Unit 4 Planning for the Future

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Apply the best methods for creating, leading, and managing your own business
- ✓ Establish an organizational framework through operations, finance, and leadership
- ✓ Set up an effective and efficient system for hiring, retaining, and succession planning
- ✓ Start researching and designing your strategic plan
- ✓ Describe the essential elements of marketing, sales, and your company brand
- ✓ Apply financial and accounting terms correctly

Unit 4

Planning for the Future

Introduction to Strategic Planning
As a process, strategic planning describes how your company will create ongoing value for your stakeholders. Unlike a project, which has a defined beginning and end, the strategic plan is threaded through the organization and is part of the ongoing operation of the business. Strategic planning helps to take the high-level concepts described in your mission, vision, and values statements and have them brought to life by the activities and attitudes of every member of the organization.

Sometimes, we think that stakeholders are automatically our customers, but unless they are also shareholders, that's not really the case. Your customers are your customers, and they purchase the products or services that your company sells, but they may not have a stake in the company at all.

To help you figure out who your stakeholders are, consider these questions:

- Are there **investors** in your company? If so, those investors are stakeholders, and they want to get a return on their investment.
- Are you supported by **taxpayers** (through a government department perhaps, or a non-profit agency that is supported and paid for by government)? If so, taxpayers are stakeholders and they are represented by government ministries. Although they may not expect a monetary return on their investment (like a dividend), they will expect that their investment is protected and used appropriately.
- Are you a **non-profit** or **not-for-profit** company? If so, members of the board of directors are stakeholders, and trustees can be as well.
- Are you a part of a **privately held and managed company**? If so, the owner(s) are the stakeholders. They want a profit so they get a return on their investments (which may include money and time).

It's **essential** that you agree on who the stakeholders are before proceeding with strategic planning.

Strategic planning has to be a **balanced approach** in order to properly represent what is actually achievable. You need to be very aware that some of these areas might be competing for resources and attention, which can create some big challenges in the planning process. People responsible for the strategic planning sessions need to create an open, balanced forum for discussion where all areas are heard and represented within the plan. Failure to do this properly and well means that you won't get the support for the strategic plan when it is ready to be launched.

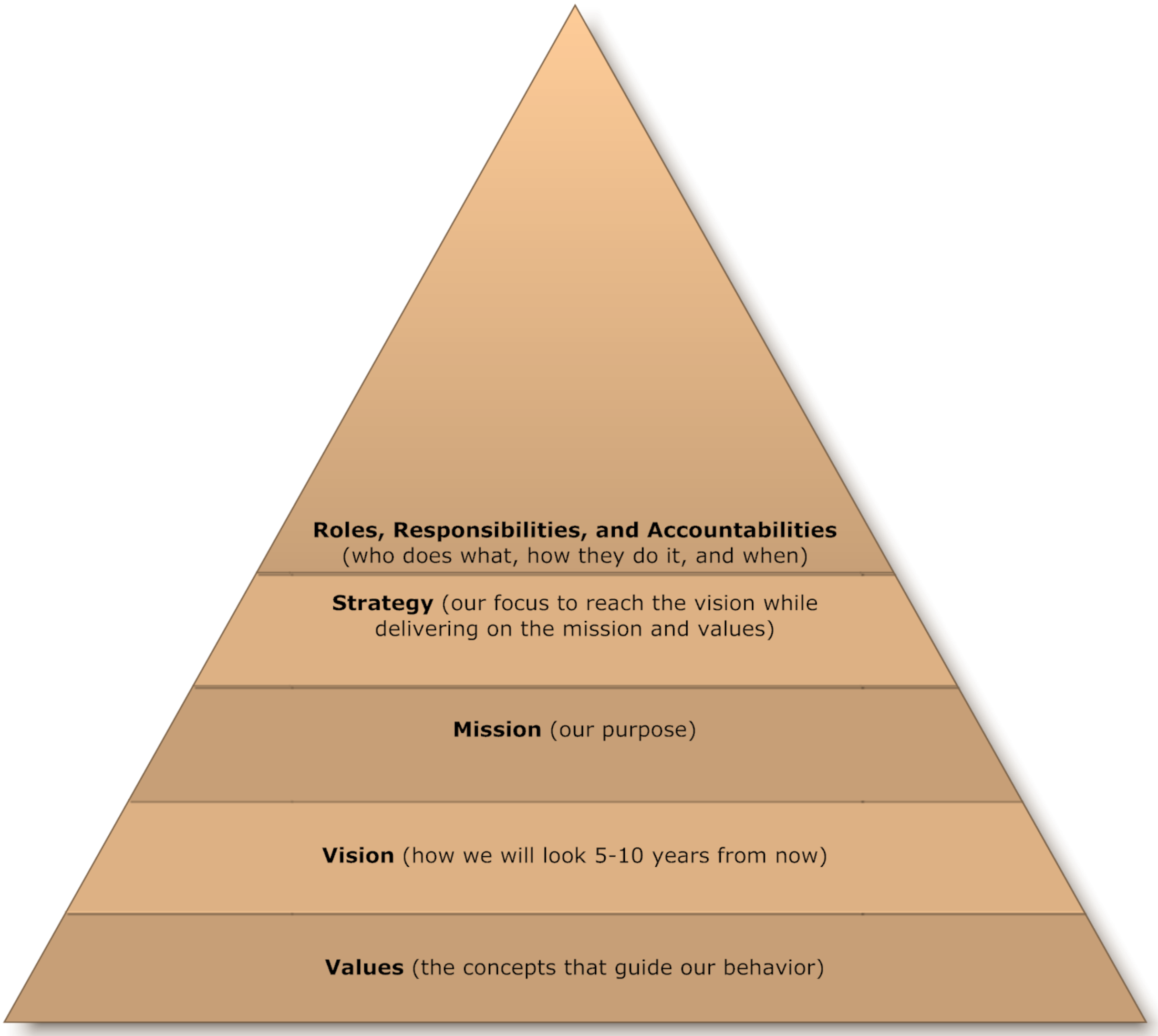
Your strategic plan will define **four or five key areas of focus** for the duration of the plan. These key areas will be used to achieve the mission while reflecting the company's values and vision.

In addition to creating a strategic plan for the company, **individual departments** may create a plan to complement the organizational one, and are structured in a similar way. In larger organizations, it is not uncommon to see that the areas of human resources, customer service, sales, marketing, and others may all have a strategic plan that reflects the company plan.

Test your Knowledge
What areas of competition can you identify within your organization?

What can you do to assist in creating a broader understanding of all the areas and how they are tied together?

The Strategic Plan Pyramid
In order to look at all areas of strategic planning, we'll use a pyramid process, which starts at the bottom and moves upward:



An important criterion of strategic planning is that it is **not a project**, nor does it stand alone from other programs in the company. Instead, it is the underpinning for everything that takes place. It demonstrates for people who conduct the work every day that what they do is connected to the purpose of the company. It helps to facilitate a shift from focusing on the high-level concepts of values, vision, and mission statements, to where the work is taking place.

Goal Setting and Goal Getting

Setting Achievable Goals

Identifying Outcomes

Before you start thinking about the specific goals you will set, you need to think about the outcomes you are after. These should be founded in the values, vision, and mission of the company.

For example, you might want to set a goal related to customer satisfaction. However, if lowest prices are also a goal, are you certain product quality and service will be such that all customers will also be satisfied? How are your goals influencing one another, and perhaps creating conflict?

Another consideration before moving into goal setting is the length of your sales cycle and the return of your customers. If you own a mortgage brokerage and people renew their mortgages every five years, do you need to ensure that you are getting referrals in order to fill up your sales pipeline? How will you incorporate that in your goals?

The Four Perspectives

Typically, your strategic plan (and therefore your goals) will focus on four perspectives, similar to strategy maps used in the balanced scorecard process.

Financial

What non-tangible investments do we need to make? What results do we want to see?

Customers

What does success mean to our customers?

Internal Processes

How will we achieve our financial and customer perspectives? Typically you will focus on four major areas:

- Operations management
- Customer management
- Innovation
- Regulatory and social

Employee Learning and Growth

What non-tangible investments do we need to make? Typically you will focus on three major areas:

- Human capital: What people do we need in place for success? What knowledge resources do we need?
- Information capital: What information sharing and technology resources need to be in place?
- Organizational capital: What cultural and leadership supports should be in place?

Customizing the Perspectives

These perspectives are only intended as a guideline. Various companies have also chosen to include perspectives on:

- Operational excellence (i.e. improving processes with Six Sigma or Lean methods)
- Cutting edge innovation

- Quality
- Suppliers
- Stakeholders

Timeline for Your Plan
When it comes to strategic planning and goal setting, there are different lengths of time to consider. Typically, a strategic plan looks at long term goals. In a flat organization (with few layers of management) the results can vary widely, but these plan lengths are common in many hierarchical organizations.

- 5-10 years: Owner/CEO/board
- 5 years: Vice president(s)
- 2-3 years: Directors
- 2 years: Managers
- 1 year: Supervisor
- 6-12 months: Front-line staff

Let’s take a closer look at what’s involved at each level. It’s up to the company leadership (owner, CEO, and/or board of directors) to first identify objectives that reflect the values, vision, and mission that match the duration of the strategic plan. (Five years is not unusual, and sometimes there are 10 year plans.) The leadership works with senior managers (typically vice presidents or directors, depending on how the company is structured) to set objectives that follow the direction. These objectives have a long term scope of up to three years. Next, the objectives get filtered through to directors and are based on shorter timeframes that fit the strategic plan, before they reach front line staff and their immediate supervisors, who typically work on goals for the upcoming 12 months.

Goals with SPIRIT
Once you know what the objectives are, and how far ahead you are looking, it’s time to create goal statements (also called objectives or targets). We recommend that you use a systematic approach to writing your goals to make them easy to remember, and to make sure they are captured completely. We recommend setting goals with SPIRIT, which means that they have the following elements.

Specific
Be specific about what you want or don’t want to achieve. The result should be tangible and measurable. “Sell more products” is ambiguous, but “Increase market share by 7% per year” is specific.

Prizes
Motivation is extremely important. There needs to be a system in place so that we take time to recognize, reinforce, and reward people who are participating in meeting benchmarks and overall objectives. Prizes don’t need to break the budget. Here are some ways that you can reward people:

- Acknowledge an individual or a team in a meeting
- Offer praise through a company newsletter

- Issue bonuses (monetary, points systems, etc.)
- Record successes in notes for annual performance reviews

For goals that are a long way off, set up rewards along the way to help keep people engaged.

Individual

Employees will respond to, and be motivated to work toward, goals that they can relate to. They need a way to relate to their goals on an individual basis. Establishing goals and tying them into performance objectives will put the big picture into terms that they can relate to. This also provides a way to share the big picture with them and let them know what direction the company is going in.

Review

Review progress periodically. Do the goals still make sense for the short and long term? Are people's activities a good demonstration of the strategic plan, or have they wandered off track and taken to pursuing their own personal goals? Are you measuring as you go and making adjustments, or is it more important to stay the course?

Inspiring

Frame the goal positively so that people relate to it strongly, even if the goal has a negative outcome to it. If the costs of your employee benefit plan are increasing, you'll find that cutting programs can demoralize a workplace. Instead, involve your employees and ask what they are willing to concede. You might be amazed at how innovative they are! Instead of having a goal like, "We must cut 15% of our employee benefit plan budget" try something like this: "Through a process of employee consultation, we will identify and implement savings of 15% to the employee benefit plan in the next 12 months."

Time-Bound

Give yourself a deadline for achieving the goal. If the goal is quite large, break it into smaller pieces and assign a deadline for each one.

Getting Into It

Create a goal statement that includes all the elements of SPIRIT.

Succession Planning 101

What is Succession Planning?
Whether you are building a small or large company, if you want to ensure continued success, you must take action for the future. You and your key staff have large shoes, and the future of the company relies on filling them well. A strong succession plan means that you have people in positions that can be ready to take on more responsibility with short notice. These are the same people you want in place so that you can plan for some vacation and restoration time!

Replacing vs. Succeeding
Succession plans were first used by family owned companies as a way to ensure that the business stayed in the family; it was common for the children to be "groomed" to take over the business. The process has evolved slightly as businesses acknowledged the intensive research and preparation required to replace CEOs and key members of the company.

Today, succession planning means that businesses complete developmental, support, and search activities to ensure that the organization continues effectively when people who occupy key roles leave or are promoted. There are different types of human resource planning that go on. Here are three of the most important pieces of any plan:

- **Succession planning** is an aspect of workforce planning that concentrates on key positions within the organization.
- **Workforce planning** involves all positions within the organization.
- **Replacement hiring** is a response to a vacancy; succession planning is a proactive process that addresses needs before they exist.

In other words, succession planning means that we are working long term, like we do when we invest our retirement savings. This is different than hiring in response to a vacancy.

Defining Succession Planning

The Definitions
As you read each of the points below, decide whether they fit what you already know about replacement hiring or succession planning. Then, write RH or SP as appropriate in the box next to the statement. Discuss each point with your group to determine any subtle differences, areas of overlap, or questions that may arise.

Description	**SP or RH?**
Quick answer to immediate need	

Description	SP or RH?
Long-term commitment	
Developing individuals	
Based on current job descriptions	
Based on new directions and expanded responsibilities to the job description	
Uses input from the incumbent and supervisor	
Uses input from multiple perspectives and resources	
May offer advancement within the organization as a reward or result of seniority	
Considers whether the right person is in the right role and merits advancement	
Addresses developmental needs of an individual to ensure success in current and future roles	
Is integrated with recruiting, training development, and diversity factors	
Must usually be done quickly and is not consistently coordinated with other human resources activities	
Can lead to finding the best person available at the moment	
Focuses on the best candidate for the position	

Managing Your Money

What is a Budget?

About Budgets
Running a business is not for the faint of heart or everyone would do it. A budget is a plan for what you plan to spend, and it must be taken seriously. If you establish a budget for a particular area, make sure you are not going to cut it three months from now, or you will upset business operations beyond your wildest nightmares.

Business owners will sometimes set a budget, run into a problem, and respond by cutting spending. If the budget was set up and people are conducting your business affairs with the money being spent (just as you would expect), and then you come back with a budget cut, there may be things in place that are very difficult for you to stop.

Instead, you must establish a realistic budget with some buffer space available to respond to crises that you cannot predict. You should also make sure that you are applying sound accounting practices, like those that we discussed in Session Five.

In addition to what you are learning about accounting and finance, we've got four rules for establishing your budget.

Test All Assumptions

Budgets are not just about numbers, they are about assumptions. When you set the budget, you are going to have managers who come back to you and want adjustments because things were missed, expenses are going up, and/or there were unexpected delays or cost overruns. In order to avoid these debates, it's important that your numbers can stand up to the assumptions that you made in establishing the budget.

How Was Last Year?

As a new business, this question is unfair, because you need to have time in business to know how much things will cost. Establishing a budget for a new business is part science and part shot in the dark, so you need to be sure that you have all the available information. Make sure you are able to gather the details you need, and if you have been in business for less than a year, be cautious as you plan for spending this year. Everyone will be asking for resources. Make sure you have them available and that you are not throwing all your hard earned money out the window.

How's The Marketplace Doing?

Budgets are created for internal use, but your business is heavily influenced by external forces. What happens when the economy takes a beating? Can you thrive through bad weather, an economic downturn, stiff competition, and transportation or labor disruptions? How will you do it?

What's It Costing?

Your accounting should be able to tell you the per unit cost of every product you sell. Remember to ensure that overhead costs (like mortgage, rent, and utilities) and departments that do not produce direct revenue (like IT, human resources, and training) are all worked into the numbers. Know how much you are spending, where you are spending it, and when.

Managing Your Budget

Keeping Things Straight

If you don't follow the budget, your people won't either. You've got to manage spending, and you need to come in at or slightly below the budget. Resist any urge to go even slightly over budget. Instead, consider what things you can economize on and which priorities can wait. Set an example of fiscal responsibility within the company. Always keep in mind that if you go over budget by 3% and so does everyone else with budget responsibilities, you are creating a deficit that has to be overcome by increasing sales.

Know Your Accruals

Cash is pretty easy to count, because it's either there or it isn't. The thing that gets new business owners into trouble are the accruals. If you pay cash for something, the amount is debited from your bank account. However, if you purchase something on a credit card or using a purchase order, you don't pay for it right away, even though you can use whatever you purchased. If you have several orders placed in one month but do not intend to pay the bill until next month (or in the next business year), you may be stunned by the accumulation of those costs, just like the hidden ice under an iceberg.

In **accrual accounting**, you count the money for credit card or deferred payments right away, so there is no delay in seeing what money is going to come out of your bank account.

Accruals on purchases counts the same way on your sales. **Cash accounting** will only show you received a payment when it arrives. Accrual accounting, however, will count the amount now even if delivery to the customer will take seven days and their check won't arrive for fourteen days after that.

Accrual accounting gives you an accurate picture of what is happening in the business, although it takes some adjusting to if you are used to cash accounting. There is also some discretion with accruals accounting as you debate whether something is considered "sold" at the time of the order or with delivery.

Getting it Right

There are challenges with both types of accounting. If, for example, revenues look short at the end of the year, managers may be inclined to report revenues and wait to recognize costs in the next year. This puts a slant on your reporting that will have to be fixed later anyway, so make sure that your auditing functions are clear and tight, no matter which method you use.

Further Reading: