

Understanding Corporate Planning

By

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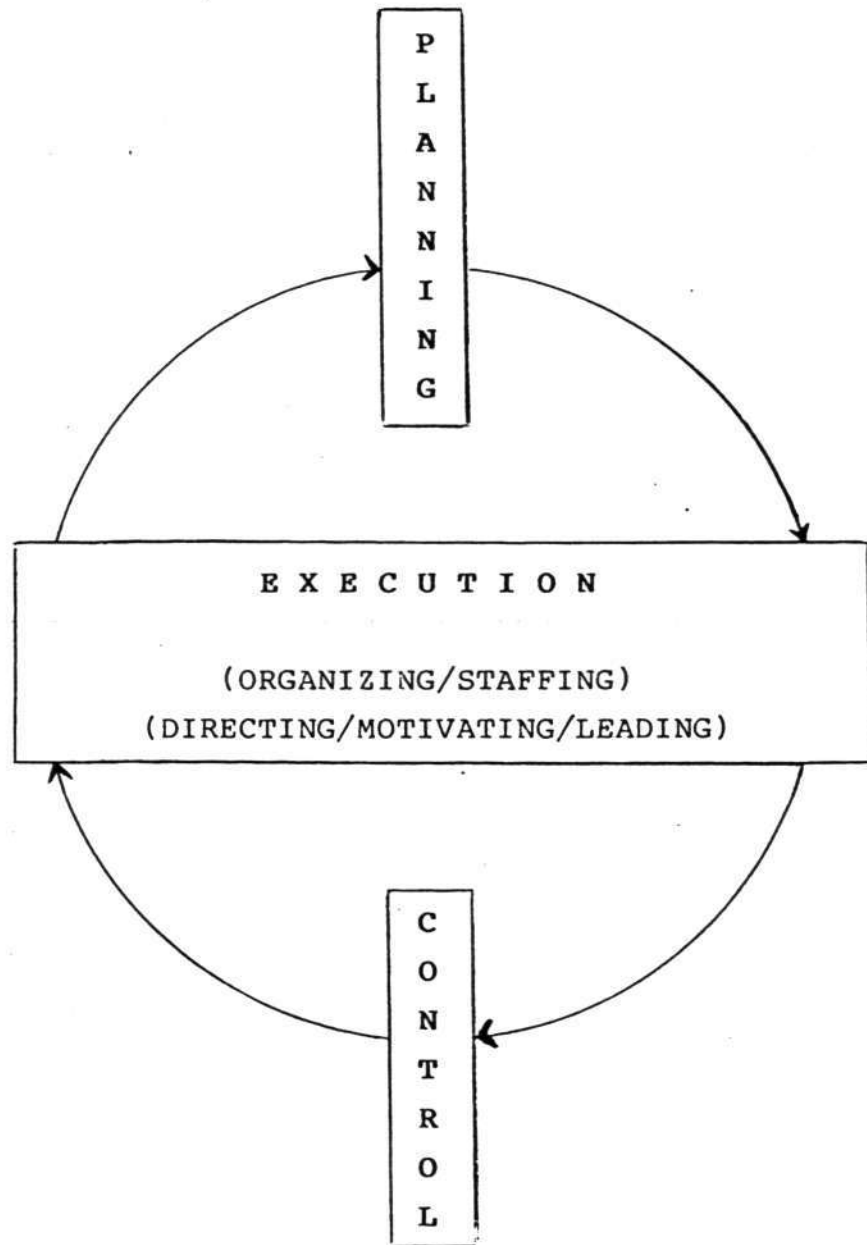
By

Prof. Dr. WAN MOHD. GHAZALI

INTRODUCTION

The acceleration of external change and the increasing complexity of organizations have forced new ways of looking at old processes. These processes, without which an organization ceases to function, are: PLANNING, ORGANIZING, DIRECTING, and CONTROLLING. Far-reaching changes in business management practices were recognized since the early 1960s. In the context of the current time when, what is permanent is the change itself, it is believed that understanding of what Strategic Management is all about would facilitate the identification of future actions that are needed to ensure effective performance.

Figure: THE PROCESS OF MANAGEMENT



CORPORATE PLANNING

In and by itself, Corporate Planning is the systematic development of action programs aimed at reaching agreed business objectives by a process of analyzing, evaluating and selecting from among the opportunities which are foreseen. Certainly it is not forecasting, though forecasting is a necessary part of the whole procedure, since planning, by definition, is concerned with future events. It forms the shape of the future, as seen from and as oriented to the particular interests of any enterprise, through which the business opportunities facing it can be seen. The extent to which they can be exploited leads to specific operational objectives. These objectives are proposed against the background of the strengths and weaknesses, in terms of the characteristics of the business and its markets.

Once specific enterprise objectives have been agreed, the selection of strategies to be adopted for their achievement should follow, after which the necessary action programs (or plans) needed to give effect to the agreed strategy are to be developed and implemented. Throughout these processes, problems as well as opportunities will arise and must be countered; and simultaneously possibilities for the creating of opportunities through the enterprise's own initiative must be at the forefront of every person's thinking.

Viewed from this perspective CORPORATE PLANNING, as a process, is in fact corollary to that of STRATEGIC MANAGEMENT PROCESS. It is from this angle that the contents of this paper is adhered to. Planning, as presented here, undertake to include the basic planning

concept, strategic planning concept, and that of Corporate Planning which encompass the total Strategic Management Process. Further the materials presented here are based on the opinion that; firstly Corporate Planning involves the study of strategic management process of organization; and secondly, involves the study of the various functions and responsibilities of general management. The second area include such diverse activities as the coordination of various functional area activities; participation in key operating decisions; negotiation with external publics; and fulfilling the social responsibilities. However, the principal focus of the arguments presented is on the strategic management process of the enterprise, since these are the tasks that are most essential to the survival and growth of the organization.

CORPORATE PLANNING: THE BASIC PROCESS

Stillman's Basic Management Model and the framework of A Generalized Planning System by D.E. HUSSEY, perhaps serves an appropriate point to begin a more detail consideration of the Corporate Planning Process. Please refer Appendix A and B. The major managerial elements identified by Stillman is not only applicable to that of small business management, but holds true for organizations of any size. And since, the materials presented here is not of any philosophical sequence or consequence, the model should serve as a good eye opener. HUSSEY's model of generalized planning system uses the same format of presentation but emphasizes the two levels of planning being strategic and operating.

What is of importance to these two models is the fact that they appropriately depict the heart of strategic planning. That is the determination of objectives. The outer concentric circles identified the resources that are essential and must be made available to ensure the achievement of the stated objectives. These resources are to be 'balanced' with the internal managerial functions that will translate objectives into specific operational/progress plans. These activities do not take place in a vacuum but rather have to be determined within the context of the environment in which the enterprise operates. These environments indeed will influence and in fact dictate the shape or the strategy of each individual operating and conceptual plans. Finally, the key to successful management rests upon the ability, capability, willingness, and the political will that consciously influence the decision making process. Certainly to plan is one thing, but until and unless decisions are made at the right time by the right level, plans will remain as plans and nothing will result from the endeavour. This explains the need for the approach to be from that of Strategic Management.

STRATEGIC PLANNING

Known writers of management are all in agreement that "Planning" is the most basic of all management function. The process is a way of anticipating and offsetting change and involves selecting from among alternative future course of action. They seem to agree that "Strategy" denote a general program of action and the deployment of emphasis and resources in implementing its mission. It is a concept that

concerns itself with the pattern of the organization's response to its competitive environment over time. "Strategy" also links the human and other resources of an organization with that of the challenges and risks posed by the outside world, and thus concerned with both means and ends. As such the concept of strategy does not only encompass the objectives but adds a plan of action for the achievement of these objectives in response to its environment over time to exploit opportunities. The purpose of any strategy is therefore to "determine and communicate, through a system of major objectives and policies," a picture of what kind of enterprise is envisioned. Further, strategies provide a unified direction in the deployment of emphasis and resources, and thus is the most important guide to the overall planning process.

"Strategic Planning" therefore focuses on what the organization wants to do, how changes in the future will impact on the attainment of the organization's objectives, and what opportunities and threats are expected in the near and distant future. It involves goals selection; determination of policies and strategic programs necessary to achieve definite objectives enroute to fulfill the organization's mission; and establishing the methods or actions (to be undertaken) necessary to ensure that policies and strategic programs are implemented. Thus Strategic Planning provides the basic framework within which all other forms of planning should take place.

THE NEED FOR INFORMATION

Effective planning requires tremendous amount of information of various types. These information are grouped into three major types. They are **Environmental, Competitive, and Internal Operating data.** These information are essential for purposes of planning processes, execution of plans so selected, as well as the controlling function during the implementation of the said plans, programs and strategy as a whole. The communication process should move back and forth as feedback to ensure management effectiveness and efficiency in achieving the various objectives. The feedback process is essential as information needed for the planning stage and that of controlling function. For example, utility of information for planning transcends organizational lines, future-oriented and therefore shows trends. Whereas information for controlling, follows organizational lines, historical in nature and therefore very detail.

NEVER IN VACUUM

Since strategic planning as applied to the corporate planning is never done in vacuum, the model proposed by **GROVER STARLING (Appendix C)** is considered very appropriate and is consistent with the approach proposed here. The Macroenvironment Model emphasizes both the internal or immediate and controllable environment as well as the societal factors that are

generally beyond the control of the organization. The ability to exploit societal factors and blends them with those in the immediate environment is the key to successful planning of any and all Strategic Business Units (SBUs) programs, policies and objective, towards the fulfillment of the organization's mission. The model, using its concentric circle approach, rightly positions the company (its resources) as the heart of the planning process in achieving its purpose while simultaneously meeting the needs of the society. The Strategy therefore should be designed to conform to the mission and policies, subject to competitive and other restraints, before overall parameter, for devising detailed plans through which opportunities, might be identified.

The specific need of Corporate Planning is to decide upon the directions in which a firm should develop. By the same token, Corporate Planning Process emphasizes that; any strategy employed entail a review of corporate strengths and weaknesses; and a reconsideration of the resource allocation, towards achieving the overall objectives. Such an appraisal is not limited wholly internally but includes those within the environment. The process is used not only for the generation of strategic alternatives but more importantly to be utilized in the evaluation of alternatives prior to the final choice of a specific strategy is made. Viewed from this perspective, Corporate Planning in and by itself is the Strategic Planning Process.

CORPORATE PLANNING AND STRATEGIC PLANNING RELATIONSHIP

As emphasized earlier, the primary and only objective of Corporate Planning is to achieve corporate objectives. Within this broad aim, the specific need is to decide upon the directions in which the firm should develop. The overall process therefore specifies that any strategy involving change entail a review of corporate strengths and weaknesses; and a consideration of the overall pattern of resource allocation; in the effort of achieving the stated objectives. To do so is to design a competitive strategy that is appropriate to and with the overall economic mission.

Hence, it must therefore be noted that strategic management can (and will almost always) occur at different levels in an organization.

1. **Corporate Strategy** defines what business or businesses the firm is in or should be in, how each business should be conducted, and how it relates to society. It requires finding relevant answers to fundamental questions such as:-

WHICH BUSINESSES SHOULD A FIRM STAY IN?

WHICH BUSINESSES SHOULD A FIRM GET OUT OF?

WHICH NEW BUSINESSES SHOULD A FIRM GET INTO?

Thus provide direction to the total set of activities.

2. **Business Strategy** defines how each business will attempt to achieve its mission (and, therefore, contribute to achieving corporate strategy) within its chosen field of endeavour.

The BUSINESS STRATEGY should state HOW that business intends to compete relative to specific products, product lines, or groups of related products.

A business strategy actually consists of the mixture of functional strategies relevant to the particular business. Generally, one of the functional strategies often forms the centre-piece of and, consequently, dominates the business strategy. The dominant functional strategy by setting the tone of the firm's competitive effort.

For example: Many businesses compete primarily on the basis of:-

- 1) Marketing expertise.
 - 2) Production efficiency to achieve lower costs.
 - 3) Technological knowhow, either by developing new technology or transferring existing technology from laboratory to the marketplace.
3. **Functional Strategy** focuses on supporting the corporate and business strategies.

STRATEGIC PLANNING PROCESS: AN EXAMPLE

(Please refer to Appendix D and E)

1. The process begins with the collection of information about the changing elements of its ENVIRONMENT. Informations gathered through this process is very useful in aiding the organization to better adapt to these changes through the process of strategic planning.
2. The strategic plan (or plans) and supporting operational plans are then implemented in the environment.
3. The results of this implementation are fed back as new information so that continuous adaptation can take place.
4. The OUTPUT of the STRATEGIC PLANNING PROCESS is the development of A STRATEGIC PLAN.
5. There are FOUR components of a STRATEGIC PLAN, namely:-
 - i) MISSION
 - ii) OBJECTIVES
 - iii) STRATEGIES
 - and iv) PORTFOLIO PLAN

The organization's environment supplies the resources which sustain the organization. In exchange for these resources, the organization must supply the environment with goods and services. That is to say:

Every organization exists to accomplish something in the larger environment and that PURPOSE OR MISSION must be clear from the start.

The MISSION of an organization should be a long-run vision of what the organization is trying to become; the unique aim that differentiates the organization from similar ones. The need is for a stated mission that will provide direction and significance to all members of the organization regardless of their level in the organization. Mission statements deal with "What is our business?". "What should it be?".

As Peter Drucker and Phillip Kotler often was quoted to say that; when completed MISSION Statement will be FOCUSED ON MARKETS rather than PRODUCTS; it must also be ACHIEVABLE, MOTIVATING, and SPECIFIC.

Properly formulated, organizational objectives should strive to accomplish the following:-

1. They will be capable of being converted into specific actions.
2. They will provide direction. That is, they serve as a starting point for more specific and detailed objectives at lower levels in the organization. Each manager will then know how his or her objectives relate to those at higher levels.

3. They will establish long-run priorities for the organization.
4. They will facilitate management control because they will serve as standards against which overall organizational performance can be evaluated.

CORPORATE PLANNING: A CONCEPTUAL MODEL

At this juncture it is obvious that strategic management is a framework for assessing competition within an industry. Given the framework, one can consider what managers do. They develop strategies which make the best use of their company's strengths in order to capitalize on opportunities in the market place.

As the capstone to the understanding of the process of Strategic Management that incorporates the concept of the Decision Making Process, the need for appropriate information (both internal and external), and the importance of environmental elements that influence the entire Strategic Planning Process within any corporation, the model in Appendix F is suggested. Infact, it is felt that the concept and approach propagated by this model is yet one of the more current ones in the literature.

Briefly, the model could be described as the following: The process begins with analysis of three types, **external, internal, and competitive**. Armed with these analyses, top management of existing (not brand new) organizations has to set its future course by

redefining corporate goals. The goals must be consistent with management's own values and with social and public concerns. The second major step is to choose corporate and business strategies based upon the new goals and objectives. Our model shows three types of strategies: (1) internal growth, which is expansionist in character; (2) external growth, or acquisition; and (3) reconstitution of the organization itself, often sought with the aid of divestment and retrenchment.

As these corporate and business strategies are formulated, managers also review the organization's structure and reward systems. Structure and strategy must be harmonious. The strategy must finally be executed and its results evaluated. Our model depicts strategic management as a process. Although the model is designed to simplify, the tasks at each stage are by no means simple.

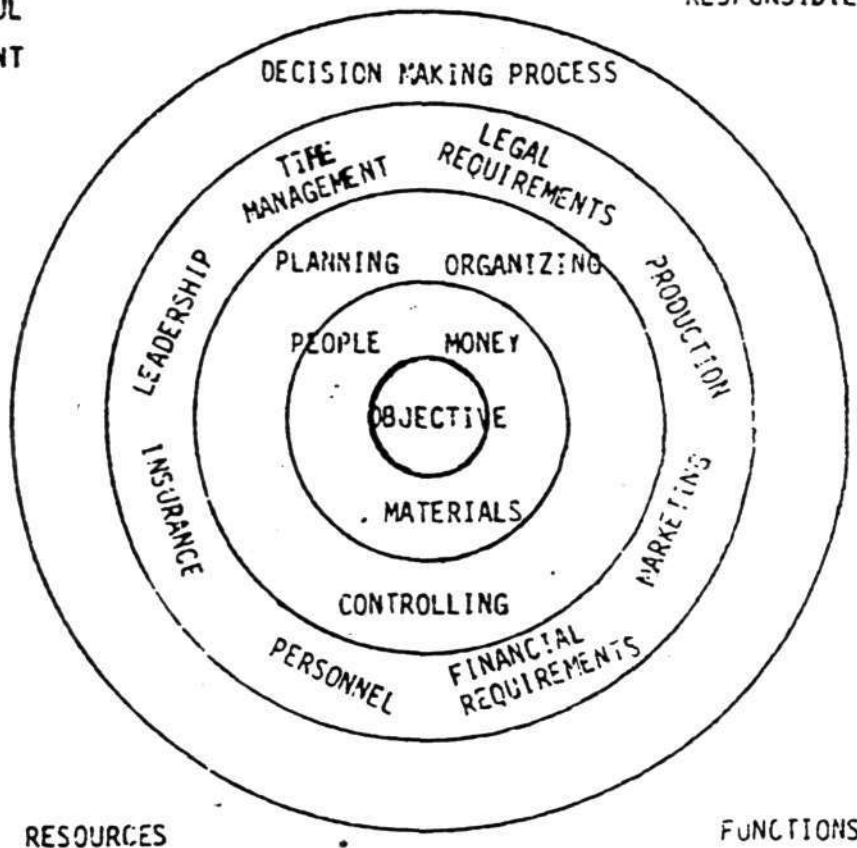
CONCLUSION

The conceptual model discussed above, culminates the overall approach to the concept of Strategic Management and Corporate Planning as that of Strategic Planning. The contention of this paper is that Corporate Planning involves the study of the various functions and responsibilities of general management, and that of management process of organization, is aptly represented.

STILLMAN'S SMALL BUSINESS MANAGEMENT MODEL;
AN OVER-VIEW OF THE FIVE MAJOR COMPONENTS
OF MANAGEMENT

KEY TO
SUCCESSFUL
MANAGEMENT

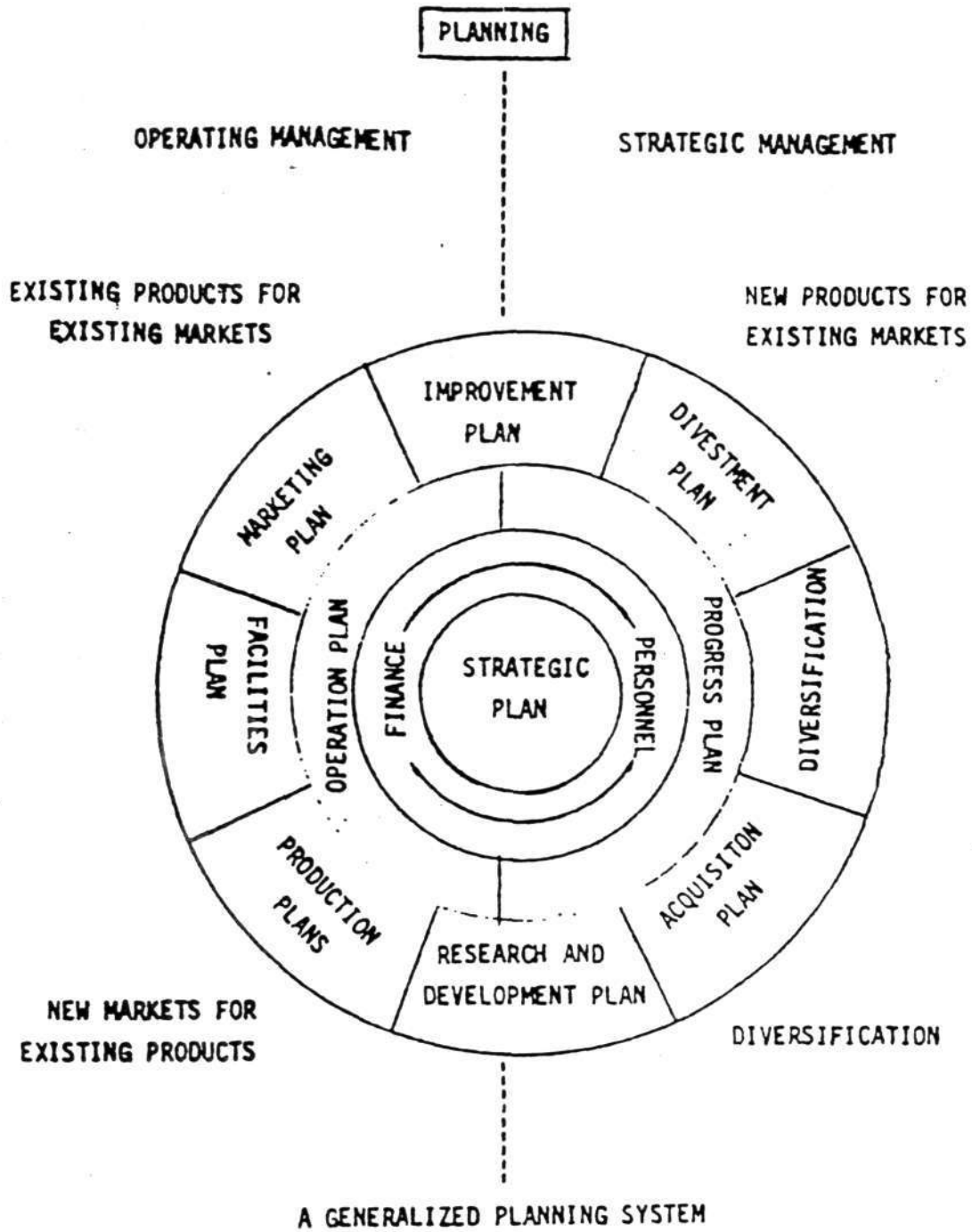
AREAS OF
RESPONSIBILITY



SOURCE: RICHARD J. STILLMAN, SMALL BUSINESS MANAGEMENT,
LITTLE, BROWN & COMPANY, 1983, P.2

**** STILLMAN'S SMALL BUSINESS MANAGEMENT MODEL ****

- * The management model help to explain the management ideas to the real world situations.
- * The model describes the function of management as the achievement of objectives by the effectiveness of resources (people, money, and materials).
- * Management involves planning, organizing and controlling by working within a framework of line, staff, and service responsibilities to arrive at sound decisions.
- * The model presents a graphic overview of the five major components of management: objective, decision-making process; functions; resources; and areas of responsibility.
- * The model emphasizes the interrelatedness of all the components of management. The approach, therefore, enable better comprehension of the totality of management. The knowledge of which will contribute to the success of running any business enterprize.



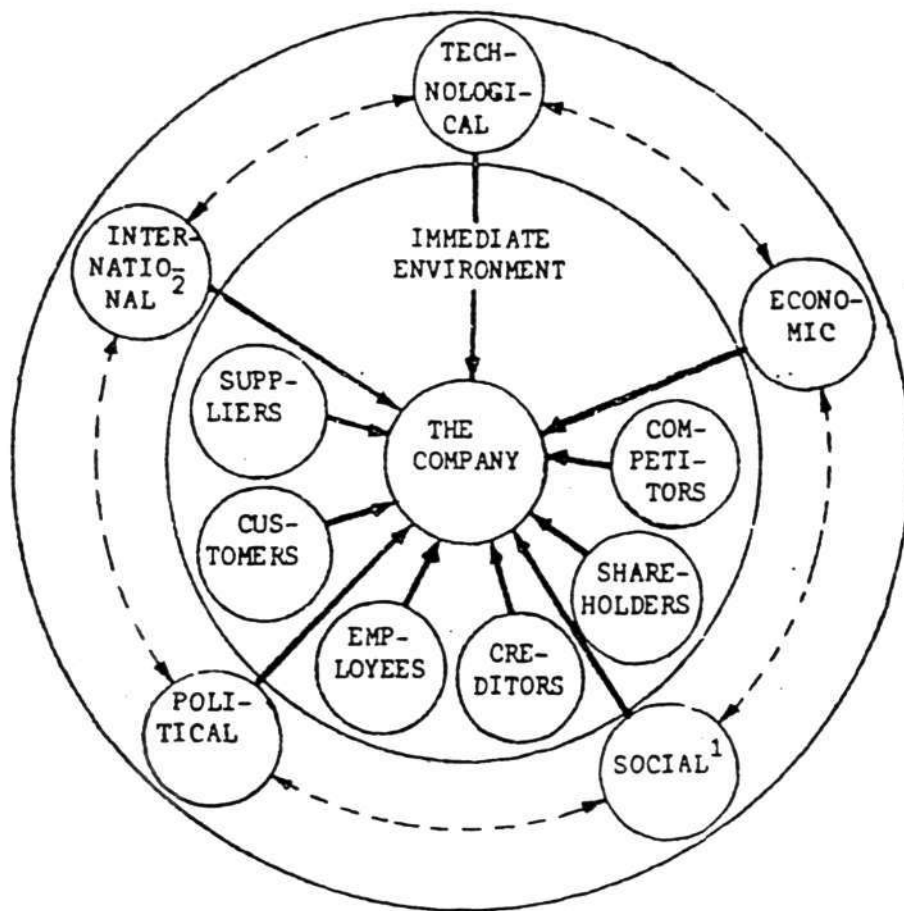
SOURCE: D.E. HUSSEY, INTRODUCING CORPORATE PLANNING, OXFORD, PERGAMON, 1971, P. 14.

D. E. HUSSEY *

A GENERALIZED PLANNING SYSTEM

- * It is logical to conceive of an organization as consisting of various activities, projects, functions, some of which are of the strategic nature, while some of which are operational.
- * This one could extend one's thoughts and understanding by seeing management as the means by which different types of activity and function are brought into prospective in relation both to each other and to the passage of time and the availability of resources.
- * HUSSEY's framework of a generalized planning system view planning as consisting of strategic activities - right hand side - and operating activities (as on the left hand side) brought into focus, through the various management functions and activities, the regular comprehensive planning process.

THE MACROENVIRONMENT OF BUSINESS



¹ THE SOCIAL ENVIRONMENT CONSISTS OF HOUSEHOLDS AND CULTURE.

² THE INTERNATIONAL ENVIRONMENT CONSISTS OF WORLDWIDE (AS OPPOSED TO DOMESTIC) ASPECTS OF THE OTHER FOUR ENVIRONMENTS THAT MAKE UP THE MACROENVIRONMENT.

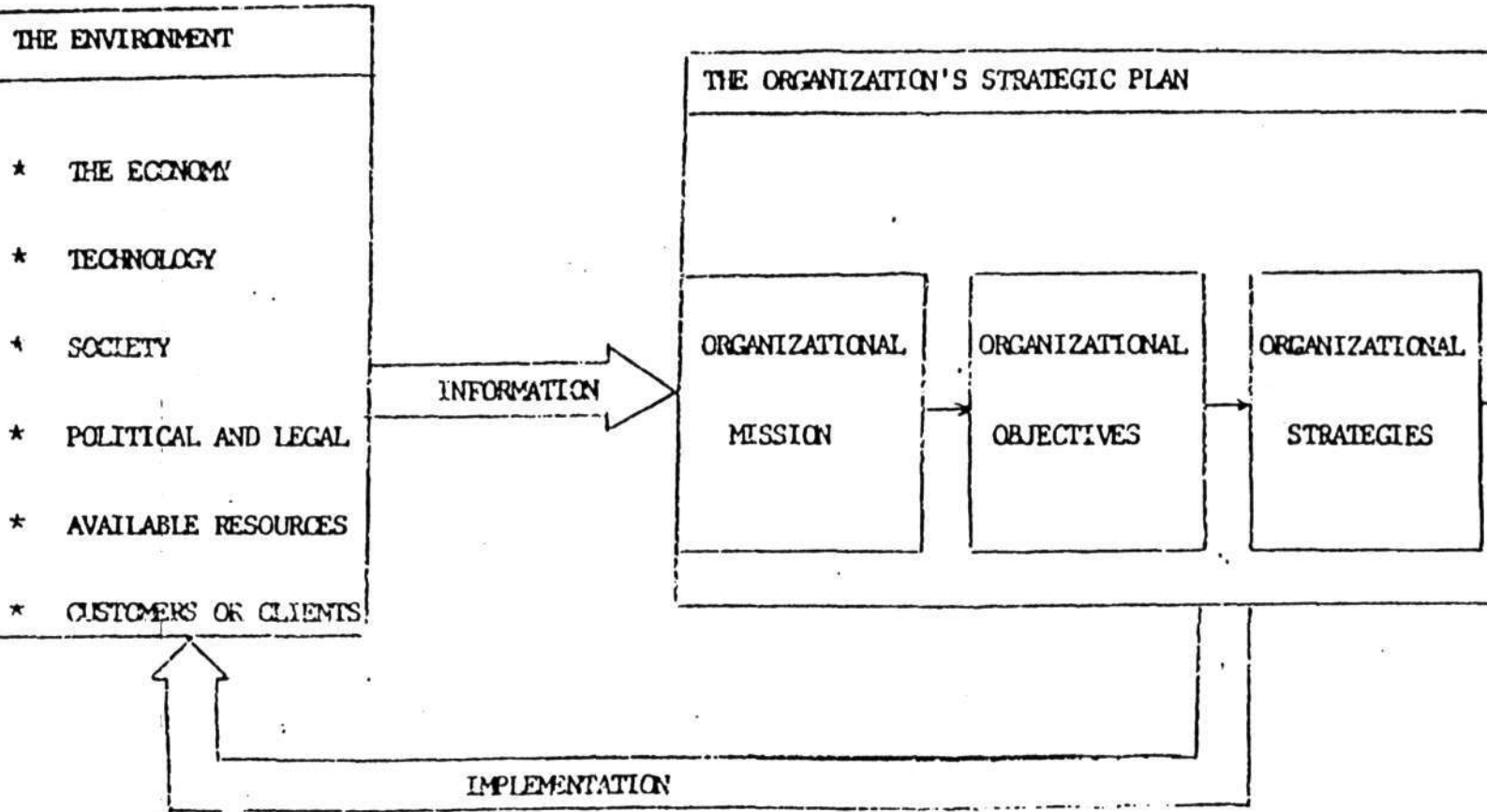
SOURCE: GROVER STARLING, THE CHANGING ENVIRONMENT OF BUSINESS, KENT PUBLISHING COMPANY, 1980 P10.

GROVER STARLING *

THE MACROENVIRONMENT OF BUSINESS

- * The model shows the relationship of the business system to society or what is known as the macroenvironment.
- * The model envisions every corporate manager as located in the middle of the diagram. Previously, his primary concern was with the IMMEDIATE ENVIRONMENT of the business, consisting of: suppliers, customers, employees, creditors, share-holders, and competitors.
- * In the present world of business a manager is also the envoy from the corporation to the society at large, or the macroenvironment.
- * The model presented here is a system - that is, all the components are interrelated. Therefore changes in the technological environment (e.g. new invention) can affect the economic environment; while changes in the social environment (e.g. declining birth rate) can effect the immediate environment and, in turn, the company. Changes in the political-legal environment (e.g. pollution control) can affect directly the internal operation of the company; and so it in the international context, (as opposed to domestic). Interaction among these environments will also have the cross-impact.

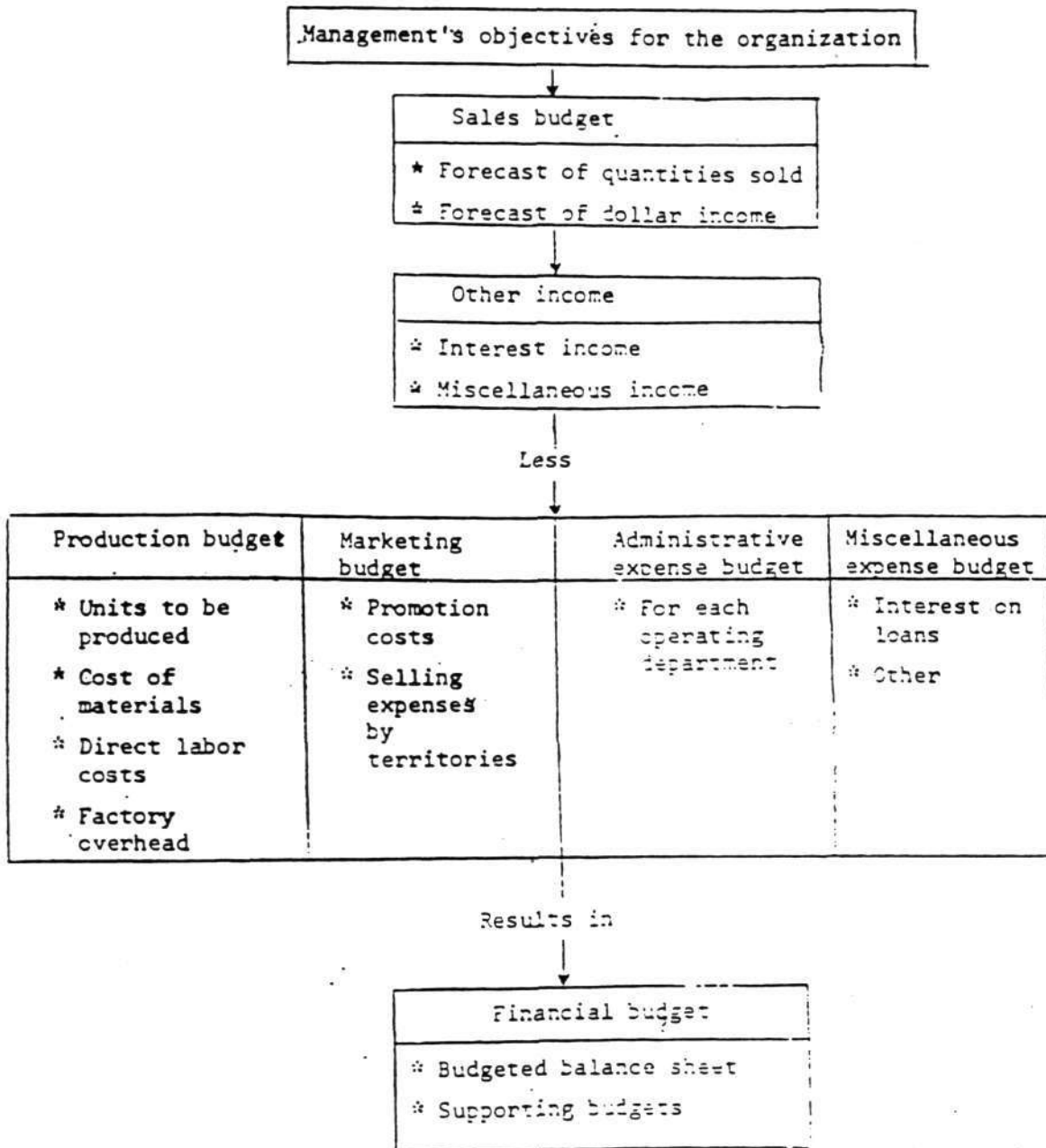
THE STRATEGIC PLANNING PROCESS



SOURCE: JAMES H. DONNELLY, JR; JAMES L. GIBSON, JOHN M. IVANCEVICH, FUNDAMENTALS OF MANAGEMENT, BUSINESS PUBLICATIONS, INC. 1981, P.89.

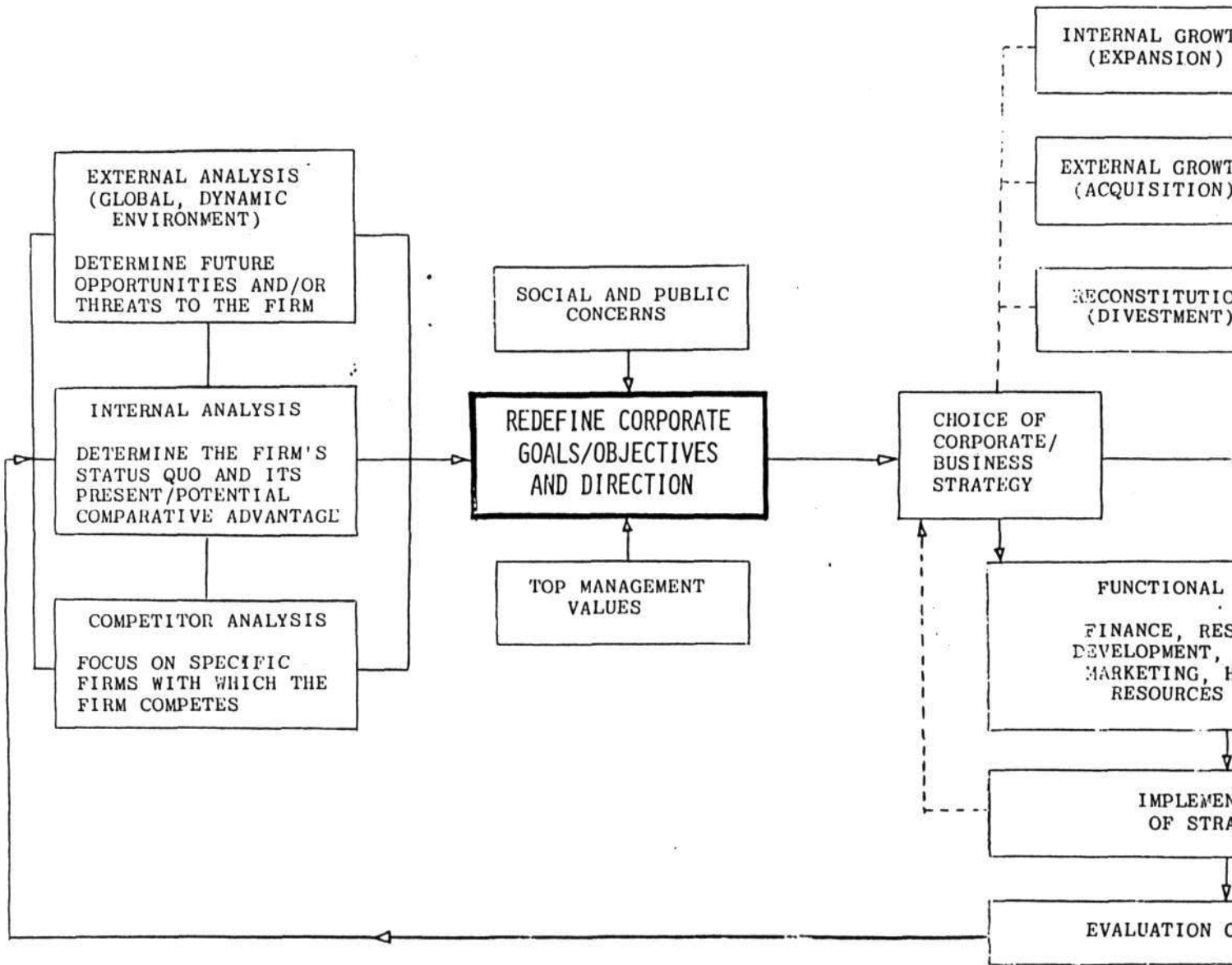
APPENDIX E

The financial budgeting process



A CONCEPTUAL MODEL OF STRATEGIC MANAGEMENT PROCESS

APPENDIX F



The coverage includes discussion on the strategic management, a paradigm of major activities, which comprise the strategic management process. The summary also includes some specific examples of typical business objectives and recommended business strategies as well strategic control process. It is hoped that by now a reader would have achieved a certain depth if not a thorough knowledge of the concept, meaning, and process of Strategic Management as a means and ends in formulating Corporate Strategies.

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