

MANAGEMENT

PRINCIPLES AND APPLICATIONS

UNIT-2

PART-IX

MEANING OF STRATEGIC PLANNING:

Strategic planning means planning for making and implementing strategies to achieve organisational goals. It starts by asking oneself simple questions like: What are we doing, should we continue to do it or change our product line or the way of working, what is the impact of social, political, technological and other environmental factors on our operations, are we prepared to accept these changes etc.

Strategic planning helps in knowing where we are and where we want to go so that environmental threats and opportunities can be exploited, given the strengths and weaknesses of the organisation. Strategic planning is “a thorough self-examination regarding the goals and means of their accomplishment so that the enterprise is given both direction and cohesion.”

It is “a process through which managers formulate and implement strategies geared to optimising strategic goal achievement, given available environmental and internal conditions.” Strategic planning is planning for long periods of time for effective and efficient attainment of organisational goals. Strategic planning is based on extensive environmental scanning. It is a projection into environmental threats and opportunities and an effort to match them with organisational strengths and weaknesses.

Strategic planning is done to comprehend, anticipate and absorb environmental vagaries. It is a continuous process. Every time business organisations want to increase the growth rate or change their operations, desire for better management information system, co-ordinate activities of different departments, remove complacency from organisations; they make strategic plans.

Features of Strategic Planning:

The following are the salient features of strategic planning:

1. Process of questioning:

It answers questions like where we are and where we want to go, what we are and what we want to be.

2. Time horizon:

It aims at long-term planning, keeping in view the environmental opportunities. It helps organisations analyse their strengths and weaknesses and adapt to the environment. Managers should be farsighted to make strategic planning meaningful.

3. Pervasive process:

It is done for all organisations, at all levels; nevertheless, it involves top executives more than middle or lower-level managers since top executives envision the future through scientific techniques of forecasting.

4. Focus of attention:

It focuses organisation's strengths and resources on important and high-priority activities rather than routine and day-to-day activities. It reallocates resources from non-priority to priority sectors.

5. Continuous process:

Strategic planning is a continuous process that enables organisations to adapt to the changing, dynamic environment.

6. Co-ordination:

It coordinates organisation's internal environment with the external environment, financial resources with non-financial resources and short-term plans with long-term plans.

Importance of Strategic Planning:

Strategic planning offers the following benefits:

1. Financial benefits:

Firms that make strategic plans have good sales, low costs, high EPS (earnings per share) and high profits. Firms have financial benefits if they make strategic plans. Companies like Reliance, Infosys, Tata, Wipro, Deloitte, etc. are the giants who report good financial results as a result of sound strategic planning.

2. Guide to organisational activities:

Strategic planning guides members towards organisational goals. It unifies organisational activities and efforts towards the long-term goals. It guides members to become what they want to become and do what they want to do. It focuses on specific goals making it clear for members to know the direction towards which they have to move. Earning profits is less meaningful than earning a growth rate of 10% per year.

Paying high dividends is less meaningful than paying dividends at the rate of 40%. Meeting society's needs is less meaningful than providing free education to school children of a specific community. Allocation of resources and attempts to meet the goals is facilitated through clear specifications in strategic planning. It makes the objectives operational and provides right direction to organisational activities.

3. Competitive advantage:

In the world of globalisation, firms which have competitive advantage (capacity to deal with competitive forces) have better sales and financial performance. This is possible if they foresee the future. Future can be predicted through strategic planning. It enables managers to anticipate problems before they arise and solve them before they become worse.

4. Minimise risk:

Strategic planning provides information to assess risk and frame strategies to minimise risk and invest in safe business opportunities. Chances of making mistakes and choosing wrong objectives and strategies, thus, get reduced.

Risk is inherent in every business and failure to anticipate risk through strategic planning is almost sure to lead the business to failure unless otherwise proved by chance. Lack of strategy, framing wrong strategies or ineffective implementation of strategy cannot be afforded by business enterprises operating in the dynamic, changing and risky environment.

5. Beneficial for companies with long gestation gap:

The time gap between investment decisions and income generation from those investments is called gestation period. During this period, changes in technological or political forces can affect implementation of decisions and plans may, therefore, fail. Strategic planning discounts future and enables managers to

face the threats and opportunities. Huge capital investments in projects is followed by expected financial returns.

6. Promotes motivation and innovation:

Strategic planning involves managers at top levels. They are not only committed to objectives and strategies but also think of new ideas for implementation of strategies. This promotes motivation and innovation. It also provides motivation to people at lower levels when they know their efforts are contributing towards organisational goals.

Satisfied workforce is the strength of the organisation. It saves huge costs on reducing absenteeism, labour turnover, role conflicts etc. It promotes discipline in the organisation and enhances human resource effectiveness and also organisational effectiveness.

7. Optimum utilisation of resources:

Strategic planning makes best use of resources to achieve maximum output. Resources are scarce and strategic planning helps in their use in the areas where they are required most.

General Robert E. Wood remarks, "Business is like war in one respect. If its grand strategy is correct, any number of tactical errors can be made and yet the enterprise proves successful." Effective allocation of resources, scientific thinking, effective organisation structure, co-ordination and integration of

functional activities and effective system of control, all contribute to successful strategic planning.

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