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Title:

# Changing the way organisations manage their future.

Written by:

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*author of 'The Strategy Gap', published by J Wiley & Sons*

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## Nothing Much Has Changed!

Given the pace of change and how technology has impacted organisations over the past 20 years, it's surprising to realise that the budget process which was used in the 1920's is still the main management practice that organisations use to achieve strategic objectives today.

Even more surprising is that budget systems introduced in the mid-1970's to automate the consolidation of financial plans have also hardly changed since their inception. Sure they are now 'web-enabled', can handle relatively large volumes of data and have some fancy graphics to display the numbers in a 'multi-dimensional' format (e.g. by dept., over time, by account code and service), but the truth is that they are still basically 'adding-up' machines that do little to help organisations manage their future.

## It's a guessing game

From a user's point of view, budgeting is seen as an annual exercise in guessing a set of numbers held by senior management. To facilitate this 'guess', departmental managers enter their figures (typically last year's results plus 5%) into a set of budget sheets that are then consolidated to give a combined departmental view. This is then compared with the original senior management 'guess' – and if it's different, then users are asked to 'guess again' in what is called the 'second budget pass'. If the senior management 'guess' isn't arrived at after a few passes, then it is apportioned (seemingly arbitrarily) down to the departments in a 'top-down' budget pass.

The result is four months of effort to create a budget where the numbers agree with the senior management 'guess' but where no one actually believes it's either realistic or achievable.

In an attempt to redefine the budget process to achieve some level of realism, organisations are beginning to adopt some kind of rolling forecast to either compliment or even replace budgeting. For some this comes from the realisation that annual planning doesn't make much sense in a world where predicting the future beyond six months is practically impossible. While others find that by keeping an eye on future trends as well as actual results, enables them to take action sooner to put the organisation back on track.

But even this 'new' approach is running into problems. Research conducted by Marakon Associates<sup>1</sup> found that most strategies on which the budget is supposedly based, only deliver around 63% of the financial potential with the blame being placed on breakdowns in the planning process.

It's therefore not surprising that annual surveys repeatedly report that budgeting is among the top 'most hated' management process. Jack Welch, the renowned past CEO of GE described the budget process as “... *the most ineffective practice in management. It sucks energy, time, fun and big dreams out of an organization. It hides opportunities and stunts growth. It brings out the most unproductive behaviours in an organization from sandbagging to settling for mediocrity.*”<sup>2</sup>

There is no doubt that part of the problem stems from the way management approach the planning process, but this white paper would also argue that most of the systems in use today actually promote the behaviour that companies detest, which in turn prevent them from achieving their goals.

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1 Turning Strategy into Performance, Harvard Business Review, August 2005

2 Winning, by Suzy Welch, HarperBusiness 2005

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## The planning process

On the face of it, planning should be easy as it is simply about deciding how an organisation should utilise its assets to attain its mission. But all too often something goes wrong in the way assets are allocated.

Managing the future is much like travelling down a road. In this analogy, the business road isn't straight – if it was then predicting performance 3, 6 or 12 months out would be quite simple. But this road changes course under two major influences:

### 1. Customer Needs

Customer needs and expectations will be different in a years time than they are today.

### 2. Competitor Activity

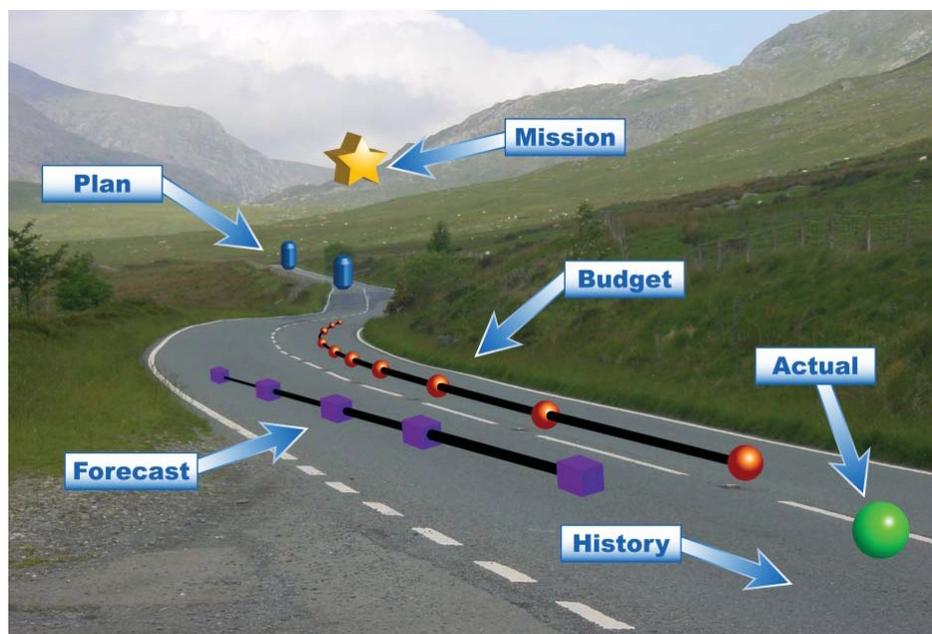
Competitors will take action and new competitors will enter the market and change the business landscape.



The traditional way organisations plan is to predict where they think the business road is going, which is then described in a strategic outlook or S.W.O.T analysis.

Having completed this analysis, organisations tend to follow a number of business processes:

- **Planning** identifies the activities that need to take place to achieve the organisations mission based on where they think the road is going;
- **Budgeting** allocates resources to those activities over the next 12 months;
- **Actuals** are reported against the budget and variances highlighted each month;
- **Forecasting** predicts the financial position at the end of the year.



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These processes are highly interlinked because by themselves they provide little value. There is no point to a budget that doesn't align to the plan to accomplish the mission.

To stay on this road, organisations must continually plan, execute the plan, evaluate the performance against the plan and then respond to their situation. This is a continuous process of planning and adjusting that involves the whole organisation.

Well that's what should happen – the reality tends to be somewhat different.

## The problem with most planning systems

Rather than follow an integrated and continuous process, many organisations have a disjointed and discrete approach that is reinforced by most of the planning systems in use today.

The reason for this is that the systems focus on collecting financial information by department for a set period, when the decision-making process is all about choosing which projects and activities (many of which are cross-department) to resource in order to achieve organisational success.

In a survey of over 2,300 organisations, budgeting and their associated systems were found to promote "... *plans with little detail on specific tactics to be employed but lots of detail on the expected financial results*".

Many will store details of what they plan to do in documents or presentations, but the fundamental problem is that these details are not attached to the numbers.

In terms of managing the future, many planning systems can typically only answer one question: How much does each department intend to spend?

What they can't answer are the more fundamental questions such as:

- What individual initiatives or projects is the money being spent on?
- How do these projects impact strategic objectives?
- How are these project costs spread across departments?
- Are they good value for money considering the planned benefits?
- If managers had extra money to spend, what else could they do?
- If we had to reduce expenditure by 10% which activities would become difficult?

If these questions cannot be answered in a way that shows a direct impact on an organisation's finances, then the future is probably something that happens rather than is being managed.

Research conducted by the Hackett Group reveals these questions should not just be asked annually - "*Aspects of strategic planning are not once-a-year events but a continuous process. The pace at which markets, customers, and products change is so great that management needs to monitor the strategic implications of new developments on a continuous basis.*"

As actual results come, organisational activities and projects need to be analysed to answer the questions:

- Are they being implemented?
- Are the costs as expected?
- Are the outcomes envisaged being achieved?

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3 Best Practices in Planning and Management Reporting, David Axson

4 Best Practices in Planning and Management Reporting, David Axson

- What needs to change to put them back on track?
- Should we replace them altogether?
- What else could we do?...and so on.

The sad truth is that most of today's planning systems are just not up to the job and as a result let the whole organisation down.

## The future of planning

Jack Welch comments that the right Budget process should: "... be based around two questions: *How can we beat last year's performance? What is our competition doing and how can we beat them? It should be a wide ranging, 'anything goes' dialogue between field and headquarters about opportunities and obstacles in the real world.*"<sup>5</sup>

This requires more than just collecting a set of numbers. The numbers are important but even more important are the details behind the numbers that answer the questions 'What?', 'Why?' and 'How?'. Collecting this information and relating it to the expenditure, positively impacts organisational performance.

A survey conducted by a leading US business school found that organisations that correlate non-financial information with their financial results achieve a much higher return on assets and equity from those that don't<sup>6</sup>.

Managing the future requires an approach that traditional planning systems do not support. This approach is found in high performing organisations when it comes to planning and monitoring performance.

Analysis shows that high performing companies split their planning process into a number of distinct stages.



5 Winning, by Suzy Welch, HarperBusiness 2005

6 Dr. David Larcker, Professor of Accounting Wharton School of the University of Pennsylvania

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The first stage, which I have called **Strategic Planning** is where senior managers decide on how they want the rest of the organisation to achieve the long range objectives within a set of high level targets.

The next stage, **Operational Planning**, involves managers defining a range of projects and activities that they believe could help the organisation achieve its aims. The data collected includes information like the motivation for the initiative, which strategic objective it supports, how it is going to impact performance, what other departments would be involved, the timescales, who would be responsible and what costs would be incurred.

These candidate initiatives are collected across the organisation to be considered by senior management who can approve a project, request more information, or reject the project. Accepted initiatives are then passed on to the next stage.

The next stage, which I have called **Financial Planning**, is often referred to as Budgeting. The difference here is that the financial detail behind the approved initiatives and activities is now consolidated with various overheads to produce the budget. In a high performing company this process only takes a matter of weeks (as opposed to four months for the average company), because much of the detail has already been worked out in defining the projects and activities.

Research conducted on over 2,300 organisations found that *“Best Practice companies devote two to three times more effort to developing the operating plan than they do the financial plan”*<sup>7</sup>

Once the budget has been set, something needs to happen to communicate what has been agreed and how this impacts those working in the organisation.

I have called the final stage **Monitor and Adjust**. This happens once the actual and forecast data comes in. This process is concerned with making sure that the approved initiatives are being implemented and delivering what was planned. At this stage, high performing companies are also considering what they could do to improve overall performance on top of what was planned and hence the planning process is continued.

To support this best practice approach of managing the future, organisations need a performance management system that deals with more than just the numbers, but also the detail behind the numbers. This requires the collection, validation and storage of text and other data in addition to the financial budgets, rigorous approval workflows, and reporting all within the same system.

This hasn't been seen before. Until now that is.

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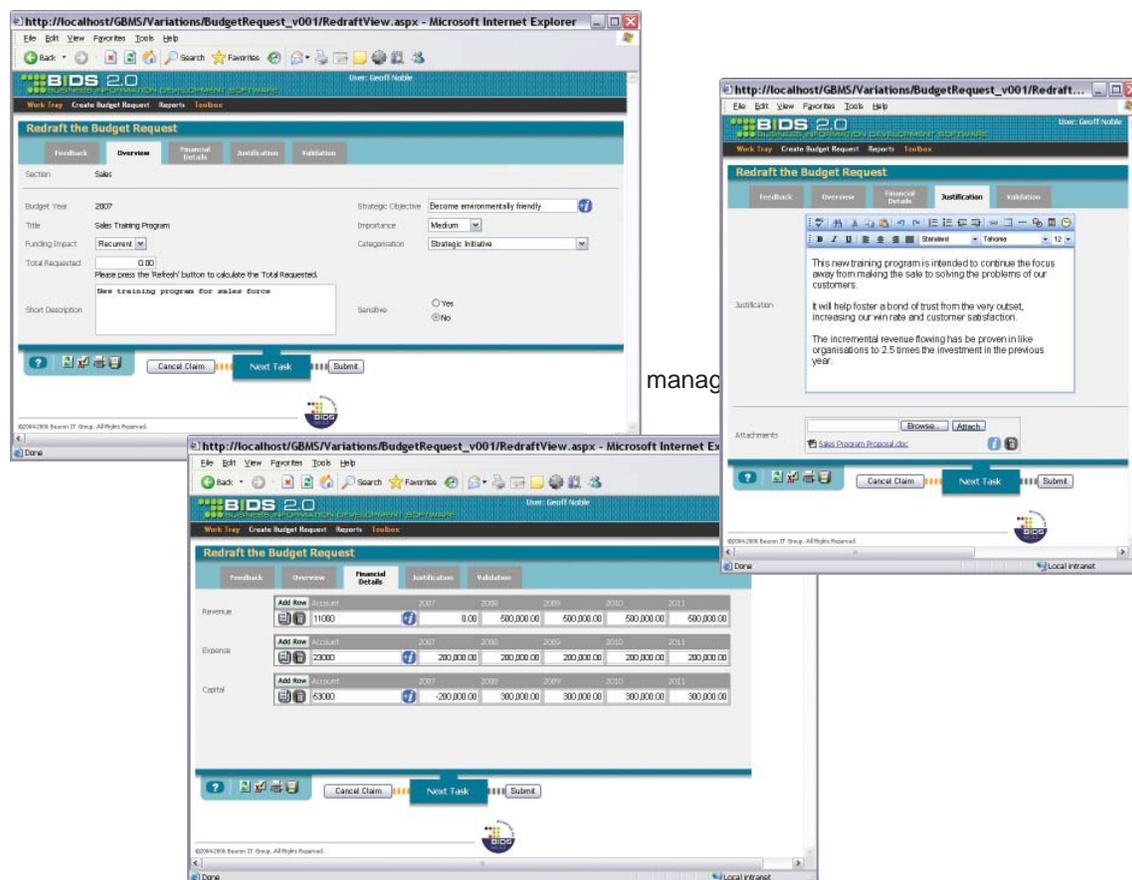
7 Best Practices in Planning and Management Reporting, David Axson

## BIDS<sup>8</sup>: A 'Best Practice' approach to Managing the Future

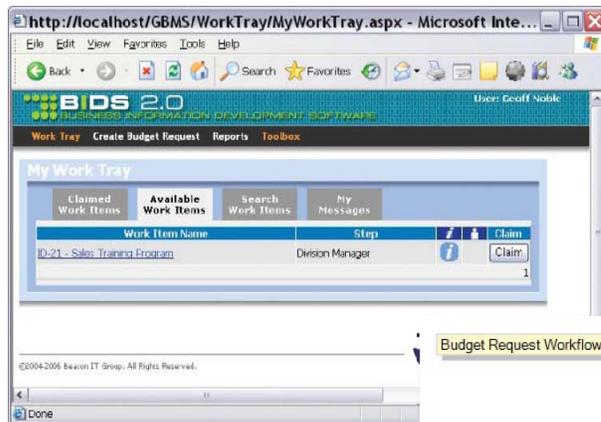
BIDS is a new breed of application developed by Beacon IT Group that is designed to fully support a 'best practice' approach to performance management. It works with existing planning systems to protect existing IT investment to provide a comprehensive and integrated approach to planning, budgeting and management reporting.

BIDS is used for **operational planning** by collecting requests (or bids) for projects and activities that users believe should be funded. These requests are captured on multi-section forms that contain a range of information, text and numeric data that describe an activity or project. Bids are typically linked to a strategic objective or outcome and may span organisational departments.

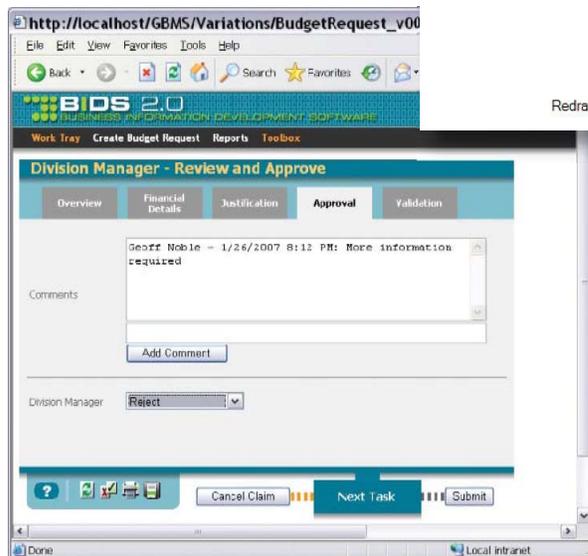
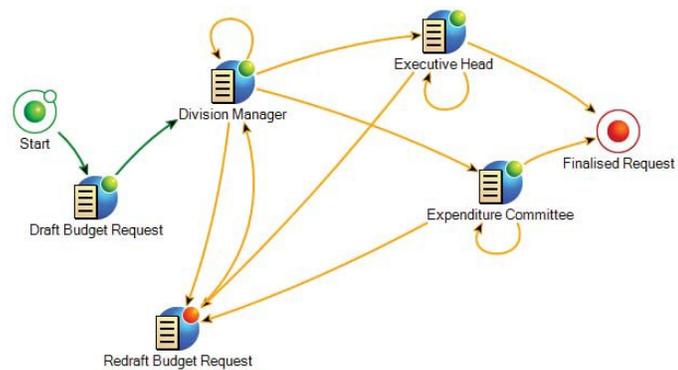
Forms to capture bids are easily configurable by an administrator to reflect the terminology and structure used within the organisation. Information can be typed in as well as selected from populated drop-down menus, all of which is then validated to a set of defined business rules.



Requests move through a workflow that determines how they are reviewed and approved. Those responsible for assessing requests receive notice through the BIDS Work Tray. Users can review the request and then reject it with a reason, ask for more information, or approve it to be passed on to the next step in the workflow. Like the forms themselves, the workflow steps are easily configurable by an administrator to reflect the authorisation process required by the organisation.



Budget Request Workflow

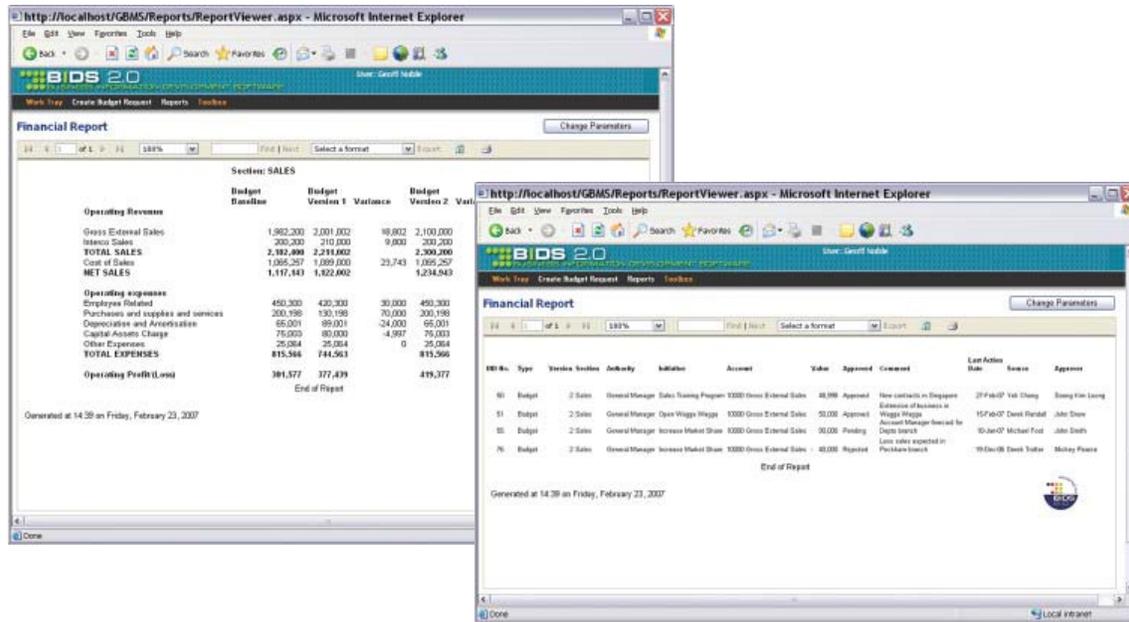


In supporting the **financial planning** process, BIDS can work with an organisation's existing planning system, through its in-built integration capabilities.

BIDS enhances existing planning systems by wrapping their financial modelling and budget entry functions in a rigorous but user friendly validation, review and approval process, ensuring the bottom up financial plan aligns with the top-down operating plan.

BIDS extends the data entry capabilities of these systems, to capture the detail behind the numbers including attachments, narrative, and multiple elements of costs. This is particularly significant for costs such as capital project expenditure and labour costs.

BIDS can be used to capture actual results for the **monitor and adjust** process to produce reports, allowing managers to monitor actual versus planned performance not only at the summary level, but also at the individual project and activity level.



Adjustments to plans and budgets can then be made by request in exactly the same way as the plans are formulated, ensuring that all changes are properly recorded and agreed, providing managers with the full story behind the numbers all of the time.

## BIDS in Action

The Department of Finance and Administration is the central agency responsible for managing the Australian Government budget of some \$222.7 billion.

The Beacon IT Group designed and developed the BIDS-based Central Budget Management System (CBMS) to manage the flow of financial information between the Department of Finance and Administration and all Australian Government Agencies, facilitate the preparation of budget documentation, allow better monitoring of government expenditure.

The benefits of the CBMS are:

- Simplifies Whole of Government recording of all financial and budgetary data used in preparing the Australian Budget.
- Maximises productivity by managing multiple budgetary functions from a central point of control.
- Increases Government awareness and control by providing relevant and appropriate up-to-date information as and when required.
- Provides comprehensive audit trails through its extensive security and archiving facilities.
- Increases financial management and budgeting effectiveness by enabling immediate corrective action in an online environment.

In commenting on the production of Appropriation Bills from the CBMS, Dominic Staun, General Manager, FeSG, Department of Finance and Administration, said *"This is the first time since the introduction of accrual budgeting that a central system has produced a complete product from within one system. This represents a significant milestone and output of the CBMS project, reflecting the efforts of key staff in the Cash Management and Government Financial Systems Branches as well as the development effort of the CBMS service provider, Beacon."*

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## Conclusion

Managing the future requires an approach that directly links activities to an organisation's strategic and operational plans. Today's planning systems are typically not up to the task because they treat planning as a numbers exercise that isolates departments from one another.

BIDS is a system that allows you to embrace a 'best practice' approach to planning without having to replace your existing systems or greatly change your approach. It's an approach that is both intuitive and easy to integrate with your current practices. But most of all, it's an approach that helps you to answer the really important questions that support effective decision-making.

## About the Author

Michael Coveney has more than 30 years of experience in the financial analytic software industry where he has specialised in helping enterprises combine 'best management practices' with technology to improve the efficiency and effectiveness of their performance management processes.

During his career, Michael has been involved in the design and implementation of budgeting and reporting systems for major UK based organisations such as BP, ICI, Guinness and Inland Revenue. His career accomplishments include setting up and running a large IT consultancy practice, being product marketing director for Comshare, a leading financial software applications company and director of 'Best Practices in Performance Management' for Geac, a global enterprise software company.

In recent years he has focused on conducting management workshops aimed at bringing senior executives and their management teams together around the topic of managing corporate performance. This has included engagements around the world including FedEx in the US, local councils in Australia; PhilamLife in the Philippines; Alpro in Belgium, SEB Bank in Sweden and the Bank of England in the UK.

His extensive experience has led him to become a regular speaker at many international events. Michael is also the author of the acclaimed business book 'The Strategy Gap' published by J Wiley & Sons and a past course developer and leader with the American Management Association.

For more information on performance manage best practices, please contact Michael Coveney on [michaelcoveney@hotmail.com](mailto:michaelcoveney@hotmail.com).

## About Performa Group

Performa Australia is a software and services organisation dedicated to changing the way organisations manage their future.

Through international distribution partners and direct operations, Performa implements its BIDS software to complement other leading software technologies to transform the performance management processes for large and complex organisations.

Performa solutions include central budget management systems for national, regional and local governments; business management systems for government departments, agencies and state owned enterprises; enhanced performance management for corporations; and the automation of critical management processes across the board.

To find out how BIDS could help your organisation, please visit [www.performasolutions.com.au](http://www.performasolutions.com.au)