Excellence in Financial Management

Course 10: Strategic Planning

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This course provides a concise overview of how to do a strategic plan. The entire strategic planning process is outlined within this course. This course is recommended for 2 hours of Continuing Professional Education. In order to receive credit, you will need to pass a multiple choice exam which is administered over the internet at www.exinfm.com/training

Chapter

1

Preliminary Considerations

What is Strategic Planning?

The essence of management includes the ability to plan. As you work your way up the organization, planning moves from operational to strategic. Strategic Planning is one of the principal responsibilities of upper-level management. Once management decides on the Strategic Plan, lower-level managers implement the Strategic Plan through an Operating Plan.

Strategic Planning attempts to answer a very fundamental question: Where do we want to be one year from now, two years from now, three years from now, etc.? Strategic Planning requires that an organization develop a vision of itself - how do we see ourselves in the future? Strategic Planning looks at the big picture from a long-range perspective whereas the Operating Plan represents the specific tactics for carrying out the Strategic Plan year to year.

Strategic Planning is a process whereby an organization makes choices about:

- Why do we exist?
- What are the major goals of this organization?
- What resources do we need for a successful future?
- Who will be our customers?

Why do Strategic Planning?

Strategic Planning helps management understand the current situation. This in turn allows management to plan for the future. In a world of rapid change, it is becoming imperative for management to think strategically (plan for the future). And since the rate of change seems to be escalating, the importance of strategic planning continues to grow. In fact, the best-managed companies tend to engage in continuous strategic planning. Some organizations have intuitive thinkers who almost seem to see into the future. Therefore, strategic planning is a way of preparing for the future by attempting to simulate the future.

Strategic Planning has a tendency to force people to think about the future. This is extremely important since many organizations are inward thinking, focusing too much on the short-term. Strategic planning looks at the long-term which is how organizations survive and thrive. It has been proven that organizations that focus on the long-term through strategic planning outperform organizations that lack long-term planning. Consequently, one of the benefits of strategic planning is long-term performance and growth. Another benefit of strategic planning is communication. Strategic Plans communicate the intentions of management to employees, shareholders, and others.

Limitations of Strategic Planning

Strategic Planning should not be viewed as a guarantee to future success. Strategic Planning has limitations, such as the following:

1. Strategic Planning is not a way of making future decisions. There is no way anyone can predict the future. Strategic Planning provides overall guidance and direction based on what we think will happen.

2. Strategic Planning is not a blueprint for the future. There are too many changes taking place - marketplace is changing, customer preferences are changing, new competition, new technologies, new opportunities, declining financial condition, etc. Strategic Planning is a dynamic process, which is receptive to change.

3. Strategic Planning cannot resolve critical situations threatening the organization. Strategic Planning will not get you out of a crisis. The organization should be stable before engaging in strategic planning.

4. Strategic Planning should not replace good intuitive judgements. If an organization is lucky enough to have good intuitive thinkers, then exercise extreme care before embarking on formal strategic planning. You do not want to destroy intuitive thinking within the organization.

5. Strategic Planning will not identify all critical issues related to the organization. Strategic Planning attempts to identify the **most** significant issues that will confront the organization. By focusing on major issues, strategic plans minimize the detail and thereby improve the chances for successful implementation.

Specific Problems Associated with Strategic Planning

In addition to limitations, strategic planning can raise new problems for an organization. Some of the pitfalls associated with strategic planning include:

1. Strategic Planning is difficult. It requires that people think differently. Strategic planning needs to be a creative process with new ideas. Many people are not well suited for this type of decision making. New relationships and roles are often necessary within strategic planning. Some people are not comfortable with new activities and tasks.

2. Strategic Planning is time consuming. It requires the involvement of people, not to mention research time, reallocating resources, changing the organization, etc. All of this can drain the organization, especially if resources are scarce.

3. Strategic Plans can be bad! Poor assumptions, overly optimistic projections, and other bad decisions can result in a bad strategic plan. A bad strategic plan will lead to serious problems for the organization.

4. Impossible to Implement. If upper-level management fails to support the Strategic Plan, then implementation will be impossible and the overall process will have been wasted. Additionally, there can be internal resistance to strategic planning. People resist strategic planning for several reasons: Does not make sense, not enough time, do not understand why we are doing this, etc.

Since strategic planning raises critical issues, it usually leads to change. Therefore, it will be important to understand how to implement change. You can reduce the impact of change on people by following these guidelines:

1. Allow some input and involvement from people. As long as people have a say in change, they tend to accept it better.

2. Try to avoid threatening the security of people. When change affects the security of people, they will resist.

3. Make sure change follows a pattern of previous decisions that were successful. If you are trying to implement change after several failed attempts, your chances of success are poor.

4. Make sure everyone understands why change is taking place.

5. Change should take place based on planning. Change should never be experimental.

The best way to plan for change is within the strategic planning process. And since change is so prevalent throughout an organization, almost every manager should make strategic planning part of his or her job. The next step in the process is to organize how a strategic plan will be developed.

Chapter

2

Organizing the Process

Our first step within strategic planning begins with organizing the process. Before we start to organize the process, we need to make sure the organization is ready for strategic planning. For example, if strategic planning is new to the organization, then we want to proceed slowly. Maybe too much is happening within the organization and thus, strategic planning should be postponed. It is important to recognize that strategic planning works best when:

1. The organization has good management.

2. The organization has good channels of communication.

3. The organization is open to new ideas.

4. The organization is not buried in rules and bureaucracy.

Since there is no "right" process, you have to determine if strategic planning fits within your organization. Is the timing right? Is management committed to the process? Do we have the right mind-set? For example, if the organization is dominated by operating people who think short-term, then you may want to proceed cautiously with strategic planning. You also need to be sold on the benefits of strategic planning. As previously indicated, strategic planning is a process whereby you prepare for the future by looking at your choices.

Start Organizing

Strategic planning starts by planning for the plan; i.e. we have to outline the process before we begin the process. There are several questions that need to be addressed for organizing the process:

- Who will do the strategic plan?

- What are we suppose to do?

- How will we do it?

Specifically, organizing the strategic planning process includes the following steps:

1. Determine what is expected and communicate this to everyone who will be involved in developing the Strategic Plan. What issues should the plan address? Obtain a definitive statement from the Chief Executive Officer or President stating what he or she expects out of the Strategic Plan. Circulate an outline to all major participants in the process.

2. Gather preliminary information for the plan, such as the current mission of the organization, major goals in progress, and other plans already implemented. Survey key managers and determine critical issues of the future.

3. Determine the scope of the strategic plan. What is the planning period? Generally, the planning period should cover enough time to shift the direction of the organization towards a desired situation. What is the organizational scope of the plan? Will the plan cover the entire organization or maybe certain divisions or units?

4. Reach consensus from essential participants on how the planning process will work. Also, determine how different stakeholder groups will be involved in the process. Prepare a sequence of steps which will guide the process.

5. Finalize the formation of a planning committee. Who will be involved? Who will manage the process? Assign responsibilities and determine resource requirements.

EXAMPLE 1 — Preliminary Checklist to Organize the Process

1. Based on the concerns of key managers and the possible benefits of strategic planning, we should: ____ Proceed to Develop a Strategic Plan , ____ Go Slow , ___ Not Now, too much going on

2. A Strategic Plan should be developed for: ____ Entire Organization, ____Part of Organization, ____Project, ____Other

3. The planning period will cover: ___ 1 Year / ___ 2 Years / ___ 3 Years / ____Other__

4. The planning process will be directed by: ___Group Leader, ___Planning Committee, ___Consultant, ____Other__________

5. The Strategic Plan will be developed with participation by: (check all that apply): ____Board of Directors / ___Executive Management / ___Key Staff Groups_______________________________________ / ___Key Stakeholder Groups_______________________________________

6. The Strategic Plan is expected to be submitted for approval by: ________________________

The approach used for strategic planning will depend upon the organization and management. If upper-level management has been unsuccessful in the past with strategic planning, then a more bottom-up approach is needed. If the organization is small, then a team approach may work well. Larger organizations tend to favor a more formal process. However, too much formality can lower creative thinking and new ideas. The process should be open and not ritualistic.

The objective of organizing the process is to ensure that you end-up producing a good strategic plan. By staying focused on critical issues and alternatives, good planning will emerge. Do not be afraid to use some judgements and move quickly. A drawn-out process can wander and become outdated by a rapidly changing environment.

> EXAMPLE 2 — Napa Distributors Inc - Outline for Strategic Planning
>
> 1. Select a steering committee to direct the strategic planning process.
> 2. Select an outside consultant to assist with the process.
> 3. Get agreement on the planning steps, responsibilities, timeline, etc. Review agreement with Board of Directors.
> 4. Gather information from key management personnel on strength's, weaknesses, opportunities, threats, and critical issues.
> 5. Summarize current plans and mission. Review past successes and failures for last three years.
> 6. Review history with committee and board members. Determine recent progress and status.
> 7. Summarize prior meetings and draft a basic plan.
> 8. Review draft plan with focus groups, board, and key management personnel. Make revisions and finalize a complete strategic plan.
> 9. Final review by various groups.
> 10. Obtain approval of Strategic Plan.
> 11. Implement the Strategic Plan.
> 12. Review progress after six months and revise plan.

Finally, recognize that each organization is different and the planning process will vary. Start simple and match the capabilities of the organization with a process that is workable. The first step for three different companies is illustrated below:

<u>Excaliber Corporation - </u> Determine what kind of company we want to be - the company has not changed in over ten years.

<u>PPC Software </u>- Outline the basic tasks for a strategic plan and the desired results. Allow the process to flow from this outline.

<u>Alliston Trucking Company - </u> Initiate a learning program for management on strategic planning.

Chapter

3

Assessing the Situation

Once you have organized the process, the next step in the process is to assess your current situation. The organization needs to take a hard look at itself - Where are we going? Where are we now? What are our choices? In order to assess your current situation, you will need to collect information so that everyone understands the current situation. This will involve a review of past history, a critique of the current mission statement, analysis of organizational strength's, weaknesses, opportunities, and threats. You also need to understand the external environment - current competition, customer trends, technology trends, demographic changes, etc. Information can be collected through surveys, questionnaires, interviews, and other analytical techniques. The planning team will conduct situational analysis by following a series of steps, such as the following:

1. Collect background information to assess the situation. Start with a history of the organization, current mission, significant changes, stages of growth, etc. Have someone give a presentation on the history of the organization. Reach consensus on how successful the organization has been in the past few years.

2. Assess the strengths and weaknesses of the organization. Confine your list to the most significant strengths and weaknesses. Reach agreement on a good list. This list will help in the development of strategic objectives.

3. Next, develop a list of significant opportunities and threats facing the organization's future. You will need to gather information about external forces - customers, competition, social trends, technology, political, etc. If the planning team comes up with a long list, ask everyone to list the most significant eight and reach consensus on a list of eight opportunities and threats.

4. Now that you have identified strengths, weaknesses, opportunities, and threats, you need to review the mission statement. Does it fit? Should it be broader or more narrowly focused? A good mission statement should capture the essence of why your organization exists. A good mission statement includes the following characteristics:

    - Provides overall direction and vision for the organization.

    - Conveys an image of success for addressing the future.

    - Defines the competitive boundaries of the organization.

    - Usually is expressed in relation to marketplace served and products / services.

    - Avoids being too specific so as to allow room for change.

EXAMPLE 3 — PPC Software - Strengths and Weaknesses

Strengths:
Research & Development is finding new product innovations.
Customer loyalty is strong - high repeat customers.
Good reputation for quality software programs.
Weaknesses:
Organization is top heavy with Managers.
Market share is declining from new competition.
Internal production facilities need upgrading.

EXAMPLE 4 — Excaliber Corporation - Opportunities and Threats

Customers:
Customers are demanding a personal level of service in several areas - technology, consulting, planning, etc.
Competition:
Larger organizations have more resources for providing a better diversity of services to customers.
Technology:
The Internet will become a major channel for distributing services.

The main output from situational analysis is to compile a list of critical issues. A list of six to eight critical issues is the basis for preparing a formal strategic plan. It is helpful to categorize critical issues in relation to significance and probability of occurrence. The table below categorizes four different critical issues:

Probability of Occurrence	***< - - - - - - - - - - - Significance - - - - - - - - - - - - - >*** ***High***	***Medium***	***Low***
High	(1)	(4)	
Medium		(3)	
Low	(2)		

(1) The diversity of products we offer is not wide enough to meet the demands of customers.
(2) Overseas competition can produce similar products at much lower costs.

(3) Customers are seeking fabrication services in addition to products only.
(4) There is a shortage of highly skilled operating personnel.

Situational Audits

One way to assess a situation is to conduct a situational audit. Situational audits represent an analysis of past, present, and future aspects of the organization - production, marketing, financial, competition, etc. The objective of a situational audit is to identify key trends and events that will impact the organization. Situational audits also provide a way of discussing major issues. This can help jump-start the creative process when there is internal resistance.

Just like situational analysis, situational audits gather basic information for preparing the Strategic Plan - Mission Statement, Strengths, Weaknesses, Opportunities, Threats, and Critical Issues. Situational audits also include the expectations of stakeholder groups - executive management, operating personnel, investors, employees, customers, etc. Past performance is reviewed - sales, market share, product profitability, customer trends, etc. The Situational Audit is similar to situational analysis except that it is more formal and structured. Outside consultants are sometimes used to conduct situational audits.

EXAMPLE 5 — Situational Audit Evaluation

Financial:	Ranking
Return on Equity	1 2 3 4 5
Economic Value Added	1 2 3 4 5
Sales per Employee	1 2 3 4 5
Operating Cash Flow	1 2 3 4 5
Production:	Ranking
Capacity Used	1 2 3 4 5
Labor Used	1 2 3 4 5
Material Used	1 2 3 4 5
Quality Control Rate	1 2 3 4 5
Organization:	Ranking
Staff to Manager Ratio	1 2 3 4 5
Turnover Rate	1 2 3 4 5
Productivity Index	1 2 3 4 5
Development per Employee	1 2 3 4 5
Marketing:	Ranking
Market Share	1 2 3 4 5
Advertising	1 2 3 4 5
Customer Retention Rate	1 2 3 4 5
Technology:	Ranking
Current Capabilities	1 2 3 4 5
Time to Respond Rates	1 2 3 4 5
Ability to meet implementation targets	1 2 3 4 5
Competition:	Ranking
Cost Comparisons	1 2 3 4 5
Quality Comparisons	1 2 3 4 5
Market Comparisons	1 2 3 4 5

Making Situational Analysis Work

At the heart of situational analysis is the need to better understand what is going on and to properly account for what is happening. This look inside and outside the organization leads to a list of 6 to 8 critical issues. Before we proceed to develop a strategic plan for dealing with these critical issues, it is imperative that we find some degree of overlap or matching with:

- What it is you are trying to accomplish (Mission)
- What are you capable of doing (Strengths and Weaknesses)
- What is required and possible (Opportunities and Threats)

If there is no overlap between these three elements of strategic planning, then you should not proceed to develop a formal strategic plan. For example, suppose your organization has the following mission statement:

We want to be the global leader in the manufacture of automotive spark plugs.

However, your resources are limited to production and distribution in North America and certain parts of Europe. This lack of overlap or fit precludes a strategic plan. You need to go back and find the right fit before moving to the next phase in the process - developing the strategic plan.

Chapter
4

Developing the Strategic Plan

So far, we have accomplished two important steps: Organizing the Process and Assessing the Situation. We are now ready to translate our critical issues into a formal plan. We can think of a strategic plan in terms of layers, working down from the top. The Mission Statement is the top of the ladder or pyramid. The next layer is the strategic objectives of the organization followed by strategic goals. Next, we move down to specific action steps for meeting the strategic goals. The level of detail tends to increase as we move down the pyramid of the Strategic Plan:

Strategic Plan Mission Objectives Goals	Operating Plan Action Steps
< Short - Long >	
< Broad - Specific >	

We need to develop a set of strategic objectives that will address the significant critical issues of the future. Although critical issues are the main determinant of strategic objectives, the following criteria also need to be considered:

1. Strengths, Weaknesses, Opportunities, and Threats (SWOT). This is a good place to start if you are not sure how to address critical issues. Remember you are trying to maintain a good fit with all elements from the planning process.

2. Available resources that will affect what you can do. Strategic objectives should be developed based on the best use of resources.

3. Tradeoffs between upper and lower management. Upper-level management will set ambitious objectives that are difficult for lower-level managers to meet. Therefore, a negotiation needs to take place between upper and lower management on final strategic objectives.

4. Past performance adjusted for future trends should fit with strategic objectives. Once again, we are trying to find the right fit based on what we are capable of doing. Past performance is a good indicator of capabilities.

In addition to the above criteria, strategic objectives should attempt to meet the following tests:

1. Strategic objectives clearly support the Mission Statement by moving the organization in the right direction.

2. Strategic objectives are realistic and achievable based on available resources, existing competition, management styles, etc.

3. Strategic objectives are acceptable to those who have to implement the objectives in terms of costs, time, staffing, and other requirements.

4. Strategic objectives are not rigid and allow for change given unplanned events.

5. Strategic objectives are specific enough to allow for measuring progress.

6. Strategic objectives are simple, easy to understand, and convey responsibilities to specific areas.

EXAMPLE 6 — Strategic Objective No.4 for Appalachian Tree Growers

Our objective is to increase market share in Western Europe by 10% over the next three years.

One of the most common approaches to setting strategic objectives is the critical issues approach; i.e. looking at critical performance areas such as market share, product profitability, production efficiencies, employment practices, public responsibility, etc. However, we can also take three other approaches, scenario playing, organizational alignment and goals approach.

Scenario Playing: Under scenario playing, several different alternatives are developed based on what could happen. What will the organization look like if this happens or this happens? This approach selects the preferred scenario based on the merits of each. Scenario playing is a better approach then the critical issue's approach when the organization has several different directions to choose from. On the other hand, scenario playing is not a good approach if the organization is simply trying to fine-tune or adjust its strategic plan.

Organizational Alignment: Under this approach, you are trying to get all parts of the organization to work together. This is required before you attempt to address critical issues with strategic objectives. Organizational alignment determines what is working and what is not working. What parts are holding the organization back? Strategic objectives are developed to re-align the organization so that everything is working properly.

Strategic goals are the next layer within the Strategic Plan. Some organizations prefer to set goals rather than objectives, which leads us to a third approach, the Goals Approach. The Goals Approach is straightforward. It focuses on goals since most people are very familiar with goal setting. A goals approach works well for larger organizations that have multiple business units or divisions. If the organization is small and/or the operating environment is rapidly changing, then a goals approach may not work.

EXAMPLE 7 — Strategic Goal No.2 for Appalachian Tree Growers

The Marketing Department will submit a promotional program by September 30th targeted at France, Germany, and Spain.

The key elements of a strategic plan are now in place - Mission, Objective, and Goals. It is time to pull all of the elements together and draft the Strategic Plan. In order to make the plan complete, additional sections will be added. These sections include:

1. Executive Summary: A one or two page summary of the Strategic Plan which touches on the main components, such as mission, objectives, and current situation.

2. Principles: The beliefs and values of the organization can help add substance to the Strategic Plan.

3. History: A brief summary about the organization. How did it get started? What significant events changed the direction of the organization?

4. Profile: Some basic facts about the organization, such as markets served, size of organization, major product lines, etc.

5. Situational Analysis: A brief summary of the strengths, weaknesses, opportunities, and threats now confronting the organization.

The circulation of a draft strategic plan will sometimes prompt new ideas, new issues, and new objectives. Therefore, one of the critical steps in strategic planning is to refine and adjust the draft plan. Get everyone to agree on the major objectives and goals since this will direct what the organization will do in the next year or two. You must have a clear and concise strategic plan for easy translation into action steps. This is the next major step in the process - developing an Operating Plan. And don't forget to evaluate the process so you can improve the next planning session.

EXAMPLE 8 — Evaluation of the Strategic Planning Process

1. Do you believe the strategic planning process was useful?
2. Did the Strategic Plan produce the right results in regards to: Mission, Strengths, Weaknesses, Opportunities, Threats, Critical Issues, Identification of Competition, and Goals.
3. Do you believe strategic planning improves the management of the organization?
4. Does strategic planning fit within the organization?
5. Do you believe strategic planning improved how assets are deployed?
6. Do you believe that key groups affected by the Plan had sufficient opportunities for input into the Plan?
7. Do you believe the time spent on strategic planning was appropriate?
8. Did strategic planning follow a set of efficient steps?
9. Did strategic planning facilitate new ideas?

Chapter
5

Implementing the Strategic Plan

We have established our overall strategies for the future. We need to make it official by having the Strategic Plan approved. Approval may involve the Board of Directors, Executive Management, and others who need to lend their support to get the Plan implemented. By having key decision-makers approve the Strategic Plan, it signals that it's OK to implement the Plan. Implementation is managed through the development of an Operating Plan.

An Operating Plan is a step by step plan for implementing the Strategic Plan. Operating Plans depend upon good strategic plans. If there are fundamental problems with the Strategic Plan, then successful implementation will be extremely difficult. Additionally, since operating personnel must implement the Strategic Plan, some level of involvement prior to this point should have taken place.

Operating Plans are prepared for the short-term (usually one year). One major function of the Operating Plan is to allocate resources for getting the plan implemented. If resources are not available or there is an excess of resources, then the Strategic Plan should be re-evaluated.

Operating Plans need to cover the functional areas which are required for implementation - marketing, research & development, financing, operations, technology, etc. Each functional area will submit detail budgets and plans for inclusion within the Operating Plan. Detail functional plans address the following:

- Plans for establishing organizational size, structure, and staffing.
- Plans for asset deployment and investment.
- Plans for promotion, pricing and marketing of products and/or services.
- Plans for production changes and scheduling.
- Plans for management development and training.
- Plans for raising capital.

Generally, functional plans should be prepared by Managers over the functional area. They should not include areas outside the control of the Manager. The key task for the Manager is to remain focused on the Strategic Plan and not get lost in the detail. The best operating plans tend to minimize the detail and flow from the Strategic Plan.

Also consider the following points about Operating Plans:

- Operating Plans usually assign responsibilities and define the roles people will play in accomplishing the Strategic Plan.

- Operating Plans are routinely changed as you learn more and gain experience. An incremental, trial and error approach is often the best approach.

- Operating Plans need to be tight enough to meet strategic objectives, but loose enough to allow for creativity and flexibility.

- Operating Plans usually will include a timeline or deadline for completing tasks.

- Operating Plans should be communicated to everyone held responsible for doing the tasks. If outside groups will assist, then include them in the communication.

Evaluation and Control

Successful implementation requires monitoring the progress of action steps within the Operating Plan. Evaluation should be done on a regular basis (monthly, quarterly, etc.) with an emphasis on the following:

- How much progress has been made in accomplishing the task?

- What is preventing us from moving forward?

- Is there a need to go back and revise the strategic objective?

- What adjustments should be made to the Operating Plan?

One way to evaluate and control an Operating Plan is to include budgets. Budgets are used to allocate resources and coordinate how assets are deployed. Budgets compare actual results with performance standards. Budgets usually cover short-term (one year or less) and they cover several functional areas - marketing budget, production budget, technology budget, etc.

Budgets should be prepared based on the following criteria:

- Budgets should be simple and easy to understand.

- Use budgets for those areas that need to be monitored.

- Budgets should not dominate decision-making. They should be used as a tool for managing, not a way to manage.

All of the budgets for an organization are combined into the Financial Plan. The Financial Plan is part of the Operating Plan.

Note: For more information on the Financial Plan, take Short Course 2 on Financial Planning and Forecasting.

One of the problems with budgets is that they tend to be financial in nature. The Strategic Plan covers many functional areas not related to finance, such as marketing, customer service, production, and human resource management. Therefore, we need a measurement system for the non-financial areas. The performance measurement system used for measuring non-financial areas is called the Balanced Scorecard. The Balanced Scorecard is designed around the Strategic Plan. Additionally, the Balanced Scorecard will include critical financial measurements. Therefore, the Balanced Scorecard becomes the principal system for evaluation and control of the Strategic Plan. Like the Strategic Plan, the best Balanced Scorecards tend to be simple and manageable.

Note: For more information on the Balanced Scorecard, take Short Course 12.

EXAMPLE 9 — Operating Plan for Appalachian Music Library

Goal → Improve the overall appearance and security at the Central Facility.
Action Step → Recruit volunteers for maintenance work and library security.
Assigned to → Administrative Assistant
Expected Completion → Volunteers recruited and trained on specific tasks by December 31st.
Resources Needed → Three to four volunteers on a part-time basis with coordination from the Administrative Assistant.
Expected Results → Volunteers can work independently with minimal supervision for the next six months.
Evaluation → Administrative Assistant and Board will physically inspect facilities after three months for improvements.

Contingency Plans

Because change is so much a part of planning and decision making, it is often useful to include contingency planning within the Operating Plan. Contingency Plans provide direction to operating personnel if unplanned events occur. For example, lower-level managers can prepare several budgets - expected budget, budget if growth rates are 10% below expected, 20% below expected, etc. These alternative or contingency plans provide guidance based on "what if" type analysis.

Contingency Plans are prepared similar to the Operating Plan. They cover the short-term and outline specific action steps to be taken. However, the level of detail is kept to a minimum, providing enough information to set a new direction.

Larger companies will use simulation models to prepare contingency plans. For example, if market growth is 5% less than expected, the impact on cash flow and earnings will be _____. Since more quantitative data is available at the operating level rather than the upper levels of the organization, simulation is more appropriate for developing operating plans than strategic plans.

Updating the Plan

The final step in this entire process is to repeat the process; i.e. update the Strategic Plan. The process needs to be dynamic since the operating environment is changing. As a minimum, strategic plans need to be updated yearly by going through the basic process of assessment, critical issues, objectives, etc. This will involve new staffing, new projections, and new implementation steps. Additionally, you may need to change your approach to strategic planning. If a stable environment has become extremely dynamic, then a shift from a goals approach to scenario playing may be appropriate.

Summary

Strategic planning is a dynamic process of continuously looking at your current situation and plotting your next move. This requires a solid understanding of the organization as well as an understanding about the environment that the organization operates in. The best organizations are always engaged in some form of strategic planning.

There is no right way to do a strategic plan. The best approach is to find a process that fits with the organization. This requires a fit with the mission statement, the strengths and weaknesses of the organization, and the opportunities and threats confronting the organization. If there is a fit, then start the process by getting organized. Organization involves putting together a team or committee, collecting information about current plans, and outlining how the Strategic Plan will be developed.

Situational Analysis is the next step in the process. Situational analysis is an assessment of strengths, weaknesses, opportunities, and threats related to the organization. Significant critical issues (no more than eight) are listed. Critical issues are addressed by developing overall strategies or objectives. The combination of mission, objectives, principles, and other components becomes the formal strategic plan. The final layer in the process is implementation of the plan. An Operating Plan is used to plot specific actions or tactics for getting the Strategic Plan implemented. Operating Plans consist of budgets, functional plans, financial plans, contingency plans, and other specific plans. Throughout this entire process, changes and updates can take place. Therefore, strategic plans and operating plans must be flexible and open to revision. At least once a year, the Strategic Plan is re-evaluated for changes.

Recommended Workbook: <u>Strategic Planning Workbook</u> by the Wilder Foundation, 919 Lafond Ave, St. Paul, MN 55104-2198, Ph: 1-800-274-6024 or 651-659-6024 or visit www.wilder.org.

Final Exam

Select the best answer for each question. Exams are graded and administered by downloading and installing the exe file version of this course. The exe file located over the internet at www.exinfm.com/training.

1. Strategic Planning is a process whereby management makes choices about overall direction. One such choice within strategic planning is establishing the:

    a. Goals of the organization

    b. Financing of capital assets

    c. Distribution of stock dividends

    d. Election of Officers

2. Strategic Planning should be used for each of the following **except** for:

    a. Finding a vision for the organization

    b. Determining future strategies or objectives

    c. Getting the organization out of crisis

    d. Managing the long-term future

3. Strategic Planning can result in change and people often resist change. People's resistance to change can be reduced by:

    a. Making the planning process extremely formal.

    b. Categorizing the process as re-engineering.

    c. Making the process very experimental.

    d. Getting people involved within the process.

4. The first real phase of strategic planning is:

    a. Issuing the Draft Plan

    b. Organizing the Process

    c. Approving the Plan

    d. Developing the Operating Plan

5. In what phase of strategic planning does identification of strengths and weaknesses take place?

    a. Organizing

    b. Approval of the Plan

    c. Assessment

    d. Implementation

6. A good mission statement should:

    a. Be extremely specific for measurement

    b. Have references to management

    c. Outline the tactics of the organization

    d. Set direction for the organization

7. Each of the following is important for developing strategic objectives **except**:

    a. Tradeoffs between upper and lower management

    b. How the organization got started

    c. Review of available resources

    d. Strengths and weaknesses of the organization

8. Marco Corporation has included the following statement within its strategic plan: *By December 31st, the Production Department will re-align the Eastern Distribution System to better serve markets in Canada*. This statement is an example of a:

    a. Strategic Goal

    b. Mission Statement

    c. Organizational Weakness

    d. Principle or Value

9. Which of the following controls can help evaluate the performance within an Operating Plan?

    a. Organizational Charts

    b. Budgets

    c. Bank Reconciliation's

    d. Audit Reports

10. To help manage unplanned events or "what if" type events, Operating Plans should include:

    a. Approvals by Shareholders

    b. References to Old Plans

    c. Contingency Plans

    d. Profiles of the Organization