

## C-SUITE MANAGEMENT SERIES – SEGMENT 7

### Beyond Budgeting - Integration of Operations and Finance for Growth

I love to ask executives to give me one word that describes the most critical requirement for the survival and growth of an organization. I add that it is equally critical for growth, stability, survival and is a major cause for the failure of an organization. While I get great answers like people, service, sales, acceptance .... The answer is – **CASH**



As reflected in the lyrics of the song Money, from the Musical Cabaret – “MONEY MAKES THE WORLD GO AROUND” could not be more accurate than in the world of organizational survival.

This is why the C-Suite intuitively wants to understand the cost and budget associated with a strategic initiative. Unfortunately, while important, the determination and analysis of such a budget is only one piece of the puzzle. Surprisingly, even a continuous close monitoring of the actual cost versus the budget for an initiative does not complete the puzzle.

Maybe because of my combined background in finance, accounting, and operations, I finally realized what the missing piece of the puzzle was. It is a determination and continuous focus on the real underlying C-Suite objectives behind any given strategic initiative.

**In general terms, using cash for a strategic initiative comes down to just one of THREE C-SUITE OBJECTIVES.**

- A. **Use some cash now (the strategic initiative budget) to generate more cash over time in the future (growth).**
- B. **Use some cash now (the strategic initiative budget) to use less cash over time in the future (improved operational efficiency).**
- C. **Some combination of (A) and (B).**

It is the determination, monitoring, and control of these objectives from a cash management perspective within an ever-changing dynamic environment that is the missing piece of the puzzle. Fortunately, it is not missing from the Dynamic Execution Methodology described in this C-Suite Management Series.

Instead, for any given objective and associated strategic initiative, Dynamic Execution:

- 1. Incorporates the establishment, documentation, and analysis of the critical factors and assumptions associated with these objectives.
- 2. Creates an integration of daily operational activities with finance for continuous and timely analysis.

3. Continuously monitors and analyzes the actual conditions that are dynamically taking place versus the expected critical factors and assumptions.
4. Provides ongoing and IMMEDIATE analytical financial feedback into operations and the rest of the organization including the C-Suite. This feedback is then used for evaluation of status, analysis, and control. If necessary, adjustments can be made to the assumptions, structure of the strategic initiative, and/or expectations associated with the objective.
5. **This represents an analytical cash management capability embedded into a closed loop continuous system.** A system that uses Feedback Loops to provide organization wide bidirectional communication. Communications of expectations, critical factors, and assumptions down into the organization and communication of input into expectations and assumptions, along with information generated from ongoing monitoring and analysis, upwards into the organization.

### **Finance – A Special Role In Dynamic Execution**

Since the control and management of cash plays such an essential role within an organization, having an analytical review from a financial/cash perspective embedded within the Dynamic Execution Methodology becomes a powerful tool. A tool that does not replace but extends well beyond just project budgeting.

This capability is obtained when the monitoring of actual conditions against critical factors and assumptions by operations indicates unexpected disconnects that need to be assessed. The assessment needs to go beyond just operational considerations and include an analysis from a financial/cash management perspective.

This financial analysis can range from very simple to highly complex modeling and analysis. However, it should be recognized that in most cases, this does not have to be complex, but can be a straightforward and a relatively simple set of activities.

First, when an objective is developed, the expectations associated with the objective should already be established. However, it is very important that expectations are not the only thing documented. All of the critical factors and major assumptions associated with those expectations also need to be clearly documented.

This information then provides a basis for a financial modeling and analytical validation that the assumptions and critical factors will in fact, yield the expected results. In essence, the assumptions become the variables in the modeling/analysis while the critical factors represent requirements associated with the strategy/process selected to obtain the desired objective.

For example, let's say the **objective** is to increase this year's margins via an increase in sales obtained through an improvement in the launch date of a new release of one of your software application offerings. Based upon **feedback** received from within the organization, your **expectation** is that a 6 month decrease in the launch date will result in a \$250,000 improvement in sales.

The strategy to accomplish the decrease in launch date is to reassign staffing to specifically focus on the debugging of the software update. The reassigned staff represents a **critical factor** and the accelerated focus on the debugging yielding a 6-month reduction in the launch date is a **major assumption**.

Finance analyzes the expectations, critical factors, and assumptions and indicates that if the cost of the reassigned resource is \$50,000 (**another assumption**), a \$250,000 increase in sales after other normal cost of sales expenses will yield an increase in margin of \$125,000 (**another expectation**).

From a financial analysis perspective, the critical factor of the reassignment of staff represents a **requirement of the selected process**. The assumptions of the 6-month improvement in the launch date and \$50,000 cost of reassignment are **variables** in the financial analysis.

In other words, any sort of analysis of this selected strategic initiative **MUST INCLUDE** the cost of reassigned resources. Any variation in either the **ACTUAL** length of the improvement in the launch date or the **ACTUAL** cost of the reassign resources will directly impact the expectation, that is, the amount of additional margin generated from the initiative.

**Feedback** of expectations, critical factor, and assumptions are now communicated down into the organization so that they are continuously monitored against actual conditions. **Feedback** of any issues or variations (disconnects) in these conditions would immediately be communicated to finance. Finance then analyzes the impacts on expectations which are then communicated up into the organization.

The organization and C-Suite now have the most current information possible to immediately determine if any reconsiderations or adjustments are needed. More importantly, this new information includes an assessment of financial impact to assist in the decision-making process. Any immediately required actions represent feedback to be communicated back down into the organization. This structure epitomizes a continuously functioning closed loop system.

### **Integration Of Operations**

In this Management Series I use the term Operations of an organization in a very broad context. While functional areas of responsibility from one organization to another can vary significantly, the use of the term Operations comprises all functional areas unique to any given organization. These could include everything from R&D/engineering/product development, to marketing/sales, to production/distribution/service/customer support, to IT/HR/finance/accounting, to etcetera/etcetera.

In other words, the use of the term Operations in this C-Suite Management Series includes any functional area involved in the day-to-day activities associated with the creation, production, distribution, and support of products or services to the marketplace/users.

This broad base framework is used because from a strategic development and execution perspective, all current and future systems and procedures used anywhere within an organization originate from the execution of strategic initiatives. In addition, Strategic Initiative Executions almost always require cross functional involvement and feedback. They also almost always impact systems and procedures in a multifunctional context.

Therefore, the C-Suite goal of having a **Blending Of Strategic Initiatives With Day-To-Day Operations** structure is best accomplished when it is viewed from the perspective of a fully integrated cross-functional organization.

Unfortunately, the ability to attain this sort of integrated cross-functional structure can be easier said than done.

Fortunately, over my career, I have been privileged to have had firsthand experience in many functional areas found across different types of organizations. My experience is extremely diversified covering 40 technology, manufacturing, distribution, and service sectors that range from leading edge technology products and services, high-growth high-tech green products and services, to traditional automotive and mainstream manufacturing, distribution, and service operations.

This diversified firsthand experience allowed me to better understand the challenges associated with achieving an integrated and amalgamated cross-functional structure. It also allowed me to better understand and directly relate to the perspective of the positive and negative communications I was receiving from individuals within various functional areas.

However, as an executive, I also recognized that the overall performance of an organization could not be maximized unless all of these functional areas executed in an integrated context towards a common, well defined, set of objectives.

Finally, I recognize that integration of functional areas within an organization is in reality an extremely difficult C-Suite challenge.

For example, as an executive I have walked into a cross-functional meeting knowing that:

1. Product Development was under a great deal of pressure to finalize a product for the market that sales were already promoting in the marketplace.
2. Sales was under pressure to make sure adequate demand existed for a product that was not yet fully available and that might still be subject to changes in functionality.
3. Production was under pressure to efficiently and effectively coordinate the phase-in of the new and phase-out of the existing product.
4. Customer Support was under pressure to develop a support program that would be immediately available when the distribution begins for the new product that has not been fully defined or completed.
5. Finance was under pressure to try to provide controls and feedback on the costs of development, release, and ultimate margins associated with the new product.

Typical comments during the meeting included:

1. Product Development – how can you be trying to sell a product that is not even completed?
2. Sales – why can't you even tell us when the functionality will be fully developed and the product will be available for distribution?
3. Production – echoes the Sales concern about the lack of a completion date and asks Sales why they cannot provide good projections of the demand for the phaseout of the existing product and initial demand for the new product.
4. Customer Support – given that support programs vary by the type of customer we need to know what specific customers will be involved in the initial distribution and need to be trained on the differences between the existing and new product.
5. Finance – is there a variation from the original budget and will the final cost structure of the new product offering still support the required margin based upon the go to market selling price?

As an executive, try to tell everyone to perform in an integrated context when a) each area has their own set of pressures that are out of their direct control and interdependent upon other areas within the organization, b) are very time sensitive but actual timing of a launch event is completely unknown, c) represent extensive time commitments which are in addition to existing day-to-day operational activities, and d) frustration surrounds required activities because backs are up against the wall and require last minute attention.

Unfortunately, these dynamics are all taking place within a reality that the ongoing existence of the organization is best served through an integrated amalgamation of activities across functional areas. And, while the failure within any one of those areas represents risk to the organization, ongoing organizational success is dependent on an integrated execution of the activities within all pertinent areas.

So how does the C-Suite create such an integrated organization? Addressing this challenge and creating an integrated organization lies in the following activities:

1. There must be a strong belief, desire, and confidence within the C-Suite that an integrated organization is possible and if successfully executed, represents a major competitive advantage.
2. The rest of the organization will quickly see through a lack of confidence or willingness to deviate from the desire to have a truly integrated organization structure. Therefore, the C-Suite must continually reinforce and communicate their focus on the requirement for integration across all functional areas.
3. **The C-Suite must make it clear and insist** that while every functional area needs to perform as effectively and efficiently as possible, they must operate as an integrated component of the entire organization.
  - a. This represents a structure where all functional areas operate in a cohesive unified context.
  - b. It is not the same as teamwork where people are expected to work together towards a common objective.
  - c. Instead, think of it in the context of the human body where each function operates as a separate system but is interconnected, integrated, and most important, interdependent in such a way that they must act as one to perform properly and survive.
  - d. Integration requires that all functional areas are unified and focused on a common set of goals and objectives.
4. Don't deny or discount the dynamics and frustrations discussed above that are occurring within the functional areas regarding strategic execution and daily operational activities. They are a reality that often exists and therefore, need to be addressed. Instead, create an understanding and buy in within the organization about the true interrelationship between the strategic and organizational dynamics discussed in Segment 2 of this C-Suite Management Series.
  - a. Point out that all of the systems and procedures being used in day-to-day operations (daily activity) are the result of historically executed strategic initiatives.
  - b. And, it will be through newly executed strategic initiatives that the future systems, methods, and procedures used in day-to-day operations will be created and modified.

- c. Therefore, instead of implementation plans that are created and driven down into a functional area, moving forward there will be a Blending of Strategic Initiative Activities with Day-to-day Operational Activities WITHIN AND ACROSS every functional area.
  - d. This blending recognizes that, in order to support the ongoing objects for continuous improvements in performance and the long-term survival of the organization, daily activities and responsibilities within every functional area need to include a focus on both strategic and operational requirements.
5. Describe how this blending will include the introduction of Feedback Loops to help create an integrated system for communication, broad-based input, and unification between all of the functional areas.
  - a. Indicate how these Feedback Loops are like the nervous system in the human body with input, feedback, and information constantly flowing bidirectionally throughout the entire organization.
  - b. Therefore, like the human body, each functional area can be operating separately but in a unified integrated context.
6. Explain how in the future, the expectations, critical factors, and assumptions associated with strategic initiatives will be analyzed, documented, and monitored in order enhance the ability to obtain a successful execution. This approach will:
  - a. Focus the blending of the strategic activities within a functional area on specific efforts and areas of focus that are critical to the successful execution of a strategic initiative.
  - b. Leverage off of Feedback Loops for the solicitation of functional area input into the analysis of critical factors and assumptions and, the communication back into the functional areas of strategic objectives and critical information.
  - c. Strengthen organizational integration and unification through a continuous bidirectional flow across all functional areas of the comprehensive data required to obtain the desired objective.
7. Finally, as discussed in great detail in Segment 4 of this Management Series, the C-Suite needs to embrace a more enhanced and comprehensive Human Resource Management System that is better suited to support and reinforce an integrated organizational structure.
  - a. The objective is to expand an organizations evaluation criterion beyond just skill set and performance. It needs to include consideration of the following critical areas.
    - i. Contribution to strategic initiative execution and productivity improvements.
    - ii. Contribution to innovation.
    - iii. Level of cross-training.
    - iv. Capability to support organizational growth.
    - v. Areas of interest and willingness to participate.
  - b. Incorporation of these expanded criteria reinforces the significance throughout the organization of the acceptance and participation in an integrated and blended strategic execution/operations structure.
  - c. This is an organization wide HR Management System. Therefore, it can be an exceptionally effective C-Suite tool for communicating directly to the management of a functional area the significance and expectations of the having

an integrated and unified organization structure that includes the functional area under their control.

In summary, while many of the Dynamic Execution and Other C-Suite concepts and tools presented in this Management Series can be utilized without having the fully integrated cross-functional organization structure outlined here, the ability to maximize your success is greatly enhanced when such a structure is in place.

The key for such an integrated structure lies first in a dedication and continuous communication by the C-Suite to the organization that it is a priority. It is then preferably reinforced through the incorporation of pertinent considerations within the HR evaluation and management system.

It is also important to recognize that the blending of strategic initiative and daily operational activities is not just some open-ended free-form mode of doing business.

It is in fact a highly organized disciplined system centered around a) participation and input in the analysis of conditions, critical factors, and assumptions, b) when applicable, execution of specific assigned tasks associated with a strategic initiative, and c) the monitoring and communication of actual conditions versus the critical factors and assumptions related to strategic initiatives. A process that is supported through a configuration of top to bottom Feedback Loops.

### **One Last Analogy**

An integrated, unified, blended organization can be viewed as analogous to the human body. Like an organization, the human anatomy has multiple independent but integrated systems working together to create a functioning entity with a purpose.

The body as whole can be equated to the top to bottom all-inclusive operations of an organization. Life in both entities is maintained by the day-to-day activities and output from operations of the functioning components. Objectives in both are established and strategic initiatives are blended with operations to be executed to accomplish the desired results.

The nervous system acts just like the bidirectional Feedback Loops to communicate objectives and strategic initiatives outwards from the brain while communicating inwards to the brain the existing internal and external conditions that are actually present.

For example, assume an individual is located somewhere inside of a building. They determine that they want to leave and go outside (the objective) by walking to and out a door (walking to, opening the door, and walking out is the strategic initiative and the door is a critical factor). They walk up to a door only to find it locked and with no key (inaccurate/missed assumption regarding a critical factor).

The feedback of the locked door is instantaneously communicated back up to the brain and an outward communication is issued to find and try another door (modified strategic initiative). The blending of strategic execution with operations allows the focus to shift slightly towards execution of the new strategic initiative so the legs move a little faster and the heart pumps and little quicker.

The next door is located, opened, and the individual exits the building (strategic initiative is executed and the desired objective is obtained). The body relaxes back to a normal state of

operations while the next set of objectives are determined (operations communicates to the brain the current conditions that exist for consideration and analysis).

It highlights that the body is NOT a strict choice between strategic execution OR day-to-day operational activities. The body does not die because there has been a shifted in focus towards strategic execution. Nor is there a desire for the body to come to an uncoordinated standstill because the focus is shifted towards the operational activities associated with each functional system.

Therefore, the blending of strategic execution and operational activities provides an immediate and continuous ability to adjust the balance between these activities based upon the actual conditions and objectives that exist at any point in time.