CHAPTER 3

Development of the Strategic Horizontal Unit *Statement of Direction*

<< INSERT CORPORATE NAME >>

<< Insert SHU Name >>

STATEMENT of DIRECTION

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CONFIDENTIAL

</div>

Date of Report: / /

By:

THE SHU COMPETITIVE STRATEGY DOCUMENT

Discussion

The SHU *Statement of Direction* document should be used by a horizontal unit performing one or more activities for the benefit of two or more strategic business units.

A horizontal unit is sometimes called a cost center, functional area, department, resource center, utility area, and countless other names. For the remainder of this document, the term horizontal unit will be used.

The logical design of this document is appropriate for any horizontal unit. It is just as useful for the centralized information systems area, legal department, human resource department, controllers area, sales force, marketing department, customer service function, or any other cost center.

The examples used throughout the discussion pages of this document cover many different horizontal units. No horizontal unit should feel slighted.

Document Conventions

Within this document there are numerous examples of words set apart with angle brackets "<<   >>." These phrases should be read with the appropriate names from your business. For example:

<< Insert SHU Name >>	The name of the strategic horizontal unit.
<< Insert SBU Name >>	The name of a corporate strategic business unit.
<< Insert Industry Name >>	The name of an industry in which your company competes.
<< Insert Business Group Name >>	The name of the group or division in which the horizontal unit operates.
<< Insert Corporate Name >>	The name of the corporation.

Example:

<< Insert SHU Name >>	Information Systems Department
<< Insert SBU Name >>	Business Unit Three
<< Insert Industry Name >>	QRS Industry
<< Insert Business Group Name >>	Division II
<< Insert Corporate Name >>	XYZ Corporation.

PURPOSE OF THIS DOCUMENT

The purpose of this document is to analyze and summarize the current status, direction, and plans of the << Insert SHU Name >> within << Insert Corporate Name >>.

Other Relevant Documents

Other relevant << Insert SHU Name >> documents include:

*

*

*

Competitor and << Insert Activity Name >> industry documents include:

*

*

*

Other corporate documents which are relevant to understanding the << Insert SHU Name >> include:

*   *The competitive strategy documents of each of the business units supported.*

*

*

*

*   << Insert Corporate Name >> Competitive Intelligence Report.

*   << Insert Corporate Name >> Corporate Strategy.

*   << Insert Corporate Name >> Annual Report.

PURPOSE OF THIS DOCUMENT

Discussion

The primary objective of this page is to clearly state to the reader the purpose of the Strategic Horizontal Unit (SHU) Statement of Direction document.

A second goal of this page is to list other documents that the reader should be aware of, both internal corporate documents and external industry documents, because they are relevant to fully understanding this horizontal unit. This allows the SHU manager to say that everything you ever wanted to know about the horizontal unit is described in this SHU Statement of Direction document or is detailed in at least one of the documents listed on this page (or the information does not exist).

Listing other horizontal unit, business unit and corporate documents also helps the reader appreciate the amount of internal information available, and how the documents and other planning efforts are linked or should be linked. For example, the SHU document should, at a minimum, refer to the competitive strategy documents of the business units it services, as well as the company's corporate strategy and the company's annual report.

When developing the plans of the horizontal unit, it is a good idea to use the term "Statement of Direc: n." Simply using the word "Strategy" or any phrase that sounds too much like the SBU "Competitive Stra gy" will confuse the organization. The two documents are different. They serve different purposes. The differences should be clear to everyone involved in the corporate planning process.

It is logical and appropriate for the strategic business units to clearly define their strategies *before* the horizontal units formulate their statements of direction. In practice, this is not always the case. Some horizontal units live in a state of frustration trying to serve the unspecified needs of the businesses they serve. Although each SBU has a strategy, it is often unclear, not written down, and frequently changing.

If desired, however, a horizontal unit can effectively develop its plans based upon the perceived needs of the businesses. The only really critical input the horizontal unit needs prior to developing a statement of direction is *an accurate list of the company's SBUs*. Everything else can be estimated and changed at a later date with little problem. But the list of the company's SBUs provides the foundation of the horizontal unit's plan. In some companies, especially those in manufacturing, identifying the company's businesses is obvious. In other companies, especially in industries related to information services and financial services, identifying the company's SBUs is not always obvious. Too often the corporate organizational structure of the company masks the true identity of the corporate businesses. If a horizontal unit develops its plans based on serving the departments of the corporation, rather than the strategic business units of the corporation, then the planning effort is likely a waste of time.

TABLE OF CONTENTS

TABLE OF CONTENTS

Discussion

The purpose of the table of contents is to list the sections of the Statement of Direction document.

Each section starts on a new page. The document is easy to customize by adding and deleting sections.

Although every section of this document is important, not all sections are of equal importance. It is also not necessary to complete every sections on day one. The most important parts of the statement of direction are the executive summary and the one page identification of the SBUs supported by the horizontal unit.

The complete framework represented by the table of contents should remain relatively intact. Maintaining the framework facilitates the process of gathering data at a later date. It also helps to use a consistent format for all horizontal units in order to facilitate the review process and to promote information sharing throughout the organization.

EXECUTIVE SUMMARY

<< Insert SHU Name >> Vital Statistics

Horizontal Unit Manager _____

Total Number of << Insert SHU Name >> Employees Under Unit Manager _____

Total Number of Consultants (Outside, Professional Staff) Under Unit Manager _____

Total Number of Temps (Outside, Non-Professional Staff) Under Unit Manager _____

1996 Actual Expenses _____$

1997 Budget Plan _____$

General Overview of << Insert SHU Name >>

The << Insert SHU Name >> unit is ....

EXECUTIVE SUMMARY

Discussion

This section presents a general overview of the horizontal unit after first identifying the staffing and financial resources employed by the unit.

Although somewhat redundant to the information found in the body of this document, this brief section represents the most important information about the horizontal unit.

In practice, especially in large corporations with many business and horizontal units, the executive summary should be extremely well written and clear not only because it is the first section read, but because of the real possibility that not all corporate executives will find the time to read any more than the summary itself.

Horizontal Unit Vital Statistics

The purpose of the vital statistics is to present objective, quantifiable information regarding the horizontal unit. At a minimum, information regarding the budget and staff size should be included.

In addition to the minimum list of statistics shown on the opposite page, most horizontal units should add statistics that would accurately summarize the level of performance of the unit. For example, a training department might list the number of training classes given last year and the number planned for this year.

Depending upon the political readiness of the organization, an annual "SHU Evaluation Rating" from each SBU supported could be added to the list of vital statistics as well. The SBU evaluation could be a subjective grade from the SBU manager or an objective scoring based on agreed to measurements. In practice, this type of SHU evaluation is more likely to happen if the horizontal unit manager is either very successful or required to do so by corporate management.

General Overview

The general overview of the horizontal unit should summarize the principal functions performed by the unit. The overview should also provide other general information required to appreciate the unit's current philosophies, status and position. In practice, it is best to keep the overview to one page.

STRATEGIC BUSINESS UNITS SUPPORTED

From the list of all << Insert Corporate Name >> businesses, the following table indicates which business units are actively supported by << Insert SHU Name >>.

SBU #	Strategic Business Unit Name	Number of People Applied	1996 Expenses	1997 Plan
1	<< Insert SBU Name >>		$	$
2	<< Insert SBU Name >>		$	$
3	<< Insert SBU Name >>		$	$
4	<< Insert SBU Name >>		$	$
5	<< Insert SBU Name >>		$	$
6	<< Insert SBU Name >>		$	$
7	<< Insert SBU Name >>		$	$
8	<< Insert SBU Name >>		$	$
9	<< Insert SBU Name >>		$	$
10	<< Insert SBU Name >>		$	$
11	<< Insert SBU Name >>		$	$
12	<< Insert SBU Name >>		$	$
13	<< Insert SBU Name >>		$	$
14	<< Insert SBU Name >>		$	$
15	<< Insert SBU Name >>		$	$
16	<< Insert SBU Name >>		$	$
17	<< Insert SBU Name >>		$	$
18	<< Insert SBU Name >>		$	$
19	<< Insert SBU Name >>		$	$
20	<< Insert SBU Name >>		$	$
	<< Insert SHU Name >> Totals:		$	$

STRATEGIC BUSINESS UNITS SUPPORTED

Discussion

The purpose of this section is to specifically highlight which corporate business units are supported by this horizontal unit, and to indicate the level of resources applied to each SBU in terms of people and dollars.

At any moment in time, a corporation is composed of 'N' number of businesses. A horizontal unit performs one or more activities for the benefit of some portion of those 'N' businesses. Corporate strategy and horizontal unit strategy require aligning resources in concert with the needs of those businesses.

It is very important that 100% of the people and expenses of the horizontal unit are allocated to the Corporate SBUs, *and not to any other horizontal unit.* A common problem in many corporations is inter-departmental cost allocations. These systems attempt to count beans, split beans, mush and then move beans around until the beans stick on an unprotected department that has a budget not yet smothered by other beans. In short, it's a mess. It is also the primary reason why resources are not aligned with the needs of the organization.

The answer to this huge problem is relatively simple. The head of each horizontal unit (cost center) must allocate all resources directly to one or more of the existing corporate business units (or to a potential new business unit). The allocation should be rational, based, for example, upon time actually worked. The business unit should agree to the allocation. If the work performed was for another horizontal unit then it might require a discussion with that horizontal unit manager to determine which business units benefited from the work performed. In practice, there are many reasons given why this allocation can't be done. But it can be done; and it should be done. Even ball-park estimates are far better than not doing this exercise at all.

For example, if a centralized information systems (I/S) department develops a telemarketing system for the centralized marketing unit, then a conversation between I/S and marketing may be required to properly allocate the I/S resources to the corporate SBUs that will benefit from the new telemarketing system.

In practice, it is not uncommon for a business unit manager to discover people supporting the business heretofore unknown. In some cases its the business unit manager who gains valuable insight into support functions performed behind the scenes. In many cases, it becomes obvious that resources are not aligned with the needs of the business, and the people are quickly re-allocated (and the budget is changed accordingly).

The number of people applied generally refers to the number of full-time employees applied to each business. In some cases, it might be appropriate to differentiate between full-time and part-time employees, as well as consultants. The overall goal, however, is to clearly indicate how many people are working for each business.

Example of resource allocation of a centralized I/S department at a global insurance company:

SBU #	SBU Name	# of Employees	1996 Expenses	1997 Plan
1	Workers Comp	600	$ 8,000,000	$ 8,000,000
2	Commercial Property	500	$ 3,000,000	$ 4,000,000
3	General Liability	700	$ 4,000,000	$ 6,000,000
4	Trucking	100	$ 2,000,000	$ 2,000,000
5	Commercial Auto	300	$ 5,000,000	$ 2,000,000
6	Boiler & Machinery	200	$ 3,000,000	$ 5,000,000
7	Ocean Marine	100	$ 1,000,000	$ 1,000,000
	Total I/S Staff:	2,500	$26,000,000	$28,000,000

MISSION STATEMENT AND SUPPORTING INFORMATION

The mission of << Insert SHU Name >> is to provide.....

Business Objectives

Our objectives, *ranked in priority order,* and listed with specific targets where feasible, include:

1.

2.

3.

4.

Strengths

Our strengths, in priority order, include:

1.

2.

Weaknesses and Vulnerabilities

Our weaknesses and vulnerabilities include the following:

1.

2.

Internal Organizational Trends

Expected trends within << Insert Corporate Name >> that will affect << Insert SHU Name >> include:

1.

2.

External Trends

The following is a list of external trends, *ranked in priority order,* which are of importance to understanding the general surrounding environment:

1.

2.

3.

MISSION STATEMENT AND SUPPORTING INFORMATION

Discussion

Mission Statement

The mission statement refers to the general goal and purpose of the horizontal unit.

Business Objectives

Business objectives should be chosen from the full domain of possible economic and non-economic contributions the horizontal unit intends to make to its full complement of stakeholders. Objectives need to be clear, specific and in priority order. In many companies, business objectives are too often little more than a wish list indicating the desire to be the best in every way.

In practice, horizontal unit objectives should often begin with something like "Perform activity X for businesses 1 and 2 such that...." or, "Help businesses 4 and 5 reduce costs by....." or, "Help the businesses of Division A by improving....."

Strengths

The strengths of the horizontal unit should be listed for several reasons, including: to recognize achievement; to communicate a potential competitive advantage for one or more of the SBUs; and to present a balanced image of the horizontal unit to SBU managers and to corporate management. (The last case is often a priority with horizontal unit managers who are frequently put in the role of defending their unit's budget and performance. It is a common ritual in many corporations for business unit managers to complain about the high prices charged and the low level of service received from internal cost centers. In those companies where teamwork is absent, the political weapon of choice used by many SBU managers is the threat to use an outside vendor.)

Weaknesses and Vulnerabilities

The listing of weaknesses represents those things within the control of the horizontal unit which need to be fixed in order to improve the results of the unit.

Vulnerabilities represent additional internal and external factors that might make it difficult for the horizontal unit to achieve its objectives. Vulnerabilities serve as an early warning signal of potential danger. In practice, listing vulnerabilities gives the horizontal unit an opportunity to push the organization into action to prevent a problem from occurring, as well as to warn management of a potential crisis ahead.

Internal Organizational Trends

The purpose of the paragraph on internal organizational trends is to list expected trends within the corporate environment that might affect the horizontal unit. Corporate restructuring and corporate relocation are two examples of internal events that often affect performance.

External Trends

The purpose of this paragraph is to highlight external trends that affect how the horizontal unit operates. For example, one or more information technology trends are likely to affect the horizontal unit. Common sources of information regarding external trends which affect procedures and practices for performing the activities of the unit are the national and international associations of professionals engaged in the same activities.

STATEMENT OF DIRECTION

Based on the objectives of the corporate businesses listed previously, the << Insert SHU Name >> horizontal strategy is to....

And more specifically, the major competitive factors along which we will guide our strategy, *in ranked order,* are:

1.

2.

3.

4.

The reason for selecting this strategy is because ....

Other relevant information regarding our horizontal strategy:

1.

2.

3.

4. << Insert Activity Name >> is an activity required by multiple SBUs with conflicting objectives. This will require additional coordination and compromise. The current situation is less than optimal because....

STATEMENT OF DIRECTION

Discussion

The horizontal unit strategy or statement of direction explains how this centralized unit will guide its policies and perform its activities consistent with the goals and objectives of the SBUs it supports.

The goal of the horizontal unit is to perform one or more activities for two or more businesses in a manner that maximizes the overall return of the group. In some cases this can be different than maximizing the return of each SBU.

In practice, if all SBUs have the same objectives in terms of how a particular activity is performed, the horizontal unit has little confusion regarding its objectives. The mission becomes a relatively straight forward task of performing its specialized activity in the best manner possible in the context of the clearly stated business objectives. It may be to perform the activity at the lowest cost, or it may be to perform the activity better than the competition along some dimension. For example, all of the business unit managers might request that the centralized telephone customer service be staffed 24-hours a day with the most knowledgeable and the most courteous people in the industry, even though it may cost a little extra, in order to support their common strategy of superior customer service.

If, on the other hand, the SBUs have different or even conflicting objectives or requirements for the performance of a given activity, then the horizontal unit manager must work to refine one or more SBU strategies in order to maximize the group's performance. Using the previous example, what if the strategy of several of the business units is to keep customer service costs extremely low because it is not a priority with their customers and the profit margins can't support more than a basic service? Decisions regarding staffing and training become more complicated and more difficult - especially when one business manager wants to fire the customer service staff and replace them with the latest in sophisticated 'expert systems' for a totally automated customer service environment. The conflict in objectives requires a discussion with the SBU managers involved, and possibly with executive management, to ensure that the group's interests are paramount to the goals of any one SBU.

For horizontal units that perform more than one strategically significant activity, it is important to analyze each activity independently.

The big picture is that the horizontal unit's goals and plans should be dictated by the needs and the strategies of the SBUs. One of the reasons why many business units are frustrated with the support (and charges) they receive from the horizontal units is because many horizontal units adhere to a different goal. That is, the goal to seek the maximum budget increase possible in order to perform their specialized activities in the best manner possible. The rub is that the horizontal unit manager cannot make the necessary trade-off decisions between spending an extra dollar on one activity versus spending an extra dollar on another activity versus not spending the extra dollar at all. (Only the SBU manager can make those decisions based upon the objectives and strategies of the business within the context of the industry dynamics.)

For example, what information systems professional doesn't want the newest computers and the latest software on the market? The question should not be, "Is new technology A better than current technology B?" The question should be, "What is the best technology to meet the needs and objectives of the business units served based on their current strategies, their current strategic positions, and their current financial condition?"

BUSINESS OBJECTIVES SUPPORTED, BY CORPORATE SBU

Listed below are the businesses supported by << Insert SHU Name >> and a brief statement on the objectives of each in terms of the activities provided by << Insert SHU Name >>.

1. Business Unit(s) Supported: ==>
   Relevant Business Objective:
   High-level Plan for Meeting Business Objective:

2. Business Unit(s) Supported: ==>
   Relevant Business Objective:
   High-level Plan for Meeting Business Objective:

3. Business Unit(s) Supported: ==>
   Relevant Business Objective:
   High-level Plan for Meeting Business Objective:

4. Business Unit(s) Supported: ==>
   Relevant Business Objective:
   High-level Plan for Meeting Business Objective:

BUSINESS OBJECTIVES SUPPORTED, BY CORPORATE SBU

Discussion

The purpose of this section is to clearly link the plans of the horizontal unit with the objectives and strategies of each business it supports.

In practice, there are sometimes political, personal and other reasons that keep business unit managers and cost center managers from constructively communicating with each other.

The process described here facilitates discussion between the SHU and the SBUs. At a minimum, the horizontal unit should clearly specify what business objectives the unit intends to support. If done correctly, this page answers the following question asked by most SBU managers: "What is your department doing to help my business?"

The outline on the opposite page is simple and straight forward. For each SBU, identify what business objective the horizontal unit is supporting, and clarify the horizontal unit's plan for meeting that objective.

If there are multiple SBUs with an identical objective, then the SBUs should be listed together. This not only saves time and space discussing how the objective will be met, but it highlights which SBUs have a common objective.

The danger in not specifically linking the activities of the SHU with the objectives of the SBUs is often spending out of control. Aligning resource spending in concert with the objectives of the SBUs units is critical.

Example for a Centralized Sales Force

Business Unit(s) Supported: ==> Business One, Business Three and Business Four

    Relevant Business Objective: Maintain Key Corporate Customers

    High-level Plan for Meeting Business Objective: For our best 100 corporate customers we will establish a special 'relationship sales team' to maintain and grow the key corporate accounts. We will connect each priority customer to our corporate electronic mail system, visit the customer at least once a month, provide customer gifts regularly, invite the customer and spouse to an annual conference at a resort hotel, and have a member of our executive committee meet with the customer at least once a year.

ACTIVITY BASELINE AND ANALYSIS

Listed below, *ranked in priority order,* are the most important activities performed by << Insert SHU Name >>, along with a description of the activity, key cost drivers, key uniqueness drivers, and other significant information.

1. ACTIVITY NAME:
Activity Cost: $
Description of Activity:

Activity Analysis in Terms of Cost Drivers:

Activity Analysis in Terms of Uniqueness Drivers:

Approach/Alternatives for Controlling Activity Costs:

2. ACTIVITY NAME:
Activity Cost: $
Description of Activity:

Activity Analysis in Terms of Cost Drivers:

Activity Analysis in Terms of Uniqueness Drivers:

Approach/Alternatives for Controlling Activity Costs:

3. ACTIVITY NAME:
Activity Cost: $
Description of Activity:

Activity Analysis in Terms of Cost Drivers:

Activity Analysis in Terms of Uniqueness Drivers:

Approach/Alternatives for Controlling Activity Costs:

4. ACTIVITY NAME:
Activity Cost: $
Description of Activity:

Activity Analysis in Terms of Cost Drivers:

Activity Analysis in Terms of Uniqueness Drivers:

Approach/Alternatives for Controlling Activity Costs:

ACTIVITY BASELINE AND ANALYSIS

Discussion

The purpose of this section is to understand the cost dynamics of each strategically significant activity, as well as to examine how that activity can potentially make the product or service unique. In practice, it is usually sufficient to analyze in detail the four most important activities of the horizontal unit. Limiting this analysis to four key activities will help ensure that the task is not rushed in order to just finish it. In theory, every significant activity can (and eventually should) be analyzed for improvement.

From Michael Porter's *Competitive Advantage,* cost drivers are the structural factors that influence cost and can be more or less under a firm's control. Uniqueness drivers are the underlying reasons *why* an activity is unique. (Refer to the glossary at the end of this book for definitions of the cost and uniqueness drivers listed below.)

The cost and uniqueness drivers should be viewed as a simple checklist to help analyze why an activity is relatively more or less costly and how it leads to more or less uniqueness. If one or more cost drivers or uniqueness drivers has no impact on a particular activity, leave it out.

An alternative format to the one shown on the opposite page is presented below. In practice, this is an excellent group exercise. For a given activity, first rank the impact of each cost and uniqueness driver from "Very High" to "Very Low." Then discuss why each driver is or is not important to that activity. Finally, for those drivers which have a big impact, discuss how performance of that activity can be optimized by controlling that driver.

Alternative Format to the One Shown on the Opposite Page

ACTIVITY NAME: _____   Activity Cost: $

Description of Activity:

Key Cost Drivers:
ECONOMIES OF SCALE [Impact:] - This is because....
PATTERN OF CAPACITY UTILIZATION - [Impact:] - This is because....
LEARNING AND SPILLOVER - [Impact:] - This is because....
LINKAGES (within the value chain, with suppliers, with channels) - [Impact:] - This is because....
INTERRELATIONSHIPS - [Impact:] - This is because....
INTEGRATION - [Impact:] - This is because....
TIMING - [Impact:] - This is because....
DISCRETIONARY POLICIES - [Impact:] - This is because....
LOCATION - [Impact:] - This is because....
INSTITUTIONAL FACTORS - [Impact:] - This is because....

Key Uniqueness Drivers:
POLICY CHOICES - [Impact:] - This is because....
LINKAGES (within the value chain, with suppliers, with channels) - [Impact:] - This is because....
TIMING - [Impact:] - This is because....
LOCATION - [Impact:] - This is because....
INTERRELATIONSHIPS - [Impact:] - This is because....
LEARNING - [Impact:] - This is because....
INTEGRATION - [Impact:] - This is because....
SCALE - [Impact:] - This is because....
INSTITUTIONAL FACTORS - [Impact:] - This is because....

The plan for this activity to lower costs and / or to enhance differentiation is to....

LINKED HORIZONTAL UNITS & SIMILAR HORIZONTAL UNITS

Linked Horizontal Units

Listed below are other horizontal units *which perform activities that are closely linked* to the activities performed by this area.

	Linked Horizontal Unit	**General Comments; Description of Linkages (Actual and Potential)**
1.		
2.		
3.		
4.		
5.		
6.		
7.		

Similar Horizontal Units

Listed below are other horizontal units *which perform similar activities* to this area.

	Similar Horizontal Unit	**General Comments**
1.		
2.		
3.		
4.		
5.		

LINKED HORIZONTAL UNITS & SIMILAR HORIZONTAL UNITS

Discussion

In most companies, the relationships between horizontal units and the business units they serve are well understood. The objectives of the SBUs serve as the framework to guide the performance of the SHUs. Typically, an SBU will request services from an SHU and budget for those services. Discussions regarding performance expectations and expected results occur as part of the normal negotiations that often take place during the budgeting cycle.

However, the relationship between horizontal units is often less clear. There may not be any formal arrangement or process whereby the two units attempt to optimize the results of the corporation (or group).

The purpose of this section is to discuss the relationship between the horizontal unit under discussion and other horizontal units which perform activities that are either *linked to* activities performed by this unit, or *similar to* the activities performed by this unit. Both types of situations should be analyzed; and both are discussed below.

Linked Horizontal Units

Linkages are the relationships between the way one value activity is performed and the impact on cost or performance of another activity. For example, the better marketing analyzes customer needs, the better the development of the product should be. The better the product is designed and built, the easier the product should be to sell, and the fewer customer complaints there should be per customer.

Within most firms there are many linkages between activities where performance of one activity affects another. These linkages should be documented and analyzed.

For example, a common linkage in many firms exists between the centralized human resource department and the centralized information systems department. The human resource department should identify in their statement of direction their linkage and dependence upon the I/S department (to build a customized employee tracking system, for example).

Similar Horizontal Units

Similar horizontal units are those cost centers which perform the same activity in different parts of the organization.

For example, consider a company of thirty businesses which are grouped into three divisions with each division having its own applications development unit. Each of these three applications development teams (which develop systems for their respective division) should be aware of the activities of the other two development groups with the goal of sharing information and software where appropriate.

COMPETITIVE INFORMATION & BENCHMARKING

Listed below are the names of other firms with a similar horizontal unit along with some information about each.

The information below represents the highlights of data gathered from independent sources (i.e., from people not working directly within << Insert SHU Name >>).

The comments attempt to highlight important competitive comparisons including: strengths and weaknesses; strategies; organizational structure; geographical locations; processes and procedures employed; impact on business goals; cost structure; primary vendors used; values; philosophies; trends; and anything else known about the horizontal unit that is relevant to strategy formulation.

COMPETITOR NAME; SOURCE & DATE	COMPETITOR INTELLIGENCE INFORMATION
Competitor Name:	
Source of Information:	
Date of Information:	
Competitor Name:	
Source of Information:	
Date of Information:	
Competitor Name:	
Source of Information:	
Date of Information:	

COMPETITOR INFORMATION

Discussion

The primary purpose of this section is to analyze how competitors perform the same activities performed by this horizontal unit. In some cases, it is also useful to present information on how other industries perform these and related activities. This information is relevant when considering how to re-engineer the horizontal unit in order to achieve the best results.

Monitoring traditional and non-traditional competitors is fundamental to acquiring knowledge of the best practices of the best companies (and to avoid the mistakes of the other companies).

Many books and articles have been written in the 1980's and early 1990's about benchmarking. Benchmarking is a process which includes the following steps:
- define key activities and analyze world class producers (and world class service providers);
- understand different ways to perform activities;
- evaluate performance of each process;
- analyze different ways activities are linked;
- study how different industries perform similar activities;
- identify improvement opportunities and set forth actionable tasks.

In short, benchmarking is a systematic approach to learning from the competition how to best perform key activities. Anything that helps to accomplish this goal is worthwhile. It is important to understand the causes for the differences and gaps in performance between competitors.

The information sources used for this section may include trade magazines, ex-employees of competitors, funded studies by consulting firms or universities, trade shows, annual reports, ads and stories in newspapers and magazines, agencies and recruiters on retainer, industry survey groups, focus groups, sales force contact with customers, industry analysts, professional conferences, and more.

The type of data collected may include information on competitor strengths, weaknesses, strategies, procedures, costs, organization charts, biographical data on employees, incentive plans, financial data, suppliers, allocation of resources, organizational culture, office facilities, information technology infrastructure, and more.

For more information on benchmarking and a comprehensive list of sources of competitive information, see Timothy W. Powell, *Analyzing Your Competition*, FIND/SVP, 1993.

MAJOR PROGRAMS AND TACTICAL ACTION PLANS

Listed below are the major programs and tactical action plans of the << Insert SHU Name >> unit.

1. **Major Program:**
   SBUs Affected:
   Benefit Expected:
   Tactical Plan:
   Time Frame:
   Person Responsible:
   Discussion:

2. **Major Program:**
   SBUs Affected:
   Benefit Expected:
   Tactical Plan:
   Time Frame:
   Person Responsible:
   Discussion:

3. **Major Program:**
   SBUs Affected:
   Benefit Expected:
   Tactical Plan:
   Time Frame:
   Person Responsible:
   Discussion:

4. **Major Program:**
   SBUs Affected:
   Benefit Expected:
   Tactical Plan:
   Time Frame:
   Person Responsible:
   Discussion:

MAJOR PROGRAMS AND TACTICAL ACTION PLANS

Discussion

The purpose of this section is to list all of the major programs and tactical action plans which the horizontal unit is currently working on or planning to work on in the near future.

The goal of aligning the resources of the horizontal unit in concert with the objectives of the businesses is realized through the proper selection and successful implementation of major programs and action plans. Each program or task should identify which SBUs are affected; the benefit expected by implementing the identified task; the tactical plan for completing the task; the expected completion date; the person most responsible for the successful completion of the task; and any other relevant information. The key to this section is to ensure that the business objectives identified earlier are undeniably supported by the major programs and tasks listed.

This section could easily be combined with the section "Business Objectives Supported, by Corporate SBU." They are separated here for the benefit of horizontal units which are involved in a many programs. Separating the two sections helps ensure that the high-level objectives of the horizontal unit (listed earlier) are not obscured by the detailed information of a potentially long list of programs (to be listed here).

Example for Centralized Advertising Department of Company XYZ

* **Major Program: European Ad Campaign**
    SBUs Affected: Business Unit One and Business Unit Seven.
    Benefit Expected: Improved market image and brand recognition in Europe.
    Tactical Plan: Advertise in financial newspapers and magazines and explore TV advertising.
    Time Frame: Phase I advertising campaign to be started by 2/15/95.
    Person Responsible: S. Goldstein.
    Discussion: In order to promote our new products in Western Europe and to introduce all of our products in Eastern Europe we have to significantly increase our advertising expenditures. Our competition has moved into Hungary and Poland and we need to quickly catch up before their name recognition and customer loyalty is so high that we would be closed out of those markets.

* **Major Program: 1996 Company Catalog**
    SBUs Affected: All Corporate Businesses Except Business Unit Three
    Benefit Expected: Ability to continue catalog sales and to increase those sales by 7%.
    Tactical Plan: At an expected cost of $45,000, all participating business units will meet in August to prepare their products to be featured in the 1996 catalog with our corporate theme of *safety and value.*
    Time Frame: Catalogue to be completed by 10/1/95
    Person Responsible: S. Chin
    Discussion: This year's catalog layout will move all product descriptions to the right hand pages, rather than below each product picture. This will minimize costs for translating the catalog into Spanish for distribution in Mexico, Central America and South America.

In the examples above, note that each program first identifies which SBUs are affected. Some programs might affect all SBUs, but in many cases a project affects only a subset of the total list of corporate SBUs.

In practice, requiring the horizontal unit to *specifically* identify which businesses are supported by each major program quickly eliminates programs that are not supported by the businesses. *This one procedure can often lead to major cost savings and improved corporate profitability.*

OPPORTUNITY IDENTIFICATION

Listed below are potential opportunities which will be analyzed to better understand their impact on our competitive position:

*

*

*

*

*

*

*

*

*

* We might add new suppliers including....

* We might eliminate suppliers including....

* We might change the way we perform certain activities including....

* We will begin to outsource the following activities.......

* In order to improve industry structure for all competitors, we might consider....

* Recognizing that many activities are linked and that performance of one activity can significantly affect another, we plan to....

OPPORTUNITY IDENTIFICATION

Discussion

This section provides the horizontal unit manager and others an opportunity to openly discuss possible actions that could improve the performance of the horizontal unit. This section is different from the section on major programs and tactical action plans in which each program has already been approved and someone is assigned to complete the task by a given date.

The opportunities listed here are for discussion purposes. Over time, the opportunities listed should be individually analyzed and either discarded or made part of the list of approved action plans.

In practice, this section is usually updated the most during a strategy review session with representatives from the various businesses, other horizontal units, and corporate management.

To facilitate the process of generating a list of opportunities, the template on the opposite page includes the beginning of common opportunities facing most horizontal units. They should be completed or deleted based on the current situation of the horizontal unit.

A final suggestion regarding opportunity identification is that almost all ideas given in earnest should be written down and not immediately discarded. Good ideas are too often rejected by those who are not able to appreciate them; and rejecting ideas immediately does not encourage people to participate fully in the future.

CRITICAL SUCCESS FACTORS

The Critical Success Factors (CSFs) for this horizontal unit, *ranked in priority order*, are highlighted below:

	Critical Success Factor	Source of CSF	Primary Measures & Targets
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

KEY for sources of critical success factors:
   INDUSTRY = Industry CSF resulting from specific industry characteristics.
   STRATEGY = Strategy CSF resulting from the chosen competitive strategy of one or more corporate businesses.
   ENVIRONMENT = Environmental CSF resulting from economic or technological changes.
   TEMPORAL = Temporal CSF resulting from internal organizational needs and changes.

CRITICAL SUCCESS FACTORS

Discussion

This section is about critical success factors. Critical success factors are those things which must go right for the horizontal unit to achieve its mission and objectives.

The advantages of identifying CSFs are that they are simple to understand; they help focus attention on major concerns; they are easy to communicate to coworkers; and they are easy to monitor. Clarifying the priority order of CSFs, measuring results, and rewarding superior performance will improve the odds that the horizontal unit will meet its objectives.

As mentioned earlier in this book, there are four basic types of CSFs according to Jack Rockart. They are:
Industry CSFs resulting from specific industry characteristics;
Strategy CSFs resulting from the chosen competitive strategy of the business;
Environmental CSFs resulting from economic or technological changes; and
Temporal CSFs resulting from internal organizational needs and changes.

For the horizontal unit, determining CSFs requires thinking from the point of view of the businesses it supports.

Example of Critical Success Factors for I/S Department of Company XYZ:

CRITICAL SUCCESS FACTOR	Source of CSF	Primary Measure & Target
1. Align I/T resources with SBU objectives	Industry	Improved scores from annual survey of business managers supported.
2. Retain programming staff	Strategy	Retain at least 9 of our 10 key super stars; Retain 95% of programming staff per year.
3. Keep within budget	Industry	Actual expenditures equal or less than budget; Actual head count equal to or less than budget.
4. Improve staff skills	Strategy	Approved I/S policy allowing one day per week in basic research and training.
5. Ensure continuous operations	Industry	Install full backup procedures by 9/1/97; Fully test backup procedures by 12/31/97.

FINANCIAL REPORTING & HUMAN RESOURCE MANAGEMENT ISSUES

The financial resources of << Insert SHU Name >> are analyzed via the following:
* << Insert SHU Name >> Expense Allocation by Accounting Classifications
* << Insert SHU Name >> Expense Allocation by Corporate SBU Supported
* << Insert SHU Name >> Expense Allocation by Activity
* << Insert SHU Name >> Supplier Analysis
* << Insert SHU Name >> Human Resource Allocation by Business Unit and by Activity Performed
* << Insert SHU Name >> Organization Chart
* << Insert SHU Name >> Staffing & Training Analysis.

<< INSERT SHU NAME >> EXPENSE ALLOCATION BY ACCOUNTING CLASSIFICATION

Strategic Business Unit	1996 Actual	1997 Estimate
Salaries	$	$
Benefits	$	$
Occupancy	$	$
Equipment	$	$
Travel & Entertainment	$	$
Professional Fees	$	$
Other Accounting Classification 1	$	$
Other Accounting Classification 1	$	$
Other Accounting Classification 1	$	$
	$	$
	$	$
Other Accounting Classification 'N'	$	$
TOTAL EXPENSES:	$	$

FINANCIAL REPORTING & HUMAN RESOURCE MANAGEMENT ISSUES

Discussion

This section is used to present the financial reports of the horizontal unit and to discuss human resource management issues.

In practice, when all is said and done, even the most well-run horizontal unit is still a cost center that must allocate its costs. When the horizontal unit performs its mission flawlessly *and* every business unit is very profitable, the allocation of expenses is a relatively simple procedure that involves little controversy.

If, on the other hand, the horizontal unit performs in anything less than a stellar manner *or* one or more of the business units is not highly profitable, then allocating costs becomes a big deal in most corporations.

Regardless of the relative performance of the horizontal unit or the profitability of the businesses, the more accurate, the more detailed, and the more rational the allocation of costs, the better.

All too often, even well run horizontal units are viewed as inefficient simply because their allocated expenses were presented as one big expense without sufficient commentary as to what each business unit was getting for their money.

Presented on this and the next several pages are simple yet effective means to analyze and allocate the costs of a horizontal unit.

Expense Allocation by Accounting Classifications

The purpose of this (traditional) analysis is to list the expenses of the horizontal unit according to standard accounting classifications. This information is routinely lumped with accounting data from other business units and other horizontal units in order to obtain aggregate results for the group and the corporation as a whole.

This analysis is important. It should be performed in addition to the following analyses, rather than be replaced by them. Generally Accepted Accounting Principles (GAAP) are here to stay, and GAAP reporting is usually required by the corporate accounting department anyway.

<< INSERT SHU NAME >> EXPENSE ALLOCATION BY CORPORATE SBUs SUPPORTED

The allocation of expenses by corporate business unit is presented below.

Strategic Business Unit	1996 Actual	1997 Plan	Percent Change
<< Insert Name of Strategic Business Unit 1 >>	$	$	%
<< Insert Name of Strategic Business Unit 2 >>	$	$	%
<< Insert Name of Strategic Business Unit 3 >>	$	$	%
<< Insert Name of Strategic Business Unit 4 >>	$	$	%
<< Insert Name of Strategic Business Unit 5 >>	$	$	%
<< Insert Name of Strategic Business Unit 6 >>	$	$	%
<< Insert Name of Strategic Business Unit 7 >>	$	$	%
<< Insert Name of Strategic Business Unit 8 >>	$	$	%
<< Insert Name of Strategic Business Unit 9 >>	$	$	%
<< Insert Name of Strategic Business Unit 10 >>	$	$	%
<< Insert Name of Strategic Business Unit 11 >>	$	$	%
<< Insert Name of Strategic Business Unit 12 >>	$	$	%
<< Insert Name of Strategic Business Unit 13 >>	$	$	%
<< Insert Name of Strategic Business Unit 14 >>	$	$	%
<< Insert Name of Strategic Business Unit 15 >>	$	$	%
<< Insert Name of Strategic Business Unit 16 >>	$	$	%
<< Insert Name of Strategic Business Unit 17 >>	$	$	%
<< Insert Name of Strategic Business Unit 18 >>	$	$	%
<< Insert Name of Strategic Business Unit 19 >>	$	$	%
<< Insert Name of Strategic Business Unit 20 >>	$	$	%
Other << Insert Corporate Name >> Businesses	$	$	%
TOTAL EXPENSES:	$	$	%

EXPENSE ALLOCATION BY CORPORATE SBU SUPPORTED

Discussion

The purpose of this analysis is to record the allocation of expenses of the horizontal unit by corporate SBU and to put forward the planned resource allocations for current and future time periods.

The table on the opposite page is simple and most revealing.

Example of Expense Allocation by SBU for the I/S Department of Insurance Company XYZ

SBU #	SBU Name	1996 Expenses	1997 Plan	% Change
1	Workers Compensation Insurance	$ 9,000,000	$ 8,000,000	(11%)
5	Commercial Auto Insurance	$ 5,000,000	$ 6,000,000	20%
2	Commercial Property Insurance	$ 5,000,000	$ 4,000,000	(20%)
3	General Liability Insurance	$ 4,000,000	$ 5,000,000	25%
4	Trucking Insurance	$ 3,000,000	$ 4,000,000	33%
6	Boiler & Machinery Insurance	$ 3,000,000	$ 2,000,000	(50%)
7	Ocean Marine Insurance	$ 1,000,000	$ 1,300,000	30%
	Totals:	$30,000,000	$30,300,000	1%

In practice, many corporations establish (simplistic) corporate guidelines which mandate flat budgets or small increases across the corporation. But even horizontal units which 'must live' within such guidelines should recognize that there is ample opportunity to re-allocated people and expenses based on the relative needs of the businesses. If the department must live within a 1% budget increase, it is still possible to dramatically re-allocate resources as shown above. If, on the other hand, the corporate mandate is also applied across the department, *at every level,* in order to 'be fair,' the actual result is the elimination of strategic decision making. In essence, the horizontal unit (and the whole company if every department follows suit) commits itself to yesterday's resource-allocation priorities in today's environment.

<< INSERT SHU NAME >> EXPENSE ALLOCATION BY ACTIVITY

The allocation of expenses by activity is presented below.

ACTIVITY NAME	1996 ACTUAL TOTAL ACTIVITY COSTS	1996 EST. HUMAN RESOURCE COSTS	1996 EST. OPERA-TING COSTS	1996 EST. FIXED ASSET COSTS	1997 EST. TOTAL ACTIVITY COSTS
Activity Name 1	$	$	$	$	$
Activity Name 2	$	$	$	$	$
Activity Name 3	$	$	$	$	$
Activity Name 4	$	$	$	$	$
Activity Name 5	$	$	$	$	$
Activity Name 6	$	$	$	$	$
Activity Name 7	$	$	$	$	$
Activity Name 8	$	$	$	$	$
Activity Name 9	$	$	$	$	$
Activity Name 10	$	$	$	$	$
.					
.					
.					
Activity Name 'N'					
TOTAL EXPENSES:	$	$	$	$	$

EXPENSE ALLOCATION BY ACTIVITY

Discussion

The purpose of this section is to allocate expenses by SHU activity.

Depending upon the reporting requirements of the organization, it may be worthwhile to present a few years of history as well as current expenses and planned expenses.

According to Michael Porter, activity costs can be divided into three categories. These categories are:
1. Human resource costs;
2. Operating costs;
3. Fixed-asset costs.

Each of the terms above is defined in the glossary near the end of this book. It is fairly straight forward to compute human resource costs and operating costs. However, to compute fixed asset costs (e.g., to allocate the annual cost that should be recognized for using a mainframe computer that has four years of life left) use the formula:

(Asset Replacement Cost / Years of Remaining Life)

If the SHU shares the asset with other SHUs and / or SBUs, then multiply the quotient calculated above by the percent allocation of the asset used by the SHU.

Example of I/S Department of Utility Company XYZ

Activity Name	1995 Total Activity Costs	1996 Human Resource Costs	1996 Operating Costs	1996 Fixed Asset Costs	1996 Total Activity Costs
I/S Management & Admin.	$ 200,000	$ 150,000	$ 20,000	$ 30,000	$ 200,000
Mainframe Operations Support	$ 900,000	450,000	120,000	230,000	$ 800,000
Applications Development	$ 700,000	500,000	100,000	100,000	$ 700,000
PC Management Support	$ 400,000	400,000	80,000	120,000	$ 600,000
Image-based Systems Develop.	$ 300,000	120,000	60,000	70,000	$ 250,000
Expert Systems Development	$ 500,000	250,000	170,000	80,000	$ 500,000
Telecommunications	$ 200,000	70,000	50,000	80,000	$ 200,000
EDI Development	$ 100,000	50,000	40,000	40,000	$ 130,000
TOTAL EXPENSES:	$3,300,000	$1,990,000	$640,000	$ 750,000	$3,380,000

<< INSERT SHU NAME >> SUPPLIER ANALYSIS

Listed below, *in order of priority,* are the suppliers used by << Insert SHU Name >>:

	Supplier Name	Product Supplied	Degree of Independence	1996 Actual Expenses	1997 Plan
1				$	$
2				$	$
3				$	$
4				$	$
5				$	$
6				$	$
7				$	$
8				$	$
9				$	$
10				$	$
Other Suppliers:				$	$
All Suppliers:				$	$

Using << Insert Corporate Name >>'s buyer power, our plans to bargain down costs and to improve vendor performance include....

SUPPLIER ANALYSIS

Discussion

The purpose of this section is to highlight the suppliers of the horizontal unit. Monitoring suppliers should be viewed as a key activity. Exercising buyer power can often improve profitability quickly.

The degree to which companies exercise buyer power varies widely. At a minimum, every horizontal unit should analyze their top ten suppliers. For each supplier, the horizontal unit should evaluate potential alternatives and consider ways to bargain down prices and improve the product (or service) purchased.

Especially given the volatility of today's business climate, many vendors will lower their prices when asked. Technological changes have given rise to over capacity in many industries. From the point of view of many vendors, their marginal cost for keeping a customer is low. In addition, many sales representatives are paid on commission of total sales, and their fear of losing the whole relationship is often high enough that negotiating proves successful.

The horizontal unit should also judge how dependent it is on each vendor. In essence, the question becomes, "If vendor X suddenly disappeared, what impact would that have?" The goals of the horizontal unit should be to minimize its dependence on as many vendors as possible and to plan for alternative vendors if the need should arise.

Example of Supplier Analysis for I/S Department of Pharmaceutical Company XYZ

	Supplier Name	Product Supplied	Degree of Independence	1996 Expenses	1997 Est. Expenses
1.	IBM	Hardware/Software	Low	$ 9,500,000	$ 9,000,000
2.	NYNEX	Telecommunications	Low	$ 2,500,000	$ 2,300,000
3.	Comdisco	Disaster Recovery	Moderate	$ 2,000,000	$ 2,100,000
4.	AT&T	Telecommunications	High	$ 1,500,000	$ 2,000,000
5.	Microsoft	Software	Moderate	$ 1,000,000	$ 1,200,000
6.	Staples	Office Supplies	High	$ 40,000	$ 42,000
7.	Structured Strategic Planning	Strategic Planning Speaker	High	$ 0	$ 4,000

HUMAN RESOURCE ALLOCATION BY BUSINESS UNIT AND BY ACTIVITY PERFORMED

<< INSERT CORPORATE NAME >> SBUs

1. << Insert SBU Name >>		6. << Insert SBU Name >>
2. << Insert SBU Name >>		7. << Insert SBU Name >>
3. << Insert SBU Name >>		8. << Insert SBU Name >>
4. << Insert SBU Name >>		9. << Insert SBU Name >>
5. << Insert SBU Name >>		10. << Insert SBU Name >>

SBUs:	1	2	3	4	5	6	7	8	9	10	Total
Activity Name											
<< Insert Activity # 1 >>	0	0	0	0	0	0	0	0	0	0	0
<< Insert Activity # 2 >>	0	0	0	0	0	0	0	0	0	0	0
<< Insert Activity # 3 >>	0	0	0	0	0	0	0	0	0	0	0
<< Insert Activity # 4 >>	0	0	0	0	0	0	0	0	0	0	0
<< Insert Activity # 5 >>	0	0	0	0	0	0	0	0	0	0	0
<< Insert Activity # 6 >>	0	0	0	0	0	0	0	0	0	0	0
<< Insert Activity # 7 >>	0	0	0	0	0	0	0	0	0	0	0
<< Insert Activity 'N' >>	0	0	0	0	0	0	0	0	0	0	0
Employee Totals:	0	0	0	0	0	0	0	0	0	0	0

Allocation of full-time equivalent employees rounded to the nearest whole number. However, a 'd' represents a decimal fraction greater than zero but less than .5 in order to distinguish between no support and very little support.

HUMAN RESOURCE ALLOCATION BY SBU & BY ACTIVITY PERFORMED

Discussion

The purpose of this analysis is to allocate human resources by SBU and by activity.

People are tangible and managers can relate to people. Managers can move people from one activity to another and from supporting one business to another. *That is why this one-page analysis is often the most useful page of the SHU Statement of Direction.*

From the viewpoint of the horizontal unit and the corporation as a whole, this exercise is a good example of why the list of corporate business units is such a critical first step. It ensures that all support groups align their resources in terms of those businesses, and allows corporate management the ability to compare the relative benefits of alternative resource allocations.

Example of human resource allocation for centralized training department of Company XYZ

List of Activities	SBU 1	SBU 2	SBU 3	SBU 4	TOTAL
Training Management and Administration	2.0	1.0	1.0	1.0	5.0
Audio Visual Support Activities	1.0	1.0	1.0	0.5	3.5
Training Catalog & Training Newsletter Activities	1.0	0.5	·1.0	1.0	3.5
Training Class Registration Activities	0.5	0.5	0.5	0.5	2.0
Selection & Management of Consultants & Trainers	1.0	1.0	1.0	1.0	4.0
Executive Management Program	1.0	1.0	0.5	1.0	3.5
General Management Training	0.5	0.5	0.5	0.5	2.0
Product Management Training	1.0	1.0	1.0	1.0	4.0
Industry Seminar Series	1.0	0.5	1.0	0.5	3.0
Sales Training	2.0	1.0	2.0	1.0	6.0
Government Regulations Training (EEO, ADA, etc.)	1.0	1.0	1.0	1.0	4.0
PC Skills Workshop	2.0	1.0	4.0	1.0	8.0
Total Quality Management Training	0.5	0.5	0.5	0.5	2.0
Customer Service Workshop	1.0	1.0	1.0	0.0	3.0
Presentation Skills Training	1.0	1.0	1.0	0.5	3.5
Writing Skills Training	1.0	1.0	1.0	1.0	4.0
New Employee Training	0.5	0.5	0.5	0.5	2.0
Employee Benefits Planning	1.0	1.0	1.0	1.0	4.0
Outplacement Training	1.0	0.0	1.5	0.5	3.0
Total number of training staff applied:	**20**	**15**	**21**	**14**	**70**

<< INSERT SHU NAME >> ORGANIZATION CHART

The << Insert SHU Name >> organization chart is presented below.
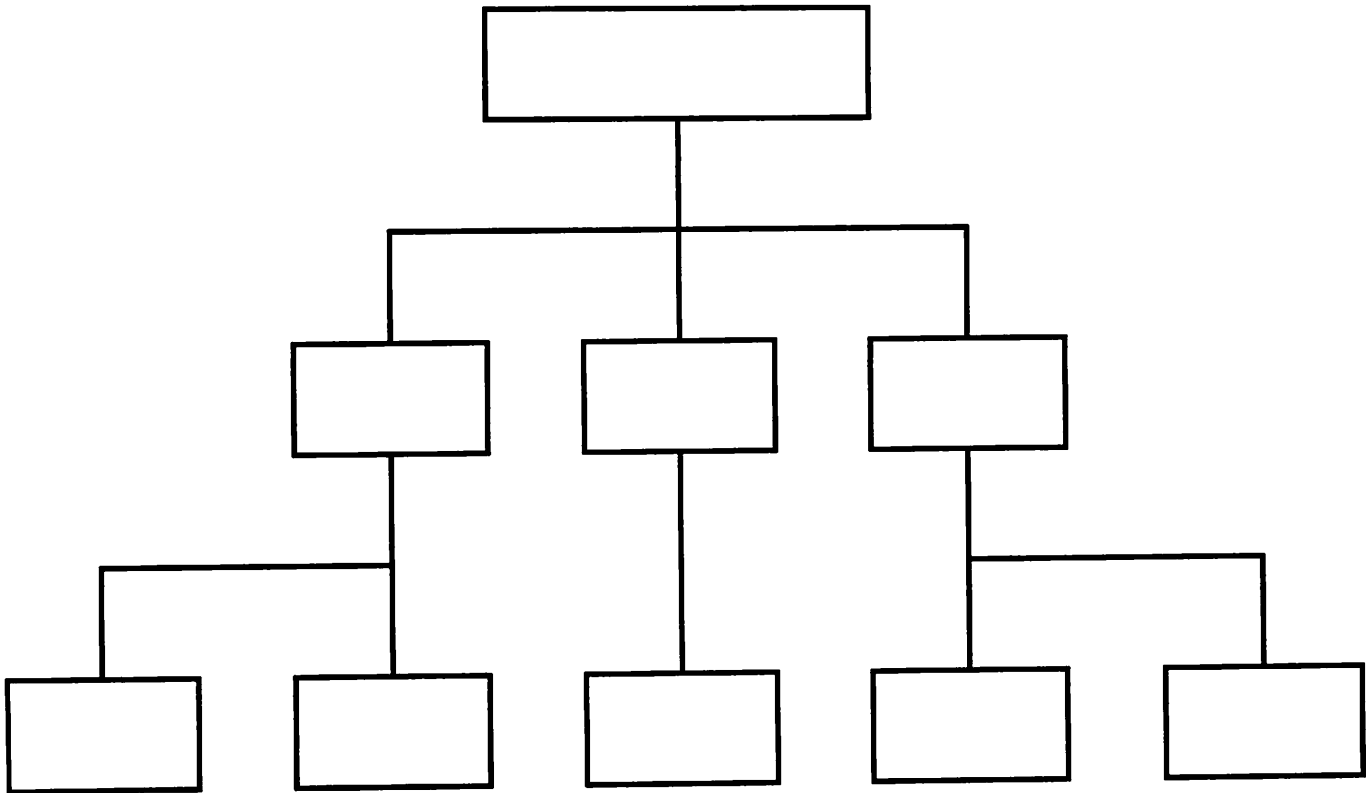
ORGANIZATION CHART

Discussion

The purpose of this section is to present an organization chart - nothing more, nothing less.

In general, organization charts are:
1. Becoming flatter, with fewer layers of management;
2. Changing more frequently as restructuring occurs more frequently;
3. Less precise as multiple lines of reporting are more common;
4. Relatively less important every year;
5. Still reviewed by many people with great excitement and other emotions.

Given that the purpose of the horizontal unit is to support the businesses of the corporation, it is often revealing to draw a second chart which illustrates these *logical* reporting relationships.

Although rarely shown on an organization chart, every member of the horizontal unit should at least psychologically report to one or more business unit managers.

In practice, however, because of corporate titles and personal egos the above mentioned chart is usually too politically sensitive to be used constructively in most organizations.

<< INSERT SHU NAME >> STAFFING AND TRAINING ANALYSIS

An overview of our staffing and training plans is presented below.

Staffing Issues

The staffing situation of << Insert SHU Name >> can be described as ...

Training

The training goals, requirements, plans and associated costs are described below.

    * Goals:

        1)

        2)

        3)

    * Requirements:

        1)

        2)

        3)

    * Plans, Costs, and Time Frames:

        1)

        2)

        3)

STAFFING AND TRAINING ANALYSIS

Discussion

The purpose of this section is to discuss the staffing and training plans of the horizontal unit.

Staffing Issues

The level of staffing and the type of individuals hired are strategic choices that should be determined based on the objectives and the strategies of the businesses.

Training Issues

The level and type of training that a company employs should also be decided based on the objectives of the businesses.

For example, in a centralized legal staff at a global software company where all three business units spend millions of dollars developing proprietary programs, the lawyers and the legal secretaries should be extremely well trained in the latest copyright regulations passed by countries around the world.

Besides the appropriate level of training required, strategic choices are also necessary involving alternative methods of training. They include: universities; industry conferences; books; VCR training tapes; multi media training; consulting; teleconferencing; in-house training; and more.

INFORMATION TECHNOLOGY ISSUES

The information technology issues of << Insert SHU Name >> are analyzed via the following:
* << Insert SHU Name >> Current Information Technology Baseline
* << Insert SHU Name >> Assessment of Existing Information Systems
* << Insert SHU Name >> MIS Overview and Systems Architecture Issues.

CURRENT INFORMATION TECHNOLOGY SUMMARY

Listed below are the locations where << Insert SHU Name >> employees are located, along with the information technology they use.

Physical Location:				
Number of People:				
Hardware:				
Software:				
Communications:				
Data:				

INFORMATION TECHNOLOGY ISSUES

Discussion

Current Information Technology Summary

The purpose of this section is to profile the horizontal unit's information technology inventory in terms of hardware, software, communication facilities, and data used.

Each building or physical location used by the horizontal unit should be listed if they are few in number. If there are many locations and some of those locations have a similar type of systems architecture, it is often easier to group similar locations and present an average configuration. This is a simple tool to give management a quick idea of what technology is located where. One or two pages should be sufficient to cover most people at most locations. Even for the horizontal unit that has hundreds of locations around the world, it's best to keep the number of pages to three or less which is long enough to describe the top 16 locations. In such a case, at the beginning of the SHU document in the section "Other Relevant Documents" identify the name of the document with the more extensive listing of all physical locations used by the horizontal unit.

Example of Centralized Sales Department of Company XYZ:

Physical Location:	272 Park Avenue New York, NY (Home Office)	Typical Regional Sales Office (There are 7)	Typical Branch Office (There are 52)
Number of People:	75	250 (30 to 50 per regional office)	600 (5 to 17 per branch)
Hardware:	2 IBM 3090's 35 IBM PS/2's 7 HP LaserJet IV	4 Sun SparcStations 15 IBM PS/2's 3 HP LaserJet IV	4 Power Mac's 2 IBM PS/2's 1 IBM LaserPrinter 4039
Software:	MS Windows Microsoft Office	MS Windows Microsoft Excel	MS Windows Microsoft Office
Communications:	Hayes Modems Wellfleet Routers Cabletron Wiring Hubs	Hayes Modems Wellfleet Routers Cabletron Wiring Hubs	Hayes Modems Wellfleet Routers Cabletron Wiring Hubs
Data:	Customer Files Contract Files Sales Incentive Plans Competitor Files Product Information	Customer Files Vendor Contracts Proposal Templates	Customer Data Prospect Database Proposal Templates

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ASSESSMENT OF EXISTING INFORMATION SYSTEMS

The chart below illustrates the current quality of the information systems currently in use by << Insert SHU Name >>.

	System Name	User Rating (Employee, Customer, etc.)	Technical Rating	Future Priority Rating
1.				
2.				
3.				
4.				
5.				
6.				
7.				

Brief Description of << Insert SHU Name >> Information Systems

1. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

2. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

3. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

4. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

5. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

6. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

7. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

ASSESSMENT OF EXISTING INFORMATION SYSTEMS

Discussion

This section is used to identify all existing applications employed by the horizontal unit, to evaluate them, and to provide a brief definition of each.

In practice, even a one sentence description of each system is very helpful. The system descriptions presented here should be very brief. Longer descriptions should be presented in the glossary. Complete systems descriptions should be maintained in a separate systems document which should be referenced at the beginning of this statement of direction in the section "Other Relevant Documents."

The user rating should indicate the satisfaction level of the users of the system. Users may or may not like the system because of the user interface, the system functionality, the reports, and a host of other reasons.

The technical rating refers to the technical design and maintainability of the system from the point of view of the information systems professional.

The future priority rating should indicate whether or not the future of this system is important to the horizontal unit. The purpose of this information is to clearly communicate with the systems department to help them plan for the future corporate architecture.

Example for a Centralized Personnel Department of Company XYZ

System Name	User Rating	Technical Rating	Future Priority Rating
1. Employee Profile System	High	Low	Very High
2. Officer & Employee Compensation System	High	High	High
3. Skill Management Resource Program	High	High	High
4. Résumé Filing System	Average	Low	Low
5. Employee Benefits System	High	High	High

1. The Employee Profile System is a mainframe-based system written in FORTRAN that is used by the human resource department in order to best utilize the skills of employees in order to maximize employee productivity. The system, which was written 15 years ago, is easy to use but difficult to maintain. The original programmers left the organization years ago and only a few of our current staff members can make changes to the system because we stopped using FORTRAN ten years ago. The system is very important, and it must be maintained or rewritten.

2. The Officer & Employee Compensation system is a PC-based system used for corporate wide salary planning. The system was purchased from Vendor XYZ in early 1996. It is generally well liked by the users, easy to maintain, and likely to be used for at least five years.

MIS OVERVIEW & SYSTEMS ARCHITECTURE ISSUES

Management Information System Overview

The Management Information System (MIS) used by << Insert SHU Name >> can be described as ....

Systems Architecture Issues

Listed below, *in priority order,* are current architecture projects which the horizontal unit is working on:

1.

2.

3.

Listed below, *in priority order,* are future architecture issues which this horizontal unit is studying:

1.

2.

3.

MIS OVERVIEW & SYSTEMS ARCHITECTURE ISSUES

Discussion

MIS Overview

The purpose of this section is to briefly summarize the status and usefulness of the current management information systems (MIS) used to make decisions in operating the horizontal unit. Although most MIS systems today are automated, this analysis is equally relevant for non-automated MIS systems.

Good decisions require good information; and data from within the firm and from the industry need to be accessed, manipulated and reported on efficiently and effectively.

Systems Architecture Issues

The purpose of this section is to highlight and to discuss current and future systems architecture issues in order to ensure that the horizontal unit is effectively leveraging information technology.

AUDIT AND CONTROL ISSUES & BACKUP AND RECOVERY PLANS

An overview of our control issues and business recovery plans are presented below.

Audit Control Issues

Our overall self-assessment of the current audit controls in placed and used by << Insert SHU Name >> is << choose one: Excellent; Good; Fair; Poor; Very Poor >>.

Listed below, in priority order, are the audit and control issues facing this department, and our action plans to ensure adequate safety.

  1. Audit / Control Issue:
     Person Responsible:
     Action Plan:

  2. Audit / Control Issue:
     Person Responsible:
     Action Plan:

  3. Audit / Control Issue:
     Person Responsible:
     Action Plan:

  4. Audit / Control Issue:
     Person Responsible:
     Action Plan:

Business Recovery Plan Highlights

Our overall self-assessment of the current business recovery plans in placed and used by << Insert SHU Name >> is << choose one: Excellent; Good; Fair; Poor; Very Poor >>.

Highlights of our Business Recovery Plan include:

  1. Business Recovery Issue:
     Person Responsible:
     Action Plan:

  2. Business Recovery Issue:
     Person Responsible:
     Action Plan:

  3. Business Recovery Issue:
     Person Responsible:
     Action Plan:

  4. Business Recovery Issue:
     Person Responsible:
     Action Plan:

AUDIT AND CONTROL ISSUES & BACKUP AND RECOVERY PLANS

Discussion

This section discusses audit controls and business recovery plans.

It is usually better to establish controls *before* something goes wrong. The lack of adequate controls could result in financial ruin.

Audit Controls

The purpose of this section is to discuss audit controls. Financial audits, system related audits, and any other controls necessary to ensure the integrity of operations should be in place or developed quickly. A system of checks and oversight authority should be well conceived to minimize opportunities for fraud and human error.

Example:

Audit / Control Issue: **Accounts Receivable Monitoring**

Person Responsible: M. Bondy

Action Plan: Verify that all payments received are deposited in the company bank account that day. Bank deposit tickets will be compared with the accounts receivable log on a regular basis by two separate people.

Business Recovery Plans

The purpose of this section is to discuss business recovery plans required to ensure normal operations following a business interruption. In some businesses, the tolerance for business recovery is a few weeks. In other businesses, the recovery must be completed within a few days, hours or seconds to prevent significant losses. As with all other aspects of horizontal unit planning, the trade off decisions should be made within the context of the business strategies and objectives.

Example:

Business Recovery Issue: **Building Relocation Due to Building Damage**

Person Responsible: G. DePrez

Action Plan: Because of the possibility of fire, flood, asbestos exposure or other event that would make our headquarters building uninhabitable, we will secure an agreement to take immediate occupancy of temporary offices for a period of up to six months. The agreement will involve four other companies and will mean that if one of the other parties to the agreement has to evacuate its headquarters for a similar reason, we (and the other members of the agreement) will need to make available substantial space for their employees. Our goal is to have the agreement in place by the end of the year.

WHAT-IF ANALYSIS

Some internal and external events which may occur, along with the most likely response by << Insert SHU Name >>, are listed below:

EVENT:
LIKELY RESPONSE:

EVENT:
LIKELY RESPONSE:

EVENT: << Insert Competitor Name >> cuts it expenditures for this activity in half by employing a new process that...
LIKELY RESPONSE:

EVENT: << Insert Vendor Name >> has major fire and goes out of business.
LIKELY RESPONSE:

EVENT: << Insert Corporate Name >> purchases another company with a similar horizontal unit.
LIKELY RESPONSE:

EVENT:
LIKELY RESPONSE:

EVENT:
LIKELY RESPONSE:

WHAT-IF ANALYSIS

Discussion

The purpose of this section is to provide an open ended opportunity to ask "what-if" questions on any aspect of the horizontal unit's plan or the activities it performs. This section also facilitates the development of planned responses to potential situations that would benefit from a quick response.

The what-if analysis should be more comprehensive than just exploring what if something happens directly within the horizontal unit. In fact, asking what-if questions pertaining to potential actions that competitors might make usually provoke the most interesting discussion.

What-if analysis is a simple way to deal with uncertainty. Anyone reviewing the horizontal unit's statement of direction should be free to add to the list of what-if questions. What-if analysis greatly improves the horizontal unit's ability to respond quickly and effectively to a variety of potential events.

PROGRESS REPORT

	Original Commitment DATE	PREVIOUSLY RECORDED ACTION PLAN	CURRENT STATUS & COMMENTS
1.	/ /		
2.	/ /		
3.	/ /		
4.	/ /		
5.	/ /		
6.	/ /		
7.	/ /		
8.	/ /		
9.	/ /		
10.	/ /		

PROGRESS REPORT

Discussion

The purpose of this section is to track the progress of previously recorded action plans.

If this is the first statement of direction by a horizontal unit of a new corporation, this section should initially be left blank.

Otherwise, previously recorded action plans should be listed. This will show corporate management that things have been accomplished in the past. It will also highlight the concept that this is an ongoing planning process that will be monitored, rather than a one-time document to be read and discarded.

In some cases, listing the person responsible for completing a previously recorded action plan is desirable. However, there is a delicate balance between ensuring personal accountability and spending too much time blaming others for poor results.

GLOSSARY

Term One -

Term Two -

Term Three -

Term Four -

ABBREVIATIONS

CSF   Critical Success Factor(s)

GAAP Generally Accepted Accounting Principals

I/T   Information Technology

MIS   Management Information System

M   Million(s)

SBU   Strategic Business Unit

SHU   Strategic Horizontal Unit

TQM   Total Quality Management

GLOSSARY AND ABBREVIATIONS

Discussion

The purpose of the glossary and list of abbreviations is to promote a common language to facilitate communication.

In large corporations, the glossary and the list of abbreviations are very helpful because the cross-section of business managers are not always accustomed to the terminology of every other department.

GLOSSARY

The glossary should include all terms which are not commonly understood by all intended readers of the SHU statement of direction.

ABBREVIATIONS

The list of abbreviations should include all abbreviations used in the horizontal unit statement of direction.

Examples for a centralized information systems department

Glossary

Application Development Life Cycle - Activities performed during the application development process. The activities include structured analysis, structured design, system development, testing, and maintenance.

Knowledge-based System - A subset of artificial intelligence. A system that processes information and performs functions in a manner similar to that of a human who is expert in that field. A knowledge-based system can solve problems by drawing inference from a collection of information that is based on human experience and problems the system has previously encountered.

Abbreviations

AI -   Artificial intelligence

LAN -   Local Area Network

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Development of the Strategic Horizontal Unit Statement of Direction

CHAPTER 3 SUMMARY

Chapter highlights:

✓ The number one strategic imperative of a horizontal unit is to perform its specialized activities in the best manner possible within the framework of the strategies and objectives of the business units it serves;

✓ The horizontal unit (or corporate management) must resolve any conflicts between SBUs with different objectives for the performance of a given horizontal unit activity (with the goal of maximizing corporate results).

The following chapter describes how to develop a Corporate (Group) Strategy.