STRATEGIC PLANNING AND STRATEGIC MANAGEMENT

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Abstract: *This paper concisely defines strategic planning as a process of systematic identification of opportunities and threats that lie in the future. Strategic management is presented as a continuous and iterative process whose purpose is to optimally prepare the organization to adequately respond to the changes that come from the environment. A well-arranged comparison of strategic planning and strategic management is herewith also presented and defined. Strategic planning and strategic management are a prerequisite for the survival and development of organizations in a market economy, so their emphasizing their importance is both logical and inevitable.*

Keywords: *strategic planning, strategic management, strategy, process.*

1. STRATEGIC PLANNING AS A FUNCTION OF SUSTAINABLE COMPETITIVE ADVANTAGE OF AN ORGANIZATION

Strategic planning is the process by which we both implement and modernize the strategy when the need arises. Strategy shaping is influenced by numerous factors including: success factors, values and ambitions of management, responsibilities to the social environment, as well as the internal culture of the organization. In addition to this, it is also influenced by the general characteristics of the environment in which the organization exists: cultural, political, economic, technological, social, demographic, and other characteristics.

Strategic planning emerged in the sixties of the twentieth century and one can say that the impetus for the development of this concept of management systems is the saturation and decline in the growth of a certain number of companies.[1]

George A. Steiner's described strategic planning from different aspects in order for us to be able to fully understand it. First of all, strategic planning does not mean making future decisions, because decisions can be made only in the present. The essence of formal strategic planning is the systematic identification of both opportunities and threats that lie in the future. Second, strategic planning is a process that begins with identifying organizational goals. Third, strategic planning is a way of life. Fourth, strategic planning is a system of

[1] Mašić, B., *Strategic Management* , (Belgrade: University "Braća Karić", 2001), 158.

interconnections in a strategic plan, medium-term programs and short-term budget and operational plans.

Directing management towards strategic planning was quite slow. It took ten years after the creation of this management system for it to begin to attract more attention and get implemented in the management of company development. Organizations can gain competitive advantage by utilizing their resources to provide customers with greater value than that offered by competitors. To create a sustainable competitive advantage, we need valuable resources, rare, irreplaceable, and resources that cannot be copied to perfection.[2]

2. ANALYSIS OF THE STRENGTHS AND WEAKNESSES OF STRATEGIC PLANNING

Table 1: Strengths and weaknesses of strategic planning[3]

STRATEGIC PLANNING	
STRENGTHS	WEAKNESSES
Opportunities to increase revenue: they are difficult to prove statistically, although it is clear that the prospects for income increase in the case of a planned, comprehensive and thoughtful business; **Pressure for goal setting:** methods and models of strategic management force executives to consistently determine the objectives and strategies for establishing these goals; all this implies a more thoughtful and more targeted action; **More creativity and foresight:** strategic management forces management to think creatively; every single decision must be systematically checked and weighed; **Structure and integrity in the distribution of funds:** strategic management distributes on a case-by-case basis, determined by unrelated expenses and discounts to particular interests; therefore, this mode must be replaced by systematic strategic planning, tasks and costs must become an inseparable and essential element of planning; **Compliance of guidance and directions throughout the organization:** strategic planning means goal setting and clear appropriation of strategies for achieving these goals; it reduces the likelihood of mistakes, surprises and unnecessary risks; available strategies are reviewed and checked on several levels within the organization thus ensuring conformity of the plans.	**Inflexibility of strategic planning:** Strategic planning is a complex process, which can be suffocated by rigidly defined procedures and timetables; it consume a lot of valuable management's time, creates a lot of useless paper and restricts creativity; because of all this strategic planning in the seventies came into disrepute, therefore, strategic planning must be elastic and not too formal; **Disconnection** between strategic (primary, long-term) planning comparing to developmental (short-term) and current (current, annual) planning; strategic plans are useless if not implemented by companies; **Excessive role of planners**: companies expect too much from current operational planners, expecting to become successful in strategic planning overnight; patience is required, it is necessary to acquire experience for some time; planners need further training; one should not immediately renounce strategic planning because it does not give immediate results; **Unadjusted rewarding**: strategic planning cannot be successful if managers are rewarded only according to current results; the same is true for short terms of office of top management; Insufficient funds: strategic planning requires a lot of time, money and people; **Wrong philosophy of the top management:** strategic planning is an activity of top management and if they do not believe in it (different values, thinking), this kind of planning is doomed to failure.

[2] Williams, Chuck., *The Principles of Management*, (Novi Sad:Data Status, 2010), 96.

[3] Tavčar, M., *Osnove menadžmenta*, (Piran: Visoka pomorska i prometna škola 1995), 119.

3. STRATEGIC MANAGEMENT AS A FUNCTION OF IMPLEMENTATION OF MANAGEMENT PROCESS

Management process which includes involvement of organizations to develop strategic plans and their further application is called *strategic management.* It is a continuous and iterative process whose purpose is to optimally prepare the organization to adequately respond to the changes that come from the environment. According to Dan Schendel and Charles-Hofer, strategic management is based on the principle of defining the overall organizational structure of policy and strategy, together with the realization of the objectives.

Table 2: Activities in the area of strategic planning and strategic management[4]

STRATEGIC PLANNING	STRATEGIC MANAGEMENT
THE PROCESS OF ANALYIS: Breaking up of purposes into goals Formalization of those steps into routine tasks Prediction of the output of each task	THE PROCESS OF SYNTHESIS: Based on creativity and intuition Way out is a comprehensive view of the enterprise General strategic direction and vision of the organization
The process of calculation and recalculation: Stems from the existing structure and functions Stems from existing programs Processes previous experience, does not create anything new	The process of seeing and managing: Informal imagining of strategy Encourages immediate / momentuous learning and cognition Creates new views and new combinations

The four key aspects of strategic management are: goal setting, strategy formulation, strategy implementation and strategic control, which gives management insight into the implementation process.

Setting goals gives the appropriateness to the organization's activities and serves as coordination of all activities of all organizational units and individuals. As such, the objectives represent a kind of landmark in business. Their main characteristics are the temporal and spatial dimensions. They must be real, measurable and compatible with the mission in order to become the criteria for selecting appropriate strategies for their achievement. Managers who define plans and objectives of an organization must be able to align their strategic directions with the new risks and challenges, as the main prerequisite of modern business.[5]

4. STRATEGY AS THE FUNCTION OF ACHIEVING ORGANIZATION'S MISSION

According to professor B. Masic, PhD, strategy is a rational response of the organization to events from its environment in which it performs its core – business - and wider social mission. According to the systematic analysis and prediction of the environmental fac-

[4] **4** Tavčar, M., *Razsežnosti menadžmenta*, (Koper: Visoka škola za menadžment 2000),112.

[5] Angeleski Metodija, Gaberova Nikolina, *Crisis management - a new paradigm for the modern business*, str. 7, International journal of economics and law Vol. 2, No. 6, str 7, Decembar 2012).

tors and on this basis its established vision, mission and objectives, strategy formulation is a selection of basic ways and means for achievement of these goals and missions of the organization.

Strategy as a general program defines goals of the organization through which they are achieved at the following levels:

1. at the corporate level (strategy formulated by the top management, which determines what should be business of the organization, what the objectives and expected results are, as well as how to allocate resources to achieve the objectives);
2. at the level of business units or types of business strategy (strategy addresses the issues of competitive advantage of business units on the market, identifying the target consumer groups and the allocation of resources within the business units);
3. at the functional level (strategy comprises business strategy of certain department in order to implement the strategy of business units, resulting in operational plans).

The position that the organization shall occupy in the future depends on the choice of corporate strategy and its implementation.[6] There are three important approaches regarding corporate strategy:

1. Corporate portfolio approach;
2. The 'Five forces' model;
3. Business strategy (B-strategy).

Regarding corporate portfolio approach, top management evaluates all business units in line with the market and develop appropriate strategic goal of each unit separately. One of the most famous examples of this approach is the *framework portfolio*, i.e. *BCG Matrix.* It is focused on three aspects of the organization: the case, the market growth and the inflow or outflow of cash. The aim of the *BCG Matrix* is to establish a balance between organizational units that claim cash and the units that bring in cash. We distinguish four categories of organizational units:

- 'troubled unit' speaks of a relatively small share in a rapidly growing market; business is uncertain and expensive, it takes a huge investment just to maintain a tiny share of the market that will produce a low, possibly negative profit and cash flow; increasing the share market in relation to the leaders of this market requires further investment, but it can prove to be an opportunity if appropriate strategies and resources for its implementation are provided.
- 'star' has a relatively high share in a rapidly growing market; business is very profitable; in order to keep pace with the growth of the market it requires investment greater than the amount of cash that is being earned.
- 'mature organizational unit' reflects a relatively high share of the slowly developing market; business is profitable and is a source of extra cash; retaining our place on the market does not require large investments.
- 'stagnating organizational unit' represents a relatively small share of a slowly growing or even stagnating market; business is treated as a moderate user or supplier of cash.

Successful cycle requires that funds from mature organizational units and successful stagnating unit get invested in troubled organizational units to achieve a greater share in their market segments and become 'stars.' When the rate of market growth slows down, 'stars'

[6] Radosavljevic Z, Tomic R, Management in Modern Business, (Novi Sad: Alfa Graf, 2010),223.

turn into mature organizational units that invest cash in the next generation of troubled organizational units giving them a possibility to increase their market share.

The 'five forces' model implies the ability of an organization to be competitive in the market with its technical and economic resources. It is a model of the relationship between a manager of one organization and people from other organizations. The 'five forces' stem from the environment and each of them represents a threat to organization's penetration of a new market, or preservation of the existing market share. These forces are: threat of new entrants in the market, bargaining power of customers, bargaining power of suppliers, threat of new products – substitutes, and rivalry among competitors.

The aim is to analyze these forces and create a program through which the organization will affect them, and defend itself from them.

Business Strategy (abbreviated as B - strategy) implies the statement of the company on its core activities, and its principles and values, i.e. why it is in that particular line of work. Some of the existing business strategies are: B - strategy oriented towards shareholders, B - strategy oriented towards managers, B - strategy towards a limited number of interest groups, B – strategy oriented towards all stakeholders, B - strategy oriented towards social harmony, B - Rawlsian strategy; B - strategy oriented towards personal projects.

5. MODELS OF STRATEGY IMPLEMENTATION AND STRATEGIC CONTROL

Implementation of strategy depends on the structure of the organization. This means that it is necessary for changes in structure to be in line with the changes of the basic strategies of the organization. There are different models of strategy implementation.

There is the so-called Chandler theory and the 'seven S' model.

- According to A.D. Chandler, organizations go through the following stages of development: movement of a unit towards functional unit, and then to multi-division structure. With the increase in the scope and needs of the organization, there follows the formation of companies with more departments and administrative headquarters dealing with coordination, specialization and standardization department. In the phase of retaining the initial product and creating the scale economy, suppliers of raw materials and finished products distributors align together. By moving goods and materials through various functional departments, the organization changes into a functional organization with operative departments. In the last phase, the organizational structure includes other types of industries, creating a company with several divisions, i.e. creating smaller companies that are responsible for short-term operational decisions.
- The 'seven S model is used to present the adverse impact of the seven key factors in the introduction of changes in the organization. All the factors are equally important and mutually conditioned. These factors are: structure, strategy, system, style, staff, skills and superior goals. The success of any manager is reflected in his ability to keep the variables of this model in equilibrium.

Strategic control assists management in achieving the goals and strategies through monitoring and evaluation of the strategic management process. The process of strategic control involves three interrelated stages: measuring performance, comparison of the measured performance with the goals and standards, and predicting the necessary corrective actions. Management must have the knowledge and ability to understand, create and implement strategic control in the process of strategic management. Informational support is extremely important from management information systems, management systems, decision support and expert systems.

6. CONCLUSION

Strategic planning is the process by which we both implement and modernize the strategy when the need arises. Strategy shaping is influenced by numerous factors.
Apart from them, it is influenced by the general characteristics of the environment in which the organization exists: cultural, political, economic, technological, social, demographic, and others.
Strategijski menadžment je proces rukovođenja koji podrazumeva angažovanost organizacije na izradi strategijskih planova i njihovoj daljoj primeni. Strategic management is the management process that involves engagement of organizations in development of strategic plans and their further application. The four key aspects of strategic management are: goal setting, strategy formulation, strategy implementation and strategic control, which gives management insight into the implementation process.

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