STRATEGIC PLANNING:
CREATING VALUE, GROWTH, AND MOTIVATION

By Halie D. Smith (edited)

Imagine planning a vacation with no destination in mind. It would be difficult to reach a target without knowing the steps to get there. Similarly, organizations can set goals with intentions of achieving them, but without a plan of action those goals may never be realized. Having a plan allows business entities to envision a goal and have a clear path of how to experience success and evaluate it. Today, a growing number of organizations are using strategic planning to experience growth and success.

Strategic planning is defined as the process by which organizations determine and establish long-term directions and formulate and implement strategies to accomplish long-term objectives while taking into account relevant internal and external environmental variables.[1]

"Strategic planning arose in the 1960s as an outgrowth of the long-range planning movement, also known as the programmed-management or management-systems movement."[2] Strategic planning developed from two basic organizational needs:

1. A systematic approach to managing various business units
2. Expansion of the planning and budgeting horizon beyond the traditional twelve-month operating period[3]

"Managers also had a heightened awareness that financial planning alone was not a sufficient framework. Planning, organizing, leading, and controlling growth-oriented companies required a more comprehensive, strategic approach."[3]

Organizations seek sustainability. In order to maintain existence and experience growth, companies must develop and implement plans that result in the achievement of common goals. "Regardless of how one measures organizational success, contemporary management theorists agree that an organization is more likely to succeed if it takes steps to align its actions with its goals." [2] This can be accomplished by effectively executing the organization's strategy.

"Strategy is centrally concerned with the selection of goals and objectives…It is a set of objectives, policies, and plans that, taken together, define the scope of the enterprise and its approach to survival and success." [4] A company's strategy is an action plan for conducting operations. It is a way through

Use the most current information

The best planning process in the world won't work if you base it on bad or stale information. Here's where it pays to stay involved. Although your customers and selling efforts probably provide the best information on current market conditions, industry associations can also be valuable sources of news and trends. Don't neglect hometown business connections, either, especially if most of your business is local. At Yantis Corp., involvement in local business is one reason the 21-year-old, $20-million San Antonio highway-construction company survived Texas's real estate woes of the late 1980s. President Tom Yantis recalls that his father, chairman John Yantis, served on the board of a local savings and loan. In the mid-1980s John began to worry about the viability of numerous real estate projects. He convinced his son that a slow-down was coming.

a difficulty, an approach to overcoming an obstacle, and a response to a challenge.[5] A successful strategy must meet the following criteria:

- **Consistency:** The strategy must not present mutually inconsistent goals and policies.
- **Consonance:** The strategy must represent an adaptive response to the external environment and to the critical changes occurring within it.
- **Advantage:** The strategy must provide for the creation and/or maintenance of competitive advantage in the selected area of activity.
- **Feasibility:** The strategy must neither overtax available resources nor create unsolvable sub problems.[4]

The process involves a series of organizational activities that begins with the definition of organizational mission, development of strategic objectives, crafting of strategies, and ends with the development of action plans to ensure that the strategies are implemented to achieve organizational objectives.[6]

Strategic Plan Evolution

Smart growth-company managers plan first and then continually fine-tune their plans to adjust to new market realities. Ask David Harmon. In 1978 he co-founded El Camino Resources, a Woodland Hills, Calif., computer-leasing company that made the Inc. 500 in 1985 and has 420 employees and $512 million in revenues today. “Planning,” CEO Harmon says, “is something we’ve done since right after we got into business.” What changes as a company grows, he says, is that planning becomes even more critical--and more complicated and formal, since there are more variables to track. “When you’re small, you can almost put your plan on the back of an envelope,” Harmon says. “Now it takes a whole three-inch binder.” However, in a fast-changing industry, El Camino still has to remain flexible.

The basic steps are:

1. Defining the business – including a concept of mission, corporate goals, and key business values.
2. Conducting a situational analysis, which usually includes both external (environmental/competitive) analysis and internal (organizational) analysis.
3. Establishing planning assumptions or premises.
4. Setting objectives and priorities.
5. Developing implementation strategies and/or action plans.
6. Designing a control system to assist managers in “managing by the plan.”[3]

Why do organizations develop strategic plans? “For any business, strategic planning is a necessity. It is the key to looking to the future and creating a direction intentionally as opposed to simply reacting to the marketplace on a daily basis.”[7] Strategic planning allows organizations to be proactive instead of reactive regarding environmental changes. An organization can actively make changes to the workplace and its practices. This can help management anticipate future opportunities and threats. “Proaction involves creating change, not merely anticipating it.”[8] Strategic planning helps management take initiative to improve a business.

Anticipate Opportunities

David Pairitz, chief financial officer of Fastec Industrial, which distributes approximately $25 million in industrial fasteners and related products each year, says that Elkhart--home of Fastec’s corporate headquarters-often if your business is primarily local, like Tom Yantis’s highway-construction company, it’s smart to keep tabs on local economic indicators that may point to up- or downturns. One likely reason: Elkhart is a center of recreational-vehicle manufacturing, and RV sales reflect the rising or falling economic confidence of middle-class Americans. Even though Fastec’s sales are national, Pairitz still keeps an eye on business conditions in his neighborhood. “Knowing what Elkhart can mean to the rest of the economy does help put things into a larger perspective for our company,” he says.

Organizations can envision a future through strategic planning. The procedure provides a roadmap of where an organization wants to be and how it plans on getting there. The process helps identify opportunities for innovation and growth by leading to a better understanding of the organization’s markets, competition, the economy, social and demographic changes, legal and regulatory changes and changes in technology. It also helps management understand the organization’s strengths and weaknesses and provides a means for evaluating progress.

Thus, a strategic plan helps a company to recognize its ranking within an environment in relation to its competition. It can foresee changes and have an idea of how to react to them. Management also becomes informed of the strengths and weaknesses within the firm. This knowledge helps executives to evaluate the capabilities of the company and its employees. Having an extensive knowledge of a firm’s internal environment assists executives in making improvements within the company.

A strategic plan cannot succeed unless derived from a clear vision of what the organization will look like at a specific point in the future. “Vision helps an organization to grow and see that it is not a stagnant company. A well-communicated vision shows that a company is innovative and forward-looking. The vision is what makes employees passionate about what they are doing and being a member of the organization. If employees understand the vision and believe in it, they will work harder to achieve it."[9]

Strategic planning can provide a feeling of commitment throughout an organization. If a plan is effectively communicated, employees, understanding the general direction of the business, may invent new initiatives in pursuit of the company's objectives. "When people understand what the organization's purpose is and its plan for the future, they are likely to make a connection between the organization's purpose and their own purpose. When that happens, people internalize the organization's purpose and tend to become intrinsically motivated to achieve it."[10]

Management must be able to effectively communicate the plan throughout the company. "A good strategic plan effectively communicated can have a highly beneficial effect on a business."[10]

Value of the Process

The folks at Frontier Cooperative Herbs, in Norway, Iowa, have been writing annual strategic plans for a long time; the former Inc. 500 company, founded in 1976, has had formal annual plans since at least the early 1980s, according to CEO and cofounder Rick Stewart. The company, which distributes spices and other products to natural-foods retailers, has grown from $2 million in 1982 to $29.6 million in 1995. But when Stewart looks back at some of those first plans, he has an admission to make. "There were a few plans in the early years," he says, "that were really compost." Stewart contends that just the process of planning puts a company on the right track, because planning gets key staff members to agree on important goals. "It's more important to finish the plan than to do everything right," he says. "You can always get better at it next year." The first step in Frontier's annual planning process is, in fact, figuring out ways to improve on last year's method.

"Look for ways to include everyone throughout the organization in some aspect of the strategic planning process. This can be pursued in a variety of ways, including asking rank-and-file employees to articulate what the organization's mission and values mean to them as well as asking teams, groups and departments to create their own analyses of the strengths, limitations, opportunities and threats that are visible from their vantage point in the organization."[7]

Involving everyone in the organization helps spread an organization's mission, vision, goals, and objectives throughout the company. Not only does this provide feedback, but it can give employees a sense of pride and ownership in the process. Employees also become aware of their importance within the firm and their role within the organization. "Strategy is best done collectively by a fairly large group of people at multiple levels of the organization."[11]

In order to achieve and maintain an optimistic outlook, it is important to periodically evaluate a strategic plan. Evaluation helps to ensure that managers and employees are working to achieve the goals of the organization in the most effective manner. "No organization can afford to shackle itself to the same goals, programs, and operating methods year after year."[9]

If an organization is not using strategic planning, it will be difficult to achieve high performance. An organization can be surpassed by its competitors due to an inability to recognize opportunities within its operating industry. Employee morale will be negatively affected because of an absence of unity and direction within the company. Goals will also be harder to obtain if all employees are not working in unison.

The process compels the identification of organizational strengths and weaknesses. This helps management to evaluate the internal environment of the organization and make alterations to the operating system. An organization that is operating at the optimal level is more likely to experience growth. *(continued next page)*

Value of the Data

If your business forces you to make quick decisions, it's critical to have a sound basis for making them. That was Karen Goode's key lesson from her strategic-planning course. The class forced her to break down her business into revenue streams, called strategic business units, and then to analyze the profitability of each. The results surprised her. Goode does transcription business for local hospitals and medical clinics and occasionally for publishing companies. She had always assumed that the clinic business was a minor adjunct to her core (hospital) business. When Goode broke out the numbers by strategic business unit, she realized that the clinic business could be very profitable-if she managed it properly. Because the clinic accounts require less-specialized medical knowledge than the hospital accounts, she could assign lower-paid people to them. However, without careful planning, she might end up putting her highest-skilled, most expensive people on those easier accounts, thus missing out on her potentially high margins.

Periodically evaluating the strategic planning process is essential to maintaining optimism. Assessing the value of the plan will ensure that the organization is working toward the direction that has been declared. If a plan is not evaluated, it can become outdated and hinder growth. The business environment is continually changing. A successful plan must accommodate to those changes and be modified to create growth and sustainability.

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Inserts:

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