# **UNIT-3**

STRATEGIC MANAGEMENT AND BUSINESS POLICY

# **Corporate Planning**

**Corporate planning** is creating a strategy for meeting business goals and improving your business. A corporate plan is a roadmap that lays out your business’s plan of action. It is imperative to write down goals and plan for how they will be achieved. Without planning, business operations can be haphazard, and employees are rarely on the same page. When you focus on corporate planning, you set achievable goals and bring your business one step closer to success.

Corporate planning is the act of creating a long-term plan to improve your business. A corporate plan examines a business’s internal capabilities and lays out strategies for how to use those capabilities to improve the company and meet goals. Think of a corporate plan as a roadmap laying out everything you need to do to achieve your future goals and reach new levels of success. The plan looks at each sector of a business and makes sure that all parts are aligned, working towards similar goals. Corporate planning is often looked at through a SWOT analysis (strengths, weaknesses, opportunities, threats). Further, it usually starts with broad goals and works its way towards a much more detailed analysis, laying out exactly how objectives will be reached.

The following elements tend to be in a corporate plan:

**(i) Vision Statement**

Your company’s vision statement broadly defines what goals you are working to achieve. This statement is where you hone in on your business’s focus and what you want to accomplish over the next three-to-five years. Think big, but remember that you will have to create a strategic plan to back these goals up. So always make sure that your goals can be defined as SMART goals (strategic, measurable, achievable, realistic and time-based).

**(ii) Mission Statement**

A good mission statement lays out how you will achieve your vision statement in a few sentences. It should illustrate what you plan to offer or sell, the market you are in, and what makes your company unique. A mission statement is like an elevator pitch for your entire strategy. It effectively communicates who you are and what you want to do in a few lines.

**(iii) Resources and scope**

Part of corporate planning is taking stock of everything you currently have going on in your organization. You’ll look at your systems, products, employees, assets, programs, divisions, accounting, finance and anything else that is critical to meeting your vision. This part is almost like making a map of your current organization. It gives you a bird’s eye view of everything your company has going on, which helps you create a plan for moving towards the future.

**(iv) Objectives**

Next, you need to lay out your business objectives and how you plan to measure success. This is a good time to hone in on that SMART planning to ensure that your objectives are strategic, measurable, achievable, realistic and time-based. A vague goal such as “improve brand reputation” is meaningless without a solid measure of success in place. A SMART goal would instead be “improve brand reputation by placing the product in five positive media stories by the end of Q1.”

**(v) Strategies**

Now, it’s time to illustrate the strategies you plan to use to meet the objectives of your company. These strategies could be anything from introducing new products to reducing labor costs by 25 percent, depending on the goal. Your strategies should directly address the objectives you have laid out in your corporate plan, and include a plan of action for how you will implement them.

**CORPORATE PLANNING EXAMPLES**

The needs of your corporate planning will vary depending on your business and industry. For example, for automotive giant GM, CEO Mary Barra’s corporate turnaround strategy included several objectives. The main ones included becoming a leader in product and technology, growing the Cadillac brand, continuing to grow the GM brand in China, continuing to improve GM’s finances and becoming more efficient from an operational standpoint. These objectives are, of course, tailored to GM’s specific needs as a company.

The following are a few examples of corporate planning objectives:

**(i) Financial objectives**

Presumably, you went into business to make money. Your corporate planning financial objectives are your money-oriented goals. These objectives can include growing shareholder value, increasing profits and generating more revenue, to name a few. However, not all financial objectives are about revenue and profits. There are also objectives on cutting costs, balancing budgets, maintaining proper budget ratios and more. Another financial objective example might be diversifying or creating new revenue streams. Your specific goals will depend on your company’s individual needs, but most corporate plans include at least a few financial objectives.

**(ii) Customer objectives**

Your customer objectives center on what you plan to do for your customers. A customer-centered objective could be giving your consumers the best value for the price they pay. Or, you could aim to improve product reliability. Another customer objective is increasing your market share or offering the best possible customer service. These objectives will vary, but they all center around meeting customer demand.

**(iii) Internal objectives**

It’s important to consider internal objectives when doing corporate planning. Internal objectives include three areas: innovation, operations and customer service. Innovation objectives might consist of improving a product or growing the percentage of sales of a particular product. Another innovation objective might be to invest x dollars in the innovation of products. Operations objectives focus on reducing waste, investing in quality, improving workplace safety and reducing errors in manufacturing, to name a few. Another potential operations objective is streamlining. Finally, customer service objectives center on improving customer service, retention and satisfaction.

**(iv) Learning and growth objectives**

Every organization needs learning and growth objectives when corporate planning. Learning and growth objectives are those that involve employees, your company culture and your business’s organizational capacity. One possible example of a learning and growth objective is boosting company culture, increasing employee retention and improving productivity.

### **Why You Need Corporate Planning?**

Every business needs to do corporate planning. Creating a strategic plan gives your company direction and actionable goals to see through. Without a plan, how will you know your priorities or where to place your resources? A business with a plan achieves better results than one that does not have any direction.

The first reason you need corporate planning is because it provides clear objectives for your organization. You wouldn’t leave for a road trip without mapping out your route. Similarly, it’s not advisable to run a business without mapping out your route. Corporate planning puts on paper your focus, and allows you to move forward with purpose. If your business is operating without a plan, you will not be able to achieve your goals. Goals must be written down and broken into parts to be efficiently achieved. Further, they must have clear timelines and deliverables. Corporate planning helps you create a roadmap for success by asking you to answer three crucial questions:

* What is the purpose of this business? (Mission)
* Where do we want to go and what do we hope to achieve? (Vision)
* How will we achieve our objectives? (Plan)

Another reason you need corporate planning is because it can help align your organization and its values. A corporate plan does more than simply keep your employees on a timeline for success. It also defines who you are as a company, and what you stand for. Likewise, when employees get a say in the direction of a business and its objectives, your company culture will improve. Planning for the future brings everyone to the table, promotes the exchange of ideas and creates effective solutions to organizational problems. Making and sticking to a plan ensures that everyone in the organization is on the same page. Small business owners especially will find that strategic planning is a great way to get feedback from employees and improve overall culture.

Finally, a corporate plan helps communicate your brand’s message to employees, shareholders, creditors, partners, investors and customers. Taking the time to hone your vision and mission statements is extremely important for messaging, which is essentially communicating what you are and what you want to be as a company. When your purpose as a company is boiled down to its bare bones and made widely available, the message sticks. Everyone immediately knows what your brand stands for and who it hopes to serve. A solid, clear corporate plan can be used to attract investors, customers and employees.

### **How to Do Corporate Planning?**

There are no hard-and-fast rules for how to do corporate planning. Each company has unique needs when it comes to planning for the future. However, there are a few tips to keep in mind for corporate planning success. First, gather input from employees from all different divisions of the company to go into the plan. You can do this through an open forum or employee meetings.

Next, a crucially important step is to bring the right people together to write the plan. Even if you involve many people in the brainstorming process, only a few should be involved in the actual writing process. Wording can become arduous when too many people are involved. For the first draft of the plan, it’s important not to obsess over every word. That will come later as you revise drafts and bring in more players, such as your board members. At first, only concern yourself with getting the main ideas and objectives written down.

After writing your first draft, show your employees, the board of directors and senior management as soon as possible. They will all have valuable insight and feedback as to how you should move forward. Ultimately, your corporate planning draft should include:

* **Executive summary:** This is the quick version of what your corporate plan includes. An executive summary should concisely cover your brand values, mission, vision, objectives and key strategies.
* **Signature page:** This page will include board member signatures, stating that they agree with and are committed to your goals and vision.
* **Company description:** Include your company’s biography, including its history, products and any significant achievements.
* **Mission, vision and value statements:** These statements outline who your company is, what you do and where you plan to go in the future. This is where you communicate your most important priorities.
* **Strategic analysis of your company:** This is the section that covers a SWOT analysis (strengths, weaknesses, opportunities, threats) of your company and its divisions. The strategic analysis also lays out issues you plan to address in the coming months and years.
* **Strategies and tactics:** In this section, lay out your strategies and how exactly you plan to accomplish them.
* **Action plan:** Your action plan lays out the responsibilities you plan to take on, as well as a timeline for accomplishing them.
* **Budget and operations plans:** Of course, to accomplish your company’s goals, you will need to have money in the budget. Lay out the financials and your specific plan for operations.
* **Monitoring and evaluation:** How do you plan to evaluate if your goals are being met? This section illustrates how you will measure progress for your objectives.
* **Communication of the plan:** A description of how you will communicate your corporate plan to employees, stakeholders, customers and any other important parties.

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# **Concept of Long term planning**

In the long term, companies want to solve problems permanently and to reach their overall targets. Long-term planning reacts to the competitive situation of the company in its social, economic and political environment and develops strategies for adapting and influencing its position to achieve long-term goals. It examines major capital expenditures such as purchasing equipment and facilities, and implements policies and procedures that shape the company’s profile to match top management’s ideas.

When short-term and medium-term planning is successful, long-term planning builds on those achievements to preserve accomplishments and ensure continued progress.

Strategic management activities enable companies to sustain their operations over the long term. Companies can maintain a competitive edge by taking innovative approaches that solve complex business problems. Once the strategy gets set by a company’s executive leadership, each lower-level manager conducts long-term planning activities to set priorities, align resources, focus attention on common goals, and ensure that the company delivers on promises to sponsors and stakeholders.

### **Characteristics**

Using strategic management processes, you establish the mission, vision and strategy for the business. As conditions change, you refine the mission and focus your efforts on achieving your strategic goals. Using long-term planning processes, you align project work with these strategic goals. After assessing stakeholder requirements, you create a comprehensive plan and then execute the plan according to the defined timeline and milestones. Long-term planning also involves monitoring and evaluating activities. For example, in long-term planning you plan the amount of materials required to conduct operations. Then, your purchasing department can use the data about future demands to estimate orders. This helps them negotiate contracts with suppliers and schedule deliveries.

### **Credentials**

The Association for Strategic Planning certifies strategic management professionals and publishes standards, competencies and encourages business professionals to think, plan and act strategically. Strategic management professionals incorporate change management and leadership development activities into their vision. By questioning your own opinions, seeking out the opinions of creative people and taking a break every now and then, you can improve your own strategic thinking. To demonstrate your expertise in long-term planning, get a credential from the Project Management Institute, which certifies project management professionals and publishes tips, tools and techniques related to all kinds of planning.

### **Timing**

Effective strategic management occurs on an ongoing basis. Long-term planning typically involves establishing goals that you expected to achieve five or more years ahead. Strategic management involves assessing relationships to ensure that each department’s objectives align to the company’s overall goals. Long-term plans focus on activities that start now and continue well into the future. This includes activities associated with acquisitions and other complex business transactions. Strategic management defines the direction for the entire company and long-range planning usually differs for each department.

### **Purpose**

Effective companies use strategic management activities to define policies, procedures and themes for their organizations. For example, many companies emphasize sustainability in their business operations, such as reducing energy use or supporting the use of alternative energy sources and reducing greenhouse gas emissions. Long-term planning allows managers to allocate resources to achieve these objectives. Both strategic management and long-term planning contribute to an organization’s overall financial health. Both enable growth.

# **Strategic Planning, Nature, Process & Importance**

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.

**Nature 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.

1. **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.

1. **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.

1. **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.

1. **Continuous process:**

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

1. **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.

1. **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.

1. **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.

1. **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.

1. **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.

1. **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.

1. **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, co­ordination and integration of functional activities and effective system of control, all contribute to successful strategic planning.

### **Process**

#### **1. Objective Formulation:**

Strategies are goal-oriented. The overall purpose or mission of the organisation must be clearly stated. Mission explains the reason why business is in existence. It identifies the scope of products/services. The goals can be economic or social and may relate to size of the organisation, goods or services or simply the technology or the way an organisation operates its business.

Missions justify existence of the organisation in terms of purpose (objectives), markets, products/services, consumers etc.; relationship between organisation’s internal and external environment, its culture, values, ethics and beliefs. Missions formulate objectives and objectives help to formulate strategies.

#### **2. Analyse the Impact of Environment:**

Environmental analysis is the “systematic assessment of information about the firm’s external environment during the strategic planning process to identify strategic opportunities for the company as well as major threats, problems, or other possible impediments.” Managers scan the environment, pick relevant information and use it for strategy formulation.

A successful strategy aligns with the environment. Strategies are made to integrate the organisation with its environment. Managers examine both general and specific environmental factors to see what changes are occurring. External factors which indirectly affect strategic planning are technological, social, political, and legal and those which directly influence are competitors, suppliers, government and customers.

Whether these factors promote or restrain business activities is analysed in framing strategies. Complete information collected from various sources like government agencies, banks, customers, journals, bulletins, suppliers, other business associations etc., may not be required for strategy formulation. Information is screened and only relevant information is analysed to formulate strategies.

This information may be related to production (plant location, layout, inventory management repairs and maintenance etc.), marketing (market share, consumer needs, promotion mix, product mix etc.), finance (debt-equity ratio, dividend policy etc.) or human resource (manpower planning, recruitment and selection procedures, training and development etc.).

**Environmental analysis helps to:**

1. prepare strategies to convert threats into opportunities
2. create environmental threat and opportunity profile (ETOP) which analyses the environmental factors and assesses their impact on the organisation.

#### **3. Analyse Resource Position of the Firm:**

After analysing the external environment, firms evaluate their internal resource position to identify their strengths and weaknesses in relation to environmental threats and opportunities. Knowing environmental threats and opportunities is not enough unless the organisations know their strengths that can overcome the threats and exploit the opportunities.

Organisational weaknesses, if any, have to be overcome to take benefit of environmental opportunities. Resources being limited, organisational strengths and weaknesses should be analysed to use the resources in areas where they can be optimally utilised.

Matching of strengths and weaknesses (internal environment) with threats and opportunities (external environment) is known as SWOT analysis. It helps in generating strategies and answer the basic question of strategic planning—what we are and what we want to be or where we are and where we want to go?

**The following steps are identified by Hofer and Schendel to analyse resource position of the organisation:**

(a) Develop a profile of the organisation’s principal resources and skills in three broad areas: financial; physical, organisational and human; and technological.

(b) Determine the key success requirement of the product/market segments in which the organisation competes or might compete.

(c) Compare resource profile with key success requirements to determine the major strengths on which effective strategy can be based and major weaknesses to be overcome.

(d) Compare organisation’s strengths and weaknesses with those of competitors to identify which resources and skills are needed to have competitive advantage in the marketplace.

Analysing the organisation (corporate appraisal) helps in setting priorities over areas where organisations need to pay more attention. These areas could be operations/marketing/hum an resource/finance etc.

#### **4. Establish Alternative Strategies:**

Managers carry out gap analysis to develop alternative strategies, i.e., analyse the present strategies and the objectives formulated. “It is the difference between the objectives established in the goal formulation process and the results likely to be achieved if the existing strategy is continued.”

It reveals gap between the present state and future aspirations of the organisation. If existing strategies can help in reaching the desired objectives, new strategies need not be formulated but if there is a gap, managers develop strategies to attain the objectives.

**The following strategies can be made:**

**(a) Strategy to concentrate:**

Companies want to specialise in the existing line of products, capture bigger market share and become market specialists in that product line.

**(b) Strategy to diversify:**

Companies want to enter new markets to increase the share of market.

**(c) Strategy to enter international markets:**

Besides increasing share in the national markets, firms want to expand their business in other countries.

**(d) Strategy to enter into joint ventures:**

Firms enjoy the benefits of synergy by collectively exploiting the resources and enlarging their area of operation.

**(e) Liquidation strategy:**

It means to drop the existing product if it is not profitable.

**(f) Retrenchment strategy:**

It means dropping some of the resources (human and non-human) to make best use of the remaining ones. Surplus resources are shed off in this strategy. It results in optimum use of resources. The list of strategies is not exhaustive. New strategic options may be considered by the firms depending upon the situation.

#### **5. Evaluate Alternative Strategies:**

**Different strategic options are evaluated on the basis of their competitive advantages in terms of:**

**(a) Risk:**

Will the strategy be able to achieve the objectives?

**(b) Time:**

Is it being adopted and implemented at the right time?

**(c) Target:**

Does it target at matching internal strengths and weaknesses of the organisation with its external environment?

**Four criteria for evaluating strategies are identified by Richard R Rumelt:**

(a) Is the strategy consistent with broad objectives of the company?

(b) Does the strategy focus organisational resources on critical success factors in the product/market area for which it is intended to be formulated?

(c) Does it maximise company’s internal strengths and minimise its weaknesses?

(d) Is the strategy realistic? Will it be able to produce the desired results? i.e., it is a workable strategy or not?

Various quantitative techniques such as ratio analysis, break-even analysis, linear programming, networking etc. are used to evaluate strategies.

#### **6. Choice of a Strategy:**

After evaluating strategies in terms of risks and returns (ability to achieve the goals), they are ranked in order of priority and the strategy best suited to achieve the goals is chosen. The chosen strategy should be directed to maximise long-term goals of the organisation.

#### **7. Implement the Strategy:**

After selection, the strategy is put into action and practiced. It becomes a guide for the organisation and members to direct their efforts in a unified direction. Implementation requires designing the suitable organisation structure, developing a sound system of communication, motivation and control, allocating authority responsibility, resources etc.

#### **8. Measurement and Control of Strategy:**

Organisational performance is measured at periodic intervals to assess whether strategic objectives are being achieved or not.

**A formal strategic control system is designed which answers questions such as:**

(a) Is the strategy being implemented as planned?

(b) Are the critical assumptions on the basis of which it was selected still valid?

(c) Is the strategy achieving the intended results?

If the results are similar to objectives, the strategies become the basis for future action. However, if the objectives are not achieved, reasons are found for the same and suitable actions are taken to overcome the problem.

### **Limitations of Strategic Planning:**

1. **Lack of knowledge:**

Strategic planning requires lot of knowledge, training and experience. Managers should have high conceptual skills and abilities to make strategic plans. If they do not have the knowledge and skill to prepare strategic plans, the desired results will not be achieved. It will also result in huge financial losses for the organisation. This limitation can be overcome by training managers to make strategic plans.

1. **Interdependence of units:**

If business units at different levels (corporate level, business level and functional level) are not coordinated, it can create problems for effective implementation of strategic plans.

1. **Managerial perception:**

In order to avoid developing risky objectives and strategies which they will not be able to achieve, managers may land up framing sub-optimal goals and plans. Sometimes, short-term commitments also defer making long-term strategies.

1. **Financial considerations:**

Strategic planning requires huge amount of time, money and energy. Managers may be constrained by these considerations in making effective strategic plans. These limitations are by and large, conceptual and can be overcome through rational, systematic and scientific planning. Researchers have proved that companies which make strategic plans outperform those which do not do so.