5 Strategic Planning and Management

The term “strategy” comes from the Greek word “strategos,” deriving etymologically from stratos (the army) and agein (to lead). Thus, in this original sense, “strategy” is “the art of leading the army.” While it has originated in the military sphere, the term “strategy” has risen into prominence in the business world since the 1960s to become a cornerstone of high-performing enterprises nowadays.

This chapter delves into the key characteristics and constituents of an enterprise business strategic planning and management necessary to take your enterprise business to the “Continuous Improvement” stage of maturity as described in a previous chapter.

5.1 Enterprise Business Intended Strategy

In business practices, an enterprise business intended strategy is an integrated concept represented by long-term guidelines on the enterprise business as a whole or at important parts of its business, with the intended objective of ensuring survival through target market positions and competitive advantages that the enterprise business must build and maintain. It is determined by the enterprise business executives and management, and it describes the potentials success which the enterprise business must be built up or maintained. An enterprise business intended strategy also evolves on a dynamic basis over time in response to the internal and external contingencies that emerge to confront the enterprise business.

Mintzberg defines an enterprise business intended strategy in terms of 5Ps (Mintzberg, 1978). These 5Ps are:

1. *Perspective* – It is the basic business concept or idea, and the way in which that concept or idea is put into practice (or implemented).
2. *Plan* – It is a direction, a guide, or a course of action from now (or from the past) into the future, however that “future” is defined and whatever the time horizons associated with it.
3. *Pattern* – It is the consistency of enterprise decision-making over time.

A. Van Aartsengel and S. Kurtoglu, *A Guide to Continuous Improvement Transformation*, Management for Professionals, DOI 10.1007/978-3-642-35904-0_5,

4. *Position or positioning* – It is an indication by which the enterprise business "locates" itself within its external and competitive environments; and by which it positions specific products or services (and therefore the resources and capabilities required to produce them) against the demands of the market segments it serves.
5. *Ploys* – These are the competitive moves or competition strategies designed to maintain, reinforce, achieve, or improve the relative competitive position of the enterprise business within its sector and markets.

Enterprise business intended strategies are the means by which the enterprise business intends to achieve its objectives. They describe the chosen "paths to goal," or "routes to achievement" or "plans of campaign." They act as "ground-rules," and define the nature and occasion of the decisions needed to achieve enterprise objectives. Intended strategies have their time scale and their risk content, and they determine how the enterprise intends to carry out its activities during the time horizons to which it is working, in order to achieve its objectives.

As economic entities, enterprise businesses need intended strategies in order to: set their priorities as regards to resource allocation; be able to react to uncertainty and turbulence: changes in their environment; respond to competitors' behavior; or communicate the direction of their own business to employees, customers, and shareholders.

There are many forces contributing to uncertainty and turbulence in today's economy. Some are macroeconomic, other forces are political and regulatory, and other forces are more industry or even company-specific. In some industries, rapid consolidation is forcing companies to consider multiple scenarios and choose what role they want to play in the market place. In other industries, the rise of rapidly developing economies, such as China, India, and Brazil, is creating new competitors and more complex competitive dynamics. And even in more stable industries, many enterprise face uncertainty and turbulence simply owing to the fact that their existing portfolio of businesses is maturing, requiring the development of new business models and new platforms for growth.

Not every enterprise business has to struggle with all these forces, which contribute to uncertainty and turbulence. But most will face at least some of them; and relatively few will encounter none at all. It is important to keep in mind, however, that while turbulence presents majors challenges, it also creates opportunities. For that reason, effective intended strategy will be the key to superior value creation in the long term.

Because of the particular intended strategies they adopt at the global, corporate, business, and functional levels, some enterprise businesses in very tough industries (automobile and turbo-machinery for example, where we have been fortunate to provide consulting services) consistently deliver higher performance than their competitors. As indicated in a previous chapter, these successful enterprises balance two needs:

1. The need to look backward in order to maintain the existing enterprise business and its current customers, and
2. The need to look forward in order to explore and achieve performance breakthroughs and to identify and attract new customers and new sources of value. This second need is the purpose of strategic planning.

Emerging strategic imperatives include goals of not just aiming to optimize within the enterprise business' current industry but trying to generate ground-breaking intended strategies which will create new niches and markets and re-define whole industries. In other words, ensuring survival through target market positions and competitive advantages not just for market share in existing markets but for "opportunity share" in future markets, in a world of continuous re-definition of industry boundaries and commingling technologies. This implies that enterprise businesses should not merely or exclusively be trying to catch up with the best performers, as Toyota's and GE's family of companies, in current competitive markets, but be aiming to invent new markets, re-write the rules and create new competitive space. The development of these intended strategies is a very complex task that requires competence in a number of different functional areas within the enterprise business.

5.2 Strategic Management

Strategic management is a set of activities followed to establish and implement an enterprise business intended strategy. The establishment of intended strategies, the making of plans, and the implementation of those intended strategies and plans are key management decision-making processes in any kind of enterprise business. The strategic decision-making process takes place, in some form or other, in most kinds of businesses. The process may be formalized and systematic. Or it may be informal, opportunistic and ad hoc in nature.

Strategic management is concerned with management planning and decision-making for the medium to long-term future. It is concerned with the anticipation of that future, and with the establishment of a vision or view of how the enterprise should develop into the future that it must face. Strategic management is also concerned with the character and direction of the enterprise business as a whole. It is concerned with basic decisions about what the enterprise business is now, and what it is to be in the future. It determines the purpose of the enterprise business and provides the framework for decisions about people, leadership, customers or clients, risk, finance, resources, products, systems, technologies, location, competition, and time. It determines what the enterprise business should be capable of achieving, and what it will not choose to do. It will determine whether and how the organization will add value, and what form that added value should take.

The tasks involved in strategic management can be broken down into strategic planning, the implementation of intended strategies, and strategic control. Strategic planning, which is the process by which strategies are produced, forms the basis for the implementation of intended strategies and strategic control. A systematic approach to strategic planning, which is firmly grounded on realities, is seen by many enterprise leaders and management researchers as an essential requirement for long-term enterprise success (Aaker, 1992; Abraham, 2012; Barksdale & Lund, 2006; Bradford, Duncan, & Tarcy, 2000; Chambers & Taylor, 1999; Espy, 1986; Fogg, 1994; Goodstein, Nolan, & Pfeiffer, 1993; Grünig, Kühn, & Clark, 2010; Kaufman, Oakley-Browne, & Watkins, 2003; Mintzberg, 1994; Rea & Kerzner, 1997; Simerson, 2011; Wittmann & Reuter, 2008; Wootton & Horne, 1997).

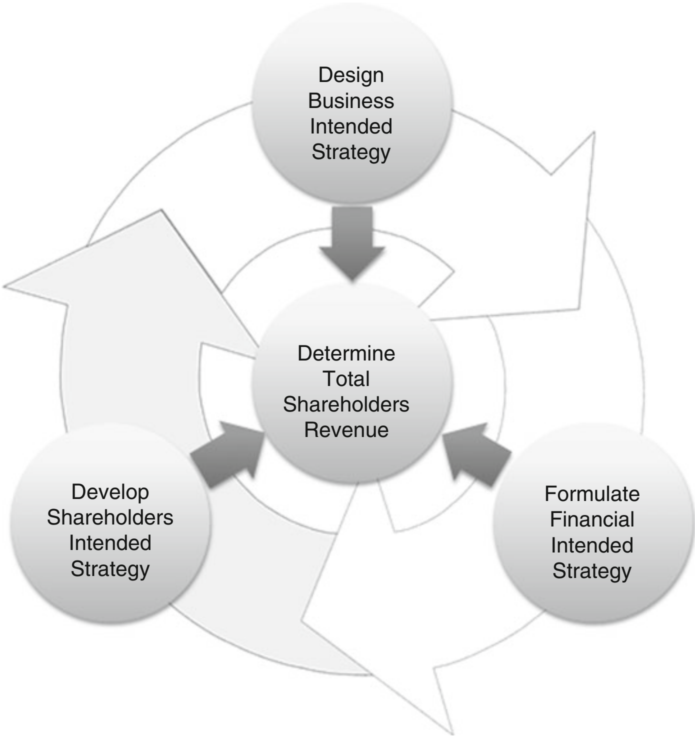

Fig. 5.1 Development process of an enterprise intended strategy

5.3 Strategic Planning Process

Ideally, an enterprise business intended strategy planning defines the fundamental logic that explains why a particular set of businesses are set together in the first place within the enterprise. For example, it should identify the parenting advantage and operational synergies that make the enterprise the best owner of its particular set of businesses. And it should define the precise role of each of its businesses in the enterprise business' overall value-creation intended strategy.

Enterprise business intended strategy planning is also responsible for making sure that the enterprise business' portfolio of businesses evolves over time. Some businesses inevitably mature and may no longer be able to create value at a level that matches the enterprise business' aspirations. Thus, the enterprise business intended strategy planning must also consider the full range of factors affecting the total shareholders returns (TSR).

An enterprise business intended strategy and the value that the enterprise business creates exist in a symbiotic relationship, as illustrated in Fig. 5.1. An enterprise business intended strategy defines the key areas of the enterprise business competitive advantages and how it will exploit those advantages to create value to its shareholders. But the energy flows in the opposite direction as well. Value creation is an important foundation for future competitive advantage. Not only does it satisfy shareholders demands, it also solidifies their support for management's long-term planning.

Figure 5.1 depicts a broader approach to developing an enterprise intended strategy. The process places value creation at the center of the development of the enterprise intended strategy. It supplements the focus on the sub-process for the design of business intended strategy with sub-processes for strategy focusing on the enterprise financial policies and shareholders priorities and goals.

This approach originates from the "Boston Consulting Group" in its development series on "value creators" (Olsen, Plaschke, & Stelter, 2008, 2009; Olsen, Plaschke, Stelter, & Farag, 2011). The advantages of this approach to developing an enterprise business intended strategy include:

1. *Simultaneous and tandem planning* – planning and decision making flow in tandem and simultaneously. Once the intended business strategy (including that of its various component businesses) is defined and specific financial targets are set, those choices then determine the parameters of the enterprise financial policies and the communications necessary to establish the intended strategy to the shareholders.
2. *Non sequential (hence self-interest) decision making* – Because the decision making is non sequential, it reduces self-interest fragmentation across different operational and functional businesses. In this approach, corporate strategists, corporate finance, and shareholders relations work together in tandem, within the project team designed to develop the enterprise intended strategy, to produce an objective fact-based analysis of what it will take to create value from the enterprise business.
3. *Strong connection to value creation* – Few enterprise businesses have an explicit goal for shareholders value. And those that do rarely incorporate that goal explicitly in their planning process or quantify the potential total shareholder returns contribution of their business plans. As a result, value creation may be a desired outcome, but it is not an actual driver of the intended strategy development.

Using this approach, business intended strategy, financial intended strategy, and shareholder intended strategy are examined in tandem and simultaneously (not sequentially) by the entire enterprise project team designed to develop the enterprise business intended strategy (not by isolated functional experts) in order to identify and reach agreement on critical tradeoffs.

The proposed process for developing an enterprise business intended strategy takes into account these interactions and linkages and allows enterprise business executives to manage the tradeoffs among them, focusing on value creation.

A key aspect of this approach is to view business intended strategy, financial intended strategy, and shareholders intended strategy as three equal parts of an enterprise intended strategy and to thread them in tandem and simultaneously rather than sequentially. This integrated perspective is critical because both enterprise financial policies and the goals and priorities of its dominant shareholders can have important implications for the each of the enterprise businesses intended strategies

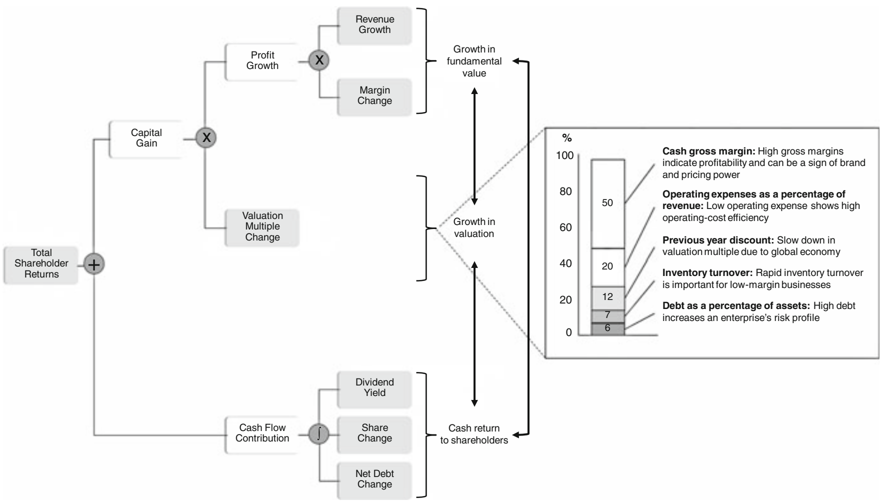

Fig. 5.2 Drivers of total shareholder returns, as indicated by The Boston Consulting Group

(and vice versa). They also can have a direct – and, sometimes, quite substantial – impact on the total shareholder returns in their own right.

Most enterprise business executive teams believe that they are already committed to increasing shareholders returns. After all, they talk about it all the time during lively presentation and communication to employees. Some may even have set a target for improvement in total shareholder returns. But in most cases, they are not really focused on value creation for these shareholders or for any value creation at all, because their enterprise business intended strategy planning process does not consider the full range of factors affecting the total shareholder returns.

In its "Value Creators" reports series (Olsen et al., 2008, 2009; Olsen, Plaschke, & Stelter, 2010; Olsen et al., 2011), the Boston Consulting Group has introduced an integrated model for determining the total shareholder returns. The model, illustrated in Fig. 5.2, incorporates three critical dimensions:

1. The first is improvement in fundamental value, represented by the discounted value of the future cash flows of an enterprise business based on its margins, asset productivity, growth, and cost of capital.
2. The second is improvements in an enterprise business valuation multiple, driven by shareholders expectations that shape how capital markets value an enterprise fundamental performance at any given moment in time.
3. The third is the direct payment to shareholders or debt holders in the form of dividends, share repurchases, or the pay-down of debt.

The key point about this model for determining the total shareholder returns is that these three dimensions exist in dynamic interaction. For example, an enterprise business may improve its fundamental value through profitable growth. But precisely how the enterprise business goes about achieving that growth can have either a positive or a negative impact on its valuation multiple and, therefore on its total shareholder returns.

Alternatively, the level of the enterprise business multiple, compared with those of its peers, can enable certain business strategies and make others impossible. For instance, an especially strong multiple can make the enterprise stock a handy currency for acquisition; conversely, a weak multiple can make the enterprise vulnerable to take-over.

Finally, cash payouts not only can contribute directly to the total shareholder returns but also can have a positive impact on the enterprise multiple by both strengthening the loyalty of existing shareholders and attracting new investors.

5.3.1 Financial and Shareholders Intended Strategies

The financial intended strategy is the result of many different decisions about issues such as the enterprise capital structure, preferred credit rating, dividend policy, share repurchase plan, tax intended strategy, and hurdle rates for investment projects or mergers and acquisitions (M&A). Often these seem like discrete issues. But it takes a holistic approach to optimize the overall financial intended strategy.

For example, consider the impact of an enterprise business unit's proposed growth initiative. Business unit managers will naturally be focused on the initiative's return on investment – that is, whether it has a positive net present value (NPV). But even when a proposed growth initiative delivers returns above the cost of capital, the enterprise may have been able to get even greater returns by, for instance, returning the cash to shareholders.

Enterprise businesses that are overleveraged, that are undervalued compared with their future plans, or that suffer from a low valuation multiple relative to peers can often realize major improvements in their valuation multiples and total shareholder returns by paying out more cash to shareholders or by using that cash to reduce debt. In simple terms, every investment option needs to be considered simultaneously against alternative uses of capital. Unless the enterprise business project team designed to develop the enterprise business intended strategy (not by isolated functional experts) integrate considerations of business intended strategy, managing such tradeoffs is extremely difficult.

Similarly, with the enterprise shareholders demands and priorities, it is essential for the enterprise business intended strategy to be aligned with priorities and expectations of its shareholders. Those expectations will drive the enterprise business valuation multiple relative to its peers, which is the key source of short-term total shareholder returns and a critical influence on the enterprise long-term value creation.

5.3.2 Design Business Intended Strategy

A process-based approach for the design of an enterprise business intended strategy, which we highly recommend to enterprise business executives and managers engage in strategic planning implementation, has been developed by Grünig and Kühn (Grünig et al., 2010). It offers a comprehensive system of strategic thinking with uniform terminology and combines the most important methodological approaches within a single recommended planning process.

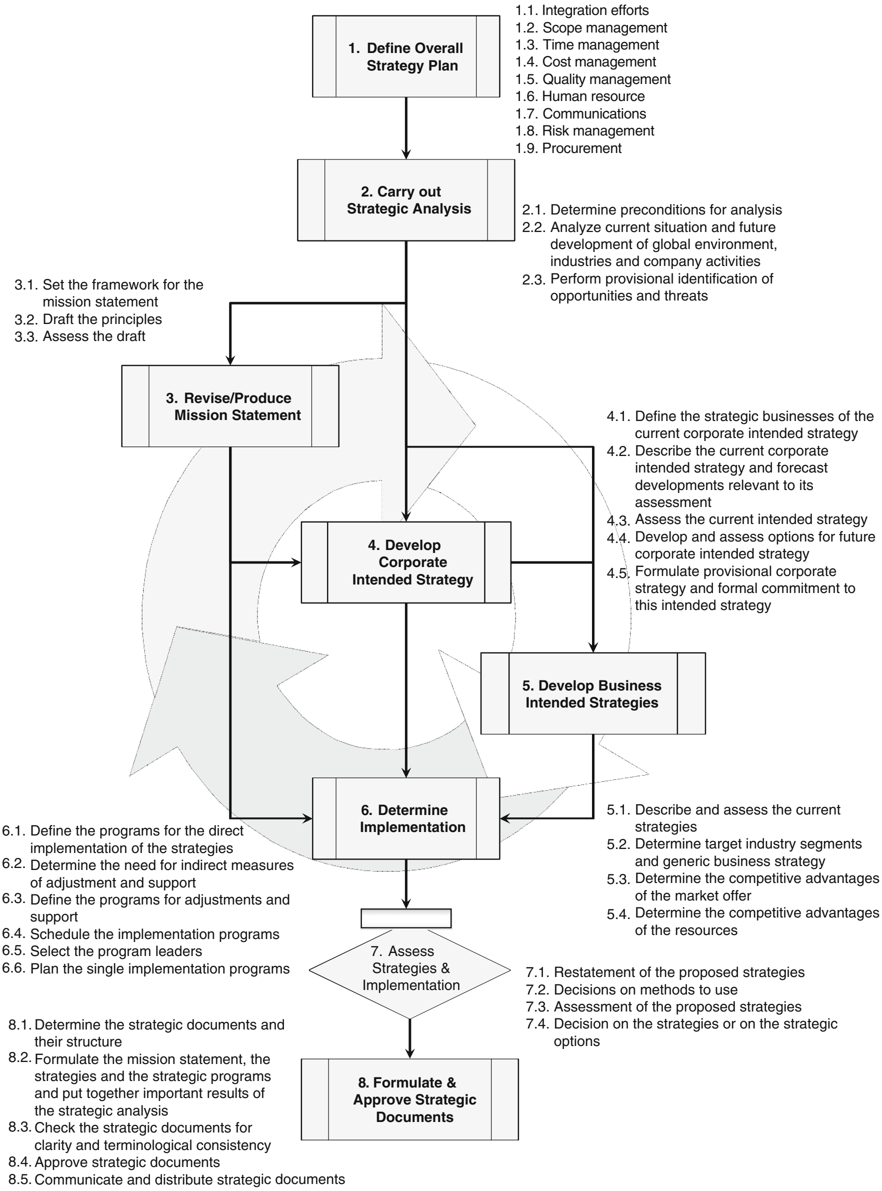

Fig. 5.3 Generic strategic planning process

Within a project management context, the developed strategic planning process, illustrated in Fig. 5.3, includes the actions necessary to define, analyze, develop, implement, assess and formulate all subsidiary plans into strategic documents. This section condenses and describes the steps of the strategic planning process.

5.3.2.1 Define Overall Strategy Plan

The initial step of the strategic planning process consists of activities that integrate the various elements within the strategic planning process. This integration includes characteristics of unification, consolidation, articulation, and integrative actions that are crucial to completion of the strategic planning, successfully meeting customers and stakeholders requirements, and managing expectations. Within this step, choices are made about where to concentrate resources and effort on any given day, anticipating potential issues, dealing with these issues before they become critical, and coordinating work for the overall strategic planning good.

The main objective of this initial step is to effectively integrate the activities that are required to accomplish the strategic planning objectives within the enterprise business defined procedures. These activities include:

1. Developing the strategic planning project charter that formally authorize strategic planning project.
2. Developing the preliminary scope statement that provides a high-level scope narrative.
3. Documenting the actions necessary to define, prepare, integrate, and coordinate all subsidiary plans into a strategic planning project management plan.
4. Executing the work defined in the strategic planning project management plan to achieve the requirements defined in the scope statement.
5. Monitoring and controlling the activities used to initiate, plan, execute, and close the strategic planning project or a phase of it to meet the performance objectives defined in the plan.
6. Reviewing all alteration requests, approving alterations, and controlling alterations to the deliverables.
7. Finalizing all activities to formally close the strategic planning project or a phase of it.

5.3.2.2 Carry Out Strategy Analysis

The second step of the strategic planning process aims to provide a provisional picture of the current situation of the enterprise business and the possible developments. It is concerned with:

1. Determining the preconditions for analysis:
   - Determining the markets and activities to be analyzed
   - Determining the methods and the resulting data quality
2. Analyzing the current situation and the future development of global environment, industries and company activities:
   - Analyzing global environment with global environment analysis
   - Analyzing the industry markets with market system analysis and identification of strategic success factors
   - Analyzing the company activities with strengths and weaknesses analysis and, if necessary, stakeholder value analysis

3. Provisional identification of opportunities and threats:
   – Provisional identification of the opportunities and threats at corporate level
   – Provisional identification of the opportunities and threats for each activity

In this step, the enterprise business examines its own internal or corporate characteristics and capabilities; and identifies the most important features of the external environment within which it must operate. This second step emphasizes on data collection, structuring, and analysis in three fields: global environment, specific task environments or industries, and the enterprise itself. The data is collected only to the extent that it is needed to answer strategic questions

Grünig and Kühn consider the environment under five categories: economic conditions and developments, social and cultural developments, ecological developments, technological change, and political and legal developments. Documenting changes in these categories must involve analysis of the regulatory bodies, which include: state institutions, employers' and industry groupings, trade unions and consumer organizations.

Data collected from these regulatory bodies must be integrated into the five categories for the environmental analysis. At this step of the process, five concrete methods, which culminate in the identification of threats and opportunities, both at the level of individual activities and for the enterprise as a whole, are recommended for use in the analysis:

1. Global environmental analysis, which focuses on developments in the company's environment, identifying trends which could have a major impact on the company's situation.
2. Market system analysis or analysis of the value creation chain of the industry.
3. Identification of strategic success factors or identification of criteria for customer choice. These are variables which have important effects on long-term success. As well as a number of general success factors which apply in all industries, each industry has its own industry-specific success factors. The success factors are important because they reveal the dimensions of competition. It is in these important dimensions that competitive advantages can be constructed.
4. Strengths and weaknesses analysis or competitor analysis or benchmarking.
5. Stakeholder value analysis

5.3.2.3 Revise or Produce Mission Statement

The third step of the strategic planning process is concerned with the revision or production of the enterprise business mission statement. It involves setting the framework for the mission statement, drafting the principles, and assessing the draft.

5.3.2.4 Develop Corporate Intended Strategy

The fourth step of the strategic planning process is the development of the corporate intended strategy (what industries/markets should the enterprise operate in?), which must guarantee that the enterprise business will direct its activities at attractive markets where it can build or maintain an advantageous competitive position. This step involves: defining the current strategic businesses (in what segments should the enterprise compete – and how?), a strategic business being a three dimensional construct which identifies a particular market, specific market offers and specific resources; describing and assessing the current market positions of the businesses; and determining target market positions and investment priorities for the businesses.

In large enterprise businesses, it may be convenient to divide strategy formulation into two inter-related components: the corporate strategy (what industries/markets should the enterprise business operate in?) and the business strategies (in what segments should the enterprise business compete – and how?). The corporate strategy deals with issues of strategic management at the level of the enterprise business as a whole. Such issues will include the basic character, capability, and competence of the enterprise business; the direction in which it should develop its activity; the nature of its internal architecture, governance and structure; and the nature of its relationships with its sector, its competitors, and the wider environment. The business strategies deal which the enterprise strategies for specific business or organizational activities, specific sectors and markets, and specific divisions or business units into which operations are allocated.

Strategy development in the small to medium sized enterprise is unlikely to differentiate corporate and business strategies. The corporate strategy of the enterprise business is its business strategy, at least until the small to medium sized enterprise business grows to a sufficient size to have to think about issues of corporate development and external relationships.

5.3.2.5 Develop Business Intended Strategy

The fifth step of the strategic planning process is concerned with developing the business strategies. These business strategies specify the resources and offers which are needed for each business so that it can achieve or protect the target market positions set out in the corporate strategy. To this end, the business strategies identify the competitive advantages which have to be built up or maintained. Furthermore, to function as a long-term framework for the development of a business, a business strategy has to answer the following questions:

1. What customer groups will be served and what types of products and services should be offered to them?
2. Which generic business strategy will be followed to do this?
3. What competitive advantages will have to be built up on the level of the market offer?
4. What resources will be required to maintain or upgrade these competitive advantages?

The activities in this fifth step include: describing and assessing the current strategies; determining target industry segments and generic business strategy; determining the competitive advantages of the market offer; and determining the competitive advantages of the resources.

5.3.2.6 Determine Implementation

The sixth step of the strategic planning process is concerned with the planning of the implementation measures, especially the creation of the strategic programs. It includes activities related to defining the implementation programs, planning the implementation programs, and setting budgets the implementation programs.

5.3.2.7 Assess Strategies and Implementation

The seventh step of the strategic planning process is concerned is the global assessment of both strategies and programs. In this step, the overall value of the strategies, the fit with the overriding objectives and values, and the feasibility of the programs are assessed in terms of resources, risk and cost involved.

5.3.2.8 Formulate and Approve Strategic Documents

The eighth and final step of the strategic planning process is concerned the formulation and approval of strategic documents, which also form the basis of strategic control. This includes activities related to:

1. Determining the strategic documents and their structure:
   – Determining the strategic documents
   – Determining the structure of each strategic document
2. Formulating the mission statement, the strategies and the strategic programs and putting together important results of the strategic analysis
3. Checking the strategic documents for clarity and terminological consistency:
   – Checking for terminological consistency
   – Checking for clarity
4. Approval of the strategic documents
5. Communication and distribution of the strategic documents:
   – Communication
   – Distribution

In business practice, strategic aims and measures are normally set out in a variety of types of strategic plan. There can be considerable differences, both in the names given to these plans and in what they typically contain. The most important strategic documents are identified as: corporate strategies and business strategies. Other important documents are mission statements and functional area strategies.

5.4 Strategic Control

As we have seen, strategic planning sets out long-term goals and provides an intended guide to what is necessary in terms of actions and resources. This provides a clear direction and basis for the strategic implementation. Strategy implementation deals with the realization of intended strategies at the material level of market offers and hard resources, but it also includes complementary measures concerning personnel. Unsatisfactory implementation at the personnel level is the most frequent cause of failure in achieving success with intended strategies.

Strategic control, which closes the tasks involved in strategic management, has a dual function: to provide feedback on how strategies are realized and to check whether the assumptions or premises underlying the strategic plans correspond to reality. If there is too much divergence between the intended strategic plans and their implementation, or if the premises behind the intended strategies do not correspond to reality, then planning must begin again.

There are three elements in the strategic control: strategic realization checking, strategic monitoring and strategic scanning. Realization checking serves to guarantee that intended strategic measures are realized. Strategic monitoring begins after formulation of the intended strategy. Strategic scanning involves the global intuitive observation of the environment.

5.5 Conclusion

As mentioned already, enterprise businesses as economic entities need intended strategies in order to: set their priorities as regards to resource allocation; be able to react to changes in their environment; respond to competitors' behavior; or communicate the direction of their own business to employees, customers, and shareholders. In practice, however, it is hardly possible to realize intended strategies completely due to changing environment and business landscapes.

Thus, the realized strategies normally diverge to a greater or lesser extent from the intended strategies. Enterprise businesses at the "Continuous Improvement" stage of maturity periodically assess and measure the extent to which the realized strategies deviate from the intended strategies and incrementally close the gap between the intended and realized strategies. Furthermore, in these enterprise businesses, strategy drives the pattern of decisions within the enterprise business as a whole.