An Introduction

to

Strategic Planning

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Introduction

Strategic planning is recognized as vital to the effective management of all organisations It is normally applied at the highest level and progressively applied throughout all levels of the best run organisations. This overview introduces some of the broad concepts underlying strategic planning to outline the important foundation on which Strategy Reengineering is based.

Strategic Planning

Strategic planning is very much a management activity, carried out at all levels of the organisation. As an organisation moves more into using computers as an integral part of its operations, its data processing hardware and software resources need to be closely aligned to its corporate plan. This has been difficult to achieve and is recognised as the greatest concern of management in organisations today.

Strategic planning has its drawbacks however. It takes up enormous amounts of senior management time. It requires not just the involvement but the commitment of those managers. It requires exhaustive analysis to identify gaps and opportunities, strengths and weaknesses. And most importantly it must remain flexible enough to be changed quickly as market forces change to enable management to be proactive in their chosen markets.

Extensive research has shown that information is the key to a successful strategic plan. Information is the core element around which all aspects of the strategic plan revolve. And a vital component of the strategic plan and its information requirements is the identification of that information needed to ascertain whether or not the strategic plan is working - the strategic planning feedback.

Strategic Planning Feedback

Strategic planning is inhibited by the time horizon for feedback. Strategic alternatives must be analysed and evaluated. Only then can one approach be selected for detailed examination. It may be introduced as a pilot; using part of the organisation as a "guinea pig". The results are evaluated and modifications are made where necessary. The plan is then introduced more widely throughout the organisation.

But the problem is the time to obtain feedback with this guinea pig approach. Pilot introduction may take months. Only then is it applied more widely. It may be years before a detailed evaluation can be made.

Typically, strategic planning works within a feedback time horizon of three to five years. In this environment it is difficult to evaluate more than one alternative. There is, however, a solution to this dilemma. A solution which enables strategic planning alternatives to be tested and evaluated within weeks (and sometimes even days). The solution is Strategy Reengineering.

It is achieved by using a modelling approach, but one which does not depend upon computerized financial models. Instead, the enterprise is modelled in terms of its data resource, and the policies, objectives and strategies established by management. As an architect uses sketches and plans of a building to define its broad design and then its detailed construction, so also Strategy Reengineering establishes a *blueprint* of the organisation. This blueprint is a schematic representation of the data resource. It is sometimes referred to as a data model. Just as the architect's blueprint schematically represents construction details for the building, so the data model represents resource details needed by the organisation.

Key Organisational Resources

There are four key resources on which an organisation depends:

- Personnel
- Plant & Equipment
- Finance
- Data

The first three are well managed in most enterprises, at the highest management levels. But the data resource is rarely managed effectively. Only in the best run organisations do managers have all the information they need for decision making. These organisations ensure their information is accurate and managed centrally (as are personnel and finance), yet made available as needed. In contrast, most organisations leave responsibility for information with the functional areas (departments, branches or sections) which use that information. This leads to information duplication, with consequent problems of management and control.

The data resource of an organisation is far more stable, and subject to less change than the processes and procedures which capture, store and use that data. While a building may change little during its life, how it is used may change dramatically. Many buildings were never designed for their current use. So also, the processes and procedures used by an organisation may change more frequently than the data. Some may no longer even be needed. Yet they continue to be used - often for no reason other than, "*we have always done it that way*!" An example of changed processes and procedures can be drawn from banking.

> *Twenty years ago we took a passbook with us to the bank. The bank teller wrote our savings deposit or withdrawal transaction directly into the passbook.*

Ten years ago the passbook was still used. But instead of writing the transaction by hand, the bank teller placed the book in an online computer terminal. This printed the transaction in the passbook under computer control.

Today, however, we rarely use the bank teller at all. Instead, with automated teller machines, we enter the entire transaction ourselves. We use not a passbook but a plastic banking card. We key in the transaction details directly.

The processes and procedures for personal banking have changed dramatically over time. The information, however, is still essentially the same. Similar examples can be found in many other industries. An organisation's processes and procedures may change many times.

Business Process Reengineering has come into fashion over the last few years as a way of identifying all the processes and procedures used and/or needed in an organisation. When used properly it can substantially improve the productivity of the organisation. Unfortunately up to 70% of organisations fail to use Business Process Reengineering successfully. To overcome this the concepts of Business Process Reengineering have been blended into Strategy Reengineering, linking them back to the strategic plan. How this is done is covered in another section.

Unlike the processes and procedures, data changes only as the organisation itself changes - when it moves into new markets or industries or when it introduces a different type of product, service, or method of distribution. With a blueprint we can represent an organisation - its business, products or services, and its markets in terms of its data. The blueprint allows management to evaluate different policies, objectives and strategies, rapidly evaluating strategic alternatives in weeks, and often in days.

THE STRATEGIC PLANNING INPUTS

The strategic planning aspect of Strategy Reengineering draws heavily on management theory - particularly Peter Drucker,[2] and Michael Porter.[3] It uses an expression of an organisation's directions as a starting point, in terms of the strategic statements:

- ?? Mission
- ?? Policies
- ?? Goals and Objectives
- ?? Concerns and Issues
- ?? Strategies and Tactics

The statements are used by Strategy Reengineering for modelling of strategy and the formulation of the strategic blueprint. All of the strategic statements are linked in a cascading manner. For example, the Mission statement will define goals and objectives which in turn will define strategies and tactics. Figure 1 below illustrates this interlocking nature of the Strategic Statements, cascading from the inner portions of the "onion" to the outer portions.

Each organisation can be divided into three levels of operation - Strategic, Tactical and Operational. The Strategic level is typically made up of the chief executive and his or her executive management. This group has the prime responsibility for all aspects of the organisation. They define the overall Mission statement for the organisation, setting its focus and direction. They set strategic level Goals and Objectives, which will be fleshed out at the Tactical and Operational levels. And they set strategic level strategies which will set the organisation on its chosen course.

At the next level, Tactical, are the major divisions and/or departments of the organisation. These may include personnel, sales, marketing, engineering, etc. At the third level, Operational, are the workgroups of the organisation which either deal directly with the customers or clients of the organisation, or provide support to those workgroups. These may include customer service, shipping, order entry, etc.

At each level strategic statements should be formulated. The Strategic level statements should be formulated first to avoid possible conflicts and/or gaps caused by unconnected or "dis-integrated" planning at lower levels of the organisation. From these Strategic statements will come the Mission statements for each of the Tactical level areas in the organisation. And because they have been formulated top-down, each division/department will not only be in harmony with the overall objectives of the Strategic level, but be in harmony with the other divisions/departments at the same level.

As the Tactical level areas formulate their strategic statements they will in turn define the Mission statements for the Operational level areas under them. Also, most importantly, they can test the strategic statements of the Strategic Level for feasibility and provide essential feedback to top management while they are still in the formulation phase of their strategic planning. Similarly at the Operational level, the workgroups can formulate their strategic statements, providing further essential feedback to upper management on the feasibility of the strategic plan during its initial stages, rather than discovering that the plan is unworkable during the latter implementation stage.

The Strategic Statements at all levels set directions for the future. They establish a proactive corporate stance, rather than reactive. They define the “information filters” fundamental to the crucial activity of environmental scanning. The outcome of this activity is that the organisation becomes aware of emerging changes in the environment as they relate to the organisation's specific strategic plans. This then enables it to develop and/or implement appropriate strategies necessary to respond to the changed environment.

STRATEGIC PLAN FORMULATION

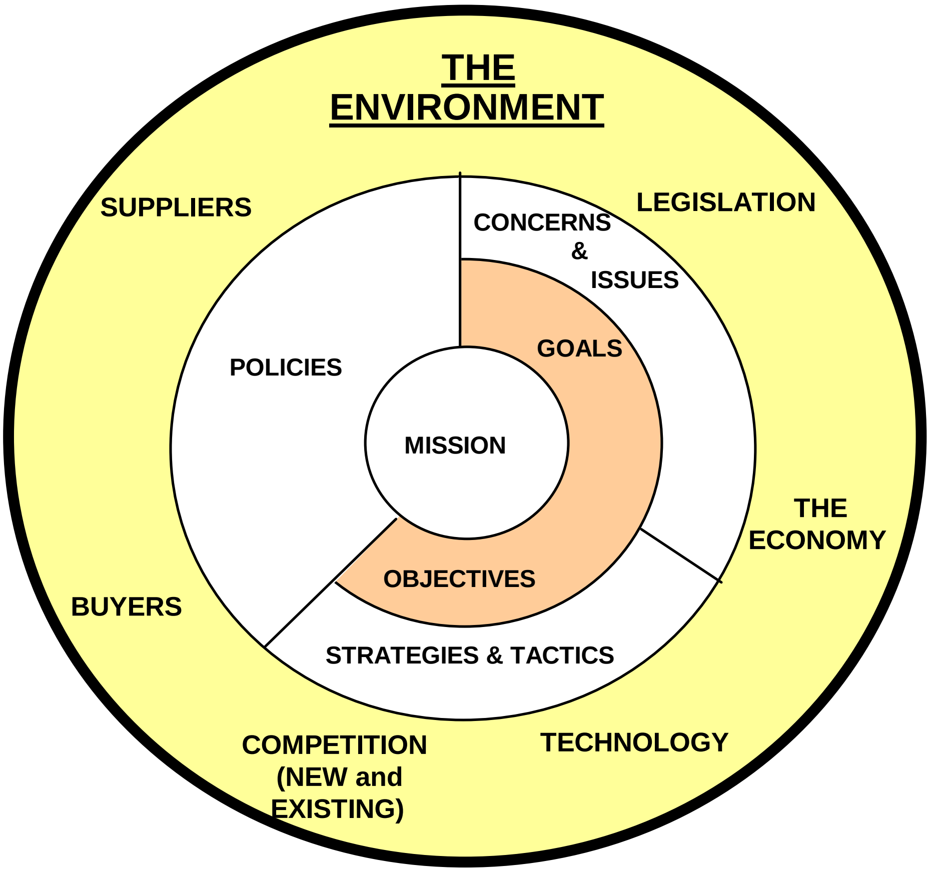

Figure 1: The Strategic Statement Interaction Diagram

The Strategic Statements

Mission: The Mission statement defines the fundamental reason for the organisation's existence. It defines the organisation's present and future direction and answers the three basic questions that every organisation must be able to answer:

- What is our business?
- What will it be?
- What should it be?

The Mission statement should have relevance for a three to five year timeframe and should not change significantly unless there is a fundamental change in the type of business conducted. (It is sometimes referred to as the prime objective.) This is not to say that the Mission statement must remain the same for five years (unfortunately this happens in many organisations causing them to fall behind the market). The Mission statement should be reviewed at least every twelve months to ensure it remains relevant to the desires, wants and needs of the owners.

Each part of the organisation at every level should have a Mission statement and each statement should be aligned and concordant with the overall organisation's Mission statement. A Mission statement at the Tactical level for example will have its origin in a Strategic level Objective, which in turn will link back to the overall Mission statement.

In answering the questions outlined above the Mission statement must also answer the three fundamental questions about what the organisation does:

?? What are the organisation's Products and Services?
?? What are its chosen Markets?
?? How does it deliver its Products and Services to those Markets (What are the Channels)?

This then makes each Mission statement unique to the organisation, distinguishing it from every other organisation.

Goals and Objectives: Goals and objectives define the results to be achieved by the organisation, and its personnel. They ensure the directions set for the future are achieved. Goals are a broad statement of need for achievement e.g. higher productivity, lower expenses, etc. Objectives on the other hand are a specific statement of a requirement for achievement which specifies the:

?? Item for achievement (*Measure*)
?? Target amount to be reached (*Level*), and
?? Timeframe within which the Level is to be achieved (*Time*)

Goals can be defined at all levels of the organisation. At the Strategic level the Goals are typically broad e.g. higher sales, while at the Tactical and Operational levels they are more specific, e.g. Increased sales of Product X.

Policies: Policies set guidelines, establish boundaries of responsibility, and define the conduct of the organisation. The policies set by management determine the corporate environment, its culture and its ability to change.

Policies are typically set for one of four reasons:

- Legislation
- Code of Conduct
- Standards
- Executive Decision

In essence Policies are timeless objectives - something the organisation wants to achieve *all* the time. They may focus on certain concerns and issues. They can establish the capability of the organisation to compete, to innovate, to survive. Policies are qualitative. They can ensure that the organisation meets or exceeds certain minimum levels of quality in its products and services and provide direction for staff in carrying out their tasks.

Concerns and Issues: An organisation may not have a formal corporate planning process. It may not have clear objectives. But the Concerns and Issues are usually well-known by management. An analysis of the organisation's environment - both internal and external is vital to identify what potential internal barriers (Concerns) and external barriers (Issues) there may be that could prevent the organisation from achieving its mission, goals and objectives. Examples of such barriers could be: lack of funds, obsolete equipment, changing or new technology, competitive pressures, etc. To overcome or at least minimise these weaknesses and threats management needs to establish policies, and set goals and objectives, strategies and tactics.

Strategies and Tactics: While goals and objectives define what is to be achieved, they may be achieved in many ways. These alternatives detail how the objective can be reached. They are called strategies. The detailed tasks, or steps, in carrying out those strategies can then be defined.

These steps are called tactics. Tactics are the detailed implementation of the strategy. They provide a step by step approach to carry out the strategy and achieve the objective. It is a manager's job to select the most appropriate strategy and tactics to achieve each objective. These lead to the definition of processes and procedures which detail the sequence of tasks to be carried out. They also identify the resources and the distribution channels needed to carry out the strategies and achieve the objectives. For example if an objective is to increase sales by 15% it may be necessary to hire 4 new salespeople, or appoint a new distributor.

Products, Markets & Channels

The strategic statements define the focus and direction of the organisation for the long-term. In particular the Mission statement will define the Products, Markets and Channels appropriate for the organisation. These will be further defined and refined as the Goals and Objectives, Strategies and Tactics statements are formulated, beginning with the Strategic level statements, and progressing through the Tactical and Operational levels.

Markets: A statement of the markets identifies the customers or clients of the organisation, and its reason for existence. It may describe the population segments or parts of the government served by a government department. It may define a specific industry or environment served by a commercial organisation. The markets addressed may change over time. New segments may emerge. The mission and purpose and the policies in the strategic statements provide guidance. They indicate the criteria to be observed in selecting new market segments to be addressed.

Products and Services: These are the outputs of the organisation, produced to satisfy its market segments. For a manufacturer or a distributor the products are easy to identify. For a government department, university or hospital identification is more difficult. Consequently, the term Service is also used. A university provides educational services. A hospital offers health care services. A government department provides specific services for various population segments. A manufacturer or distributor may also provide services - such as warranty or repair services, or delivery services.

Channels: An organisation needs structure and resources to deliver its products and services to its markets. It needs people, money, machines, components - to build its products or provide its services. The channels statement describes these resources. It defines how the organisation is structured to satisfy the needs of its customers or clients, and achieve its objectives. It details how resources are acquired and how they are utilised to make the product. Products and services need to be distributed. The channels determine how they are sold or delivered, the distribution mechanisms used and/or the warehousing and transportation systems needed.

Summary

Strategic planning is not difficult - when organisations approach it in a disciplined and orderly manner. It is simply a matter of following the steps - establishing the Mission, identifying the Goals and Objectives, etc. through to the building, analysis and implementation of strategy An essential part of strategic planning is to firstly and firmly establish the foundation - "What is the organisation's business", and then build on that foundation.

It is also essential to completely and concisely document the strategic plan - not just the strategies but all the information requirements. And it is just as important to communicate that plan to all concerned, from the senior management of the organisation through to all operational levels so that everyone has a clear vision of the organisation's focus and direction.

Organisations who build their strategic plans using the building blocks as outlined above can develop clear and concise strategic plans. And if information systems are built from them they can also be clear, concise and fully support the strategic plan.

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[1] This document is the result of a strategic planning research project that was begun by Farrell & Associates in 1985. Much of the output from the early stages of the project was used by the author in the development of the strategic planning aspects of the Information Engineering Methodology - a collaborative venture between Farrell & Associates and Information Engineering Systems Limited (IESL). In 1989 and 1992 two books were published by Clive Finkelstein, Chairman of IESL, which used a large amount of the material contained in this and other research papers produced by Farrell & Associates in the mid 1980s. Following litigation by Farrell & Associates the copyright in the material along with copyright ownership in the two books and other IES material containing information from the research papers was awarded to Farrell & Associates.

[2] P. Drucker, *"Management: Tasks, Responsibilities, Practices"*, Harper & Row: New York (1974).

[3] M. E. Porter, *"Competitive Strategy"*, The Free Press, MacMillan Publishing: New York (1980).