
Linking Strategic Plans to Operational Goals

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- ▶ *A Practical Guide for CFOs*

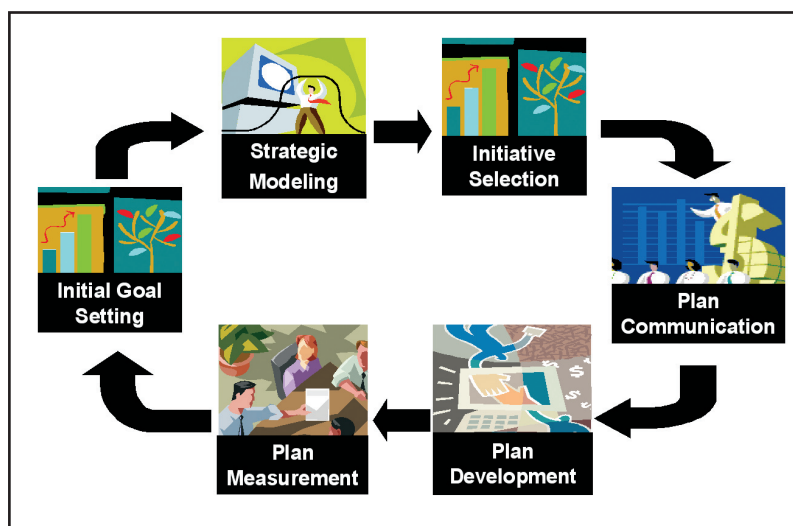
Introduction

Executives are often praised for their strategic vision and company direction one month and criticized for their inability to execute on those directives in the next. Behind several recent high profile CEO firings is the implication that the executive “could not deliver” on his or her corporate vision or strategy. History proves that it is challenging for even the most accomplished leaders to convert strategic plans into tactical or operational goals. Why is this translation from strategy to execution so difficult?

The disconnect often results because the strategic plan fails to adequately describe and isolate the key initiatives required to drive future company growth. In order to implement an effective strategic planning process, an executive team must first understand the role strategic planning plays within corporate performance management—and recognize that each step of the process provides a basis for connection, communication, measurement, and ultimately accountability.

DEFINING THE STRATEGIC PLANNING PROCESS

Many companies begin the strategic planning process, but fail to finish it. They conduct an offsite team-building meeting in which a group of executives get together, author a mission statement, conduct a SWOT analysis, and define various target metrics. But when the executives return with the day’s minutes, they mistakenly consider the process finished. Consequently, the strategic plan never evolves into a defined set of operational goals and targets needed to drive results. In order to develop a truly effective strategic plan, organizations must undertake the following six phases:



1. Initial Goal Setting
2. Strategic Modeling
3. Initiative Selection
4. Plan Communication
5. Plan Development
6. Plan Measurement

The Strategic Planning Process

Initial Goal Setting

Usually conducted during an offsite retreat for executives, the initial goal setting includes a situation and SWOT analysis aimed at setting the tone and direction of the corporation, in essence answering the question, “Where are we now?” Following that initial assessment, executives create a mission statement and brainstorm initiatives, corporate goals and objectives, as well as key performance indicator (KPI) targets. The second portion of the goal setting exercise is designed to answer the question, “Where do we want to go from here?”

Strategic Modeling

After the initial offsite, the important strategic modeling phase begins. Using well-designed and collaborative strategic planning models, the team develops a “status quo plan” based on current trends. Then each of the proposed initiatives are modeled and analyzed for their impact on net income, invested capital, and profit. Well-designed strategic planning tools allow the team to “plug and play” initiatives in real time to quickly assess the overall impact on a variety of key performance indicators. The executive team can quickly assess multiple strategy combinations—and identify mutually exclusive options—to pinpoint the optimal blend of strategies required to meet corporate targets.

Initiative Selection

Often taking place at a second offsite retreat, initiative evaluation, ranking, and selection follows the strategic modeling phase. Executives are presented with an analysis of various strategies and scenarios. After evaluating the impact different combination of strategies have on key performance indicators, the executives identify and select the best grouping of initiatives in order to support the company’s strategic plan.

Plan Communication

With a completed plan outlining detailed strategic initiatives in hand, the next critical step is to communicate the plan to the organization. Not only must executives formally communicate plan initiatives to key staff members, they must also distill the strategic plan into meaningful KPI targets and establish personnel performance goals that can be communicated at the individual level.

Plan Development

The next step involves developing the operational plan. The broad strategies must be disaggregated into specific actionable and quantifiable sub-strategies and goals. For example, if a bank's strategy is to grow retail deposits, the operational plan might include new branch openings, branch hours, products, or pricing strategies. As with the other phases, technology also plays an important role in this process. With comprehensive planning software in place, the communication and "push down" of targets is an automated exercise. The solution will proactively align the budgeting, forecasting, and scorecard environments with the overall strategic plan.

Plan Measurement

To make sure that the strategic plan is effectively, organizations must routinely measure corporate performance against it, so that areas that need corrective action can be identified early in the process. Ideally, an organization will web-enable measurement and reporting so that all constituents throughout the enterprise can participate. A full complement of reports, variance analysis, scorecards, and line of business dashboards can effectively communicate ongoing performance—as well as highlight any areas requiring immediately attention. Leading edge technology solutions provide proactive alerting mechanisms—delivered to individual's desktops—that inform key stakeholders when certain performance thresholds are not being met.

Conclusion

A best practices strategic planning process does not end when a team of executives creates a strategic plan at an offsite retreat. Developing a closed-loop planning process that encompasses long-range goals as well as short-term operational objectives is the cornerstone of an effective planning process. Research suggests the execution of ideas is as important as the ideas themselves. Having a comprehensive corporate performance management planning process ensures strategic initiatives will be translated into operational goals and communicated throughout the organization. With today's new generation of planning and reporting tools, organizations can model and drive performance holistically—from five year strategic plans to monthly forecasts—ensuring that the strategic plans formulated at the offsite has the details, accuracy, and commitment required for successful implementation.



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