ASP BOK 2.0

Guide to the Strategic Planning and Strategic Management Body of Knowledge
Second Edition
I. **Strategy Measures (Leading and Lagging)**

Implementing a strategic plan often results in a gap between the strategies as they come down from the top of the organization and the level of employee perception of how their daily activities contribute to achieving the vision. The fact that the strategic plan is by its nature a series of long-term goals and objectives while most managers are trained to gauge their progress using short-term actions often formulates the gap.

Short-term evaluation criteria are often focused exclusively on financial performance, which in turn focuses on managing physical and financial assets. Today’s competitive reward systems take into consideration this gap and increasingly reward those who best manage their intellectual assets or “brain trust.”

Actual implementation of an operating plan works most effectively when all levels of the leadership team work together to further translate overall goal statements by defining key performance indicators for each strategic objective included in the strategy map. Once the broader team can relate goals, strategies, and objectives to key performance indicators, a consensus starts to build. A real shared understanding of the challenge ahead begins to form. This consensus is further enhanced once specific targets are set for each indicator.

A more sensible approach to performance measurement is one that supplements traditional financial measures with benchmarks that measure performance from additional perspectives including the customer, internal operations, information technology, and people development views. These perspectives are too often neglected, and the strategy practitioners should take special efforts to ensure this balance.

Performance indicators should include a mix of leading and lagging indicators to provide a balanced portfolio of results to be analyzed. Leading indicators help teams forecast what is likely to occur in the future, whereas lagging indicators document what has actually occurred in the past. They should cover all major functions or dimensions of the organization, i.e., financial performance, customer satisfaction, operational and information technology, efficiency, and human resource growth and development.

Collecting and using key performance indicators to evaluate the soundness of the strategic direction is a necessity for well-run organizations in today’s tumultuous global economy. Strategy practitioners must work closely with their leadership team to agree upon the appropriate indicators and set realistic target or target ranges.

Helpful questions to consider when selecting performance indicators:

- Is the indicator valid?
- Is the indicator of value?
- How difficult will it be to track the indicator?
- Does the indicator send the correct message to key stakeholders?
- Does the indicator hold the team to an appropriate level of accountability?
- Is there a blend of leading and lagging indicators?

To lay the groundwork for cascading the strategy and eventually evaluating and controlling the plan, performance indicators and targets or target ranges should be established for each performance indicator. A target or target range is the specific performance level the organization seeks for a particular indicator.

To establish a realistic target for a particular indicator, the following steps are recommended:
• Create a formula for calculating the indicator.

| A Variable is a quantity that may take on any set of values, e.g. Total number of customers served in one year. |

| A Baseline is the organization’s actual performance for the most recent reporting period. |

| A Benchmark is an external comparison point, e.g., an industry-wide statistic. |

• Identify the source of variable level information.
• Determine the baseline information on every variable included in the formula.
• (If available) identify external benchmark information.
• Specify the reporting frequency.
• Determine data collection and reporting responsibility.
• Approve acceptable targets or target ranges for each indicator.

All of the above are means of measurement. Often attributed to Peter Drucker, the famous quote “What gets measured gets done” emphasizes the importance of measuring the most important indicators of success. Strategy practitioners must work closely with their team to understand that performance measurement and management are integrated processes, not an event. Collecting, reporting, and visualizing performance information is the easy part; using performance information to continuously improve processes and systems is the hard part. Strategy practitioners have a leading role to play in this regard.

Measurement is the description of a property of an object, activity, process, or result that allows comparisons across items being compared or allows comparisons of the same item across time. Performance measurement is used to monitor the implementation and effectiveness of organization strategy, to determine the gap between actual and targeted levels of performance, and to determine operational and human performance efficiency and effectiveness.

Performance measures are developed in four major categories:

1. Input measures used to track items that are used in production or workflow processes
2. Process measures used to monitor quality and efficiency of processes
3. Output measures used to monitor what is produced
4. Outcome measures used to monitor what is actually accomplished

Performance measurement answers key questions:

1. How much work is the organization doing? output measures
2. How efficiently is the work being performed? efficiency measures
3. What benefits are being derived from the work? outcome measures (accomplishments)
4. How satisfied are customers with the organization’s products and services? outcome measures
5. How are resources being allocated? input measures
6. How well are initiatives, projects, and programs being managed? project management measures

The performance measurement process consists of five main phases:

1. Describe the desired outcome or objective.
2. Describe the most appropriate measure(s) or indicators that capture that outcome either directly (if possible) or indirectly (if necessary).
3. Describe the desired level of performance (targets and thresholds), engaging in benchmarking when appropriate.

4. Collect, evaluate, and report performance data

5. Transform performance data into performance information in easy to understand formats to everyone in the organization who needs it to better inform decision making, using benchmarking information to help drive continuous improvement.

When measuring programs, an additional measure category is sometimes useful for intermediate outcomes. Intermediate outcome measures are useful when an organization, e.g., a government agency, has partial responsibility for an outcome and contributes to a higher-level end outcome. Solving child hunger is an example. No one single agency is responsible for eliminating child hunger, and many government agencies have programs and responsibilities in this area. Each of the agencies would use intermediate outcomes to capture and monitor their contribution to the overall end outcome of ending child hunger.

There is a logical relationship among these different measure types. Using education as an example, the desired end outcome is to have a child educated and prepared to thrive in the world. An output that contributes to the desired outcome is completion of a prescribed course of study leading to graduation. Many processes are required to successfully have a child graduate from school—processes dealing with course curriculum, building safety and security, teacher education, and so on. And, finally, inputs are required to run efficient processes, such as budget resources, people resources, and information.

Examples of different types of measures that can be useful to an organization striving to improve performance and to become more strategy-focused include measures of quality, timeliness, economics (price or cost), effectiveness, efficiency, completeness, satisfaction, governance, and compliance. Another important consideration in performance measurement is the concept of leading and lagging performance measures. Leading measures give the team some idea of what is “likely” to happen in the future. Lagging measures inform the team on what actually happened in the past.

Developing meaningful performance measures begins with an understanding of the processes that are produced to produce desired outcomes. These outcomes are usually measured from the point of view of internal and external customers, and processes are measured from the point of view of the process owners and the activities needed to meet customer requirements. Relationships among the preferred outcomes and the processes needed to get the outcomes must be fully comprehended before meaningful performance measures can be developed and accountability defined.

Developing meaningful performance measures and the predictable levels of performance goals is hard work; the development process is filled with challenges. One drawback is the tendency to rush to pinpoint many measures, limiting the value of the measures generated. Also the burden of data collection and reporting can rapidly become overwhelming.

Another pitfall is the tendency to rush to judgment – not thinking deeply about what measures are important and why. This happens usually in response to pressure from a supervisor who then creates a “sense of urgency” to develop a final set of performance measures (“I need measures...get me measures!”). It is important to remember that performance measures are a means to an end, not the end themselves.

The role of strategy practitioners in performance measurement includes:

- Provide advice on performance measurement development, target setting, data quality, and data transformation into information and, ultimately, into business intelligence.
• Visualization of performance information and teaching employees how to use performance measurement information and business intelligence to improve decision making.
• Evaluating efficiency and effectiveness in the performance measurement process

J. Strategic Initiatives (Program Selection)

With performance measures and targets for the upcoming reporting in place, a leadership team will move on to identifying where specifically to invest resources to achieve a particular objective.

Within the scope of strategic management, the terms initiatives, programs and projects refer to the means by which a strategy is carried out to achieve a particular objective and ultimately achieve an overall goal. For each objective the leadership team must clearly define what proactive efforts it will take to achieve the targets that have been set for each objective. Careful attention must be given to matching up available resources and responsibilities required to execute the strategic plan. Strategy practitioners must pay particular attention to availability and sequencing of resources.

Sample initiative screening criteria:

• Consistent with the perceptions of the leadership team
• Operationally and financially feasible
• Requires significant “cross-functional” support.
• Contributes in a significant way to the achievement of more than one strategic objective

K. Performance Reporting Information Systems

From the outset of the strategy formulation process, strategy practitioners must work to develop and refine a functional and efficient data management and information reporting system. Special efforts should be placed on optimizing this process, as the leadership team will need timely information to manage (i.e., monitor, evaluate, and refine) the ongoing development and execution of their strategy.

Additionally, leadership teams will require timely information (and often strategic intelligence) in order to lead through disruptive change, which can occur at any time and place.

The design, development, and implementation of a data management and information performance reporting system is a fundamental capability a strategy-aligned organization must possess.

L. The Strategic Plan Summary Statement

Writing a summary statement of the strategic plan provides a rationale and explanation of the strategic plan. It outlines the assumptions and key points of the plan for both the long and short term in an integrated overview that incorporates the thinking of the leadership team.

A summary statement of the strategic plan should include the assumptions, vision, mission, values, goals/results, strategies, critical success factors, strategic objectives, initiatives, performance indicators / targets, responsibilities, and a schedule. It should be limited to a few pages for ease of communication with key stakeholders. A more detailed document will likely be of value to the leadership team.

To facilitate buy-in from all key stakeholders it is recommended that the strategic plan be drafted by one of the strategy team members and then reviewed with key stakeholders and refined as necessary. Practicing the art of “active listening” is especially important when seeking refinements to the plan.