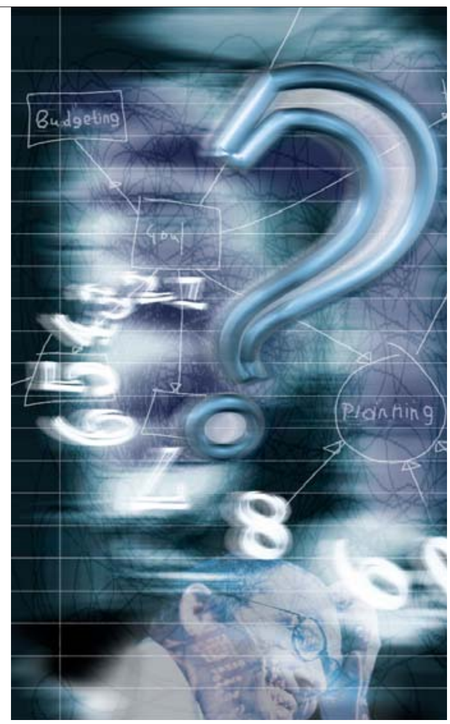
by John Harrison

CONNECTING THE Dots

– IMPLEMENTING AN INTEGRATED MANAGEMENT ENVIRONMENT

Managing the Sustaining and Change Agenda Budgets Effectively



In a previous issue, I described the relationship between an organization's 'business as usual' or ongoing activities (sustaining agenda) and its agenda for changing the business (change agenda). Among other things, I noted that the federal government's Program Activity Architecture (PAA), a detailed program inventory that connects all departmental or agency programs and program activities to clearly defined and appropriate strategic outcomes, actually comprises all four activity categories needed to deliver its sustaining agenda. These are an organization's program delivery, management, supporting and corporate services activities. The accountability framework for its management activities is principally represented by the Management Accountability Framework (MAF). The MAF also should provide a mechanism for reporting against a fifth set of activities — innovation and change management activities designed to improve or transform the business (change agenda).

Furthermore, from an accountability perspective, change agenda activities represent the key commitments in a manager's accountability accord (business plan or performance management agreement) while the sustaining agenda activities comprise its ongoing commitments.

In this second article on integrated management, the relationship between the sustaining and change agendas will be further pursued. We'll look at how an enhanced understanding of this relationship can be used to sharpen an organization's planning, priority setting, and budgeting and, hence, the overall management of activities, initiatives and projects within both types of agendas.

SUSTAINING AND CHANGE AGENDA PLANNING AND BUDGETING

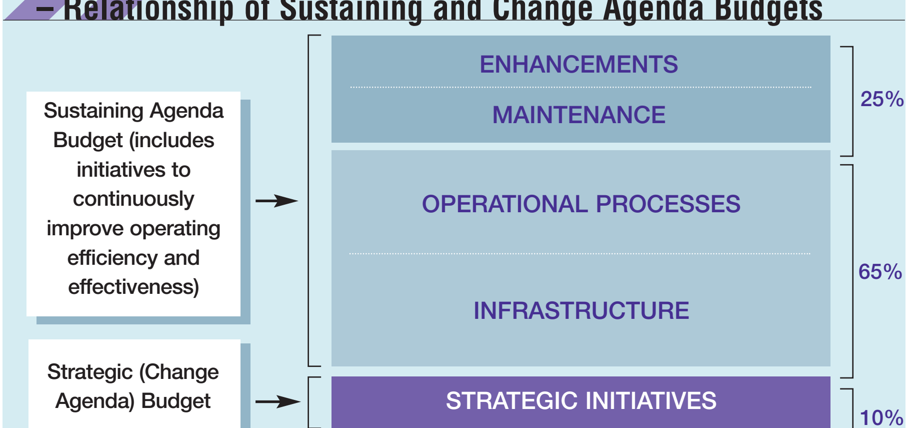
An understanding of the relationship between the various components of an organization's budgetary expenditures is helpful in situating any discussion of planning, priority setting and budgeting.

Robert Kaplan and David Norton, in an article first published in a May 2000 Balanced Scorecard Report and also in pages 288 to 294 of their book *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*, pointed out that organizations should be planning and budgeting in three general areas. The first category, representing in the order of 65% of the total budget, should be devoted to funding ongoing ('business as usual') program delivery activities and the infrastructure that is required to support such activities. The second category, comprising somewhere around 25% of planned spending, should be dedicated to enhancements to these ongoing activities and the ongoing maintenance of the existing infrastructure. The third category, an amount approximating 10% of all expenditures, would then be left to fund change agenda initiatives; Kaplan and Norton describe this percentage as the organization's 'strategic budget'. This is the amount set aside for initiatives required to close the gap between desired breakthrough performance and that achieved by continuous improvement and 'business as usual' activities.

While observing a large number of organizations, Kaplan and Norton have found that **more often than not organizations have many more change agenda initiatives on the books than they can possibly manage effectively.** When these initiatives are examined more carefully, it becomes apparent that a number do not align with the strategy of the organization, some do not appear to have any substantive impact on an existing performance indicator, and many are overlapping or duplicative, either in whole or in part. Further examination often uncovers instances in which no initiatives are in place to improve performance in areas of high strategic importance to the organization. This has led to their conclu-

FIGURE 1

– Relationship of Sustaining and Change Agenda Budgets



Adapted from *The Strategy-Focus Organization* (R. Kaplan, D. Norton, 2001)

FIGURE 2

Ranking of Competing Initiatives / Projects

	CATEGORY (ENHANCEMENT, STRATEGIC)	LINKAGE TO RESULTS LOGIC (1- 3)	PROBLEM PERFORMANCE GAP ADDRESSED (1-3)	AFFORDABILITY/ ACHIEVABILITY (1-3)	OVERALL RANKING	ACCOUNT-ABILITY
1 Corporate Risk Profile	Strategic	1	2	1	2	Director/Audit/Evaluation
2 Procurement Process Improvement	Enhancement	1	1	1	3	Dir. Procurement Support
3 HR Modernization	Strategic	1	1	1	1	Dir. Human Resources
4 Performance Measurement Implementation	Strategic	1	2	3	4	Dir. Performance Reporting
5 SAP Upgrade	Enhancement	1	3	3	5	Dir. Inform. Management

sion that many such organizations have "at once too many and too few initiatives."

The approximate percentages shown in Figure 1 are only a guideline and each organization will, over time, have to determine the appropriate mix of the three budgetary expenditure categories; this mix may even change slightly from one planning period to another depending on various internal and external factors. Organizations that are able to achieve the right balance between the activities and outputs that need to be carried out within these three types of budgetary expenditures at various points in their life cycle will, in my view, have the best chance of successfully executing their sustaining and change agendas.

THREE KEY STEPS

There are at least three key steps involved in achieving a balanced planning, priority setting and budgeting process within organizations: 1) the alignment analysis; 2) the affordability and achievability analysis; and 3) the assignment of accountability. When all of these steps are carried out in the correct sequence, the organization is able to function in a healthy and robust manner, with the ability to fully achieve all of the planned priorities and initiatives in a balanced way, without undue stress on its financial and human capital.

ALIGNMENT ANALYSIS

In order to determine how many strategic initiatives the organization will be able to sustain during the planning period, the first required step is the alignment analysis — the degree of 'strategic fit'. Each and every initiative, project and activity will be mapped to the organization's PAA to determine the expected results that are being influenced and/or the specific problem areas — often as measured by specific performance gaps — that are being addressed. These initiatives, projects or activities are first assigned a ranking based upon an assessment of the degree to which they are thought to support the achievement of expected results in the organization's results logic.

Initiatives, projects or activities in categories 2 (enhancements) and 3 (strategic budget) are then given a second ranking based upon the degree to which they will address a specific problem or performance gap.

AFFORDABILITY AND ACHIEVABILITY ANALYSIS

The right mix of ongoing, enhancement and change agenda activities will influence the 'affordability' and 'achievability' components of the organization's business plan and, ultimately, an executive's accountability as expressed in the organization's business plan or his or her performance management agreement. It is important to note that affordability and achievability are inextricably linked; achieving the right mix between ongoing activities, enhancements and transformative change is the key to achieving a healthy organizational balance. The sequence for the conduct of this analysis is as follows.

First, an organization determines what percentage of the total notional budget should be assigned to the three types of budgetary expenditures. Next, all ongoing activities and their associated infrastructure costs are inventoried. Then the enhancement and maintenance initiatives are quantified. Finally, the full costs of each of the proposed change agenda initiatives (strategic budget) are determined. Within the three budgetary categories, the items are listed in order — from highest ranking to lowest — according to the previously conducted alignment analysis. This will permit an assessment of the degree to which the various initiatives can be implemented (what is affordable and achievable) within the notional funding levels that have been assigned to the organization for planning purposes.

ASSIGNMENT OF ACCOUNTABILITY

Figure 2 shows the composition of the initiative/project inventory presentation format that is used to support the analyses described above. Note that accountability for the achievement of the various activities, initiatives/priorities and pro-jects is assigned as part of the process. At an organizational level, accountability is also assigned through the annual business planning process.

A signed performance measurement agreement will complete the business planning process by establishing an approved set of ongoing and key commitments, including approved resource levels.

SUMMARY

This article describes a practical approach to planning and priority setting under the new PAA structure and the MAF being implemented within federal government departments and agencies, bearing in mind the need to effectively manage two agendas simultaneously, the sustaining and change agendas.

It describes an approach that ensures organizations do not simultaneously have at once too many and too few initiatives. This is avoided by adopting a systematic and rigorous planning and priority setting approach that looks at alignment, affordability and achievability issues before assigning accountability. The approach ensures that a balanced approach is taken so the organizational health is not thrown out of balance by taking on too many activities and initiatives.

This is the second in a series on integrated management. John Harrison is co-publisher of* Canadian Government Executive *and the managing partner of BMB Consulting Services, where he provides management consulting and education services (harrison@bmb.ca).