CPM Expert Series[6]

Strategic Planning: Moving it out of the boardroom.

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Quality through Partnership

STRATEGIC PLANNING: MOVING IT OUT OF THE BOARDROOM

Strategy n. (pl. strategies) 1 a plan designed to achieve a long term aim. 2 the planning and directing of military activity in a war or battle (Oxford English Dictionary).

Strategy: what's at stake?

As the definition above implies, *strategy* is derived from the ancient Greek word for military leadership and planning. However, a brief analysis of strategic planning processes suggests that if business *is* war many organisations have little clue as to who they are fighting, what they are fighting for or why they are even fighting in the first place.

The ability to clearly define, communicate and execute strategy is the single most important activity of any organisation. Research has shown that companies that execute their strategies consistently deliver higher levels of shareholder value and remain in the top performing tiers of their markets, yet as Kaplan and Norton note, less than 5% of the typical workforce can articulate their company's strategy.

A dislocated and incomplete vision

The biggest single problem with strategic planning is that it is not an integrated process. Indeed, while most corporate strategy documents do provide the basis for the first round of budgeting, this is typically a financial planning cycle based on accounts that are held in the corporate ledger package. By contrast a good strategy, is all about activities and in most cases there is no clear link between accounts in the ledger and the tactics in the strategic plan. The budget then is an incomplete representation of the strategic vision.

This dislocation between the steps in the planning process is mirrored in the disparate technologies that are often deployed to manage it. For example, it is not unusual for the strategic plan to be developed as a Word document containing spreadsheet inserts for fiscal assumptions and powerpoint slides to illustrate salient points.

On the other hand, the budgeting process is typically an in-house developed spreadsheet solution or an extension of the company's ERP system. In some cases it may even be a specialised budgeting solution. Reporting and monitoring of actuals may be provided by old-style green screen reports or the IT department may have invested in a Business Intelligence tool to provide rudimentary slice and dice reporting.

The consequence of this patchwork of technologies is that there is little or no chance of the strategic thinking encapsulated in the original plan flowing unimpeded though the individual steps of the planning cycle. Moreover, monitoring the execution of the plan is practically impossible.

Lack of communication = missed opportunities

Similarly, it is not uncommon that the strategic plan remains as shelf-ware, gathering dust in its three ring binder never to be communicated to those whose job it should be to implement it. This lack of communication results in missed business opportunities. Not merely because employees are not executing the designated corporate strategy, but also because many innovations flow up from the customer facing elements of an organisation. As a consequence, companies that do not have two-way communication channels in place to evaluate these new ideas may become stagnant and fall prey to their competitors.

Event driven versus calendar driven

Research indicates that the average company spends around 4 months annually in producing its strategic plan. This means that most organisations simply do not have the time and resources necessary to reassess their strategy in detail should unexpected events occur. As a consequence many organisations operate in a state of cognitive dissonance, knowing that their strategic assumptions are flawed, but lacking the time to complete a root and branch revaluation of the impact of change. One only has to look at the fate of the american automobile industry to see the negative consequences of continuing to execute a strategy whose basic market assumptions are out of date.

Lack of ownership

Ownership of tactics is a key part of delivering any strategy. However, most employees first involvement in the strategic planning process is when targets are assigned to them at budget time. Since these targets are usually developed without their participation, it's not unusual for budget-holders to feel little responsibility toward meeting them.

One way to engage stake-holders in the execution of strategy is to incentivise them to deliver on the aspects of the plan for which they are responsible. This is another aspect of strategy where communication is absolutely vital to ensure that incentives appropriately match the behaviours they are designed to reinforce. Without an integrated view of the plan it is all to easy to get it wrong.

For example, a retail bank recently developed a strategy to "get to know" its customer base to generate add-on product sales and the middle management team developed an incentive plan that rewarded "call-throughput". Unfortunately, although there was an increase in the volume of customer calls dealt with, it came at the cost of a reduction in the average amount of time spent with each customer. Consequently, the number of add-on sales actually decreased year-on-year.

Lack of balance

Target setting is a key part of the strategic planning process. However, research indicates that the majority of plans focus on data that is easy to collect. As a result targets in strategic plans typically monitor internal indicators rather than external market conditions. They contain a surfeit of financial measures and a few non-financial yard-sticks. Furthermore, they tend to be biased towards reporting historical performance rather than forward looking indicators.

The problem with this approach is that while financial measures provide an excellent transactional view of what has happened, long-term corporate viability often depends on being able to predict non-financial measures, such as staff retention and learning, customer satisfaction and product reliability.

Closing the loop: Corporate Performance Management

The combined impact of all these factors is that in most organisations strategies are not communicated effectively, are poorly executed and inadequately monitored. This is where Corporate Performance Management (CPM) solutions can provide an answer. As Gartner Group notes, "CPM is an umbrella term that describes all of the processes, methodologies, metrics and systems needed to measure and manage the performance of an organisation." As such, this class of application is designed to address the weaknesses inherent in strategic planning processes and technologies.

Specifically, a CPM application will :

- Provide a platform that treats the entire planning cycle as a closed-loop process. This means that strategic targets are integrated into high-level budget targets and actual data flows through the system to provide monitoring of progress. The result is a feedback loop that enables the organisation to tailor its behaviour to take advantage of changing market conditions.
- Provide a centralised data repository which functions as a single version of the truth with consistent and focused business rules.
- Provide strong forecasting and predictive facilities to counter the historical bias of existing reporting solutions.
- Provide strategy mapping, workflow management and data visualisations that allow strategy to be broken down into its tactical components, so that they can be communicated quickly and clearly to stake-holders
- Allow effective monitoring of the plan through advanced exception reporting facilities that enable progress to be easily measured, balancing internal and external measures while including non-financial and financial performance indicators.
- Ensure that stake-holders have a clear sense of what is expected of them by tracking responsibilities, individual targets and monitoring performance against them.

CPM: enabling corporate agility

CPM applications provide a centralised, holistic planning framework designed from the bottom-up to ensure that all participants in the execution of strategy are fully aware of how their day-to-day activities affect the delivery of the plan. The use of CPM systems revolutionises strategic planning, converting it from a calendar driven *event* into a continuous cycle of planning, delivery, monitoring and feedback. It ensures that the planning process can incorporate new economic assumptions, competitor products and unexpected events as well as fostering innovation from business units. Indeed, through the use of these solutions, corporate strategy can be transformed from a static snapshot of executive thinking into a fundamental aspect of every business decision that each employee makes every day.

> *"Numbers give the board and executives the hard data needed to monitor, analyse, and assess business performance and strategy. Key numbers are identified in the strategic planning process, and specific targets are set to measure performance against goals. The business's management systems must be able to capture valid, complete, and pertinent numbers that show whether operations, people and strategy execution are effective, and they must point to where adjustments are needed."*
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> Thomas Cowan
> President & CEO
> VECKER Institute

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Established in 1996, Rinedata is dedicated to providing full project life cycle services across Financial Consolidation, Budgeting, Forecasting and Business Intelligence initiatives. Since our inception we have solely focused on delivering improved performance management systems across a wide range of businesses and in a multitude of differing infrastructure landscapes. We can demonstrably help our clients unlock the value of their IT investment, no matter where they may be in their financial systems evolution.

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