

The Strategic Planning Process

The second article of this series explained how to gather strategically critical information via a comprehensive planning process. This installment will describe the process for taking that information and developing a high-level strategic plan. It begins with a brief overview of Orion's preferred method of strategic planning (called *Hoshin*) and continues with a step-by-step description of the process.

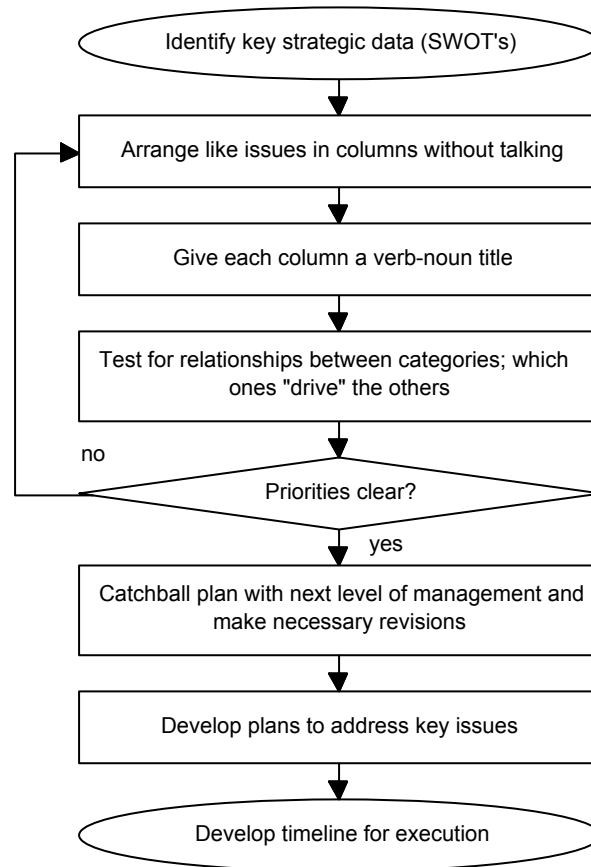
Introduction to Hoshin Planning

The term *hoshin kanri* is Japanese for “shiny metal object”, such as a compass. Just like a compass provides direction to a traveler in the forest, Hoshin planning can provide direction to an organization. Orion has had the opportunity to work with dozens of companies over the years in the field of strategic planning, and to our knowledge no client that has adopted Hoshin as their form of planning has ever reverted back to the methods they previously employed.

There are two things that differentiate Hoshin from more traditional types of strategic planning: the tools used and the “catchball” process. The management tools of Hoshin are extremely effective in helping an organization focus a global vision statement down into a series of specific action items. Indeed, a senior vice-president for a multibillion-dollar organization remarked that he had been “doing strategic planning for thirty years and I’ve never seen a process that cuts through the nonsense and delivers an actionable result as well as (Hoshin) does.”

The catchball process is effective at creating buy-in to both the development and execution of the strategy. In a typical organization there are a dozen or fewer people involved in the development of the strategy; it is an activity reserved for the most senior levels of management. Many times this results in a plan that is difficult to execute because a) the senior group is out of touch with the operational realities of execution, or b) the employees below executive level do not understand the thinking behind the plan and therefore do not buy-in to it. The catchball process avoids both potential obstacles by involving more people in the development of the plan. The senior team will develop the plan only to a certain level of detail, then conduct a communication session with the next layer of management to gain agreement on the high-level priorities. This session is highly interactive and gives the middle management the opportunity to provide feedback, ask questions, challenge specific items, etc. The next step is for the middle managers to take the high-level initiatives and work out the details of execution. Upon completion the details are presented back to the executives, who are also free to provide feedback, question, and challenge. This give-and-take is the cornerstone of the catchball process. It usually results in a plan that is more realistic and accepted than other forms of planning, both from the executives responsible for resource allocation and teams responsible for execution.

The specific steps of the Hoshin process are as follows:



An explanation of each step and what is involved in execution follows below.

Identifying Key Strategic Data (SWOT's)

This step is merely the documentation of the strategic assessment. In our second article we discussed how to extract strategic information from the financial, customer, process, technology, and people perspectives. The task now is to review the system maps, control charts, surveys, focus group comments, etc. and look for strategically important strengths, weaknesses, opportunities, and threats (SWOT's). To initiate the Hoshin process it will be necessary to record each SWOT on an individual Post-It note. Since the goal is to perform an assessment that is in-depth enough to surface all the key strategic issues, it is possible to have a high volume of notes (100-250 is common) when finished. These issues will represent all the potential areas of focus for the organization, and the remainder of the process steps will help organize and prioritize them.

Technique is important when writing SWOT's. A successfully written SWOT will have two components: the fact itself and the implications of the fact (at Orion we call the implications the "so what?"). For example, suppose your assessment revealed that

turnover in the company is dangerously high. You could record this fact on a Post-It in a few different ways:

“High employee turnover”

-or-

“High technical staff turnover limits our ability to provide timely customer support”.

The first example contains only the fact, while the second includes the implications. If your company is developing a strategy based on customer relationships then the second version pinpoints turnover as an issue that must be dealt with immediately. The first version forces participants to draw their own conclusions about why turnover is critical, and the customer relationship angle may be missed.

The SWOT-writing technique is equally important when documenting strengths. Suppose your sales force knows the market better than any of your competitors do. Two ways to summarize this information would be

“Knowledgeable sales force”

-or-

“Sales staff knows the market better than our competition, which gives us a head start in identifying potential new products.”

If your company has a strategy that is based on product leadership then this sales force knowledge is instrumental to your success. Accurate documentation makes it more likely this strength will be leveraged.

A final word on the importance of including the implications: keep in mind that the end result of this step will be 100-250 strategically important facts. With such a large volume of data it will be a practical impossibility to remember why each fact was important. Lack of specificity will result in everyone forgetting why the facts were vital in the first place.

Arrange like Issues in Columns without Talking

Each of the notes from the previous step should be placed at random on a wall / white board / etc. The participants should then begin looking for connections between the different notes; what are the 5-6 high-level consistent themes that are represented by the Post-Its? The participants should pull the notes off the wall and re-sort them into columns that they perceive to be connected.

Technique is critically important to this exercise. The first rule is that talking is not allowed. If participants disagree on where a particular note fits best, they are free to continue to move it back and forth. They are *not* free to engage in open debate. Open

discussion usually results in a) the session taking four times as long, b) the more aggressive personalities squelching everyone else's opinion, and c) jumping to conclusions without properly evaluating the entire list.

Another important rule is that participants should not be allowed to sort into strengths, weaknesses, opportunities, and threats. The connections they see should focus on the content of the information versus being "good stuff versus bad stuff".

The first sort could take 20-30 minutes, depending on the volume of notes and the experience level of the participants. Participants shouldn't feel pressure to get the first cut exactly perfect; it is inevitable that there will be some re-categorization of notes as you move further into the process.

Give Each Column a Verb-Noun Title

Once the group has sorted the notes into 5-6 major themes it will be necessary to title each one. We suggest a verb-noun format: the titles should say you are going to "do something to something". Examples include "Streamline the product development process" or "Develop marketing capabilities" or "Maximize profitability". Creating titles can be difficult due to the sheer volume of information you are trying to summarize. Orion can provide several useful tips:

- 1) Title the easier columns first. There will always be a few columns that are tightly connected and a few that seem all over the map. Assign titles to the easier ones first. For example, if you see that the vast majority of the notes in a given column specifically say "technology", "IT", "systems", etc. then title this one first. The theme is clear, so it will simply be a matter of selecting the appropriate verb.
- 2) If you get stuck (i.e.- there appears to be no connection in a given column) then move on. You can always come back to it later. Often a column that appears to be miscellaneous will be easily broken up into other columns once the full complement of titles has been assigned.
- 3) Take the assignment of verbs seriously, since the titles will send a message to internal and external audiences about what is important to the company. Having said this, don't spend an hour debating between "improve" and "enhance".
- 4) Don't use the same verb over and over. If you do your plan will sound silly and people will not take it seriously.
- 5) Don't get discouraged if assigning titles isn't easy. It often takes time, patience, practice, and luck to get it just right. If you are diligent then the answer will come.

It is common for this step to result in a set of titles as shown below:

"Accelerate Product Development"
"Develop Employee Skills"
"Upgrade Information Technology"
"Improve Financial Position"
"Delight Existing Customers"

“Expand into New Markets”

These categories are called *strategic elements* in Hoshin terminology, and will serve as the foundation for the next step in the process.

Test for Relationships Between Categories; which ones “Drive” the Others?

The next step is to prioritize the elements. This is done by examining each pair of titles to see if there is a cause-and-effect relationship between them. For example, consider the following pairing:



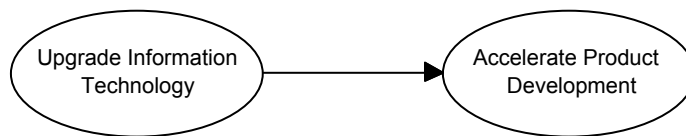
There are two potential relationships, to be evaluated as follows:

“IF we upgrade information technology, THEN we will be able to accelerate product development”

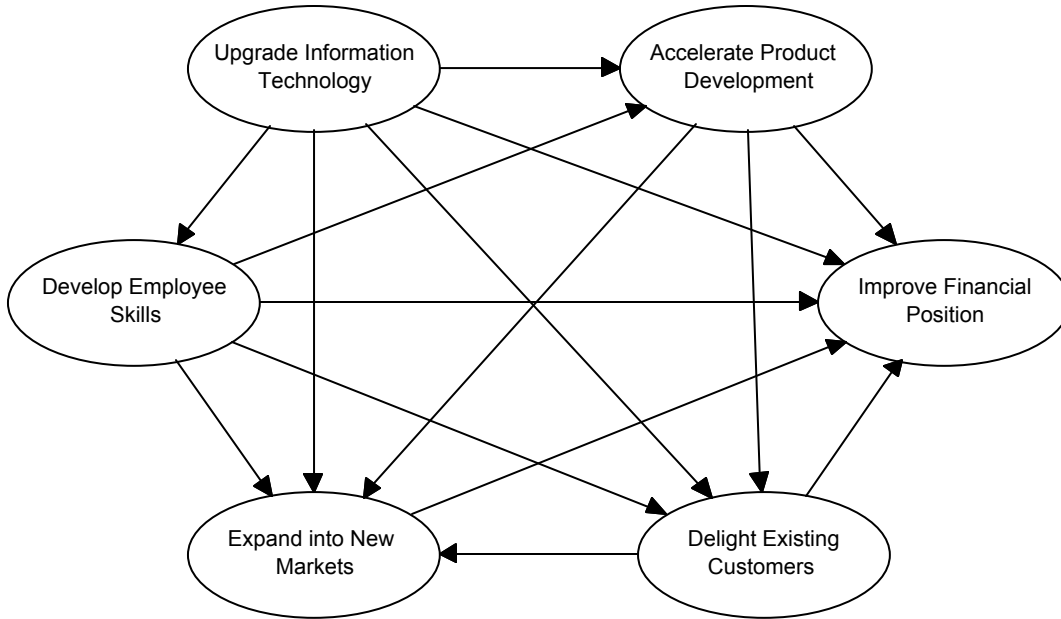
-or-

“IF we accelerate product development, THEN we will be able to upgrade information technology”

It appears the first statement makes more sense, as technology can be a key driver of product development time. If the group were to agree, an arrow would be drawn as shown below:



This illustrates that one “drives” the other. Comparing each pair of elements could yield the following result:



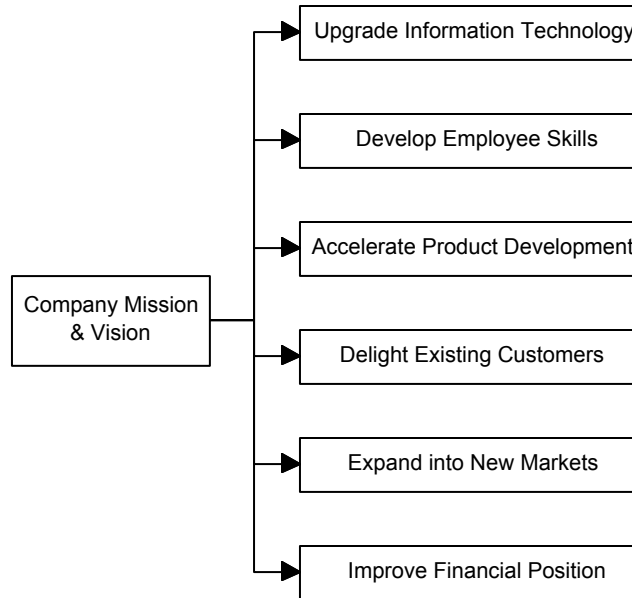
This diagram examines all the driver relationships and makes prioritization easier.

Count Arrows In and Out

To establish the proper hierarchy it is now necessary to count the arrows in and out of each key element. For our example we have

Strategic element	Arrows in	Arrows out
Upgrade information technology	0	5
Develop employee skills	1	4
Accelerate product development	2	3
Delight existing customers	3	2
Expand into new markets	4	1
Improve financial position	5	0

According to the logical cause-and-effect relationships established at the previous step, the first priority of the organization should be to upgrade information technology; it has the most arrows out, meaning it “drives” all the other issues. Taking the elements that have the most arrows out first, the top level of the plan would look like this:



Note that “improve financial position” is in the lowest position. This isn’t meant to suggest it is of the least importance, but rather that it is an outcome of all the other issues if they are executed properly.

The logic of the diagram should of course always be weighted against real-world knowledge. If the organization knows that unless new markets are taken in the short term the future of the company will be compromised, then obviously “expand new markets” can be moved higher up the food chain. The diagram merely provides a good starting point and forces the organization to acknowledge where its focus should be.

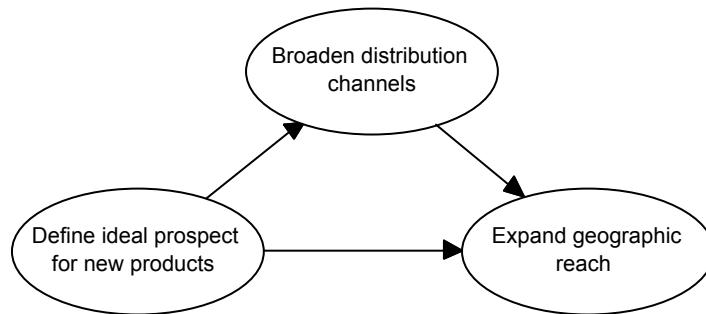
Clarifying Priorities

The next step in the flowchart is a decision point. The first iteration of the plan has yielded six broad themes that may not be immediately actionable. For example, there are a host of possible activities that could support delighting existing customers. Usually companies will find it necessary to repeat the process to narrow down the scope a bit and provide more insights into what specific actions are needed.

The process for this focusing is simply to repeat the prior steps. Return to the list of Post-Its that were placed in one of the main columns, sort into common themes within the column, title them, and draw the connecting arrows. These issues are called *strategic initiatives* in Hoshin terminology. For example, the “expand into new markets” column may have the following three underlying themes:

- “Expand geographic reach”
- “Broaden distribution channels”
- “Define ideal prospect for new products”

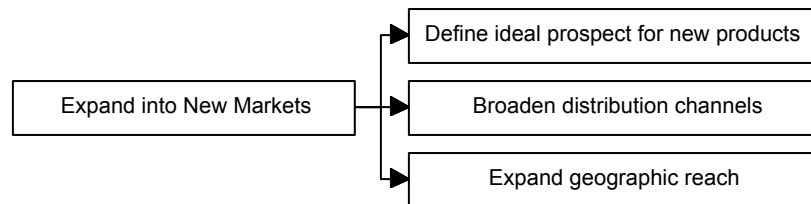
The driver relationships would be evaluated as shown:



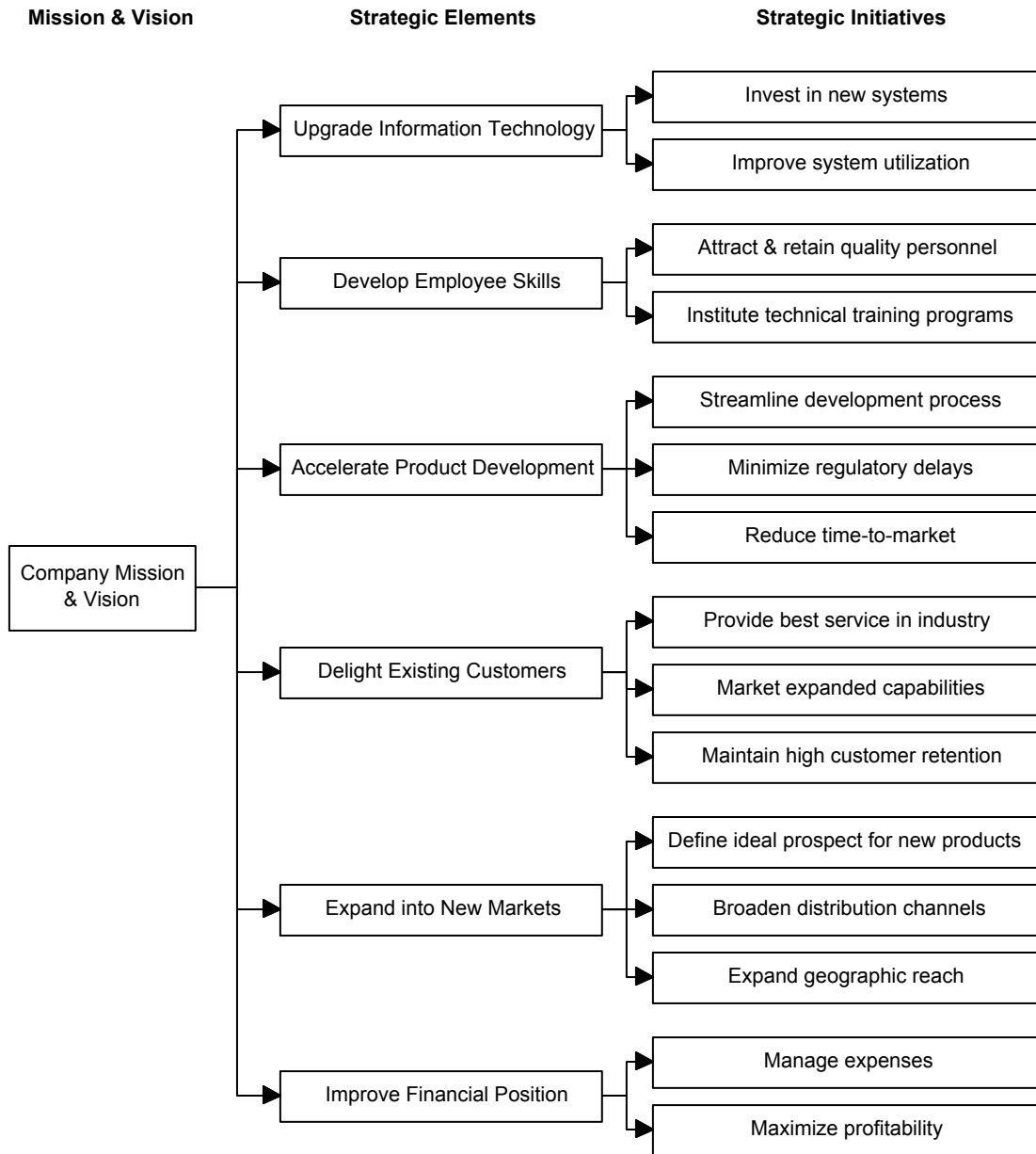
Counting the arrow would yield the following:

Strategic initiative	Arrows in	Arrows out
Define ideal prospect for new products	0	2
Broaden distribution channels	1	1
Expand geographic reach	2	0

And the strategic plan could be expanded as follows:



Continuing in this manner for each of the strategic elements could yield a top-level plan that looks something like this:



This document can be very powerful. It prioritizes all the key strategic issues of the company and presents them in a one-page form that is very user-friendly. It is certainly possible to repeat the process a third time and develop an additional level of detail, but typically the above is enough to enable the organization to begin development of activities necessary for execution.

Catchball plan with next level of management and make necessary revisions

As described at the beginning of this article, the senior team would present the above document and the thinking behind it to the next level of management. After discussion it is possible that minor revisions to terminology or prioritization may be made.

Develop plans to address key issues

The first part of the catchball session is used to gain agreement on the diagram. The second activity should be to start thinking through the “how” of execution. Talking through the specific steps, resources, cost, etc, for each initiative with the senior and middle management is usually a very worthwhile exercise. The output should be a series of project plans that spell out the details of execution.

Develop timeline for execution

Once project plans have been defined the senior team will have a good sense of what is involved with overall plan execution. This is when timelines should be established. Not every initiative should begin immediately. Some will be delayed because they are dependent on other initiatives being completed. Others will not be considered top priority. Still others will be considered too expensive / not worth the investment at present. The leadership team will need to sort through these issues and determine when is the best time to begin execution for each initiative.

Conclusion

This three-part series has examined how to link processes and strategy, use process and other data to conduct a strategic assessment, and how to take the data from the assessment and develop a strategic plan. What’s next? Orion recommends using some type of strategic measurement system (such as the Balanced Scorecard) to monitor plan progress. One of the most common problems with strategic planning is lack of execution, and a scorecard can make sure management keeps strategic issues in front of them over the course of time. We also recommend dedicating specific time to the execution of initiatives. It is all too easy in today’s busy world to create a plan and let it gather dust until the following plan is created. And then the quality reading you’ve done would be all for naught!