Effective Strategic Planning

Processes, measurements and accountability are the keys to success

by

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MOST BUSINESS LEADERS recognize the importance of strategic planning, but few succeed at translating their strategies into business results. One reason is that in many companies, more attention is paid to devising strategies than to carrying them out, and elegant planning exercises are often followed by poor deployment and implementation.

The pervasive belief that a well-defined business strategy will implement itself only contributes to this oversight. Nothing could be further from the truth. Not even a brilliant strategy can ensure a quality implementation. No matter how well it's conceived by senior management, a business strategy becomes virtually worthless when others in the organization misinterpret it, block it or simply don't know how to act on it.

There are three telltale signs of organizations that are poor strategic planners:

1. **They lack strategic alignment at every level.** To translate a business strategy into action, the organization must link it clearly to departmental, team and individual goals. Everyone should be able to answer the question, what does the strategy mean in terms I can act on? When companies fail to provide the necessary linkage, employees don't know how to support the strategy or, worse, tend to view it as something that doesn't apply to them.
2. **They misallocate resources.** Effective strategic planning dedicates resources to making improvements in those areas of operation that are critical to a company's competitive advantage. When an organization doesn't establish and clearly communicate these strategic priorities, resources may be spread too thin to make a real difference in any one area of the business or may be allocated to improvements that have no real impact on strategy.
3. **They maintain insufficient operational measures.** In addition to traditional financial and customer satisfaction measures, companies need appropriate measurement systems at the operational level to successfully implement a strategy.

These help guide employees as they work to achieve strategic goals and determine the extent to which their changes and improvements support the strategy.

To avoid these pitfalls, companies and upper management must realize it's not enough to formulate and communicate a business strategy. They must also empower their employees to implement it. That means they need to learn to define their business in terms of the core processes that deliver value to customers, identify which aspects of those processes will contribute the most to strategic goals and encourage their employees to come up with and carry through process changes and improvements that will result in a competitive advantage.

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Like the Japanese practice of policy deployment, which strives to mobilize organizations around their corporate missions, effective strategic planning works to align an organization's operations and improvements with its strategic goals.[1] But how is that accomplished? In helping organizations implement their business plans, we have learned effective strategic planning requires a strong focus on three key variables: process, measurement and accountability.

Step one: identify and understand core processes

A sustainable competitive advantage takes place when an organization achieves operational excellence in those areas of its business that are inherently linked to strategy. Randomly selected operational improvements can result in increased efficiencies, reduced cycle times or lower costs, but they may have little or no strategic impact and may even squander valuable resources on improvements that can be easily replicated or even surpassed by competitors.

An effective strategic plan focuses on making the improvements that are important to the business and its customers and most directly tied to market performance. It requires trade-offs in resource allocation and involves making choices about which processes to improve, what measures to use to gauge the success of those efforts and who is accountable for implementing process improvements.

Organizations translate their strategies into action through processes. Though most businesses organize themselves around functions such as sales, finance and HR, the products and services their customers receive are produced not by functions but by processes that cross functional lines, such as new product development, order generation and order fulfillment. These are sometimes called "value delivery" or "core" business processes.[2] They usually begin and end with the customer and often involve people from many different departments and functions. As a result, core processes tend to be big, and because they act as the face of the business to customers, their importance is magnified even more.

Most business organizations have three to six core processes, and businesses in the same industry tend to have the same core processes. Businesses compete for customers and win or lose in the marketplace through these processes. Consequently, process capabilities and competencies become key leverage points for competing successfully and should be the primary focus for the improvements that will actualize a business strategy.

Learning to define and visualize processes is the critical first step to making knowledgeable decisions about strategy implementation. In every business, some processes will be more critical to strategy than others. Once it has determined where this process to strategy relationship is strong—and what aspects of those processes are critical to differentiation—the business can then prioritize its improvement activities based on its strategy and create tactical action plans for making improvements in areas of strategic importance.

In many cases, these improvements will result in new or enhanced capabilities for core processes. But they may also involve changes to noncore or enabling processes, such as financial reporting, recruitment, skills training and other administrative

TABLE 1 Core Processes' Influence on the Strategy

		Strategy elements and associated contribution to net income							
		Pricing $3.8 million	Productivity $6.8 million	Share growth $9.9 million	Market growth $5.7 million	New product offerings $3.8 million	New ventures $1.9 million	Customer retention $4.6 million	Business acquisition $1.5 million
Core processes	Generate order	Strong	Strong	Strong	Strong	Moderate	Moderate	Strong	Moderate
	Build and deliver	Weak	Strong	Moderate	Moderate	Weak	Moderate	Strong	Weak
	Service equipment	Moderate	Strong	Weak	Weak	Strong	Weak	Strong	Weak
	Remarket equipment	Weak	Strong	Weak	Weak	Weak	Moderate	Weak	Weak
	Business development	Weak	Moderate	Weak	Weak	Strong	Strong	Weak	Strong

Strong ● Moderate ● Weak ●

services. Enabling processes do not deal directly with external customers. Instead, they often provide critical information, resources and support to the core business processes and should be evaluated regularly to ensure they're effectively meeting internal customer needs.

True competitive advantage is achieved when an organization maintains unparalleled excellence in not just one, but several core business processes. The only way for this to happen, though, is through repeated, deliberate efforts to continually improve core processes from the customer's point of view, make ongoing investments to enhance their capabilities and properly measure and evaluate process performance on a regular basis.

Though its benefits are undeniable, figuring out how to translate strategy into process terms that everyone can understand often requires some effort. To see how it might be done, consider the example of an international heavy equipment leasing company whose executive team decides to pursue a strategic goal of aggressive growth: It wants to increase its net income next year by 17.5% or $38 million.

Once the strategic goal is established, the company's leaders face the challenge of making the strategy actionable. How can it be implemented? What processes will be involved? Which departments or functions have to contribute to make the strategy succeed? How do people need to work differently in order to achieve this new goal?

In subsequent discussions about the plan, the executives determine there are eight strategic elements critical to achieving net income growth: pricing, productivity, share growth, market growth, new product offerings, new ventures, customer retention and business acquisition. Through a careful financial analysis and valuation process, they then assign a net income goal to each of these elements, whose collective contributions would ensure success of the strategy. For example, 10% of the $38 million, or $3.8 million, must come from new products introduced over the next 12 months.

The executives' next step is to assign responsibility for meeting the net income goals. They begin by identifying which business processes influence each strategic element and determine the extent of that influence for each key process (see Table 1). Then, executive level accountability for business processes is established by assigning each core process to an executive level vice president. The responsibility for specific contributions can then be allocated among the leadership team and the functional units they manage.

As Table 1 shows, the vice president of business development and his or her team exert little influence over the pricing, share growth, market growth and customer retention elements of the strategy. But their work has a significant impact on new offerings, new ventures and business acquisitions.

Therefore, to meet their contribution goal, they could set more aggressive and more precise targets on acquisitions and ventures and identify which aspects of their current operation are impeding their efforts. Likewise, the vice president of sales can now set specific sales goals for new offerings once they are available to market. The team should invest the bulk of its improvement efforts and resources on these strategic points. (For another example, see "Align Process Measures With Customer and Business Goals, p. 66.")

Step two: establish appropriate measures

W. Edwards Deming once said the measurement of work processes is not only possible, it is imperative.

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This is especially true when it comes to making a strategy actionable. The only way a business can ensure ongoing alignment between the improvements it makes and the goals it hopes to achieve is by measuring how well its processes are performing relative to its strategy.

Measures, data and management systems that provide meaningful information on process performance should be available to everyone in a business.[3] But it's important to remember data collection and reporting are not ends in themselves. Rather, they are valuable tools for gaining sufficient knowledge about how critical processes are performing and for identifying significant gaps between their "as is" performance and the target performance levels required by the strategy.

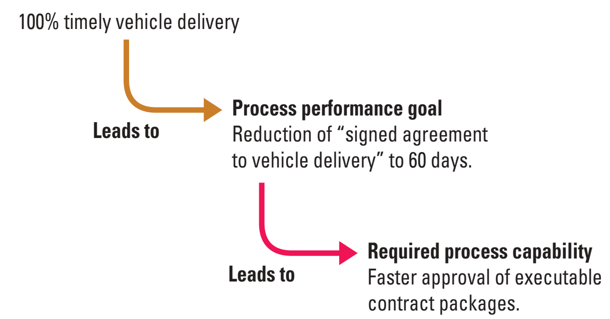
A number of factors may have to be considered when establishing these performance targets. One is the strategic goal, of course, but to effectively evaluate the overall performance of a process, companies should use a balanced scorecard measurement that takes into account the full range of desired business outcomes.[4] These measurement factors may include:

- Financial objectives, such as new sales, income or cost to serve goals.
- Customer requirements and expectations, especially those that relate to response time, accuracy and quality.
- Process goals that contribute to achieving a competitive advantage and to the reliability and cost effectiveness of work performance.
- Learning objectives that help the business maintain leading edge practices or unique competencies.

Once these performance targets have been established, improvement teams can then begin to develop whatever process capabilities will be needed to meet the new targets. A process capability is any performance characteristic or attribute of a process that's required if the process goal is to be consistently and reliably achieved. Identifying, evaluating and measuring these required process capabilities helps businesses focus on making changes that will have real strategic impact and avoid wasting resources on misdirected improvement activities.

In the heavy equipment leasing company described earlier, the order fulfillment team or, as the company refers to it, the build and deliver team, has to focus on three strategic elements to make its contribution to the net income goal. The team determines two of these elements—share growth and productivity—can be significantly improved by reducing the time from initial customer request to actual equipment delivery to less than 60 days. Achieving this process performance goal depends largely on the speed with which contracts are approved, so speedy contract approval becomes one of

FIGURE 1 Strategic Element: Share Growth



the required process capabilities the team will monitor, measure and work to improve (see Figure 1).

Any number of process capabilities could have been identified by the team. So how did it determine speedy contract approval is a capability required by the strategy? By using historical data and making realtime observations of the process, the team was able to validate and quantify the positive correlation and causation between overall equipment delivery cycle time (a customer facing measure) and the contract approval cycle time (an operational facing measure).

The current approach for approving a contract accounted for a significant amount of the equipment delivery time, so contract approval was determined to be a key driver of two elements of the strategy. The first was share growth because the team knew it would have a competitive market advantage if it could deliver leased equipment faster than its competitors. The second was productivity because the team discovered a great deal of rework and nonvalue adding activity in the approval process. Therefore, speed of contract approval became a desired process capability, and the process became a target area for improvement.

Going through this validation process is necessary to ensure the business is devoting its improvement efforts and resources to the process areas that will impact the strategy the most.

A variety of tracking tools, including process management charts and dashboards, can be used to measure and monitor process capabilities. The measures they provide serve as leading indicators or predictors of process performance. Many organizations have a strong bias for using lagging, or results based, financial indicators when formulating a business strategy—to increase net income by 17%, for example.

Unfortunately, organizations can measure the effectiveness of their implementation plan, make adjustments as needed and assess whether and how well their process performance goals will be achieved only

Align Process Measures With Customer And Business Goals

An international bottle manufacturing company produces glass containers for ketchup, beer and champagne for various business customers, including condiment manufacturers, breweries and wineries. The growing demand for plastic containers, and a history of higher production costs due to high scrap and return rates, drove the business to focus its improvement efforts on cost and customer performance. Achieving this goal proved difficult, however, due in part to the unique characteristics of the bottle manufacturing process and the way the company traditionally measured and motivated its workforce's performance.

Bottle plants are traditionally organized around two primary functions: forming and selecting. Forming encompasses the hot side of manufacturing, where raw materials are melted in enormous furnaces and molten glass is cut and formed by fast moving, dangerous and noisy machines that turn out thousands of bottles each minute. This function is supported by an aging, male-dominated workforce.

In the selecting department, the work is relatively quiet and clean. Here there are three times as many women as men, and the workforce focuses on spotting and removing defective bottles—those that fail to meet customer specifications for height, weight, dimension, centricity and thickness.

The chief measure of performance in the forming department used to be the pack-to-melt ratio. This is calculated by dividing the total weight of the bottles shipped to the customer by the total weight of the raw materials melted into product. Individual and team performance goals were typically tied to this measure, with little or no consideration given to the quality of the bottles produced. The focus was on throughput and the desire to get the highest percentage of produced bottles packed and shipped to the customers.

In the selecting department, customer satisfaction was the key measure of work performance, and compensation was partly based on how much product was accepted by the customer.

Needless to say, relations between the forming and selecting departments were significantly strained. Parking lot security was a standard requirement, and on more than one occasion a worker had to be hospitalized following an interdepartmental flareup. Surprisingly, it never occurred to any of the plant's managers to examine the causes of this tension or to question the wisdom of maintaining conflicting departmental goals.

Why not? Measurement systems in many businesses are functionally driven; they fail to take into account the fact that products and services are often produced by cross functional processes that cut across departmental lines. Though performance measures in every department should reflect both cost and customer satisfaction, many of them are often based on only one of these factors.

What could this company do to align departmental goals? It began with the development of an order fulfillment process psyche that transcended departmental thinking regarding purchasing, forming, selection and shipping. Management and union leadership were engaged to explain and communicate this new psyche throughout the plants.

The business then developed performance measures for the forming department that focused improvement efforts on quality yields. Self-managed work teams were formed and trained in process improvement and measurement methodologies.

In the selection department, improvement efforts focused on increasing the sensitivity of the devices that can detect product variability, which would help send earlier warnings to the forming department that bottles were about to be produced out of the range of specification.

The result was a customer and business focused workforce whose measurement and compensation systems tied everyone to the same overall performance objectives.

through leading indicators, derived by understanding the cause and effect relationships unique to their business processes.

Step three: establish accountability for changes

Linking strategic elements to core processes in terms of process goals and required capabilities enables a business to translate its strategy into operational terms for every department and function. Indeed, it is crucial for the leaders of a business and their direct reports to define their strategy to this level of detail before even communicating it to the organization. If they can't, it's a sign the strategy has probably not been sufficiently defined or thought out.

Communicating the strategy in process terms helps foster alignment between the strategy itself and the work that's performed within each department and function. Once all employees gain a clear understanding of the strategy, they know exactly what they're responsible for in implementing it and can see the impact of their work downstream, all the way to the customer. The ultimate goal is for everyone to feel responsible for process performance and to develop the motivation and focus needed to bring about process improvements that have strategic importance.

Involving people in developing measures and collecting data on process performance helps drive these feelings of accountability. This is true not only for process owners (those who manage the bulk of the resources associated with a particular process), but also for many of their subordinates, who may be assigned to measure, improve and monitor these processes on a regular basis.

There are other ways business leaders can drive accountability and ensure a quality implementation. One is through effective performance management or linking compensation, including both financial and nonfinancial rewards, to process performance and improvements. Individuals at all levels should be evaluated on their effectiveness at meeting process goals and on how much they contribute to helping the strategy succeed.

Another way leaders can drive accountability is by acting as role models for others within the organization. By making management decisions based on data and processes and demonstrating their confidence in process improvement methods, leaders can help create an organizational culture in which everyone understands the importance of process to strategy and recognizes the value of continuous improvement.

Many business organizations have already equipped employees with the statistical tools and total quality management methods that can be used to effectively manage process performance. Those that haven't should train their employees to develop these critical skills and give them opportunities to gain experience in analyzing and measuring process performance. It's important to remember that while defining business strategy is the responsibility of senior management, implementing it successfully requires educating and empowering many others in the organization.

In the end, even a quality implementation can't guarantee every business strategy will work. But by focusing on process, measurement and accountability, organizations can improve the discipline with which they pursue strategic change and significantly improve the likelihood of success.

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