutions could be run in parallel on a test market basis to see which is best.

In addition, there is a major problem in identifying the costs of planning. Real benefit can only come if the additional profit earned exceeds the additional costs of planning. Quite apart from the conceptual problem of specifically separating the benefits of planning from those of other causes, it is almost impossible to identify costs. It may be easy to isolate the costs of any specialist planning staff, but this is only a part. It is very difficult to estimate the cost of the participation of other managers in the process – and an overwhelming task to try to see how the cost of their participation differs from what it would be under some other style of management. Under any circumstances managers will spend some time on planning: how much more (or less) they will spend where a company has a formal planning process can probably never be computed in meaningful terms.

Logical consideration leads to an expectation that planning procedures will bring more in profits than they cost. At one time it would have been necessary to close adding that the worthiness of many other aspects of management are also incapable of absolute proof – but a number of studies have changed this viewpoint. It is now possible to quote evidence which supports the contention that corporate planning leads to better results.

These studies are not always perfect, frequently suffer from problems of sampling and usually can only try to measure one or two aspects of results. Planning can be carried out well or it can be done badly. Again, there is an increasing body of knowledge on the degree of satisfaction felt by companies with their planning efforts and on the problems that arise in practice. Before this step is taken it is as well to return to the beginning and look critically at the evidence proving that companies actually do planning.

A comparison of performance between what might be termed as the extensive planning firms and those with little or no planning revealed that on all the variables with the exception of total assets growth those firms which had extensively planned their acquisition programmes significantly outperformed those that did little or no formal planning. The variables which exhibited the most notable outperformance were sales growth, earnings growth, earnings/share growth, and earnings/common equity growth.

A strategic management process should aim to unleash for the company the benefits which have already been discussed in some detail – better results through better decisions, the identification of more opportunities, the consideration of more factors, improved coordination and communication, strong motivation, and the provision for the company of a means of coping with the pressures of change.

Any total planning process is concerned with plans of differing durations. It will incorporate plans for both the long and the short term. Immediately the words 'long term' are used they cause a flurry of concern among those who are newly come to planning. How long is a long-range plan? is a question which is frequently asked at introductory conferences, and it is a question which does not have a simple answer. Many planners believe that although the principles which guide the answer are important, the answer itself is nowhere near as vital as the questioners believe.

The problem of confusing techniques of planning with planning itself has been discussed, as has the need to involve managers at all levels. Companies which manage to get these points in focus often miss another, and are blind to the differences between the two major but related types of planning. This leads to difficulties in deciding who should be involved in what, in defining the planning system, in writing the plans, and in organising the flow of planning information.

Strategic planning is very different from operational planning. It is sometimes useful, but not always desirable, to involve 'grassroots' managers in the writing of the strategic plan (though often valuable to devise ways that enable ideas to come from all levels of management into strategic thinking).

'Involvement' in terms of strategic planning means the full participation of the top management team in the production of the strategic plan. This one might term as essential involvement for long-term planning success. Optionally, lower-level managers may also participate either because they have skills and knowledge on which the company should draw, or because the motivational value of such involvement is very high. This optional involvement may be selective both as to the choice of managers who are invited to participate and the extent to which they are involved. It is not always desirable for a company's total strategic plan to be known too widely in the company – particularly where there is a major acquisition strategy – although it may be valuable for selected aspects to be published.

Conclusion

It is important to understand the limitations as well as the possibilities of strategic planning. A strategic plan is not a wish list, a report card or a marketing tool. It is certainly not a magic bullet or a quick cure for everything that ails an organization — especially if the plan winds up on the shelf.

What a strategic plan can do is shed light on an organization's unique strengths and relevant weaknesses, enabling it to pinpoint new opportunities or the causes of current or projected problems. If board and staff are committed to its implementation, a strategic plan can provide an invaluable blueprint for growth and revitalization, enabling an organization to take stock of where it is, determine where it wants to go and chart a course to get there.

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