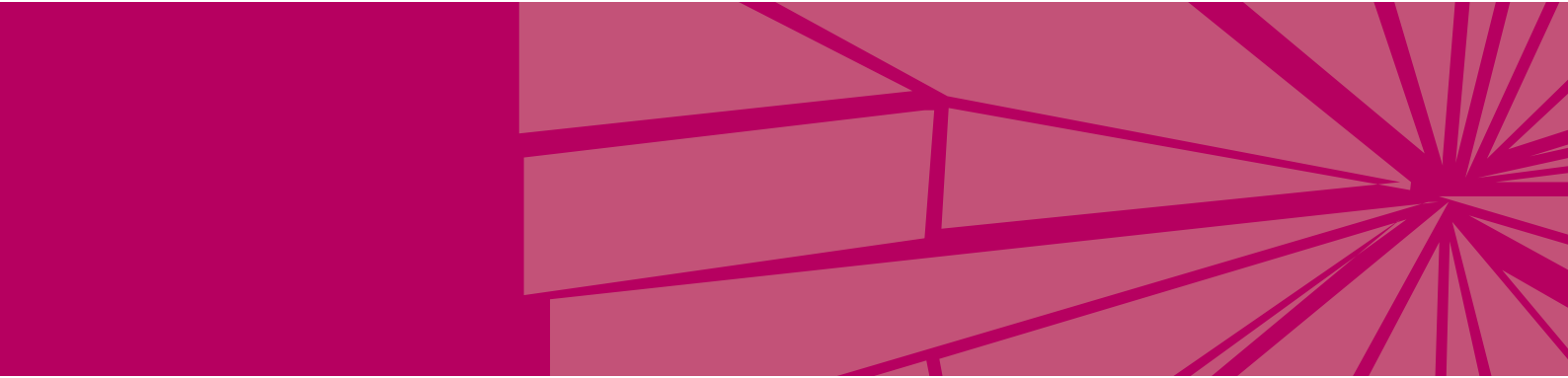


Strategy under stress

Managing strategy in a downturn



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1 Introduction

At times of economic upheaval and low availability of finance, there's a real danger that corporate strategy can take a back seat to survival. But organisations that abandon strategic thinking not only run the risk of undermining their chances of advancing their business when the economy improves, they also endanger their ability to weather the storm.

CIMA's answer to this problem is to address strategy in simple, relevant ways that keep management focused on the future success of their company, while delivering clear courses of action to survive in turbulent times.

This need for maintaining a strategic approach is critical. According to research conducted by Deloitte in Autumn 2008 – before most economies were 'officially in recession' – 78% of companies were planning high priority cost reduction programmes. While many of these businesses had already factored cuts into existing strategic change programmes as early as 2007, there is genuine concern that more invasive cost-cutting decisions designed to deliver short-term benefits will harm the long-term competitiveness of the companies concerned.

The key to 'strategy under stress' is discipline.

At one level, that means looking clearly at strategic positioning, planning and execution, then analysing how that long-term strategy can be maintained in a depressed economy. In other words, not panicking. Management who are confident in their ability to make reasoned decisions will do a better job of securing the long-term future of their business, as well as their survival.

More immediately, it also means that companies need to apply the traditional processes and disciplines for formulating and executing strategy to their decisions around coping with the recession. Impulsive reactions to problems, across the board cost-cutting, failures of leadership, lack of clarity, misunderstanding of risk and ignorance of consequences, are all common strategic failings. These become more damaging if they emerge in decision making designed to ensure survival.

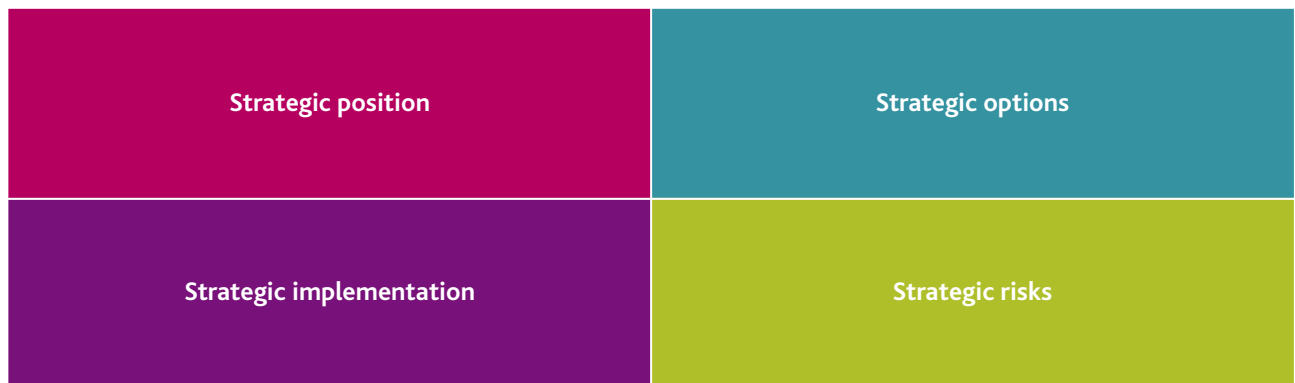
CIMA has long advocated a clear framework to help boards and management engage with strategy using the CIMA Strategic Scorecard™.

This paper will demonstrate how any organisation – even a division or functional department – can apply its key steps in order to drive better decision making, both during a recession and in preparation for the subsequent upturn.



The scorecard has four dimensions: strategic position, strategic options, strategic implementation and strategic risks. This prompts directors to ask constructive and searching questions of management and helps them to determine key points at which they must make decisions.

More information on the CIMA Strategic Scorecard™ can be found at www.cimaglobal.com/strategicscorecard



2 The importance of long-term strategy

A major problem facing managers is that their organisations will always be subject to short-term forces outside their control. In recent years, for example, company finance functions have had to deal with new accounting standards, particularly the International Financial Reporting Standards (IFRS). Changes to corporate governance rules, new ways of working created by technology, rapidly changing markets and new competitors have emerged all over the world.

Even before the onset of the global economic slowdown, these forces conspired to divert the attention of key decision makers away from long-term strategy. Now that many businesses are facing shrinking markets, cost pressures and limited availability of finance, there is even more danger that their long-term goals will be undermined in favour of short-term survival.

Strategy is perhaps even more important for businesses at a time when they face the stern tests of the current economic climate. In order to chart stormy seas, it's crucial to ensure the ship is not taking on water; but unless you know where you're heading, you may never find a way out of the other side of the storm.

A typical top level strategy should be short and clear, setting out the main goals for the organisation. Divisions, subsidiaries and functional departments should also have strategies. It is up to the board to ensure they are properly aligned to the overall goals of the business.

'We have subsidiary strategies for all our major functional areas – for example, we don't wait for the annual strategy round to have a living, breathing IT strategy that constantly refers to the reality of the business and also develops by itself,' says Steve Marshall, Chairman of Balfour Beatty and previous FD and CEO at Railtrack. 'Then we'll formally review the group strategy every three or four years. Every single operating unit in the company will participate in that and build a strategy for itself as well as feed into the broader group review to check that it all fits together and dovetails with the use of group resources.'

Unless there is a long-term strategy that's clearly articulated and properly communicated around the business, it's impossible to judge whether their subsidiary strategies make sense. It is also much harder to know whether recession related decisions are going to harm the long-term survival of the organisation.

'It is tougher during a recession, inevitably,' says Marshall, 'and, unfortunately, sometimes the strategies have to shift. The mix between organic growth and acquisition might change; your expectation of what you can achieve might well alter. Major cyclical turning points can even force the board to review the whole strategy. And implementing it gets tougher.' But you still need to know where you're heading, and to what end, if your decisions are going to be effective.

3 Understanding your position

It's easy to assume that rapidly changing circumstances in a recession make it less important to evaluate strategic position. But adapting to events on the ground – changing customer demand, pressure on receivables, suppliers running into trouble – can divert attention from wider strategic factors that will influence an organisation's long-term survival.

Maintaining sound sources of information about the general state of the economy; the sector; competitors; customers and suppliers; internal capabilities and mood; and shareholder sentiment, all help drive solid decision making through periods of uncertainty. By staying focused on strategic positioning and having a well structured approach to identifying and exploiting trends, boards and finance teams can avoid making hasty decisions.



Firstly, the board should still make time to evaluate strategic positioning with particular emphasis on future trends. There are a variety of ways it can approach this task.

At its most basic, this might mean discussing a set of key performance indicators (KPIs) related to positioning that each function should report – market share in key sectors, customer enquiries and so on. Additional information from external sources such as market research, economic advisers and industry associations is also valuable.

Alternatively, there are formal techniques such as environmental analysis (looking at social, technological, environmental, ethical, political and legal issues – STEEPLE analysis), scenario planning (setting aside time to consider the organisation's response to potential events – particularly useful if there is a prolonged recession) or straightforward SWOT (strength, weakness, opportunity, threat) analysis of either the entire organisation – or more manageably, divisions or departments.

All of these tools allow boards to consider both short and long-term strategic positioning, helping them understand the immediate situation and how it might play out as we move into an upturn. By tracking changes over time, the board should feel more confident that it has a clear context for decisions, whether they relate to intense short-term pressures or more general trends.



Once the board is comfortable with its approach to a formal assessment of strategic positioning, it must ensure that there is clear ownership of the different inputs. A board member should take responsibility for each source, for example, whether that's monitoring internal KPIs or reporting more generally on the prospects for the economy over the next 24 months. This provides clear accountability and leadership, ensuring that important strategic factors are neither ignored by the board or unmonitored by staff within the organisation.

Producing a formal document listing the information being monitored, when it was last updated, who is responsible for it and what broad conclusions are being drawn from it, will help ensure that management always maintains this wider view of the business – and is not distracted by urgent short-term issues.

It also means there's a simple but disciplined process behind evaluating strategic position. That's essential if decision makers are to maintain a clear understanding of all the factors affecting their actions.

Key questions for your organisation

- What factors, internal and external, should we monitor?
- Are we being realistic or relying on wishful thinking? Is there excessive optimism or pessimism?
- How do these factors affect our organisation now and in the future?
- What new information is valuable to our decision making in a downturn – and how do we ensure this does not distract us from long-term planning?
- How reliable is the information we are evaluating?
- Who is responsible for monitoring aspects of our strategic position – and how are they auditing their gathering and assessment of information?
- How much time should we devote to discussing strategic positioning at board and management meetings?
- What plans should we make to respond to significant changes in our strategic position? Are we doing enough scenario planning to ensure we move quickly and decisively?

'management should evaluate their strategic position, then speculate and project what might happen.'

From the front line

The real benefit of continuous and disciplined assessment of strategic position is that it allows you to plan much more coherently. Doug Ross runs consultancy Square Peg, which specialises in helping businesses with crisis management and incident planning. **'The key question is whether your eyes are open,'** he says, **'are your organisation's leaders scanning the environment to see what's happening – and what they can learn from those inputs?'**

Ross cites the example of Cadbury, which was forced into a major product recall when it failed to make proper hygiene assessments of a plant in 2006, and then failed to report findings to the authorities. Food standards should reasonably have been seen as a key aspect of strategic

positioning, where any drop in standards or failure of monitoring should have triggered pre-planned actions to protect the company, including compliance with the regulations.

'That's where scenario planning comes in,' says Ross from Square Peg, **'management should evaluate their strategic position, then speculate and project what might happen.'** For example, if market share falls, a new competitor product comes to market, cash falls below critical levels or a new regulation is passed, how should the organisation respond? **'Having teams brainstorm the known facts and obvious threats will produce some initial scenario material,'** Ross continues. **'That will ensure they can prepare options if the position changes.'**

IT

Positioning

What new technology is available? How are our competitors deploying IT? What do our customers expect from our systems?

Options

How could we outsource IT functions? How would we implement software as a service? What would a new e-commerce strategy look like?

Implementation

Do we have the staff and skills to deliver existing and new projects? Can we deliver phased cash benefits from IT strategies?

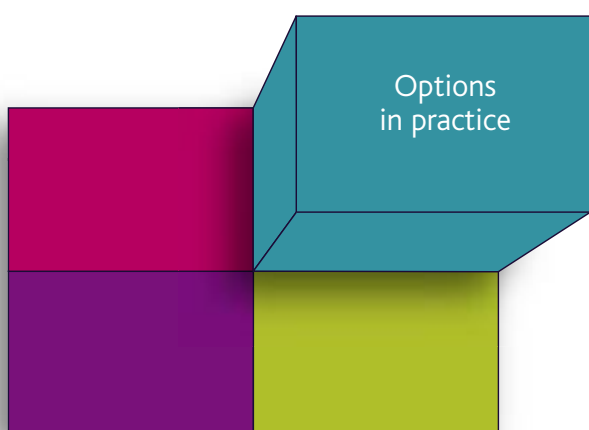
Risk

How would reduced headcount, support or maintenance costs affect IT strategy? What are the consequences of not keeping systems up to date?

4 Creating options

Monitoring your strategic position is important during a recession because external factors are more likely to be hostile to your organisation's fortunes and are harder to predict. But unless the organisation as a whole is creating strategic options – both for general development and to provide potential responses to changing circumstances – decision makers may be artificially limited in their courses of action or make important choices too slowly to respond to events.

During a recession, having more strategic choices and clearer procedures for evaluating and pursuing those options is critical. Making a decision about new product development, investment in infrastructure or opening up a new market is never easy. But when external factors are compelling the board and management to make fast decisions, having a range of options that have already been properly thought through becomes a competitive advantage.



A 'strategic option' should have a significant effect on the future of the organisation. With limited resources, organisations need to focus on the decisions that will fundamentally alter their structure or activities. All too often, it is these major changes that will be sacrificed when times are tough.

For example, a board should be in a position to evaluate a move into new markets, drawing on information assembled for the regular review of its strategic position. Such an option should include projections on financial performance, the kind of tasks that the organisation will need to undertake to action it, and the potential impact on a range of key metrics. How will it affect market share? Will it affect working capital? What might it do for productivity or utilisation levels?

Ideally, the board will have a range of options available, covering both high probability and less likely outcomes. For instance, outsourcing various functions, investing in new technology, opening new offices, launching new products and acquiring or disposing of businesses are all options that might be monitored. When the strategic position changes, these options should change to reflect new circumstances.



The list of potential strategic options shouldn't be too long. The process of fleshing out and regularly updating them with enough data to make them usable is time consuming. Some options that seem less likely – especially during a downturn – could be placed 'below the line' to show that they still have potential, but are less viable in the immediate future. That should create time to consider the strategic options more suited to a distressed economy.

During a recession, the board needs to have additional options available for discussion. Typically, these might include major headcount reduction, closing offices, shrinking capacity or selling assets. While developing long-term strategic options creates opportunities for boosting competitive advantage, these 'downturn strategies' allow the board to make extremely rapid, yet informed, decisions around subjects that are both time sensitive and possibly emotionally charged.

A recession also presents opportunities for growth. One retail finance director – who prefers not to be named for obvious reasons – explains: 'Although trading is certain to be tough, we'll still be looking at potential acquisitions in 2009. I'd rather be picking up assets off the administrator's table than paying for going concerns, but timing is also key. You need to get in before there's too

much competition from other buyers. We also need to be able to apply tactics that might accelerate the demise of competitor businesses – that's a key survival strategy. It's a dog-eat-dog situation, and if you can market yourself in such a way that effectively sends a rival business over the edge – you do it.' This FD is already fleshing out strategic options in these areas.

Each option should be tested for feasibility; analysed for its likely costs, benefits, impact on stakeholders and long term effects; flexibility; and any dependencies. Ideally, strategic options presented to decision makers should be self-supporting to allow for a clear choice of whether to action it.

At its simplest, a list of strategic options could be assembled during a management off-site day. Or a board might set aside 30 minutes at each meeting to discuss a fresh option and assign a manager to evaluate and update it. While these 'light-touch' approaches are unlikely to introduce the detail that would allow for instant decision making in the event that strategic position or risk makes them necessary, at least aspects of them will have been considered. The board will still be mentally prepared to make an important decision and know exactly what additional information it needs to action it.



Key questions for your organisation

- Do we have a list of strategic options? Does it include options that are more likely to be actioned during an economic downturn?
- Does each department or division understand the need to create options for the board?
- Are the strategic options regularly updated to account for changes to strategic position, costs, opportunities and other circumstances?
- Is there enough detail in the options to make rapid decisions on them?
- Are there clearly defined trigger points to put strategic options in play – thresholds for KPIs or aspects of strategic position?

From the front line

'You have to get sign up from across your organisation to what is in the strategy,' says Balfour Beatty chairman Steve Marshall. 'We spend a lot of time working it through the organisation, rather than just handing down a strategic plan with all the answers on. People have to be able to relate to the essence of the strategic plan.'

According to Wharton Professor Lawrence Hrebiniak, that's often not the case. 'When companies separate the planning and doing - that's wrong,' he told management journal Knowledge@Wharton. 'Strategy requires ownership at all levels, from corporate level managers on down. Strategic success really demands a simultaneous view

of planning and doing. The greater the overlap of doers and planners, the greater probability of success. It's so important for managers to be thinking about execution as they are formulating the plans.'

In other words, the options that come to the board have to be organic. They are generated, and are made viable, by people throughout the organisation. The board obviously has a crucial role in directing strategy and selecting options for consideration that fit a broader set of goals. But it also has to establish a set of criteria that options should meet before they are seriously considered.

'Strategy requires ownership at all levels, from corporate level managers on down.'

'You have to be able to turn on a sixpence, react to an opportunity, screen it against the plan – and if it fits, deploy your resources in a full blooded way to get it done,' say Marshall. 'Sometimes that might even mean putting other opportunities on hold. Be deliberate about it. Does it fit the screen you've designed? If so, go for it.'

He also points out that options should be detailed – otherwise it's much harder to properly evaluate them or

put them into action. 'You've got to be adequately specific in these plans – for example, which territories you think show potential,' says Marshall. 'Where are the markets you're determined to grow in, and why? Have you got enough people on the ground there? Then the sector: in our terms, is it construction; civil or commercial; advisory, financing or building? Then how do you want to grow in those areas – acquisition or organic, or a mixture?' When times are tough, failure to grasp the detail can be fatal.

Marketing

Positioning

How is our brand affected by the downturn? What are our competitors doing to maintain presence and attract new business? How are our customers reacting to the recession? How might our brand positioning create unexpected openings during recession?

Options

What new markets can we open to offset declining revenues in existing ones? How do we use e-commerce to develop new channels? Can we develop counter-cyclical opportunities such as discount or value ranges?

Implementation

How are we using low cost communication methods in campaigns? Are we making best use of the marketing supply chain to boost effectiveness?

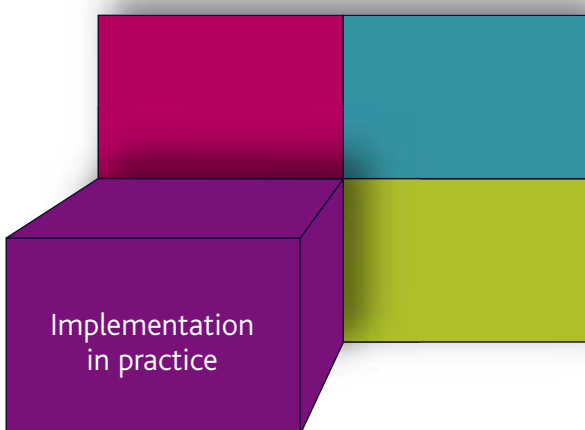
Risk

How will reduced marketing activity affect share and presence? What will happen to competitive advantage if new products are delayed?

5 Taking action

It's never acceptable for strategic decisions to fail on implementation. In a recession, it's potentially disastrous. That's why well defined and disciplined processes are so important to the evaluation of both strategic position and options. If the environment for making decisions is thoroughly understood and the options on the table have been properly researched, taking a decisive strategic step should be straightforward.

But even if a strategic option has been well thought through and is based on a strong and clear understanding of the organisation's strategic position, it can fail if it is not well executed. That's why options should include targets, milestones and timelines – as well as longer term measures of success. Each person involved in executing the strategy should understand their role, how it relates to others and what they need to achieve, why and in what time frame.

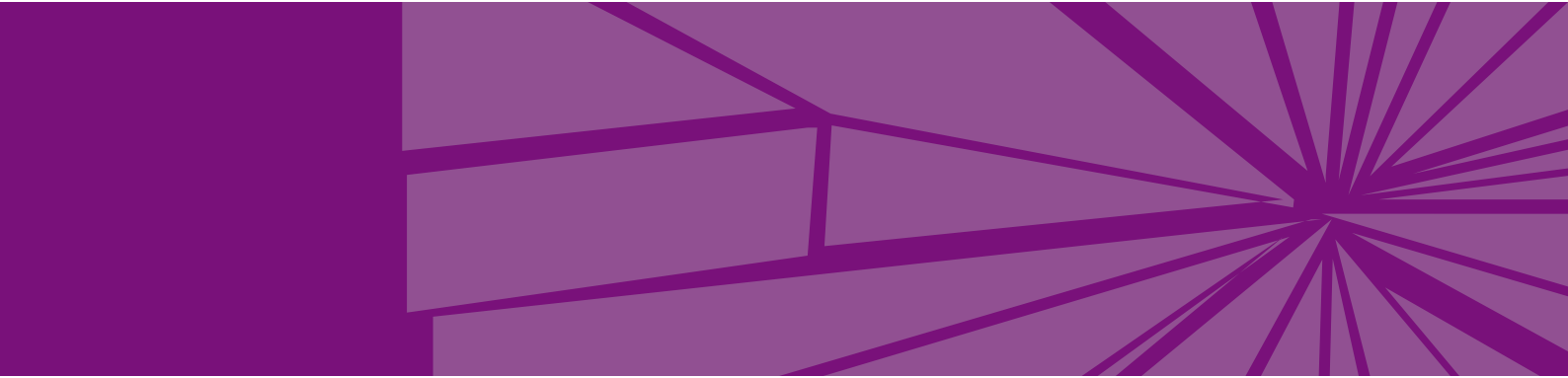


The cornerstone of strategic implementation is good project management (PM). While there are many formal PM techniques and structures, there are several common themes to all of them that management and staff can keep in mind to help ensure the project is delivered.

Firstly, everyone should be clear on the desired outcome. The advantage of structured thinking around position and options is that these outcomes, and the reasons they are being sought, should be obvious. But stating them clearly is a great way to ensure people understand what they're doing, why and how they are making a contribution.

Secondly, the route should be obvious. That means having a well articulated set of milestones. Short-term goals are much easier to understand than a major 'strategic vision', and having a series of milestones building to a final outcome ensures that the organisation will be well co-ordinated.

Thirdly, these milestones should also be defined by time. If a strategic option is designed as a reaction to a change in strategic position – highly likely in a recession – milestone deadlines are a way to ensure an important project does not slip. Closing a factory, for example, is a major decision that could cut costs. But once it's been made, any delays in implementation can drain so much cash that it becomes impossible to meet the original objectives of the decision.



Fourthly, each of the milestones and the overall project itself, need to meet pre-defined standards for quality and meet budgets set out in the plan. Again, these should be explicit.

Finally, and perhaps most importantly, there needs to be strong leadership and accountability both for the project as a whole and for each milestone. There should be a named manager and/or director responsible for their delivery.

This all enables the senior decision makers to undertake a continuous evaluation of their implementation. By adopting a disciplined and structured approach to implementation, they can always see where they stand against their long-term strategy, the position of the organisation and incorporate lessons for future strategic options.

Key questions for your organisation

- How well are the strategic options translated into activities to be undertaken? How might this process improve?
- What formal processes are in place to ensure key milestones are met? Are there outputs associated with the milestones (e.g. progress reports, drafts) so that progress can be effectively tracked?
- How effective is the feedback from project managers to decision makers? Are members of staff comfortable with passing up bad news?
- What scope do management have for addressing aspects of the project falling behind schedule or failing to meet other objectives?
- Do you have procedures in place to learn lessons – or do you keep repeating the same mistakes?

'The objective is to create a self-financing IT strategy, delivering tangible benefits in phase one to fund the roll out of phase two – and so on.'

From the front line

One of the most notable differences between this recession and the last one, in 1992, is that technology is everywhere. IT is now central not just for the back office functions, such as finance and operations. Equally, it is strategically important for customer relationships, marketing, sales and even HR. So continuing to implement IT strategies is crucial.

That's going to make it harder to cut back on long-term IT projects such as e-commerce, electronic billing and payments or human capital management. But according to Michael Eldridge, Commercial Director at SAP consultancy Bluefin Solutions, there is an alternative approach to implementation that can help during a downturn.

'Long-term projects can be broken down into discrete phases,' he says. 'The objective is to create a self-financing IT strategy, delivering tangible benefits in phase one to fund the roll out of phase two – and so on. This may require changes to the way in which the project is handled, but in many cases that's less disruptive than trying to freeze development work or surrender any of the proposed benefits of new functionality.'

This tactic can be applied to the implementation of many strategic options. So even when times are tight, strategic development need not come to a stop – and it can help ensure growth despite the economic backdrop.

HR

Positioning

What is happening to the pool of available skilled labour? How does our headcount compare to competitors? What's our relative productivity?

Options

How might a flexible working strategy help now and long term? Do the employees have ideas – such as reduced hours or alternative remuneration strategies?

Implementation

What's the quality of our employee communications? Is our appraisals system working effectively? Is all the data in our HR systems up-to-date and comprehensive?

Risk

How might employee morale be affected? What are the dangers of losing skilled or experienced staff in any 'headcount realignment'? How hard would those skilled staff be to recruit in good times?

6 Embracing risk

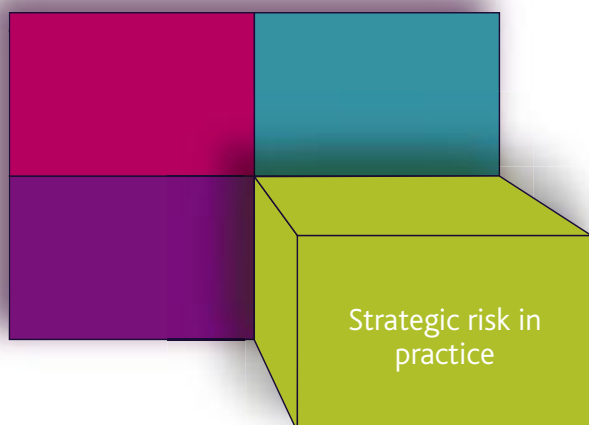
During periods of growth, identifying and assessing strategic risks – and formulating actions or options to deal with them – is one of the fundamental roles of the board. During a recession, sensitivity to these major risks is heightened.

The final aspect of the CIMA Strategic Scorecard™, strategic risk management, is perhaps the most important during turbulent times.

Strategy under stress is all about taking a thoughtful, disciplined approach to making major decisions, whether they're designed to adapt an organisation to a market in recession or position it to make the most of the inevitable upturn. Strategic positioning, planning and execution are all crucial to developing that clarity of purpose and ability to deliver. Organisations that are purely reactive to events – that don't identify and consider strategic risks created by a downturn – are much less likely to survive.

Risk management must be a core part of overall business strategy. By embedding a clear view of both downside and upside risks in any assessment of strategic positioning, options and implementation plans, it is much easier for the board to feel comfortable in their analysis and their subsequent decision making.

Many businesses are adept at planning for disasters such as flooding or a product recall – that is operational risks – but find it less easy to identify strategic risks that might affect their business model. While it is important not to inject undue pessimism into recession planning, it is also crucial that boards consider hard to imagine risks, that might fundamentally undermine their strategy.





There are three components to strategic risk management.

The first is, appetite for risk. In many organisations, this is never explicitly articulated – the mood or approach of board members tends to define whether or not the organisation is conservative or adventurous. During a downturn, it becomes much more important to discuss how this is affecting decision making. Many managers can become over cautious in a recession – partly as a reaction to over optimism and excessive risk-taking in the boom years. This often subconscious bias might mean the organisation loses sight of critical growth or survival strategies. This means that the board must find ways of maintaining a consistent approach to strategic risk.

The organisation should be clear on the risks it definitely will not take and why. It should have a clear idea of key thresholds for taking risks, perhaps using a proportion of capital it is prepared to put on the line for major investments. It should also be aware of the risk profile of competitors. This doesn't mean management should commit to higher risk levels – but a bold competitor may well seize market share or a product development advantage during a recession, leaving them dominant in the upturn.

Secondly, identification and evaluation of strategic risks and opportunities. This is implicit in the other strategic steps – it defines the type of information gathered to establish strategic position and creates sensible limits around the type and boldness of the strategic options that are under review.

It is important for the board to maintain a broad view of risks, incorporating the perspectives of a wide variety of stakeholders. Whether it's IT staff, shareholders, salespeople or suppliers, all sorts of people will have their own, unique view on how large the risks or opportunities are. Boards should also consider formal tools for understanding risk in their options. Scenario planning, decision trees, sensitivity analysis and a variety of software tools can help give a rounded view of risks. At times of economic stress, these processes and tools add valuable confidence around decision making.

It is important for the board to maintain a broad view of risks, incorporating the perspectives of a wide variety of stakeholders.

Thirdly, the risks around processes. The board should understand the strengths and weaknesses of the organisation to ensure that strategies can be undertaken successfully. For example, outsourcing a key function might be consistent with a long-term strategy to focus on core competencies. This might deliver reduced working capital and cash out, and it might be seen as low risk in terms of the reliability of the service partner. But if demoralised staff or a smaller management cadre are incapable of an effective handover, the risk of the decision becomes much higher.

Leadership and communication are vital. If the board and management are seen to be open-minded, constructive in their approach to risk and can instil those same qualities in staff, the concept of level-headed risk management is more likely to permeate the organisation and ensure that positioning, options and implementation will deliver useful results.

Key questions for your organisation

- Is the organisation's broad approach to risk well articulated and understood, allowing managers and staff to contribute more relevantly to the strategy processes? How has this changed due to the recession?
- Do we keep a formal register of strategic risks? Is each one regularly updated and assigned to a senior manager?
- How much time does the board spend scenario planning the emergence of these risks – particularly the most dramatic and least likely?
- How does our understanding of these risks and possible responses feed back into our strategic position, option evaluation and implementation processes?

'You have to understand the process in detail and ensure you follow it closely. And remember, sex and age discrimination claims are unlimited.'

From the front line

Many organisations will be considering headcount reductions as a response to poor trading conditions as the recession continues. Done properly – and in accordance with the strategic thinking outlined in this report – downsizing can be an effective response to the worsening economic climate.

But according to Kevin McCavish, a partner at the law firm Shoosmiths, many businesses fail to evaluate the risks around redundancy programmes with disastrous consequences. 'If the board puts together a 'hit-list' of staff it plans to let go, the consultation process can be shown to be artificial and employees will have grounds for an unfair dismissal claim,' he says.

'You have to understand the process in detail and ensure you follow it closely. And remember, sex and age discrimination claims are unlimited.'

While these are more properly defined as 'operational risks', they must be factored into strategic decision-making. Even the more passive approaches to reducing the wage bill, such as natural wastage, involve risks. It can be tempting to allow staff to leave, rather than fighting to keep them, when the overall objective is a smaller payroll. But if the organisation doesn't properly consider the risk of losing key or skilled employees, it can damage its ability to operate successfully, particularly when the upturn comes and the organisation faces much higher recruitment costs to fill the gaps.

Finance

Positioning

Are we clear on key finance metrics such as 13 week cashflow, cash in hand, balance sheet and profitability? What sources of additional finance remain open to us?

Options

Could we conduct sale-and-leaseback deals on major assets? Are the financial implications of strategic options thoroughly thought through?

Implementation

Do operational managers have enough direct contact with, and support from, skilled management accountants? Are the finance function's project management skills up to scratch?

Risk

How would we deal financially with the collapse of one customer – or several? How might bankers' changing attitudes affect our financial strategy?

7 Strategy as a saviour

We've already seen how strategic planning remains a crucial discipline under any economic circumstances – and that businesses with a strong framework for strategic assessment, planning and action will be best placed to 'stick to their guns' when circumstances change. But it's also true that most organisations will have to take corrective action during a recession.

Typically, action will centre around cutting costs and raising cash – reducing salaries, renegotiating contracts, selling assets, closing a plant, or even reorganising the entire business. Managers who make snap judgments about these decisions could be making a critical error.

According to the Deloitte research, a majority of companies' cost-cutting programmes fail to deliver the savings targeted by the board. In fact, half of all cost-cutting programmes are aimed at delivering incremental savings of less than 10% of costs – meaning that they are committing the cardinal sin: they 'aim low... and miss.'

Applying a cost-cutting mentality within existing strategies can deliver not only sustainable savings but also help advance strategic goals. For example, it's often assumed that cost-cutting and customer satisfaction – a common strategic objective – are mutually exclusive. But if there is an existing supply chain strategy in place, it makes sense to identify which processes are not directly related to improved customer relationships – then look to cut or refocus those activities.

'Companies can use the need for cost reduction to reconfigure the business so that it adapts to new market dynamics,' says Deloitte partner Simon Brew. 'Most 'cost out' decisions have limited effectiveness, but finding new efficiencies within existing strategic plans can deliver bigger, more sustainable savings. The key is to know what you want as the outcome.' That outcome should be in line with the broad strategic objectives already in place.

Even if a cost reduction programme is considered essential to survival, simply looking for percentage cuts across the business is likely to lead to a reduction in a business' competitiveness. So it makes sense to apply CIMA's more structured strategic planning approach to these programmes.

In terms of strategic position, look at competitors' cost structures and how they deploy their resources, as well as how markets are shifting, to highlight possible approaches and areas suitable for cuts. The board should have strategic options on cost savings available for debate – with any resource, regulatory and operational considerations fully thought through.



'Many functional heads have only experienced managing in a growing economy'

Implementation is possibly more important on cost-cutting strategies than any other area. Brew points out, for example, that boards often sign off on a cost reduction programme but fail to consider the practicalities for middle management. 'Many functional heads have only experienced managing in a growing economy, or they lose focus on the objective of the cost-cutting exercise,' Brew says. 'That creates a gap between the board's essential target for savings and their ability to deliver on the ground.'

And risk assessment is all important. For example, failure to analyse the legal risks associated with headcount reduction – the selection of employees to be made redundant is particularly fraught with dangers – can result in massive additional expense for the company.

A shrinking economy, poor trading conditions, disrupted markets and uncertain supply chains are all major threats to an organisation's survival. Taking a structured approach to managing these factors – and keeping an eye on the long-term strategy of the organisation – is the only way a business can make it through the recession.

Whether it's the organisation's strategy that is under stress, or whether a strategy needs to be formulated for managing during the recession, the CIMA Strategic Scorecard™ process is a valuable tool to instil confidence in the board – and ensure it makes smart decisions under pressure.

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**Chartered Institute of
Management Accountants**

26 Chapter Street
London SW1P 4NP
United Kingdom

T. +44 (0)20 8849 2275

F. +44 (0)20 8849 2468

E. innovation.development@cimaglobal.com

www.cimaglobal.com



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