Super fund strategy and planning practices

What are funds doing to position themselves for future success?

Contents

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1 Summary

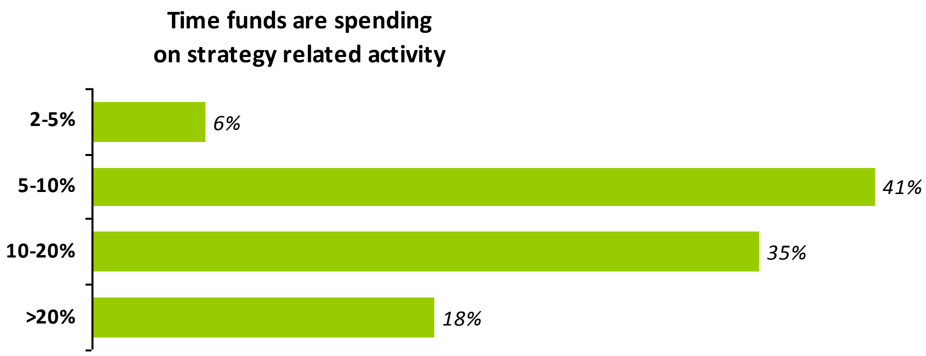
In September 2009, Right Lane completed a small mixed methods research study about strategy and planning practices in super funds. It included a roundtable, in-depth interviews and a survey. Approximately 30% of the country's industry and public sector super funds with trustee offices participated—around 20 funds.

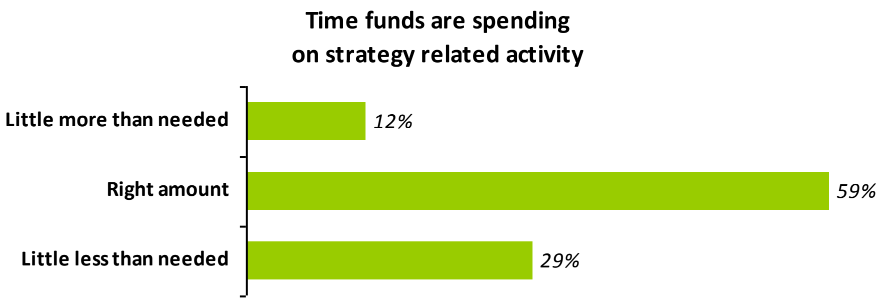
The results of the research were presented to the Association of Superannuation Funds of Australian (ASFA) annual conference in Melbourne on 13 November 2009. This report has been prepared for participants in the research and includes additional findings not presented at the ASFA conference.

1.1 Does your fund spend enough time on strategy and planning?

Of those that responded to the survey, about half estimated that their funds' executive teams were spending less than 10% of their time on strategy development, planning and monitoring. The other half spent more than 10% and only one of those funds thought that was too much.

But how much time is enough time? Is time even the right dimension to be looking at when thinking about the effectiveness of your strategy and planning efforts?





1.2 What were found to be the key factors for success?

Based on our research on funds' strategy and planning efforts, there seems to be five factors for success:

1. Absolute leadership commitment and resolve;
2. Open and constructive culture;
3. Strong execution skills and capabilities;
4. High levels of staff involvement and ownership; and
5. Board engagement.

These factors are consistent with Right Lane's experience with super funds and also with firms in other industries. We provide further insights in this report on each of these factors.

1.3 So what should funds do in their annual strategy and planning process next year?

While the answer to this question varies by fund, at Right Lane we believe that there is a simple, three-step process funds can follow to help create the conditions for a successful strategy:

1. Articulate a well-conceived strategy and direction at the highest level—and a short list of corresponding initiatives, or program of actions, that will support it;
2. Be clear about what internal and external conditions will support the strategy and its implementation, and what can derail you; and
3. Monitor and measure implementation and be willing to adjust your course.

Further detail on each of these steps is also contained in this report.

1.4 In conclusion

It sounds simple, but few funds and indeed few firms do all of these things well. If time is spent on these three steps—*intensive, dedicated and focused time*—our experience suggests that an organisation can improve its chances for future success.

2 Key factors for success

In our survey of super funds, we asked participants to select one or more internal factors they considered to be most important to the successful implementation of their organisation's strategy.

These internal factors will be most important to the successful implementation of strategy

Note: as respondents were able to select more than one response, chart may add to more than 100%

Based on our experience in assisting organisations with strategic planning, and on further insights from the research, we have expanded below on the top five internal factors for success.

Factor 1: Leadership commitment and resolve

Right Lane has found, and participants in our study told us, that there is an almost perfect correlation between the commitment of the CEO and the energy an organisation puts behind its strategy and planning process. This commitment is no guarantee of a well-conceived strategy, but we believe it is close to a guarantee that there will be impetus behind the process and that the process will be visible and galvanising.

There are some caveats to this of course, but generally when a CEO has it on top of his or her agenda and spruiks it for a sustained period of time, the organisation—and, in some cases, the industry—takes notice.

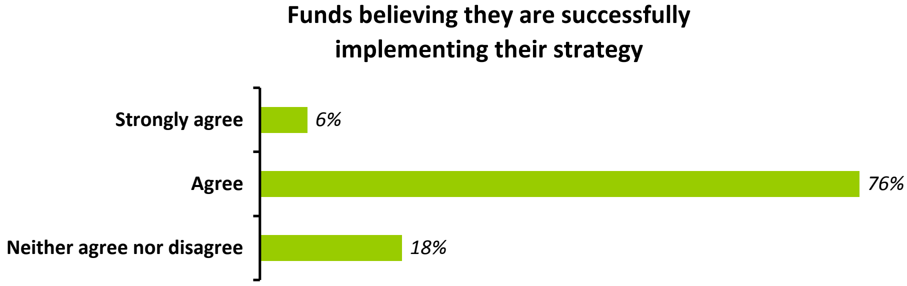
Factor 2: Open and constructive culture

If the organisation's culture and values are not open to improvement and change, then the development and implementation of a new strategy will almost certainly fail somewhere along the line. Cynical, negative, overly sceptical, obstructionist mindsets are the enemy of getting anything done in organisations. Strategy and planning—a topic that people can reasonably be resistant to—is certainly no exception.

Factor 3: Execution skills and capabilities

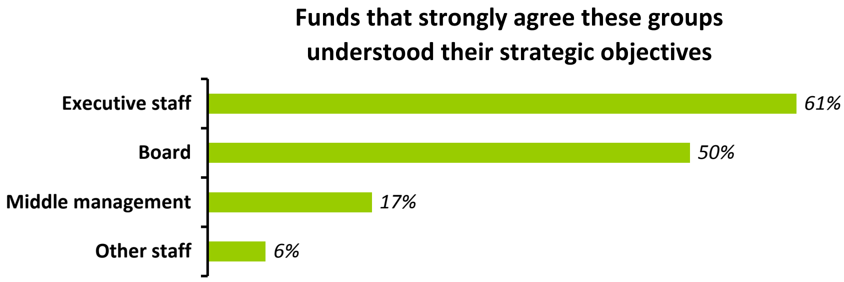
Funds will need people who can manage a project through to successful completion. There have been numerous studies on the reasons for project failures and funds cannot afford for failure to occur on a project that is critical to its strategic success.

Most participants in our study agreed they were successfully implementing their strategies, but very few *strongly* agreed. This goes to funds' strategic capabilities. We have come across capability gaps in our work—in areas such as project management, environmental scanning, strategic thinking and fact-based decision-making. Some of these were raised in the in-depth interviews and the roundtable.



Factor 4: Staff involvement and ownership

Based on the responses to the survey, understanding of a fund's strategic objectives seems to drop further down in an organisation—61% of respondents strongly agreed their executive staff had a clear understanding, which dropped dramatically to 17% for middle management staff and 6% for other staff.



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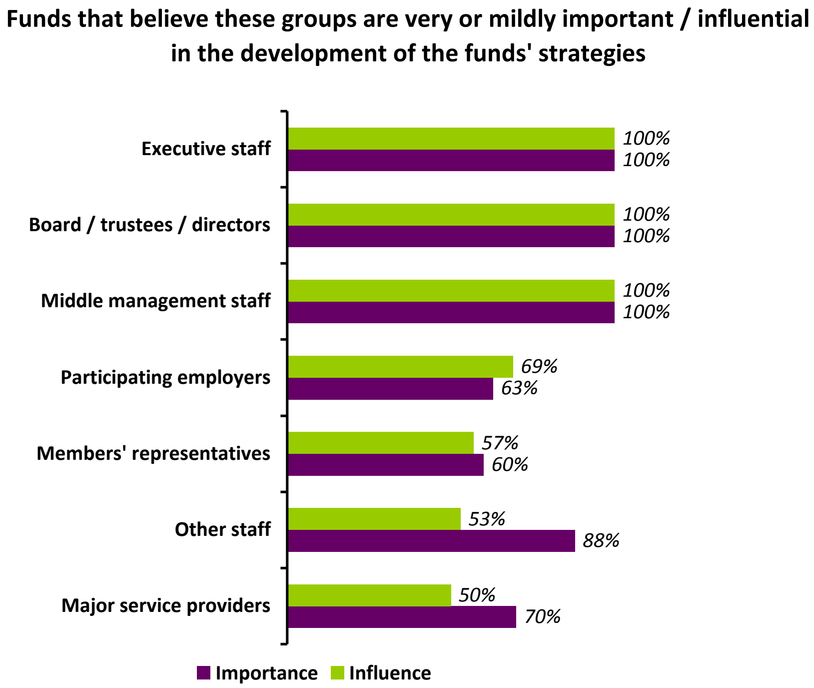
Respondents also said that, while it was less important to involve member and employer representatives in their funds' strategy and planning than non-managerial staff, they had greater influence than non-managerial staff.

Without the involvement and ownership of the strategy by staff, there is the risk of leaving too much to too few and having staff pulling in different directions.

Staff involvement and ownership sounds like an obvious thing to try to do, but it is difficult in practice. Engaging staff is not only logistically difficult, it requires considerable insight and expertise.



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At Right Lane, it has worked best when there has been a very committed CEO and an organisational psychologist on our team. In these cases, the funds have achieved very positive outcomes. One of them won a prominent industry award for the inclusiveness of its planning process.

One of the participants in the roundtable discussion that was part of this study reflected on people's want to belong in Australia, particularly Melbourne. There are 72,000 Friends of the Zoo; around 600,000 people are paid up members of AFL clubs.

Consider how people who want to belong will react when they are not included in strategy and planning efforts, compared with how they will respond when they are genuinely involved in it. Not to mention their propensity to make better decisions when they understand the context in which they are supposed to be working.

Factor 5: Board governance and engagement

Some of the people we interviewed for this study were looking for more strategic leadership and participation in strategy from their boards. Boards and trustees have a vital role to play in strategy and planning. When the board is involved in identifying strategic issues, monitoring and reviewing performance and challenging and approving the strategy, they are naturally more inclined to support it. This includes allowing favourable funding conditions. Without engagement in strategy, and the confidence that generally comes with that, the board is more likely to get caught up in operational issues.

3 Creating the conditions for a successful strategy

At Right Lane we believe that there is a simple process funds can follow to help create the conditions for a successful strategy, and that these steps can easily form part of funds' next planning cycle.

The three steps of this process are:

1. Articulate a well-conceived strategy and direction at the highest level—and a short list of corresponding initiatives, or program of actions, that will support it;
2. Be clear about what internal and external conditions will support the strategy and its implementation, and what can derail you; and
3. Monitor and measure implementation and be willing to adjust your course.

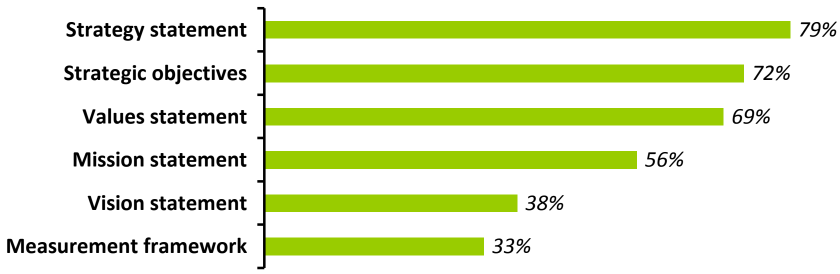
Step 1: Articulate a well-conceived strategy and direction

There are numerous frameworks that can be used for this purpose.

Harvard strategy academics Collis and Rukstad talk about a hierarchy of company statements—vision, mission, values, strategy statement and scorecard—noting that organisational direction comes in several forms.

Of the tools used to clarify funds' strategy and direction, strategic objectives, values statements and strategy statements were more often regarded by the survey respondents as 'very effective' than were mission and vision statements.

Funds that rated these tools to clarify strategy and direction as 'very effective'



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In our view, it matters less which statements are used and more what they cover and how an organisation's people are involved in their development. Whichever is used, Right Lane recommends that funds address four elements:

1. The scope of the fund or the competitive landscape;
2. The ends the fund is trying to achieve;
3. The fund's intended advantage; and
4. A viewpoint about the forces at work in the industry and how the fund intends to shape or react to them.

Two of the five factors for success—board and staff engagement—are critical to articulating a well-conceived strategy and direction. In Right Lane's view, we are in a third era of governance in super. The strategy and direction of a fund are more likely to be co-developed by management and the board, rather than it being either party's specific responsibility, as has been the case in the past.

In looking for a high level of staff ownership and a positive culture that is accepting of its strategies and plans, a fund needs to do whatever it can to engage them. And ensure that through their engagement, staff understand *what* needs to be done and *why*. Staff need to know what activities will be undertaken, how those activities support the strategy, and how they affect their own roles. Three or four of the funds we are involved with are engaging their middle management groups with this purpose in mind.

We have found that focusing on a small number of key activities at any one time is also an important part of a well conceived strategy and direction. And we have seen several firms paralysed by taking on too many things. For most funds, this means making some hard choices and deciding what not to do.

Step 2: Be clear about what external and internal conditions will support the strategy and its implementation

External conditions

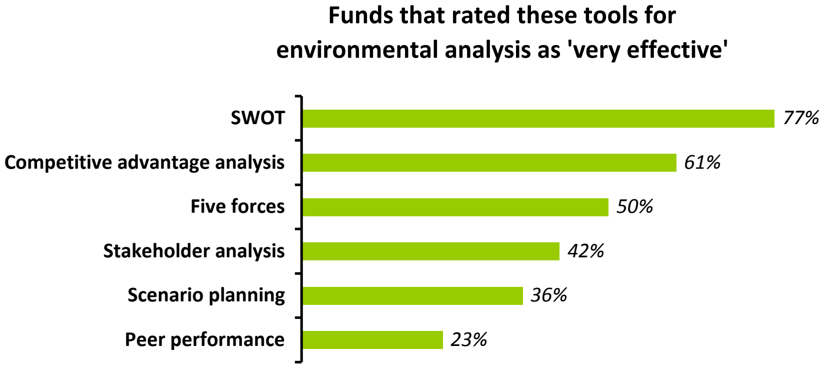
Without exception, those funds we surveyed and interviewed undertook an environment scan to inform their planning. This would usually involve looking at industry developments, comparing themselves with competitors and peers and looking outside the industry for new ideas.

Continually assessing what's going on outside the fund will help to adapt strategy, refresh initiatives and to consider the need to be doing something differently, either defensively to mitigate a threat or risk or offensively to take advantage of an opportunity.

In the survey of super funds, there was a big difference in respondents' ratings of the effectiveness of different tools for environmental analysis—SWOTs, Porter's five forces, scenario planning, SCP, PEST or PESTAL analysis and so on.

We tested for 12 tools and found SWOT analysis was the most widely used and was considered to be very effective in 77% of cases, in spite of it and its various incarnations being seen by some to be an overly simplistic and static tool from which it is difficult to glean real insight.

A tool that Right Lane argues is more timely and useful—scenario planning—was used less frequently and was only very effective in a 36% of cases. Fewer than 50% of respondents whose funds had used peer performance analysis, value chain analysis or stakeholder analysis said it was very effective for considering their environment.



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In our view, with the high levels of environmental uncertainty we are experiencing, tools like scenario planning and simulation games come into their own. This view was strongly supported by participants in the in-depth interviews we conducted for this study. Organisations want and need to have a coherent viewpoint on the forces at work, the possible implications for the industry and their fund, the likely triggers and what they can do to best position themselves. But according to our survey, scenario planning was only very effective in 36% of the cases. Funds know they need to be scanning the environment, but how effective are they at doing it?

Internal conditions

Reviewing a fund's internal conditions starts with an assessment of its strategy and planning capabilities. Once plans are in place:

- Does the fund have the right skills to manage a portfolio of strategic initiatives?
- Does the fund have the technology and processes to support them?
- Does the fund's service providers have the right knowledge and skills?

To be effective, funds need people with strong project skills, at the ownership level—giving clear directions, knowing what's important and supporting sound implementation practices – and at the team level—planning, co-ordinating, managing people, demonstrating persistence, energy and resilience.

Depending on the size of the fund's strategic portfolio of initiatives, it might also consider a project or strategy management office for central coordination and oversight. A number of our clients have taken this step.

Funds should also be looking to staff for openness to ideas and a preparedness to engage with strategy-related activities in a constructive way, through discussion and debate.

The success factors of leadership commitment and resolve described earlier all start from the top. How the CEO and leadership team demonstrate these mindsets and ways of working, and contend with internal and external conditions, will go a long way to demonstrating their authentic commitment to the strategy.

Step 3: Monitor and measure implementation and be willing to adjust your course

The majority of participants in our study said that:

- Their funds' organisational effort was aligned with their strategies;

- Developing and implementing strategy was part of their funds' normal business operations;
- Their funds frequently communicated strategies to staff; and
- Their funds' staff performance plaSuns were clearly linked to their strategy.

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However, in our experience, strategy and planning efforts frequently break down once the strategy has been agreed.

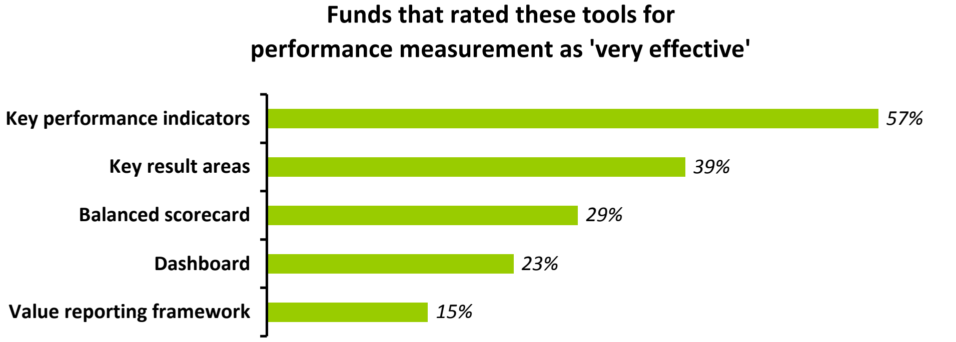
Funds are getting better at implementation disciplines like managing projects, cascading their plans and communicating frankly and frequently with their people about progress. But based on our experience, there are opportunities to improve, particularly with measurement and monitoring and being ready to adjust course in response to internal and external developments.

What gets measured gets done

It's the oldest maxim in the book that assessing performance against an agreed set of well chosen measures and corresponding targets will increase the likelihood that what needs to get done will get done. Most, but not all, of the funds we surveyed make use of some form of measurement framework to monitor their strategic success.

Measurement can be difficult. There are temptations to rush the design of measures, to consensually agree to too many measures and to give insufficient time and attention to defining measures and sourcing data.

It can be a significant challenge to come up with the measures that are really predictive or reflective of performance. Failing to give proper consideration to the right balance of measures, such as input and outcome, leading and lagging, financial and non-financial measures, can also cause greater challenges.



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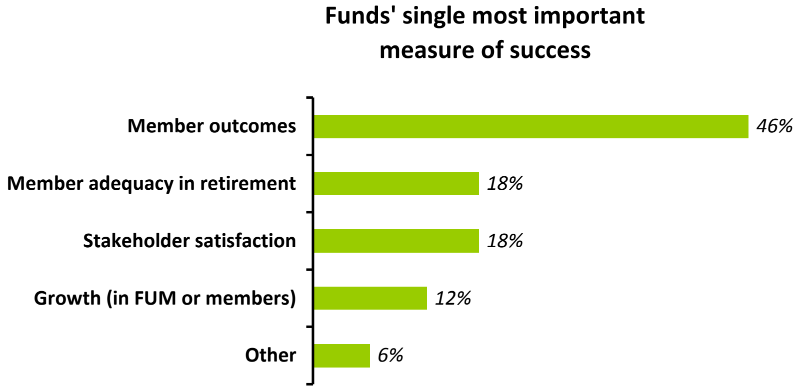
As part of the roundtable session of our research, we touched on the measures that drive performance in Australian Rules football. The AFL clubs seem to have increasing confidence in measures such as clearances, inside 50s and tackles. If they get good numbers in these areas, they generally win games. If winning in super is delivering strategy and successfully perusing direction, which measures really tell a fund whether it is on track?

Getting measures and corresponding targets right requires time and patience. One of our clients calls this process 'the beautiful trauma'. There are some simple rules:

- Measures should have face validity;
- Aim for fewer than ten measures;
- Sweat the detail of measure definition, but know when to lock in the year one measures with a view to revisiting their efficacy in year two;
- Allow enough time for target setting, including the modelling required to make sure targets are internally consistent; and
- Make sure there is existing data available for most of the measures so as not to have to create a bureaucracy just to get data for the measures.

We contend that it is worth investing the time in measurement, not only because what gets measured gets done: the measures you choose are among the most visible expressions of your strategy.



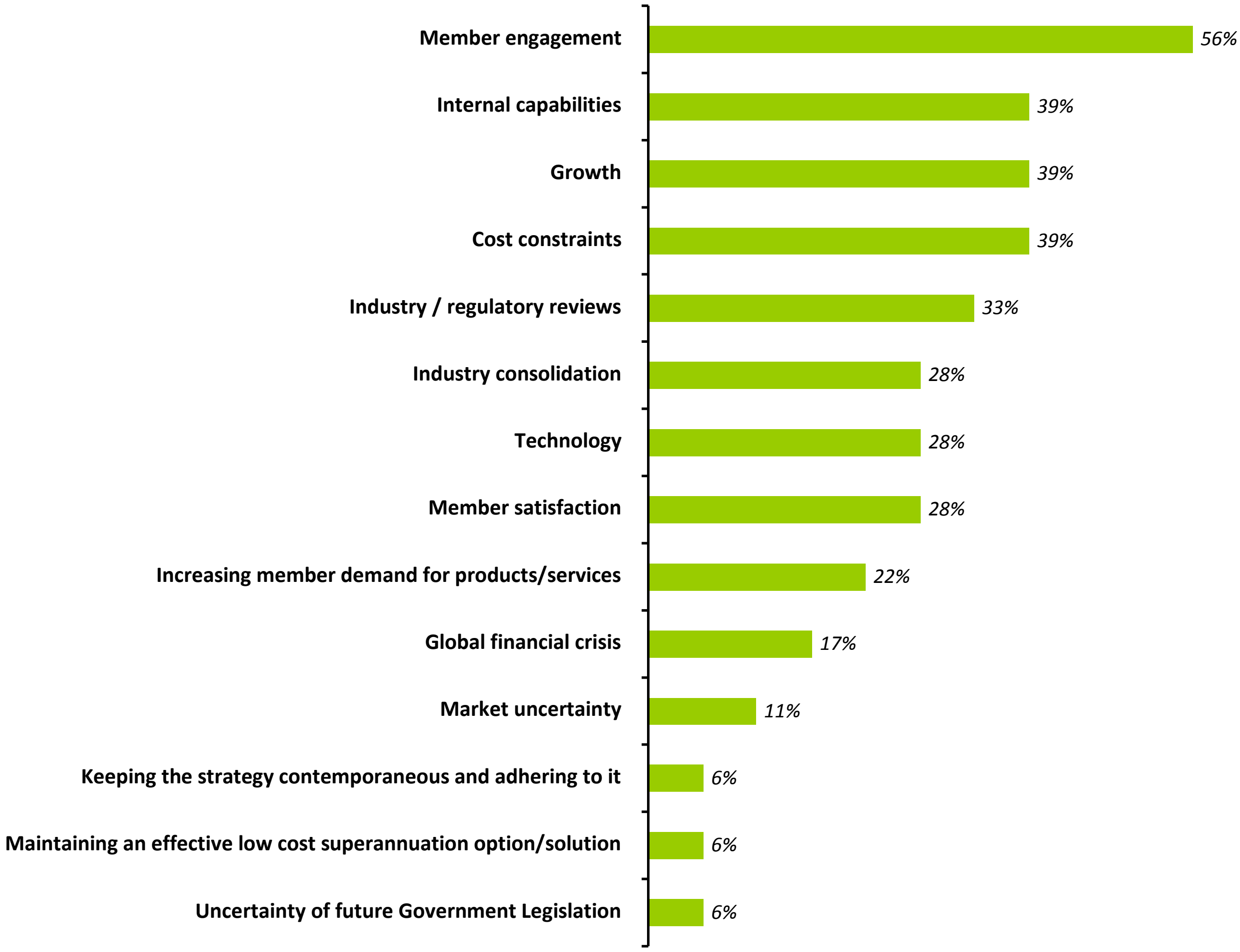
Effective monitoring of your measures and corresponding targets is another area for improvement in most of the funds we studied. Getting the executive team and board review meetings locked into the calendar is the easy part. What is harder is getting quality data, having quality conversations—the importance of which came out strongly in our in-depth interviews for this study—and taking timely corrective action.

Adjusting your course

If a fund is not performing as it wishes—and knows how and why with sufficient notice—it may want to adjust its course. The interlocking disciplines of measurement and monitoring, of constantly striving to better understand the drivers of performance and which levers to pull, can help a fund adjust its course more quickly and decisively.

We've seen funds adjust to changes in their environments—to concentrate for a time on responding to a legislative or regulatory change, containing costs or augmenting their product or service offering. In all cases, an up to date, fact-based understanding of the fund's situation was critical to the speed and confidence with which the fund adjusted.

Biggest challenges faced by funds



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4 Research methodology

4.1 Overview

Right Lane developed a three-stage mixed methods research study about strategy and planning practices in industry and public sector super funds. It included a roundtable, in-depth interviews and a survey.

4.2 Roundtable

In August 2009, Right Lane conducted a roundtable session with four CEOs and two strategy heads, including two super funds and two other financial services organisations.

Each attendee was provided the opportunity to talk about their experiences in strategy development and strategy management. Follow up questions were asked by attendees, including Right Lane representatives.

4.3 In-depth interviews

Right Lane selected a small number of funds of varying sizes and membership bases and attempted to make contact directly with the funds' CEOs. Five CEOs were contacted and all agreed to in-depth, face-to-face interviews.

Due to Right Lane wanting to conduct these interviews in person, all funds contacted were Melbourne-based.

The interviews were conducted in September 2009 and each lasted between 30 and 60 minutes. The questions asked in the interviews were based on those included in a broader survey (refer below); however, where the interviewee had particular experience or insight, the interview arrangement allowed for time to explore these in greater detail.

All participants agreed to the interview on the basis of anonymity and for no details to be disclosed that would enable them, or the funds they represent, to be identified.

4.4 Survey

4.4.1 Background and approach

Right Lane developed a survey methodology and questionnaire in an attempt to sample all industry and public sector superannuation funds in late September to early October 2009.

A list of 72 funds with trustee offices was obtained from publically available APRA sources. The survey was sent by email using online survey software, Survey Monkey, and 18 funds responded.

4.4.2 Survey analysis

Right Lane provided the survey results on a Microsoft Excel spreadsheet to the Statistical Consulting Centre (SCC) of the University of Melbourne to undertake the data analysis.

All results disclosed in this report have been sourced from the SCC analysis.