BY GARY W PATTERSON

Key Questions for Your Strategic Plan's BOTTOM LINE

MOST STRATEGIC PLANS ARE BLUE SKY AND DETACHED FROM BOTTOM-LINE PERFORMANCE.

A fiscal vision makes your strategic game plan measurable so at any time you and your executive team can ascertain if and how your company is achieving its strategic goals in accordance with your financial objectives.

To this end, I apply the fiscal vision to what I think are the four most critical drivers of any business – risk, opportunity, change, and uncertainty. In fact, I'd go as far as to say that these four drivers are the DNA of modern business.

The first two aspects (risk and opportunity) focus on the internal forces that determine a company's gestalt (that is, its business orientation and management mindset); the third and fourth aspects (change and uncertainty) focus on how a company responds or reacts to the external forces (that is, the economic environment) in which it operates.

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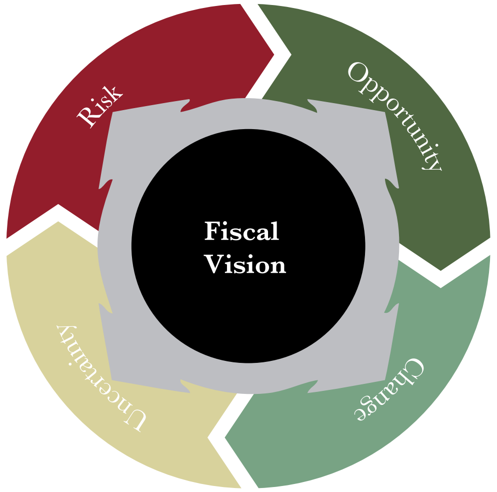


Fiscal vision and drivers

When executive teams devote an entire session to each driver, using the fiscal lens as their tool, the questions begin to sound like the ones below:

Session 1: What do the numbers reveal about our attitude towards risk?

Session 2: What do the numbers reveal about our ability to fund new opportunities or unearth hidden opportunities?

Session 3: What do the numbers reveal about our attitude towards managing change?

Session 4: What do the numbers reveal about our attitude towards operating in an uncertain world?

SESSION 1: RISK DRIVER

"Risk comes from not knowing what you're doing." Warren Buffet

Primary question: "What do the numbers reveal about our attitude towards risk?"

One popular way to look at balancing risk and reward is to create a heat map. The diagram below is a visual aid that frames the risk versus reward concept.

In answering the following questions that pertain to risk, management will get a better understanding of how well its strategy supports the types of risk that it's currently undertaking, as well as the kinds of risk it's considering in the future. By the end of this session, the group will learn whether its risk strategy is realistic, prudent and even doable, rather than coming to the conclusion, 'We've bet the farm for little reward'.

- How do we define risk vis-à-vis the company's historical financial data (balance sheet, income statement, budgets, and financial projections)?
- How would we describe our company's culture (risk friendly or risk averse)?
- What level of risk are we willing to take for what level of reward? (It's important to understand the relationship between level of risk and level of reward as it applies to all the stakeholders.)
- What level of risk is necessary to reach our financial goals in the short term (year one and year two) and the longer term (year three and beyond)?
- What level of risk (low, medium, high) is congruent with our company's infrastructure, operations, and management team's mindset?

The company's projected financials contain an implicit level (high, medium, low) of risk. Whether risk friendly or risk averse, there is a certain level of risk reward that the company is willing to take to reach its short- and longer term goals. The level of risk must be aligned with the attitude of the management team and the way in which the company is deployed.

SESSION 2: OPPORTUNITY DRIVER

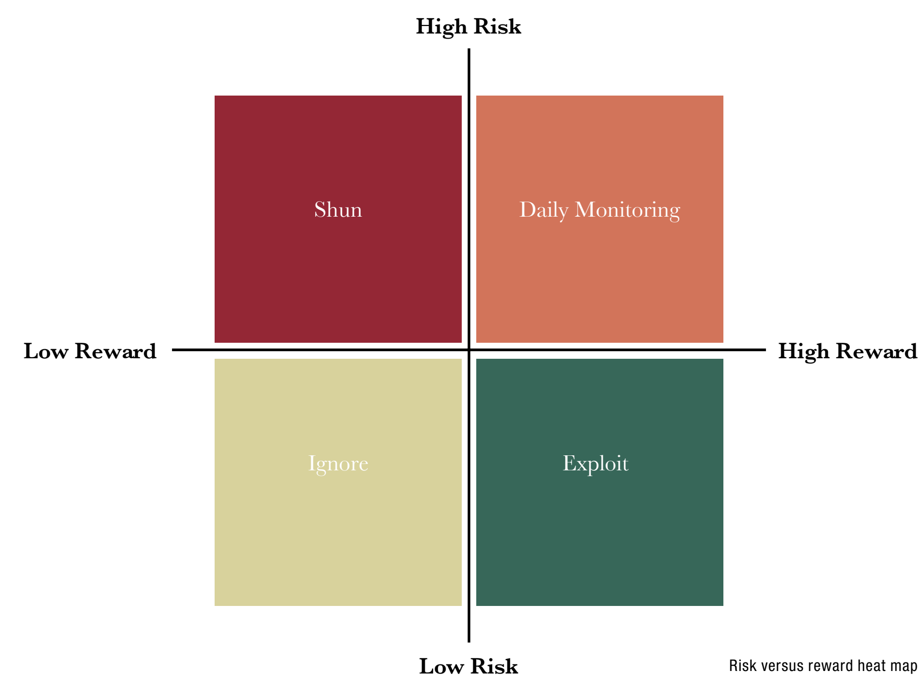
"Some say opportunity knocks only once. That is not true. Opportunity knocks all the time, but you have to be ready for it. If the chance comes, you must have the equipment to take advantage of it." Louis L Amour

Primary question: What do the numbers reveal about our ability to fund new opportunities or unearth hidden opportunities?

It's virtually impossible to consider opportunities without first analysing two important baseline figures – revenue and net income. Be forewarned: it's been my experience that far too many financial projections show revenues starting one quarter earlier than will actually occur and expenses starting one quarter later than will actually occur. That said, brainstorming what opportunities to pursue begins in earnest after management determines and agrees on what the company's bottom line is.

The session starts like this:

- What opportunities do we need to pursue to compete in today's marketplace? Break down the list into two categories: short term (the next year) and longer term (two to three years out). After you've made your list, look at each list vis-à-vis your company's current revenue and net income, and projected revenue and net income two to three years down the pike. You're then ready to ask the following questions. →



Risk versus reward heat map

- What are we risking to capitalise on an opportunity, whether it be short or long term?
- Does this opportunity make sense to the company's long-term growth and sustainability?
- What are the gains, risks, and losses in pursuing the opportunities articulated?
- Are we in a financial position to pursue opportunities that knock on the company door? What is our cashflow over the next year? Is our line of credit enough to pursue the opportunities that we would like?
- What assets can we sell to increase our cashflow?
- What's holding us back?

The company evaluates its opportunities in the context of current revenue and net income. Each opportunity is associated with a given level of risk. Conscious of the inherent risks, gains and losses, opportunities are then selected based on the company's sustainability, long-term prospects, and the company's financial capabilities.

SESSION 3: CHANGE DRIVER

"He who rejects change is the architect of decay. The only human institution which rejects progress is the cemetery." Harold Wilson

Primary question: What do the numbers reveal about our attitude towards managing change?

Most companies, whether they admit it or not, know if they are leaders or laggards (and in some cases, has-beens) when it comes to foreseeing and/or adapting to change, especially in these times when 'change is the only constant'.

This brainstorming session requires that top management be willing to take on its business model to determine its viability and relevance by asking for the participation of each department head. While this may seem like a daunting exercise, you'll be amazed that the smallest financial figure can be one of the most telling informers. For example, say your accounting department has been sounding the alarm for some time that certain types of customers, products, or services have been costing the company money. What does that tell you about your business model?

Each department head should round up their staff and ask the following questions. (The department head will collect the information, analyse it, and then present it to the company's top management in a follow-up session.)

- What are the critical factors our company needs to address to determine the viability of our business model?
- What is our department's most pressing issue or concern? The issue/concern could be as basic as 'Our computers are dated' to a more pressing problem, such as 'Our target audience has changed and we're ill equipped or prepared to service our new ideal customer'. Each department's list should have no more than three issues, and the list should be prioritised as (1) urgent/critical, (2) important, (3) if money were no object.
- What resources (including human resources) do we need to address these issues?
- What short-term and long-term opportunities do we need to pursue to maintain the department's leadership position? (Limit the list to three in each category.) Prioritise the opportunities in each category as (1) urgent/critical, (2) important, (3) if only we could.
- What short-term and long-term risks do we face? Define and prioritise each list into: (1) immediate and likely to happen; (2) in the near future and most likely to happen; (3) the risk is so remote, it's not worth thinking about.
- Do our current budget and projections allow us to address our most immediate concerns, opportunities, and risks?

The company determines the viability of its business model by examining its critical factors. Critical issues are prioritised and the resources to address them are identified. For the purpose of maintaining or achieving industry leadership, the company identifies the short- and long-term opportunities to be pursued, along with the risks that they entail. The organisation determines what immediate concerns, opportunities, and risks can be addressed given the current financial outlook and long-term projections.

About Gary W Patterson

Gary W Patterson, President & CEO of FiscalDoctor®, helps your company become fiscally fit. He has been a consultant for more than 200 companies spanning supply chain, high tech, transportation, construction, and service industries. Patterson is a well-known speaker on ERM, operational risk management (ORM), strategic budgeting, risk assessment, leadership, and change management.

His book *Stick Out Your Balance Sheet and Cough: Best Practices for Long-Term Business Health* includes resources on strategic planning, growth, leadership, strategic budgets, contingency planning, contract negotiations, finance and corporate evaluation, due diligence, and information systems technology. The book is available on Amazon.com (tinyurl.com/stickoutbalance).

For more information on the FiscalDoctor, visit www.fiscaldoctor.com. Patterson also offers a 'free' fiscal fitness test at www.fiscaldoctor.com/fiscaltest.html.

SESSION 4: UNCERTAINTY DRIVER

"Uncertainty will always be part of the taking-charge process." Harold S Geneen

Primary question: What do the numbers reveal about our attitude towards operating in an uncertain world?

As the world economy changes at warp speed, companies have less control over external forces that continuously threaten their market share and competitive positions. Globalisation, climate warming, wars, social unrest, poverty, technological advances, epidemics, natural disasters are just a few of the forces affecting the performance (and bottom lines) of most companies.

Industries today are operating under tremendous pressure of forces that are outside of their control, and consequently they are taking risks, wittingly or unwittingly, and/or making decisions that can do irreparable damage to their companies. Nowhere is the adage 'haste makes waste' more relevant than it is in today's business condition. The risk of doing business in any industry is greater today precisely because companies are forced to move at a faster clip, making quick – and in some cases, reckless – decisions that have serious consequences.

We don't have to go far back in time to recount what happens to companies that cut corners and see their profits and reputations tank overnight. BP, Toyota, Bears Sterns are just a few stunning examples of companies that bet the ranch because they thought they were invincible, or at least immune to disasters.

Only after companies like these fall from grace do we learn that their strategies and financial goals were nothing more than self-serving roadmaps dictated by management arrogance, greed, and advancement opportunities. I've found that what's missing in most failed strategic plans is the lack of a contingency plan – which, to me, keeps a strategy on the straight and narrow and its management team focused on the health and wellbeing of its business instead of on themselves.

In the end, the usefulness and effectiveness of a fiscal vision strategy lies in the development of a contingency plan that addresses the scenarios that an organisation is likely to encounter over the next three to five years.

Unless a management team is willing to come to grips with the external forces that threaten to destabilise the company, all the carefully crafted strategies are for naught.

To this end, the final brainstorming session should focus on developing a companywide contingency plan. The following questions will help to start the discussion:

- What issues, problems, or concerns are potential doomsday scenarios for our company? (Prioritise the scenarios according to the likelihood that they will occur.)
- How prepared are we to deal with catastrophes that are likely to happen?
- What safety measures, precautions, and insurance are we taking to ensure that likely catastrophes will not happen?
- Can our company financially withstand a likely catastrophe?

The company examines and prioritises likely doomsday scenarios and ascertains its preparedness and financial strength to weather such catastrophes.

PUTTING THE FISCAL VISION TO WORK

Today's economy is a perfect storm of rapid change, risk, opportunity, and uncertainty. By working with the key questions outlined here, your company can develop a fiscal vision which grounds your strategic plan in reality.

A strategy that is driven by the company's financial performance and goals is a strategy that will separate the victors from the victims.