



**EUROPARTNERSHIP WHITE PAPER
DIGEST**

Beyond the Budget



Conventional wisdom with respect to Strategy Planning and Budget setting has crumbled in the fallout from the Global economic crisis...

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Summary

“Beyond the Budget” signals a shift in the way that organisations must approach planning and delivering strategy.

The World, post credit crisis, has reconsidered its values. Dollars, euro and pounds are no longer the sole - or even main - criteria for selecting among competing investment opportunities. Strategy and financial planning needs to move to a continuous process and away from the annual round.

The move means rethinking the role the CFO and accountants: away from historical reporting and yearly budgeting; towards a long-term, forward looking, business partner.

A consequence of moving “beyond the budget” is a shift to outcome related performance management – focusing on the factors that underpin and determine future financial results. A few organisations were already moving in this direction – and in this paper we have tried to distil the lessons to be learned as they perform beyond expectations.

This digest is one of a series aimed at optimising use of SAP Enterprise Performance Management.

Order the full White Paper, including case studies, and a list of others in the SAP EPM Implementation Toolbox series from: john.shuttleworth@europartneship.com

Beyond the Budget

The annual round

Annual planning and budgeting happens in all organisations. Despite the time and effort invested, however, the processes are falling short for at least three reasons:

1. Failure to specify outcomes instead of activities. Performance improvement stems from focusing on outcome-based goals, not activity-based goals. If product specification; customer expectations and satisfaction; trust based relationships - or any other outcome - describes success, use that metric. Get these right and you have made a significant step in moving “beyond the budget”.
2. Failure to measure success directly against key performance challenges. Revenue and expense are only indirect indicators of success. Departments can meet headcount and expense goals and still have no idea which factor made any difference.
3. Failure to inspire people to excellence. Few people are thrilled by meeting headcount and expense targets but challenge them to go after new customers or markets and their energy, focus, and sense of achievement rise.

Effective goals are SMART¹.

Organisations need structure when setting priorities. Budget and planning processes have traditionally supplied this discipline. We have, however, seen conventional wisdom crumbling in the fallout from the global economic crisis:

1. Dollars are no longer the sole, or even main, criteria for selecting among competing investment opportunities. Financial results measure track record, but fail to measure success against criteria such as corporate governance, sustainability, or managing talent and partner relationships.
2. Annual planning and budgeting typically assumes a functional, pyramid view. Performance challenges cross functional and sometimes external boundaries. Resource allocation needs to reflect this.
3. Customers rarely conform to annual cycles. Performance challenges have their own timescales for success.

Not so hidden costs

Activity based goals proliferate with no alignment to delivering outcome based goals. Integral planning with objectives aligned to goals, quantified targets appropriate to the rhythm and timing of performance cycle supports cost optimisation and value driven accounting.

Doing Performance Planning Right

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

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

their way into corporate strategy – with an owner who will face up to the demands of cross functional teamwork. The organisation is moving beyond the department-by-department view of work promoted by traditional planning and budgeting.

Getting Started

1. Change the emphasis. Make planning and budgeting just one part of a performance outcomes management system. Give people sight of their contribution to the objectives being pursued by your organisation, the outcome-based goals that measure success against those challenges, the time frames for success, and who (individual or team) is committed to delivering those outcomes.
2. Implement cause and effect as a systematic approach: view performance challenges and not departments as the basic unit for planning and goal setting.
3. 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 goals².
4. Unlock performance potential of project teams, business processes and strategic alliances.
5. Redefine the Role of Finance and Accounting. “Beyond the Budget” means new business partner responsibilities - no longer the custodians of “reporting what we see in the rear view mirror”.

Goals, targets and scorecards: Asking “Key Performance Questions”

Quantifying goals and objectives is a difficult task. The planning, budgeting, and review processes ought to help people 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?

Most companies could simply ask finance to provide costs and revenues - and do better in terms of overall business performance by focussing their strategy and business planning on outcomes.

“Beyond the Budget” and “Balanced Scorecards” go together. Goals and targets are mapped into scorecards with continuous performance monitoring and management.

Europartnership delivers high quality support designed to improve organisational performance through consulting, facilitation and training in strategy development, performance management and Balanced Scorecards. Our approach is to work in partnership with clients to establish continuous improvement programmes – adding value by knowledge and skills transfer.

Our mission is “to equip organisations to improve performance”

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² See Europartnership White Paper: “Strategic Conversations”