



**STRATEGIC PLANNING PROCESS  
AND PRACTICES OF  
UMW TOYOTA MOTOR AND  
CHEMICAL COMPANY OF MALAYSIA**

BY

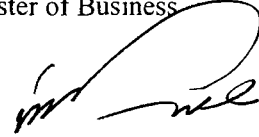
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Project Paper Submitted in Partial Fulfillment of the Requirements for the Degree of  
Master of Business Administration  
Management Centre  
International Islamic University Malaysia

March 2010

## APPROVAL PAGE

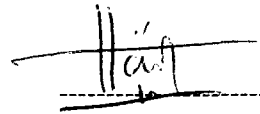
I certify that I have supervised and read this project paper and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a project paper for the degree of Master of Business Administration.



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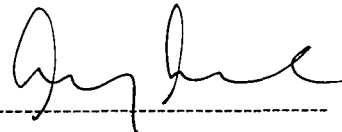
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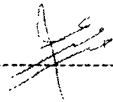
## DECLARATION AND COPYRIGHT

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I hereby certify that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by explicit referencing and a bibliography is appended.

Signature: -----



Date: 6 March 2010

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## **DEDICATION**

I dedicate this research

To My parents:

Dr. Mohammad Yousef Al-Atiyat and

Ms. Abla Abdul Razzaq Al-Atiyat

And

To the memory of

My Advanced Corporate Strategy lecturer:

Dr. Yusop Bin Ahmad

(May Allah's Mercy and Forgiveness be upon him)

## AKNOWLEDGEMENT

After the great achievements that I have made during this project, all praise is for Allah. I ask Him the Most Glorified, invoking His most beautiful names and His most sublime attributes, that He grants this endeavored sincerity, and make it beneficial for me and all those who read it and extend this benefit in this life as well as the next. Besides, thanks are owed to many people for the advice and encouragement whilst I have been working on this project. First of all, I would like to thank my supervisor, Prof. Dr. Mohamed Sulaiman for his exceptional academic guidance over the duration of the study. He was a great source of inspiration and motivation that helped me to learn and develop my intellectual thinking through his insightful and continuous counsel which was, in no doubt, the backbone that supported the quality of my project.

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O Allah, send prayers upon the Prophet Mohammad, his household, and his companions and all those who follow them righteousness till the Day of Reckoning.

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## **ABSTRACT**

This research focuses on the strategic planning process and its best practices that are applied by companies in general and by two prominent, non-competing companies operating in Malaysia: UMW Toyota Sdn. Bhd. and the Chemical Company of Malaysia- Fertilizers Division, in specific. Applying a comparative qualitative case study research methodology, the major objectives of the study are to investigate in-depth the different aspects, processes, personnel, and practices employed by these top, well-known companies for their strategic planning. Using the grounding theory as a framework of analysis, the research findings revealed common as well as distinctive strategic planning practices between the companies under the study. The output of this project is a set of best practices to strategic planning that are followed by UMW Toyota as well as CCM-Fertilizers Division. Some of these best practices are found to be related to the flexibility of the strategic plan, formulation via consensus, and continuous follow up through a centralized strategic planning unit. Eventually, studying such topic can help researchers, strategic management students and junior managers link theory to practice and understand the process as it is adopted by the strategic planners of these prominent companies within their real-business context.

# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Strategic planning process has been an interesting subject of research in the recent years. Many companies, consultants and academics have tried to explain where companies excel and where they fall short in their strategic planning process. However, the literature lacked a comprehensive explanation on how top companies and strategic planners undertake this exercise from crafting to implementation of the strategy. Given the increasing complexity and dynamics of the business environment, the researcher wants to understand how the strategic planning is conducted by top companies and if it is done according to guidelines of strategic management books or it is different when it comes to practice within different industries and business contexts.

Through a comparative case study method, this research has generally focused on the strategic planning process of two pioneer companies from two different industries operating in Malaysia. These companies are UMW Toyota Motor Sdn. Bhd. and Chemical Company of Malaysia- Fertilizers Division. One purpose of this research has been to seek an understanding of the idea (concept), practices and challenges of the strategic planning from the perspectives of those who lead the process. Moreover,

the research aspires to come up with a set of best practices, processes and guidelines that can be used by other companies to achieve competitiveness and sustainability.

## **1.2 THE RESEARCH OBJECTIVES**

The research has two main objectives:

- 1- To understand the different dimensions of the strategic planning process applied by top companies known for their exceptional strategic orientation and compare these practices with the theories and processes suggested in the literature review.
- 2- Research the challenges and critical success factors of strategic planning process that are sought by companies in general and by UMW Toyota and CCM Fertilizers Division in specific through in depth case study research on these two prominent companies operating in Malaysia and come up with best practices that guarantee successful implementation and achievement of strategic objectives.

## **1.3 THE RESEARCH QUESTIONS**

The research aims to uncover in details the strategic planning practices that are implemented by the two companies known for their sustainable growth. In details; throughout this research, the researcher would like to answer the following questions:

- 1- What are the major aspects of the strategic planning process related to the objectives of strategic planning process, when and how the process is done, who are the participants, and what tools and measures are there to evaluate its implementation.

- 2- What are the strategic planning best practices adopted by companies in general and by the companies under the study in specific that enhance the chances of successful implementation and achievement of the strategic objectives and the sustainable growth.

#### **1.4 THE RESEARCH SIGNIFICANCE**

The originality of this research lies in the fact that strategic planning practices rest with the practitioners who apply and advance it according to emerging needs and current internal and external business' forces. Based on the researcher's current knowledge, very few researches had the same objectives but none took the same comparative case study approach to extract this unpublished, valuable knowledge in a comprehensive way that covers the whole process from A to Z. Instead, many researches focused on what to do and what pitfalls to avoid rather than how to do the strategic planning, or what guidelines and critical success factors to be observed during the process. This creates a need for the research audience to have a simple reference to learn from top companies useful guidelines on the strategic planning process based on their best practices.

#### **1.5 THE RESEARCH AUDIENCE**

This research is going to be useful for a wide range of audience including:

- 1- Professionals/practitioners: executives, managers and consultants
- 2- Strategic planning units in companies
- 3- Trainers
- 4- Researchers

- 5- Academics
- 6- Strategic Management students

## **1.6 ORGANIZATION OF THE RESEARCH PAPER**

This research paper is organized into five chapters. Each chapter has a distinctive objective, and the sequence of the chapters was based on the logical flow of the research development process. The following is a brief explanation of each chapter that would serve as the roadmap through this research paper.

### **1- Chapter One: Introduction**

In this chapter, a brief background on the research idea and problem was provided. Also, the research objectives, questions, significance and audience were stated to help the reader get an introductory understanding on the research before getting into the deeper details.

### **2- Chapter Two: Literature Review**

In this chapter, the theoretical bases for the research are established. Previous works and researches related to strategic management, strategic planning and its process were investigated and their findings were synthesized and summarized. The major themes emerged out of this chapter were the base for the data analysis chapter.

### **3- Chapter Three: The Research Design and Methodology**

This chapter explains the research type, approach, sampling and data collection methods, and finally the framework of data analysis that would lead the researcher to answer the research questions and achieve its objectives

#### 4- Chapter Four: Data Analysis and Findings

In this chapter, the data collected about the strategic planning process of the two companies under the study are organized into the six themes related to the strategic planning idea and scope, process, challenges and critical success factors. This framework of the analysis permitted later comparison between the practices of the two companies.

#### 5- Chapter Five: Conclusions and Recommendations

In this chapter, the researcher provided a summary of the research findings in a compare and contrast mode combined with her own perception about distinctive features and functions unique to the companies under the study. Moreover, some conclusions that linked the findings with the literature review were made to explain some phenomena. At the end, limitations of the research were stated, future directions for relevant research were proposed to supplement this paper, and a final conclusion on the whole paper were provided.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 INTRODUCTION

In the early twentieth century, Henri Fayol broke the constituents of management into planning, organizing, commanding, coordinating and controlling. Later, his model was modified into the widely accepted model of PLOC theory- plan, lead, organize and control. Though this model defines the functions of management in a simple, but comprehensive way, it seems to lack one element that would direct managers' efforts towards the overall corporate goals given the uncertainty in which today's organizations operate. That element is the one that requires all PLOC functions to be undertaken in a strategic way, i.e. strategic management. Strategic is a term that describes "a holistic long term approach to all the basic facets of the management and business-development processes" (*Defining Strategy*, 2009). Without being strategic, managers, regardless of their managerial level, will lack the understanding of the dynamics of the business environment, overlook opportunities and will merely produce short-term results that would hardly be aligned with the organization overall objectives.



## **2.2 STRATEGIC MANAGEMENT**

Understanding the overall picture that links between the organization objectives, its external environment, its internal capabilities and how everyone contributes to the achievement of the strategic goals is the major challenge for today's organizations. From this perspective, we can appreciate the discipline of strategic management that aims to assist managers to anticipate changes and develop strategies to be prepared for these changes and to guide them to take informative decisions that would keep the organization going toward its goals ahead of its competitors. As Joel Ross and Michael Kami said, "Without a strategy, an organization is like a ship without a rudder, going around in circles. It's like a tramp; it has no place to go" (quoted by David, 2007, p.3).

Strategic management is defined as "the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives" (Pearce & Robinson, 2009, p. 3). It consists of "the analysis, decisions and actions an organization undertakes in order to create and sustain competitive advantage" (Dess, Lumpkin & Eisner, 2007, p. 9). In some strategic management books, strategic management is used synonymously with the term strategic planning. However, commonly strategic management is usually a term used in the academia whereas strategic planning is a term used in the business world (David, 2007).

## **2.3 STRATEGIC PLANNING PROCESS**

Because of the nature of change and uncertainty in today's business environment, strategic planning gained more popularity in the recent years as a competitive weapon that companies capitalize on to get ahead in the race for strategic foresight.

Classically, the objective of strategic planning is to achieve a fit between the external environment, and the internal capabilities of the firm. To do so, the strategic management identifies critical tasks that constitute what is known as the strategic management process. Though, there are many models for this process, the basic components are the same in all strategic management literature. This process is the approach currently used by strategic planners and it has the following three main phases: analysis, formulation and implementation, and evaluation and control. As suggested in the strategic management literature, this process is a systematic approach in determining the future direction of the organization. It is an ongoing, sequential but interrelated process in which the flow of information involves historical, current and forecasted data that feeds each of the stages. The following is an explanation of each of these phases and the most important issues that concern the strategic planners while going through them.

### **2.3.1 Strategic Analysis**

This phase is concerned with the analysis of the current strategic goals (vision, mission and strategic objectives) and strategies, analysis of the external environment, and analysis of the internal environment that would help companies envision their way to the future. It is done to guide executives in “defining the business their firm is in, the ends it seeks, and the means it will use to accomplish those ends” (Pearce & Robinson, 2009, p. 23) given the firm’s internal and external environments and its stakeholders needs.

Today, anticipating the future direction of the business is no longer dependent solely on the internal capabilities of the companies. Managers need to keep eye on the

external environment and continuously monitor its dynamics to better be able to foresee emerging opportunities and threats (Acure, 2006). During strategic planning, companies collect internal and external data as inputs for their strategic planning process. Internal inputs include financial and operational data while external inputs include environmental and market forecasts. All these information are used to prepare presentations on the past and future directions of the business (Dye & Sibony, 2007).

Strategic analysis are usually done through top management meetings in which strategic issues that will have the greatest impact on future business performance are discussed (Dye & Sibony, 2007). These discussions are usually initiated by ideas, key problems, environmental trends, and proposals prepared by operational managers (Acure, 2006). Some companies that have designated strategic planning teams or that require internal consensus undertake this phase through in-depth interviews with all senior managers and some corporate and business executives. The outcome here is a list of major strategic issues to be administered. The strategic planning team then prioritizes the list and assigns managers to investigate each issue and prepare a report within four to six weeks (Dye & Sibony, 2007). The outputs of this phase are usually broad objectives and directions from senior managers to capture the opportunities or counter the threats and capitalize on strengths and reduce weaknesses.

### **2.3.2 Strategy Formulation and Implementation**

This phase is related to decisions on what industries to compete in (corporate-level strategy) and how to compete in these industries (business-level strategies), establishing long term objectives, generating alternative strategies and choosing a particular set of strategies to pursue. Once the strategic choices are identified, an

implementation plan consisting of annual objectives, functional-level strategies, tactics, and action plans are established to bring the intended strategies to reality through execution. According to Dye & Sibony (2007), 25% of the managers said that their companies have a strategic plan but without an execution path. This means that having a strategic plan as an output of the formulation phase is worthless if it was not supported with an implementation plan. Usually, this gap is there in companies in which those who plan (e.g. senior managers, strategic planning team, etc.) are different than those who execute the strategy (French, 2009). Therefore, the outcome of this phase should be the detailed strategic plan covering long-term strategic objectives along with short-term action plans aligned to achieve these objectives. This plan becomes unique to each company given its resources, strengths, weaknesses, foreseeable opportunities and threats. At the same time, the differences in the companies' environments have created different views between strategic planners related to the critical aspects of the strategic plan such as formality, flexibility, planning cycle, timeframe, and participants as the following.

#### *2.3.2.1 Formality of the Strategic Plan*

There is a controversial debate among practitioners of strategic planning on whether the strategic planning process should be formal or informal. Supporters of informal strategic plans believe that they are flexible and adaptive while opponent of informal strategic plans believe that they are without structure and lack clear directions (Rudd, Greenly, Beatson, 2008). Relating formality of the strategic planning process to managers' satisfaction, studies showed results in favor with the formal process. In companies that adopt informal strategic planning, 51% of the managers were

dissatisfied with their approach to the development of strategy compared to only 20% of the dissatisfied managers in companies that adopt a formal strategic planning process (Dye & Sibony, 2007).

Nevertheless, the formality of the strategic plan evolves and becomes more structured as the business grows throughout its lifecycle, as its activities and processes become complex and diverse. In this sense, companies with more formal planning process tend to have specific objectives, written action plans, clear division of responsibilities and use sophisticated planning tools and software to aid managers in capturing major strategic issues (Acure, 2006). “As the business grows and becomes more complex, there is a need for the strategic planning to become more formalized and explicit to guarantee the effective communication of corporate objectives and strategies throughout the firm” (Elbanna, 2008, p. 792).

#### ***2.3.2.2 Flexibility of the Strategic Plan***

Strategic planning aims to help managers predict changes in the environment and be prepared to take informative decisions when unexpected events arise. Therefore, a very critical element of a strategic plan is flexibility. Flexibility is defined as “the extent to which new and alternative decisions are generated and considered in strategic planning, allowing for positive organizational change and adaptation to environmental turbulence” (Rudd, Greenly, Beatson, 2008, p.99). To keep the strategic plan flexible to uncertainties in the environment, a system of continuous evaluation and update is needed to establish a link between the strategic plan and the companies’ competencies (Goncalves, 2009). Flexibility allows companies to be more capable of adapting to the environmental and business forces, making the right

decisions promptly, efficiently allocating resources and therefore enhancing the effectiveness of their strategic planning which eventually reflected in greater performance (Rudd, Greenly& Beatson, 2008).

In 2008, Rudd, Greenly& Beatson have discovered a significant relationship between strategic planning and performance but with flexibility as a mediating factor. This result gave a new empirical insight that have not been previously reported. They concluded that organizations which are able to alter their operational, financial, structural and technological plans in light of environmental forces performed better than others. According to them (p. 106), in the context of strategic planning, “managers focusing on structural and technological flexibility will see improvements in employee morale and retention, but not in financial returns... Managers seeking purely financial returns should focus on operational and financial flexibility and not structural and technological”.

#### ***2.3.2.3 Planning Cycle of the Strategic Plan***

Some companies plan for their strategic planning process while others do not. Those companies that do not plan for this exercise tend to formulate their strategies “through ad hoc meetings or brand reviews or as a result of decisions about mergers and acquisitions” (Dye & Sibony, 2007, p.41). On the other hand, there are companies that have fixed annual strategic-planning process. Between these two extremes, there are the majority of companies that believe that there is no need to undertake major strategic redirection every planning cycle. Some alternate between business units while others use “trigger mechanisms to decide which business units will undergo a full strategic-planning exercise in a given year” (Dye & Sibony, 2007, p. 45). The

key factor here is that when there are important changes in the internal or external environment, altering the strategic plan is essential. With today's turbulent business environment, companies are facing higher risk and unstable earning and growth. This requires them to formulate their strategies more often than the past (Speculand, 2009).

#### ***2.3.2.4 Timeframe of the Strategic Plan***

In the earlier point, it was mentioned that due to the uncertainty of the current global business environment, companies tend to plan their strategies more frequently and consequently the strategies timeframe is also becoming shorter covering two to three years. Even though, it was found that most companies have formal plans for the coming 12 to 18 months only which usually include some elements of a company's strategy, budget, financial and operating targets, and compensation metrics (Dye & Sibony, 2007).

#### ***2.3.2.5 Participants in the Strategic Planning***

In business world, everyone talks about stakeholders' involvements as a key factor to successful achievements of objectives. Identifying the participants of the strategic plan means that we need to understand who are the most relevant people who can enrich the process and create an environment of healthy interactivity "Strategic conversations will have little impact if they involve only strategic planners from both the business unit and the corporate levels" One belief is that "those who carry out strategy should also develop it" (Dye & Sibony, 2007, P 43). This demands that there should be cooperation between top management and other managerial levels in a

participative way which can bring in informational, affective, emotional and creative effect to the formulation of the strategy (Elbanna, 2008).

Some experts proposed involving the board of directors in this process and have stated some potential pay-off such as drawing on a wider range of experiences and perspectives, create harmony between board and management, board commitment and support to the strategy and greater sense of worth and commitment from managers (*Improving Strategy Development*, 2005). Besides involving BOD, corporate decision makers, and business unit leaders, practitioners suggest involving the most knowledgeable employees with expertise essential to the discussion and other influential people who can stimulate and challenge the participants' thinking, and facilitate honest, healthy and open discussions (Dye & Sibony, 2007). As the strategy formulation process is becoming an on going process, these virtues of participants are very critical to the successful development and review of the strategic plan as this phase requires a culture of openness, support and collaboration from everyone (*Improving Strategy Development*, 2005).

### **2.3.3 Strategy Evaluation and Control**

This phase includes the four main activities: following up with the execution of the corporate, business and functional level plans, measuring the performance to know whether the implemented strategies are achieving their intended results or not, monitoring changes in the internal and external factors that may have effect on the implemented strategies, and taking corrective actions when necessary (David, 2007).

According to Speculand, "business success is governed more by how well strategies are implemented than how good the strategy is to begin with" (2009, p.