Pitfalls of Yearend Planning

By Harold Chapman

BUDGET SHOWDOWN

I am often entertained when I see annual operating plans with round numbers or the same reduction targets year after year. Many times the plans are fantasies rather than actual plans that will move the company closer to its business objectives. Since these plans are so loosely constructed, managers and directors fail to challenge the current condition. These leaders know corporate is going to reduce the budget by 20% anyway, so they add 20% fluff in the beginning which leads to The Showdown (also known as the budget review). At the end of this review, the managers leave thinking, "Well, it could have been worse," and the corporate managers think, "Well, we got an extra 20% out of those guys." In the end, there is incremental improvement to the business, at best. We see companies play this same game year after year. Now, we are all smart and know it isn't right, so how did we get here?

Many corporate plans have no link to the value added processes in our service centers or manufacturing plants. The center/plant knows what needs to be accomplished in order to make step improvements in the process. In many cases the corporate plan creates a distraction to the real problems facing the plant. In case this corporate distraction isn't enough, managers also dilute the process improvement focus by saying yes to every good idea that comes along. They get caught up in the whirlwind of activity and lose sight of the real goal of the business. Their strategy shifts from trying to win, to simply trying not to lose; just trying to survive another year. Does this sound familiar?

GOALS TO CONSIDER

As we develop strategic plans with our clients, we share four different types of goals:

- Critical goals- These goals must be met in order to stay in business or for management to keep their jobs.
- Necessary goals – These goals must be met in order to achieve the strategic improvement plan
- Maintenance goals - Activities and culture are in place. Simply keep a finger on the pulse and respond when necessary.
- Trivial goals- These goals do not drive anything important to the business. These goals are typically to satisfy an obscure VP somewhere in corporate and should not drive response or direction.

THE ONE THING

We also facilitate the following discussion with our clients: "What is the 'One Thing' that would transform us if we focused on it and had everyone aligned to making it happen?" If we can get

THE ONE THING continued...

the entire organization laser focused on this item, and accomplish it with excellence, we will have done more for the business than most of the other activities combined. Most companies, knowing that many of the ideas, initiatives, and targets are good ones, say yes and try to get them accomplished. However, we dilute our efforts as there are too many initiatives competing for resources (time, capital, effort, energy). We then get overwhelmed and allow the tyranny of the daily urgency to overtake our schedules. A key to success is to be able to successfully select the vital few initiatives in any organization.

MEASURES CREATED

Once we know what the “one thing” is that will transform our business, we need to create measures to help us know when we have achieved the result expected from taking it on. We will call the completion of the project the finish line. This finish line is a lagging measure. One example of a finish line metric that many of us can relate to is weight. There are many ways to lose weight. Some are better than others. Let’s say my boss tells me I need to lose ten pounds. I don’t know how I am going to lose ten pounds, so I wait until the last quarter, before review time, and I cut off my arm. Well, I lost ten pounds (some would argue it is only six pounds, since I don’t lift weights anymore), but how good is my golf game going to be? My boss then, seeing how well I performed at meeting my goal, challenges me to lose another ten pounds. Unfortunately, there goes my other arm. My golf game is really going to suffer now. A better way to accomplish the goal of losing ten pounds is to focus on the leading metrics of calories expended (exercise) and calories consumed (diet). Over time, I will develop healthy eating habits and become stronger. So instead of my golf game suffering from my weight loss, it benefits from the weight loss. This incorporates the key principles of “Long Term Thinking” and “Process Orientation.”

THE WINNING APPROACH

The first part of the above example is analogous to cutting cost to the point where one cuts into the capability of the company. We would be better suited to develop the habits of process improvement that results in cost savings while building the capabilities of the process and team. This increased discipline and capability will give us the strength to grow when sales increase. This approach is a winning approach, and we start thinking about how we can win versus how we can avoid loss. When we start winning, there is something special that happens. Everyone likes to win. When done correctly, LEAN is a growth strategy; not a cost cutting strategy.

KEEPING TRACK

Equally important to selecting the correct vital few initiatives and creating process oriented lead metrics is to ensure everyone knows the score. We play differently when we know there is a score board keeping track of our progress. We need to know immediately if we are winning or losing. When people know they are affecting a goal, they get involved and try to move the needle in the right direction. It is human nature; all we have to do is provide the mechanism. The end result is engagement of the team members in helping the company win. This engagement is something all managers long to have in their teams. When considering score boards, we have to keep in mind that

KEEPING TRACK continued…

there are different levels of score boards within the business. For example, at the top level the score board looks different than the score board in order entry processing. However, every area has a score board. The key is to link the lead measures (calorie counting and exercising) to the lagging measure (weight loss) that is being monitored in the corner office.

KEY GAPS

We at Drive Inc. have years of experience working with teams in many different industries to set solid strategy that changes the landscape of the business. In our experience we have seen the following to be the key gaps when execution is not where it should be:

- Taking on too many initiatives for the resources available
- Neglecting to remove distracting or directionally incorrect initiatives from the project list
- Saying yes to too many good ideas
- Lacking time to work on the strategic items
- Allowing the daily urgency to win
- Allowing lagging measures to drive decisions
- Failing to make the score visible
- Failing to Manage Daily Improvement (MDI)
- Failing to create accountability
- Not implementing leader standard work and/or deserting the checking of strategic items

Does your management team have a strategic improvement plan around which everyone in the organization is rallied? How do you check on progress to the strategic improvement plan? How often? How often do you check on the whirlwind and adjust what is on everyone's plate? What is keeping you from being fully successful with strategic initiatives as planned? If you aren't meeting the plan, do you ask, "What should the team do differently?"

LET US HELP

If you are struggling with answering these questions, we would love to work with your team to develop a strategic plan that drives solid results to the company's bottom line. For a no-obligation introduction meeting, please contact Paul Eakle at paul.eakle@driveinc.com or 865-323-3491.