Strategic Planning and Budgeting Essentials

2019 Step-by-Step Guide for Information Technology

Part 2 of 3

Gartner

Part 2

Set Goals, Allocate Resources, Identify Measures and Metrics

This is part two of a three-part strategic planning and budgeting guide. It focuses on how to assess capabilities, set and measure your strategic objectives, and allocate resources.

Part one provides a foundational level-set for functional leaders as they embark on strategic planning.

Part three provides hands-on tools, templates and guidance to execute the plan effectively.

Contact our team to discover Gartner's full suite of insights, templates and peer examples to help you develop and drive your functional strategy.

Discover more at:
gartner.com/strategicplanning

U.K. 03301 620 551
U.S. 1 855 519 2798

How to use this guide

This three-part guide offers a roadmap for strategic planning at the functional level.

It provides guidance, tools, templates and lessons learned from clients and others on how functional leaders can tackle the essentials of a successful functional strategic plan.

Part 1

- Verify your mandate.
- Define how enterprise strategy could and should change your function's priorities.
- Commit to being strategic in how your function supports and drives enterprise ambitions for innovation, growth and competitive advantage.

Part 2

- Identify and assess critical capabilities.
- Define your function's objectives and know how to measure success.
- (Re)prioritize the allocation of budget, resources and capacity.

Part 3

- Distill the strategy down to one simple, coherent page.
- Embed the plan in your function and enterprise.
- Know when and how to revisit and adjust the plan as conditions change.

Resource key

Keep track of your progress

How-to guide: Tactical tool or template, developed from Gartner's experience with clients

Create your own: Populate your own template based on our example (some forms are interactive in e-books)

Peer example: Sample approach, developed from Gartner's work with one or more clients

Stop and check that you have what you need from this step

Designates a live link in the digital e-book

Find relevant resources and tools at the end of each step.

Discover how Gartner can help you with your strategic planning and budgeting.
Contact us: **gtnr.it/strategicplanning-connect**

Contents

Step 4: Establish Whether You Have the Right Capabilities

> "By proactively focusing on high-value capabilities, we have increased our profile with the lines of business."
>
> Senior executive, financial services company

Do you have what it takes to drive enterprise ambitions?

As you determine the impact of business goals on your functional priorities, you'll also need to evaluate the availability and maturity of the capabilities required to bolster your function and drive the enterprise value proposition — even as that proposition evolves.

Digitalization is causing business models to evolve more often and more quickly than in times past, so assessing current capabilities is a vital first step to future-proofing your function.

Listen to business leaders' priorities, but also identify which of your function's activities best align with business objectives. Use feedback from business and other stakeholders to evaluate your function's current effectiveness at those activities.

If business partner conversations surface a significant difference between the function's self-assessment and business partners' perceptions of strengths and weaknesses in functional capabilities, note this as a red flag to address.

Make sure this step doesn't become a constraint on your ambitions. You're not assessing your strengths and weaknesses so as to limit your objectives to current capabilities. Rather, you want to determine where your team is effectively supporting the organization right now, and where better support is required now and in the future.

Identify and collect data on key talent and organizational metrics, using measurement options such as functional maturity models and activity priority indexes. This exercise should inform your plans to close critical gaps and take advantage of key strengths.

Based on the collective understanding (among business and functional leaders) of the function's strengths and weaknesses, identify critical outcomes the function needs to achieve to deliver on its value proposition.

"Continuous self-assessment and improvement is so important," says one functional leader at an energy and utilities company. "We cannot just rely on people telling us that we are doing a good job."

Along with strengths and weaknesses, assess opportunities and threats for the function.

What to take away from step 4

- Clear assessment of the availability and maturity of the capabilities your function needs to pursue the initiatives that will drive business strategy
- A prioritized list of functional capabilities to bolster or gaps to fill to support business goals

Resources for this step

How-to guide: Map Strengths, Weaknesses, Opportunities and Threats (SWOT) in Capabilities

Peer example: Identify the Capabilities Most Critical for Strategy Execution

Create your own: SWOT in Capabilities

How-to guide: Framework for Talent Segmentation Based on Business Strategy

Strengths, Weaknesses, Opportunities and Threats (SWOT) in Capabilities — Example

Use a SWOT analysis to identify strengths and weaknesses, and to assess opportunities and threats for your function. **Ask yourself:**

Strengths

Criteria Examples

- What capabilities does the IT department have?
- Does the IT team have institutional knowledge?
- What is the level of expertise of the IT department?
- How innovative is the team?
- How resourceful is the team?
- Does the technology we have give us a competitive advantage?

Weaknesses

Criteria Examples

- Are there any capability gaps?
- Do we have visibility into the business partners goals and objectives?
- How is the IT department perceived by its business partners?
- Do we have the bench strength to meet the demands of our business partners?
- Are we lacking certain specialized skills?

Opportunities

Criteria Examples

- Are there any niche markets that the company would have a competitive advantage in?
- Are there additional resources we could leverage through recent mergers and acquisitions?
- Are there major contracts we could further support?
- What IT processes can be further optimized?
- Are there ways to further train our business partners in IT matters?

Threats

Criteria Examples

- Do we have the knowledge to enter into new markets?
- What is the outlook for increased regulatory intensity?
- Is there the possibility of increased litigation?
- Are there technology developments that will impact the company?
- Are our vital contracts up for renewal?
- Is there potential for key staff turnover?

Strengths, Weaknesses, Opportunities and Threats (SWOT) in Capabilities

Continuous self-assessment and improvement is so important. Use a SWOT analysis to identify strengths and weaknesses, and to assess opportunities and threats for your function.

Type in the light blue fields to complete the interactive form

Strengths	Weaknesses

Opportunities	Threats

Identify the Capabilities Most Critical for Strategy Execution

The enterprise business architecture (EBA) team of a major healthcare company facilitates collaborative, capability-based planning workshops with relevant business stakeholders to understand the company's capabilities in relation to business goals.

Workshopped plans improve collaboration across the business, including the support departments (information systems, information management, HR, finance, business process engineering), and cascade strategy down to the individual contributor level to increase employee engagement and strategic comprehension.

The business capability workshops provide a clear understanding of capability importance and performance, and result in a rational prioritization of improvement areas according to external pressures, strategic plans, business priorities, resources and time.

Co-create Your Business Capability Model With Business Partners

1. Initial Capability Model Development

EBA generates a preliminary, level-three capability model to share with business capability owners.

Estimated Time: 2 - 4 weeks

→

2. Strategic Prioritization Workshops

Workshops provide executives with a broader understanding of the enterprise's capabilities and establish consensus on capability priority.

Estimated Time: 2-4 weeks

Executive Time Commitment: 4-8 hours

↓

3. Performance Assessment Workshops

Directors and senior subject matter experts (SMEs) in the business refine the level-three capability model with heatmapped performance gaps, transformation roadmap and project execution portfolios.

Estimated Time: 1-6 months

Director and Senior SME Time Commitment: 8-20 hours

←

4. Implementation

EBA continues engaging with capability owners to facilitate project execution that will carry out plans and prioritization developed in the workshops.

Capability workshops last four hours and typically take place biweekly, but EBA adapts its methodology to fit scope and stakeholder needs.

Framework for Talent Segmentation Based on Business Strategy

Strategy-Critical Roles	Strategy-Impacted Roles
Strategic Talent What capabilities are critical for driving long-term competitive advantage and revenue growth? **Characteristics** • Specialized skills or knowledge (IP) • Visible externally and internally • Direct impact on revenue or business performance	**Requisite Talent** What capabilities are needed for the business but could be delivered more cost-effectively? **Characteristics** • No specialized skills or knowledge • Limited impact on business performance • No external customer touchpoints
Core Talent What capabilities are unique to the organization and core to delivering products and services? **Characteristics** • Essential for strategy or process execution • Not directly transferable to other organizations • Limited but direct impact on revenue	**Noncore Talent** What capabilities are no longer aligned with the organization's strategic direction? **Characteristics** • Made redundant by shift in strategy • Limited internal/external touchpoints

Work with business leaders to identify employee roles that fit with the characteristics of each talent segment.

Segmentation priorities:

- Identify strategic and core talent of nonleadership.
- Define requisite roles on which to target cost minimization.
- Identify noncore talent roles that account for significant labor costs.

Step 5: Define and Measure Your Function's Objectives

> "Having alignment on paper is meaningless unless you've defined your objectives in a specific, measurable and actionable way."
>
> Senior vice president, technology company

Five things to get right in your plan

Armed with information on enterprise strategy and your function's capabilities, strengths and weaknesses, you're ready to define a prioritized list of functional objectives, each with a time horizon of one to two years.

Remember to:

1. **Review key lessons learned** from previous years to prevent prior strategic errors, such as using off-track assumptions. Check the past performance of the plan against objectives and use benchmarks to avoid making the same mistakes.
2. **Account for capabilities gaps.** As discussed in step 4, evaluating capabilities and skills is an important and discrete step in the planning process. Make sure a lack of capabilities doesn't derail ambitious growth strategies.
3. **Have a clear and distinct vision.** Be clear on what defines long-term success (in business, not financial, terms). Use that clarity to inform strategic priorities and make trade-offs easier.
4. **Align goals with strategic imperatives.** Clearly state the assumptions that underpin strategic goals to demonstrate how achieving specific goals will generate specific outcomes. Without this alignment, execution will likely falter.
5. **Create a manageable number of performance measures.** Too many metrics (or those with unclear relevance) can create confusion as managers chase metrics that may work at cross purposes. Too few metrics can reduce accountability and drive inaction.

Define SMART objectives

Zero in on a few (four to seven) initiatives that will directly support strategic business goals. Double-check that each is "SMART" — specific, measurable, actionable, relevant and time-bound.

"The most important thing in aligning your objectives to business goals is the rigor that goes into articulating the objective," says one senior vice president at a global technology company.

SMART checklist for your functional objectives

- Specific — Does the objective target a specific area for improvement?
- Measurable — Can progress on the objective be quantified or measured?
- Actionable — Can this objective be linked to specific actions that employees can take?
- Relevant — Does the objective improve the business in some way?
- Time-bound — Is the objective tied to a deadline to ensure a timely completion?

Reinforce your objectives with an action plan

Specify the sequence of action steps or initiatives required to attain an objective. This will be the primary source of information for how the function's objectives will be executed, monitored, controlled and closed.

The action plan isn't just a rote checklist — it:

- Details interdependencies between different initiatives and functions
- Estimates the types, quantities and costs of resources required to perform an initiative
- Sets roles, responsibilities and accountabilities of employees
- Specifies risks and associated mitigation plans
- Establishes quality standards for different initiatives, metrics to measure progress and course-correction mechanisms to account for deviations

Checklist for your functional action plan

Does your plan clearly:

- Specify what needs to be done, when and by whom?
- Detail what resources or inputs are needed?
- Act as a go-to framework for guidance on the execution of an objective?
- Explain interdependencies between different initiatives?
- Specify owners, milestones and metrics to track whether an initiative is on time and within budget?
- Specify risks that might affect an initiative and steps to mitigate them?

Select measures to track your progress

To track your progress toward functional objectives, select relevant business outcomes and performance measures. Examples are employee engagement, customer satisfaction, brand awareness or other business objectives.

Your chosen measures must be observable by available data to properly assess business performance. Ultimately, you'll need to prioritize the five best able to serve as indicators of the state of your functional organization — now and in the future.

Select only a handful of strategic and outcome-oriented measures. As noted, too few can reduce accountability; too many can create confusion. Ask yourself which of the possible measures best capture what the company wants to achieve and which are practical to track.

Checklist for your functional measures

Do your chosen measures:

- ✓ Consist of significant, observable business outcomes?
- ✓ Align with business strategy?
- ✓ Provide value greater than the cost involved in tracking it?
- ✓ Include a limited number of outcomes so tracking is not too costly or difficult?

Select metrics to quantify your progress

To quantify the observed changes in a measure over time, use metrics that capture your progress and the overall health of a goal or objective. Metrics must be well-defined and verifiable. Set triggers for any events that might invalidate the plan.

SMART checklist for your functional metrics

- ✓ Specific — Is the metric sufficiently granular for the action it measures?
- ✓ Measurable — Can the metric be measured with reasonable ease and accuracy?
- ✓ Actionable — Does the metric inform decision making?
- ✓ Relevant — Do changes in the value of the metric reflect activity or behavior that's of value to decision makers?
- ✓ Time-bound — Can the metric quantify the progress of a measure by a given deadline (where needed)?

"We soon found that successful execution depended on us connecting metrics at all levels of our function to both departmental strategy and organizational strategy. If you don't make it clear to staff how they contribute to functional and organizational success, it is impossible to get their buy-in," says one functional leader at an insurance company.

Resources for this step

→ **How-to guide: How Metrics Can Trace Back to Goals**

What to take away from step 5

- A list of high-impact objectives, prioritized according to the strategic plan
- An action plan that stipulates how the objectives will be met, including specific measures to track progress, and metrics that are robust but simple enough to quantify that progress effectively

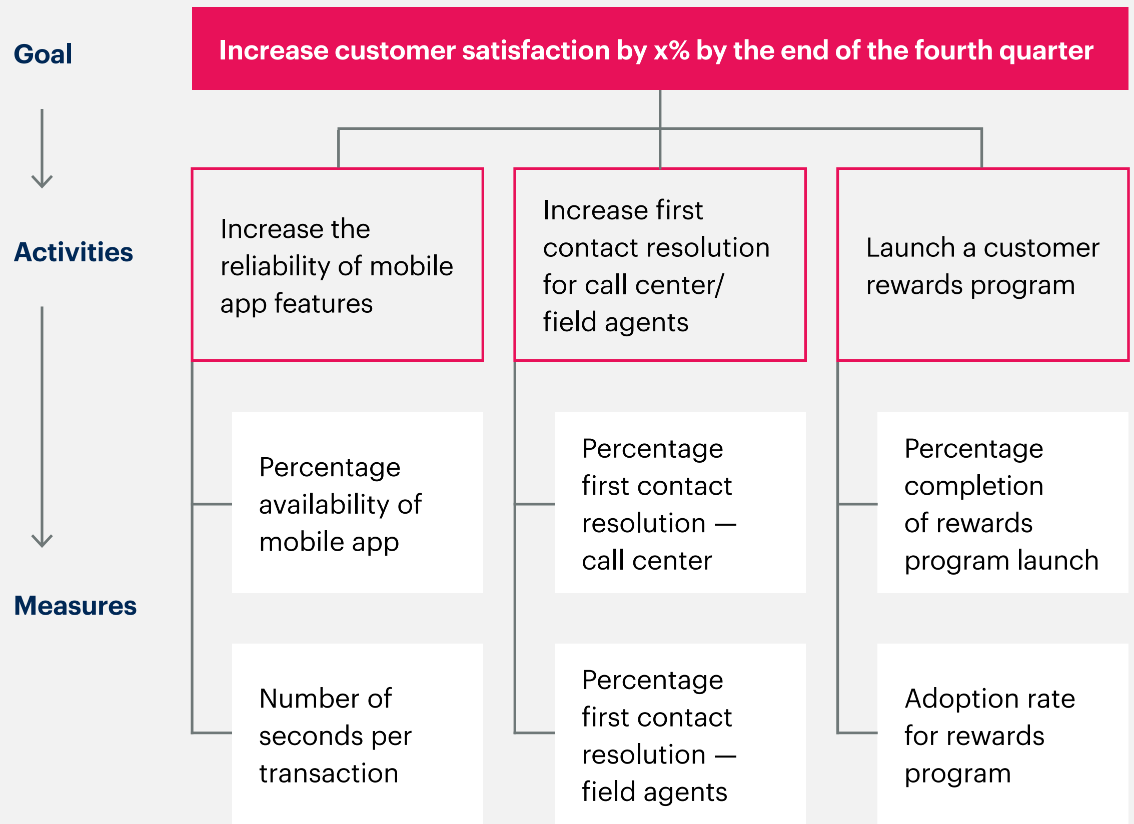
How Metrics Can Trace Back to Goals

You need tangible metrics to measure progress in the activities you determine are needed to meet your objectives.

Illustrated here are possible measures and metrics when the goal is to improve customer experience.

There must be data for each of these measures, starting with existing baseline information. There must also be a process in place for collecting ongoing results. Each goal, activity and measure must have an accountable "owner" to ensure that progress is being tracked.

You'll need to tie each of your results to the value it delivers. By doing this, you can measure whether your activities have been successful, and ultimately show how they have helped achieve your business goals.



Step 6: Look to Fund Innovation and Growth

> "Instead of directing investments to those who shout the loudest, we use prioritization criteria to bring more objectivity into how we allocate our investments."
>
> Functional executive, financial services firm

A plan is just a plan without resources

Strategic growth objectives should be ambitious by definition, but they still have to be funded — with budget, talent and technology. The challenge is how to allocate scarce resources to the most critical initiatives and growth investments.

The first step is to establish a baseline budget to fund existing operations and future needs. Your function may be able to use past activity and estimates to calculate the resources required to conduct ongoing functional activities and then adjust that historical budget for future requirements. However, many functions and businesses find past budgets to be poor indicators of future needs, especially when pursuing new initiatives to support enterprise digital ambitions.

The historical view can be outdated, and its use as a starting point may limit your budgeting to incremental adjustments without really questioning the need for that spending — or prioritizing critical new objectives.

In budgeting models such as driver-based budgeting (DBB) and zero-based budgeting (ZBB), prior spending choices don't take precedence simply because they existed previously. Such approaches can ensure the budget stays more relevant/closely aligned to business needs/drivers of performance.

Whatever budget model you use, work with subfunctional and business partners to review last year's budgets and resource requirements and take note of variations from plan. Consider ways to cut costs while improving productivity.

Consider capacity, not just budgets

Although you have to level-set on budgets to gauge future needs, budgets are not the entirety of resource allocation. Your ultimate goal is to ensure that adequate capacity is allocated to support the new growth initiatives that stakeholders have agreed are key to driving enterprise ambitions.

Be careful not to focus so much on the near-term budget detail that you defer tough choices into the future. Keep a strategic mindset, focused squarely on determining the resources you'll need to execute your plan.

"We realized that we needed to integrate strategic planning and budgeting activities — maintaining the flexibility to change the budget in light of changing external assumptions — but most importantly, to improve the business relevance of the planning," says a senior executive at a manufacturing company.

Five steps to better strategic resource allocation

It takes a deliberately strategic mindset to deploy capacity to critical initiatives and deprioritize initiatives with lower strategic importance. To increase your impact, take these five steps:

1. **Ramp up your strategic decision-making skills.** Focus on funding innovation and growth, not garnering quick wins. Lean on corporate strategists for guidance on frameworks that provide a more strategic view of trade-off decisions. Ask for more transparency into the broader business portfolio, which can clarify trade-offs.

2. **Remove barriers to strategy execution.** Use your insight into the operational constraints affecting strategy execution to anticipate where execution bottlenecks may occur. Wield your influence over resources to allocate the capacity you need to execute your plan. Work with all stakeholders to eliminate overlapping or redundant work, and make sure underutilized resources are better deployed against unique work.

3. **Don't forget, mental bandwidth is a resource.** Fifty-five percent of employees say they don't have enough time to complete their work. Mitigating that problem can generate a substantial positive impact and improve organizational alignment with strategy. Especially make sure to provide your key managers with the mental time and energy to pursue new innovation and growth initiatives. Also, try to unlock trapped organizational capacity.

4. **Ensure that resources are allocated appropriately across functions.** This will be easier if you evaluate resource decisions from multiple strategic perspectives. Collaborate with other functions and make sure your subfunctions are collaborating to ensure you agree on the priorities — and that any goal requiring significant cooperation across departments actually appears on all parties' priority lists for budgeting, staffing resources and so on.

5. **Depoliticize resource trade-off decisions.** Balance the introduction of new priorities and activities with clear direction on what your function must stop doing to preserve resources for growth opportunities. Decisions to terminate projects can be highly political and difficult to make. Remove biases from these decisions to help the organization make more effective trade-offs.

Four ways to depoliticize resource trade-off decisions

Managing trade-offs is often the most challenging part of reallocating resources. To make effective trade-offs that all stakeholders will support, take deliberate steps to reduce the political pressure on resource-allocation decisions:

1. **Don’t use arbitrary decision guidelines.** When targets, triggers or thresholds are used to make decisions to terminate projects and initiatives, arguments can become focused on how the threshold is set and measured, not whether the project supports the strategy. Instead of setting and retaining specific thresholds, monitor the direction of a project’s performance. This reduces politicking, as the question of whether performance is improving or declining is less prone to interpretation.

2. **Provide tangible criteria to assess value.** Identify a finite set of assumptions, conditions or capabilities that must be true for a project to be viable. Get managers and project sponsors to develop and agree on those hurdles themselves — and then make decisions to terminate projects based on those same factors (or business assumptions). When each function defines its own “must be true” assumptions in advance, decision making is objective and fair.

3. **Don’t make relative comparisons between “keep” and “terminate” decisions.** The best way to avoid politics is to make sure you don’t choose between “keep” and “terminate” decisions. Base each decision on a defined set of criteria and on its own merits. Decisions become more politically charged when they are made on a relative basis — for example, when subfunction A is flagged as underperforming relative to subfunction B, so subfunction A is scaled back or cut.

4. **Preserve funding for innovation and growth.** To keep cost management conversations strategic, consider using a framework to categorize the opportunity and risk of your cost optimization decisions.

Resources for this step

→ **How-to guide: Cost Optimization Decision Framework**

→ **How-to guide: Green-Light Your Best Cost Optimization Initiatives**

What to take away from step 6

- Rigorous view of your baseline budget — the resources required to conduct all ongoing functional activities based on past estimates and those required for future functional initiatives that are critical to the growth of the business
- A sound plan, anchored in strategic objectives, of the trade-offs your function can make to keep resources moving toward key initiatives. Also make sure to deprioritize funding for less strategically relevant initiatives, and look to better leverage underutilized resources
- A clear understanding of the relative cost, risk, time and benefits of potential cost optimization initiatives

Cost Optimization Decision Framework

As you look to fund innovation and growth, use this tool to categorize the upside of each cost optimization opportunity and determine if the opportunity is worth the effort.

Potential Financial Benefit	**Small**	**Medium**	**Large**
• **How much will the function save if the action is implemented?** • **How does the action affect cash flow?**	Potential to minimally improve cash flow or generate hard/soft savings	Potential to moderately improve cash flow or generate hard/soft savings	Potential to significantly improve cash flow or generate hard/soft savings
Business Impact	**Negative**	**None**	**Positive**
• **What impact will this initiative have on business-unit leaders?** • **Will this initiative adversely affect business units' day-to-day activities or operations?**	The initiative will have an adverse impact on business operations	The initiative will have neither a positive nor a negative impact on business operations	The initiative will have a positive impact on business operations
Time Requirement	**Long Term**	**Intermediate Term**	**Short Term**
• **Can we capture and realize cost savings within this fiscal year?** • **How do we measure soft savings with this initiative?**	Savings may or may not be realized upon (or within months of) full implementation	Expect savings to be realized within months of full implementation	Expect savings to be realized within weeks of full implementation

Cost Optimization Decision Framework (continued)

As you look to fund innovation and growth, use this tool to categorize the upside of each cost optimization opportunity and determine if the opportunity is worth the effort.

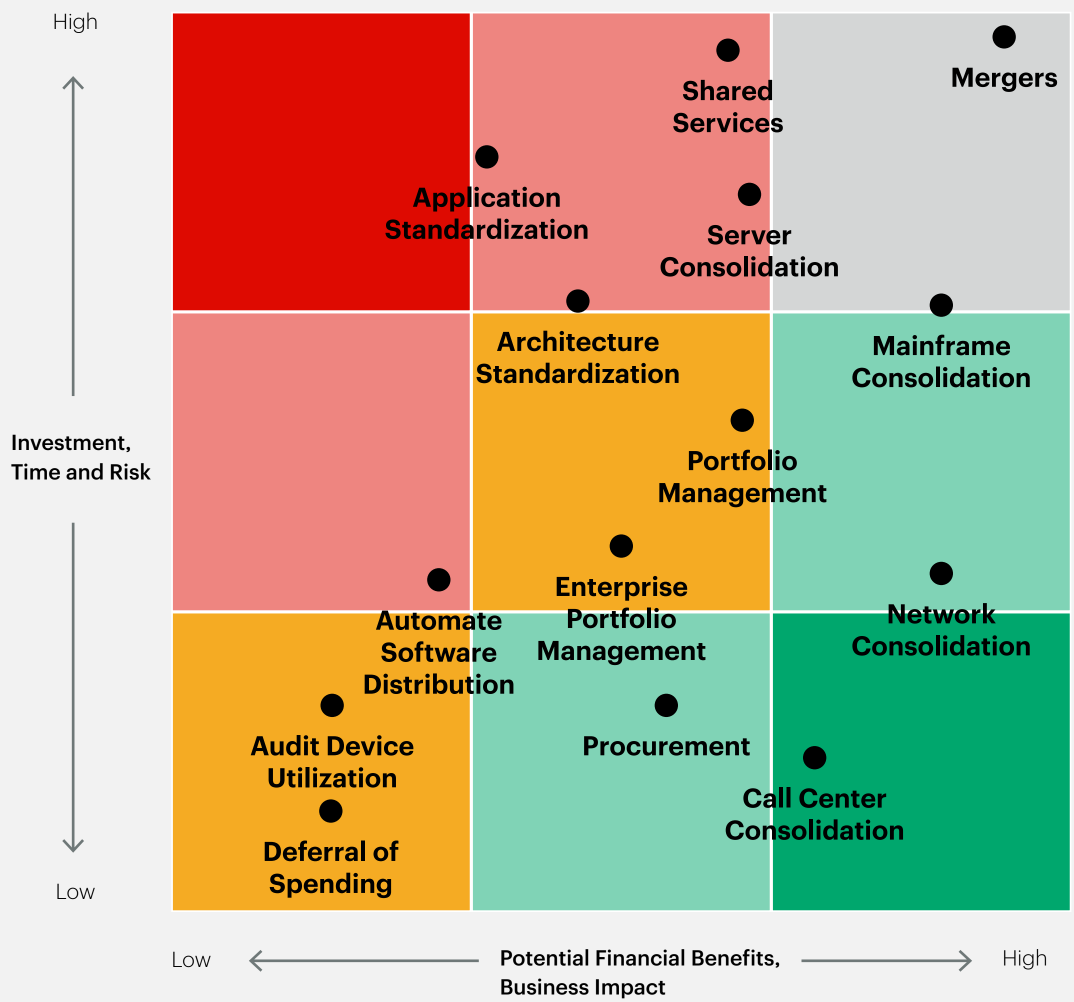
Degree of Organizational Risk	High	Moderate	Low
• **Will our business-unit leaders ensure the changes are made?** • **Is our enterprise capable of adapting to the changes?**	Layoffs and/or re-engineering of processes and structures likely	Limited change in roles, structures and processes	No layoffs or changes in organization and processes expected
Degree of IT Technical Risk	**High**	**Moderate**	**Low**
• **Will the change undermine the ability of our systems to deliver services?** • **Will this change cause delays in enterprise operations impacting few or many components of the architecture?**	Impacts operating system, database, middleware and applications	Impacts few components of the architecture	Little more than “moving boxes”
Investment Requirement	**Long Term**	**Intermediate Term**	**Short Term**
• **Does the initiative require a large, upfront investment before savings can be realized?** • **Is the enterprise willing to make an investment at all?**	Large upfront investment required before savings can be realized	Moderate upfront investment required before savings can be realized	Little to no upfront investment required before savings can be realized

Green-Light Your Best Cost Optimization Initiatives

After using the decision framework, you can group ideas together and map them to a grid to help your function visualize the effort required and the relative benefits of each initiative.

The mapping of initiatives shown here is only indicative. The perceived investment, risk, time and benefits depend highly on the function's maturity and the organization's industry and size. Every company will have a different outcome when assessing these cost optimization initiatives.

Map your cost optimization initiatives and visualize trade-offs



Discover how Gartner can help you optimize your vendor contracts with our Contract Review Service.

Contact us:
gtnr.it/strategicplanning-connect

“Having a partner like Gartner helps you understand what your maturity level is, and that really helps you in building your own strategy and three-year plan.”

Executive director, global beverages company

Contact us to discover Gartner’s full suite of insights, templates and peer examples to help you drive functional strategy.

Gartner is a trusted advisor and an objective resource for more than 15,600 organizations in 100+ countries.

Contact us: gtnr.it/strategicplanning-connect

Benefit from market-leading research and unsurpassed peer networking.

Attend a conference: gartner.com/events

Call us:
U.K. 03301 620 551
U.S. 1 855 519 2798

For part three — including the Strategy on a Page template — please contact us and one of our team will be in touch.