

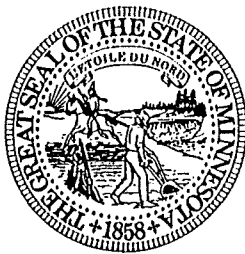
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Enterprise Management: Integrating Business Planning with Current Management Controls

STATE OF MINNESOTA



**Department of
Administration**

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I. INTRODUCTION

The purpose of this base level review is to describe a tool, business plans, that the Department of Administration (Admin) is introducing to aid in the management of its internal service funds. This is a continuation of the base review done two years ago which described our service management strategy which introduced marketplace dynamics where appropriate. The strategy categorizes Admin services that are funded through internal service funds as either utility or market activities. To improve management control of these services, business plans will be developed by the management staff of each of the funds.

The Department of Administration's mission includes being efficient by providing quality services at costs that are competitive with the private sector and includes being effective when customers are satisfied with our services and standards. Most of the current management controls in the department stress the efficiency issues. These are critical in managing the various enterprises, but they do not address some of the broad questions of what it is that we are trying to effect. They do not necessarily include a business case for why we should be trying to have such an effect. The introduction of a tool to look at effectiveness will result in a greater focus on providing products/services that our customers value.

Our intention is to put the business planning process at the center of our effectiveness controls for utility and marketplace functions within the Department of Administration. Business planning is a systematic way of looking at the marketing and financial aspects of providing goods and services to customers. Its orientation is serving a need that exists. The key aspects of business planning include market definition and position, product/service mix, and financial management.

The discussion of the use of business plans in Admin that follows includes:

- o An overview of existing controls,
- o An explanation of business planning and its managerial benefits, and
- o An examination of how business planning supplements current controls in managing Admin's enterprises.

II. EXISTING CONTROLS

The performance management system of the Department of Administration includes a number of controls to ensure the efficient delivery of products and services to our customers. The controls stress costs, quality and performance. What follows is a brief explanation of current controls used by those managing Admin's enterprises.

Performance Plans

This is a set of tools used to communicate expectations between levels of management and employees. It consists of three sections: major projects, operations measures, and personal management efforts. These are produced annually for every division in Admin.

"Major Projects" These are time limited initiatives which require special planning and have a unitwide perspective. It serves as the implementation phase for a goal-setting process. A workplan is written that identifies specific results and timelines.

"Operations Measures" These are critical success factors for the division and are monitored on a continuous basis. There are usually monthly reports. Measures are expressed in terms of minimum acceptable, challenging, and stretch goals. These serve as concrete indicators to let managers and employees know how well a work unit is doing.

"Personal Management Efforts" Organized by managers' functions, these provide each division director the opportunity to discuss what they plan to do in each of the management functions. They include: staff development, quality consciousness, financial management, values, customer service and communications.

Customer Feedback Programs

Various types of activities have been implemented to identify customers' needs and determine service acceptability. Customer panels, focus groups, satisfaction surveys, and "quick complete" mailer cards are examples. These programs serve to assist managers in adjusting service levels. Once service acceptance is identified, necessary adjustments in terms of enhancements, discontinuances, or new services can be made to ensure optimal levels of customer satisfaction.

Service Level Agreements

A tool to build and manage relations between service providers and customers is the service level agreement. Focus is on providing customers with meaningful information on their work flow through the service provider. It serves as a partnership building method for providers and customers. Additionally, service providers receive information which can be used in capacity planning and performance management.

Financial Plans

A set of tools used to project, manage, and evaluate the financial performance of assets are part of the Admin control system.

"Rate Process" Annually, rates are developed for all Admin internal service funds through a process that includes several stages of review. The rate package must include estimates of the volume of business, an expense plan and price comparisons with similar services from the private sector (and in other government entities). If this analysis indicates a price increase is in order, then the service's management must formally review marketing options such as market share, new markets, new products and, also, cost reduction. Each internal service fund has a customer panel review its rate decisions. Finally, the Department of Finance reviews the rate package from the perspective of state government as a whole and review it for federal cost accounting requirements.

"Quarterly Financial Statements" A set of financial reports which include balance sheet, income statement, and budget to actual comparisons are prepared for each fund quarterly. They provide information on an activity's financial position by summarizing the past quarter's performance. Data on revenues, expenses, earnings, and exception reporting are included. These are circulated and reviewed by Admin's top management.

"Monthly Operating Reports" A financial report is prepared monthly for most funds which includes income and expenses. This provides information on an activity's financial performance over the past 30 days for the managers of the fund.

Operations Reports

On a regularly scheduled basis (either monthly or quarterly), the managers of each fund report their operations measures. These reports are meant to serve internal purposes for keeping track of the fund's progress, but are reported for a departmentwide view. Many of the key indicators have to do with revenue and customer behavior. This helps track and characterize the demand in the market. Other measures have to do with the division's productivity and ability to respond.

Performance Reviews

Two times per year, performance reviews are done with all managers in Admin. These are done in late fall and late spring. A purpose of these reviews is to identify areas in fund management that need further concentration and development. They are a good opportunity to identify strengths and weaknesses of strategic plans. Each manager can identify skill areas where they can further personal development.

III. BUSINESS PLANNING

The business planning process is both a conceptual and activity-oriented process which provides Admin managers the tools and information for:

- o establishing effectiveness controls for products/services and
- o providing products/services customers value.

The core philosophy of business planning is its customer orientation. Analysis and issues are framed in terms relative to the markets. The continual challenge and opportunity for Admin managers becomes planning and operating funds based on creating value for the customer rather than other purposes.

To effectively do this, enterprise managers need to define and gather information which supports their business plans and each of their marketing activities. This information will help them know when to adjust or change fund activities

so as to ensure provision of needed, valued products and services.

Following is a description of the components and managerial benefits of the business planning process. The components are organized into three sections: organizational, marketing, and financial.

Organizational

The organizational section contains descriptions of the business and its industry, organization structure, and human resources. In this section, a manager must consider what business the fund is actually performing. Specific items addressed are:

- o fund/activity purpose which is used to identify reasons for starting, continuing, or changing the business of the fund,
- o fund/activity history which forms a basis for making predictions about the future,
- o industry trends which are used to help provide direction for planning the funds future activities and as a basis for marketing plans,
- o organizational structure which defines responsibilities of functional areas,
- o responsibilities and reporting relationships of employees for managing the business, and
- o advisors which help guide or give direction to the business.

The managerial benefits of this section involve planning and communications. Information documented in this section can serve as a basis for determining organization structures and staffing, as well as reporting and operating relationships. The information also can function as a tool for communicating with customers and within the enterprise. It causes the manager to base plans for the fund on history, trends and opportunities.

Marketing

The marketing section is the most critical section of the business plan. The components of the marketing section help enterprise managers present their activities to their state agency customers. Specific items include:

- o product/service definitions are used to describe attributes (features) and reasons for buying (benefits),
- o product/service lines are used to group products/services with similar benefits and plan how new products/services will fit with current ones,
- o target markets are used to build a clear, focused, easily identifiable profile of the fund's current and future markets,
- o competition analyses are used to identify competing options (direct, indirect) for the same markets, become familiar with competitive practices and avoid competitors' errors,
- o market position is defined to determine how the fund fits in the marketplace and differentiates itself from other options, and
- o marketing objectives are used for describing what the fund intends to accomplish related to sales, market penetration, and related marketing issues.

Strategies are developed for:

- o packaging in order to present the business to the state agency marketplace in accordance with its position and image,
- o service delivery to describe the physical delivery of services to customers and a description of quality controls,
- o pricing to determine if the market is willing and able to pay, and ensure prices are consistent with the rate development and for utility functions consistent with federal guidelines, and
- o promotion in order to increase the market's awareness of the fund's products and services (direct and indirect methods).

The managerial benefits of this section are realized through the enterprise managers seeing their funds from the market's viewpoint. With this orientation, managers will be in a position to provide high-quality products and services which truly meet customers' needs in ways which keep enterprise managers financially solvent. They will also be

positioned to promote and operate their funds in ways that customers will want to do business with them.

Financial

The financial section addresses the financial projections enterprise managers perform as they plan and operate their businesses. Specific items include:

- o investment required to initiate and sustain the business, this includes contributed capital, allowable retained earnings reserves, and loans;
- o cash flow projection to measure business performance;
- o method of determining return on investment for making decisions about investing in products/services; and
- o methods for determining risk and potential changes in markets.

The benefits of this section provide enterprise managers with the ability to accurately and confidently allocate resources, plan for future investments, and monitor the financial performance of invested assets.

Business plans will be developed for Admin internal service funds starting in the spring of 1989. Originally, they will be three-year plans that are reviewed annually before the rate process in May of each year. Clearly, marketing and financial analysis will have to be done on particular services/products periodically and can be included during the annual update.

IV. MANAGING AN ENTERPRISE WITH BUSINESS PLANS

Business plans enhance our current planning and management processes by incorporating a control on effectiveness early on in the process. The effectiveness measures are intended to guide managers in answering the following question, "Are we doing the right things?" Once these measures are in place, enterprise managers can confidently operate their businesses then ask a second related question, "Are we doing things right?"

The current control system encourages managers to concentrate on the second question. Business planning forces managers to take a hard look at what "things they are doing" while implementing measures and controls to see if they are "doing them right." In table one, the enhancements to Admin's control process are shown in a graphic form.

Answering the above question up front, business plans help manage a fund in several key ways:

- o Define the businesses of the fund.

Quite often, an enterprise is not clear as to which business it is in, who they serve and why they serve customers. This is addressed in business planning by forcing the unit to describe its organization, its mission, and its markets. The discipline of writing a plan is as valuable as any other outcome.

- o Define information requirements for the enterprise.

The business planning process identifies specific organizational, marketing, and financial decisions enterprise managers make. Once these decisions are identified, the information necessary for decision-making can be defined and gathered. All too often, enterprise managers do not identify ahead of time the types of decisions; therefore, they are unprepared--do not have the information they need--when decision time arrives.

- o Communicate with customers, suppliers, and internal staff.

The components of business plans include many types of information which help clarify issues and concerns internally as well as externally. Standardized plans help an enterprise communicate consistent messages with all its diverse audiences. Thus, everyone in the organization will have the same document to refer to when making decisions. Communicating with those outside the organization (customers, authorizers, etc.) becomes much simpler and more consistent.

- o Monitor progress.

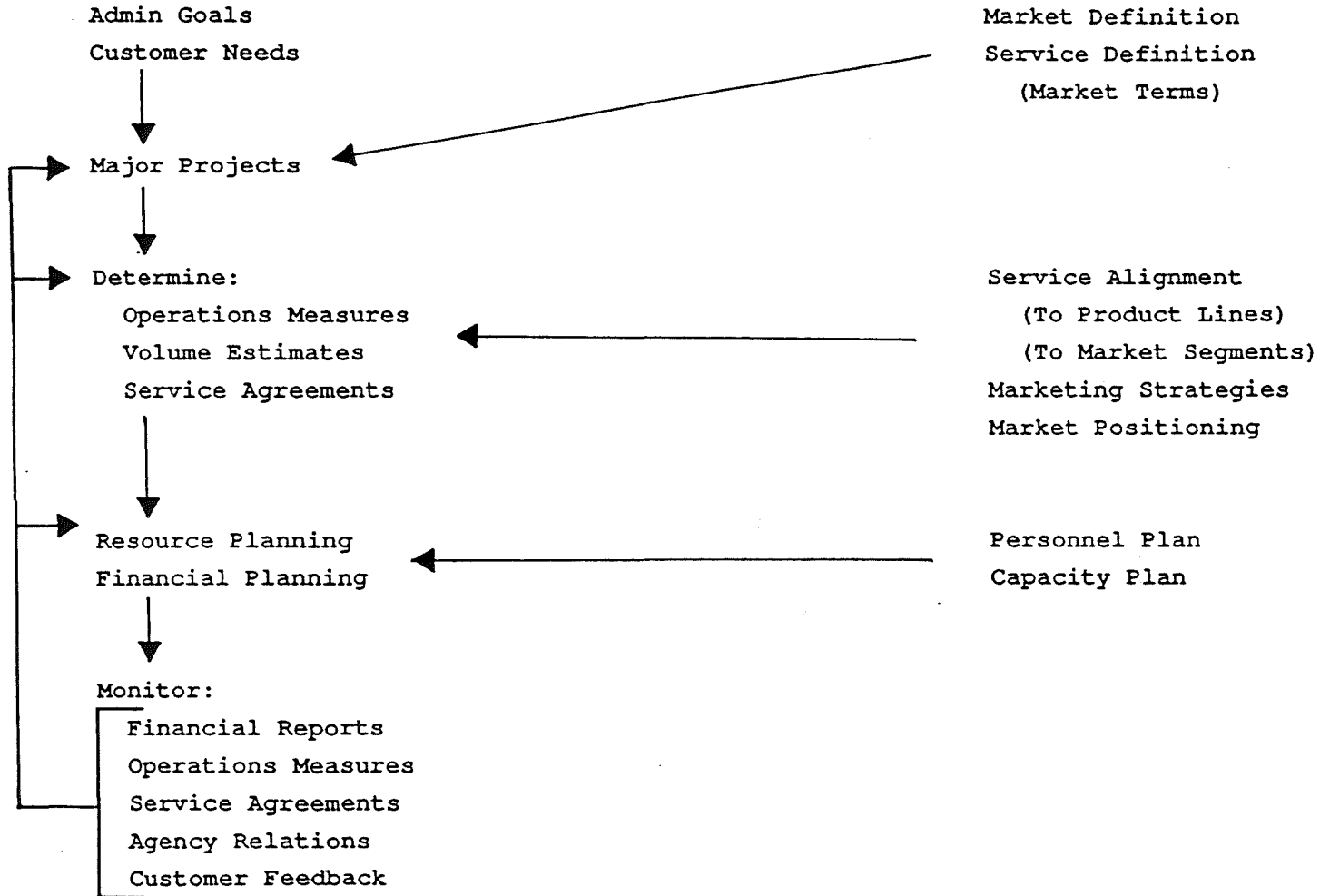
A key part of service delivery is monitoring how well products and services perform against pre-established goals. Business planning through

TABLE ONE

ENTERPRISE MANAGEMENT



Current Enterprise Planning Process



Enhanced By Business Plans



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6
1

TABLE TWO

 Effectiveness 	Business Plan Component	Current Controls
	I. Organizational Section Business Description Organization and Personnel	Performance Plan (<i>to an extent</i>) ** **
	II. Marketing Section Product/Services Target Markets Competition Market Position	** ** ** Operations Measures, Customer Feedback Programs

 Efficiency 	Marketing Objectives	Operations Measures, Customer Feedback Programs Capacity Planning
	Marketing Strategies: packaging (image) service delivery	** Service Level Agreements, Customer Feedback, Capacity Planning
	pricing promotion	Rate Process **
	III. Financial Section Investments Required Financial Projection	Rate Process Quarterly Financial Statements, Monthly Operating Statements, Capacity Planning

** No control at present

establishing marketing and financial goals provides the goal-setting process. Our current controls provide the monitoring process. Together they provide enterprise managers the tools to measure progress and make needed adjustments in service levels and product quality.

- o Measure results.

These same marketing and financial goals ultimately are used to measure the performance of an enterprise. With business planning, results should be meaningful to both customers and an enterprise because a baseline and a direction are made clear.

- o Builds confidence in those operating the businesses of an enterprise.

The business planning process provides those supervising the operators of the businesses with information and assurance that businesses are designed to meet the customers' needs and to produce results that customers value. In turn, those operating the businesses are empowered to service customers within general operating guidelines.

The diagram in table two exhibits that business plans will clearly aid in Admin management's ability to address the effectiveness of funds. As we proceed to implement the business planning process, an effort will be made to structure and streamline all controls. The goal is to have a system which frees up managers to create value for their customers while providing adequate monitoring information.