

Conducting a Strategic Assessment

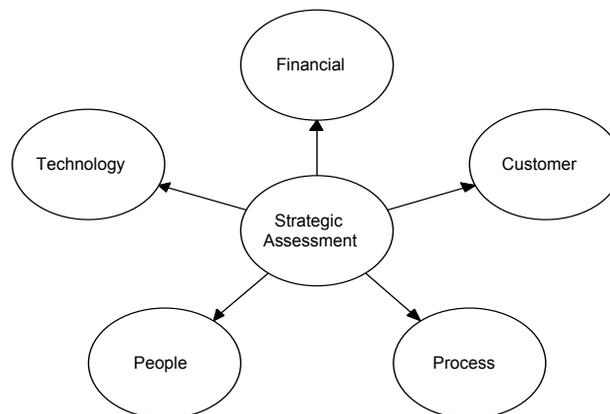
In part one of this series we discussed the different ways to leverage process performance and the importance of linking process and strategy. In part two we will discuss how to gather strategically critical information via a comprehensive assessment process. The mechanisms for process evaluation identified in part one are an important part of this assessment, but do not give the complete picture. This article begins with an explanation of the importance of establishing a strategic direction and proceeds through the different phases of the assessment process.

Consistency of Direction

It is impossible to develop a strategy without first understanding the *vision* and *mission* of the organization. These concepts have been defined many different ways. The most useful definition Orion has found for a vision is a statement that describes the ideal future state of the organization, or “where do we want to be” 5-10 years down the road. A mission is a more grounded statement that conveys the organizational purpose, or “what the organization is here for”. Creating a precise mission and vision often turns into an excruciating exercise. Many companies have a tendency to lose focus; they get lost worrying about the precision of the verbiage of the statement versus where they want to take the company. Avoid this by keeping in mind that the important thing is for all key parties have a consistent understanding of the organizational direction. Spend enough time on vision and mission to achieve this objective, then leave the polishing to the communication experts.

Conducting a Strategic Assessment

Once the ideal future state has been defined, the assessment may begin. The purpose is to determine the key organizational strengths, weaknesses, opportunities, and threats (SWOTs) that will impact the organization’s ability to get where it needs to go. Strategic planning textbooks have suggested there are five basic considerations to be taken into account when describing the ideal future state of the organization: financial, customer, process, technology, and people. It should come as no surprise that these are the building blocks to a successful assessment as well.



A brief description of each phase of the assessment follows below.

Financial assessment is relatively straightforward. It involves balance sheet analysis, determination of funding available for plan execution, forecasting, etc. This is obviously critical information when making a determination of how many initiatives can be supported and how aggressive they can be. Trend analysis should be performed on all key financial indicators. Control charts are invaluable tools to facilitate this analysis. Consider the example below:



Typical analysis of this type of information yields a series of explanations for each rise and fall in the data, complete with variance analysis, deviation from plan, etc. This is supplemented by sales personnel explanations for how in some months (eg- June of year two) there were market forces beyond their control that caused a drop in sales, while in other months (eg- August of year one) the true skill of the sales force shown through.

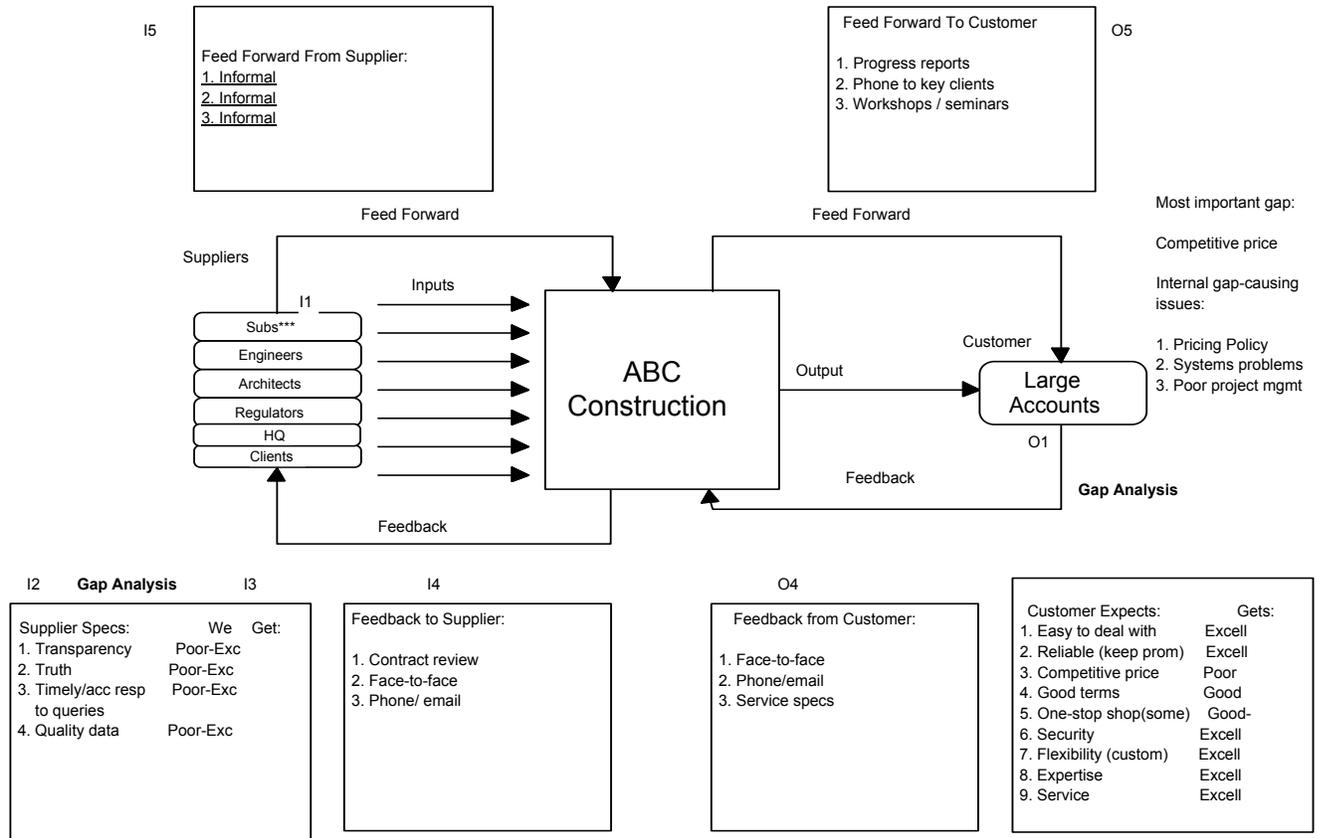
Control charts provide a more objective analysis (and save a lot of time) by setting limits on how much variation is “common” due to everyday factors versus variation that represents a truly unusual “special” event that is attributable to a specific cause. It is important to note that these limits are calculated based on simple statistical formulas; limits should not be set wherever you desire them to be. The above example with the calculated limits drawn in is as follows:



UCL and LCL represent upper and lower control limits. These distinguish the expected from the unexpected. The fact that this example shows only common cause variation means that no month is significantly different than any other. Trying to explain highs and lows on this graph is an unproductive waste of time. Any rebate programs, sales incentives, etc. this company might have offered during this time frame did not have the desired effect of significantly increasing sales. Nor did new products, new competitors in the marketplace, seasonal demand, etc. Evaluating financial information in this manner can greatly assist in the identification of key cause-and-effect relationships between organizational actions and financial results that will impact the ability to achieve the vision.

Customer assessments can be a bit more involved. The first step is to determine who you want your customers to be in the future, given that you achieve your ideal future state. What type of characteristics does a quality customer have, and how do we attract and keep them? Only after this question is answered can the assessment proceed. There are numerous techniques available to assess customers and the marketplace.

The Orion system map is a perfect tool for evaluating the interactions and relationships between the company and each of its distinct market segments. A sample system map is shown below:



This example is from a construction company attempting to differentiate itself from its competitors through offering superior service. This is an unusual strategy in an industry that is heavily price-driven, but this company believes that service considerations will override the price-focus for their target client group.

The oval on the right illustrates that this system map is evaluating the relationship between the company and its large account customers. The box in the lower right-hand corner provides an analysis of the large clients' needs and how well each is being met. Note that each service item is rated "good" or "excellent" except for price. The top-right portion is the where the most important gap / area for opportunity exists, and price is selected as the most important. The "internal gap-causing issues" section reflects that pricing policy is indeed a key contributor to the gap, but it isn't the only one. Systems problems and poor project management are also driving the price up. The system map has therefore helped identify two internal issues that could prevent the execution of the stated strategy.

The rest of the diagram contains important information as well. The supplier analysis on the left-hand side reveals that subcontractors are the major inhibitors to the company's ability to satisfy its customers. The box on the lower left is a supplier analysis, stating that some subcontractors do a poor job of representing ABC, are not truthful about deadlines / costs, and don't supply accurate and timely information. All of these things impact ABC by raising its costs and forcing price increases. This raises a few important strategic questions: do we have the right subs to

enable us to execute our strategy? Are we practicing what we preach (charging clients premium price for premium service and yet selecting subs based on lowest bid)? Would long-term relationships with select subs be a win-win solution? These are all questions to be considered to enable execution of stated strategy.

The final components of the map deal with communication. Feedback is a familiar term. There is a feedback box bottom right to evaluate the different mechanisms by which customers provide feedback to ABC, and a second feedback box bottom left to illustrate how ABC provides feedback to subs. If there are no mechanisms for feedback it is a potentially serious strategic gap. Being out of touch with customers is rarely a good thing.

Feed forward is a less familiar concept. This is the mechanism by which we let customers know what to expect from us so they may set and manage their expectations properly. Lack of feed forward results in customers setting their own expectations, which invariably leads to failure when they set them too high. Note that all subcontractor feedback to ABC is informal. This in all likelihood contributes to the perception that subs are not telling the truth, providing timely answers, etc. System maps constructed for each customer segment with appreciably different needs will surface a host of strategic issues like the ones identified above.

The system map analysis should be supplemented with focus group discussions with customers, market research, competitive analysis, etc. to give a complete picture of how well the company is meeting customer needs, relative strengths and weaknesses compared to competitors, etc.

People assessments can be facilitated through the use of tools as well. A skills inventory matching the proficiency of the employees to the skills required to perform vision-critical job functions can be extremely useful. Profiles of workforce demographics, review of the documentation of critical training and development processes, and employee surveys can also yield valuable information. System mapping the relationship of the HR function as a supplier of the remainder of the organization can be eye-opening as well.

Technology assessment can be as involved as you want to make it. The key issue when evaluating technology is to understand the goals of the IT department. If the main goal is to support the organization to make it successful, all is well. If the goal is to become a world-class IT department, you may have a disconnect that needs evaluation. Being world-class in IT makes no difference if it doesn't bring the organization closer to achieving its ideal future state. Using the Orion system map to evaluate the interaction between IT and the remainder of operations can help determine the level of IT service to its internal customers. In addition, interviews with key IT personnel, utilizing associations, periodicals, and the web to determine what is "best practice", and benchmarking other companies' technology can provide a good feel for SWOT's.

Process assessments are the most frequently underutilized, for reasons discussed in part one of this series. System mapping key internal relationships (sales vs operations, R&D versus operations, R&D versus marketing, etc.) is a great way to identify processes in need of strategic improvement. Creating cross-functional maps of these key processes is a great way to highlight inefficiencies that could have strategic impact.

It is also wise to conduct cross-functional focus groups that brainstorm opportunities for process extension, market extension, and enterprise creation. The best technique is to have separate sessions for each process-leveraging mechanism. Trying to identify opportunities in all three areas at once will not yield optimal results. The participants will usually focus on one mechanism to the exclusion of the others or waste time debating which category each idea falls into. Separate sessions yield more quality and quantity of output.

Conclusions

There is no absolute blueprint for a strategic assessment. Each one should be customized to the particular company. The tools and techniques described above may be combined in any number of ways to identify the key strategic issues. How long does a typical assessment last? Depends on the size of the company, the depth of analysis performed, the geographic spread of the customers and employees, etc. Orion has facilitated assessments at Fortune 200 companies that lasted three months and at smaller facilities that lasted a few weeks.

The next step after the assessment is to gather all the SWOTs that are thought to have strategic significance and use these data to formulate a strategic plan. The techniques for proper, process-oriented plan development will be the subject of part three of our series, appearing next month.