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Seven Ways to Make Your Strategic Planning Relevant

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by Matthew Siegel

One of the most important shifts in many companies today is the move toward a capabilities-driven strategy. Companies that define a "way to play," lined up with a handful of key differentiating capabilities that deliver on that value proposition, have a definite competitive advantage. Your own company may have redesigned your strategy accordingly. Now it's time to execute.

Undoubtedly, you already have a planning and performance management system—otherwise known as a strategic plan and corporate budget. This is a group of deeply ingrained methods for allocating costs and tracking. Even as the top executive team embraces a capabilities-driven strategy, the planning and performance management system tends to remain unchanged. That's because traditional budgeting planning practices were designed with other priorities in mind. They tend to foster silo-based thinking and to spread investments across all activities. That makes them irrelevant to your strategy—at best. At worst, they will undermine the development of key capabilities. Yet they tend to be so entrenched, combining so many of the formal and informal drivers of behavior in a company, that you may find it difficult to change them.

A truly relevant planning and performance management system will help you instill the discipline and accountability to make hard choices. It will make it easier, not harder, to assign the lion's share of investment to your differentiating capabilities. And it will keep things on track with clearly articulated objectives and performance metrics. Here are seven guiding principles that will help you put such a system into place:

1. Emphasize key capabilities in your strategic plan. Look beyond short-term marketplace opportunities and challenges. Articulate what you need to do, different from what any other company can do, to deliver on the company's unique value proposition. Tie strategic objectives to those capabilities. For example, one bank recognized a major opportunity to build its business by selling across product lines. Developing a robust client analytics capability was a requirement. By naming this capability in their strategic plan, the bank's leaders forced themselves to lay out the steps needed to achieve their long-term goal.

2. Spell out capability-building initiatives in the plan. Design roadmaps for developing and steadily upgrading specific capabilities over time. Then, in each annual plan thereafter, spell out how you can further advance these capability-building initiatives. The leaders of a mining conglomerate, for instance, realized that they could increase production output by rolling out new standards across their portfolio of subsidiaries. That required a series of initiatives: one each for measurement, reporting, IT, best-practice methodologies, and

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training. Developing the initiative roadmap provided an actionable plan for the management team to build the capability over time.

3. Manage discretionary and non-discretionary spending separately. A successful strategy concentrates investment dollars where they are needed most: the company's distinctive capabilities. Traditional budgeting can undermine this goal by allowing individual units to spend discretionary dollars as they see fit—often favoring pet projects, even if they have no strategic relevance. To prevent this, use zero-based budgeting to determine the amount of non-discretionary expenditures needed to "keep the lights on" throughout the company. The rest of your spending should go through a management process, connected directly to the strategic plan.

4. Use cross-functional governance to balance company priorities against the priorities of individual business areas. Governance forums should use a set of clearly defined decision rights on a regular basis to steer the business. A transportation company relied on a common information technology infrastructure across all of its business units. Every year, each business unit submitted IT investment requests to an investment committee panel composed of business unit and support function leaders. Its cross-functional organizational design enabled the panel to best decide how to allocate scarce resources for initiatives that would generate the best return for the enterprise. Some of the enterprise opportunities would not have been captured if business unit leaders were the only decision makers on IT.

5. Create guidelines for evaluating investment demands. Your company is subject to a range of investment demands with varying degrees of relevance to strategic priorities. Detailed investment guidelines will help assess these requests, especially when you're balancing "apples and oranges" demands (such as regulatory compliance expenditures versus capital spending proposals). Each year, for example, the managers of a moderate-sized but much-used airport have to choose just a few of many investment requests—balancing safety, strategy, operations, and regulatory arguments. Establishing a clear set of communicated guidelines allows the airport leaders to focus on higher-return projects. Knowing the reasons for the choices encourages everyone, including those whose proposals didn't get funded, to engage and execute with more focus on the winning initiatives.

6. Give leaders cross-functional authority to build capabilities and hold them accountable. Capability-building efforts fail when nobody has the authority to carry them out. Help individual leaders build capability systems across functional lines by making sure others can see that they have the requisite decision rights and position. For example, remember the bank building out its analytics capability. This required coordinating resources to develop a solution across product lines and IT. An empowered leader was authorized to manage resources, initiate investments, and manage delivery across the organization matrix to build the capability.

7. Measure and reward progress. Building a strategic capability can often take months or years. Explain clearly how each initiative bolsters a critical capability. Establish objectives and milestones for each initiative. Use these benchmarks to measure and reward progress toward the ultimate goal: a market-leading capability.

A more relevant planning and performance management system yields significant long-term benefits, because it continuously evaluates your company's performance against strategic goals. The performance benchmarks tell you where and how external changes are affecting your progress. This provides a real-time snapshot of your capabilities at work in the marketplace. Strengths and weaknesses become clear, informing your investment decisions for the next strategic planning cycle. After a few years, this virtuous feedback loop can become second nature, paving the way for real collective mastery of the capabilities that distinguish your company. +

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