THE CASE FOR INTEGRATED MANAGEMENT SYSTEMS

When a director of a global mining group was asked, "How important is strategic planning?" he tersely replied, "Strategy is everything." His organisation's planning process is key to its long lasting success. The executives spend a great deal of time in planning meetings. Every manager understands and supports the principles of strategic management. These include ongoing strategic planning, formal control systems, an insistence on being the safest producer in each region of the world, and a passion for action and results. The planning process begins with the heads of each operating division presenting their strategic plans in small, intense, meetings. Once approved, performance is measured by carefully selected financial ratios that are closely followed, particularly free cash flow and return on capital.

Introduction

Many employees experience the management system as an "iceberg". Below the waterline is the invisible or partly understood process of planning, budgeting and reporting which supports the financial result – the visible portion – comprising only 10 % of the iceberg. . These systems are complex and pervasive, and may only be fully understood after an employee has been with an organisation for some years.

But many managers are burdened by management systems developed years ago in a relatively static, easy to understand, industrial age. Today's rapidly changing economy has rendered these old, time-consuming, costly, slow and unresponsive fixed plan business models obsolete. Since the last century, when managers planned on an annual cycle, many businesses have moved to continuous planning and have introduced more sophisticated managerial planning and control processes . These companies measure results continuously through performance measurement systems, scorecards, dashboards, and management accounts. The human resource area champions performance appraisals, incentive schemes, promotions and compensation packages .

Financial directors also want their planning and budgeting to work better. All over the world, finance departments are under pressure to revise their priorities. Today's shareholders want financial directors to play a direct role in making more profits and to focus on value adding activities such as:

- Rolling budgets and cash forecasts.
- Financial business cases for all new business projects.
- Scorecards and dashboards for performance measurement.
- Bringing down operating costs.
- Incentive reward schemes.

Rolling forecasts

In South Africa, most companies still budget once a year, and use this budget as the benchmark for judging monthly performance. In the Northern hemisphere, companies have shorter planning horizons, and a growing consensus regards rolling quarterly forecasts as best practice. Companies in Europe are leading the change. The pioneers in rolling forecasts are in the information technology, telecommunications and financial services industries. Companies that can update plans and forecasts quickly are in a better position to take advantage of opportunities and respond to threats.

In the absence of a clearly communicated strategy, managers budget by adding a percentage to the previous year's figures. In a rolling forecast, each business unit sets a monthly or quarterly target and reports actual performance against this target. Assumption variances are eliminated or reduced because these targets are based on current information. Strategy becomes a continuous dialogue between head office and the regions. Forecasts are highly valued by the investment community. Rolling forecasts harness an organisation's understanding of the future and provide an ideal platform for dealing with analysts.

Performance Management

Companies recognised years ago that monthly management accounts, while giving a useful picture, failed to capture many of the realities of their organisation's performance. Managers were using many other metrics formally and informally for measuring performance. In 1992, Professor Robert Kaplan of Harvard introduced his famous **"**Balanced Scorecard". Kaplan suggested that key performance indicators could be categorised under four generic headings:

- Shareholder measures (how we look to shareholders)
- Customer measures (how customers see us)
- Internal measures (what must we excel at?)
- Innovation and learning (can we continue to improve and create value?)

Incentives

Management incentive schemes are used to implement strategy, retain good people, and improve financial performance. A study in the United States correlated the bonuses paid to 14,000 managers over a period of 5 years with their organisation's financial performance. This study showed that organisations with higher bonus payouts performed much better financially than those who did not pay high bonuses.

The incentive scheme should be separated from the rolling forecast and any absolute target, to avoid game playing and the temptation to negotiate these targets as low as possible. Basing incentives on achieving budget means you end up paying for the best negotiating skills. A well designed scheme induces managers to make decisions as though they were the owners of the business and is linked to the relative targets set out in the strategic plan or scorecard. Managers must be able to exert significant influence on their targets through their actions and the reward should be a major - not minor - part of the total package.

Generating commitment from middle managers

The strategy will not be implemented unless the middle management group have confidence in the decisions, and believe it is in their and the organisation's best interests for the strategy to succeed. If the senior group lacks consensus about the firm's strategy, the organisation is headed for trouble. The worst scenario is a division head voicing doubts about the chosen strategy to subordinates. One managing director summarises the chosen strategies on a one-page document on the last day of the strategy meeting and asks everyone present to sign it off.

Microsoft Corporation flies thousands of its employees to Seattle each year to hear Bill Gates and Steve Ballmer presents the company strategy for the next year. Years ago, the strategic plan was a highly confidential document, locked away in the company safe. Today many companies use events, employee newsletters and promotional giveaways to communicate their vision and strategy to employees. The best way to communicate the strategy is by example. The top management should "live" the strategy and demonstrate their commitment through symbolic actions and behaviour.

Conclusion

World class companies need to ensure that their management system meet the needs of the 21st century. To do this you need to :

- Analyse and benchmark your planning processes to verify that they add maximum value , take place in the right sequence and involve the right people
- Understand and apply best latest practices in world class planning, budgeting and reporting
- Use **linking tools** such as rolling forecasts, scorecards and incentive compensation, to strengthen the relationship between strategy, budgeting and management control.
- Implement new approaches to presenting and reporting information to managers.

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