



EUROPARTNERSHIP WHITE PAPER

Beyond the Budget



Do you ever have to chose a way forward in an uncertain environment; or plan and manage change that affects several teams or divisions?

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Europartnership's "Performance Management Toolbox" Series examines approaches and tools that can be deployed when implementing change and improvement programmes. Our aim is to bring together leading practice from around the World in an easy to read set of articles.

BEYOND THE BUDGET

Summary

“Beyond the Budget” is a label for a shift in the way that organisations think about and approach planning and delivery of strategy.

It seeks to support businesses with cycles that don't neatly fit into a neat and convenient twelve month pattern. Financial planning shifts to a pattern that is continuous in nature and tuned to the business requirements. External reporting simply becomes a snapshot at the defined annual date. Real control - monitoring and managing process of developing the business - is set to optimise growth and the creation of wealth.

The move means rethinking the role the CFO and accountants across the organisation: away from short term planning and historical reporting and towards that of long term forward looking business partner. This is a direct consequence of the shift beyond the budget to continuous planning and management of the factors that underpin and determine future financial results.

The annual round

The exercise in numbers - annual planning and budgeting - happens every year in every organisation of any significant size and scope.

Despite the massive time and effort invested, this process falls for short for at least three reasons:

1. It fails to specify outcomes instead of activities.

Performance that unlocks the real potential of an organisation begins with a focus on outcome-based goals, not activity-based goals. Outcome-based goals describe the results or impacts that directly answer the quantification question: "How will you know that you have succeeded at X?"

For example, you may need to improve customer service in order to grow. Goals should describe outcomes in terms of: correct information, reduction in errors, customer satisfaction, customer churn, and the like.

By contrast, activity-based goals simply restate the activities people plan to do. For customer service, activity-based goals might be: organise customer service representatives into teams, train customer service representatives in how to handle upset customers, or install new automated response system. Each of these might produce outcomes, but activities, however significant, ought not to be goals.

Goals should be the outcomes we hope to achieve as a result of the activities we undertake.

Effective goals are SMART¹.

¹ SMART - Specific, Measurable, Achievable (or Aggressive), Realistic (or Relevant), and Time-bound

If financial yardsticks are the relevant metric for success, use them. More than likely, however: time; speed; specification; meeting expectations; satisfaction levels; quality; introducing new products or services; building trust-based relationships - or some other outcome metric - better describes success. Get these right and the revenue, cost, or headcount outcomes will follow. Get these right and we just made a first and significant step in thinking towards the shift "beyond the budget".

2. It fails to measure success directly against key performance challenges.

Question: How do you support a CEO who publicly promises to deliver "double digit growth in revenue and profits?" Answer: by tackling such performance challenges as quality improvement, speed, re-engineering, technology-based innovation, and strategic alliances.

For most of these, however, revenue, expense and headcount will lag behind these indirect indicators of success. Financial results lag behind almost everything that an organisation does. They often fail to explain the success or failure of any single thing an organisation does.

We have seen departments meet headcount and expense goals - and then miss key product launch dates with fatal, business-closing, consequences. There are still too many organisations that have no idea whether quality improvement, speed, reengineering, technology-based innovation, and strategic alliances had made a difference to profitability.

To track success at each of these challenges, managers need to focus on metrics and goals that are relevant to the challenges themselves.

3. It fails to inspire people to excel.

Goals should challenge and reward. Few people are excited by the challenge of meeting headcount and expense targets. By contrast, people set goals to shorten cycle times, dramatically reduce customer-defined defects, establish new service levels, or go after new customers or markets, their energy, focus, and sense of achievement all rise².

Organisations must choose from competing opportunities in the face of too few resources – and classically the budget: "forces a simultaneous consideration of all the competing claims for support." [Simon; 1945]

However:

- be they dollars, euro or pounds, money is no longer the sole, nor the best, criteria for selecting among competing performance challenges;
- the sum of functional performance rarely explains total organisation performance;
- market requirements seldom conform to the 12-month cycle of annual budgets

Financial results are still the final arbiter of performance of the business as a whole.

Half a century ago, in Simon's World, executive choice was limited to putting a scarce financial resources into sales versus operations. Valuing the return on that investment in terms of operational efficiencies versus investment in sales growth was more

² For a non-business but very powerful illustration of this see "'Leading at the Edge' – lessons from Shackleton's Antarctic Expedition" (Dennis Perkins)

straightforward. A euro invested in sales yielded so many euro of sales growth. A euro invested in operations yielded so many euro of efficiencies. Which euro of benefit did the executives want more?

Annual planning and budgeting typically assumes a purely functional view of organisation structure and performance. Yet all organisations face performance challenges that demand cross-functional and cross-company working. Whilst designating responsibility for such challenges within functional, budgetary buckets may gratify finance professionals, such allocations have little to do with setting, monitoring or achieving outcome-based goals relevant to the performance challenges themselves.

Results are monitored by month, quarter and year. However, performance challenges have their own cycles for success. It seems arcane that we persist in assessing progress of delivering quality, strategic alliance building - and other performance challenges - in terms of months, quarters and years. It may be administratively - for the administrators. It is neither convenient nor constructive for people trying to measure and deliver success.

Not so hidden costs

Activity based goals continue to proliferate – not aligned to delivering the outcome based goals.

Organisations across the globe are strewn with the wreckage of stock reduction, re-engineering and other strategic initiatives that seemingly ask people to commit to a activities - instead of demanding that they set and achieve outcome-based performance goals that matter.

Integral planning of aligned goals and objectives each with quantified targets appropriate to the rhythm and timing of its performance cycle is supports cost optimisation and value driven accounting.

Doing Performance Planning Right

When a major international aid society decided to enrich the budgeting process with an outcomes focus, the head of Corporate Services - responsible for human resources, marketing, communications, fundraising events, government relations, and international services - asked her staff to prepare the usual budgets for the coming year. However, these budgets would simply provide a necessary appendix. The body of the plan focused on the key performance challenges identified by senior management – and the outcome-based goals critical to succeeding at those challenges.

For each performance challenge, team leaders specified one or more outcome-based goals as well as the major activities needed to achieve those goals. For example, marketing needed to build strategic partnerships with corporations. But, instead of focusing on the budget and headcount required, they identified outcome-based goals regarding the number and timing of partnerships that needed to be established, as well as the specific impacts each relationship would have.

Rather than reviewing delivery at fixed intervals of months, quarters and year end, people were asked to designate review points appropriate to the time frames for success. And they were to indicate how each performance challenge supported the mission of the organisation.

Every organisation needs to prioritise and choose which paths to follow. By comparing the relevant outcomes, real, long-term strategic choices are made.

More integrated challenges find their way into corporate strategy. Often these would previously have been set aside as too difficult. Now they find an owner who will face up to the demands of cross functional teamwork. The organisation has moved beyond the department-by-department view of work promoted by traditional planning and budgeting.

Getting Started

How can managers and leaders tame the annual budget and planning constraints?

First, change the emphasis. Make planning and budgeting just one part of a performance outcomes management system. You have arrived when there is widespread continuous monitoring of performance. At any moment, people have sight of their contribution to the objectives being pursued by your organisation and the outcome-based goals that measure success against those challenges, the time frames within which that success is expected, and the who (individual or team) is responsible for and committed to delivering those outcomes.

To implement this cause and effect systematic approach: you will need to view performance challenges, and not departments and functions, as the basic unit for planning and goal setting.

Work the planning process with groups of people who can deliver performance challenges in ways that make sense, and demand that they set and achieve outcome-based goals³. For decades, performance has been force fitted into self-contained silos: individual jobs, departments and divisions. The performance potential that is locked up – sandbagged – starts to emerge when working in the with project teams, business processes, strategic alliances.

One Chief Financial Officer of a Global Consumer Electronics was an early and strong advocate of “Beyond the Budget”. He adopted the title for a shift in the role of finance across a global organisation. The company had already adopted Balanced Scorecard principles. “Cause and effect” thinking was becoming embedded in the Corporate strategic planning process.

“Beyond the Budget”, however, meant redefining the role of finance officers. There was training and support for the new and business partner responsibilities. No longer the custodians of “reporting what we see in the rear view mirror” – but true business partners in shaping the business and supporting colleagues in unlocking the potential of the business.

The shift to “forward managing” is challenging for line managers and the finance function alike. The rewards are massive for the organisation and individual alike.

³ See Europartnership white paper: “Strategic Conversations”

Goals, targets and scorecards

Quantifying goals, objectives is a difficult task to achieve. The planning, budgeting, and review processes ought to help people ask and answer:

- What is the performance challenge at hand?
- What outcomes would indicate success at this challenge?
- What are the working arenas and people necessary to this challenge?
- To which of those working arenas do I or we contribute?
- What outcome-based goals should we set and pursue to make that contribution?

Annual planning and budgeting processes, however well intended, often mutate into mathematical and political exercises with little relevance to performance. Instead of making success measurable, they generate activity-based goals and cynical negotiating skills. Most companies could scrap the entire process, ask the finance function to provide the needed picture of costs and revenues, and do better in terms of overall business performance.

There is a strong affiliation between “Beyond the Budget” and the Balanced Scorecard approach. Goals and targets mapped into scorecards and continuous monitoring stem from the same thinking. Indeed, they are so mutually supportive of each other that is almost a pre-requisite of “Beyond the Budget” that the organisation adopts a cause and effect “Balanced Scorecard” way of monitoring and managing.

ABOUT EUROPARTNERHIP



Europartnership is a management consultancy that offers high quality services to clients designed to improve organisational performance.

This includes the provision of consulting services; software; facilitation; and training in performance management and strategy development.

Europartnership's skilled staff and consultants deliver ethical consulting services and work in partnership with clients to deliver continuous improvement programmes.

Our unique proposition and added value is that we work with organisations and, in so doing, transfer our knowledge and skills. Our aim is always:

“to equip organisations to improve performance”

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