

STRATEGY, POLICY AND  
OPERATIONAL PLANNING

by

Dr Christopher T Selvarajah

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## ABSTRACT

This paper stresses the importance of strategic management, policy and operational planning in organisations.

Specifically, this paper looks at:

strategic management and strategic planning and how they are related to organisational planning;

what strategy is, what are the different types of strategies, how to formulate, implement and evaluate the choice of an appropriate strategy for a particular environment or situation; and where and how master strategies guide and control overall strategies;

different types of policy and how policy guides the organisation to accomplish its objectives;

operational planning and understand how operational plans help management.

## INTRODUCTION

Strategy, policy and operational planning are the major supportive elements for **organisational** planning. The emergence of strategic management, especially, strategic planning in **today's** management helps managers to perform far better than before<sup>1</sup>.

**Armstrong**<sup>2</sup> however warns us that, though there is a consensus among management educators, companies that have formal strategic planning perform better than companies that do not. There is also little agreement on the best way to conduct strategic planning or when formal planning is most useful.

There are certain trends in the strategic management discipline that is emerging, which will be useful in understanding the current status of the subject. The following are some of them:

### 1. Top management responsibility.

There has been a definite shift towards greater focus of top management decision making processes. In Australia as in most of the industrialised world the business and the public sectors are starting to question the role of company directors and their responsibilities. In Australia, for example, the collapse of companies like **Rothwells** Bank, and Hooker Corporation among others has raised the question of the strategic management responsibility of top management in corporate entities,

The focus in corporate planning thus has moved from the emphasis on **functional** areas to top management and the total organisation. This, than also suggests that the final responsibility of success and failure of organisations is the responsibility of top management.

### 2. International management.

It is dawning on Australian policy makers that **Australia's** economic performance clearly depends on how it plays its part in the international economy. There is a need for a change in perceptions of **Australia's** role in the international market place. For this to happen, top management has to develop a greater understanding of the international environment and foster an international strategic vision within the organisation.

Many companies, including **Distronics** and Kambrook to name two, see globalisation of their business as one strategy left open to Australian companies to hold on to their domestic share of the market and to grow internationally. The '**niche**' that businesses in domestic setting were assured of is fading at a rapid speed with the globalisation of business ventures.

An example of this is the recent takeover of Angus and Robertson Publishing by the Murdoch media group. Through vertical intergration on a global basis, Murdoch is now in control of **the** publication and distribution network within Australia. **Similarly** the days of corner bookshops and newsagents may also be limited.

### 3. Non-business organisations.

Strategic management as an important perspective in decision making is growing in importance within the public sector as much as the private sector. This trend is obvious as we see more and more students from the public sector enrolling in business related courses, **e.g.** Masters of Business Administration and other management courses where strategic management is the capstone discipline.

This importance is now supported by the Australian Government's emphasis on research to be conducted at nominated tertiary institutions in the area of strategic management. To show the importance of this new thrust, professorial chairs have been established at the nominated centres.

### 4. Social responsibility and ethics.

The recent state election in Tasmania, where the outcome of an election was based on an **environment** issue is indicative of the importance of social considerations when making policy. This warning is being taken seriously by the Australian Federal Government and this is reflected in the Prime Minister's effort to '**replant Australia**'.

The ill-fated Wesley Vale Pulp and Paper Mill project in North-west Tasmania, has had a number of **spin-offs**. The issue of bleached products and their effect on mankind, acid rain and its effect on the **farming** community, deforestation and its effect on warming up of the earth and the use of hydro-carbons and its effect on the ozone layer have been widely publiced through the media. The impact of this exposure is slowly but surely starting to be noticed in the change of attitude in the business world. For example, in early August 1989 the first unbleached toilet tissue and the first photo-degradable carry bags appeared in the Australian supermarkets as alternatives to the environmentally conscious consumer.

The social responsibility issue is complex and likewise organisational policy and strategies, that top managers have to grapple with may not be easy. This complexity is reflected in the controversy surrounding the introduction of the photo-degradable carry bags. The manufacturers of the bags and the supermarkets believe that the sunlight will break it down, to harmless dust while the Australian Government and other environmental groups believe that there has not been adequate research to indicate that the bags are as environmentally friendly. The photo-degradable bags, for example only degrades outdoors under ultra-violet sunlight - what about bags that are thrown into the ocean or buried where there is no **W** penetration?

All the trends in the current environment suggest that research in strategic management and policy are important not only to bring to the attention of top management a strategic visionary perspective and an international outlook but also the implications of adopting a strategy that is well supported by research findings.

In this paper, strategic management, strategic planning, policy and operational planning are explained. Their significance and usefulness for management as well as for managers are also discussed.

For the purpose of establishing a definition of strategy we will adopt the one given by Steiner, Miner, and Gray:<sup>3</sup>

Strategy is the forging of company missions, setting objectives for the organisation in light of external and internal forces, formulating specific policies and strategies to achieve objectives, and assuring their proper implementation so that the basic purposes and objectives of the organisation will be realised.

This definition of strategy is in contrast to the definition used commonly in the industry setting. In the industry or organisational setting the definition is employed in a narrow sense, referring more to program strategies. As is explained in Steiner, Miner and Gray<sup>4</sup>, the concept of program strategies refers to the choice of specific methods to achieve an already established mission or objective,

It should also be noted that there is no consensus on the distinction between strategy and policy. Many writers use the terms interchangeably but we have made the distinction between the two. This will be explained further in the paper.

#### **STRATEGIC PLANNING AND STRATEGIC MANAGEMENT**

The formulation of overall strategy is of interest to top management; an activity often described today as strategic management. This contrasts with operational management; an activity of lower and middle management.

In strategic management, comprehending the environment and ensuring that the organisation adapts to it, is a major concern. This is a complex process which involves taking view a of the future or possible futures the organisation will meet and then attempting to organise the structure and resources of the organisation accordingly<sup>5</sup>. A study of strategic management than must take into account the complex interrelationships between the environment, the individual business and the strategist for that business.

The overall **supervision** of strategic management within organisations is with top management. It is their primary responsibility to formulate appropriate plans for organisational development. Strategic management then involves guiding the organisation through a changing environment to achieve its organisational objectives. Since implementation is a major part of strategic management, leadership can be of vital importance to an **organisation's** success.

## **STRATEGIC PLANNING**

Strategic planning clearly embraces strategy and policy formulation and the development of a set of plans. Strategic planning is part of strategic management but does not include the actual implementation of strategies and policies. However, when plans are being formulated implementation should be considered.

Strategic planning involves monitoring the organisational environment to identify threats and opportunities to the successful operation of the business as well as monitoring the internal workings of the organisation to identify strengths and weakness.

Formulation of strategic plans requires the completion of a number of prior processes of which the most important are:

1. A review of the expectations of the major external and internal interest groups;
2. the establishment of satisfactory data banks on past and current performance of the organisation;
3. the determination of desired and appropriate organisational objectives;

Any difference between the desired and the current organisational objectives is the performance gap which the formulation of of an appropriate strategy must rectify. This process is sometimes referred to as gap analysis. The process mentioned earlier involving the evaluation of the strengths and weaknesses of the organisation and the opportunities and threats to the organisation offered by the environment is commonly referred to as the Strength and Weakness, and Opportunities and **Threats** Analysis (SWOT analysis).

## **STRATEGIC PLANNING AND CORPORATE PLANNING**

**Higgins**<sup>6</sup> says that in practice, many organisations do not appear to differentiate very clearly between strategic and corporate planning. He argues that strategic planning is concerned with long-term issues affecting the whole organisation. Corporate planning, on the other hand, concerns the systematic process of establishing corporate objectives, making the strategic decisions and then developing the plans necessary to achieve those objectives.

Hofer and **Schendel**<sup>7</sup> point out that there is a certain amount of semantic confusion in the definitions of strategic and corporate planning, a view which is also supported by Steiner, Miner and Gray<sup>8</sup>. The distinction between the concepts of strategic and corporate planning is fading, therefore no distinction between the two is made in this paper.

## **STRATEGY AND ENVIRONMENT**

As defined earlier, strategy lays out the direction in which an organisation intends to move and sets the framework for action through which it intends to get there. Strategies chosen by organisational decision makers dictate how they plan to match the **organisation's** weakness and strengths with opportunities or threats. Strategy is the means whereby an organisation intends to come to an agreement with its environment.

The external environment is different from the internal environment of an organisation. The external environment is rather dynamic and complex, Thus, appropriate strategies must be formulated and implemented, depending on the external environmental conditions<sup>4</sup>.

A simplified definition of an organisation's environment is offered by Miles<sup>10</sup>.

Just take the universe, subtract from it the subset that represents the organisation, and the remainder is environment.

He adds however that, it is not that simple to define an **organisation's** environment. Basically the problem arises when the environment of the organisation is differentiated by the degree of influence the environmental factors have on the organisation<sup>11</sup>. **Robbins**<sup>12</sup> differentiates between an **organisation's** general and its specific environment. The factors of the general environment are stated as the conditions that may have an impact on the organisation, but their direct influence is not obvious. For example, the state of the specific environment will undoubtedly have a far reaching impact on the prevailing organisational climate than would the state of the **general environment**. In the findings of the research conducted by **Selvarajah**<sup>13</sup>, it was found that the specific environment is considered directly relevant to the organisation in realising its goals.

It should be however noted that the perception of an environment depends on what what an individual sees or **perceives**<sup>14</sup>. Therefore the degree of differentiation of the environment depends on the individual's perception of what makes up the specific or general environment and his assessment of the environmental **conditions**<sup>15</sup>.

Table 1

Response to a survey of perceptions of environmental conditions affecting managerial respondent's organisations by industries in Australia

		Static Conditions			Dynamic Conditions		Row Total
		1	2	3	4	5	
Government	1		4	6	12	14	36
			11.1	16.7	33.3	38.9	29.5
Defence	2		4	2	3	3	12
			33.3	16.7	25.0	25.0	9.8
Exploration	3		4	2	1	3	10
			40.0	20.0	10.0	30.0	8.2
Manufacturing	4		5	6	9	4	24
			20.8	25.0	37.5	16.7	19.7
Service	5			1	1	1	3
				33.3	33.3	33.3	2.5
Retail	6		2	1	4		7
			28.6	14.3	57.1		5.7
Tertiary education	7	1		1	2	3	7
		14.3		14.3	28.6	42.9	5.7
Professional	8				4		4
					100.0		3.3
Insurance & Finance	9		1	1	3	7	12
			8.3	8.3	25.0	58.3	9.8
Computers	10				3	1	4
					75.0	25.0	3.3
Other	11			2	1		3
				66.7	33.3		2.5
Column total		1	20	22	43	36	122
		0.8	16.4	18.0	35.2	29.5	100.0

Source: Selvarajah, C.T., A Study of the Dimensions that Relate to the Effectiveness of Training Systems: A systems Approach, unpublished doctoral thesis, Deakin University, 1989, p.205

At a given time, two or more **organisations** can be operating in very different environmental conditions. The environmental conditions **are** subjected to what is commonly known as environmental uncertainty. **Selvarajah surveyed** 122 Australian managers in 10 different industry categories, of their perception of environmental conditions affecting their organisations and this is reported in Table 1. Some organisations can be operating in a relatively dynamic environment, where conditions of the specific environment are rapidly changing. This is obviously the case in the Computer industry as reflected in Table 1. Other organisations face relatively static environments, where the conditions of their specific environments are changing very little. The exploration and the defence industry are perceived to be operating in such an environment. Both these industries have been affected by their subdued and non-active environmental conditions. In static environments there is less **uncertainty for decision-makers**<sup>16</sup>.

In a stable environment, programmed strategies are employed because the **organisation's** needs are likely to remain fairly stable over a period of time. Programmed strategies are planned on a long-term basis and are normally formulated in great detail **and** implemented with a great degree of accuracy in terms of resources and time.

In a dynamic environment, there is a large amount of uncertainty, and the conditions in the environment are likely to change at short notices. This type of **environment** then requires flexible strategies that are required to adapt to new situations. Flexible strategies are required to keep up with varying environmental conditions over time. In such an unpredictable environment managers need to develop a set of alternatives, each available for implementation whenever a specific change of situation makes it appropriate.

The **celebrated** works of Burns and Stalker (1961)<sup>17</sup>, Emery and **Trist** (1963)<sup>18</sup> and Lawrence and Lorsch (1967)<sup>19</sup> are landmark contributions to the understanding and influence of the environment on the structure of the **organisation**. They theorised that the nature of the environment determines organisational structure. In essence they proposed that the environmental demands generate conditions in the organisation that are satisfied by the appropriate organisational strategies<sup>21</sup>.

Burns and Stalker found that organisations in stable environments had mechanistic structural characteristics and organisations in dynamic environments had organic structural characteristics. Mechanistic structures were characterised by high complexity, formalisation and centralisation. The tasks performed were routine and relied on precise and programmed behaviour. The rate of change in these organisations was slow.

They<sup>21</sup> found that the organic **structures** were relatively flexible and adaptive. The structures promoted horizontal communication rather than vertical communication based on **superior/subordinate** relationships. The method of communication was based on expertise and knowledge rather than the authority of the position. Exchange of information, rather than directives was encouraged, with responsibilities loosely defined.

Table 2 illustrates the Burns and Stalker and the Emery and **Trist** models and their characteristics and strategies. Burns and Stalker also cautioned against over-generalisation, as the ideal forms define two ends of a continuum, and no organisation operates in a totally stable or dynamic environment.

### **TYPES OF STRATEGIES**

Since an organisation operates in a changing environment, it has different means to achieve success. It may employ one of the four main strategies, as suggested by William Glueck<sup>22</sup>. These four main types of strategies can be used along with either the programmed, flexible or contingency strategies as applicable to an environment or situation.

The four main strategies put forward by Glueck are:

- stability strategies;
- expansion strategies;
- retrenchment strategies;
- combination strategies.

**Stability strategy.** An organisation employs a stability strategy when it **maintains** its present course of action. According to Glueck, this is the most frequent of all main strategies employed by an organisation.

This type of strategy is employed when:

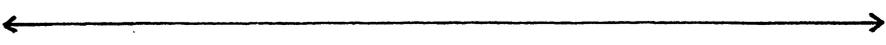
- (a) the organisation already perceives it is performing well;
- (b) the industry is mature and the environment changes only slowly.

Moreover, a stability strategy is less pressured and more for managers as a course of action. It is most appropriate for successful organisations in relatively stable environments.

TABLE 2: TYPES OF ENVIRONMENTS AND STRATEGIES

<u>Environments</u>	<u>Characteristics</u>	<u>Compared to Burns and Stalker's Model</u>	<u>Strategies</u>
1. Placid-randomised	Relatively unchanging environment and posing least threat	Mechanistic structure	Programmed
2. Placid-clustered	Environment changes slowly and threats are clustered to forces in the environment which are linked to each other rather than random threats. For example, some competitors joining forces to determine prices.		
3. Distributive-reactive	More complex environment. Many competitors with two or three large companies exerting influence over their environment.	Organic structures	Flexible
4. Turbulent-field	Dynamic and high uncertainty. Elements in the environment are interrelated with a high rate of change.		

Stable



Dynamic

**Expansion strategy.** When an organisation or the industry in which it operates grows, an expansion strategy is the most appropriate to adopt.

The most important why organisations adopt expansion strategies, according to Guleck are:

- (a) growth is essential for long-term survival in volatile industries such as electronics;
- (b) most managers justify growth in terms of effectiveness and productivity;
- (c) some managers believe society benefits from growth

**Growth** is usually an objective of business firms. An increase in market share often also means an increase in profits to investors in the company.

**Retrenchment strategy.** When a decision is taken to slow down, cut back and seek performance improvement, through greater operating efficiency, a retrenchment strategy is employed. Glueck views this strategy as the least frequent and popular of all the main strategies. According to him, to pursue retrenchment is, on the face of it at least, an acceptance of failure. Thus, management usually adopts this strategy as a 'last resort'.

**Combination strategy.** Finally, the combination strategy is the simultaneous use of more than one of the other strategies. A combination strategy takes into account the organisation as a whole or it may reflect the differences among strategies employed by major substitutes. This type of strategy is often employed by well established and complex organisations especially during volatile and strained economic times.

## **STRATEGY FORMULATION**

A decision process is involved in the formulation of strategy. The decision process for strategy formulation consists of:<sup>23</sup>

- (a) identifying and assessing the opportunities and threats posed by a competitive situation;
- (b) deciding **organisational** goals in the light of that assessment;
- (c) formulating broad strategies and plans for total corporate action.

Decisions are based upon an analysis of the total system within which the organisation operates. This analysis entails determining what variables are to be considered in defining or evaluating directions for the organisation, obtaining relevant information and assessing it in terms of competent work and organisational values.

A major difficulty in the decision process of strategy formulation is the problem of identifying and analysing the factors bearing on the situation. This problem is further complicated by the interdependence of the factors or variables. At the risk of over simplifying this complex decision area, Figure 1 summarises the major variables and their relationships.

Each of these activities may be considered separately for purposes of analysis and understanding, but the process is a highly dynamic and continuous one. It will go through many changes, partial and complete in the analysis, determination and revaluation of strategy.

The figure adopts a systems concept of the business organisation wherein the organisation is considered a subsystem of its industry and total environment, consequently strategic decision making requires close attention to the interactions of the organisation with its wider system.

### **THE STRATEGY FORMULATION PROCESS**

The following section deals with the description and discussion of the elements of the strategy formulation process and their interrelations.

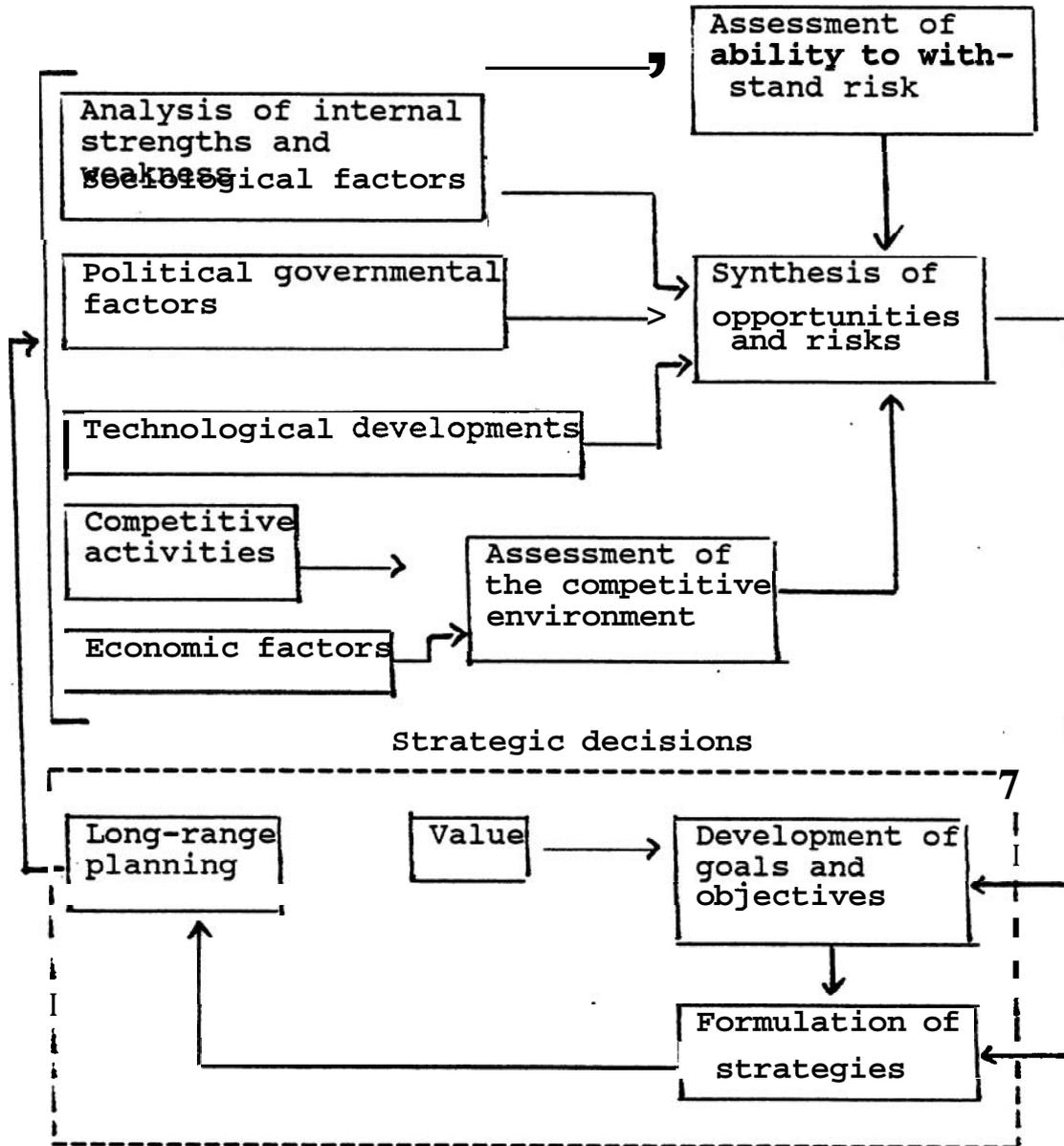
Situational analysis has two major components - environmental (or external) and internal. Environmental variables include, broadly, economic, technological, competitive, political and social developments. These classifications are not mutually exclusive, and variables may contain characteristics of other categories. Not only will environmental developments vary in terms of influence, but implications for the firm may also be immediate, long range, direct or indirect.

Of the external variables, the extent of of competition in the environment exerts the greatest impact on the business organisation. Consequently, it is of prime importance whether an organisation adopts a policy of innovation, imitations or developments in relevant technologies - and these must be monitored and evaluated for their impact on the organisation. This process should be a formal one, not left to casual observation by unspecified individuals, if it is to receive proper recognition at the policy making level. Although we have emphasised economic and technological forecasting, the effect of political and social factors must not be ignored.

The point of critical importance for policy making is that managers must be cognisant of the appropriate variables and project their probable effect on the organisation in the form of opportunity and challenge, threat, or constraint. An analysis of environmental developments will permit the formulation of a range of general strategies available to the organisation.

FIGURE 1

STRATEGIC DECISION-MAKING VARIABLES AND THEIR RELATIONSHIPS



Source: Bouge, J.W., and Coleman, B.P., Concepts for Corporate Strategies: Readings in Business Policy, MacMillan, 1972, p.126.

The internal aspect of situational analysis of assessing the firm is the capability to pursue alternative opportunities in terms of its strengths and weakness, real or potential. Unless these factors are carefully analysed in the decision process the organisation may be **committed** to an excessively high risk strategy. Although a business organisation's principal capability is measured in terms of manufacturing and marketing an economic good or service, a more specific demarcation of capabilities is necessary because of wide differences among organisations in terms of functions they perform and competitive conditions.

An **organisation's** capabilities are determined by its total resources, consisting of manpower, functional expertise, and tangible assets such as people, money, material, machine and methods. In addition, intangibles such as values and **acknowledged** social responsibilities may exert qualitative influence on decisions.

The process of combining all the information obtained in the analysis of external and internal factors is a difficult one. The data are not usually well organised or complete. Decision makers must order, weight, rank and assign probabilities so that they can cope with the task of establishing priorities and allocating resources.

#### **MASTER STRATEGIES**

Most managers recognise that master strategies are of cardinal importance. In forming such strategies they:<sup>24</sup>

1. Take particular note of objectives that are appropriate in view of competition and the companies' resources.
2. Combine various facets of the company's efforts to obtain synergistic effects.
3. Set up sequence and timing of changes that reflect company capabilities and external conditions.
4. Provide for frequent reappraisal and adaptation to evolving opportunities.

It is important to note that master strategies involve more than merely defining desired roles to be played by the organisation. Master strategies defines company missions, **fundamental** purposes, overall corporate objectives, and basic **policies**<sup>25</sup>. In contrast to master strategies are program strategies. An example of a master strategy may be when a company decides to diversify to a new product range. A program strategy may be used when a company decides to acquire an interest in an industry that is not its main-line business.

## STRATEGY IMPLEMENTATION

The task of strategy implementation in administrative in nature. The focus is on bringing all organisations resources to bear on activities which will contribute to the achievement of the corporate strategies.

The range of strategies available for **organising components** of an organisation is quite extensive, depending on the present situation and the devised outcome. In addition, all functional components exist in some **form** of strategy relatively different to that of other functions<sup>26</sup>.

Bourgeois and **Brodwin**<sup>27</sup> present five different views(models) of the implementation process:

**The Commander Model** - appropriate where managerial authority is considered absolute.

**The Change Model** - appropriate where organisational structures may need to be adjusted to implement strategies effectively.

**The Collaborative Model** - appropriate in situations where involvement is required from management from the start.

**The Cultural Model** - appropriate where the whole organisation is required to be involved in the implementation.

**The Crescive Model** - appropriate in situations where managers can be encouraged to come forward with sound and effective implementation strategies.

They implied that different organisational settings may require a different implementation model or view. They acknowledge however that the different models need not be mutually **exclusively**. They may overlap and merge in practice. The collaborative, cultural and crescive models have had greater recognition in recent years and are recognised as more difficult to implement than the commander or change models. The latter three models required greater '**democratic**' involvement of the managerial staff.

## STRATEGY EVALUATION

Evaluation of strategies is very important. **Seymour<sup>28</sup>** has identified six criteria by which to determine whether the strategy devised is the right one. They are:

1. Internal consistency.
2. Consistency with the environment.
3. Appropriateness in the light of available resources.
4. Satisfactory degree of risk.
5. Appropriate time horizon.
6. Viability.

**Internal consistency.** Internal consistency refers to the cumulative impact of individual policies on organisation goals. It should be judged not only in its own right, but also in terms of how it relates to other policies which the company has established and to the goals it is pursuing.

In a dynamic and complex organisation, consistency can never be taken for granted. It is an important criterion because it identifies the areas where strategic choices will eventually have to be made.

**Environmental consistency.** An organisation which has a particular product, price or advertising policy implies that it has chosen to relate to its customers (actual and potential) in a certain way. Similarly, its policies with respect to government contracts, collective bargaining, foreign investment and so forth are expressions of relationship with other groups and forces. Hence, an important test of strategy is whether the chosen policies are consistent with the environment and whether they really make sense with respect to what is going on outside the organisation.

**Appropriateness in the light of available resources.** Resources means human as well as material resources which an organisation uses to accomplish its corporate objectives. There are two basic questions which management must ask in relation to strategy and resources. They are:

1. What are our critical resources?
2. Is the proposed strategy appropriate for available resources?

A resource may be critical in two ways:

- (i) as the factor limiting the achievement of corporate goals;
- (ii) as that which the organisation will exploit as the basis for its strategy. Thus, critical resources are both what the organisation has most of and what it has least of.

The three resources most frequently identified as critical are money, competence and physical facilities, It is important to examine the strategic significance of each.

**Money** is a particularly valuable resource because it provides the great flexibility in response to events as they arise. It may be considered the "**safest**" resource, in that, safety may be equated with the freedom to choose 'from among the widest variety of future alternatives. Organisations that wish to reduce their short run risk will therefore attempt to accumulate the greatest possible reservoir of funds.

However, it is important to remember that while the accumulation of funds may offer short-run security it may place the company at a serious competitive disadvantage with respect to other companies which are following high risk courses.

Organisations survive because they are good at doing those things which are necessary to keep them alive. However, the **degree of competence** of a given organisation is by no means **uniform** across the broad range of skills necessary to stay in business.

Some organisations or' companies are good at engineering, others at marketing and still others rely primarily on their financial sophistication.

In determining strategy, management must carefully appraise its skills profile in order to determine where its strengths and weaknesses lie. It must then adopt a strategy which makes the greatest use of its strengths.

Physical facilities are resources whose influence plays a vital role in evaluating strategies. Any appraisal of a **company's** physical facilities as a strategic resource must consider the relationship of the company to its environment facilities. They have no intrinsic value for their own sake. Their value to the company is either in their location, relative to the market, to sources of labour, or to materials; or in their efficiency relative to existing or impending competitive installations. Thus, the essential considerations in any decision regarding physical facilities are a projection of changes likely to occur in the environment and a prediction about what the company's responses to these are likely to be.

Satisfactory degree of risk, Strategy and resources, taken together, determine the degree of risk which the company is undertaking. This is a critical managerial choice. Each organisation must decide for itself how much risk it wants to live with. To evaluate the degree of risk associated with a particular strategy, management may use a variety of techniques.

There are some qualitative factors which may **serve** as a guideline for evaluating the degree of risk inherent in a strategy. These factors are:

- (a) the amount of resources (on which the strategy is based) whose continued existence or value is not assured;
- (b) the length of time periods for which resources are committed;
- (c) the proportion of resources committed to a single venture.

The greater these quantities, the greater the degree of risk that is involved. Management must be careful in choosing the most appropriate strategy which **minimise** the degree of risk involved.

Appropriate time horizon. A significant part of every strategy is the time horizon on which it is based. A viable strategy not only reveals what goals are to be accomplished: it says something about when they are to be achieved. In choosing an appropriate time horizon, careful attention should be directed to the goals being pursued and to the particular organisations involved.

Viability. There should be evidence to support whether the chosen strategy is workable. Quantitative indices are a good start, but they really measure the influence of two critical factors combined; the strategy selected and the skill with which it is being executed.

If a strategy cannot be evaluated by results alone, there are some other indications that may be used to assess its contribution to corporate progress. Such other indicators are:

The degree of consensus which exists among managers concerning corporate goals and policies.

The extent to which major areas of managerial choice are identified in advance, while there is still time to explore a variety of alternatives.

The extent to which resource requirements are discovered well before the last minute, necessitating neither crash programmes of cost reduction nor elimination of planned programmes. If all these criteria are met, the strategy adopted appears to be the right one for the organisation.

## **POLICY**

Policies are **usually more** concrete than strategies, and give employees guidance in their decision making. Policies act more as guides to action or channels to thinking. Policies define roles for lower level managers, and explain what people should do rather than what they are doing. Every organisation needs defined policies and procedures. Policies are found in all aspects of an organisation.

A policy is a plan that communicates 'broad guidelines for making decisions and taking action'. Policies are intended to help managers to reach organisational objectives in the most economical manner.

Policies usually take the form of statements that dictate to the members of an organisation how they should act in specific situations which occur frequently and affect a substantial number of people in the organisation. When a question arises as to whether or not a given act is approved or prohibited, it can be appraised accordingly if the policy has been **established** in anticipation of such questions being bound to arise<sup>30</sup>.

For example, an organisation can have a policy of firing its employees without any enquiries if management was not notified of an **employee's** absence for a week or more. In such a case, the employee may not be able to contest the outcome if **he/she** has failed to inform management of **his/her** absence from work.

## **POLICIES AND ORGANISATIONS**

Policies are essential to organisations in that they ensure that all organisational decisions are consistent with the strategies and objectives of the organisation as a whole.

Trewartha and Newport<sup>31</sup> believe that policies help organisation by being able to:

(a) Coordinate multiple activities

The broad guidelines for actions set by policies assist to interrelate various people in all functional departments to work towards a common goal.

(b) Achieve efficiency in operations

By dictating action guidelines, policies tend to control and limit decision alternatives and help save management time. In other words, policies help to reduce the time spent by top level managers in replying to questions on recurring topic and issues at lower levels because a policy provides ready made answers to such inquiries.

Basically, there are two types of policies employed by an organisation.<sup>42</sup>

(i) implied policies; and

(ii) expressed policies.

**Implied policy.** Implied policies are those which are not expressly articulated in official statements or expression of approval but which fulfil the function of guiding managerial decisions. Not all managers believe that all policies can or should be expressly stated. Managers believe in stating some but not all policies.

Implied policies may be either favourable or unfavourable in their effects. Companies for example, that try to give each customer fair treatment may not actually state their intentions as a policy.

**Expressed policy.** Expressed policies are written or oral statements that provide decision makers with explicit information that helps them choose among alternatives. Even though it is difficult to write policies clearly, misunderstandings are fewer if policies are written.

## OPERATIONAL PLANNING

Deriving from the policy level is operational planning. This level of planning encompasses the operational details of the general philosophies established in the policy statement. Policies usually contain a highly **idealised** or generalised statement of the form activities should assume within the organisation. It is at the planning level that these ideals are integrated into the functional reality of the organisation.<sup>33</sup>

The term 'operational planning' means essentially the same as '**tactical planning**'. It is concerned not only with budgets but, as the name implies, plans for each operating area over the short and medium term. Thus the production plan for each plant for the next business year or the marketing plan for a given range of products would **form** outputs of operational planning.

Operational planning as these examples suggest is much more than merely budgeting. It involves the allocation of all the major 'categories of resources, namely, people, machines, materials and money. In some organisations, it may be known as business planning.

Operational planning should be based on strategic planning and the relationship between the two is outlined in Figure 2.

In practice, one must recognise that some organisations have much greater experience in operational planning and budgeting for the year ahead than others. It is then inevitable that many organisations tend to in the early stages of introducing corporate planning, to pay greater attention to operational planning, than to business planning.

After two or three annual cycles of corporate planning, most organisations find they can follow the logical progression from strategic to tactical, from corporate to operational planning.

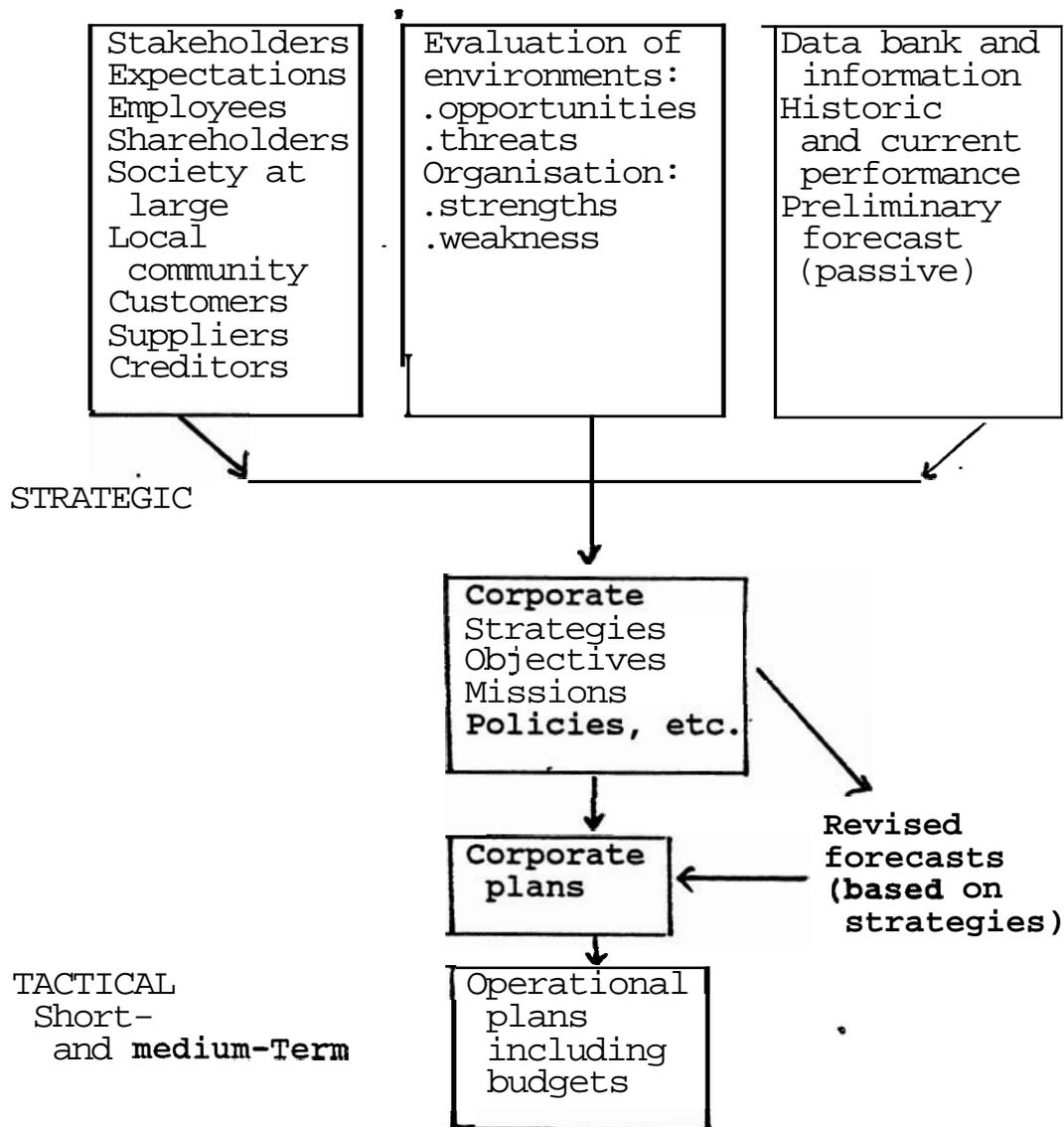
### **THE STRATEGY/OPERATIONS RELATIONSHIP**

Tregoe and Zimmerman<sup>34</sup> explain the relationship between strategy and operations planning as involving a different mix between the two, depending on what strategies the organisation employs and how effectively the organisation operates. This relationship is illustrated in Figure 3.

The relationship between strategy and operations is reflected in a matrix setup. The organisation operating in the quadrant with the clear strategy and an effective operation is without doubt going to be successful. In contrast, an organisation that operates in quadrant IV where the strategy is not clear and the operation is ineffective is undoubtedly going to be a failure. Organisations operating in quadrant III are not going to be competitive in the long term. Their inefficiencies will be causing problems when competition increases. Organisations operating in quadrant II may be operationally effective, meaning that they have a good organisational workforce. However without proper organisational direction and with a changing environment the in **longterm** success is likely to be limited.

FIGURE 2

STRATEGIC AND OPERATIONAL PLANNING



Source: Higgins, J.C., Strategic and operational Planning Systems: Principle and Practice, Prentice-Hall International, London, 1980, p.7.

FIGURE 3

RELATIONSHIP BETWEEN STRATEGY AND OPERATIONS

WHAT		STRATEGY	
		Clear ↓	Unclear ↓
OPERATIONS	Effective	<p><b>I</b> Clear Strategies and effective operations have equaled success in the past and will in the future</p>	<p><b>II</b> Unclear strategies but effective operations have equaled success in the past, but success is doubtful in the future</p>
	Ineffective	<p><b>III</b> Clear strategy but ineffective operations have sometimes worked in the past in the short run, but increasing competition makes success doubtful in the future</p>	<p><b>IV</b> Unclear strategy and ineffective operations have equaled failure in the past and will in the future</p>

Source: Tregoe, B.B and Zimmerman, J.W., Top Manasement Strategy, Simon and Schuster, New York, 1980, p.20.

## OPERATIONAL PLANS

Operational planning concerns three major areas, namely work, money and time. The products of operational planning are known as the operational plans. Operational plans provides the details for carrying out strategic plans. It is important that the managers who are responsible for the formulation and implementation of operational plans are fully aware of the "**big picture**", as provided in the corporate strategic plan.

The operational plans associated with:<sup>35</sup>

- (i) work are called .procedures and rules;
- (ii) money are called budgets; and
- (iii) time are called schedules,

Procedures and rules. Procedures and rules prescribe the methods by which work is to be performed in an organisation. It is specific and clear and details how activities are to be organised and implemented. Procedures and rules are guide for doing that which is in contrast to policy, which is a guide for thinking and planning. They are ready made plans that clearly describe what actions are to be taken in specific situations. They express details of what people in the organisation are expected to do and not to do in the course of their work. In many organisations these are found in a work manual. Procedures and rules are the instruments through which the organisation ensures that the organisational objectives are attained

Procedures and rules, unlike policies, permit little or no individual discretion. They also help in the achievement of organisational goals. Generally, they act along with policies to help proceed with the decisions and actions of the organisational members in common direction that are consistent with the strategies and goals of the total system.

Budgets. Budgets are revenue and expense plans anticipated for a period. Budgets usually cover a one year period. Many organisations also prepare budgets for longer periods, **e.g.**, a medium-term budget can cover a period of between two and three years. A long-term budget can cover a period of between four and five years. The number of years consisting short, medium, or long term budgets need not be fixed, they may depend on the industry, and the purpose for which the budget is planned.

There are basically three types of **budgets**<sup>36</sup>, namely:

- (i) fixed budgets;
- (ii) flexible budgets; and
- (iii) zero based budgets.

**Fixed budgets** allocates resources on the basis of fixed costs. The estimate of costs in a fixed budget is based on expenses or costs that remain fixed for the entire period. The projected or estimated cost in the fixed budget establishes a fixed pool of resources that can be **utilised**, but not exceeded, in support of the specified purpose.

**Flexible budgets** are also commonly called variable budgets. In contrast to fixed budgets variable budgets differ in amounts depending on varying levels of activities. This allows the manager to allocate resources to an activity as a proportion of change of the particular activity. A manager operating under a flexible budget can expect a base increment in resource allocations when activity increases from one estimated level to the next.

**Zero-based budgeting** as the name suggests, is a situation where every program both new and old, starts with a zero budget. Under this budgeting system each manager has to justify the continued financial and organisational support for existing programs, in the same way as for introduction of new programs. It is intended for managers to totally reconsider their priorities, objectives and activities at the start of each new budget cycle.

Under a zero-based budget, resource allocation is made on the basis of projected success and a project is budgeted for in terms of resource allocations as if it were brand new.

This system of budgeting has received much attention, especially since managers are regularly made accountable for their actions through tighter budgetary controls. Managers are not allowed to assume that the organisation is going to continue to support an activity because the organisation has in the past committed its resources to it. All projects enjoy the same organisational support and they must compete anew for available funds.

This type of budgeting avoids the use of historical precedents as the base of budgeting. Many organisations **still use** the method of forecasting budget proposals based on past years performance and proposing a budget estimate for the coming period. Zero-based budgeting forces managers to scrutinize their expenditures and to compete for allocation of resources based on priorities. This system is gaining popularity and is often used by business, non-business and government agencies to help ensure that only the most desirable projects obtain funding.

Budgets are control mechanisms within organisations. They help establish priorities, maintain coordination and facilitate evaluation of the use of organisational resources. Budgets are powerful tools to monitor and to implement effectively the strategic vision of top management. Budgets are often the only source of documentary evidence that the top management is familiar with on a regular basis that enables them to monitor performance in terms of the operational plans.

Schedules. A schedule is a **miniature** plan that ties a particular activity to a specific time frame. We use schedules every day in planning our daily activities. This may take the form of scheduling our activities in a note-book, electronic diary and calendars.

Many organisations, especially engineering firms have work schedules for completion of activities. This helps in **prioritising** the order of their work in a systematic fashion. Good schedules not only denote what needs to be done, they also identify what needs to be done first.

Scheduling is a challenging as well as an important managerial activity.

Gantt charts are **formal** ways of graphically depicting work schedules for the production of the goods and services of organisations. The Gantt chart is particularly useful in ordering or scheduling activities to meet target dates.

### **SUMMARY**

The formulation of **overall** strategy of top management activity is known as strategic management. Strategic planning is concerned with strategy and policy formulation and the development of a set of plans. The difference between strategic planning and corporate **planning** is fading and in many organisations they mean the same.

A strategy is a comprehensive plan or action orientation that sets critical direction and guides the allocation of resources for an organisation. It provides a best alternative regarding particular circumstances. Strategies depend upon the **environment** and the situations in which organisations operates.

Generally, programmed and flexible strategies are employed for stable and dynamic environments respectively. Specifically, there are four main strategies, namely: stability, expansion, retrenchment and combination strategies depending on specific environments or situations. A decision process is involved in the **formulation** of strategy and there is a significant interrelationship between them.

Implementation of strategy is based on skill and good administration. There are six important criteria to evaluate correctness of the chosen strategies.

A policy is, a plan that **communicates** broad guidelines for making decisions and taking action. There are implied and expressed policies. Operational planning or tactical planning is planning for each operating or functional area of an organisation for the short and/or medium term. There are basically three major operational plans, they are, procedure and rules for performing work; budgets for regulating expenses and revenues; and schedules for allocating time.

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