

Course : thematic independent study



Topic : Strategic planning

Essay 1 question : How does strategic planning create a competitive advantage for an organisation?

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TABLE OF CONTENTS

Introduction.....	pg 4
Definition of strategic planning.....	pg 4-5
Preparation for strategic planning.....	pg 5-6
Timing.....	
Who should be involved?	
Input.....	
Preparatory work.....	
Planning the agenda/process.....	

Strategic planning process..... pg
6-7

Gathering Information.....

Developing mission statement.....

Setting goals and objectives.....

Identifying actions and allocating resources.....

Implementing the plans.....

Monitoring the progress.....

Evaluating the progress.....

Contributions of Strategic Planning..... pg
7-9

1. 5. 1 Financial
Benefits.....

1. 5. 2 Nonfinancial
Benefits.....

Strategic planning techniques..... pg
10-11

SWOT analysis.....

Scenario Planning.....

PEST analysis.....

Forecasting.....

Competitor’s analysis.....

Sensitivity analysis.....

Strategy planning at different levels..... pg
11-12

Corporate level.....

Business Level.....

Operational level.....

Types of strategic planning time horizon..... pg 12-
13

Long-term planning.....

Intermediate planning.....

Short- term planning.....

Components of strategic planning..... pg
13

Strategy and culture.....

Internal and external.....

Balanced scorecard perspectives.....

Market focus.....

Conclusion..... pg 14

Referencing and Bibliography..... pg 15-16

1. 1 INTRODUCTION:

Today many organisations face challenges to keep up with the rapid changes in the world. These changes are taking place mainly because of technology, which creates and leads to a faster contact between people, economic markets, governments and larger organisations. This advancement pace of technology does bring in its benefits and its disadvantages. Therefore it is vital that organisations always remain aware of the changes in their environment and adapt accordingly in order to remain competitive and to distinguish it from the competitors by creating a competitive advantage. This study reviews the literature of strategic planning in order to gain insight on how an organisation can lead to a competitive advantage.

In order to gain a thorough understanding of the topic the study will identify how strategic planning will help a management team understand exactly what strategic planning is, how to plan strategically and how to ensure that strategic planning is implemented in your organisation. The importance of this topic is to identify how strategic planning is important not only for the survival or growth of an organisation but also on how it can help the organisation lead to having a competitive advantage over the competitors that choose not to follow a process for strategic planning.

The strategic planning process is a step by step course set in place in order to help guide the organisation in been successful. This review also clearly identifies how strategic planning contributes to the success of an organisation and how it can be seen as a competitive advantage. It provides a deeper understanding of strategic planning techniques that are used to help managers make the best possible decisions with information that is available to the company.

LITERATURE REVIEW

This is the main body of the essay and it reviews all the academic literature related to the subject of strategic planning. The aim is to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions of strategic planning.

1. 2 Definition of strategic planning:

Strategic planning is an organisations process of defining their strategy or their direction, and making decisions on allocating resources in order to pursue the strategy, this includes capital and people (Bradford R. W and Duncan JP, 2009). Different business analysis techniques can be used in strategic planning. Strategic planning is the formal consideration of an organisation future course (Bradford R. W and Duncan JP, 2009). Strategic planning is a sets out the overall direction for the business, is broad in scope and it covers all the major activities within an organisation (Boddy D, 1988).

According to Shapiro J, 1996, strategic planning is the overall planning that facilitates a good management Process. According to Geyer Y, 2006, strategic planning is a process that an organisation follows that is disciplined

and thorough. Geyer Y, 2006, indicated that strategic planning takes note of the internal dynamics of an organisation and the external dynamics of the world. Strategic planning analyses whether the organisation is effective in its objectives and goal (Shapiro J, 1996). According to Shapiro J, 1996 strategic planning establishes whether the organisation needs to change its direction in order to fulfil its purpose or create a competitive advantage.

McNamara C, 2002, added that strategic planning identifies where the organisation wants to be at some point in the near future and identifies how it is going to get there. The “strategic” part of the planning process continues to adapt to the current changes of the organisation (McNamara C, 2002). Strategic planning is considered to be a comprehensive plan that is designed to connect all of the firm’s decisions and their activities (McNamara C, 2002). Strategic planning is the ability to make decisions for the future, and is considered to be a systematic assessment of the benefits and costs, and clear rules for decision making (McNamara C, 2002).

1. 3 Preparation for Strategic Planning:

Authors Shapiro, J. (1996), Ducker P. (1996) and Gibson C. K (1995) proposed how preparation is critical to result in good planning. These authors all concurred that without preparation it is difficult for an organisation to maintain their strategic focus. According to the authors, timing, who should be involved, input, preparatory work, and lastly planning the process should be prepared and this is critically discussed below.

1. 3. 1 Timing

The questions to ask here according to Timing is, When do you need to do a strategic planning process? How often do you need to do a strategic planning process? At what point in an organisational or project cycle do you need to do a strategic planning process? How long should a strategic planning process be? (Shapiro J, 1996).

1. 3. 2 Who should be involved?

The key questions to be asked is who will participate in the strategic planning process and who should facilitate the strategic planning process (Shapiro J, 1996). The management team of the project or organisation needs to be understood by all the staff and board members and they should all be involved in the planning process (Shapiro J, 1996). According to Ducker P, 1996, administrative staff should be involved because they need to understand the organisation's issues and problems.

1. 3. 3 Input

According to Shapiro J, 1996, strategic planning process looks at the big picture, it is useful to get external input into the process. It is easy for those involved in the work of the project or organisation to lose sight of the overall picture and to think about the issues from the point of view of our own work only (Shapiro J, 1996). Ducker P, 1996, added that getting someone with a wider view and wider concerns may open doors to new ideas and ways of thinking.

1. 3. 4 Preparatory work

This is a review of an organisation's work and of the internal functioning that is needed to be done (Shapiro J, 1996). According to Shapiro J, 1996 the review of the work can be done by an external evaluation before the strategic planning process in order to feed into it. The review of the internal functioning of the organisation can be done by an external review conducted to find the right people that will come with useful information (Shapiro J, 1996).

1. 3. 5 Planning the process

According to Shapiro J, 1996, it is important to know what an organisation wants to achieve and what has to be done to achieve these outcomes. It is also important to know what additional issues need to be dealt with in the time available (Shapiro J, 1996). Preparing for the strategic planning process helps an organisation ensure that when they implement the strategy it is a success (Gibson C. K, 1995).

1. 4 Strategic planning process:

According to the authors Boddy D, 2005 and Wirth R. A, 2009 the planning process can be viewed as a circular flow of topics and action steps. Boddy D, 2005 mentioned seven steps in the strategic planning process which includes gathering information, developing a mission statement, setting goals and objectives, identifying actions and allocating resources, implementing the plans, monitoring the progress and evaluating. These seven steps are critically discussed below.

Figure 1 – Strategic planning process

Evaluating the progress

Gathering Information

Develop mission statement

Monitoring the process

Setting goals and objectives

Implementing the plans

Identify actions and allocate resources

Source: David Boddy, (2005), Third Edition, Management An Introduction, Pearson Education Limited, Europe.

1. 4. 1 Gathering Information

According to Boddy D, 2005, this is any information that an organisation can use to guide their choices in building a strategic plan. The information can be collected internally or externally (Boddy D, 2005). Gathering information can be collected as primary information that has not yet been conducted or secondary information, which is data that has already been collected (Boddy D, 2005).

1. 4. 2 Developing a mission statement

According to Boddy D, 2005 this is a broad definition of an organisations operation and scope, it aims to distinguish it from other organisations. A clear plan depends on the ultimate purpose of the task (Boddy D, 2005). By

developing a mission statement it is a way of the organisation to express a realistic vision of what the future could be if the plan were to succeed (Boddy D, 2005).

1. 4. 3 Setting goals and objectives

These are set in order to identify the desired outcome for the individuals, groups, and the entire organisations (Boddy D, 2005). According to Boddy D, 2005, the goals and objectives turns the generalities of the mission statements into a specific commitment- what is to be done. Goals and objectives provide a focus for an organisation and it used to measure the actual performances (Boddy D, 2005).

1. 4. 4 Identifying actions and allocating resources

According to Boddy D, 2005 this is the part of the planning process that involves deciding what actions need to be taken in order to achieve the objectives and it identifies who will do them. The fifth step is implementing the plan. This step also includes one to decide on possible actions which are affected by what the firm's objectives are (Boddy D, 2005).

1. 4. 5 Implementing the plans

Boddy D, 2005, emphasised that a good plan is not worthwhile until something happens and people implement the plan, by acting to make the plan visible. David Bobby added that planning helps by inducing confidence in a process, leading to high levels of acceptability from those involved. Planning is a necessary part of success, but it is not sufficient if it is not put into action (Boddy D, 2005).

1. 4. 6 Monitoring the progress and evaluating the result

Boddy D, (2005) stated that the final stage in developing a plan is to set up a system that would allow people to monitor the progress towards the goals.

Boddy D, 2005, added that managers can evaluate progress by using a programme overview chart. The overview chart gives a snapshot of the progress and indicates the areas where there are issues and it shows the expected completion date (Boddy D, 2005).

1. 5 Contributions of Strategic Planning:

According to the authors David FR. (2001), Hayes B. (2003), Zuckerman A. (2000), Shrader, C. B. (1993) and Almond K. and Barlow J, (2002) there are principle benefits of strategic planning that helps an organisation formulate better strategies through the use of a more systematic, logical and rational approach to a strategic choice. These authors have mentioned the financial and non financial benefits which are critically discussed below.

1. 5. 1 Financial benefits of strategic planning

According David FR, 2001, strategic planning allows an organisation to be more productive rather than reactive in shaping its own future; it also allows an organisation to initiate and influence activities. Researchers indicate that companies using a strategic planning concept are more profitable and successful than those that do not use the concept.

Businesses that are using strategic planning concepts have shown an improvement in their sales, profitability's, and in their productivities compared to those firms that are not using a systematic planning activity

(David FR, 2001). Firms that use the planning system theory generally exhibit superior long-term financial performances relative to their industry (David FR, 2001)

The Strategic planning concept and tools provided that there is a cost effectiveness that yields better interest & deposit rates (Hayes B, 2003). According to Bill Hayes, 2003, strategic planning has shown to result in an improved or an increased customer service due to the firm been able to produce high quality performances. This is because the companies using a strategic approach are able to make more informed decisions with good anticipation of short and long-term consequences (Hayes B. 2003).

According to Zuckerman A. 2000, strategic planning has helped companies to identify and prioritize their opportunities for financial improvement, mainly revenue-generating plans. This in turn has showed to offer the greatest opportunity for significant long-term benefits (Zuckerman, A, 2000). The relationship between strategic planning and company performance lies at the very heart of the discipline, yet no clear summary statement has been made about the numerous empirical findings dealing with this subject (Shrader, C. B. 1993)

1. 5. 2 Nonfinancial benefits of strategic planning

According to David FR, 2001, strategic planning helps avoid financial demises and it also offers other tangible benefits, such as enhanced awareness to the external threats, improved understanding of the competitor's strategies, reduced resistance to change, it shown to provide a clearer understanding of performance-reward relationship, and it increases

employee productivity. The strategic planning process also helps with identifying and rationalizing the need for change to all managers (David FR, 2001).

According to David FR, 2001 strategic planning has allowed organisations to financially identify what it is they want to accomplish in the long-term.

Strategic planning allows the management team to assess future assumptions and alternatives. The management team can look at the company as a whole rather than just been focused on their individual responsibilities. Individuals in the credit union will strive harder to achieve objectives they help set. Strategic planning has helped companies to improved their planning eliminates ambiguity and enhance the teamwork and culture (David FR, 2001).

According to the authors Almond K. and Barlow J, 2002, strategic planning has helped increase the ability of management to make decisions that will assure long-term financial institution survival and growth of the firms.

Strategic planning has also increased the firm's ability to control long-range direction, as it has allowed the board to focus on key strategic issues, as opposed to management problems (Almond K. And Barlow J, 2002).

According to Almond K. and Barlow J, 2002, strategic planning serves a variety of purposes in organizations, including to: Clearly define the purpose of the organization and to establish realistic goals and objectives consistent with that mission in a defined time frame within the organization's capacity for implementation. Communicate those goals and objectives to the organization's constituents. Develop a sense of ownership of the plan. It has

resulted in the firms using the most effective organization's resources by focusing the resources on the key priorities (Almond K. And Barlow J, 2002).

According to David FR, 2001, strategic provided firms with a base from which progress can be measured and establish a mechanism for informed change when needed. Strategic planning also has helped managers to listen to everyone's opinions in order to build an agreement about where the organization is going (David FR, 2001). Almond K. And Barlow J, 2002, states that strategic planning has provided a clearer focus for the organization, thereby producing more efficiency and effectiveness.

Almond K. And Barlow J, 2002, also mentioned that strategic planning can benefit you company as it can be seen as the glue that keeps the board members together. Strategic planning produces great satisfaction and meaning among planners, especially around a common vision (David FR, 2001). David FR, 2001, also added that firms using strategic planning has indicated results of increases in productivity from increased efficiency and effectiveness, strategic planning also has helped management solves major problems in the organization by been able to address different strategies.

According to David FR, 2001, strategic provided at the end of the day allows an organization to be more proactive than reactive in shaping its own future. Historically, the principle benefit of strategic planning has been to help different organizations to formulate better strategies for their business through the use of the more systematic, logical and rational approach to strategic choice (David FR, 2001).

1. 6 Strategic Planning Techniques:

According to the authors Boddy D. (2005) Bacal R. (2002) and Salem M. Al Ghamdi, (2005) there is a wide range of strategic planning techniques available to gather information for strategic planning. There are six planning techniques identified by these authors and they are the SWOT analysis, scenario planning, PEST factors, competitive analysis, forecasting, and sensitivity analysis.

1. 6. 1 SWOT Analysis

According to Boddy D. (2005) a SWOT Analysis is an analytic tool that is used to help summarise the organisations main strengths and weaknesses that are relative to the external opportunities and threats. Bacal R, 2002 added that it helps identify the external and internal factors in order for the business to know the environment better. Boddy D. 2005 added that managers need to focus only a few trends and events that are likely to be important for the business growth.

1. 6. 2 Scenario planning

Bacal R, 2002 stated that scenario planning is a fancy term for a very logical process the “ what if” process. Boddy D. (2005) added that it is not an attempt to predict the unpredictable but it is a way to consider multiple and equal plausible futures for an organisation. These scenarios are not just based on a hunch; they are logically consistent but different from each other (Boddy D. 2005).

1. 6. 3 PEST Analysis

According to Bacal R, 2002, the PEST analysis is another tool that is similar to the SWOT analysis, but is more focused on the external environment and the important factors out there that can affect the present and future of a business. The PEST acronym stands for: political, economic, social and technological (Boddy D. 2005). These factors can affect your business either directly or indirectly (Boddy D. 2005).

1. 6. 4 Competitive Analysis

According to Bacal R, 2002 a competitive analysis involves looking at those companies that compete in the same market place as you do. Bobby D. (2005) stated that organisations need to look at the critical aspects of a strategy that must be achieved to secure a competitive advantage. A competitive analysis is really a subset of doing an environmental scan (Bacal R, 2002).

1. 6. 5 Forecasting

According to Boddy D. 2005, forecasting is predicting the future of the business. Forecasting is based on the analysis of past trends such as input prices, sales patterns or demographic characteristics (Boddy D. 2005). All forecasts are based on assumptions and managers can assume the past trends will continue (Bobby D. 2005). According to Boddy D. 2005 forecasts rely on extrapolation of past trends and therefore organisations need to question their inherent assumptions as they interpret the results.

1. 6. 6 Sensitivity analysis

According to Boddy D. (2005) this is a method that is used to test the assumptions of key variables in a plan in order to increase the confidence in the choices a business wants to make. According Bacal R. (2002) sensitivity analysis can be useful to provide recommendations for the decision makers. Sensitivity analysis helps enhance the communication to the decision makers and increases them understand the system (Boddy D. 2005).

1. 7 Different levels of strategic planning:

According to the authors Burk Wood M. 2004 there are three different levels of strategy namely corporate level at the top, business level is the middle section and lastly operational level which is the lower level. Each level has different responsibilities and goals and this will be critically discusses below (Burk Wood M, 2004).

Figure 2 –

Organisational levels

Corporate Level

Business Level

Operational Level

Source: Marian Burk Wood, (2004), Marketing Planning principles into practice, Pearson Education Limited, England.

1. 7. 1 Corporate level

The Corporate Level looks at the company's Vision, goals, philosophy and the culture of the organisation and determines planning accordingly (Burk Wood M, 2004). Corporate strategy refers to the overall strategy for a diversified company (Burk Wood M, 2004). It is concerned with the mix of businesses the company should compete in, and the ways in which strategies of individual units should be coordinated and integrated (Burk Wood M, 2004).

1. 7. 2 Business level

According to Burk Wood M, 2004, strategic planning at this level is concerned with the firm's mission, business goals and the firm's competencies. Burk Wood M, 2004, added that an integrated and coordinated set of commitments and actions are used to gain a competitive advantage. This is done by exploiting the core competencies in a specific product market which is done on business level (Burk Wood M, 2004).

1. 7. 3 Functional level

Occasionally, plans will be made at the functional level, to allow managers to specialize and to increase managerial accountability (Burk Wood M, 2004). Burk Wood M, 2004 stated that at a functional level managers will be concerned with coordinating manufacturing, marketing, human resources, finances, research and development, and information systems (Burk Wood M, 2004).

1. 8 Types of strategic planning:

According to Morton L. P, 2009 and Lenehan P. F, 2002, strategic planning is the long-term process that determines the path for business owners to reach

their goals. The other two business planning processes are more short term (Linda Morton, 2009). Below the time horizons long term, intermediate term, and short term will be critically discussed.

1. 8. 1 Long term planning

According to Lenehan P. F, 2002, the long-term planning process should strengthen both management and the board of directors. The objective is to have everyone leave the off-site meeting with an understanding of the game plan for the next 5 years, which will be updated at an annual off-site planning meeting (Lenehan P. F, 2002).

1. 8. 2 Intermediate planning

Linda Morton states that Intermediate-term planning includes strategic objectives and has a time horizon of from one to two years. It outlines how the strategic plan will be pursued (Morton L. P, 2009). In marketing, intermediate plans are most often used for campaigns, with the goals and purpose of the campaign supportive of one of the business' long-term goals (Morton L. P, 2009).

1. 8. 3 Short term planning

Short term planning includes operational objectives for specific departments and individuals and has a time horizon of one year or less (Morton L. P, 2009). A short term plan allocates resources and outlines objectives to meet the intermediate plans and the strategic planning process (Morton L. P, 2009). Morton L. P (2009) stated that short term planning allocates those resources day-to-day for business development.

1. 9 Components of a strategic plan:

According to Oslen E, 2007 there are several different components of strategic planning that needs to be explained to your planning team. The components are strategy and culture, internal and external, the balanced scorecard perspectives, and market focus (Oslen E, 2007).

1. 9. 1 Strategy and Culture

According to Oslen E, 2007, an organisation's culture is made up of people, processes, experiences, ideas and attitudes. A strategy is where the organisation is headed. A company cannot have a strategy without a culture or vice versa. The culture is the core of the business, and if it is not in order, the best strategy in the world cannot work for the company (Oslen E, 2007).

1. 9. 2 Internal and External

According to Oslen E, 2007, the strategy is external when you gathering information from a company's customers, competitors, industry and environment. The external information can help a company identify the opportunities or threats that they might face. Through employee surveys, board assessments and financial statements are ways to identify the company's strengths and weaknesses that are internal (Oslen E, 2007).

1. 9. 3 Balanced scorecard perspectives

According to Oslen E, 2007, the balanced scorecard is a framework that is used to develop the firms goals and objective in four areas. These areas are financial, customers, internal business processes and the employees (Oslen E, 2007,). The financial, internal processes and employees are the internal

factors of the balanced scorecard whereas the customers are the external perspectives (Oslen E, 2007).

1. 9. 4 Market focus

According to Oslen E, 2007, the growth of a market comes from focusing on the customers and delivering superior value to them consistently year after year. Built into a company's strategic plan is market-focus framework, this is vital because it ensures that the company is focused on growing (Oslen E, 2007). According to Oslen E, 2007 by focusing on the market a company will understand the needs of the customers.

CONCLUSION:

A strategic plan is simply a tool to be thought of as a guide or map. It has a starting point which is today's conditions and environment. It has an ending point, where the company wants to be in terms of success in the future.

Strategic planning is a process that answers the question of how is the best, most likely way to be successful as defined by the stakeholders and allowed by the customers and embraced by the employees. While there is one way presented on how to conduct the strategic planning process it is by no means the only way. The process has to fit the culture, resources and style of the company. It must reinforce the confidence of management to make consistent, workable decisions.

The benefit of a strategic planning discipline is that it facilitates effective decision making, better selection of tactical options and it leads to a higher probability of achieving the owners' or stakeholders' goals and objectives. High quality information is critical to the success of the strategic plans of any

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organisation. All other factors can be in place, but if the information is inconsistent in any way, then success is much less likely. If success is achieved it may well be at a high cost. High quality information must be acknowledged as one of the organisation's main concern. Adopting a continuous development and improvement approach to the information gathering and interpretation process is essential.