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STRATEGIC PLANNING AND CONTROL - A CASE STUDY

1. Controlling as part of the Companies' Management System

1.1 Planning and Control - Some Definitorial Remarks

Mostly when dealing with strategic management planning as well controlling both terms are not clearly defined [3,9]. They are just explained in a phenomenological way. However, it seems appropriate to define planning as "setting goals, allocating resources and analysing as well as fixing future activities in a systematic way" [14]. Planning comprises therefore setting goals and fixing activity schemes; it is clearly future oriented. Control as the twin sister of planning [12] is often judged as an activity to compare and analyse past activities and results [9]. Looking more carefully to those activities which are called controlling activities it is evident that controlling may be divided in two types of activities [12].

1. Control of paradigms: objects of the controlling activities are the basic premises of any planning.

2. Control of results: objects of the controlling activities are actual results of the company's activities.

Controlling is mostly restricted to controlling of results. This definition of controlling may be seen as controlling in a narrow sense. Somehow different is delineated controlling in a wider sense. Following a wider controlling concept, elaboration of goals and development of strategies as well as analysing deviations are aspects of the controlling process [5]. This definition of controlling is not purely past-oriented, it contains aspects of planning, too [6].

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When classifying the different planning as well as controlling activities in a specific company one may come to a definitorial delineation of both concepts as given in Fig. 1. Under the premises given paradigms are defined as the basic laws governing business planning. These paradigms are not really objects of the planning procedure but they dominate quite fairly the planning results:

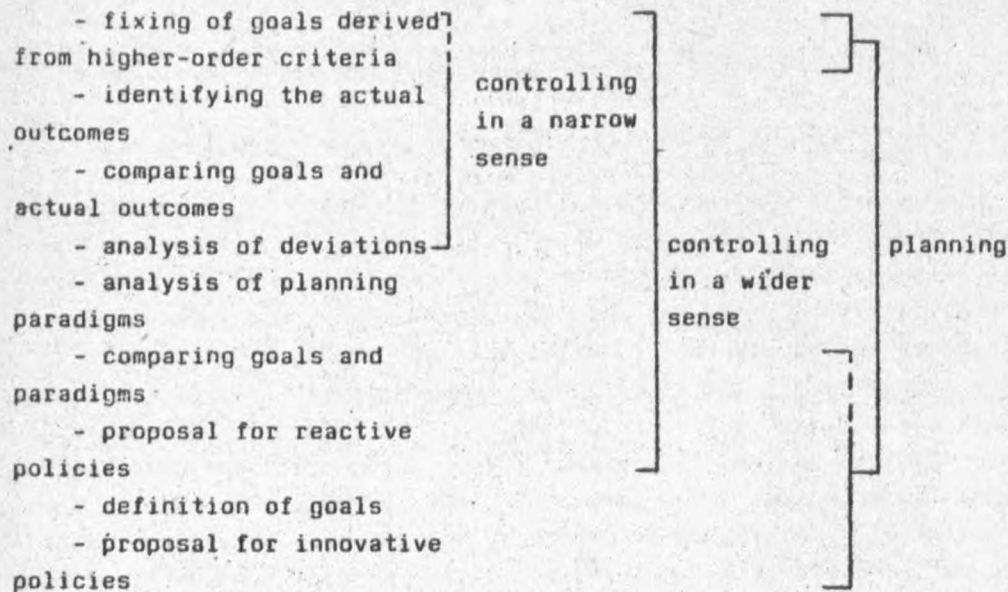


Fig. 1. Definitorial delineation of controlling and planning

1.2 Reactive and Innovative Planning

Usually text-books dealing with planning and control propose that the planning cycle starts with an exogenous idea (e.g. idea of a new product). This planning may be called "innovative planning"; contrary to that concept may be seen the concept of a reactive planning cycle which starts with controlling activities stimulating planning deliberations. Especially as regards short-term planning it seems realistic to suppose that innovative planning procedures are less frequent than reactive planning procedures. This dominance of reactive planning procedures may be an important factor to explain the quick spread out of the controlling information and not with autonomously developed ideas for new strategies or products.

1.3 Comparing Tactical, Operative, Innovative and Strategic Controlling

A distinguishing mark of the controlling concept of planning is a somehow adaptive business planning procedure. These planning procedures may be classified as short-term (tactical; up to one year) planning procedures or as mid-term (operative; one to three, five years) planning procedures or as long-term (strategic; more than five years) planning procedures.

The different planning and controlling activities are structured in a hierarchical manner (Fig. 2).

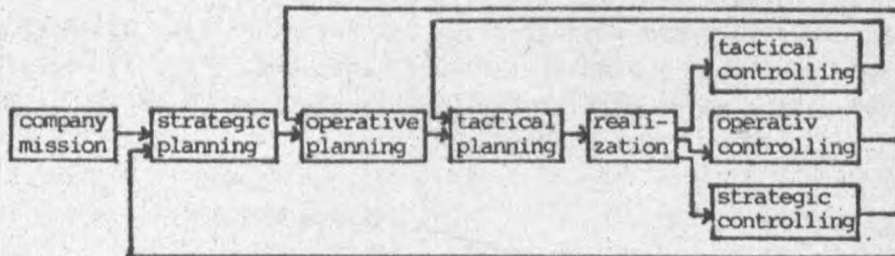


Fig. 2. Hierarchy of planning and controlling areas

When considering structures as given in Fig. 2 it is easy to understand that strategic controlling activities which are independent of tactical or operative controlling activities cannot exist as far as these activities are past oriented. Any strategic controlling activity has always to consider long-term as well as short-term policies and strategies. Strategic controlling as an independent area of business activity should, therefore, mostly be directed towards controlling planning paradigms [12]. With this perspective of strategic controlling in view its function may be seen to quantify the risk of past tradition in the future as well as to control whether the paradigms underlying the actual business planning procedures are still those of the real world [12]. As a consequence of this view of strategic controlling we have to deal with ill structured fuzzy set type problems [8].

2. Strategic Controlling - The Concept

2.1 Strategic Controlling: Controlling of Paradigms and Stimulation of Reactive Business Planning Activities

According to the basic ideas laid down in the chapter above within strategic controlling one has:

- first to survey all types of external as well as internal factors of a company which may have an impact on the company's goals,

- second to control the concordance of the paradigms, important for any strategic planning activity with the real world setting.

In order to support controlling of paradigms very often companies are running a gap analysis. Gap analysis (Fig. 3) may be therefore seen as a kind of early warning system [3,13,4].

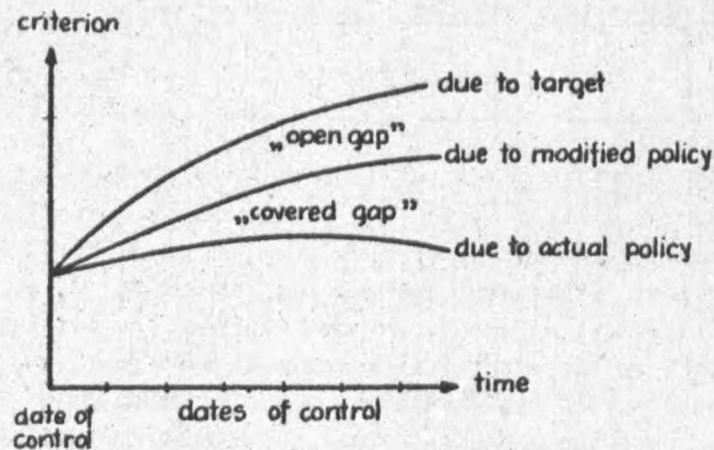


Fig. 3. Gap analysis

The three paths describe the expected development of the criterion's outcome as given by the company's mission as derived from the actual policy and as derived from the policy as planned.

2.2 Analysing Exogenous Factors as a Part of an Early Warning System

Society as well as economic indicators on which the planning is based and which are important premises of long range plann-

ing have to be surveyed continuously and analysed for structural changes. Very often disregard or wrong interpretation of weak signals derived from these analyses are causes for company deficits.

2.3 Analysing Company Internal Factors as a Basis of Long Range Planning

Whereas the exogenous factors determine mainly the development of the market as a whole, the company specific strengths and weaknesses are mainly relevant for the market share of a company. Analyses of the company's strengths and weaknesses are therefore a core point of any strategic planning and controlling [6]. Within this kind of analyses positive as well as negative aspects of the company have to be made explicit and have to be quantified. It is very difficult to determine the factors to be taken into account within such an analysis. To some extent research as done e.g. within the PIMS project [11] helps to do the analysis properly. Though there is no clear agreement as of the main factors to be analysed in this context almost all researchers agree that qualitative criteria such as brand image, company image, comparative strength, know-how etc. are more important for long term profit and market share development than criteria such as profit and turnover.

Since bottle-necks of a company are quite important for its long-term development and these bottle-necks cannot be pre-specified a-priori it is necessary to survey all potential bottle-neck factors of a company. The strength, weaknesses and potential bottle-necks which have to be surveyed are called the key factors of strategic controlling.

3. Strategic Controlling in a Small Size Company - A Case Study

3.1 Strategic Controlling and Small Businesses

In order to make sure that its competitiveness is not weakened through strategic changes in the market place and new opportunities a small size company in the chemical industry decided to install a concept of strategic controlling. In spite of its

small scale the planning procedures are quite formal ones (management with 3 academics as managers) and a well developed system of tactical controlling was established a few years ago. Due to the close connections between the managers and the market place tactical controlling systems are judged as not very important but strategic controlling systems are supposed to be very important because of the fast growing and unstable markets, the company is acting on.

Since the company shows only a small market share the analysis of strengths and weaknesses was supposed to be very important in order to find those factors which are determining the company's market share which is mainly important for the overall development of the company.

3.2 Analysis of the Strengths and Weaknesses of a Company for Assessing its Market Potential

The opportunities of the company have been related to pre-specified strengths and weaknesses of the company specific to products and market areas, thus, first, information to develop an adequate product-market-concept has been derived [7].

Those factors which show feasible differences between the company and its main competitors and are relevant for long-range market positions have been scrutinized. The results of these analyses have been put together in a simple graph (Fig. 4; - - : actual profile 1983, - . - : actual profile 1978, - - - : target profile 1983). The position of the main competitor is given in Fig. 4 by the central line.

The profile gave the management important indications how to position the company for a specific market (the profiles have been developed for each product market).

3.3 The Strategic Balance as an Analysis of the Company's Strengths and Weaknesses Differentiated According to Functional Areas

The strategic balance [7] has to allocate the company's strengths and weaknesses to different functional areas and not to different markets as the analysis of the company's market potential.

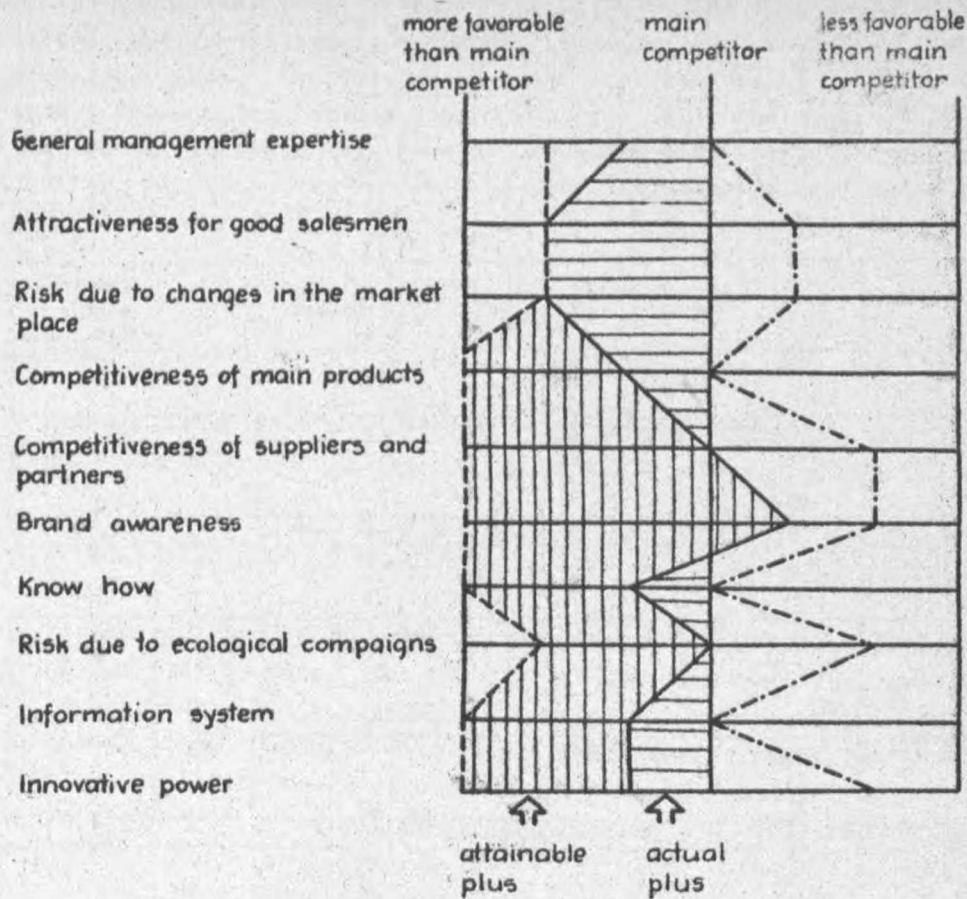


Fig. 4. The profile of the company in 1983

This balance is planned to be a medium to allocate management capacities as well as financial resources to functional areas. The basic idea is that of getting a maximum incremental benefit of the management activities.

When performing the analysis within the framework of a strategic balance the following steps have to be performed:

- a list of relevant functional areas has to be set up;
- the chances and problems of the company in different functional areas have to be formalized on the basis of key factors in each functional area;
- the relevance of the different functional areas as to absorb management capacity has to be evaluated.

For the analysed company five functional areas (marketing, financing, purchasing, personnel, know how) were formalized and by means of 34 key factors the chances and problems were quantified (0 : area does not offer any chances/area does not pose any problems; 100 : area does offer big chances/area poses big problems). The balance is given in fig. 5.

Functional area	Chances	Problems	Chances - problems - difference
	100	0	100
		date 26.9.83	
Marketing	70	30	100
Financing	80	70	150
Purchasing	70	50	120
Personnel	90	70	160
Know how	50	40	90

Fig. 5. The strategic balance of the company in 1983

The balance sheet is an easy graph to understand to make apparent the problems and chances of different functional areas. However, often one will not be satisfied with such a balance but look for a simple indicator of the relevance of the functional areas for allocation of additional resources. Such an indicator of relevance for allocating resources can easily be gained by multiplying the chances-problems-difference with a ratio-scaled coefficient of the importance of the different functional areas (0: functional area has no importance; 1.0: functional area has big importance). The list of the indicators of relevance is given in Tab. 1.

Table 1

The relevance of different functional areas for strategic activities

Functional area	Chances-problems-difference	Importance	Relevance score
Marketing	100	0.8	80
Financing	150	0.4	60
Purchasing	120	0.2	24
Personnel	160	0.9	144
Know how	90	0.7	63

The indicator gives a clear picture of the relevance to allocate additional resources to the different functional areas.

4. Conclusions: Strategic Controlling for Small Size Companies

Strategic planning and controlling have to be done on the basis of qualitative data. The basic function strategic controlling has to perform is to sensitize the management for problems with long-range effects and to make sure that the corresponding questions are regularly posed within company board's meetings. However, it is not necessary to run strategic controlling in fixed planning intervals, a continuous elaboration of the problems in question is much more important.

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PLANOWANIE STRATEGICZNE I KONTROLA - STUDIUM PRZYPADKU

Zainteresowanie problemami strategicznego zarządzania zwiększyło się wyraźnie w ciągu ostatnich kilku lat z powodu stagnacji na wielu rynkach. Sposoby planowania kreatywnego, opierające się na stosowaniu w odniesieniu do produktu metody "portfolio" oraz krzywych doświadczenia, stały się coraz bardziej popularne, zwłaszcza wśród naukowców. Choć często przyjmuje się, iż kontrola jest bliźniaczą siostrą planowania, to w dziedzinie strategicznego zarządzania aspekt kontroli nie jest jeszcze zbyt dobrze zbadany. Artykuł ten zawiera przede wszystkim prezentację kontroli w ujęciu strategicznym, a następnie przedstawia studium przypadku małego przedsiębiorstwa, wykorzystującego tę koncepcję.