



EUROPARTNERSHIP WHITE PAPER  
DIGEST

---

**Linking Strategy and Planning to Budgets**

---



SAP's Enterprise Performance Management suite supports an approach that addresses the conflict inherent in the long versus short term natures of strategy and budgetary processes

## Contents:

Summary

Defining the Issues

Six Design Principles

Link and synchronise using Strategic Themes

## Summary

SAP released “Enterprise Performance Management” in response to customer demand for strategic management integrated within their solution. In this paper we address a long standing and fundamental conflict between strategy planning and budget setting. Strategy challenges are frequently long-term and call for cross business initiatives. Budgets are inherently biased towards the short-term and departmental and functional silos.

The Balanced Scorecard approach is used worldwide as a tool for implementing enterprise strategy. A recent trend has seen their evolution to bridge the gap and link strategy and budgetary processes – through a portfolio of strategic themes and initiatives. SAP’s Enterprise Performance Management suite offers a unique opportunity to implement a harmonised process.

Analysis of those organisations that have adopted this approach has identified 6 principles for success: present your strategy within strategic themes; assign executive accountability for each strategic theme; set stretch targets defined through cause-and-effect and scenario analyses; develop a portfolio of cross-functional initiatives to underpin strategic themes; integrate functional plans with the strategy; and create a special budget category.

An integrated strategy planning and budget process is a pre-requisite for successful delivery of strategic goals but has to address the two key structural issues: the cross-department and functional nature of strategy compared to budgeting; and synchronising long-term strategy with short-term budgets.

**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](mailto:john.shuttleworth@europartneship.com)**

### Defining the issues

Organisations face ongoing and inherent conflict between strategy and organisational design that is of a structural and timing nature. According to Balanced Scorecard Collaborative research, 60% of organisations do not link their strategies to their budgets and do not fully execute their strategies.

Linking strategy and planning to budgets depends on aligning all entities of an enterprise - and reconciling long-term strategic goals with short-term budget realities. Strategic theme, elucidating the portfolio of strategic initiatives helps create a new class of expenditure, separate from operational and capital expenses. Without this explicit link, the organisation has no way to distinguish between strategic and operational management. Pragmatic management inevitably means the latter pre-empt the former - short-term activity wins out over long-term action. Unless strategic investments are identified and managed separately, tactics undermine strategy and long-term goals of the organisation.

Where organisations have successfully separated strategy management from operations management, their greatest challenge has been integrating the budget process since no management system has a greater impact on performance – with its short-term bias. There are two key issues: cross-business integration; and linking strategy back to the budget process. Strategic thinking is future-oriented and visionary - and challenges the status quo of organisation, people and resources; whilst budgeting is a conservative process – founded on past performance. The two processes are structurally different and managed separately - yet they must be synchronized if the organisation is to move forward. There is a pattern where linking has been successfully deployed.

### Six Design Principles

1. Present strategy within strategic themes. Strategy maps and Balanced Scorecards are very effective for communicating strategy to the entire organisation. Between three and five strategic themes is proving optimum in order to challenge the organisation without over facing people due to the enormity of the change. Strategic themes describe the strategy in holistic terms, transcending organisational and functional silos – providing a foundation for cross-boundary accountability, resource allocation, goal setting and monitoring. They enable new organisational design and behaviour for cross-functional issues.
2. Assign accountability for strategic themes. Strategy frequently overlays existing organisational structure. Increasingly, organisations are using strategic themes to establish cross-departmental accountability to address: growth; productivity; professional development; and operational performance improvement. Other themes in use today include: operational excellence; supply chain improvements; product portfolio management; customer management; and new business design. In all cases, the themes transcend organisational structure. Nominated executive members sponsor themes in addition to their traditional responsibility for line departments or functions - allowing implementation teams to access top management.
3. Set stretch targets defined through cause-and- effect and scenario analyses. Targets for the organisations should be SMART – at the same time challenging and motivating. Meanwhile the budgets, which underpin commitment to external stakeholders, can afford to be conservative with a high chance of delivering on the goals. Traditional budgets tend to be incremental adjustments to previous years, sometimes using benchmarking and frequently confined to cost containment or a single performance element, such as employee turnover. Strategy hypothesises outcomes based on performance drivers (lead indicators) and organisational activity. Staying with our illustration, employee turnover may impact customer confidence which will, in turn, impact revenue.

## EUROPARTNERSHIP: Linking Strategy and Planning to Budgets

4. Develop a portfolio of cross-functional initiatives to underpin strategic themes. The portfolio should reflect the total investment required to achieve the theme objective. Executive sponsors of bear the strategic responsibility for investment in a theme, reflecting the holistic nature of strategy. Reporting, monitoring and return-on-investment analysis should be at the level of the strategic theme, with individual initiatives evaluated in that context. The framework provided by the portfolio of cross-business initiatives allows prioritisation better to deliver strategic goals.
5. Integrate functional plans with the strategy. Two separate surveys found that a minority of HR and IT functions have priorities aligned with their enterprise. Few support functions are truly integrated within their enterprise strategy setting process. This is due in large part to ineffective enterprise planning design. Initiatives within strategic themes provide a linkage mechanism – with participation from functional departments as full members of theme teams.
6. Create a special budget category. Strategic expenditure as a separate head delineates strategic investment from operational investment. However, budgets - short-term, conservative, and departmental – need to be synchronized with a planning process that is increasingly long-term, visionary, and cross-functional. One answer lies in the funding process with financing tied to strategic themes and forming the link between strategy and budgeting.

Organisations that integrate strategy setting and planning with budgeting recognise and prioritise initiatives that support achievement of strategic goals. The inherent problem of budgets wherein strategic expenditure is treated as discretionary vanishes. A practical and innovative solution builds on the traditional accounting convention of Operating Expenses and Capital Expenses by defining a third category of Strategic Expenses. These are used to finance the various initiatives associated with the organisation's strategic themes and allow intangible expenses, such as training, to be treated with the same rigor as more tangible heads of expense.

The concept of strategic expense is proving to be a useful tool with which to build the strategy-budget linkage. The portfolio of cross-business investments is broken down by initiative within the budget - and categorised as are research or general and administrative costs. The same executive team that oversees the strategy and its associated budget - safeguarding it from the invariable short-term pressures to reduce costs.

### **Link and synchronise using Strategic Themes**

In conclusion, an integrated strategy planning and budget process is a pre-requisite for successful delivery of strategic goals. This shift to long-term thinking and behaviour has to address two structural hindrances. First, the cross-department and functional nature of strategy compared to budgeting. Strategic themes establish a framework that supports cross-business approaches to target setting, investment portfolios, and executive accountability. Second, synchronising long-term strategy with short-term budgets. Initiative management and strategic investment heads of cost allow integration of functional plans and budgets with strategy. Defining linking mechanisms across real structural differences builds a platform that meets the needs of two very different worlds.

**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”**

**For more information contact [john.shuttleworth@europartnership.com](mailto:john.shuttleworth@europartnership.com)**