

Amtrak's Strategic Planning

Evaluation Report E-10-01

August 17, 2010



Evaluation Report Issued by:

NATIONAL RAILROAD PASSENGER CORPORATION
OFFICE OF INSPECTOR GENERAL
10 G STREET, N.E.
WASHINGTON, DC 20002

Memo



Evaluation Report #E-10-01

Date August 17, 2010 From Ted Alves
To Joe Boardman, President and CEO Department Office of Inspector General
Subject Report on Amtrak's Strategic Planning
cc All Executive Committee Members
Jessica Scritchfield

Message

This memorandum presents the results of our evaluation of Amtrak's Strategic Planning documents and planning process.

In a 2005 report, the Government Accountability Office concluded that "Amtrak lacks a meaningful strategic plan that provides a clear mission and measurable corporate-wide goals, strategies, and outcomes to guide the organization."¹ Since that report, Amtrak has struggled to implement an effective strategic planning process. Although multiple planning efforts were initiated between 2005 and 2008, none of them resulted in a comprehensive strategic plan. In early 2008, Amtrak's leadership participated in a detailed SWOT (Strength, Weaknesses, Opportunities, and Threats) analysis intended to lead to a strategic plan, but no final strategic plan resulted from this. In October 2009, after a change in Amtrak leadership, Amtrak took a significant step forward when it issued a strategic guidance² and a five year financial plan³. Amtrak recognized that, while important, these documents do not represent a comprehensive strategic plan.

Originally, we planned to evaluate Amtrak's Strategic Planning process and the 2009 planning documents by comparing and contrasting the process and plans to "best practices" in strategic planning. We had completed an extensive review of current models and practices in Strategic Planning when we learned that Amtrak management was convening an executive leadership group "...to create the future service and

¹ GAO-06-145, *Amtrak Management, Systemic Problems Require Actions to Improve Efficiency, Effectiveness, and Accountability*. October, 2005.

² Amtrak's New Mission

³ FY2010-2014 Five Year Financial Plan

organizational vision for the company.” We decided that, rather than continuing our evaluation of Amtrak’s past process and plans, it was best to share with management our observations of how Amtrak’s current plans and proposed new initiative compare with what we identified as the “best practices”⁴ in Strategic Planning.

On June 29, 2010, we presented the attached briefing to Amtrak’s senior executive leadership team in order to inform them of our observations and recommendations - Exhibit A.

SCOPE & METHODOLOGY

In developing a list of “best practices” in Strategic Planning, we included lessons learned from recent classes on Strategic Planning, researched current approaches being taught at top business schools, and interviewed a leading railroad on its practices. In order to share our research and observations with Amtrak management before they embarked on their initiative to create a service and organizational vision, we limited the scope of our review of Amtrak’s Strategic Plan and Planning process to the planning documents Amtrak produced in October 2009 (Strategic Guidance and FY2010-2014 Five Year Financial Plan) and the charter for the new initiative.

SUMMARY OF RESULTS

While the establishment of an Executive Committee Leadership Team to “...create the future service and organization vision for the company” is a great move forward, the effort does not incorporate key elements of a strategic planning process and does not explicitly call for the development of a Strategic Plan. Developing a strategic plan could assist the Leadership Team in effectively aligning organizational efforts around a single vision and ensuring the effective use of resources.

Our research shows that there is no one right way to conduct strategic planning, but there are common elements among the various processes that drive effective strategic plans. These common elements include an executive commitment, assessment of the internal and external environment, and defining a vision, goals, and strategies to accomplish the organization’s mission. Creating a future service and organizational vision without an effective strategic planning process will not provide the Leadership Team with adequate

⁴ These are the common elements we derived from our research of what is currently being taught and written on the subject.

assurance that the company's resources are focused on the right programs and activities to accomplish its mission.

We recommend that Amtrak develop a strategic plan utilizing a strategic planning process that incorporates the key elements of effective strategic planning. In commenting on a draft of this report, Management agreed with this recommendation and committed to preparing a timeline for the development of a strategic plan by October 19, 2010.

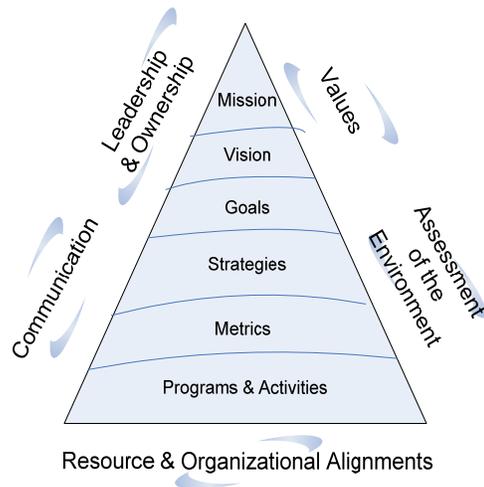
BENEFITS OF STRATEGIC PLANNING

There are many benefits in implementing a strategic planning process and developing a Strategic Plan. A major benefit of a strategic planning process is that it aligns organizational efforts around a single vision. The process helps leadership make choices on strategic initiatives and to determine priorities. From there, it fosters the development of realistic program and project plans, and therefore increases goal attainment.

In addition, an effective strategic planning process ensures the effective use and alignment of resources. It also serves as a communication tool for all stakeholders, and helps facilitate mid-course corrections by focusing on end goals.

KEY ELEMENTS OF EFFECTIVE STRATEGIC PLANNING

Developing a strategic plan is not easy. It takes time and executive commitment. We learned that there is no one right way to conduct strategic planning. We also found that terminology is not consistent among different sources; however, common elements can be identified among the different approaches. The diagram to the right outlines the common key elements of effective strategic planning we gathered from our research.



Key Elements of Effective Strategic Planning

OIG OBSERVATIONS

The following briefly describes each of the key elements of an effective strategic planning process that we identified during our research and compares each element to what is contained in Amtrak's planning documents or in the charter for its new leadership initiative.

Mission: A Mission statement should clarify the type of business you are in, the customer you serve, the purpose of your existence, and the geographic scope of your activities. It should be a brief and clear statement or set of statements that define the type of work that will be undertaken for whom, for what reason, and where. Plans based upon a less than clear mission could lead to flawed strategies and misdirection of activities throughout the organization.

Amtrak's Mission statement in its Strategic Guidance is fairly comprehensive and incorporates the key roles assigned in PRIIA. However, the mission statement in the FY2010-2014 Five Year Financial Plan is not as comprehensive as the one in the Strategic Guidance.

Vision: A Vision identifies where the organization wants to be and what results it seeks. It should be ambitious and create enthusiasm and commitment. A clear Vision is essential to help identify the goals, strategies, and corresponding programs and activities that matter most to the organization. Amtrak's current planning documents do not appear to have a clear Vision. Amtrak's goals in its planning documents suggest a Vision of "improvement in several areas," but without a clear change in direction or focus. The new Executive Committee Leadership Team charter does anticipate creation of a new Vision.

Goals: The Goals should be clear, outcome oriented, time-bound, and measurable. Following the creation of a clear Vision, an effective strategic plan should include a set of Goals that identifies what must change to achieve that Vision. Most of Amtrak's goals as stated in its Strategic Guidance meet the criteria of being clear, outcome oriented, measurable, and time-bound. However, there are a couple of exceptions -- Meet National Needs does not have a measure, and Healthier could be clearer.

Without a clear Vision, it is difficult to assess if the current Goals in Amtrak's Strategic Guidance are the most appropriate. For example:

- Should Safety be both a goal and a value?
- Should Greener be a value rather than a goal?

- If Amtrak achieves these goals, will it accomplish its Vision/Mission?

Strategies: Strategies identify what must be done to achieve the goals. For most of its goals, it is not clear that Amtrak has identified comprehensive strategies that it will follow to achieve the goals. For example:

- There is no clear strategy outlined to Improve Financial Performance beyond “ridership growth” and “energy cost reduction”.
- There are no specific initiatives discussed under Improve Customer Service in the Strategic Guidance beyond Americans with Disabilities Act compliance efforts.

It also appears that existing programs and activities were slotted to the goals as opposed to specifically identified or created to support the strategies.

Metrics: Metrics are the indicators of results and they communicate if or to what extent strategies have delivered the desired outcomes. Metrics also provide the feedback to keep strategic plans on target.

Some of Amtrak’s metrics are not the most appropriate for the stated goals in Amtrak’s current plans and not all goals have measures. For example:

- The metrics used to measure Greener are Ridership and Cost per Available Seat Mile (CASM). Ridership and CASM can go up or down independently of progress towards getting “Greener”. Other possible “green” metrics mentioned in the text, such as British Thermal Units/Passenger Mile or Carbon Dioxide (CO₂) emissions, could have been used.
- On-time Performance is a driver of customer satisfaction not a measure of customer satisfaction.
- Host railroad performance is a metric for “Healthier”, but there is no benchmark provided.
- No metric is assigned to measure “Meet national needs.”

Programs and Activities: Programs and Activities are products and services that are aligned to the strategies needed to support the goals. Amtrak has included considerable detail on the programs and activities designed to achieve the goals. However, without clear strategies, it is difficult to determine if the Programs and Activities are sufficient and the most appropriate to achieve the Goals.

Leadership & Ownership: The successful planning and implementation of a strategic plan requires focus and commitment from the organization’s leadership. Strategic planning is most effective when done by or with significant input by senior executives

and stakeholders. Senior executive and stakeholder involvement helps build commitment to the Vision and Goals. Amtrak is creating an Executive Committee Leadership Team and involving “stakeholders” in the development of the new Vision. This is clearly a positive step. However, for the plan to be effective there needs to be an owner of the plan to:

- Facilitate the development of the plan
- Keep the plan updated so that it stays relevant.

Amtrak currently does not have a person or group with this responsibility.

Assessment of the Environment: Understanding the internal and external environment is critical in any planning process. It is important to know where you are before you can identify what must change to get to where you want to be. “Successful strategies begin with leaders who know the strength of the forces in their environment and the attractiveness of their industry. With this understanding, they can determine how to compete to win.”⁵

Although Amtrak’s leaders have a deep understanding of their environment, this understanding needs to be captured and used to develop strategies to achieve the Mission and Vision. It appears that Amtrak’s management has recognized the importance of assessing the environment as in its team charter, Amtrak’s Executive Team assessment will include “...customers, stakeholders, business partners, competitors, beneficiaries, etc.”

Values: Values are defined as “The beliefs/behaviors that are central to the organization’s existence.” These values guide the operations of the organization. It is just as important not only to determine what the organization does but also how it does it.

From our interview with the Burlington Northern Santa Fe Railway, we found that they have a Leadership Model built on a culture heavy on adherence to its Core Values. Through regular training, the Core Values are strongly instilled in all levels of management, and “No one breaks the rules --- from the Board down.”

Amtrak has articulated a good list of “Corporate Values” in its Strategic Guidance. However, are these values instilled in Amtrak’s culture? Does Amtrak walk the talk? What is being done to publicize and promote these values? What happens if these values are not followed?

⁵ Five Forces Model, Building and Sustaining Competitive Advantage, Harvard Business School

Communication: Another major element that organizations emphasize as essential to the success of any strategic plan is Communication. Communication is critical not only in the development of strategic plans, but also to ensure execution, establish accountability and commitment, and instill Corporate Values.

Resource & Organizational Alignment: It is important that the organization is aligned and its resources allocated based on the prioritized set of goals. Unless proper alignment of the resources (and organization) is done during the strategic planning process, it is more difficult to achieve the expected outcomes. It is not apparent from the Strategic Guidance or the FY2010-2014 Five Year Financial Plan that resources (headcount and funds) were allocated based on prioritized goals or that Amtrak is organized appropriately to achieve the Mission.

CONCLUSION

Amtrak has struggled over the last several years to implement an effective strategic planning process. Although it has recently embarked on an attempt to develop and articulate a future state vision and new organization for Amtrak, the charter for this initiative does not include the development of an effective strategic planning process and plan. Based on our observations, Amtrak could benefit from adopting a strategic planning process that incorporates the key elements of an effective process and developing a strategic plan.

RECOMMENDATION

We recommend that Amtrak develop a strategic plan utilizing a strategic planning process that incorporates the key elements of effective strategic planning.

MANAGEMENT'S COMMENTS:

Amtrak Management agreed with our recommendation and committed to preparing a timeline for the development of a strategic plan by October 19, 2010.

See Appendix 1 for Amtrak Management's complete response.

Exhibit A



Amtrak's Strategic Planning An OIG Perspective

June 29, 2010

Background

- In 2005, GAO reported: “Amtrak lacks a meaningful strategic plan that provides a clear mission and measurable corporate-wide goals, strategies, and outcomes to guide the organization” - GAO-06-145.

- Amtrak’s strategic planning 2005-2008:
 - Multiple planning documents issued during this time but no comprehensive strategic plan.
 - Planning department disbanded in 2007.
 - Amtrak leadership participated in a detailed SWOT analysis in early 2008, but no strategic plan resulted from this.

- Amtrak issued the following strategic planning documents in Oct. 2009:
 - Amtrak’s New Mission (Strategic Guidance)
 - FY2010-2014 Five Year Financial Plan

What Amtrak is doing...

- Amtrak is currently establishing an Executive Committee Leadership Team “...to create the future service and organizational vision for the company.”
 - This team is scheduled to attend a UVA “team development session” in July.
 - Regular meetings have been scheduled to complete an initial report by October 15, 2010.
- This is a great move forward; however, identifying Amtrak’s vision and future organization are only two elements in an effective strategic planning process.

Purpose

To share with Amtrak's management some of the key elements of effective strategic planning we gathered from our research.

“Strategy is about ends and means – where we are going and how we are going to get there”

– Prof. Michael G. Rukstud. Building and Sustaining Competitive Advantage, Harvard Business School.

Research We Did

■ Classes

- The Performance Institute
 - Strategic Planning for Government Results
 - Developing Performance Measures for Government Results
- American Management Association – Strategic Planning.

■ Research

- Current approaches from top business schools
 - Building and Sustaining Competitive Advantage – Harvard Business School
 - Lawrence G. Hrebiniak, Making Strategy Work, (2005 Wharton School Publishing)
- Numerous other materials and books on Strategic Planning

■ Interview - VP at BNSF Railroad

- In 2007, BNSF was a winner of the Vision Award, which recognizes excellence in business performance and strategic planning.

Outline

- Benefits of Strategic Planning
- Key Elements of Effective Strategic Planning
- OIG Observations
- Conclusion
- Recommendations

Benefits of Strategic Planning

- Aligns organizational efforts around a single vision
- Helps leadership to make choices on strategic initiatives and determine priorities
- Fosters the development of realistic program and project plans
- Increases goal attainment
- Ensures effective use of resources
- Serves as a communication tool for all stakeholders
- Facilitates mid-course correction by focusing on end goals

Sources: The Performance Institute, AMA

Key Elements of Effective Strategic Planning

There is no one right way to conduct strategic planning.



Terminology is not consistent among different sources; however, common elements can be identified among the different approaches.

OIG Observations

Comparing Amtrak's strategy documents and the current intended direction with these "key elements" yield the following observations:

Mission

- Mission statements should:
 - Clarify the type of business you are in, the customer you serve, the purpose of your existence, and (if relevant) the geographic scope of your activities.
 - Be brief and clear statement or set of statements that define the type of work that will be undertaken for whom, for what reason, and where.
- Plans based upon a less than clear mission could lead to flawed strategies and misdirection of activities throughout the organization.
- Amtrak's mission statement in its Strategic Guidance is fairly comprehensive and incorporates the key roles assigned in PRIIA.
 - However, the mission statement in the FY2010-2014 Five Year Financial Plan is not as comprehensive as the one in the Strategic Guidance.

Vision

- A Vision identifies where the organization wants to be and what results it seeks.
 - It should be ambitious and create enthusiasm and commitment.
- A clear Vision is essential to help identify the goals, strategies and corresponding programs and activities that matter most to the organization.
- Amtrak's current planning documents do not appear to have a clear Vision.
 - The goals suggest a Vision of "improvement in several areas," but without a clear change in direction or focus.
- The charter for the new Executive Committee Leadership Team is "...to create the future service and organizational vision for the company."

Goals

- An effective strategic plan should include a set of goals that identifies what must change to achieve the Vision. The goals should be:
 - Clear,
 - outcome oriented,
 - time-bound,
 - and measurable.

- Most of Amtrak's goals as stated in its Strategic Guidance meet the criteria of being clear, outcome oriented, measurable and time-bound. Exceptions:
 - Meet National Needs does not have a measure
 - Healthier could be more clear

Goals

- In addition, without a clear Vision, it is difficult to assess if the current goals in Amtrak's Strategic Guidance are the most appropriate.
 - Should Safety be both a goal and a value?
 - Should Greener be a value rather than a goal?
 - If Amtrak achieves these goals, will it accomplish its Vision/Mission?

Strategies

- Strategies identify what must be done to achieve the goals.
- For most of its goals, it is not clear that Amtrak has identified comprehensive strategies that it will follow to achieve the goals.
- For example:
 - No clear strategy outlined to Improve Financial Performance beyond “ridership growth” and “energy cost reduction”.
 - No specific initiatives discussed under Improve Customer Service in the Strategic Guidance beyond ADA compliance efforts.
 - For others, it appears that existing programs and activities were slotted to the goals as opposed to specifically identified or created to support the strategies.

Metrics

- Metrics are the indicators of results.
 - Metrics communicate if or to what extent strategies have delivered the desired outcomes
 - Metrics provide the feedback to keep strategic plans on target
- Some of Amtrak's metrics are not the most appropriate for the stated goals in Amtrak's current plans and not all goals have measures

Metrics

For example:

- The metrics used to measure Greener are Ridership and CASM.
 - Ridership and CASM can go up or down independently of progress towards getting “Greener”.
 - Other possible “green” metrics mentioned in the text, such as BTUs/PM or CO2 emissions, could have been used.
- OTP is a driver of customer satisfaction not a measure of customer satisfaction.
- Host railroad performance is a metric for “Healthier”, but there is no benchmark provided.
- No metric is assigned to measure “Meet national needs.”

Programs & Activities

- Programs and Activities are products and services that are aligned to the strategies needed to support the goals.
- Amtrak has included considerable detail on the programs and activities designed to achieve the goals.
- Without clear strategies, it is difficult to determine if the Programs and Activities are sufficient and the most appropriate to achieve the Goals.

Leadership & Ownership

- Strategic planning is most effective when done by or with significant input by senior executives and stakeholders.
- Senior executive and stakeholder involvement builds commitment to the Vision and Goals.
- Amtrak is creating an Executive Committee Leadership Team to begin the assessment and to involve “stakeholders” in the development of the Vision.
 - This is clearly a positive step.
- To be effective, organizations need an owner of the plan to:
 - Facilitate the development of the plan
 - Keep the plan updated so that it stays relevant.
- Amtrak does not have a person or group with this responsibility.

Assessment of the Environment

- “Successful strategies begin with leaders who know the strength of the forces in their environment and the attractiveness of their industry. With this understanding, they can determine how to compete to win.”
 - Five Forces Model, Building and Sustaining Competitive Advantage, Harvard Business School.
- The Executive Team assessment will include “...customers, stakeholders, business partners, competitors, beneficiaries, etc.”
- Amtrak’s leaders have a deep understanding of their environment. That understanding needs to be captured and used to develop strategies to achieve the Mission and Vision.

Values

- Just as important as what the organization does is how they do it.
- Core Values are defined as “The beliefs/behaviors that are central to the organization’s existence.” These values guide the operations of the organization.

Values

- The BNSF's Leadership Model is built off a culture heavy on adherence to its Core Values.
 - Through regular training, their Core Values are strongly instilled in all levels of management. "No one breaks the rules --- from the Board down."
- Amtrak has articulated a good list of "Corporate Values" in its Strategic Guidance.
- However, are these values instilled in Amtrak's culture?
 - Does Amtrak walk the talk?
 - What is being done to publicize and promote these values?
 - What happens if these values are not followed?

Communication

- A major element that organizations emphasize as essential to the success of any plan is communication.
- Communication is critical not only in the development of strategic plans, but also to:
 - ensure execution
 - establish accountability and commitment
 - instill Corporate Values

Resource & Organizational Alignments

- Resource alignment is the process of allocating resources based on a prioritized set of goals.
- Unless proper alignment of the resources (and organization) is done during the strategic planning process, it is more difficult to achieve the expected outcomes.
- It is not apparent from the Strategic Guidance or the FY2010-2014 Five Year Financial Plan that resources (headcount and funds) were allocated based on prioritized goals or that Amtrak is organized appropriately to achieve the Mission.

Conclusion

- Amtrak has struggled over the last several years to implement an effective strategic planning process.
- It has recently embarked on an attempt to develop and articulate a future state vision and new organization for Amtrak.
- The OIG has identified some of the key elements in implementing an effective strategic planning process.
- Based on our observations, Amtrak could benefit from adopting a strategic planning process that incorporates these key elements.

Recommendations

- Amtrak should revise the Leadership Team Charter to incorporate a strategic planning process that includes the key elements of an effective strategic planning process.
Specifically:
 - Develop a Mission statement that clearly states the fundamental purpose of Amtrak's existence.
 - Develop a Vision (realistic desired future state) for the corporation to provide direction as to where it wants to go and what results it seeks.
 - Perform a thorough assessment of the current environment to help develop Goals and Strategies that are aligned to its newly developed Vision.

Recommendations (cont.)

- Develop Goals that clearly define what must change (strategically) to achieve the Vision that are clear, outcome oriented, time-bound and measurable.
- Develop the Strategies that clearly identify the initiatives, programs and activities needed to achieve the Goals.
- Develop appropriate metrics to measure achievement of the Goals.
- Develop detailed Programs and Activities identifying who does what, when, etc., during the planning process to help allocate resources, track and coordinate activities, and ensure success of the plan.

Recommendations (cont.)

- Develop a set of Corporate Values to guide the actions and behavior of employees and then take the necessary actions to instill the values throughout the corporation.
- Ensure that resources are allocated where they contribute the most and the organization is aligned to achieve the Vision and Goals of the corporation.
- Ensure that senior leadership and stakeholders are involved in the Strategic Planning process and in the development of the Strategic Plan.
- Assign a person or a unit to champion the development of the plan, monitor its progress, and guide adjustments as needed.
- Continually communicate the plan throughout the organization to build commitment and ensure effective coordination of efforts toward successful plan execution.

Exhibit B

OIG Strategic Planning Evaluation Team:

Calvin E. Evans – Assistant IG for Inspections & Evaluations

Philip Y. Ong – Chief, Inspections & Evaluations

Appendix 1

Memo



Date August 16, 2010
To Ted Alves

From Joseph H. Boardman
Department President and CEO
Subject OIG Evaluation Report No. E-10-01
cc William Crosbie
Stephen Gardner
DJ Stadtler
Jessica Scritchfield

Message This is management's official response to the OIG Evaluation Report No. E-10-01, Report on Amtrak's Strategic Planning.

The Office of Inspector General (OIG) draft audit report dated July 27, 2010, regarding Amtrak's strategic plan provides useful information on which Amtrak management can take action. Management agrees with the recommendation to develop a strategic plan utilizing a strategic planning process that incorporates the key elements of effective strategic planning.

As outlined in the OIG's report, Amtrak's management has created an executive leadership group as a parallel organization specifically to create the future service and organizational vision for the company. This team's initial purpose will be to develop and articulate a future state vision for Amtrak as a corporation. While necessarily broad in scope, the vision will provide sufficient specificity to guide decisions on market goals and strategies, organizational structure, and the alignment of major corporate systems. This vision will be the first step in a much longer process and more detailed process of strategic planning.

This team has committed to the preparation of an initial report documenting its progress and plan by October 19, 2010. That report will include a timeline for the development of a Strategic Plan, to include the development of Amtrak's refined Mission, Vision, Goals, and Metrics. It will outline a timeline for defining the strategies to meet the goals, and processes for reporting our results internally to employees and management and also externally to our stakeholders and customers. The various steps of this plan will incorporate best practices of strategic planning and will reflect the observations found in the OIG's report.

Ted I think this was well done and we will build on the it Joseph H. Boardman