

What does “Strategic” Mean in Business Planning?

Those small and medium enterprises getting into or expanding their businesses are often asked to produce (in addition to a Business Plan) a Strategic Plan. Many people are confused about the term “strategic.” Let’s explore the different dimensions of this term and also see how it differs from “Operational.”

The following types of issues will be considered “Strategic”:

1. The firm’s future or direction (vision)
2. The relationship to the enterprise’s customers, competitors, markets, stakeholders, or regulators (mission and business model)
3. The firm’s leadership, strengths and weaknesses, values, and culture (as it promotes/constrains what is possible)
4. Any issue that affects the whole or most of the enterprise (not just one or several departments), especially major change initiatives or strategies
5. How it engages its workforce (*strategic* HR management): labourers or smart, creative, motivated, and valued employees?
6. Anything dealing with the expression of a firm’s core competencies, especially in how it designs, produces, and delivers its products, or services
7. A unique *process* that provides a strategic advantage over its competitors (FedEx: ‘get it there overnight’)
8. Any capital purchase/investment/debt of a large amount that if not managed properly can bring the business down
9. A merger, joint venture, acquisition, restructuring, or creation of a new organizational entity
10. Resources, when their disruption threatens operations
11. Catastrophic events whether natural or man-made, including the emergence of a disruptive technology or products from competitors

In summary, *any issue/opportunity that can make-or-break the organization is a strategic one.*

“Operational,” on the other hand, are those things required to make the business function in routine ways from day to day and that pertain mostly to processes. That is, to keep current stakeholders--especially customers--satisfied.

The larger an enterprise grows the more its leadership will be concerned about strategic matters while the lower ranks would be concerned mostly with operational issues—how do we serve our customers/clients/stakeholders today?

Strategic is about growth and adaptation and the operational is about maintaining the system, that is, being ‘effective and efficient’ in delivering quality products and services *every* day.

Strategic issues involve external *alignment* with the changing environment to create its own future, while operational seeks *adjustments* to day-to-day pressures and fluctuations that would affect operations, sometimes called tactical decisions. Without alignment, an enterprise becomes progressively more dysfunctional and could be headed for bankruptcy.

A strategic plan covers a 3-5 year period, while an operational plan (aka: business plan) covers 1-2 years. Strategic decisions impact the organization for years, operational decisions have more immediate impact and a shorter duration time.

The strategic concerns are measured by Key Performance Indicators (KPI’s) which define critical outcomes often found in “Balanced Scorecards,” while operational matters are measured by Performance Indicators which are specific to processes and measure *outputs*, both of which are usually expressed as a ratio

(e.g., “Operating Ratio” is net sales/operating expenses). Outputs are the means to the ends called (strategic) *outcomes*.

Strategic feedback systems are external to the business (impact on environment/stakeholders), but operational feedback is internal (impact on products/processes/staff). Reporting systems are critical for picking up both types of information, or else you are ‘flying blind.’

Strategic challenges and barriers are not under the control of the enterprise, but our response to them are. Operational problems, for the most part, are within our control. While operational processes improve by using “Performance Management Systems” or process improvement, strategic management performance relies on strategic developmental projects--that when executed--will collectively realise the vision. Some of these projects may be major change initiatives such as introducing ISO-9000, Total Quality Management, Six Sigma, Business Process Re-engineering, or even restructuring.

Why is being strategic important? Look at the US presidential campaigns. Some candidates spent all their time and resources in Iowa to get a good head start, but that was only the beginning of the race. They now have to face “Super-Tuesday” with 14 states voting on the *same* day and few had the strategic sense (or resources) to organize on the ground in them to pick up more delegates. There will be a big shake-out after that day.

Businesses can be affected the same way if they rely on the founder’s model, as if it is something permanent and not to be altered. Not observing how the environment is changing, and its implications for your business, can have the same tragic consequences.

Culturally speaking, we do not have a history of being planners, but doers, of thinking about tasks instead of the big picture. We also are too often saddled with the “now for now” mindset which focuses on the present to the exclusion of the future (God will provide). If we do not

have the psychology of a strategic thinker, then our strategic plans will just be mechanical creations that lay on the shelf while we fight operational fires and miss opportunities.



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