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EXECUTING STRATEGY IN THE MIDST OF THE "PERFECT STORM"

How the Arab Spring, the aftermath of the financial crisis, and current global economic woes are affecting organisations in the Middle East—and why integrating your planning and budgeting processes might be the best shelter from the storm.

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THE CREATION OF THE PERFECT STORM

On the 17th of December 2010, Mohamed Bouazizi, a Tunisian street vendor, set himself on fire to protest persistent harassment by officials and lack of opportunity. His death sparked the Tunisian revolution and weeks of protest that spread rapidly throughout the region in a movement we know today as the Arab Spring.

Without a doubt, the Arab Spring has become a major regional, if not global, phenomenon that policy makers in the Middle East–North Africa (MENA) region are rightfully preoccupied with. But their preoccupation is compounded by their concerns over the continued fallout from the global financial crisis and the faltering developed economies. If the world economy slips back into recession, as many economists are now warning, the effects could be considerably more painful than the last time around. As a result, countries in the region are putting greater emphasis on short-term policies to improve citizens' satisfaction while ensuring the financial sustainability of their governments.

History has taught us that no one escapes a crisis unscathed. But there are always winners and losers. At some point, this perfect-storm crisis will come to an end. Those organisations that are able to adapt to the uncertainties of turbulent times—those that reshuffle their priorities and realign their resources quickly—will emerge strengthened. The rest will have to sit back and learn from them—the hard way.

EXECUTION IS NO LONGER LEADERS' MAIN CONCERN; IT'S NOW ALL ABOUT THE STORM

A few months ago, all that we heard was that “execution is the main concern of leaders.” No longer. The perfect storm has rapidly changed priorities.

In its *September 2011 World Economic Report*, the International Monetary Fund said that social unrest and oil price fluctuations were causing great uncertainty in the MENA economies. As a result, the IMF cut its growth forecast for the region to four per cent. The report went on to say that governments are responding to the economic uncertainty by shifting their plans: *“Preserving macroeconomic stability while building social cohesion is a key immediate priority; fiscal health and designing a growth model to achieve inclusive medium-term growth and employment also remain critical.”* At the same time, we know that private sector companies are slowing down their expansion plans and looking for consolidation in their core businesses and main markets. Clearly, execution is no longer top of mind. Leaders today are more concerned about the crisis—this perfect storm of crises, in fact—than anything else.

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Most leaders, whether in the private or public sector, react to uncertainty by scrutinizing costs. That's natural, especially in today's abysmal credit environment, which makes borrowing difficult, if not next to impossible. But where do you start? If you cut your employee training and development budget, how will that affect your company's performance in three years? The temptation to reduce the workforce is huge in tough times, but what happens if you let those valuable employees go? In short, how can you ensure that you don’t cut valuable resources today and compromise tomorrow's results? When it comes to balancing short-term priorities with long-term investments, the latter often lose. But the ultimate impact of such choices can be even more crippling.

Think about it for a moment: crisis breeds uncertainty. Uncertainty means that we don’t know what’s going to happen. But it doesn’t necessarily mean that things will go badly. Yet organisations often become paralysed by uncertainty. In times of crisis, everything is different: your customers may stop buying from you, your banks may stop lending you money, and suddenly the opportunities you had to grow your business begin to collapse, one by one. So how can organisations take the right decisions that will ensure they'll survive and emerge strengthened?

THE BALANCED SCORECARD ISN'T ENOUGH

Some organisations are better equipped to prevail in crisis than others. Having a framework such as the Balanced Scorecard for executing your strategy is always advantageous: it improves the alignment between organisational units and outcomes, enhances coordination and collaboration among departments, and fosters a performance-driven culture across the entire organisation. During periods of crisis or heightened uncertainty, these organisational qualities yield greater flexibility and responsiveness—capabilities that are critical to balancing short-term needs with longer-term priorities.

An execution framework in and of itself doesn’t guarantee success

However, an execution framework in and of itself doesn’t guarantee success. It must be implemented properly. That may seem self-evident, but implementation problems are all too common. The symptoms aren't hard to spot: ballooning non-critical expenditures; initiatives that are not properly executed; a monitoring system that is either unreliable or doesn’t provide the right information for decision making; among others.

Beyond these typical implementation problems, companies face another challenge during crisis periods: the shifting roles of strategy officer and CFO. During good times, the strategy officer prevails. But in a crisis period, she is less influential. The CFO, on the other hand, becomes more prominent during periods of crisis; he is required to give his input at every management meeting where an important decision is at stake. This shift

GETTING OUT OF THE STORM: FOUR IMPERATIVES FOR INTEGRATING PLANNING AND BUDGETING

When long-term sustainability is jeopardized by tactical, sometimes short-sighted decisions, skilled leaders realize the importance of linking performance management to budgeting. What do best-practice organisations do to make these two processes “talk” to each other? Consider these four practices, used successfully in both private- and public-sector organisations. Figure 1 illustrates the behavioural shifts these practices require.

FROM CURRENT CHALLENGES		TO EXPECTED RESULTS
“We’ve had a rapid expansion of discretionary expenditure in the past few years.”	Budgeting process	Integrate budgeting and planning processes.
“Only a handful of our strategic initiatives are executed properly.”	Initiatives management	Enforce cost/benefit analysis and optimize project staffing and scrutinize its performance on an on going basis.
“Operational discussions take priority; there's never enough time to talk about strategy.”	Performance culture	Ensure employees understand what is required. Link individual and organizational goals to performance management and rewards.
“We lack of sufficient reliable data to assess resources expenditures.”	Monitoring system	Streamline reporting and analysis capabilities, focusing on resource expenditure. Increase monitoring frequency.

Fig.1. The Shift Agenda

1. MAKE YOUR STRATEGY TALK TO YOUR BUDGET

In the current environment, CFOs are increasingly called on to weigh in on strategy—as strategy heads are called on to offer more than their usual input into budgeting. In other words, the strategy and budget conversation is more essential now than ever before.

It may sound simple, but merely having a calendar that integrates all planning and budgeting activities in a single time line would be a big step for many organisations. Admittedly, this isn't always easy to do, especially in large, complex organisations where managers jockey for position and politics is often a factor. But it is entirely doable.

Accepted management theory says strategy planning should precede budgeting. That's not always true, especially during a crisis, when change is the norm. Organisations need to look more closely at where they plan to spend their money and why. This is where the CFO's role as a strategy adviser becomes critical.

What are best-in-class organisations doing to bolster the CFO's strategy role—and the strategy executive's budgetary role? They are implementing an iterative feedback process between strategy and budget. Strategy and finance managers are working together to develop the strategy, taking into account the available resources for executing it. Once the strategy is set and resources are determined, performance measures can be developed. The result is a planning process that should provide views of short-term as well as long-term performance.

2. IMPROVE COST/BENEFIT ANALYSIS AND PROJECT MANAGEMENT CAPABILITIES

Don't take your current project management system for granted. In times of crisis, when cash flow is unpredictable, it's crucial that your project expenditure system balances short- and long-term priorities. Conducting a rigorous cost-benefit analysis of each initiative should be on your action-item list for the next project meeting. Merely claiming that a particular initiative will have a big impact on a given strategic objective is not enough.

In fact, your existing initiative prioritization method should force initiative owners to defend their initiatives by quantifying their outcomes in terms of revenue growth, market share, public image, customers' or citizens' satisfaction, or cost savings. Every initiative must be staffed with the right people, and the leadership team must be confident that the project manager has the necessary skills to avoid the risk that a poorly executed project will consume valuable resources. Once any initiative is launched, its associated expenditures should be scrutinized and its assumptions constantly challenged against the original business case.

If your people are not engaged, the most perfectly formulated strategy and the most rigorously defined processes will fail

3. LINK EMPLOYEES' INDIVIDUAL GOALS TO YOUR PERFORMANCE AND REWARDS SYSTEM

Regardless of the operating environment, there are three critical pieces of information that your people must be aware of: (1) your organisation's purpose, (2) how it plans to achieve it, and (3) each individual's role in contributing to it. As Dick Clark, the former CEO of Merck, once said, "Culture eats strategy for lunch every day." To that I would add, "and crisis eats it for breakfast." If your people are not engaged, the most perfectly formulated strategy and the most rigorously defined processes will fail.

First, your management team must be able to define a clear set of objectives that can be cascaded all the way down to the individual level. Having your employees aligned to the strategy is the best way to ensure that budgetary realities don't undermine your HR goals—in other words, that your HR planning process is integrated with your budgeting process.

During a crisis it's common practice for organisations to institute across-the-board headcount reductions. They do so because they have no way to differentiate between employees that they can afford to let go and those they cannot. If instead these organisations had in place a system that showed which employees were most critical to strategy execution, they wouldn't engage in such an arbitrary, if not foolhardy, practice.

What if your organisation already has a solid set of objectives in place, but lacks a performance management and rewards system that produces alignment among people, processes, and objectives? Where should you start? Simple: start at the top. When you demand accountability at the highest levels, you set an example that all others are willing to follow. But if your employees don't see even a modicum of accountability at the top, your performance management system will inevitably fail.

Engaging and motivating employees to foster an execution spirit is no easy task. Approach engagement as a marathon, not as a sprint. Execution requires patience and a long-term commitment. Setting the right objectives for your leadership team is only the beginning. To succeed you must ensure that your development plans support those objectives, that your appraisal process ensures regular two-way feedback between supervisors and employees, and that your leaders consider strategy communication an integral part of their job.

**Your budgeting processes, for example, must be flexible enough to allow you to reallocate resources semi-annually or quarterly.
Waiting a year in a time of crisis is just Too long**

4. MONITOR WHAT MATTERS—AND DO IT MORE OFTEN

Don't expect your old reporting system to tell you what you need to know during a crisis. Who needs those hundreds of pages of reports that provide nothing but unnecessary details during a crisis? Monitor your progress against strategic objectives and the financial plan in one unified reporting system.

During a crisis, you should focus your attention on answering four questions: (1) Which projects are performing well? (2) Which areas of the organisation are not adding sufficient value? (3) Which activities are you performing today that you could do without? and, conversely, (4) Are there any activities that you are not carrying out today that you should be? Your reporting system should give you these answers.

Approach engagement as a marathon, Not as a sprint

Flexibility in the ability to shift priorities and to report more frequently is vital. During crisis periods, monitoring cycles should be shortened. In normal times, performance results can remain stable for three months, whereas in crisis, results can fluctuate on a monthly, even weekly, basis. Create multidisciplinary task forces to prepare what-if scenarios and analyse possible outcomes, and distribute this information to managers so that everybody can see what is happening—and will be on the same page.

Such actions will boost your ability to take informed decisions. Remember, you must also be prepared to change. There is no point in having a stronger monitoring system and more frequent reporting if your procedures prevent you from taking the right decisions—such as shifting course. Your budgeting processes, for example, must be flexible enough to allow you to reallocate resources semi-annually or quarterly. Waiting a year in a time of crisis is just too long.

On the other hand, strategic planning performed in isolation, without budgetary inputs, can lead to overspending

ORGANISATIONAL CULTURE COUNTS

Organisations that follow these four overall steps are achieving greater levels of operational efficiency while maintaining or improving their performance. The reasons are simple. We know that when managing by budget alone, performance suffers, because the organisation is preoccupied with short-term results. On the other hand, strategic planning performed in isolation, without budgetary inputs, can lead to overspending, missed short-term targets, or worse: an organisation can go broke before it ever realizes its strategy. Furthermore, when strategy and budget are managed independently from each other, the result is unnecessary tensions that drain valuable organisational energy. Making the two processes talk to each other is just plain common sense.

Synchronising these processes requires more patience and determination than anything else. As strategy expert Jeroen De Flander observes in his 2010 book, *Strategy Execution Heroes,* organisational culture and invisible power structures can be major obstacles to execution.

Suppose you have reengineered your budget and planning processes, implemented an initiative management framework, cascaded goals down to the individual level, and adjusted your monitoring system—and you are still not getting the results you want. It's time to tend to the “soft” elements of execution. Does your organisation have the right competencies? Do your project managers have the right skills? Does your organisation reward the right behaviours? Do you have a clear governance process in place that sets clear roles and responsibilities for executing the strategy across the organisation? Without these elements in place, no matter how well-defined the “hard” elements are, strategy will always be poorly executed. Awareness is the first step toward change.

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Organisations large and small, public and private, face major challenges in the current crisis. Those that link their strategy system to their budgeting and planning system are better able to weather the uncertainty, volatility, and operational constraints of today's perfect storm. Integrating strategy and budgeting strengthens initiative planning, fortifies control capabilities, and boosts reporting and analysis capabilities—all of which add agility that facilitates resource allocation and optimizes performance. Integrating these two processes provides another benefit: it allows organisations to more readily spot—and repair—gaps in alignment, so they can reinforce employees' commitment to the strategy.

Not every organisation will survive the crisis. But those that take the necessary steps to support sound, proactive decision making—decision making that doesn't compromise long-term strategy—will not only survive the crisis, but will also emerge stronger as the economy stabilizes. As Sun Tzu wrote, “In peace prepare for war; in war prepare for peace.”

ABOUT THE AUTHOR

Carlos Guevara is a partner at ShiftIN Partners. A seasoned strategy execution adviser, trainer, and keynote speaker, he has led projects in a variety of industries and cultures throughout America, Europe, and, since 2007, the Middle East. There, his clients include both public and private sector organisation.

Prior to co-founding ShiftIN, Carlos was a principal with the Palladium Group, where he led the firm's executive training practice in the Middle East along with major consulting engagements. Carlos began his career in the corporate strategic planning office at CEMEX, the world's third-largest cement producer. He implemented the balanced scorecards throughout several of the company's country units, including Egypt, Spain, Mexico, and Venezuela.

Recently, Carlos co-authored the case-study article “Designing a Sound Governance System to Drive Strategic Transformation at ADWEA,” published in the September–October 2011 Balanced Scorecard Report, *a joint publication of Harvard Business Publishing and Palladium Group. It is available at www.hbr.org.*

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