STRATEGIC PLANNING
THE CASE OF
AMERICAN LIFE INSURANCE COMPANY (ALICO)
LEBANON

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The following professor nominated to serve as the advisor of the above candidate has approved this research topic.

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INTRODUCTION

A- Statement of the Problem

American Life Insurance Company (ALICO) Lebanon has been operating successfully in the Lebanese market since 1953. It has shown constant growth in its operations, coupled with an important share of the market. ALICO had been a leader and a pioneer in the true sense of the word, in that it had always proacted rather than reacted. It has always outperformed the market and has shaken competition. It has always been aggressive in the design of its products and its distribution outlets. ALICO has an image of financial strength and stability that the best run companies would envy. Even during the outbreak of the civil war that has torn Lebanon apart, ALICO had retained its leadership position and kept people's beliefs intact.

Since 1982, however, the image started to change. The company which once had the biggest piece of the pie was being bothered and threatened by small companies which in the past were practically nonexistant to ALICO. The market share started to drop at a fast rate and is condemned to go down further if ALICO allows other companies to make their way while it remains silent. Needless to mention, the problem is not in the decreasing share, because decreasing share is only the result. The causes behind this deterioration are numerous, and will be covered in detail in a later section. Besides, they all exist because of another major problem: weak strategic planning .

If a good long term plan was spelled out and a realistic action plan was made to achieve what ALICO people aspired to, then there would have been no problem. As will be seen and described later, the strategic plan prepared by ALICO is one which does not truly interact with its environment, and more importantly, is not totally based on scientific means and measures. It is done because it has to be done!

B- Statement of the Purpose

The project will try to uncover the weaknesses in ALICO's strategic planning, and try to find remedies to them. A study of this sort could seldom be the healing remedy if it remains on paper. It should stimulate action. This study might be able to give the management of ALICO some insights into the weaknesses of the company. An analysis of these weaknesses, what corrective measures to take, and how to improve planning for a brighter future should be the leading focus during the entire research.

C- Methodology

The research will attempt to give a brief review of some literature on the importance of strategic planning. Following will be a brief review on the background of ALICO and an identification of ALICO's three year strategic plan to give the reader a true picture of what the story is all about. Then, the research will move into the statistical work and the identification of a scientific approach to proper planning and forecasting, coupled with an analysis of findings. Then the actual planning process at ALICO will be described with emphasis on present weaknesses at ALICO and strengths will be identified and analysed, and courses of action will be given in an attempt to remedy the weaknesses and reinforce strengths. A conclusion on what has been said and what is to be expected would be the logical ending part of the research.

In whole, the research will contain a mixture of literature, statistical analysis and objective views and thoughts, and will try to give some insights into ways of improving the process of strategic planning.

Chapter II

REVIEW OF LITERATURE

A- Introduction

The purpose of this chapter is to present an overview to strategic planning - Its origins, the different definitions proposed, the basic elements involved, and the process of strategic planning; that is the steps involved in strategic planning.

The first part of the chapter is a brief history of the origin of strategic planning; what the term implied initially, and how and when it developed to include a broader range of activities, until it became a major and crucial aspect of any organization. In the second part of the chapter, the different definitions proposed concerning strategic planning are presented (and evaluated subjectively) and the most meaningful and complete definition is identified. The third part of the chapter describes the characteristics or dimensions of strategic issues. The fourth part describes the steps involved in the strategic planning process. In the fifth and final section of this chapter, an evaluation of strategic planning is presented stating the strengths and weaknesses of the process.

B- Historical Background on Strategic Planning

Originally, strategy was a military term; it was defined as the art of planning and directing military movements and operations of war.[1] Later on, the term strategy referred to management's actions in counteracting a competitor's success. Today's meaning is much broader; "strategy refers to the formulation of basic organizational missions, purposes and objectives; policies and program strategies to achieve them; and the methods needed to assure that strategies are implemented to achieve organizational ends".[2]

Strategic business management flourished in the fifties and sixties when markets were expanding and the size and number of competing firms was increasing; when companies expanded from narrow product lines to become large, diversified multiproduct companies. Since the 1960's, the use of company planning staffs has grown considerably and strategic planning has become a major and crucial activity in any organization.[3]

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[1] Arthur Young, The Manager's Handbook. The Practical Guide to Successful Management, (New York: Marshall Editions, Ltd., 1986), p. 46.

[2] Edgar F. Huse, Management, 2nd. ed., (St. Paul, Minn.: West Publishing Co., 1982), p. 166.

[3] Derek F. Abell and John S. Hammond, Strategic Market Planning: Problems and Analytical Approaches, (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1979), p. 6

C- Definitions of Strategic Planning

According to John A. Pearce II and Richard B. Robinson, Jr., "Strategic management is defined as the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of the organization".[4]

It involves attention to nine critical areas, namely:

1. Determination of the mission of the company, including broad statements about its purpose, philosophy and goals.
2. Development of a company profile which reflects its internal condition and capability.
3. Assessment of the company's external environment: competitive, social, political and techological.
4. Opportunity analysis of possible options.
5. Identification of the desired options.
6. Choice of a particular set of long-term objectives and grand strategies needed to achieve the desired options.
7. Development of annual objectives and short-term strategies which are compatible with the long-term objectives and grand strategies.

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[4] John A. Pearce II and Richard B. Robinson, Jr. Strategic Management, (Homewood, Illinois: Richard D. Irwin, Inc., 1982), p. 4.

8. Implementation of chosen strategic decisions based on budgeted resource allocations and emphasizing the matching of tasks, people, structures, technologies and reward systems.
9. Review and evaluation of the success of the strategic process to serve as a basic of control and as an input for future decision making.

So, as implied in the above definition, a modern executive's responsibilities go beyond managing the various internal activities of a company; the firm's immediate external environment poses a set of challenging factors which have to be dealt with in order to ensure the survival and success of a business firm. This external environment includes competitors which have to be guarded closely, suppliers which must be bargained with, government agencies that watch for adherence to regulations, and customers whose ever-changing tastes and needs must be anticipated.

There is also an external environment which consists of economic conditions, social change, political priorities and technological developments. An even more important responsibility of an executive includes consideration of the multiple objectives of the stockholders of the business, its owners, top managers, employees, communities, customers and country.

To deal effectively with all of these considerations which affect the ability of a company to grow profitably, executive officers use strategic management processes which facilitate the optimal positioning of the firm within its competitive environment. These processes help in more accurately acting in anticipation of environmental changes and in improving preparedness for reaching to unexpected internal or competitive demands.

There are three levels in the decision making hierarchy of a business firm.[5] At the top is the corporate level which is composed of members of the board of directors and the chief executive and administrative officers. They are responsible for the financial performance and the achievement of the non-financial goals of the firm, like corporate image and social responsibility. Their orientation reflects the concern of stockholders and society at large. They determine in what business the company should be involved. They set objectives and formulate strategies. These types of decisions are value-oriented and conceptually based.

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5 Ibid, p. 6

The second level of decision-makers in the hierarchy is the business and corporate managers. These are concerned with translating the general statements of direction which were generated at the corporate level into more concrete and operational objectives and strategies for their individual business divisions or strategic business units (SBUs).

The third level of decision makers in the hierachy is the functional level which is composed principally of activity managers of product, geographic and functional areas. These are responsible for developing annual objectives and short-term strategies for such areas as production, operations management, research and development, financial and accounting, marketing, and human relations. Their greatest responsibility is the implementation or execution of the company's strategic plans. These types of decisions, therefore, are action-oriented and operational.

According to Pearce and Robinson, the ideal strategic management process is developed and governed by a strategic management team.[6] The team consists principally of strategic decision makers at all three levels in the corporation, e.g. the chief executive officer (CEO), the product managers, and the heads of functional areas. The team relies on inputs from two types of support personnel:

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6 Ibid, p. 10.

company planning staff, when they exist, and lower-level managers and supervisors who provide data for strategic decision making and who have responsibilities for implementing strategies.

The strategic management process does not involve a unidirectional flow of objectives, strategies, and decision parameters from corporate to business to functional level managers.[7] In contrast, the process is highly interactive, that is, a company's process is designed to stimulate inputs from creative, skilled, and knowledgeable people throughout the firm. Even though the strategic process is overseen by top managers, because of their broad perspective on the company and its environment, managers at all levels in the organization can participate in various phases of the total process.

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[7] Ibid, p. 13.

Edgar F. Huse also defines a hierarchy of planning, and gives each planning level a name.[8]

1. Strategic planning is the process of determining the major objectives of an organization and the policies and strategies that will govern the acquisition, use and disposition of resources to achieve these objectives. Strategic planning takes place primarily at the top level of management and is directed toward attaining a desired position for the organization in the environment. It determines what should be the overall objectives of the organization. In strategic planning, a greater degree of uncertainty exists than in planning at lower levels, since the probable outcomes of alternate plans are harder to predict.

   Decision making at this stage is mainly subjective because it involves many considerations which are highly turbulent and external to the firm like the political, social, legal variables of the environment, and the availability of resources. In strategic planning, top management relies heavily on qualitative standards for determining the effectiveness of plans.

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[8] Huse, pp. 143 - 145

2. <u>Coordinative or tactical planning</u> takes place at the middle, or coordinating level of management where planning is directed toward implementing strategic plans by coordinating the work of different organizational units. It involves determining how certain areas of a business will deploy resources to reach objectives by following the policies and strategies that have been established in the strategic planning process. The influencing environment at the middle level is more internal than at the top, and the manager is constrained by top-level decisions about continuing objectives and the implementation of strategy and policy. Quantifiable techniques may be used at this level, like market research and forecasting.

Detailed tactical plans are usually made for such major functional areas as marketing, manufacturing, personnel, research and development, finance and capital expenditures. The major aim of planning at this stage is to reach specific and detailed coordination of the various parts of the organization.

3. Operational Planning takes place at the lowest, or operating level of management, where managers follow the tactical plans established by the middle level of management to achieve the strategic plans formulated for the entire organization.

Operational planning is short-term, detailed, and concentrated primarily on the functional aspects of the production of goods and services; they are specific and tangible plans.

Environmental constraints are primarily internal, consisting of policies, budgets, procedures, and rules. Because of the availability of enough information, outcomes of decisions can be closely predicted. In short, plans at this level are more automatic than plans at higher levels and decisions can be quantitative.

This hierarchical separation of the planning process is only theoretical. Activities at the three managerial levels often overlap in the everyday functioning of an organization, and information is continually flowing both up and down.

Managers do not develop strategies and plans in isolation from each other.[9] There is a constant interaction among managers at all levels in the hierarchy, and a combination of top-down and bottom-up planning occurs. These interactions can be divided into three basic cycles.

In the first cycle, top management and division managers meet together to set tentative agreements on overall strategies and objectives. Each division charter is defined broadly, and some general objectives and strategies are established.

In the second cycle, each division manager sets tentative agreements with the department managers concerning each department's role in meeting divisional objectives. After this step, each department manager establishes tentative, alternative plans for carrying out that role.

In the third cycle, the resources of the organization are tentatively allocated to division programs. Each division and functional department manager then develops specific budgets showing how the department or division intends to carry out its planned programs. After these budgets are discussed and the final budget is approved, funds are made available.

9
Ibid, pp. 175 - 177

Most budgets are for a one-year period. A shorter time span might cause erratic behavior, and a longer one might not allow for a timely review of progress.

Budgets are plans, but they also serve as a control process. Many factors influence the development and implementation of a planning system like the type of organization (whether the organization is centralized or decentralized), the types and variety of products and services, and the past history and practice. As a result, the planning system is tailored to the organization and no two systems have identical planning procedures.

According to Edgar Huse, strategy refers to the formulation of basic organizational missions, purpose and objectives, policies and program strategies to achieve them, and the methods needed to assure that strategies are implemented to achieve organizational ends.[10] Essentially, two issues are involved: What the organization is to be and how it is to become what it is to be. In effect, strategy encompasses all the goals and major policies of the organization. It covers the following areas:

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[10] Ibid, pp. 166 - 168

1. Services to be provided: What products or services will the organization sell or provide, and to which customers or clients?
2. Basic ways the services will be produced: What will the organization make, and by what processes will it make them? What will it buy? From which sources?
3. Sequencing and timing of major steps: Which actions should be taken early? Which should be deferred?
4. Targets to be met: What are the criteria for success? What levels of achievement are desired?

There are a number of ways for formulating strategy. Two of them are:

- Outside-Inside Approach to Strategy. In this case managers look first at the environment and then to the organization and try to detect changes in the trends relevant to the organization, and accordingly plan internal changes to meet the anticipated opportunities and problems.
- Inside-Outside Approach to Strategy. Here, managers look first at the organization, noting particular skills or resources that give it advantages over its competitors, and then at the external environment to determine the best use of these skills.

Both of these approaches require coordination among the basic factors involved: the environment , the market and the organizational skills and resources. The firm which can efficiently coordinate between these factors and properly take advantage of the environmental problems given its limited resources and its specific skills, will be able to survive and grow, and increase its profits. Huse states that sometimes a strategy develops gradually over time without being planned as a result of the decisions taken by management. As businesses conduct their day-to-day activities, and management takes day-to-day decisions, a strategy emerges. However, even though many organizations have formed their strategy this way, today's managers feel that it is a poor approach to planning because of the many complexities involved, whether financial, environmental, organizational or otherwise.

Furthermore, in the past, strategic planning was based on one, hypothetical, most probable, future environment. This is not a very accurate or efficient approach because it does not take into account other unforseen or unpredictable events of various kinds like a change in the market, a change in a competitor's strategy or otherwise. Due to this, today, many organizations develop contingency plans for a number of different future environments called scenarios. Each scenario consists of a different set of environmental factors that are likely to occur, and a plan is formulated for each scenario. There is no one particular planning system that is suitable for every type of organization; however, some of the common features among organizations falling under one of the three groups (large, medium-size and small organizations), make certain planning systems more suitable for organizations falling under one group.

La Rue T. Hosmer states that strategic management is concerned with the definition of the major goals and objectives for an organization, and the design of the functional policies and plans and the organizational structure and systems to achieve those goals and objectives, all in response to changing environmental conditions, institutional resources, and individual motives and values.[11]

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11 La Rue T. Hosmer, Strategic Management: Text and Cases on Business Policy, (Englewood Cliffs, N.J.: Prentice - Hall, Inc., 1982), p. 1.

There are different definitions for the term strategy, but the most meaningful one is the method of competition to be followed by the business. There are different methods of competition (alternative strategies) that are possible within each industry, and the function of strategic management is to first select the method (strategy formulation) with the greatest probability of success, given the environmental opportunities and risks and the strengths and weaknesses within the corporation, and then to coordinate the efforts and activities of the functional and technical specialists necessary to carry out this method of competition (strategy implementation) through explicit statements of the corporate objectives, policies, programs, and plans, and through consistent design of the organizational structure ans system. The selected strategy is then expressed through explicit statements about the goals, policies, programs and actions for each of the functional areas of marketing management, market research, production management, financial management, product development, information services, and personnel services.

Strategic management consists of the simultaneous and continual formulation and implementation of strategy and this is essential for the success of the company due to the organization which must be reflected in the method of competition for the firm. Strategic management, in short, plans the long-term competitive posture of the firm, and designs the general character of the organization.

Strategic planning is long-range planning that focuses on the organization as a whole, as defined by Samuel C. Certo.[12]

Strategy is defined as a broad and general plan developed to reach long-range organizational objectives. Actually strategy is the end result of strategic planning. Every organization should have a strategy of some sort. In order for a strategy to be worthwhile, however, it must be consistent with organizational objectives, which, in turn, must be consistent with organizational purpose.

Strategy management is defined as the process of ensuring that an organization possesses and benefits from the use of an appropriate organizational strategy. As used within this definition, an appropriate strategy is a strategy best suited to the needs of an organization at a particular time.

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12 Samuel C. Certo, Management of Organizations and Human Resourses, (Dubuque, Iowa: W. C. Brown Publishers, 1985), p. 82

The process of strategic management is generally thought to consist of four sequential and continuing steps:[13] (a) environment scanning, (b) strategy formulation, (c) strategy implementation, and (d) evaluation and control.

The actual making of a strategy is only one of four important steps in strategy management. In order for an organization to get maximum benefit from a strategy, it must be implemented or put into action, constantly watched to see what effect the strategy is having on the organization, and evaluated or examined to see if it is having the effect desired. If the effect is desirable, perhaps the strategy could remain as it is, with strategy results measurement and strategy evaluation continuing to determine if difference will be necessary in the future. If the effect of a strategy is undesirable, however, management would probably start the entire strategy management process over again by formulating a different strategy.

All these definitions emphasize that strategic planning is long-range planning and that it involves dealing with uncertainty, the changing environment and the availability of organizational resources. However, the most complete and accurate definition is that presented by La Rue. T. Hosmer.

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[13] Thomas L. Wheelen and J. David Hunger, Strategic Management, 3rd ed. (Reading, Massachusetts: Addison-Wesley Publishing Company, 1990), p. 10.

D- Characteristics of Strategic Issues

According to Pearce and Robinson, strategic issues have six identifiable dimensions:[14]

1. Strategic issues require top management decisions. Strategic decisions involve several areas of a firm's operations, and since only top management understands and anticipates broad implications and ramifications, only it has the power to authorize necessary resource allocations needed for implementation.
2. Strategic issues involve the allocation of large amounts of company resources. These resources, whether physical assets, manpower or financial assets, must be obtained from either internal sources or from outside the firm. In either case this is a costly process because internal resources may be used somewhere else in the firm and hence they have an opportunity cost, and external sources have to be financed.
3. Strategic issues are likely to have a significant impact on the long-term prosperity of the firm. Strategic decisions commit the firm for a fixed period of time.

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14 Pearce and Robinson, p.4

However, their impact extends over the fixed period. Once a firm has committed itself to a particular strategic option, its competitive image and advantages are usually tied to that strategy and so the firm cannot make a radical move and quickly adopt a different strategy.

4. Strategic issues are future oriented. Strategic decisions are based on expected or anticipated forecasts, and in a turbulent and competitive environment, a firm must always be ready to accept changes in its strategic decisions.
5. Strategic issues usually result in major multifunctional or multibusiness consequences. Decisions involving customer mix, competitive emphasis, or organizational structure involves a number of a firm's strategic business units, functions, divisions, or program units. Each of these areas will be affected by the allocation or reallocation of responsibilities and resources related to the decision.
6. Strategic issues necessitate consideration of factors in the firm's external environment. All firms operate within an open system. They influence and are influenced by external factors beyond their control. These external factors which include competitors, customers, suppliers, creditors, government and labor, must be accounted for in making strategic decisions.

E- <u>Steps Involved in the Strategic Planning Process</u>

The major elements of the strategic planning process are:[15]

- The plan for the plan: Management must define specifically what the plan is expected to achieve and how it will be put to use. It should include the method of organization, the people involved guiding the planning effort and a timetable for developing the plans.
- Developing Planning Premises: Assumptions and premises should be developed which include the economic, social, political, and technological consideration and studies of the industry, the market and competitors. It should involve a study of the outside environment not only to anticipate threats and opportunities facing the organization, but also to allow management to examine the strengths and weaknesses of the organization.
- Determining the master strategy: This concerns the basic mission or purpose of the organization and related specific objectives. The purpose gives a broad general direction to the organization and the specific,

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15 Huse, pp. 170 - 173

long-range objectives are established to harmonize with the basic purpose. Another component of the master strategy is the overall policies which determine what resources will be deployed to achieve the long-range objectives.

- Medium and short-range plans: This step involves the development and implementation of medium and short-range plans.
- Coordinating and controlling planning: This step involves integrating individual operating and staff plans, reviewing and revising them in light of their effect on other plans and on company profits, and summarizing highlights of these plans and their budgets in a single overall organizational plan.
- Review of Plans: This reviewing process gives an organization the flexibility to adjust to changing conditions, particularly if alternative scenarios are used in revising plans and creating new ones for the next year. Each reviewing process should lead to improved planning.