



Capital Planning: Does It Serve Your Business Priorities?

Synergy in the company's overall strategy and its business plan helps you avoid diluted talent, wasted money and lost time that can never be recaptured.

Missing projections because of either poor forecasting or the inability to execute on time robs the business of opportunity.

THESE DAYS, most companies would have a difficult time validating the alignment between their capital plan and business plan priorities. How about you? A capital plan is a company-wide summary of capital projects that details how and when human resources and money will be expended. Business plans are multi-tiered, time-sensitive initiatives that are typically identified as strategic annual or quarterly plans.

Obviously, the larger and more complex the company, the more critical the need for alignment of these plans and associated activities. In its absence, synergy is diminished, talent is diluted, money is wasted and, most important, time is lost that can never be recaptured.

In many companies, business plans are viewed as discrete events in time rather than ongoing, evolving sources of direction and unification. Simply put, effective capital planning cannot be accomplished without direct integration of and consideration to the business planning process. To optimally utilize every resource, they all need to be synchronized. Your organization must have a document explaining the integration of the strategic tools and the protocol(s) that ensure alignment of activities to what has been determined to

be the right direction for the company and its most important initiatives.

In my 30 years of experience, I have viewed very few capital planning processes that were truly developed in an integrated manner and tested for conformance against the strategic and annual plans. The process employed by many companies in developing a capital plan often starts with a dreaded announcement from the finance group that a plan for next year is due in four weeks. An engineering manager responsible for developing it then sends a notice out requesting a list of capital requirements with an estimate of dollars required, creating an initial wish list. This is not a bad start, but certainly a bad place to end.

The process and its credibility often worsen as it advances through the organization. Insufficient scrutiny is applied to determining the business justification, order of magnitude cost, resource requirement, cash flow and other very important information related to the line item. Then organizations wonder why it takes so long for capital appropriations to be approved. Why do you think most capital budgets get kicked back with what appear to be indiscriminate direction to cut the budget 30 percent?

Someone must have figured out that several projects lack justification.

Realize that if these strategies aren't well orchestrated, the likelihood of developing a capital plan that focuses resources to the activities that will create the greatest value for the company is slim to none. Instead, departments should "sell" their projects by drawing a direct correlation between your business strategy and the company's capital plan. Your company also should have guidelines to determine what gets included and how these items get prioritized.

Capital forecasting is also a critical business process. A credible forecast allows decision-makers to weigh the value of identified expenditures against other competing needs. A marketing campaign may be reduced in scope because of a critical process upgrade that, if not implemented, will result in customer service problems. Seldom do organizations understand the full impact of failing to properly identify and prioritize needs or delivering projects identified in the capital forecast late and over budget.

A cash flow projection that should be part of the capital planning project is invaluable to top executives, yet the exercise is often treated as rudimentary. Missing projections

because of either poor forecasting or the inability to execute on time robs the business of opportunity.

What about human resources? Too many organizations place little to no focus on determining the human effort required to execute the capital plan. Projects are often forced into the workload assuming that they can be absorbed, based on the notion that people are generally underutilized. This isn't necessarily a wrong conclusion; however, it points to another significant deficiency common in many organizations. It would be ideal to communicate the expected resource magnitude of the capital plan to those driving the business so that the potential impacts can be understood in advance. The absence of this communication conveys that the organization can deliver the projects without disrupting core functions and responsibilities, which may

mean they'll fall by the wayside.

The planning cycle can also be a foundation to success. Capital plans typically are developed as part of a fiscal cycle that coincides with a calendar year. Projects and business needs, however, don't usually coincide with this cycle. You might be astonished to learn how much money is wasted during the last fiscal quarter because a greater importance is placed on meeting poorly established spending forecasts than on assuring optimum value for dollars spent. I guarantee that this occurs in many good, reputable companies where they would be better served employing a "rolling forecast" approach to capital plan management. In this method, the forecast is regenerated each month or quarter so that the term is always 12 months. However, a financial forecast and cash flow projection can be established for

whatever fiscal period the accountants require. The simple fact is that if the right process is established and applied, everyone gets what is needed.

Capital planning is part of the global program we call a business. The strategic plan, annual plan and quarterly plan, as well as departmental plans and individuals' objectives, are other component pieces that could and should be considered in the overall projection. As with any program, when the component pieces are not integrated and aligned, there is waste and frustration. **GCI**

C. Richard Panico is president of Integrated Project Management Company, Inc. (IPM), Burr Ridge, Illinois, a professional project management firm. IPM plans and leads execution on client objectives, helping companies meet them faster and more effectively. Panico is a frequent guest speaker and author on the subjects of business management, leadership and ethics in academic and business settings, and he is chairman of the Institute for Business and Professional Ethics at DePaul University, Chicago. 630-789-8600, www.ipmcinc.com

The best way to "sell" your projects is to draw a direct correlation between your business strategy and the company's capital plan.

THREE TYPES OF BUSINESS PLANS

The strategic plan, annual plan and quarterly plan should be considered in the company's overall strategy to support the capital plan.

Strategic Plan

A strategic plan captures both expansion and improvement initiatives designed to position the business in a favorable competitive position typically three years or more into the future. The planning process is repeated on a tri-annual basis, although some companies may opt for different terms.

Annual Plan

An annual plan identifies priorities for a given year with consideration to the Strategic Plan initiatives, as well as currently experienced obstacles and opportunities; the latter often present the challenge to reprioritize initiatives or reassess strategic direction.

Quarterly Plan

A quarterly plan establishes departmentalized priority tactics to support Annual Plan initiatives.