Aligning Strategy to financial performance- a critical survival /growth issue.

Strategic planning gives organisations direction. By first setting a goal and then choosing a strategy to get there, organisations get organised. It therefore directs attention to the future allowing managers to take a more long-term view and stimulating them to prepare for or even create the future. Planning challenges managers to define a desirable future and to work towards it committing the organisation to a course of action and allowing for investment to be made at the present that may only pay off in the long run.

Strong financial performance is itself the product of appropriate strategies. Key is ensuring that strategy has a stake in creating, maintaining and growing shareholder value. To achieve this the entire value chain, from procurement through production/distribution to consumption, will need to be managed in a way that maximizes value added.

Both capital and inputs will have to be acquired at the least possible cost (for products/services of similar quality) to the firm. Production and/or distribution will also need to be conducted in the most cost-efficient manner and therefore may necessitate the application of value-adding processes and techniques as Business Process Re-engineering (BPR), Total Quality Management (TQM) and the Six Sigma process.

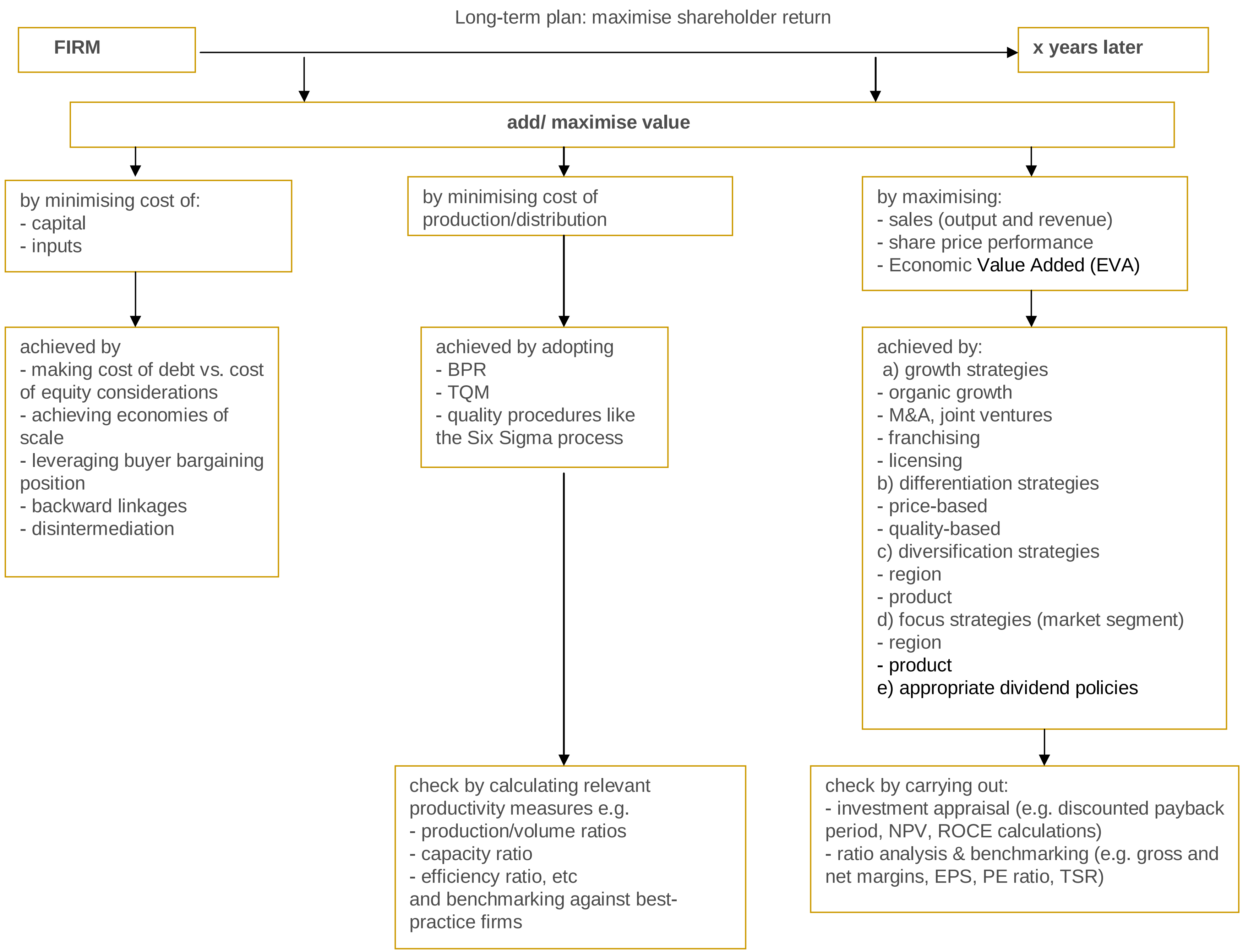
Production may also need to be set up in low cost areas of operation as well as those that maximize revenues (growth markets).

Value-addition will also be made possible by maximizing sales (output and revenue), Economic Value-added and the firm share price. The firm may pursue a number of strategies in combination or in solitary in order to achieve this maximization. These will include growth strategies, differentiation strategies, diversification strategies and/or focus strategies.

However, undertaken activities associated with these strategies (i.e. new investments involving capital expenditure, organic growth or acquisitions, joint ventures, franchising and/or licensing) will need to meet strict criteria evaluated initially using investment appraisal measures and later, after project start, ratio analysis. The latter will involve benchmarking firm results against industry averages, key competitors or internal firm targets or budgets.

Investment opportunities and costs of capital/financing will need to be critically evaluated to ensure that this maximize shareholder return i.e income (dividend) growth and capital (share price) growth. TSR values provide a good measure of this. Critical will be to generate sufficient cash to pay dividends and re-invest for growth.

Where acquisitions are the strategic way forward, key will be to ensure that due diligence with regard to such acquisitions involves critical investment appraisal to ensure future returns are maximized and acquisitions funded at the lowest possible cost (either through debt or equity or a combination of both) so as to ensure maximum return to firm owners. This will help actualize the process of moving from strategy to delivering results.


Long-term plan: maximise shareholder return
FIRM
x years later
add/ maximise value
by minimising cost of:
- capital
- inputs
by minimising cost of production/distribution
by maximising:
- sales (output and revenue)
- share price performance
- Economic Value Added (EVA)
achieved by
- making cost of debt vs. cost of equity considerations
- achieving economies of scale
- leveraging buyer bargaining position
- backward linkages
- disintermediation
achieved by adopting
- BPR
- TQM
- quality procedures like the Six Sigma process
achieved by:
a) growth strategies
- organic growth
- M&A, joint ventures
- franchising
- licensing
b) differentiation strategies
- price-based
- quality-based
c) diversification strategies
- region
- product
d) focus strategies (market segment)
- region
- product
e) appropriate dividend policies
check by calculating relevant productivity measures e.g.
- production/volume ratios
- capacity ratio
- efficiency ratio, etc
and benchmarking against best-practice firms
check by carrying out:
- investment appraisal (e.g. discounted payback period, NPV, ROCE calculations)
- ratio analysis & benchmarking (e.g. gross and net margins, EPS, PE ratio, TSR)

To achieve value-addition at each of the stages above the firm will need to ensure that corporate strategy fully leverages organizational (core) competencies. Such competences will be critical at each of the value-addition stages of procurement, manufacture/distribution and sales. These (core) competences include, but are not be confined to, firm innovativeness, efficient marketing skills and strong brand image and top talent management.

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