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Transforming Organizations

Strategic Planning

An Overview for Complying with GPRA, (P.L. 103-62)[1]

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Introduction

Sandwiched between the President's budget and the Vice President's Reinventing Government report in the summer of 1993, Congress passed the Government Performance and Results Act of 1993 (GPRA, P.L. 103-62). GPRA, also known as S.20, or the Roth Bill, after its primary author, Senator William V. Roth, Jr. (R-Del.), creates standard planning and performance reporting processes in federal agencies. But its impact could reach much farther. Potentially, GPRA may:

- Change the way federal agencies--and their budgets--are managed,
- Change agency appropriation patterns,
- Make planning drive the budget process, or even
- Make qualitative changes in the way Congress oversees agencies.

The bill will require all federal agencies to write a strategic plan by September 30, 1997, an annual performance plan for fiscal year 1999, and a performance report by March 31, 2000. Complying agencies may request waivers releasing them from administrative procedures limiting staffing levels, salary and bonuses, and funding transfers among most operating expense categories. Agencies must tie waiver requests specifically to achieving a performance goal.

The bill also authorizes three pilot test programs. One pilot program will test the bill's planning and performance reporting provisions only; a second pilot will test the administrative procedures waivers; the third pilot program will test "performance budgeting," which links varying levels of outcomes to different levels of budget outlays.

The purpose of this article is to increase readers' understanding of public sector strategic planning processes; later articles will provide more detail on specific strategic planning techniques. This article will define strategic planning and its key elements through a standard strategic planning model, discuss its benefits, and show how public sector strategic planning differs from private sector planning.

Strategic Planning Model Overview

Strategic planning is a continuous and systematic process where people make decisions about intended future outcomes, how outcomes are to be accomplished, and how success is measured and evaluated.

Many models for strategic planning exist, but most are not much different from each other. Various practitioners may use different vocabularies, though, so conceptually similar models may appear to be very diverse. This article will use clusters of words to describe the concepts, to avoid dependence on specific, technical terms.

Every strategic planning model should contain at least six basic elements: mission, needs assessment, strategic objectives, outcome measures, strategies and performance feed-forward. Our model adds two more elements--plan-to-plan and strategic priorities--and expands on the components in the mission statement element.

Figure 1. shows how these elements relate to each other. In Figure 1., arrows indicate the general sequence of the elements, but planners find themselves backing up to re-examine an element they had already drafted. Thus, the steps are iterative, and truly a "continuous process."

Figure 1. Strategic Planning Cycle

A brief description of each element follows:

Plan-to-Plan (Learn more!)

The *plan-to-plan* is the first step in the strategic planning process. It is a project plan that describes how the organization will develop its strategic plan. The plan-to-plan serves six major functions:

- To emphasize top management's commitment to strategic planning as a way to improve performance, eliminate duplication of services, and coordinate programs and activities. Effective strategic planning processes involve both top-down and bottom-up inputs; therefore, top management commitment to the process is essential to success.
- To set the planning horizon. GPRA requires strategic plans to look at least five years into the future. Many agencies will recognize more distant horizons, particularly for programs affected by demographic trends (for example, the Department of Veterans Affairs), or

requiring long technology development and procurement cycles (for example, the Federal Aviation Administration). Many public sector organizations tie their planning horizon to terms of elected policy-makers.

- To outline the major steps, or tasks, in the strategic planning process.
- To list the people who will be involved in each step of the process, making sure all the right people are involved.
- To set the sequence and timetable of the events in the strategic planning process, showing people how they can use the process to influence strategic decisions.
- To identify barriers to the strategic planning process, and list ways to overcome those barriers.

Mission, Goals and Values

The mission, goals and values element contains the broadest possible description of the organization's vision of its future. This element deals with all the philosophical aspects of the agency's management. The GPRA requires, "a comprehensive mission statement covering the major functions and operations of the agency...."

The *mission statement* describes the organization's purposes, or the changes in the world the organization intends to effect. The mission statement focuses externally; it shows the ultimate ends or impacts of the organization's activities, in terms of the activities' effects on clientele, or customers.

Goals describe the general results, or outcomes, the organization intends to achieve. The GPRA refers to "general goals...including outcome-related goals..., for the major functions and operations of the agency..." More specific than a mission statement, goals also focus externally, showing the organization's impact on its customers. Agencies may never achieve many of their goals, but the goals are still useful because they indicate the direction in which the organization intends to make progress. For example, a goal may be, "To eliminate accidents." While the organization may not achieve this goal during the planning horizon, the goal tells everyone that the agency intends to move in a direction toward the reduction--and ultimate elimination--of accidents.

Goals are frequently measurable, but usually not measured. For example, a goal may be, "To increase the number of people treated for drug dependency." This goal is measurable (number of people treated), but it is not measured, because it does not specify an actual target number of people to be treated.

Values describe other things that are important to an organization, in addition to its external accomplishments. For example, an organization may decide that work force diversity is an important value it wants to express. This organization may choose to write a value statement that emphasizes diversity in personnel decisions (hiring, promotions, assignments, *etc.*) while it moves along toward achieving its goals.

Some organizations find other philosophical components useful in their strategic plans. These other components may include a vision statement describing a future that management envisions, a philosophy statement describing the underlying philosophy that governs the organization, or a statement of management commitments describing the promises management may make to its customers, employees or other stakeholders.

External Needs Assessment

External needs assessment is an appraisal of the key outside forces that influence the success an agency will have in achieving its mission and goals. These external forces may pose an opportunity or a threat to the organization, such as changes in economic conditions, population, technology, environment, or statutes. Some planners call this element an "environmental scan." The GPRA refers to, "...key factors external to the agency and beyond its control that could significantly affect the achievement of the general goals and objectives...."

One way to begin an external needs assessment is: first, list the organization's customers; second, identify the customers' concerns; third, analyze the trends affecting customers' concerns.

Some planners also conduct an *internal* needs assessment, analyzing the organization's strengths and weaknesses. Others delay the internal needs assessment until they get to the tactical or operational planning levels, where internal concerns are more relevant.

Strategic Objectives

Strategic objectives are written statements that describe an intended outcome. Strategic objectives clearly describe measurable targets of achievement. The GPRA requires, "general...objectives, including outcome-related...objectives, for the major functions and operations of the agency...."

Managers must write their objectives down on paper. In many cases, "clear writing causes clear thinking." Only by going through the discipline of writing down strategic objectives can managers be certain they know exactly what their strategic objectives are.

Strategic objectives have six primary characteristics:

- Like mission and goal statements, strategic objectives focus externally: they describe the results, or outcomes, or effects of the organization's activities on its customers. This characteristic--*external focus*--is the key point that distinguishes the strategic perspective from the tactical or operational view.
- Strategic objectives are measurable, clearly describing the minimum acceptable level of performance.
- Good strategic objectives are achievable; they will challenge the organization to achieve new heights, but will not set up the organization for failure.
- Well-written strategic objectives are clear: even people who are not familiar with the organization will be able to understand the intended effects of the activity, just by reading its strategic objectives.
- The set of strategic objectives is comprehensive, describing the intended outcomes of every function the organization performs.
- Strategic objectives also contribute to advancing the organization in the direction indicated by the mission, goal and value statements.

Outcome Measures

An *outcome measure* is a yardstick, or standard used to measure success in achieving a strategic objective. It measures how well an organization is doing. An outcome measure is a tool, or indicator, to assess the actual impact of the organization's activities. An outcome measure is one type of performance measure.

Every strategic objective has an accompanying outcome measure, and the outcome measure is expressed in terms identical to the strategic objective it measures. For example, if an organization's strategic objective is, "To reduce the number of accidents by 15 percent from 1993 levels," then the outcome measure will be: "Percentage reduction in the number of accidents from 1993 levels."

The outcome measure describes the precise measurement that will generate a quantitative (or qualitative) indicator that is comparable to the performance target in the strategic objective. By comparing the number generated by the outcome measure to the performance target in the strategic objective, management may state clearly whether or not the organization achieved its strategic objective. Because performance measures derive directly from strategic objectives, their usefulness depends on the quality of the strategic objectives. To the degree that the strategic objectives describe true outcomes, the related performance measures will describe effectiveness. To the degree that they describe products, or activity outputs, the related performance measures will describe efficiency.

Strategic Priorities

Strategic priorities rank each strategic objective in terms of the relative importance to the organization. Setting strategic priorities is a management decision. Frequently, a group of managers, acting as a board or an executive management committee, participates in the ranking process. Ranking the strategic objectives as part of the strategic planning cycle is valuable, because these priorities will guide later budget decisions.

Strategies

Perhaps strategic planners use and define no other word in so many different ways as "strategies." Here, a *strategy* is an approach, or an implementation methodology, that will lead to achieving a strategic objective. The GPRA requires, "a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and technology, and the human, capital, information, and other resources required to meet those goals and objectives."

Most people could think of several alternative ways to achieve almost any strategic objective. For example, if a strategic objective is, "To reduce the number of accidents by 15 percent from 1993 levels," then different approaches to achieving this objective might include: raising regulatory licensing standards, expanding training and education, or increasing enforcement penalties.

In the strategies step, planners identify all the alternative approaches, rate them in terms of their estimated cost-effectiveness in achieving a strategic objective, and select a set of strategies that will best achieve the level of performance specified in the strategic objective.

Identifying and evaluating alternative strategies will set the basis for the tactical planning cycle that follows, where the organization describes *how* it intends to achieve the strategic objectives. GPRA calls tactical plans "performance plans." It requires agencies to link their strategic and performance plans by including in their strategic plan, "a description of how the performance goals included in the plan required by section 1115(a) of title 31 [Performance plans] shall be related to the general goals and objectives in the strategic plan."

Performance Feed Forward

Performance feed forward is a systematic procedure for comparing actual performance to planned performance, and for using that information in subsequent planning cycles. Other terms frequently used to describe the same thing include program evaluation, management evaluation and management audit. The GPRA requires strategic plans to contain, "a description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program evaluations."

The purpose of this element is to *feed* information about program performance *forward* to assess needs more accurately and to improve outcomes in the future. This step will yield information about which strategies proved effective and which strategies didn't work. If managers change their approaches to achieving strategic objectives based on this information, program performance will improve.

In this step, managers evaluate progress using performance measures and strategic objectives. They compare the actual outcome, described by the performance measure, to the intended outcome, described by the strategic objective. This difference, called the *effect,* is positive if actual performance exceeds intended performance, or negative if actual performance falls short of intended performance. Further analysis can show which strategies contributed to positive effects, and which ones contributed to negative effects. Managers can then recommend program changes: expand and enhance strategies that contribute positive effects, and abandon or restructure strategies that contribute negative effects.

A key issue that many public sector managers raise is that the organization frequently has little control over whether the intended outcomes actually occur. If their strategic objective is, "To reduce accidents by 15 percent from 1993 levels," they fear that their best efforts may fail. Even though the managers initiate safety training programs, improve maintenance quality, strengthen license requirements, raise penalties for operator errors, revise procedures, write rules, refine procurement specifications, and spend more money, the resulting outcome may only be a 14 percent reduction.

Many of these managers fear accountability for outcomes; they envision a day when the actual outcome will fall short of the plan, and their heads will roll. For some of these skeptics, "accountability" in their organization has been synonymous with "punishment." In other organizations, however, executives use measurability and accountability to improve programs in feed-forward processes.

In other areas of their lives, people accept accountability for outcomes where they have influence, but not control. People accept responsibility for their children's actions, and for caring for their parents. Most people have control over virtually nothing in this world, but they may have influence over a great deal. Strategic managers set measurable strategic objectives only in areas where they have a significant degree of influence.

The GPRA requires outcome-based goals and objectives, with a five-year planning horizon. It also requires that agencies update their plans at least every three years. This schedule means that Congress may never assess ultimate accountability for five-year outcomes. During the third year of the five-year plan, managers must re-examine their objectives, and may change them, based on what they have learned since they wrote the original plan. Thus, managers may move the targets as they get closer to them. These provisions help to ensure that agencies use strategic planning for continuous quality improvement, rather than for punishment.

Most managers will achieve their objectives, if they have a clear understanding of what their objectives are. Even when their control is limited, effective managers find ways to influence outcomes in the intended direction. These managers maintain the strategic perspective, and they are likely to be successful, in terms of both their effectiveness and their careers.

Benefits of Strategic Planning

The strategic planning process helps improve both the efficiency and effectiveness of any organization. The most obvious benefits result from getting the whole organization moving in the same direction. By publishing the organization's mission, goals and strategic objectives, the entire organization can become unified behind a single set of marching orders. Unity of goal can improve the whole organization's effectiveness. As all the subgroups contribute to others' activities, the synergy of their efforts can advance the organization much more rapidly toward its goals. Agreement on these directional issues improves efficiency, as the agency eliminates the paralysis and inefficiency of activities that work at cross-purposes.

The most valuable benefits of any strategic planning effort lie in the process, rather than in the product, the final published strategic plan. In some cases, the final document may be out of date shortly after publication, due to changing circumstances and policy amendments. The benefits of the process will be more lasting. The process of strategic planning compels organizations to develop a consensual vision of the future, and to create realistic, measurable, results-oriented strategic objectives.

Achieving consensus requires the open and constructive participation of everyone in the organization's management. Some organizations involve their customers as well. Participation tends to bring conflicts out on the table, where the strategic planning process provides a respected forum and a facilitating structure to make decisions and resolve conflicts. Building management teams and resolving underlying conflicts may be difficult or painful, but practitioners often find that strategic-level agreement helps to resolve divisive conflicts about how agencies implement programs. In fact, most organizational conflicts tend to concern the tactical "How?" questions, rather than the strategic "Why?" questions. If an organization develops consensus on the strategic questions first, the methodological, or tactical, conflicts tend to dissolve in favor of effectiveness.

Because it focuses on purpose, participatory strategic planning can improve teamwork among the organization's policy-makers. Better teamwork enhances the synergy effect, and improves effectiveness throughout the agency's system. Moreover, policy-makers may redirect energy formerly spent on the "How?" or "Who?" issues to the "Why we're here" issues.

Participatory strategic planning will also improve participants' ownership of the plan, because people tend to own what they help to build. A greater sense of ownership increases the likelihood that managers will actually implement their plans. "If we plan it, we will build it."

When an organization integrates its strategic planning process with its budgeting process, it can increase efficiency and effectiveness even more. Managers in an integrated strategic planning and budgeting environment can focus more clearly on organizational outcomes and priorities, and use performance feedback to improve program effectiveness, as another tool in their continuous quality improvement kit.

Public Sector vs. Private Sector Strategic Planning

Strategic planning in the public sector differs substantially from strategic planning in the private sector. Public sector strategic planning requires different approaches during certain steps of the planning cycle, particularly in the performance measurement and goal-setting steps.

Performance Measurement

The performance measurement issue in the public sector has two distinct aspects: difficulties in measuring public sector accomplishments, and the lack of consistent measurement units in the public sector.

In private companies, success is easy to identify. Virtually all measures of outcome success relate to the profitability of the company, and they derive from about a dozen commonly used indicators: net profit (before or after taxes, etc.), gross sales (revenues), sales growth, revenue per employee, market share, net worth, asset value, stock value, dividend rate, and so forth. Moreover, businesses calibrate all these success indicators in the same units: dollars. Managers can compare the widget unit to the gadget unit; investors can compare the Abba Corp. to the Zither Corp., and all the comparisons have a common basis.

But government tells a different story. Success measurement is fraught with difficulties. Do we measure the effectiveness of welfare programs by counting the number of poor people? Can we determine the success of our defense department by how secure we feel? Do we evaluate crime prevention programs by the number of crimes that didn't happen? Is a fair assessment of Congress based on the number of bills passed during a particular session? The answer to these questions is, obviously, "No." Measuring performance in government is often difficult.

Some people in government may be fond of saying, "My job is to improve the quality of life. What I do really can't be measured." For these people, the answer is: "If you are doing something that cannot be evaluated, you are in the awkward position of being unable to demonstrate that you are doing anything at all."[3] The following statement, if necessary, may go something like, "So why are you still on my payroll?"

The first step in measuring governmental success must be to write realistic, measurable, results-oriented strategic objectives. If a manager can express the organization's strategic objectives clearly, the performance measure will be obvious, derived directly from the objective.

Government managers will seldom measure their success, or their strategic objectives, in dollars; instead, they will frequently measure success in terms of percentage increases and decreases in some external effect such as, "Percentage reduction in accidents from 1993 levels." As a result, analysts may compare performance measures between organizations only if the organizations perform similar functions. Thus, comparisons among states or cities may frequently be valid, but comparisons among federal agencies must first address the similarity of their functions.

Agreement on Goals and Objectives

Even where comparisons may have some value, such as among states or cities, no organization has established a standard set of generally accepted performance indicators. The primary reason for the lack of consensus about performance measures is the different objectives that policy-makers set in different public sector organizations. Performance measures have relevance only in the context of objectives. The goal- and objective-setting processes are the organization's policy-making mechanisms. It decides whether a measure is important, and it defines what level of performance is "good" or "bad."

For example, if one organization that distributes supplies decides that rapid response is more important than money savings, it will likely pursue strategies that decentralize its operations close to its customers. By making this choice, it foregoes the economies of scale that a centralization strategy could bring. If a different supply distribution organization makes the opposite policy choice, and therefore pursues a centralization strategy, a comparison between the two organizations would not be useful. The first organization would have a faster response; the second would operate more economically. No one would be able to say for sure which organization operated "best."

In the private sector, the board of directors and the executive staff usually share similar organizational goals. However they measure it, all stakeholders—stockholders, directors, managers, workers and others—in private sector organizations share the goal of making more money, and all the stakeholders pull the organization in the same direction, toward profitability.

Public sector organizations do not have this single directional pull. Instead, public sector organizations typically have multiple directions in their goals, and multiple stakeholders pull the organization in different directions toward different goals. For example, one goal of government procurement is to obtain the best price for a given product; another goal is to maintain a viable defense industry. While these goals are not necessarily inconsistent with each other, they may in some cases pull the procurement organization in different directions. In some cases, these different goals and directions may even conflict with each other directly.

Building consensus in representative governments is a challenge. An enormous number of stakeholders—direct customers, suppliers, Congress, the President, taxpayers, special interest groups, lobbyists, political parties, administrators, bureaucrats and just plain citizens—influence the government's policy-making, strategic objective-setting process. In the public sector, as in the private sector, stakeholders must forge common goals. Each of these stakeholders wants to be heard, and everyone has a right to know how the government spends taxpayers' money.

The objective-setting process requires a consensus among stakeholders about where to direct the agency's policies and resources. Developing this consensus is the key task in any public sector strategic planning process.

One basis for developing this consensus is to agree on who are the organization's customers. In the private sector, identifying customers is easy; customers receive goods or services, and they pay money. The public sector works differently: government organizations receive money from a legislative body—Congress, legislature, county commission, or city council—which in turn receives money from taxpayers. The people who receive the services are not necessarily the same ones who pay the money; instead, the service recipients are the poor, the uneducated, the homeless, oil companies, or the citizenry at large, whether they are taxpayers or not.

The good news is that the public sector operates as a three-party, two-way customer-supplier relationship. Direct customers receive services from government agencies, who receive funding from the third-party payer, Congress or other legislative entity. The bad news is that the public sector operates as a three-party, two-way customer-supplier relationship. Agencies tend to respond more to the sources of funds than to their service customers. An analogous relationship in the private sector is the position of insurance companies as third-party payers, intervening in the doctor-patient relationship.

Many government agencies must also acknowledge indirect customers. For example, some direct customers of federal air traffic controllers are the airlines; indirect customers include the airlines' customers, the traveling public and air cargo shippers. Some agencies may even acknowledge the role of second-order indirect customers, such as customers of air cargo shippers who enjoy fresh blueberries in January, and members of the general public who benefit from a safe, secure and efficient air traffic system.

Identifying customers of military organizations is more elusive. Customers of U.N. peacekeeping programs, as in Bosnia-Herzegovina, are the conflicting parties. Customers of humanitarian operations, such as in Somalia, are the starving people. Customers of Desert Storm were Kuwaitis and countries who depend on secure access to oil resources. Indirect customers of these operations are the nations of the world, and their citizens who benefit economically from global stability.

The direct customers of internal military support operations are the line operations they support. For example, customers of a parts depot are the systems maintenance organizations to whom it provides parts. Customers of Dugway (Utah) Proving Ground are combat troops who depend on the effectiveness and reliability of weapons systems. Customers of shipyards are the sailors who depend on ships that float, and admirals who depend on mobility of forces.

Once federal agencies define their specific customer-supplier relationships, the needs assessment process can begin. Public sector strategic planners will be ready to answer, "What do our customers want? ...Or need?" "What are their interests?" Once they answer these questions, they can begin the process of meeting these needs based on realistic, measurable, results-oriented strategic objectives.

Are We Ready for Strategic Planning, Yet?

Perhaps you wonder if your organization is really ready for strategic planning. Waiting for the right time to begin planning is like waiting for the right time to start a family: if you wait until you can afford it, it will never happen. The time to start is now!

Strategic planning is a major part of an organization's solutions, not its problems. While the organization may have other development needs, such as team-building, management skills, or communications training, strategic planning will not interfere with them, and may enhance their effectiveness. The process will strengthen the organization's common vision, and may help solve some of the root problems that cause the need for development solutions.

Developing a strategic plan may sometimes feel like building a raft while treading water. Lashing the first two members together is always the toughest task, but soon one person can climb on. As the raft grows, more people are able to climb aboard, and the task becomes easier. Soon the group becomes more stable. If the people don't build a raft, the group fragments and everyone will drown, one by one. So, the answer to, "Are we ready for strategic planning?" is, "Yes." Now, get started. The future of your organization—and your future—depends on it!

Summary

The GPRA has the potential to make radical changes in the way government operates. For the first time, it mandates a continuous and systematic process where people make decisions about intended future outcomes, how outcomes are to be accomplished, and how success is measured and evaluated. This process is strategic planning. Moreover, Congress will test ways to link these strategic plans to the budget process, and could implement performance budgeting early in the next decade.

Strategic planning has six essential elements. They are: mission statement, external needs assessment, strategic objectives, outcome measurement, strategies, and performance feed-forward. Managers may add other elements to meet the organization's specific needs.

The key to the strategic perspective is a focus on outcomes affecting customers that are external to the planning organization. "Strategic" is not about long-term versus short-term planning; rather, it is about a focus on external outcomes, instead of on internal outputs.

Strategic planning helps improve both the efficiency and the effectiveness of any organization. A strategic plan unites all the elements of an organization toward a common purpose, vision, and set of goals. It provides a proper forum for addressing policy conflicts, and even helps bring about resolution. The strategic planning process develops managers' teamwork skills. Its emphasis on outcome measurement and program evaluation gives managers another tool for continuous quality improvement.

Public sector strategic planning is not exactly like private sector strategic planning. The public sector has difficulty measuring success, particularly in terms of outcomes. Part of this difficulty results from the lack of a single common denominator of success, such as money. Another part results from the multiplicity of public sector stakeholders, who may pull the organization in different, even conflicting, directions. When managers reach consensual agreement on goals, measurements are likely not comparable between organizations, even for similar functions.

Managers who are used to accountability for products and processes they can control may feel uncomfortable assuming accountability for external outcomes. GPRA does not contemplate using strategic planning to punish managers. Willingness to accept the strategic perspective will help increase managers' effectiveness, and likely improve their careers.

One way to establish this consensus is to identify the organization's customers and their interests. Public sector customers receive services from their government, but they frequently do not pay for theses services directly. Day-to-day concerns about the budget and current crises may divert a manager's attention to funding sources, such as Congress, or to internal concerns. The strategic planning process helps managers to re-focus their concern on customer service.

It's hard to think about the future when you're up to your neck in water, but strategic planning can be a way out of the crisis-of-the-day reactive environment. Managers who plan strategically manage pro-actively and interactively.

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[3] Robert F. Mager, *Preparing Instructional Objectives*, Lear Siegler, Inc./Fearon Publishers, Belmont, California: 1962.