

OPINION PAPER

How SME's can breakthrough and achieve consistent growth for creating sustainable value

Contents:

Introduction:	Context for change
Traditional Approach:	Perspective on today
Weaknesses:	Examples
Strategic Performance Management:	Core principles and approach
Strengths:	Examples
Leadership, change and risk:	Cultural management
Summary:	Establish strategic core skills

A paper written to introduce a **proven process** which balances short and long term objectives using an integrated leadership and strategic performance management approach for creating sustainable value by achieving breakthrough into consistent growth.

..... **Making a Difference!**

ISΔS

ISDS · The Lodge · 24 Woodlands Grove · Leeds · LS25 7RW
Tel: 0773 0979 214 · email: Brian@ids2.co.uk · Web site: www.perfmgmt.co.uk

Registered in England No: 2257860

ISDS is a trading name of Performance Management Limited: Reg No: 6449688

Copyright © 2004 ISDS. All rights reserved

How SME's can breakthrough and achieve consistent growth for creating sustainable value

INTRODUCTION:

Achieving consistent performance which creates sustainable value is the objective of every business leader. Delivering this consistency requires appropriately balanced short and long term objectives to be efficiently managed AND effectively delivered. As long term objectives are related to 'the future', a sound strategic programme must be developed to enable their delivery. The key to breaking through for consistent performance, however, depends more upon good implementation than sound planning. If you have an effective implementation process in place to manage strategic progress and change, you can always modify the original plan. However, if your strategic management is weak, you will have little time to discover what is happening, why it is happening and then respond with the appropriate change initiative(s) for corrective action.

A good implementation programme will have the following key attributes:

- Strategic understanding and consensus throughout the company
- Properly aligned initiatives, resources and key business processes
- A clear focus on key value drivers and cause-effect outcomes
- Balanced management of all tangible (financial) and intangible (non-financial) assets
- Balanced short and long term goals and objectives
- A motivation to deliver sustainable stakeholder and thereby shareholder, value
- An understanding of risk appetite and management
- A fully integrated change management process via sound leadership
- An efficient and effective strategic performance review and learning process

The problems most companies have in facilitating a good implementation programme is in breaking the traditional management cycle of annualised budgeting and business planning as this is probably the foundation upon which their regular management performance review process is based. Such an approach inhibits many of the above attributes; thereby contributing to a dysfunctional implementation programme. Strong leadership utilising best practice attributes to facilitate consensus, alignment, understanding and motivation is also a key determinant for successful implementation by leading staff confidently through the changes associated with strategic progress.

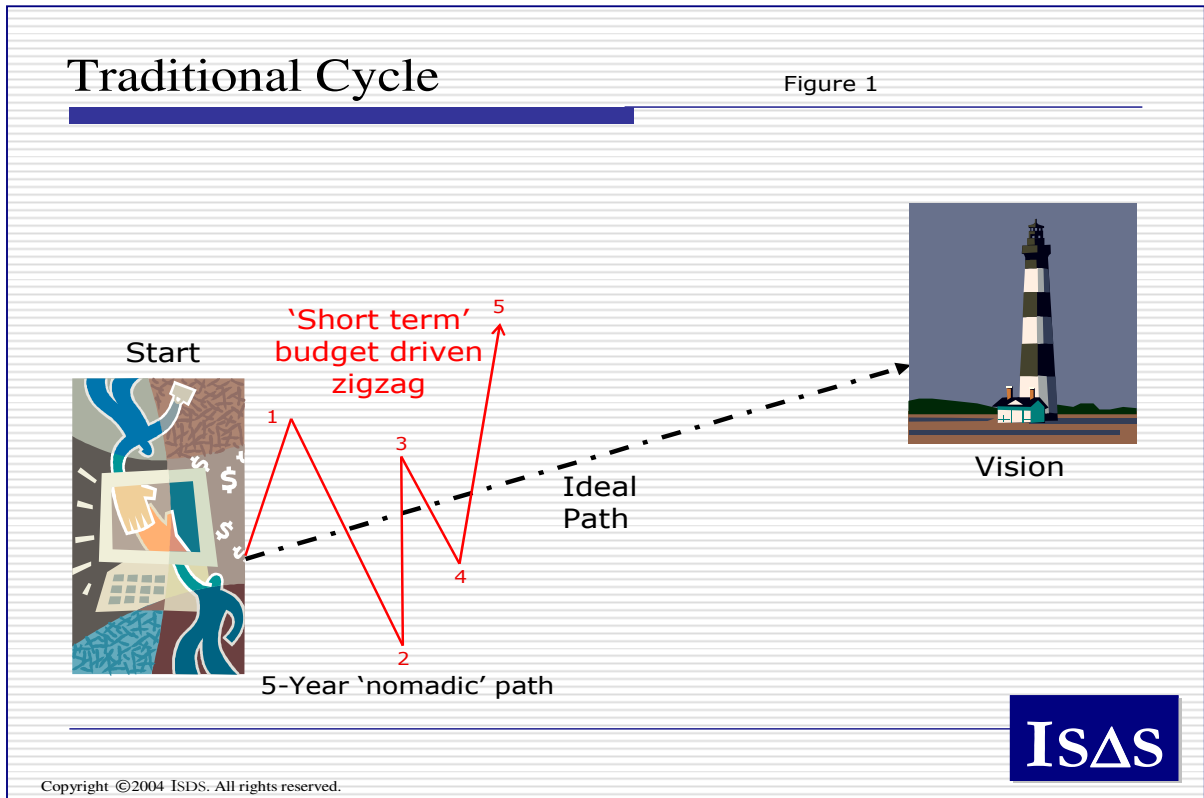
This paper therefore considers the traditional approach to be fundamentally flawed and will discuss the reasons for this opinion. The paper will also introduce an alternative approach utilising a proven process which will facilitate efficient implementation and enable an integrated platform for delivering sustainable value in your business.

TRADITIONAL APPROACH

Most businesses today are managed by evaluating progress against a financial plan developed during the annualised business planning and budgeting cycle. Such plans are conceived well in advance of the new financial year; usually in conjunction with the annual 'strategic' review. This business review process usually results in a top down plan which is supported by a bottom up budget, both of which are based on historical figures. The resultant plans are dominated by financial KPI's and metrics which, whilst relevant performance measures in themselves, provide an unbalanced and heavily retrospective viewpoint when considering overall performance for decision making criteria. Very often, sales forecasts are the only future metrics used to provide 'balance' to this historical perspective; and we all know how reliable these can be! Vital cashflow forecasts then have to rely on history and 'maybe!!' These business plans are out of date as soon as they are completed.

Such an approach often results in punitive management decisions to gain short term financial benefit (relief) based upon expense control, usually at the cost of future performance.

Whilst it is obvious that a business must be managed to ensure a tomorrow, it is also just as important not to mortgage your future based solely upon today's needs. What is needed is a better balance to the decision making criteria based upon agreed strategic direction and better information on which to base these decisions; information which considers the business in proper context with its key value drivers, risk and change as an implicit part of the process. Fig. 1 below illustrates the performance cycle experienced by many SME's who are struggling to find that breakthrough in performance, highlighting a nomadic path which will never enable your business to become what you want it to be; i.e. your 'Vision'



The ideal path between any two points is a straight line, although in the real business world, change is a 'constant' which must be continuously managed with decisions taken to 'steer' progress towards the objective; in this case vision. However, without proper strategic management of balanced short and long term objectives, which effectively considers changing market dynamics, decision making more often results in the doomed zigzag shown above.

WEAKNESSES:

This traditional approach encourages silo mentality and disharmony with an individualistic executive approach based upon 'my budget' and/or 'my power base'. It is also analogous to driving a car whilst alternately looking in the rear view mirror or directly ahead of the front bumper, with no care for traffic signals, other vehicles, junctions, signposts or direction! The following bullets are representative of the weaknesses inherent in this approach:

- Management attention is focused on short term performance, spending and activities
- Poor management efficiency with information overload and disconnected metrics
- Encourages a fixation on historical benchmarks of performance
- Ignores management of non-financial assets and value-drivers
- Facilitates punitive overhead management focused on fixed targets
- Discourages longer term strategic awareness of change drivers
- Disables a proper and common understanding of company purpose and direction
- Enables disparate initiatives for corrective action programmes

Fundamentally, this approach **disables** strategic execution and 'forecasts' potential disaster when transformational change looms over the horizon and becomes a near term business imperative; an increasingly likely scenario with current legislative trends and globalisation.

STRATEGIC PERFORMANCE MANAGEMENT:

We discussed at the outset the importance and major aspects of achieving good implementation. The bullet points below highlight the 5 key principles which will enable an efficient and effective execution of the strategic implementation programme:

- Integrated leadership and strategic performance management approach
- Alignment of strategic and operational planning and budgeting
- Planning the cultural transformation and adapting quickly via continuous review
- Ensuring organisation, resource and key processes enable flexibility for change
- Implementation of regular strategic performance reviews aligned to strategic plan

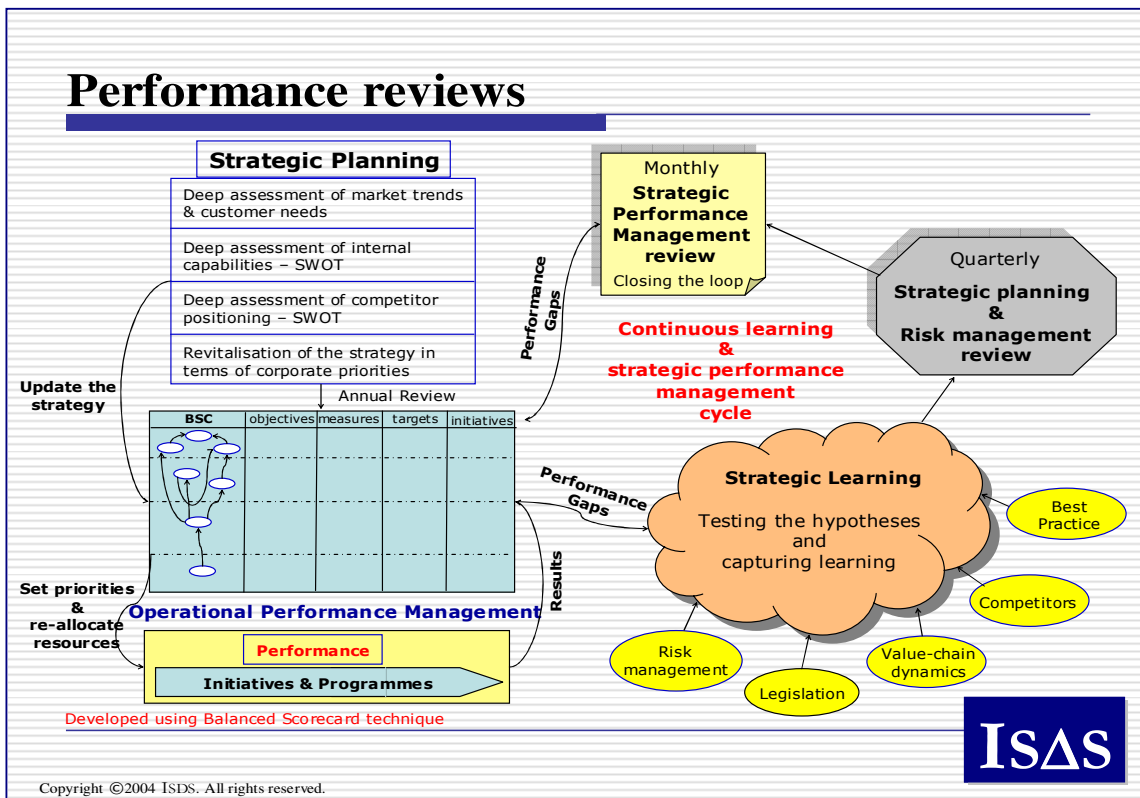
The keys to successfully achieving this change are:

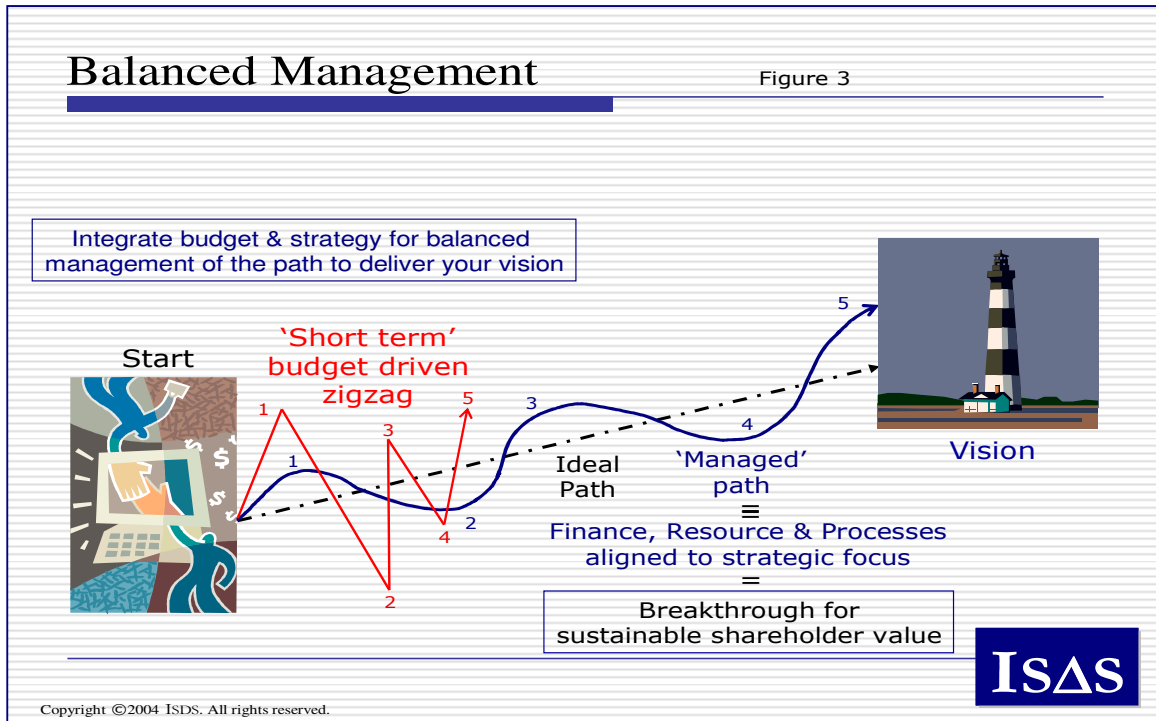
- a) the management review process keeping the business plan 'live'
- b) the format and focus of the information provided for these reviews
- c) best practice leadership

It is not the purpose of this paper to go into these topics in detail. However, the information should be presented in a manner which simply communicates performance on key inter-related metrics for financial and non-financial KPI's which in turn, are properly aligned with the key value drivers associated with the approved strategic plan.

Management review should be a continuous process which must consider how the business is performing against plan, highlight what change and risks are impacting on the plan and what must be done to realign the plan to achieve the vision. Focus can then be on off-track KPI's and change drivers with a full understanding of cause-effect relationships on other key metrics.

Figure 2 below illustrates a continuous strategic performance review cycle which can be used to affect such change, whilst figure 3 below highlights the managed path which can be expected from successful implementation:





Nb: Separate papers and short presentations are available from ISΔS which cover all of these aspects in much greater detail.

STRENGTHS:

This approach for strategic performance management effectively makes strategy 'come alive' via understanding, focus, key value metrics, measurement, review, change management and targeted decision making; all aligned to continuous strategic improvement.

The key benefits achieved are:

- Focuses management attention on key priorities and initiatives & disables silo mentality
- Manages the performance of 'linked' financial and non-financial objectives and metrics
- Encourages continuous monitor of strategic environment, risk and change
- Provides balanced decision making for management of short and long term objectives
- Facilitates 'managed' progress towards vision accommodating transformational change as evolution as opposed to revolution
- Simplified decision making and performance appraisal enabling shorter meetings!

LEADERSHIP, CHANGE AND RISK:

Every strategic plan is based upon the future; 3-5 years out. It therefore considers assumptions and projections about that future, all of which will be impacted by change; originating agents for which can be completely outside of the domain in which the company operates. Change and risk management must therefore be implicit elements of any strategic programme; with the business plan itself considered as a process as opposed to a dusty 'bible'.

However, often the cultural management style is based upon the traditional approach to performance management and its associated review process, as discussed earlier. Establishing an executive 'team' culture aligned to this change is fundamental to the required paradigm shift. Any change must therefore be led from the very top and the transformational process managed tightly, as NO vacuum can be allowed during the change over period to the new process and culture.

Leadership which effectively communicates vision and strategic direction and enables an innovative approach to challenging status quo is therefore vital for success. Leadership and the

strategic management process are inextricably inter-dependant and form the core competencies of the modern CEO/MD role.

Again, a separate paper and short presentation is available from ISΔS which covers the topic of best practice leadership and management in greater detail.

SUMMARY

This paper has expressed an opinion that traditional performance management techniques are outdated and no longer fit for purpose and has therefore introduced an alternative approach which will facilitate the creation of sustainable value.

The message is clear; to move away from goal setting and performance metrics based upon disparate and disconnected financial, operational and tactical goals dictated by annualised budgeting and planning.....

Towards the establishment of a pro-active integrated platform of strategic performance management that should be developed as a corporate core skill and which includes:

- A 'live' strategic business plan with fully aligned structure, resource and key processes
- A 'rolling budget'
- Continuous performance review with integrated knowledge management and learning
- Financially aligned intangible asset management
- Appropriately balanced short and long term goals
- Focus on the key value drivers vital to the business
- A senior management team and workforce aligned to strategic plan

thereby **creating understanding and awareness throughout the organisation, which facilitates voluntary consensus and enables personal ownership and a motivation to innovate and become actively involved in the programme at every level.**

About ISΔS:

ISΔS is a business practice established specifically to provide practical support to leaders of SME-type organisations on the value driving processes for growing sustainable value in their businesses AND for improving their leadership skills, job satisfaction and longevity in so doing. The practice uses an integrated approach to leadership, personal development, strategic planning and performance management to assist in the creation of balanced short and long term value and establishing the principle of strategic performance management as a core skill. This approach, based on best practice processes applied successfully within many SME's, uses leading edge, yet proven tools and methodologies commensurate with 21stC business performance management techniques applied in a logical and practical manner. These processes are designed as stand alone packages which can be integrated for holistic benefit and are also scaleable for expansion in line with the size of the business and its needs. The approach is therefore focused on maintaining real world fidelity for continuing applicability with the dynamic nature of the business, its environment and evolving change drivers.

As an outsourced service ISΔS is able to provide objective, dispassionate and confidential support directly to business leaders on these crucial and often sensitive issues, by working with them on-the-job and therefore within the context of their business and with minimum time away from the helm. Thereby initially coping with the 'busy people' syndrome and subsequently improving their time management, delegation skills and leadership attributes.

Thus ensuring a business and leadership competitively 'fit' for today and the future.

For more information on these services contact Brian Wadsworth using the details listed below:

ISDS · The Lodge · 24 Woodlands Grove · Leeds · LS25 7RW

Tel: 0773 0979 214 · email: Brian@ids2.co.uk · Web site: www.perfmgmt.co.uk

Registered in England No: 2257860

ISDS is a trading name of Performance Management Limited: Reg No: 6449688