CORPEUM®

WHITE PAPER

IMPROVING THE EXECUTION OF STRATEGY.

Strategy Execution

1. Overview.

The execution of strategy has been at the top of the CEO's agenda for many years and yet despite the investment in technology systems for planning, budgeting, reporting and analysis, as well as the introduction of performance management methodologies such as the Balanced Scorecard, the ability to execute well is still just as hard to achieve.

If an organisation is unable to execute its strategy, then it loses the ability to navigate through today's complex and volatile business environment. Being 'out of control' can have dire consequences, which long-term, at best, will result in below par returns for stakeholders and, at worst, will cause the organisation to fail.

Investments in technology systems that aid planning and provide insightful analyses are at an all time high, and yet many CEOs still find they don't have the right information to track the implementation of strategy.

Part of the reason is due to the disconnect these systems have between strategy and the every day actions performed by employees. Most systems, and the way in which they have been implemented, focus on the numbers – budgets, financial results and KPIs – when the focus for performance management purposes should be on actions and their effectiveness in delivering corporate goals. This requires a very different kind of approach and supporting technology system.

The aim of this white paper is to show what's involved in improving strategy execution and how that influences the evaluation and implementation of supporting technology systems.

2. Where it goes wrong.

2.1 Intention and reality

It's clear from many studies that the inability to fully implement organisational strategy is costing organisations dearly. It's not so much the strategy that is at fault, but it appears that issues around its implementation is where things go wrong. A survey conducted by Mankins & Steel and published in the Harvard Business Review showed that only around 60% of the value within a plan is ever delivered with the shortfall being blamed on planning and execution failures.

In another article published in Forbes magazine, a survey showed that while 82% of Fortune 500 CEO's feel their organisation did an effective job of strategic planning, only 14% of the same CEO's indicated that their organisation did an effective job of implementing the strategy.

In the light of this under-performance, it's not surprising to find that, according to the Conference Board, CEO's consider 'Excellence in execution" and "Consistent execution of strategy by top management" to be the top two critical challenges they face today. A position that hasn't changed for the past three years.

So what goes wrong and how can technology systems help? A closer look at the HBR survey, reveals that the top four reasons contributing to execution failure were:

- Inadequate or unavailable resources.
- Poorly communicated strategy.
- Actions to execute not clearly defined.
- Unclear accountabilities for execution.

It seems incredible that these should be the top reasons, after all, most organisations spend a lot of time and effort in communicating its mission and the values that drive it forward.

There are mission statements, strategic reviews and countless systems that collect and analyse performance. And yet, frustrated executives can't see why employees "don't get it", while employees are at a loss to see the connection between what they are asked to do on a day-to-day basis and the long-term aims of the organisation.

Something is clearly wrong, and in the opinion of this white paper, it has everything to do with the way organisations plan, implement and monitor strategy.

Execution Issues

2.2 The causes of failure.

Inadequate or unavailable resources.
It's interesting to find 'inadequate or unavailable resources' at the top of the HBR list, as most companies spend months on their budget process, which is supposed to ensure that initiatives are adequately resourced. However, it seems that the majority of organisations have no clear link between their budgets and strategy.

A survey by Kaplan & Norton, authors of the highly acclaimed Balanced Scorecard methodology, found that 60% of organisations do not link their budgets to strategic priorities. As a result companies never allocate sufficient resources to the strategy, thereby failing to create an appropriate connection between the strategy and the resources required to execute it.

Poorly communicated strategy.
The second area that causes execution failure is the way in which strategy is communicated – or rather isn't communicated. Kaplan & Norton found that 95% of company employees are unaware of, or do not understand, its strategy.

According to David Axson, in a survey of over 2,000 companies published in the book 'Best Practices in Planning and Performance Management', 73% of employees do not have access to the organisation's strategic plans. Furthermore, only 42% of managers have access to those plans.

When employees do not have access to the plan or they are unaware of how it affects them, they will either "make it up as they see it", or they will continue doing what they think they should be doing. Either way, the strategy of the organisation becomes an amalgamation of other peoples views, rather than what the senior management team intended.

Actions to execute not clearly defined.
In the HBR study, Mankins and Steele found that when strategy is poorly translated: "Lower levels in the organisation don't know what they need to do, when they need to do it, or what resources will be required to deliver the performance senior management expects. Consequently, the expected results never materialize. And because no one is held responsible for the shortfall, the cycle of underperformance gets repeated, often for many years."

Strategy is all about action, and yet the main process by which strategy is planned has no specific link to activities. According to David Axson, " … nearly 50% view the planning process as financial and annual. In effect, budgeting is a plan with little detail on specific tactics to be employed but lots of detail on the expected financial results."

Unclear accountabilities for execution.
There is a general saying that organisations get the performance they pay for. The 'Best Practices' survey found that 40% of companies do not tie incentive compensation to achieving their strategic plans, while 97% percent tie compensation to their financial plan results.

This practice leads to sandbagging costs and deflating revenues during the planning process, and will almost certainly create an environment where short-term financial goals are everything, and long-term strategy is relegated to a note in the accounts.

Strategy implementation requires people to take responsibility to do the right things. And it requires performance to be analysed in terms of what things are working, which things are not, and what changes to both activities and resources are needed to stay on track.

However, Mankins and Steele found that "Only 15% of companies make it a regular practice to track business results against the performance forecasts of its prior year's strategic plans."

Kaplan & Norton also found that 85% of executive leadership teams spend less than one hour per month reviewing their strategy.

Execution Roles

2.3. The role of the CEO.

Strategy execution is a key role for any CEO. CEO's are measured and rewarded by achieving or bettering agreed corporate goals through the development and implementation of corporate strategy. That strategy will reflect the organisation's values, recognize its strengths and weaknesses compared to the competition, and have a view on the direction of the market in which it operates.

To this end, the role of the CEO typically covers:
- **Communication** – this can involve the press and the rest of the outside world, as well as the organisation's management and employees.
- **Decision-making** – at a high-level concerning policy and strategy.
- **Leadership** – by advising the board of directors, motivating employees, and driving change within the organisation.
- **Management** – by presiding over the organisation's day-to-day, month-to-month, and year-to year operations.

If those goals are not achieved or the strategy fails, then the person ultimately responsible is the CEO. Any technology system aimed at the CEO must directly support these roles.

2.4. The six elements of strategy execution.

According to Kasper Lindøe Pedersen in his thesis "Cracking the Code of Strategy Execution", execution involves six key elements:
- **Translation** - the process of converting the ideas, visions and aspirations of the strategy into workable plans and metrics.
- **Communication** - ensuring that all key employees are aware of and understand the "what", "why", "how", "when" and "who" of the strategy.
- **Coordination** - passing on both responsibility and accountability to key personnel for a specific action or goal in the process.
- **Adaptation** - monitoring the process of strategy implementation and making adjustments to the strategy, in order to create a better fit to the real world.
- **Resource Allocation** - linking the strategy to resources required to execute it.
- I**mplementation** - the actual process of carrying out the specific actions defined by the strategy execution process.

In most organisations these elements will be bound up in the management processes of strategic planning, tactical planning, financial planning, forecasting, management reporting, and risk analysis.

These processes, although often treated as separate and distinct from one another, are in fact part of the same overall process of managing strategy. The way in which these interact with each other will determine whether the organisation is truly focused on strategy execution, or whether they form part of an organisational ritual whose purpose has been lost.

If organisations are to improve the execution of strategy, then corporate strategy and management processes must be inter-twined, they cannot be separated if execution is to be conducted in an efficient and effective manner.

As a result, technology systems have to support three key areas:
- Communication of corporate strategy that shows employees what the company is trying to achieve and who is to be involved.
- Controlling the management or execution processes that enable operational managers to show how they plan to implement strategy and by when, along with the resources they will require.
- Adapting the plan which, depending on the results achieved and the forecast business environment, re-thinks initiatives and re-allocates resources so that the organisation's mission is accomplished.

Each one of these is considered below.

3. Communicating Corporate Strategy.

Corporate strategy is concerned with organisational objectives and the activities that determine how they are going to be achieved. These activities take into account the resources – people, money, assets – that will be required, and the assumptions about the business and competitor landscape. They also consider the risks being run and what the organisation would do should those risks materialise.

"No strategy can deliver results unless it's converted into specific actions."
Larry Bossidy

These components, and their associated names, are often designated by the management methodology in use, but all form a logical story as to how the organisation will achieve success.

In terms of completeness, there are 7 key elements that any strategy needs to cover:

- **Objectives.** What are the objectives/goals of the company and how will success be measured? If the goal is to grow, then by how much? If it is to be profitable, then how much profit?
- **Values.** These are the guiding principles on how the organisation should act when carrying out the plan, e.g. 'fostering good community relations' or developing a 'can do' work ethic. It goes without saying that all actions should be legal, but stating organisational values here will help guide managers when creating tactical plans.
- **Strategies.** What direction should the organisation take to achieve its objectives? If it is by 'building strong customer relationships' or by 'expanding into new markets', then there needs to be a measure of success associated with each strategy. Without measures of success, actions defined in the tactical plan are likely to multiply, as there is no goal on what needs to be achieved.
- **Timescale / Milestones.** For each strategy, there needs to be a 'milestone' measure and an associated date, so that managers will know what is expected to be delivered and by when. These will also be used in management reports to check if the overall plan is on track to achieve the objectives.
- **Responsibility.** The plan needs to make clear which departments (and ultimately which people) are responsible for developing and carrying out action plans to implement each strategy.
- **Risks & Assumptions.** The plan should identify the things that could happen (or are assumed to happen), that could prevent defined strategies from being a success. For example, the non-availability of raw materials, or competitors substantially cutting prices. Putting a percentage 'likely' risk factor on each can help restrict this list to the things that are most likely to happen, or are assumed that will definitely happen. For each assumption/risk there needs to be a set of measures that can be monitored.
- **Actions.** To make the strategic plan a reality, a tactical plan will need to be developed that details actions (that will later become the focus of the budget) for each strategy. These actions could include those that mitigate risks and those that directly impact strategic goals.

Whatever methodology is used, strategy can be drawn as a 'cause and effect' or 'strategy' map that shows how activities support each other and together how they contribute towards strategic goals.

As such they provide an easy way of communicating strategy to all employees and external stakeholders. Nigel Rainer of Gartner states that "Without cause-and-effect links, metrics can give contradictory messages." Paul Niven in his widely acclaimed book on the Balanced Scorecard comments "The importance of 'Cause and Effect' is that it tells a story of how to get success".

Creating a strategy map is a collaborative process. It typically starts out with senior executives who, from analysis of past performance and a view of the forecast business environment, will determine the goals to be achieved, the strategies to be employed and targets to guide execution.

It is then the role of operational managers to develop action plans that implement each objective/strategy that are deemed to be the best, affordable way to achieve them.

Kaplan & Norton, authors of the Balanced Scorecard', state that success comes "… when strategy becomes everyone's everyday job". This requires strategy to be both communicated, understood and put into action by all employees. A well-communicated plan will include:

- Each employee having a clear 'line of sight' between their daily activities and what the organisation is trying to achieve.
- Budgets that are directly allocated to strategic initiatives.
- Compensation schemes that reward on a combination of implementing strategic initiatives and on the organisation attaining strategic goals.

Support Systems implications:
Effective communication provides a challenge to Corporate Performance Management (CPM) systems. These systems are not just about numbers but also about ensuring that employees understand what is required and the activities they need to perform in order to meet organisational objectives.

Focus on Strategy Execution

4. Controlling the Execution Process.

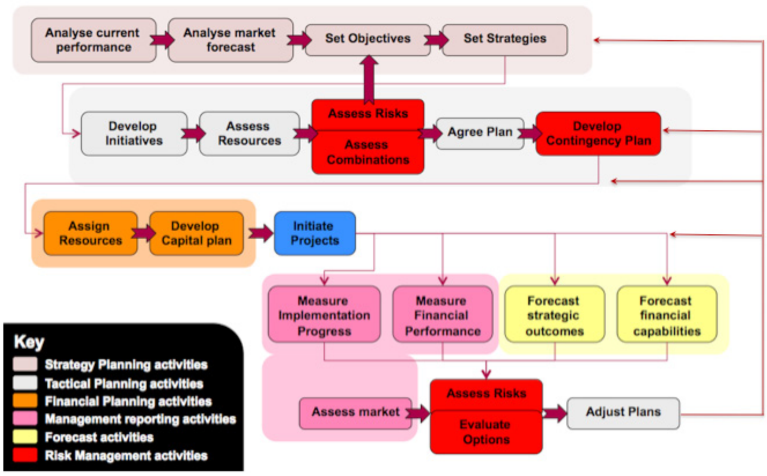
"Successful strategic outcomes are best achieved when those responsible for execution are also part of the planning or formulation process. The greater the interaction between "doers" and "planners" or the greater the overlap of the two processes or tasks, the higher the probability of execution success."
Lawrence G. Hrebiniak

"80% of management decisions are made without ever considering an alternative."
Lippitt

Key to strategy execution are the management processes involved, that answer the questions:

- How will the plan be put into operation ?
- When will it happen?
- What happens if the plan does not work ?

As mentioned earlier, these processes are typically seen as six distinct activities – strategic planning, tactical planning, financial planning, forecasting, management reporting, and risk management. However, if you take a closer look at what's involved in each process, the distinction between each becomes blurred.

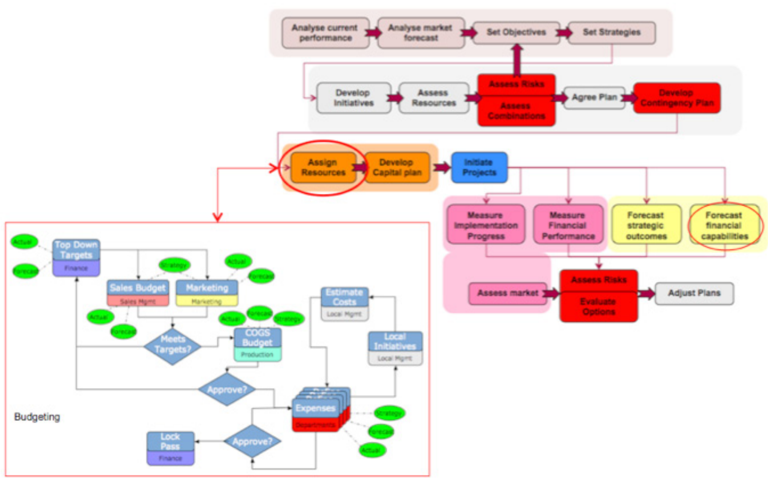


Within each process there are a number of key interconnected activities that cannot be run in isolation. They each depend on the successful conclusion of a prior activity, which does not always run in such a straightforward sequence. For example, Risk Management plays a part in a number of processes and there is a loop between the adjustment of plans following a forecast and the tactical and financial planning processes.

Only together do they form part of one overriding process of managing strategy. The trouble is that most technology systems only support individual areas and not the complete process as shown above.

To make matters more complex, within each activity there are many interactions between departments.

For example when setting a budget, the market forecast should be reflected in the sales target, which in turn should drive the production budget. However, production capacity may impact the level of sales that can be achieved. Once these departments have co-ordinated their plans, other departments will need to do theirs - support services, finance department, IT and so on.



Support Systems implications:

For a CPM system to improve the execution of strategy it needs to combine and run all the activities involved in planning, resourcing and monitoring strategy as a single management process. Only then can the execution process be properly controlled and maintained.

5. Adapting the Plan.

"Dakota tribal wisdom says that when you discover you're on a dead horse, the best strategy is to dismount. Of course, there are other strategies. You can change riders. You can get a committee to study the dead horse. You can benchmark how other companies ride dead horses. You can declare that it's cheaper to feed a dead horse. You can harness several dead horses together. But after you've tried all these things, you're still going to have to dismount." *Gary Hamel*

"Ignoring the real facts can only hurt strategy execution." *Lawrence G. Hrebiniak*

No plan ever works as intended. The world is far too complex and there are too many interactions that can cause plans to go 'off track'. Even NASA reports that rockets are off course more than 80 percent of the time. They would never meet their intended destination without making the necessary adjustments. And the same is true when implementing strategy.

If we look at all these different tasks and activities involved in controlling the execution process, we see that they are typically run in isolation and at different times – some are annual, some are quarterly and others monthly. The issue is what happens if something doesn't go to plan?

For example, what happens if the market suddenly contracts for one product; or if materials costs are significantly over budget?

In these and most other cases, the organisation must initiate a set of planning and risk management tasks for the affected parts of the business if it is to stay on track.

This could involve changing or introducing new initiatives, which may need resources that could affect other parts of the company. Waiting until the next annual planning round to accommodate these changes is illogical, inefficient, potentially hazardous and is guaranteed to lead to a gap between strategy and execution.

Which is why many organisations are reviewing their processes to see how they can operate on a continuous basis. Continuous planning is not the same as doing the same things only quicker and more often.

It is only when all the tasks involved in all processes are treated as a single network of inter-dependencies, triggered by events and exceptions, that organisations can achieve an effective and continuous process. Interestingly, Gartner found that at least 50% of organisations simply automate existing, outdated management processes and as a result will not receive the benefits offered by CPM.

David Axson in his study of over 2,000 organisations found that "Best Practice companies decouple their internal management processes from the calendar and provide a set of planning and reporting processes that utilize continuous processing and monitoring of activity." He goes on to say that "Aspects of strategic planning are not once-a-year events but a continuous process. The pace of change is so great that management needs to monitor the strategic implications of new developments on a continuous basis."

Support Systems implications:

As with communicating corporate strategy, supporting management processes on a continuous basis has significant implications for supporting technology systems.

First they must continually monitor external events, internal activities and their impact on future goals. They should monitor the status of implementation and how actions have contributed to the success of each strategy and objective. They should also highlight if any risks or assumptions have been breached and whether associated measures of success need revising.

Second, when variances are identified they must automatically warn and trigger remedial processes. If those processes are not actioned then there must be some form of escalation process so that execution is sustained and results in the achievement of organisational objectives.

6. Strategy Coach.

Managing the execution of strategy is a continuous process that spans not only the complete organisation, but also the events and situations in the business world in which it operates.

As mentioned earlier, it requires a focus on:

- Communicating corporate strategy that shows employees what the company is trying to achieve and who is involved.
- Controlling the management or execution processes that enable operational managers to show how they plan to implement strategy and by when, along with the resources they require.
- Adapting the plan which, depending on the results being achieved and the forecast business environment, re-thinks initiatives and re-allocates resources so that the organisation's mission is accomplished.

This set of activities is not a one-time job and is far too important to be left to the collective will of managers. One way to do this in a consistent and effective way is to create the position of a Strategy coach whose responsibility it is to proactively perform these activities.

Their purpose is to act as an intermediary between the managers of operational departments and the senior executive team, with a particular focus on strategy execution. They are also there to make sure that there is a balance in management attention between short and long term objectives.

A Strategy coach should be someone who understands the business, the market in which it operates, who is a good communicator and can work well with operational managers. It is their responsibility to translate the strategy and work with operational mangers to identify/validate the strategic initiatives required to achieve the objectives. It is also their responsibility to validate performance targets and metrics by which the various functions are measured, in order to keep track of progress.

The Strategy coach should ensure that all the key strategic activities are adequately resourced and that they are being put into action. Their role is to test and adapt the assumptions, beliefs, estimates, forecasts and provide input as to how activities may need to change. It is also their role provide warnings to senior executives when execution is being jeopardized and to meet regularly with them to ensure the process is working efficiently and effectively to improve execution.

Support Systems implications:

For a Strategy Coach to operate effectively they must be able to monitor the processes being run, how they are being triggered and any alerts that have not had a response. In this way they can pro-actively advise management teams on the status of execution.

7. The Role of Technology.

7.1. The history of CPM suites.

CEO's are aware that budgets and management reports are unable to bridge the gap between strategy and execution. In the 1980's the rise of Executive Information Systems (EIS) promised to give them better insight into the way their operations performed. The subsequent Business Intelligence (BI) systems that developed from EIS have enabled them to identify cost savings and market opportunities.

But what these systems didn't do, was to ensure that action plans resulting from those analyses were properly resourced, implemented and had the desired effect. They also didn't give the CEO or the senior management team a clear view as to whether those actions were sustainable and whether collectively they would ultimately help the organisation achieve its mission.

In response to this situation, management methodologies like the Balanced Scorecard became increasingly popular as they, from a theoretical point of view, could show how to link actions with strategy. Tools such as 'strategy maps' and scorecards could provide CEOs with a way to help fulfill their main roles, i.e. to communicate both internally and externally; to provide input into strategic decision-making; to set an agenda that would drive change; and that could help manage both short and long-term operations.

However the systems to support these methodologies are far from ideal. Rather than create new systems that support all the management processes to define, resource, forecast, monitor and adjust corporate strategy, vendors simply added discrete, independent scorecard software products to their existing 'numbers focused' planning and reporting systems and renamed them as a CPM suite.

As a result scorecard products are typically restricted to the displaying of KPI's and do little to help the planning and resourcing process, while the supposedly integrated planning products have no visibility to the actions required to execute strategy. This means that although todays CPM suites can help with communication, they are severely limited in the role of decision-making, change management and ensuring that day-to-day operations lead to long-term goals.

7.2. Renewed focus on strategy execution.

According to Gartner, the market for CPM suites continues to grow, and was estimated to be $1.94 billion, worldwide in 2009. Gartner believes the market is characterised by the following:

- 50% of large size and 75% of mid size companies still use spreadsheets or legacy applications for budgeting, planning and forecasting (BP&F).
- Those companies with BP&F solutions are looking at strategy management and profitability modelling applications to increase the sophistication and scope of their existing CPM solutions.
- First time adopters of CPM are investigating the higher value of strategy management capabilities.
- Organisations are looking to CPM applications to ensure their operations are as efficient as possible. Some are looking to CPM to support 'return to growth' strategies.
- More sophisticated organisations are implementing strategy maps, using scorecard software to link CPM to other aspects of PM. Strategy management is therefore becoming an increasingly important aspect of CPM suites.
- Organisations are still adopting a 'best of breed' approach from specialist vendors.

However the market is still dominated by CPM suites that, as mentioned above, are in fact a set of discrete applications that have very little connectivity between them. This gives rise to a number of problems:

- First there is no single place to plan and track strategy, and it is easy for data to be out of step with the same data in a separate system. If a change is made to a budget or scorecard target, then those changes have to be manually reflected in both systems. This means that there is no way of ensuring budgets are linked to strategy – one of the key reasons why strategic plans often fail. It also means management are unable to assess whether the cost of implementing different initiatives is worth it, or whether it would be better to move resources from one activity to another.
- Second, these systems only provide menu systems to control management processes and then these only control access within a particular application. They do not allow the setting up of a network of activities across all processes, and they do not support the automatic triggering of an activity based on an exception, an alert or the completion of another process. This means they are unable to support continuous planning.
- Finally, because these systems do not track the individual activities in the planning process, there is no way of communicating to staff who has done what to the current plan and the reason why; and there is no way of learning from past decisions to stop history repeating itself.

7.3. Requirements of a CPM solution.

Systems that support the role of the CEO must help them improve the execution of strategy. They must help them communicate what it is; it must help them make high-level strategic decisions; it should help drive change; and it should help them preside over day-to-day, month-to-month and year-to-year operations.

It needs to do this by helping both the CEO and his team to control the management processes that:

- Sets the strategic direction and value of strategic goals.
- Allows them to evaluate and choose the best strategic initiatives to deliver the set strategic goals.
- Ensures adequate resources are assigned to chosen initiatives.
- Monitors the implementation of initiatives and their impact on strategic goals.
- Allows them to assess risk and develop contingency plans.
- Highlights variances and trends and brings them to the notice of management for action.
- Allows plans to be adapted based on events and exceptions.
- Allows the organisation to learn from the past.

This requires not only a new type of software application that supports the complete CPM process as a totally integrated continuous event, but also a change to the way in which organisations define and monitor strategy.

7.4. Software capabilities.

7.4.1. Total Integration

Unlike traditional CPM suites, CPM solutions to improve strategy execution must support a combined financial and operational view of the business as it relates to corporate strategy. This means connecting the activities defined in strategy maps and scorecards to the budgets, forecasts and actual results affected by them. They must also support all the activities in strategic, operational, financial planning, forecasting, management reporting and risk management as a single network dedicated to the implementation of strategy. In a single place it must be possible to track the development, implementation and monitoring of strategy.

7.4.2. Planning functionality

In order to develop effective, well-resourced plans, the software must show users and departments how their every-day actions implement strategy and they must contain functionality that allows users to conduct:

- Initiative planning so that resources are directly linked to the achievement of strategic goals.
- Scenario planning so that combinations of initiatives can be assessed as to whether they provide a better alternative course of action.
- Risk management capabilities so that the impact of external events can be assessed, which will then lead to the development of initiatives to offset the risk as well as contingency plans should the risk materialise.
- Finally, users need individual capabilities to help them in their own specific roles. This should give them access to the right data and allow them to manipulate it as required.

7.4.3. Strategy focused workflow

In a medium to large organisation operating in a volatile, fast moving business environment, directing users through the planning and monitoring process cannot be left to selecting items from a simple menus list. This is because the interactions are too many to co-ordinate in a timely manner, they cannot cope with exceptions, and as a result cannot cope with continuous planning.

The only solution is to provide a totally integrated, automated workflow component where the different planning activities are triggered by events and exceptions as well as by a date on a calendar. And if action isn't taken or an alert is generated, then there must be automated escalation procedures to ensure that anything that jeopardises the success of the plan is dealt with.

The workflow capability should also focus users' attention onto strategy execution by providing automated 'To do' lists to ensure nothing gets missed and is done in a timely manner; local language support so there are no misunderstandings; and support for extending the application and reports at a local level so that managers can see their local activities and plans as part of the overall corporate strategy.

7.4.4. Review the impact of decisions

Plans are continually being revised and so the CPM system should track the decision-making process and hold changes so the organisation can learn from decisions that are taken. This requires the ability to track structural and data changes in the application along with comments so users can see why things have changed, and managers can report and analyse the impact of those changes on results. It is only by doing this that organisational learning can be preserved.

8. Next Steps.

As with so many management innovations, organisations can't change their focus, processes and systems overnight, as the many years of accumulated bad practices have to be dealt with first. However, there is no reason why they can't make a start in improving the execution of strategy. Here are our suggestions.

8.1. Incremental approach.

Step 1: Gain management buy-in

Changing the way organisations plan, resource and monitor strategy requires the buy-in of the management team. Unless there is a discipline from management to steer their specific business unit so that it is aligned with company strategy, no organisation can fulfill its strategic goal.

To gain this buy-in, there must be a frank, open discussion among the management team as to the consequences of not implementing strategy and an acknowledgement that strategy execution is a team approach. The plan belongs to everyone and everyone plays a part in its implementation.

This would also be a good time to bring up the subject of creating the position of 'Strategy Coach' and to gain feedback on how it would help individual managers in implementing strategy.

Step 2: Restate the purpose of the budget

Budgeting is at the heart of strategy implementation. Without the right focus or resources, the key initiatives required to implement strategy will either get ignored or will simply fail.

Most people agree that the budget process takes too long and is of little value. Senior managers set, in the eyes of operational managers, unrealistic targets to which operational managers, in the eyes of senior management, retaliate by suppressing revenues and inflating costs.

What is required is an agreement by all involved as to the real purpose of budgeting. For most this is to ensure that adequate organisational resources are assigned to agreed initiatives in order to achieve corporate goals. It is this purpose that all content - and the activities involved - should ultimately support.

Step 3: Identify strategic initiatives

The third step is to detail departmental activities and how they directly implement organisational strategy. This can be done by creating a strategy map that shows key objectives, the strategies required to achieve them, and the activities that implement each strategy. For more details on how this can be accomplished, read our white paper on 'Planning in an uncertain world'.

The essence of any strategy is change and can include initiatives to improve certain activities, or the introduction (and phasing out) of others. It is these 'changes' that will become the focus of the budget.

Step 4: Make planning strategic

The budget and its associated process should be split into two parts – 'the base' and 'strategic initiatives'. What this means is that departments should set a budget – as they do today – for all current activities except for those initiatives that have been designated as 'strategic'. For each of these they should itemise the resources that will be required and milestone measures that show if those initiatives are being implemented.

To begin with, just pick one or two strategic initiatives and treat the rest in with 'the base'. Adding both parts together will give the total budget situation. In future years the number of strategic initiatives can be increased until the majority of the budget falls into this area.

By doing this, senior managers can now decide, should the budget be too costly, which part is to be reduced, while still preserving organisational strategy.

Step 5: Monitor budget performance in relation to the achievement of strategic goals

Budgets are part of an overall management approach. When reporting actual results, the budget needs to be presented in the context of strategy i.e. were the resources spent on the right activities; did those activities implement strategy; and did those strategies lead to achievement of corporate goals. Without this context, budgets can be meaningless as there is no way to see if resources were spent on the right things and whether it makes sense to move resources from one area to another.

Step 6: Move towards a continuous planning process

For planning to be effective it must be a continuous process where initiatives are planned and re-planned based on exceptions and events, rather than on an arbitrary date on a calendar. This requires the management team to identify all the activities involved in strategy execution and detailing how each is triggered, whether by date, exception or the completion of a previous activity.

By focusing on initiatives, how they impact strategic goals and combining this with the above network of activities, the way is open for these to be planned on a continuous basis.

8.2. Engage with a strategy improvement specialist.

For many organisations, changing the focus of the planning and reporting processes is a major project. Without the right expertise and dedication, it is all too easy for the change to be labeled as 'another management fad', which will be doomed to fail and will cause those involved to lose their credibility.

A way of avoiding this is to have an experienced 'strategy improvement' consultant, work with the person inside the company who is responsible for strategy execution. This person or people would work with the 'Strategy Coach' as outlined in section 6.

Together they should understand corporate strategy and the management processes required to maintain it. They would also, ideally, be involved in monitoring success and be contributing to the refinement and improvement of the approach.

It is important to remember that CPM is a holistic approach to strategy execution. It cannot be established by replacing old systems for newer ones, or by re-engineering a single process.

It is an approach that will change the way finance organizes the planning and reporting process; how IT develop systems to support decision-making; and the way management teams interact with each other.

About CorPeuM.

Improving the Execution of Strategy.

CorPeuM is made up of an international team of acknowledged experts in the field of corporate performance management. Our experience in designing, using and implementing 'best practice' systems for planning, budgeting, reporting and analysis in some of the world's leading organisations, led us to design and build a new and better breed of application that is more able to cope with today's uncertain business environment. The result is the CorPeuM approach that allows organisations to focus on the execution of strategy by redefining the way they manage corporate performance.

The CorPeuM approach is more than just software in that it combines the latest thinking in management practices, such as those found in The Balanced Scorecard and Six Sigma methodologies, with the latest developments in technology. Our approach is easily adapted to an organisations adopted management methodology and includes 'Best Practice' business templates, management workshops, consultancy and our unique, ground-breaking software solution that re-writes the way performance management applications should be implemented.

CorPeuM is a well-funded, focused organisation that has no legacy product to maintain that could distract us from our mission. We believe that our approach and solution will become the reference standard for corporate performance management over the next ten years.