CFMA CONSTRUCTION FINANCIAL MANAGEMENT ASSOCIATION

DEVELOPING A LONG-TERM PLAN

By Preston Ingalls

Former U.S. First Lady Eleanor Roosevelt once said, "It takes just as much energy to wish as it does to plan." Of course, wishing doesn't net results, but be careful because strategic planning always will. In our industry, what exactly does it mean to plan? Some helpful tips in this piece will ensure your business or organization's continued growth.

The lack of a long-range plan can be a major weakness for any business. Once your business has set its short- and long-term goals, business planning can involve any number of actions, including deducting and balancing approaches, making decisions, setting a destination (or direction), and action planning. Without that crucial planning, you are setting your business up for failure. Perilous as it sounds, it happens all too often. In fact, one manager even told me once, "Hey…we just bid and pray."

When it comes to responding to competitors, it isn't enough to outmaneuver them. You must out-think the competition in ways both large and small to develop a distinctive, unique point of view about the future to help your organization get there before anyone else does. Today, innovation in the business world happens at a pace once unimaginable. Did you know that if you would have purchased the computing power found in today's iPhone in 1991, it would have cost you $3.5 million? Yes, the world is changing and adapting to innovations that quickly.

In running a business, there are many factors that all require planning, including:

- *Succession planning* is crucial to the continued solvency of a company's leadership and operations.
- *Product and services expansion*. Offering new and exciting innovations that will help your business attract new customers and retain the longtime ones.
- *Strategic responses to competition* must be planned well and executed with confidence.
- *Personnel development*. Empower your employees by ensuring that they have access to the resources that will help them grow both personally and professionally.
- *Technology implementation.* Keep up to date with the latest technological innovations, which themselves are changing even faster than our own business plans.

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- *Costs and margin improvements.* Always use your company's funds to look ahead to its future (within reason and within your means, of course).
- *Leveraging strengths while addressing weaknesses.* Be ready to shift employees and resources within your organization to places where they can be best utilized.

Strategic planning involves stepping back from your day-to-day operations and asking, "Where should my business be headed?" and, "What should my priorities be?" The Balanced Scorecard (BSC) is a strategy performance management tool used by managers to keep track of staff accomplishment activities. This benefits our business because it focuses our efforts in a laser-sharp manner.

THE BALANCED SCORECARD (BSC)

The BSC was developed in the early 1990s by Drs. David Norton and Robert Kaplan of Harvard Business School. In naming the system "The Balanced Scorecard," the focus evolved from attention on the design of the BSC to the use of BSC as a focal point within a more comprehensive strategic management system within less than a decade.

The BSC isn't a mere measurement system; it stands as an entire management system. The BSC can be called truly transformative in this way, meaning organizations can not only explain their vision and strategy but also ensure that those ideas become actions, such as a series of actions and initiatives. The BSC does this by providing feedback around both the internal business processes and external outcomes. With this feedback from all sides considered, a company is constantly able to improve its strategic performance and its results.

If used correctly, your business will see its strategic planning undergo major change. The BSC makes a successful transformation from the theoretical realm (such as an activity) to actions, control points, and metrics that are easily measured. You should see the successful marriage of the qualitative becoming the quantitative.

Kaplan and Norton describe its innovation as follows:

"The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success."

Still more must be done, the authors add; in other words, addressing a company's financial measures simply isn't enough. In the Digital Age, companies must look to the future and plan for investment and change in a variety of fields. Kaplan and Norton continue:

"These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."

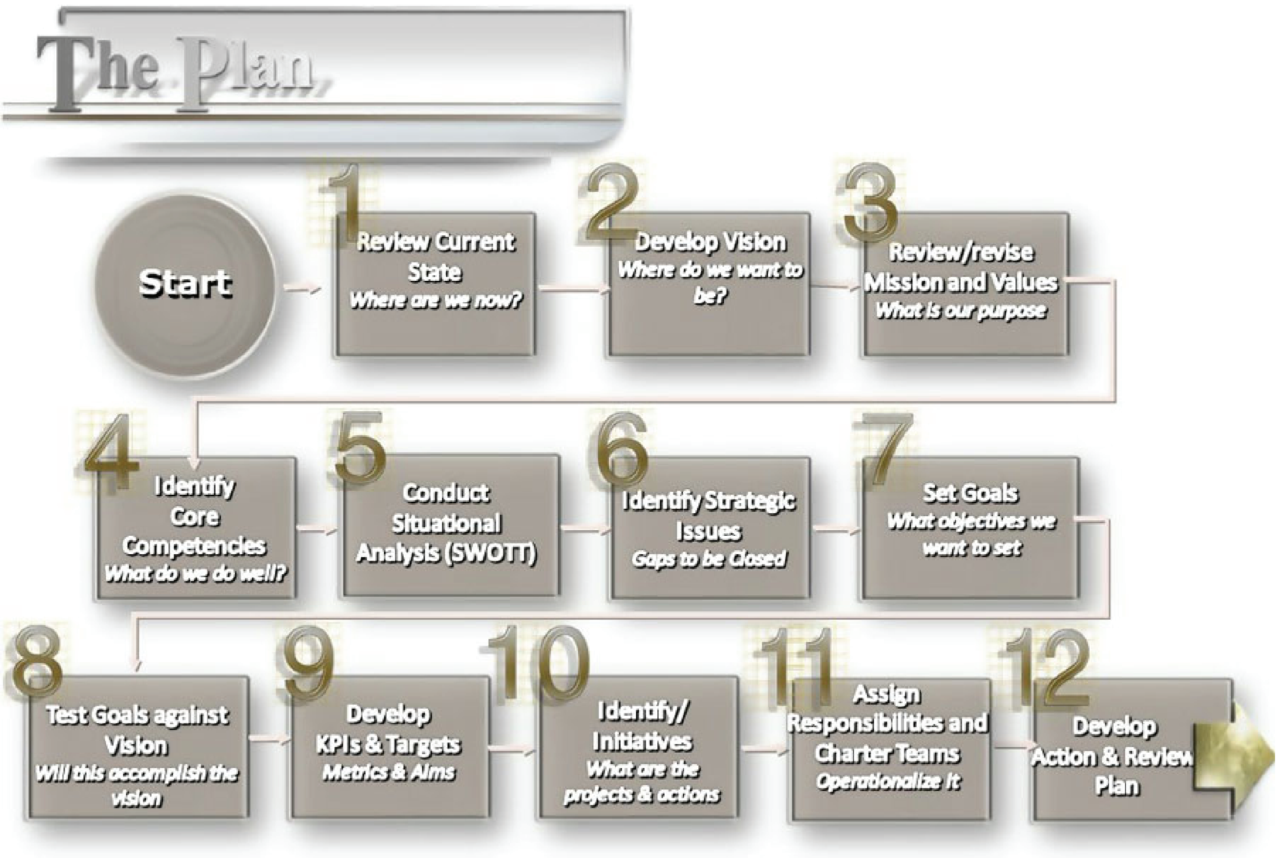
The traditional BSC undergoes a detailed, three-step process. First, it views the organization from four perspectives, which are listed below. It then facilitates development of goals, metrics, and data collection. Finally, it analyzes these relative to each of the following perspectives:

- Learning and Growth Perspective
- Internal Business Perspective
- Customer Perspective
- Financial Perspective

Kaplan and Norton do not disregard the traditional need for financial data because traditionally, more than enough focus has been placed on it. Instead, the current emphasis on the financials leads to the "unbalanced" situation with regard to other perspectives.

Ultimately, the BSC's emphasis moved away from crafting a strategy and shifted to the dual emphases of execution and control of a strategy. As a user of the BSC as a strategic planning tool for nearly 20 years, I, like many others, found the effort provides too much emphasis on balancing the individual perspectives as a distraction. Instead of the continuation of a rigid adherence to the BSC, I designed my own step-by-step process to develop a tactical plan that could be Measured & Monitored. The inclusion of and focus on hard data has proven to be a wise decision. The objective was to develop a strategic plan but, more importantly to operationalize it.

I call the model the 12-Step Plan, or The Plan. It can be used for planning for businesses, organizations, divisions, or departments. It allows the Master Plan to orient the organization toward a course of action.



PRELIMINARY WORK

Business planning requires plenty of information gathering, including surveying customers and users. Other homework critical to the planning phase will inevitably include market analysis and projections (for certain planning), competitive analysis, results of Critical Incidents, and more. You've likely heard of a planning tool called Scenario Planning as well. Developed by the Rand Corp. for the military, it has proven itself time and again to be among the most effective planning tools in a variety of industries, allowing leaders and employees to plan for any number of potential problems.

GETTING STARTED WITH THE PLAN

Traditionally, best practice has shown that the creation of an effective plan requires a multiple-day planning retreat of senior leadership. The retreat needs to be done off-site to avoid distractions. Participants should put the present aside for a while and instead work on the future in a setting that will offer no distractions.

Step One

The first step in the journey is to assess where you are currently; thus, all that needs to be done here is to brainstorm and have an organic conversation. This will be an ideal way to engage your group and kick things off on a creative note.

Step Two

Next, create a vision of where you want to go. If a current vision is available, reassess its value and purpose while paring it down to its essence for easy recall by participants. In a few inspiring words, the group creates a future state describing a successful business (department or division). Ask your participants to be open, creative, and bold in their thinking. Conducting a Visioning Exercise helps to plant the seeds for this important launch – here, you describe an organization that has undergone a successful journey with little staff turnover and an organization where others would love to work. Then, determine what words best describe that state (in a future tense). *Again, your focus here should be on the future, not the present.*

GETTING STARTED WITH THE PLAN CONT'D

It might be necessary to tap into examples from previous sessions to spark ideas from within your group of participants. I always use others' examples to help give participants possible ideas as to what others have said, which works better than simply asking for ideas and expecting instant, usable responses. This part of the process takes a few hours but gives us a steerage device that helps create the banner we wish others to follow.

Step Three

Develop a mission statement or purpose statement for how we will make that vision happen. Here, a mission that is shorter and easier to process and remember is better and it will be more effective. This is our purpose or intent summed up in a few words or sentence(s) to explain why we are here based on core values, principles, and decision-making influences.

Step Four

Re-examine the Core Competencies to help determine the unique strengths we possess that are critical to our success and that are hard for other organizations to replicate. This will be important to focus on when "Leveraging Strengths" later in the strategic issues step.

Step Five

Conduct a SWOTT (Strengths, Weaknesses, Opportunities, Threats, and Trends) test, which is a fairly lengthy process involving re-examination of both hard data and opinions. The resources and documents to which you will refer here include customer surveys, Critical Incidents, market analysis, financial projections, and more. Use all of the facts, data, opinions, and assumptions at this point. Remember to address factors both internal and external to your organization. For instance, Strengths and Weaknesses are internal, while Opportunities and Threats are external. Trends are what we see as trending as far as technology, shifts in the marketplace, growth, increase in energy costs, legislation, recruiting trends, etc.

This part of the process, if done correctly, takes hours to do. However, the benefits are clear. It serves as the basis to identify gaps or potential deficiencies that need to be addressed as well as strengths that can act as a springboard. Mindmapping is a good visual tool to show relationships and connections.

GETTING STARTED WITH THE PLAN CONT'D

Step Six

Identify the strategic issues that need to be leveraged to move us toward the vision by using the Core Competency input along with key SWOTT elements. Exploiting capabilities will be a fundamental tool in the finished plan and Porter's Five Forces Model works well to examine competitive influences. As you might recall, this model draws from industrial organization economics to derive five forces that determine the competitive intensity and, therefore, the attractiveness (or lack of it) of an industry in terms of its profitability. It is another tool to help examine the strategic issues. It is important to not rush this step, as this is where the strategy is formulated.

Step Seven

This step involves setting goals to address the strategic issues identified in our previous step. This includes the development of an objective to address the issue or capitalize on a trend to help set solid plan objectives. This is an important step in which strategic issues become goals to achieve.

Step Eight

Providea period during which participants silently test each goal against the strategic issues and the vision by asking questions, including:

- Will this goal allow us to meet the long-term needs of our vision?
- Could not doing it slow our progress?
- Will enacting this goal capitalize on our core competencies and abilities?
- Are we overlooking something that should be an objective to get us to our vision?

This is a testing phase to ensure that you're choosing the right course of action through silent and then group discussion for revisions and modifications.

Step Nine

Identify Key Performance Indicators (KPIs) for each of the goals. This way individual targets and their due dates can be established, and both are made clear to employees. It is critical to have metrics to measure progress. Again, take your time with this step, as it is critical for the other steps to successfully be executed and measured for a check and balance.

Step Ten

This step involves identification of the actions or projects to be undertaken to achieve the goals. Though the initiatives can be individual, this is not usually the case. After all, teams ensure more and better quality ideas and engagement. This, in turn, leads to ownership of the end objectives, in which the entire team can take pride. What projects or processes will we refine or develop to address this goal? This is the tactical stage.

Step Eleven

Identifyand delegate specific responsibilities to make the plan actionable and operational. In this stage, you must assess the individual strengths and weaknesses of your individual team members and allocate responsibilities accordingly. I also prefer to assign a senior leadership individual to be a sponsor for each to ensure ultimate completion and success.

Step Twelve

This step ensures that there are names, responsibilities, KPIs, and targets for each goal. A dashboard can be set up to monitor and review progress. Periodic review meetings need to be scheduled as a standing meeting (vs. ad hoc or when convenient). Progress on each goal requires review and addressing any slippages with sponsors and team leaders held accountable for results and not just activity. Asking critical questions can keep the pressure on delivering results.

The following illustrates a typical plan with the desired results and targets shown. It doesn't show the initiatives that were developed to achieve the results. Each goal may have multiple initiatives or it may only have one.

Larry Bellows								
1	Increase EBITDA	• EBITDA	• EBITDA	'16=$6,949,637 '17=$7,320,000 '18=$7,900,000 '19=$8,400,000 '20 = $10,000,000	Larry	1/1/2016 - 12/31/2016	$2,900,000 Approximately	
2	Review & Develop Purchasing Strategy (policy and procedures)	• SOP	Developed committee Casey Howard, Trey and Kathy	6/1/2016	Larry	12/31/2016- 12/31/2016	Complete	
3	Improve Debt to Equity Ratio	• % Debt to Equity	• % Debt to Equity	'16= 1 to 1	Larry & Dave	1/1/2016 - 12/31/2016	1.7 to 1	
4	Decrease Unallocated Labor	• $ Labor	• $ Labor	'16=$750,000	Larry & Charlie	1/1/2016 - 12/31/2016	Increased	

CONCLUSION

Once you have successfully followed these steps, your business or organization will find itself in a prime position to embrace its future success and to be ready for any potential roadblocks along the way.

Former British Prime Minister Winston Churchill once said, “Plans are of little importance, but planning is essential.”If you want to build a better organization, build a better plan.

PRESTON INGALLS

PRESTON INGALLS, President/CEO of TBR Strategies, has led maintenance and reliability improvement efforts across 30 countries for Toyota, Royal Dutch Shell, Exxon, Occidental Petroleum, Hess, Mobil Chemical, Aera Energy, Skanska, Bayer, Baxter Healthcare, Lockheed Martin, Unilever, Monsanto, Pillsbury, Corning, and Texas Instruments. With over 46 years of experience, he consults extensively with heavy equipment fleets, with the heavy construction industry, and with the oil and gas industry in the areas of equipment uptime and cost reduction. He holds two undergraduate degrees in engineering and a master’s degree in Organizational Development. He is a contributing writer to seven trade publications and has written over eighty articles.

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