Using Model to Plan of Strategic Objectives

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***Abstract*—**Importance of strategic planning is unquestionable. However, the practical implementation of a strategic plan faces too many obstacles. The aim of the article is explained the importance of strategic planning and to find how companies in Moravian-Silesian Region deal with strategic planning, and to introduce the model, which helps to set strategic goals in financial indicators area. This model should be part of the whole process of strategic planning and can be use to predict the future values of financial indicators of the company with regard to the factor, which influence these indicators.

***Keywords*—**Planning of Potentials, Planning of Strategic Objectives, Portfolio Planning, Significant Factors, Strategic Planning.

I. Introduction

AS was written above, today the importance of strategic planning is, at least in the theoretical part, unquestionable, however a lot of companies do not deal with it. Managers blame the lack of time to perform this activity, the turbulent changes in the environment or they just simply fight for the survival of the company at the time of crisis. Very often operational planning figures as strategic planning, or strategic planning is based only on interim projects and ends with the termination of this goal. Ignoring the long-term well thought-out strategic planning is like a ride at the sea without map and navigating. The company does not manage its direction and does not have control mechanism to know, where it really is and what risks it may encounter, or in better case, what opportunities arise. It is necessary, that the company did not give this activity into the background, and despite the associated difficulties do it. They need to learn methods and procedures that are used in creating a strategic plan and learn to recognize the signals that show set control mechanisms. It is the only way how company can grow in the long-term, or more easily overcome the crisis period. Strategic planning should not be seen as a necessary evil, but as an opportunity to grow the company and its values.

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II. Strategic Planning

A. Importance of Strategic Planning

In the condition of the growing competition and increased globalization is the success of the company based on the most effective use of its potential. In order to succeed it must know, describe and analyze its core processes and activities, those that are directly related with the business of the company and provide value to the customer and support business processes. There must be defined inputs and outputs of these processes and the company should always strive to optimize them. To ensure that all processes are aligned and ideally lead to an increase of the value of the company, they should contribute strategic plan. It is the basic document that is based on the overall vision of the company and is also the basis for the tactical and operational plans [4].

B. Structure of Strategic Planning

Based on the company's vision, top management objectives and set framework conditions can be strategic planning characterized by this structure [2]:

- The focus of strategic planning is creation of integrated programmes of production and plan of potentials. Based on this the types of produced articles, the necessary material and human potentials can be specified. The need of these potentials, or their changes, will be needed to determine in the process of planning. In a particular form it means planning of business areas, respectively their strategies and the required infrastructure, which are usually closely associated with the plan of functional areas of the company and regional strategies.
- An essential part of strategic planning is also plan of managerial potentials that lies within the control system of the company and related plans of managers, their motivation and plan of information system.

III. How Companies Deal with Strategic Plan

A. Results of Research in Companies

The research, which authors have made in October 2011 with the aim to map the level of strategic planning in the companies in the Moravian-Silesian region showed, that the determination of the strategic plan is in the current conditions rather a random activity, which does not always reflect the actual conditions both inside the company and in its surroundings. Very often the company does not reflect the importance of strategic plan and even in large-size companies the creation of strategic plan does not take place. The research survey was conducted in 20 companies, and more specifically, it was examined whether strategic planning is applied, who makes planning, whether it is done systematically, long-term oriented, who sets the criteria of strategic plans, how strategic alternatives are set up, their evaluation, decision regarding the application of these variants, the implementation of the strategic plan and not least strategic controlling.

For effective and complex strategic plan it is necessary to ensure the optimization of sub-processes in the company and focus on those that have made a substantial impact on the overall business outcomes [3].

For the survey there were chosen medium and large-size organizations, whose main business is production of goods. Selected companies were Czech and certain subsidiaries of corporation. This is also reflected in the outcome of the investigation. The research was based on personal interviews with the managers of these companies. Another used method is content analysis of available documents, such as online available documents or websites of companies. This analysis was done in order to identify companies, their size, staffing, etc. From the website it was examined whether the company presents its strategy to the public. Last used method is studying internal documents that were provided for inspection by managers of these companies.

B. Problems with Strategic Planning in Companies

As revealed not only in literature [4], but it was also confirmed by the outcomes of the self investigation, in terms of strategic plan production companies face these particular problems:

- There are not obvious critical business objectives.
- Many objectives exist, but they are often too abstract, intricately defined, there are too many objectives and ordinary workers are not related to them.
- Activity management in time and project management is in many cases weakness of the business, executive managers dedicated to operative management 80-90% of their working time and do not have time for the key strategic priorities of the company.
- Set strategies are rigid and do not respect the need for flexibility and constant adaptation to changing conditions.
- Under the term strategic plan is usually presented formal description of events, plans and projects that are not directly related to their implementation and do not consider optimization of conditions.
- There is no required development of people and their knowledge as a part of most strategic plans, despite the strategic objectives cannot be realized without that.

IV. Detailed Results of the Survey

Managers were asked in advance prepared questions and in the discussion were identified more facts. The result of this survey coincides with a predetermined hypothesis, and such that the majority of companies, nearly 80 %, do not put emphasis on strategic planning in their companies. It cannot be said, that they do not deal with this activity at all, but it is done randomly without pre-described procedures and often only one person or very close management of the company deal with this activity.

The questionnaire was aimed more broadly than just on strategic planning. At first it was investigated to what extent and which way companies solve business strategy. Except for one company all of the respondents had set their strategies. In some companies, approximately 50 %, it is just about the formal setting of the strategy, because the companies are subject of audit and in this case it is all about one man, who decides and prepares the document. In this document, which is often very general and constant over time, no strategic plan is bound, which would lead to better business performance and guaranteed growth of the value of the company. In foreign companies the strategy is given by the parent company and only in one of surveyed company can managers design and influence strategy, but still it is adjusted and set by the parent company.

Companies formulate strategic objectives for the future. However, in some cases it is just the set of objectives related to the financial indicators and these are in long-term period repeated. There are objectives related to EBIT, the turnover of liabilities and receivables, profitability indicators and indicator of margin contribution. Only 4 companies (i.e. 20 %) annually introduced new strategic objectives, or adapted contemporary objectives to the changed conditions. Strategic objectives are in most cases in the companies established.

To improve strategic planning, a model will be designed for a selected company, which could facilitate the whole process. This is the kind of manual that advises all the problematic areas, which must be dealt with within the strategic planning of the company. The model is divided into several parts, where some can be described accurately and others not. This article will introduce the part that will allow us to better determine business objectives associated with financial indicators.

For the draft of model of strategic plan a company was chosen, which deals with strategic management not only formally, but also sees a way to grow and to increase its value. The business strategy document was the primary source of information.

V. Planning of Strategic Objectives

One of the most important decisions in determining the strategic plan is the choice of product portfolio. It is important that it is evaluated from all perspectives. These perspectives are e.g. their competitiveness, which is related to the development and product innovation and development of trends in the market and then also everything, what relates to their productions – this means ensuring strategic resources, sales in domestic and foreign markets, evaluating technological and production demand, ultimately, the share of total production of company. The selection can be made for example in the basis of economic analysis – analysis of production and technological process, analysis of production capacity, margin contribution, product profitability, share of sales of this product in total sales etc. To determine the portfolio will certainly also be influenced by investments in the manufacturing process – thus innovation production facilities and thereby achieving higher production or acquisition of new production facilities. It is necessary to quantify the capacity and adjust the portfolio selection to take maximum advantage of the available resources, both technical and human, in a given time period. Through chosen analysis should be compared and evaluated various options of creating portfolio. Analysis such as the decision tree, multicriteria decision or decision network can be used, where inputs of this analysis would be just economic characteristics. It is also necessary to analyze markets, i.e., the size, potential, purchasing power, legislative affairs, etc., where the products are placed and choose optimally this deployment. Last but not least, this will be related with potential market analysis and the possibility of placing the product on these markets. Of course, there should be an effort to increase sales of products accompanied with highest return on sales. In this phase BCG matrix could be used, which examines the relationship between the relative market share of the product and its business growth rate [1]. With a portfolio choice is also closely linked ensuring strategic resources.

The determination of strategic objectives is not always an easy task. Planning outputs tied to future performance is often influenced by a number of stochastic variables. Predicting some variables, such as revenues, EBITDA and related economic indicators of financial analysis would be easier if we could capture the essential influencing factors and assign them a certain index value of the contributions.

Model for predicting future sales, or EBITDA could be put together for example in this way. Managers in examined company on the basis of expert estimates selected all the effects (basic factors) that have an impact on their future performance as well as the fulfilment of strategic goals. This data is then verified by a questionnaire survey, which was undertaken by representatives of the three companies with similar production focus. Using the methods of paired comparison will be determined the order of these factors and for the most important of them the index value will be set. This index will reflect the level of performance of the individual factors. There have been identified these factors:

- *Investments* - level of investment significantly influence whether we can expect growth of sales in subsequent periods.
- *Successful innovation and introduction of new products* - only keeping pace with market demand and technological development ensure the competitiveness.
- *The strength of competition* – find and know competition position in relation to other companies.
- *Exchange rate € / CZK* - for companies dependent on exports, is this factor very significant variable.
- *Labour productivity* - revenue growth will undoubtedly be influenced by the growth of labour productivity per employee.
- *Quality of dealers* - an important factor, when a product is placed on a market, is the quality of dealers. This is based on their knowledge and experience, but also on an incentive system for traders, which is set up for their remuneration.
- *Legislation frame* - the enactment of certain laws can have a positive / negative impact on sales of our products.
- *Expansion into new markets* - the undisputed benefit would be the acquisition of new markets outside Europe.
- *Market power of the Czech Republic, Europe* - the development of individual markets in the EU and beyond, their stability, growth, GDP, risks etc. has an impact on the final indicators value.
- *Real wages* - development of purchasing power of the population will affect our sales
- *The ratio of wages in the EU/Czech Republic* - the growth of this indicator also increases the amount of sales. Our products will be on the EU market more affordable.
- *EBITDA* - this indicator takes into account also the cost items.
- *Unions* - the influence of trade unions has indisputable impact on production.

These factors were evaluated by three practitioners. They had to put them in order based on way they think these factors are important to achieve the rate of sales. Method was used for paired comparisons and the impact of each evaluator was the same. In the matrix of paired comparisons we can see how critical factors were chosen. For the processing of paired comparisons software Trend was used.

Criteria | Evaluators | Basic criteria | Basic criteria

	K1	K2	K3	K4	K5	K6	K7	K8	K9	K10	K11	K12	K13
K1	1/1	1/1	1/3	1/3	1/1	3/1	6/1	3/1	6/1	6/1	6/1	3/1	3/1
K2	1/1	1/1	1/1	1/1	3/1	6/1	6/1	3/1	6/1	6/1	3/1	3/1	9/1
K3	3/1	1/1	1/1	1/1	1/1	3/1	6/1	3/1	3/1	6/1	6/1	6/1	9/1
K4	3/1	1/1	1/1	1/1	1/1	3/1	3/1	3/1	3/1	6/1	6/1	9/1	9/1
K5	1/1	1/3	1/1	1/1	1/1	6/1	3/1	3/1	3/1	6/1	6/1	9/1	9/1
K6	1/3	1/6	1/3	1/3	1/6	1/1	1/6	1/9	1/3	1/6	1/6	1/1	1/6
K7	1/6	1/6	1/6	1/3	1/3	6/1	1/1	6/1	1/1	1/6	1/6	6/1	9/1
K8	1/3	1/3	1/3	1/3	1/3	9/1	1/6	1/1	3/1	1/1	1/1	6/1	9/1
K9	1/6	1/6	1/3	1/3	1/3	3/1	1/1	1/3	1/1	3/1	3/1	6/1	9/1
K10	1/6	1/6	1/6	1/6	1/6	6/1	6/1	1/1	1/3	1/1	1/1	1/3	1/1
K11	1/6	1/3	1/6	1/6	1/6	6/1	6/1	1/1	1/3	1/1	1/1	1/1	3/1
K12	1/3	1/3	1/6	1/9	1/9	1/1	1/6	1/6	1/6	3/1	1/1	1/1	6/1
K13	1/3	1/9	1/9	1/9	1/9	6/1	1/9	1/9	1/9	1/1	1/3	1/6	1/1

Fig 1 Matrix of paired comparisons

TABLE I
CALCULATED WEIGHTS BASED ON PAIRED COMPARISON

Symbol	Name	Weight calcul.	Weight app.	Total weight
K2	Successful innovation	15,95	10	15,95
K3	The strength of competition	15,95	10	15,95
K4	Exchange rate € / CZK	15,60	10	15,60
K5	Labour productivity	13,90	10	13,90
K1	Investments	11,38	10	11,38
K8	Expansion into new markets	5,54	6	5,54
K9	Market power of Czech Rep., EU	5,25	6	5,25
K7	Legislation frame	4,20	6	4,20
K11	The ratio of wages in the EU/Czech	3,86	6	3,86
K10	Real wages	3,09	6	3,09
K12	EBITDA	2,40	8	2,40
K6	Quality of dealers	1,46	6	1,46
K13	Unions	1,43	6	1,43

From the Fig. 2 the resulting value of significance of individual factors can be drawn.

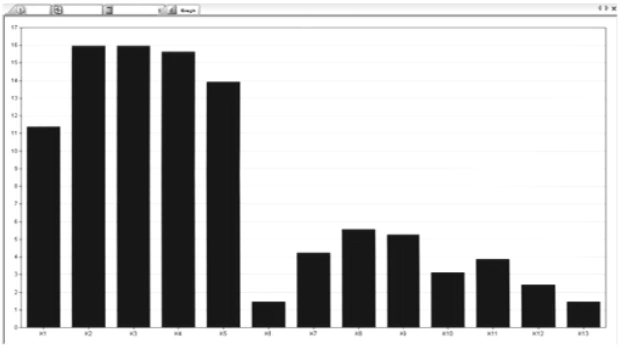

Fig. 2 Order of the factors

To five selected the most important factors will be assigned the corresponding indexes, which express the level of performance of any given factor. The resulting value will indicate the level of set strategic objectives. There will be determined reference limits within which the resulting value will move and it will be associated with the final choice of strategic alternatives. Once it gets the resulting value on the boundary or below, it is necessary to arrange a follow-up action to avoid extreme deviation from the stated strategic objectives and without jeopardizing future business growth. Otherwise, you need to make the most of this situation to strengthen its market position and increase business growth.

Relation (1) to express future revenues (T) could be set as follows:

$$T_{n+1} = T_n \cdot k_{1(n+1)} \cdot k_{2(n+1)} \cdot k_{3(n+1)} \cdot k_{4(n+1)} \cdot k_{5(n+1)}, \quad (1)$$

where, $k_1 - k_5$ are indexes expressing the degree of sensitivity to the application of the various factors, T_n – the value of sales in the current year, T_{n+1} – the value of sales in the future year.

Coefficients $k_1 - k_5$ express:

- k_1 – coefficient associated with the fulfillment of the planned investment. It can be expressed as the ratio of investment in (n +1) for year n.
- k_2 – coefficient associated with the successful introduction of innovation. Measuring the level of innovation is very complicated. This will be the expert estimate of technical manager. Coefficient is in the range of 1-2, while the value of 1 when there were no innovation.
- k_3 – coefficient associated with the power of competition. Can be examined using indicators such as Balanced Scorecard, EFQM, Rapid Benchmarking, etc.
- k_4 – coefficient associated with the development of the exchange rate € / CZK. Since the company is export oriented, the development of rate will strongly influence the final value of final indicator. With the decline in the value of the CZK is likely to be abroad greater demand for a product and vice versa.
- k_5 – coefficient associated with labour productivity. Growth of output per worker affects the amount of sales. It is necessary to simultaneously monitor wage expensiveness. The resulting coefficient can be determined as the ratio of change in labour productivity/change of wage expense.

In very similar way a model can be set to predict indicator EBITDA or other financial indicators. Even the costs of the company and other financial indicators are influenced by some of the factors. For every significant indicator can be selected it own valuable criteria.

VI. Conclusion

In a world of turbulent change is not easy and even possible to put together a unique comprehensive model that without subsequent adjustments dogmatically establishes a comprehensive set of targets for the company. However, it is good to have practical guidance that will enable us to partly predict both the target value and watch key factors that affect these targets. If the company does not consider that strategic planning is important, then neither do they consider individual parts such as strategic analysis, market analysis, competition, etc. and strategic control functions are often neglected, thus decreasing the possibility of growth. Only with the use of strategic planning does the company not only have the ability to survive in the fierce competition, but also to strengthen and improve its position.

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