

Ask A VR Intermediary



Erik Ottem, Owner
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Is There a Particular Model I Should Use for Budgeting My Business?

Sean McCloskey
Cape Coral, FL

Dear Sean,

The traditional command and control model was designed to execute a producer-led approach to business. The multi-divisional organization coped with increasing complexity by placing the activities of each distinct product line, region or technology into a separately managed compartment such as a business unit or division. Then you would subject all these compartments to the financial discipline of a strong corporate staff. The underlying thread through all of this was control.

The mission statement agreed on by senior executives was translated into the strategic plan by the planners and handed down the hierarchy to operational managers, who then prepared their plans and budgets. Once these were agreed on, all that was demanded was following the plan. Control reports were constantly fed back up the line where new directives would be issued if they showed that performance was going off track.

Changing Landscape Has Led to Changing Thinking

The command and control model worked well when market conditions were stable, competitors were known and their actions predictable. Relatively few people made decisions, prices reflected internal costs, strategy and product life cycles were lengthy, customers had limited choice and the priority of stockholders was good stewardship.

However, these conditions no longer apply. Today's competitive climate is far more uncertain, many people are required to make decisions, the pace of innovation is increasing, costs reflect market pressures, customers are fickle and stockholders are more demanding. To compete more effectively in the information economy, companies must transform their centralized, functional hierarchies into networks of relatively autonomous units accountable for customer outcomes. They must also break free from the incremental planning and budgeting mentality, and involve all their people in building a new platform for sustainable improvement.

The Devolved Leadership Model

The Devolved Leadership (or Beyond Budgeting) model is designed to overcome these barriers and create a flexible and adaptive organization. Unlike the Command and Control model, Devolved Leadership works with, not against the best side of human nature; it is suitable for post-industrial knowledge-based organizations; it supports the success factors that must be met in highly competitive business conditions, and it is also consistent with cybernetics and systems theory—the most relevant management science. Twelve principles provide managers with a robust, albeit empirical framework for evaluating where their organizations stand today, and guiding them toward an alternative management model.

Principles of the Devolved Leadership model

Leadership principles

1. **Customers.** Focus everyone on improving customer outcomes, **not** on hierarchical relationships.
2. **Organization.** Organize as a network of lean, accountable teams, **not** around centralized functions.
3. **Responsibility.** Enable everyone to think and act like a leader, **not** merely follow “the plan.”
4. **Autonomy.** Give teams the freedom and capacity to act; **don't** micromanage them.
5. **Values.** Govern through a few clear values, goals and boundaries, **not** detailed rules and budgets.
6. **Transparency.** Promote open information for all self-management; **don't** restrict it hierarchically.

Process principles

1. **Goals.** Set relative goals for continuous improvement; **don't** negotiate fixed performance contracts.
2. **Rewards.** Reward shared success based on relative performance, **not** on meeting fixed targets.
3. **Planning.** Make planning a continuous and inclusive process, **not** a top-down annual event.
4. **Controls.** Base controls on relative indicators and trends, **not** variances against plan.
5. **Resources.** Make resources available as needed, **not** through annual budget allocations.
6. **Coordination.** Coordinate interactions dynamically, **not** through annual planning cycles.