Using Metrics in Your Strategic Plan

Is strategic planning valuable? Well, it all depends...

There is controversy in the management literature and certainly among users as to whether strategic planning really delivers on its promises and adds value to organizations. In our experience, *it all depends*.

There are lots of variables here; how well you assess your strategic or competitive environment, how widespread and honest the input is on internal challenges preventing optimum performance, etc. All these have to do with the *content* of the plan itself.

Additionally, there are two keys dealing with the *use* of the plan, both of which can dramatically impact how much value your plan delivers. The first is how well you manage accountability for results in the plan. And the second, which is the focus of this paper, is sourced in measuring and monitoring the impact of the strategies you have committed to, i.e., metrics.

The essence of strategy

In strategic planning, leadership determines a goal(s) or target(s) for the planning period. The goal or target states *what* you intend to achieve (i.e., grow the business, add a new target market, reduce unit cost, etc.). The strategy states *how* you are going to reach the goal. Thus, the success and therefore value of your plan hangs on the quality of your strategy.

All strategies are based on a theory (def. an idea or hypothesis used to support a course of action). In other words, your strategy is based in the belief of the management team that if a certain course of action is taken, a given result (your target or goal) will occur. There may be several strategies available to achieve a goal or target. The work of leadership is to evaluate and select the best strategy from among the many.

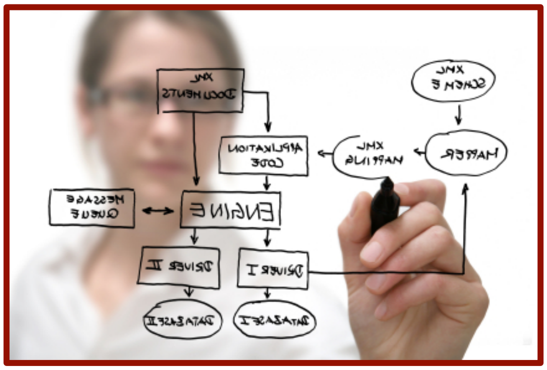
To illustrate, suppose an organization's goal is create a larger customer base. Leadership may investigate several different strategies to determine which they believe will give the best result: launch a new marketing campaign, expand their target markets, offer referral bonuses to existing customers, etc. There are many options. How do they know if the option or options they select are actually working, i.e., are increasing their customer base? Answer: metrics.

Strategies and metrics

All strategic plans set out goals or targets to be reached. Some are short-term, some are long-term, some contain both. Goals, when well-stated, clearly define what is to be accomplished by the end of the plan period.

For example, if the project involves a new building; the goal of the project at the end of the strategic planning period would be stated; something like: “financing in place”, “construction documents completed” or “building occupied”.

If you are actively monitoring progress on the plan as part of your accountability system, you will be aware relatively early on whether you will accomplish the goal on time or not. And, that's good. That is the first of the two keys mentioned above to be successful in the use of your strategic plan.



But, whether the work is done on time or not, the question remains, was this the right strategy? Did we reach our goal? In completing all the work of a project, or the strategic plan as a whole, you need to answer whether the work *added value to the organization*. You need to assess the impact of the accomplishment. You may have estimated the value when you considered whether or not to undertake a project, but to *know* its value, you must measure it.

A metric measures the actual impact of the strategy you have selected, the impact of a project. If you entered a new market, did you secure customers? If you altered your employee compensation plan, did it improve the number of applicants for positions, reduce turnover or improve morale?

The use of metrics

Like many of the innovations in our products, the use of metrics in our Vision Navigation® strategic planning system came from experience years ago with several of our clients. I will cite one example to make the point:

> We began work with a $30M organization that used part of its profits to improve educational accomplishment among residents of a given region and their descendants. Their theory was that the high university drop out rate for students from the region was the result of cross-cultural shock when moving from their rural homes to the state university in an urban setting. Their strategy was to invest a large sum in the construction and operation of a culturally-relevant dorm on the campus manned by elders from the region. They had invested in this strategy for ten years before we were employed to aid them in strategic planning. We asked how the strategy was working, what had been the impact on drop-out rates. They did not know. We urged them to gather the data and evaluate the strategy. What they found was that there was still not a single graduate over the ten-year period. Had they collected the data earlier, they could have modified the strategy or

abandoned it all together and invested in a shareholder benefit that added more value and achieved their stated goal.

We came upon a number of similar situations across clients of all types and determined that defining metrics to measure the effectiveness of chosen strategies early on was key to developing a strategic planning system that consistently added value.

W. Edwards Deming, the father of continuous quality improvement, said there are only two mistakes you can make; taking action when you shouldn't and not taking action when you should. The use of metrics will tell you when to get off a strategy and when to commit more resources to a strategy that is clearly working.

What constitutes an effective metric

So then, how do you develop effective metrics? In our experience, there are several steps in developing the metric(s) for a given strategy. They include:

- Clearly and specifically define the goal you are trying to accomplish or the problem you are trying to solve with your chosen strategy. This is the "why" behind your taking on the project. Whatever data told you to take on the project is most likely the data you should use to measure whether the strategy is working. Was it lack of applicants for job openings? Was it employee turnover? Was it slumping sales? Was it rising market share of a competitor? Continue measuring that over the course of implementing your strategy to identify the strategy's effectiveness.
- Isolate out other variables that could be impacting the change in performance. Are you measuring only the impact of the course of action you have chosen or could other factors be contributing to a change in your data? For example, suppose your goal is to improve employee morale and your chosen strategy is to change the employee compensation system. As you measure employee morale, make sure you have isolated out compensation as the factor you are measuring as opposed to the impact of, say, a new training program or a change in management practice.
- What is your theory in selecting the strategy? Remember, theory explains what you believe will occur as you implement your strategy. Theory is an "if................, then..........because.......” statement. Somewhere in that statement lies what you should be measuring to test your theory. Consider our education example above. The organization could have written a statement: “If we build a culturally sensitive dorm on-campus, then our students will stay in school because we will have decreased their culture shock.” The measure? The drop-out rate. If it isn't changing, then the organization

either has the right theory (culture shock), but wrong strategy (cultural dorm), or the wrong theory altogether (culture shock is not the cause of the drop out rate). If your theory is right, but strategy is wrong, the project won't add value. If your theory is wrong, your strategy will be wrong altogether.

- Gather baseline data. A solid baseline is essential to determine the effectiveness of your strategy. Without a baseline, you have too little information to determine the effectiveness of your plan.
- Display your metrics data in a run chart that strings together the monthly data points and shows you trends. A single point of change in the data, trending upward or downward, should prompt the question, do we know why? If may well be too early to answer at that point. With two data points trending in the same direction, you should press harder to understand why. Three successive data points trending the same direction should prompt serious consideration of increasing the investment in the strategy (for a favorable trend) or abandoning or modifying the strategy (an unfavorable trend).

Caveats to metrics

As critical as metrics are, there are some situations where they simply don't make sense. In these cases, don't abandon your strategy, rather understand that metrics are not always viable, and you will need to look for other concrete methods to assess the value of your project. These cases include:

- When data is not available or the numbers are too small to measure on a monthly basis. Why monthly? Because if the strategy isn't working, you want to know it as early as possible so you can modify it or abandon it. There are certainly needs in an organization for measures with data taken less frequently, a yearly customer or employee survey, for example. However, to assess the effectiveness of a chosen strategy and be able to move quickly to correct, an organization needs more timely and frequent data.

- When the metric is not cost-effective. The impact of some strategies may be measureable, but the cost to obtain the needed data is too high compared to the potential return from the project. When that is the case, the metric is simply not cost-effective and should not be pursued. For example, when the cost in employee time to isolate and gather data, and produce a metric is cost prohibitive.

- When a metric simply does not make sense. An example of this is a project to develop a business plan for entering a new market. Though it is a valid and valuable project, you can't measure the effectiveness or impact of developing a business plan.

How to move forward

As part of leadership, you are a steward of the assets and the future of your organization. It is important to measure the impact of the strategies you choose to grow or improve the company. Do this by adding metrics to your planning process.

For your next steps, identify potential metrics for the projects in your strategic plan, including a definition of how you will gather and display the data. When you examine the progress on the plan, you should also examine the trend line of your metrics to tell you the effectiveness of your projects.

We would be happy to discuss any questions you have and to help you develop or design measures for your strategic projects. If you would like to have a no-cost conversation on applying metrics to your strategic plan, contact us at (877) 276-4414 or e-mail us at info@professionalgrowthsystems.com

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