BOARDROOM STRATEGY

MIKE DESJARDINS

Presiding over a happy marriage of strategic plans and company budgets

Budgeting or strategic planning, which one comes first? The challenge of building an effective budget ahead of the strategic plan for the next year is that in most cases you are relying on the previous year's operational numbers to carry over into the coming year. What this leaves out is any strategic decisions including asset purchases, long-term research and development and other projects that may require upfront resources with a longer-term return on investment.

Here are three ways to tackle the challenge of aligning your budget with your strategic plan:

1) Prepare your draft operational budget and wait to finalize your numbers until after the strategic plan has been completed and you have a clear idea of the costs of the various strategic initiatives you and your team have decided on.

2) Hold your strategic planning session before you begin the budgeting process and use the results of your strategic plan to help determine the budget. The challenge here is that you could be making decisions in your strategic plan that turn out to be not financially feasible once you get into your budget process. This is far outweighed by the advantage of building a budget that is consistent with the strategic direction of the business and blends in the operational forecasting that occurred during your planning.

3) Institute a rolling budget approach: each month of the year forecast out 12 months in advance. In most fast-changing industries or organizations experiencing greater than normal growth, a rolling budget is more appropriate than an annual budget and can be implemented at any point by adding the 13th month onto your annual budget and updating the actual versus budget monthly or by adding a quarter to your annual budget and updating every quarter.

The quarterly update makes sense for companies that are using the best practice of reviewing, evaluating and revising their strategic plan on that same schedule. CFOs will appreciate this approach as it helps to align with the rolling cash-flow projections.

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The goal of aligning your budget to your strategic plan and introducing a rolling budget is not to add complexity to your business.

Quite the contrary; the purpose is to inject as much reality into the decisions and actions you're making today for the future.

Having a clear connection between your budget, cash flow and the strategic plan means leaders can make decisions around spending cash in the short term to promote success in the longer-term strategic plan.

When you dive into your budgeting process remember that a balance sheet and income statement can hide weak strategies. If revenue is for show, profit is the return on the risk and cash is oxygen.

Cash-flow statements that are as simple as possible and monitored religiously will help identify weaknesses and point you in the right direction around strategies that lead to positive cash-flow outcomes.

Turning back to the strategic plan, the key there is to ensure that the objectives and action plans have clear metrics, measurements and budgets in place for any new expenditures and investments that are outside of the operating budget.

These numbers can now be added into the budget or at the very least put in context against the overall operating budget.

Whatever methodology you choose, the take-home from this discussion is your strategic plan and budget should be designed to complement and support each other, not act as estranged relatives. ■

*Mike Desjardins is the CEO at ViRTUS (*www.virtusinc.com*), an organizational development-consulting firm with expertise in strategic planning and implementation, leadership development, change management and succession planning for medium to large organizations. He regularly blogs at* www.mikedesjardins.com*. This column was co-written with ViRTUS mentor Glenn Wong.*