STRATEGIC PLANNING: CONCEPTS, METHODOLOGY AND IMPLEMENTATION

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INTRODUCTION

This article deals with a powerful tool which is highly valued and widely applied by the most successful and best managed organizations throughout the world. It seeks to address two questions, namely -

(1) Does strategic planning work in Nigeria?

(2) If so, how can it be successfully implemented?

These questions raise a healthy scepticism as to whether proven management techniques can be used effectively in Nigeria - given the high degree of uncertainty and the constant change which managers face today in Nigerian organizations. My own view is that Nigeria is going through a fundamental economic restructuring today and therefore strategic planning is of crucial importance to the general manager who wishes to properly position his organization for the challenging times ahead.

In this article, I will attempt a brief review of how strategic planning is done and how it must be tailored to the Nigerian environment.

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CONCEPTS

It is useful to start our discussion with the question: "What is strategic planning?"

A very simple, straightforward answer is that it is "the formal process of determining long-range objectives and how to achieve them".

Perhaps a more comprehensive definition provides more flavour for general managers. A distinguished professor at the Harvard Business School, Kenneth R. Andrews, has described strategic planning by saying that "the highest function of the Executive is still seen as leading the continuous process of determining the nature of the enterprise and setting, revising and achieving its goals" (1). He calls this central function "corporate strategy" and defines it further, as follows - (2)

> "Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving these goals, and defines the range of business the Company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities.....Corporate strategy defines the business in which a company will compete, preferably in a way that focuses resources to convert distinctive competence into competitive advantage."

In actual practice, strategic planning involves five separate tasks, as follows -

(1) determining long term direction of the company

(2) assessing external environment and competitive position

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(1) Kenneth R. Andrews, The Concept of Corporate Strategy, Richard D. Irwin 1980, p. iii.

(2) Kenneth R. Andrews, The Concept of Corporate Strategy, Richard D. Irwin 1980, p. 18-19.

(3) establishing overall objectives, goals and strategies

(4) determining resource requirements

(5) establishing the foundation for tactical plans and programmes.

If effectively implemented, strategic planning becomes the focal point for all planning and reporting in a modern organization. It is particularly linked to market studies, capital spending, and contingency planning as well as to the annual profit plan (or budget).

While strategic plans look several years ahead (the planning horizon itself varies from industry to industry), it is important to distinguish strategic planning from long range planning. The end result of effective strategic planning is more than a document for a fixed period of time as the objective is to develop the ongoing habit of strategic thinking at top management level thus leading to a continuous process of strategic management. Strategic plans are only effective if they are continually monitored and updated and strategic thinking is made part of the continuous decision process in any organization dealing innovatively with change. Strategic planning is therefore a thought process, or way of thinking, exercised by top management on a continuing basis.

In developing a strategic plan, a number of stakeholders and their respective interests must be considered, such as:

- Shareholders - dividends and capital gains
- Managers - salaries and job satisfaction
- Employees - wages and security
- Customers - good products and/or services
- Suppliers - orders and steady demand

- Lenders - interest and security
- Society and Government - taxes and corporate responsibility.

Before getting into the planning process itself, let us briefly recap the benefits of strategic planning. It

- facilitates company growth
- leads a company to act rather than react
- helps a company to capitalize on opportunities and cope with threats
- provides early indication of financial needs
- insures the setting and the acceptance of common goals
- provides a basis for measuring performance
- trains managers to think ahead.

METHODOLOGY

Once defined, the question arises: How is strategic planning done? There is a specific process, or methodology, involved which is normally segmented into seven distinct phases, namely -

I. Organization (including current strategy audit)

II. Environmental Analysis and Forecast

III. Internal Analysis and Position Assessment

IV. Objectives and Goals Development

V. Strategy Development

VI. Plan Development

VII. Implementation

The strategic planning process involves a step-by-step, systematic approach which starts from the very beginning with a focus on implementation. Standard methodology fits most organizations but obviously industry variations cause adaptations to be made as the following examples illustrate -

- Planning horizon: Trading activities may be planned a year or so ahead, while the Nigerian Electric Power Authority (NEPA) must plan for 10-15 years.
- Competitive analysis: Obviously, the Nigerian Telecommunications Limited (NITEL) as a monopoly would omit this step.
- Functional analysis: Consumer products companies are very marketing oriented.
- Regulatory concerns: Some industries are more affected than others.
- Economic sensitivity: Locally sourced companies may be less sensitive than importers.

- Technological trends: These can vary widely by industry and country.

Having looked at the adaptation necessary to cope with industry variations, let us now examine each of the seven phases of the strategic planning process.

ORGANIZATION:

In this first phase, the planner's concern is with structuring the entire planning process and defining the key participants, major objectives and tasks, and the time table. There are four key activities in the organization phase, namely -

- establishing management commitment (by involving top management involvement and setting up a project team)
- organizing planning efforts (by developing a detailed work programme)
- defining broad corporate objectives (including performing a current strategy audit)
- identifying data requirements and sources

Managerial commitment can best be secured by actively involving senior management from all major functions in strategic planning. We normally suggest a management planning committee headed by the C.E.O. (Chief Executive Officer).

The planning committee has the responsibility to -

- establish corporate and planning objectives and agree on the work programme for the planning process
- identify major strategic issues
- formulate mission, objectives, goals and strategies

- reconcile the planning gap between SBU (Strategic Business Units) and Corporate Plans. (SBU's are the lowest level planning unit and are defined as operations with similar fundamental and long range interrelationships).

While the planning committee is responsible for the thinking involved in strategic planning, a day-to-day co-ordinator is needed. The "planning officer" is the catalyst and co-ordinator to make sure the plan is done and implemented. His roles are to:

- plan the planning process
- co-ordinate the planning activities
- provide assistance
- consolidate the plans
- monitor and help management implement the plan.

The key point is that corporate objectives are set by top management and not by the planner. A few brief points deserve mention regarding corporate objectives -

(1) they are initially high level guidelines which provide general direction for lower management

(2) They are developed by top management.

(3) they describe what is to be accomplished during the plan period.

(4) they are supported by specific quantitative goals, which quanitify how much and by when

ENVIRONMENTAL ANALYSIS AND FORECAST:

Let us now turn briefly to "Environmental Analysis and Forecast".

The environmental analysis and forecast phase tries to anticipate future developments, rather than react when it is too late. In Peter Drucker's words, strategic planning distinguishes the three types of companies, namely:

(1) those that make things happen

(2) those that watch things happen

(3) those that wonder what happened.

Success in anticipating and being prepared for the future therefore separates the "men" from the "boys" among companies and institutions. Environmental analysis and forecast performs the vital management function of scanning the environment and identifying those factors which are critical to a particular organization's success. This process starts with a review of the overall environment, examination of the market, identification of specific opportunities and threats, developing the relevant forecast for the specific SBU, and finally, developing preliminary strategies in response to the environmental forecast.

This phase specifically addresses Professor Andrew's concern for defining the business - that is, answering the questions -

- Which customers are we serving?
- Which customer needs should be satisfied?
- What technologies are to be used to satisfy customer needs?

What then is the "environment"? There are many environmental factors that directly or indirectly impact a particular business such as:

- Demographic
- Cultural
- Economic
- Natural
- Technological
- Political and Regulatory
- Market

A brief outline which has been used for environmental analysis is shown in Table 1.

Lastly, and probably most importantly, is the market. The concerns here relate to :

- market share
- buyer behaviour
- customer concentration
- product life cycles, and above all,
- competition.

Analysis of the market deserves a much longer treatment than this article permits. Generally, a company goes after a market segment rather than the entire market. Effective market segmentation divides the market into phases that are :

- identifiable
- accessible to specialised market approaches
- substantial enough to be profitable
- defensible against competition.

The end product of this phase is generally a separate strategy for each separate market segment (or SBU).

TABLE 1

OUTLINE FOR ENVIRONMENTAL ANALYSIS

1. Demographic Environment
   - (a) aging of population
   - (b) geographical population shifts
   - (c) population growth
   - (d) better educated populace
2. Cultural Environment
   - (a) status of women and minorities
   - (b) changes in family life styles
   - (c) shifts to less work and more leisure
   - (d) improved living standards
   - (e) declines in traditional values
3. Economic Environment
   - (a) gross national product
   - (b) personal income
   - (c) employment/unemployment
   - (d) inflation
   - (e) government spending
   - (f) capital availability
   - (g) interest rates
   - (h) foreign exchange availability and rates
4. Natural Environment
   - (a) pollution levels
   - (b) natural resources management
   - (c) increased cost of energy
   - (d) availability of raw materials

5. Technological Environment

   (a) impact of new technology

   (b) competitor advances in technology

6. Political/Regulatory Environment

   (a) international trade (balance of payment)

   (b) investment incentives/controls

   (c) fiscal/monetary policies

   (d) industrial policies

   (e) agricultural policies

   (f) consumer policies

   (g) labour policies

   (h) regional policies

   (i) political stability

The external forecast also identifies Opportunities and Threats of which the following examples are illustrative:

Opportunities	Threats
- high growth rate in served market	- new technology that obsoletes your products
- government legislation which increases need for your product or service	- industry over capacity which increases price competition
- new raw material that can enhance quality of your product	- legislation causing major operating changes
- weak competitor in a served market	- aggressive price competition in a served market

INTERNAL ANALYSIS AND POSITION ASSESSMENT:

To complement the "environmental analysis and forecast" just discussed, the strategic planner needs next to consider the Internal Analysis and Position Assessment of his specific organization or SBU. This phase requires an honest evaluation of strengths and weaknesses relative to competition.

The tasks, in this phase, are to -

(1) analyse position in industry

(2) determine key success factors in industry

(3) identify strengths and weaknesses

(4) summarise position in industry

(5) assess competitive position

The first task answers the three questions -

- where are we now?
- where have we been?
- where are we going?

We concentrate on the past and present in order to identify strengths and weaknesses for use in developing future objectives, goals and strategies.

Again, we ask the basic question: What is our business? The methodology for a manufacturing company, for example, would involve analysis of competitors, product lines, and functional areas. To illustrate, an analysis of key competitors would ask the following questions:

- who are the competitors?
- what are their resources?
- who are their suppliers and customers?
- why are they successful?

We also seek to know how competitors will react to our strategies. For example,

- how will they respond to market changes?
- how will they respond to specific competitive moves?
- where are they most vulnerable?
- where are they strongest?
- where is the most appropriate battleground to fight them and how?

We need, in addition, to analyse our product lines, particularly as to performance trends in selling prices, material and labour costs, gross profit and contribution.

Lastly, we need to analyse the internal situation by functional area. This is like going to a doctor for an annual check up. Again, using a manufacturing example, the key functional areas would be:

- Marketing
- Engineering (design and production)
- Manufacturing
- Finance
- Human Resources

A very brief look at each of these areas illustrates the types of concerns which they are designed to address: (See Table 2)

The end product of this phase is to identify strengths and weaknesses. A few examples illustrate the type of conclusions which need to be reached candidly and objectively during this phase:

Strengths

- leader in innovative product design
- exceptional employer/employee communication and understanding
- highest level of automated production in the industry
- highly motivated field sales force
- superior product quality

Weaknesses

- antiquated manufacturing and office facilities
- present information systems minimal and reaction time too long
- cash flow difficulties
- limited supplies of some materials
- limited management depth

The outputs of this phase are therefore

- product line analysis
- competitor profiles
- functional analysis
- key success factors
- strengths and weaknesses
- apparent objectives

TABLE 2

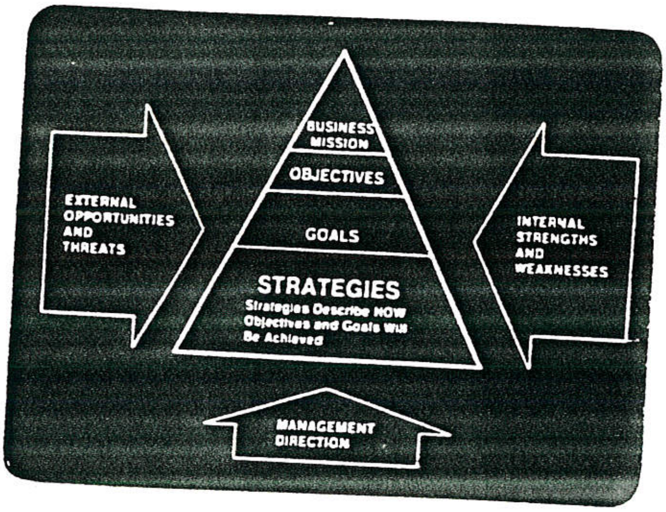
OUTLINE FOR INTERNAL ANALYSIS

1. Marketing
   (a) sales practices
   (b) product differentiation
   (c) pricing practices
   (d) sales promotion tools
2. Engineering
   (a) technological leadership
   (b) product development
   (c) manufacturing processes
   (d) engineering costs
3. Manufacturing
   (a) nature of process (and production cycle)
   (b) production facilities
   (c) direct costs - material and labour
   (d) overhead
4. Financial
   (a) investment (fixed and working capital)
   (b) historical performance
   (c) financial projections
5. Human Resources
   (a) organization (efficiencies/inefficiencies)
   (b) staffing
   (c) management development
   (d) recruiting

TABLE 3

PYRAMID CHART OF OBJECTIVES AND GOALS DEVELOPMENT

Strategic Planning
STRATEGY DEVELOPMENT



OBJECTIVES AND GOALS DEVELOPMENT:

Having assessed the external environment and evaluated internal strengths and weaknesses, we are ready to move to phase IV - Objectives and Goals Development. In practice, the development of objectives and goals usually takes place in parallel with Strategy Development (Phase V). At this point, we are done with analysing and start behaving as entrepreneurs. This phase seeks to develop targets for the company's future, with five major tasks involved in objectives and goals development:

(1) consolidate objectives from external and internal analyses

(2) identify key (high priority) objectives

(3) develop consistent and complete list of objectives

(4) develop quanititative goals for each objective

(5) communicate objectives and goals.

This last point requires special mention. The purpose of communicating objectives and goals is to get others committed to accomplishing strategic plans. The planner cannot expect involvement if people are not informed of the company's plan and their specific role. Targets, therefore, should not be kept secret from those whose contribution is essential for accomplishment.

The objectives and goals setting process is best illustrated as a pyramid, (see Table 3), which is influenced by three forces, namely -

- External - management's assumptions about the future (Phase II - external threats and opportunities)
- Internal - management's assessment of capabilities (Phase III - internal strengths and weaknesses)
- Management Direction - enterpreneurial skills as the major force for the remainder of the strategic planning process

At this point, it may be helpful to understand the meaning of specific terms used in strategic planning, namely, business mission, objectives and goals.

(1) <u>Mission</u> broadly defines the primary business in terms of markets, product lines, geographic areas, and distribution channels. It describes the business purpose, or "grand design" for the future, in non-financial terms. It is usually a 2-4 sentence statement of the company's business philosophy and strategic direction or focus. The following statement illustrates a simple mission statement -

> To develop and merchandise the best styled and broadest line of decorative fabrics in the medium - to - upper price range through our own nation-wide distribution network direct to retailers and home furnishings manufacturers.

The statement of business mission, to be effective, must be short and to the point, yet sufficiently comprehensive to cover products, markets, and systems.

For other companies, there are usually one or two driving forces which should be reflected in mission statements. For example:

- Products/markets - products offered
  - market needs
- Capabilities
  - product technology
  - production capability
  - selling methods
  - distribution methods
  - natural resources
- Results
  - size/growth
  - return/profit

(2) <u>Objectives</u> are management's intentions toward pursuing and accomplishing its mission.

(3) <u>Goals</u>, which relate to specific objectives, are statements of specifics that quantify objectives.

The relationship between objectives and goals can be illustrated as follows:

- <u>Objectives</u>
  - To maximise return on invested capital
- <u>Goal</u>
  - To achieve a 20% return by 1990 (currently 16%)

Objectives thus tell what is to be done, while goals are quantitative - identifying <u>how much</u> and <u>by when</u>. Obviously, there can be several goals for each objective.

Objectives and goals normally address all areas of the company, including:

- Profitability
- Sales growth
- Market share
- Innovation
- Productivity
- Physical and financial resources
- Manager performance and development
- Social responsibility
- Risk

Generally, this phase involves brainstorming, starting with the apparent objectives (and goals) that were identified during external and internal analyses.

STRATEGY DEVELOPMENT

With the objectives and goals specified, the next phase is to develop strategies for accomplishing each specific objective and goal. Strategy Development (Phase V) builds directly on Phase IV of the strategic planning process and, in fact, is frequently done simultaneously. This phase has three major tasks, which are to -

(1) formulate strategies (define key situations to exploit).

(2) evaluate proposed strategies (particularly as to feasibility, impact on goals, consistency, effective use of resources, and risk).

(3) document finalised strategies (integrate final set of strategies into overall plan).

As illustrated earlier by our pyramid chart, strategies describe how objectives and goals will be achieved. An illustration will help explain this relationship:

- Objectives
  - To maximise return on invested capital
- Goal
  - To achieve a 20% return by 1990 (currently 16%)
- Strategies
  - To introduce product X in 1986 and support with ₦3,000,000 initial promotion budget.
  - To implement a cost reduction programme that will result in manufacturing savings of ₦3,000,000 in 1986 and more in each following year.
  - To hold the line on selling expenses at 11% of sales and reduce where and if possible.

Thus objectives and goals directly determine the strategies, and where strategies cannot accomplish objectives and goals, either the strategies or the objectives and goals must be revised.

Strategy development can form a book by itself. Space does not permit full coverage in this article, but it is important to note that, in Nigeria, general managers have found it important to plan based on different scenarios, for example, with and without IMF (International Monetary Fund) loan, or at varying levels of inflation and devaluation, etc.

The end product of the Strategy Development phase is a comprehensive set of strategies, covering every area of the business, that :

- describes how objectives will be accomplished.
- quantifies resources required,
- provides an acceptable level of risk

PLAN DEVELOPMENT:

The purpose of Plan Development (Phase VI) is to pull together the previous phases into the final Plan. This is normally done by the Planning Co-ordinator, who also develops a monitoring system and obtains approval of the plan.

The final plan is thus a combination or assembly (of Environmental Analysis, Position Assessment, and Objectives, Goals and Strategies and preparation of Executive Summary and Financial Projections. Financial Projections (particularly in Nigeria) should be kept simple and should use financial models designed to try out all possible conditions and major scenarios. We have also experienced the need for contingency planning, so that companies are ready for unexpectedly favourable or unfavourable developments. The final plan therefore should frequently include a best case and worst case, with contingency plans, along with the realistic, or most probable, case on which the strategic plan is based.

The monitoring system is particularly crucial in Nigeria and requires at least quarterly progress reviews. Monitoring should address three fundamental questions, namely:

(1) Is the strategic plan achieving the objectives, goals and strategies?

(2) Are the environmental assumptions still correct?

(3) Are key strategies being implemented and programme milestones met?

There should be a progress report on each strategy. Such report will normally cover the following -

- Planned vs. actual resources
- Performance checkpoints
- Progress accomplished to date
- Strategy assumption discrepancies
- Corrective action planned

Perhaps it should be said at this point that, if strategic planning is to succeed, approval of the final plan should come from Senior Management and the Board of Directors. This simply recognises that strategic planning is the key function of CEOs.

IMPLEMENTATION

Finally, we arrive at the moment of truth - implementation (Phase VII). If the planners have done their work in earlier phases, implementation is not likely to be difficult, yet it is always important to be thorough and effective.

The key to successful implementation is advance planning i.e. thorough organization of the planning effort. There are five key tasks which corporate planners need to perform. They need to:

- prepare a detailed implementation work programme and assign responsibility
- identify manpower requirements
- identify specific outputs
- establish milestone dates
- determine completion deadlines

The right implementation perspective is crucial. It should be realised that implementation is a continuous process - plan, execute, control, plan, execute, control, etc. There are six important tasks to perform - they are to:

(1) determine responsibility areas and task force personnel

(2) assure availability of resources

(3) determine personnel motivation and reward and punishment system.

(4) assure proper degrees of participation

(5) adopt training programmes as required

(6) assure continued managerial leadership

Obviously, implementation can not be left to chance. It must receive the same thorough attention that has been required in earlier phases, if it is to succeed and produce meaningful results.

The focus for implementatiion is the annual plan - which should achieve the first year's objectives, goals and strategies of the strategic plan.

If one can picture a spreadsheet moving from left to right, it is easy to visualize the process of strategic planning - objectives, goals and strategies - being converted into annual goals, tactics, and specific action plans.

The monitoring system then takes over to assure the plan is implemented. It concentrates on key factors and measures progress toward objectives and goals (by programme, responsibility reporting, and exception reporting).

The biggest problems in implementation are people problems. Here are a few examples and proven solutions:

Problems	Solutions
- Parochial interest	- Facilitation and support
- Mistrust	- Participation and involvement
- Opposition	- Coercion and negotiation
- Misunderstanding	- Information and communication

One final point is that organization structure may need to be restructured to support the strategic plan, and information systems may also need rework to support both the organization structure and the strategic plan.

CONCLUSION

In conclusion, this review of the Strategic Planning Process has raised a lot of questions. I hope it has also helped dispel the myth that "you can't plan in Nigeria". In my view, the reality is that strategic planning is imperative for good management today in Nigeria. It addresses uncertainty, deals with constant change and helps the CEO to position his organization so that it can take advantage of the structural reform of the Nigerian economy which is well underway and the resulting enormous growth potential which lies ahead for well managed organizations.