

Excerpt from

Gartner Business Quarterly

Proven Guidance for C-Suite Action

Guide the Business to Realign Operations As Strategic Priorities Shift

by Samantha Panchèvre

In times of turmoil, CFOs may fail to make a difference even if they wrestle funding away from uses of capital that are fast losing value and surge large amounts to newly important initiatives.¹ Capital pivots won't work unless the people, technology and other capabilities that spending supports also flow to support execution (see Figure 1). That kind of realignment is rare; only 32% of finance chiefs say their organization's operational budgets are highly responsive to changes in strategic priorities.²

1 Excerpt from Gartner Business Quarterly 2Q22

Inertia is more pronounced for operational resources because 71% percent of business leaders have a high degree of autonomy over the budget for their business unit (BU); finance can't decree its way into bringing operations in line with new enterprise-level capital moves.³

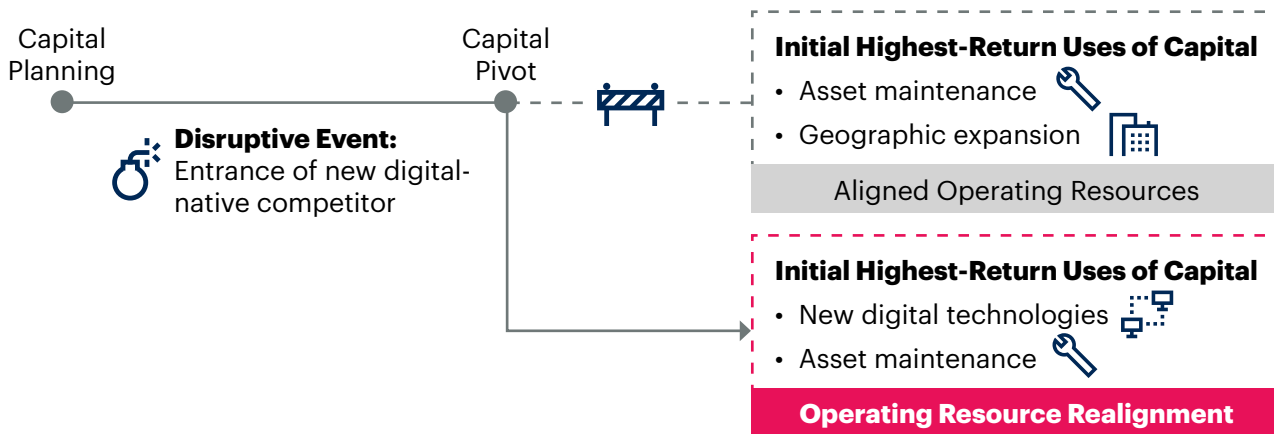
Instead, CFOs should start by fixing some BU-level visibility problems – particularly in the case of willing business leaders who want to reallocate their resources but cannot make trade-offs if they don't know when capital shifts occur, what's required from their units, or have a true picture

of available capacity. If business leaders are unwilling to reallocate their resources, CFOs should start with realigning compensation incentives.⁴

Therefore, finance teams must actively and continuously help build understanding – and influence a change in direction when that's necessary. Finance may need to enlist other functions such as HR in those efforts.

Don't let a lack of operational resources starve a newly funded initiative. The following tactics can encourage the business to keep up as strategic priorities rise or fall in importance.

Figure 1. How Disruptive Events Trigger Operational Resource Realignment



Source: Gartner

Recommendation 1: Show Business Leaders the Role They Should Play

Don't overlook this crucial step. Spell out which capital shifts are likely to affect BU operations.

Provide-context to business leaders for each strategic pivot, including:

- Disruptions
- Market changes
- Enterprise outcomes the organization wants to achieve

Recommendation 2: Help BUs Track Skills Rather Than Job Titles

People costs are the biggest line item for most companies, representing about two-thirds of total spend. To manage talent resources more flexibly, some organizations group employees by skills rather than job titles.

In this case, HR should lead the charge, working with business leaders to assess their personnel's hard and soft skills as well as personal motivations. Next, either the function or BU managers should catalog these capabilities (methods for doing that include digital badges on employee profiles, skills matrices or specialized software). Rather than relying on a general view of headcount or hiring new talent based on rigid job descriptions, this process gives managers enough information to place the right people on the right projects at the right time.

For instance, Ofwat (the U.K.'s Water Services Regulation Authority) organizes people into "resource pools," which let program managers choose people to apply skills even if their usual role wouldn't normally be assigned to the initiative.⁵ As one program manager explained in 2016, an employee has "the ability to put your hand up to work on a particular program or project whereas in the past you might not have known about it." If skills and needs don't mesh, the employee gets feedback on how to develop for future assignments.⁶

Recommendation 3: Sort Operational Spend Into Strategic Categories

FirstRand, a South African financial services provider, overhauled its budgeting process to improve visibility into how BUs are allocating resources toward strategic objectives.

FirstRand shared with us in 2020 how its FP&A team defined four categories for BU expenditures in a way that highlighted their strategic nature:

- Business as usual — Resources needed to maintain the current level of operations
- New products and segments — Resources needed to increase sales and market share
- New initiatives — Resources essential to improving competitive position
- Synergistic benefits — Opportunities to collaborate with other BUs to reduce redundant efforts and cut duplicate costs

Additionally, FirstRand used a dual bottom-up and top-down process to collect new information about budgets.

During the bottom-up recalibration, BUs that shared certain traits (the same brand, for instance, or similar back-office technology) would create one budget that optimized limited resources among them based on each unit's specific costs, risks and opportunities.

Next came the top-down recalibration. After receiving the improved budgets, senior executives looked across business unit clusters to make resource allocation trade-offs that inflect growth at the portfolio level.

During frequent budget updates, FirstRand's system revealed opportunities for collaboration among BUs and excess funds that could be reallocated to fuel growth.⁷

Recommendation 4: Educate All Levels of the Business About Resource Trade-Offs

Finance leaders often have a wider view of the enterprise than business leaders do. The finance team at ResMed, a U.S.-based medical device manufacturer, coached business staff to understand how operational resourcing decisions affect enterprise-level strategic priorities.

ResMed shared with us in 2018 the way it influenced operations managers indirectly: from the ranks below. In two-hour sessions that finance facilitated each quarter, junior business staff learned how to think about decisions on a systems level — that is, how they fit into the company's strategy and business model, and how they affect shareholder value.

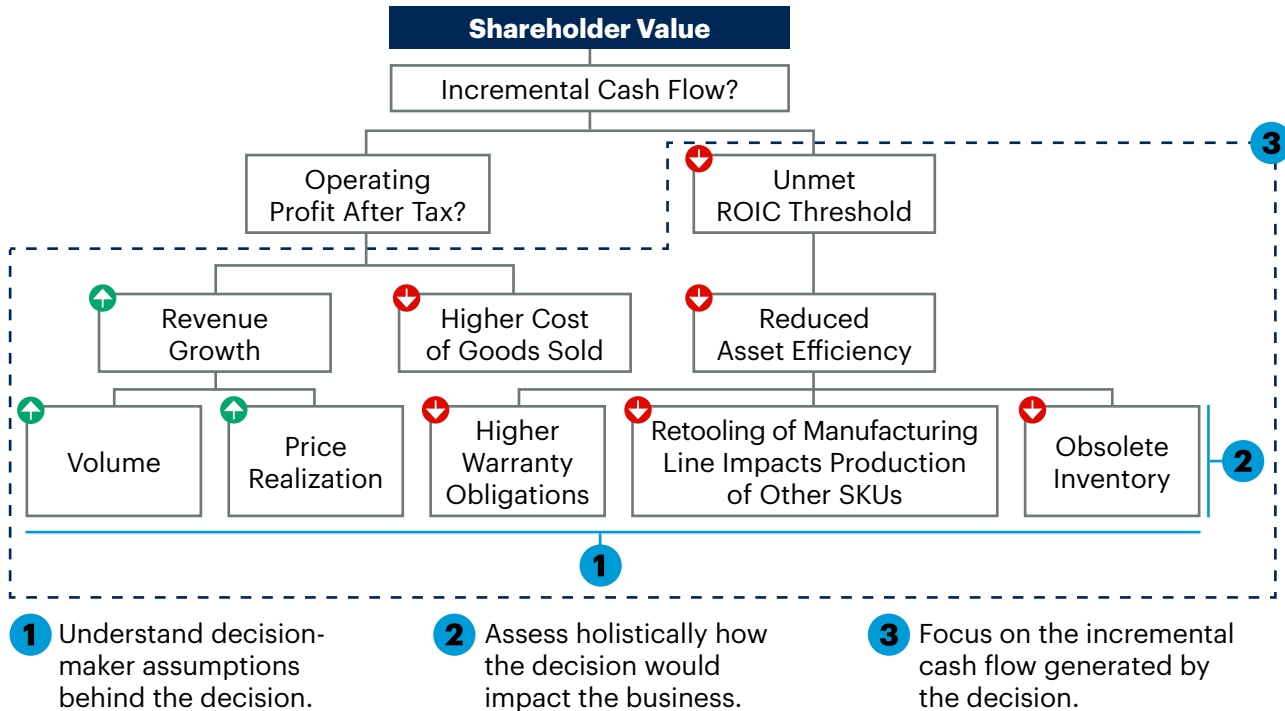
During the workshops, finance offered frameworks to understand the business as a cohesive whole, including its different strategic time frames, as well as the structure and vital elements of its business model.

To show the causal chain between operations and financial performance, ResMed mapped types of operational decisions to elements of shareholder value. Next, to make the operational-financial link personal for participants, the finance team traced the ultimate goal of shareholder value through levels of financial metrics with positive or negative effects on cash flow. It all came down to operational resourcing decisions that involved the staff at the workshop and their managers (see Figure 2).

If the value map activity revealed a net-negative cash flow impact, the operational resourcing decision in question should be scrutinized in light of recent disruptions or changing business assumptions. Finance could partner with the business to help reallocate the operational resources in question to a new strategic priority.⁸

Figure 2. Operational Decision Example

↑ Positive impact
 ↓ Negative impact



Source: Gartner

¹ From [Why CFOs Need to Act Like Activist Investors](#), where we define capital responsiveness as the ability, in the face of changing business conditions, to:

- Quickly shift capital to new high-value uses.
- Quickly shift capital away from new low-value uses.
- Make significant, rather than incremental, changes to where capital is allocated.

² 2021 Gartner CFO Capital Allocation Survey; n = 100 CFOs.

³ 2020 Gartner Budget Owner Survey; n = 505.

⁴ To learn more about aligning performance incentives, see: [How to Shift Leaders to a Company-First Mindset](#) (also included in the 3Q21 issue of Gartner Business Quarterly)

⁵ Ofwat. "How We Work."

⁶ Ofwat. "Giles talks about programme-led working at Ofwat." YouTube video, 2 minutes and 58 seconds. May 19, 2016. <https://www.youtube.com/watch?v=ZNkh48SMOoO>

⁷ To learn more about this case, see: Case Study: [Strategy-Guided Budgeting \(FirstRand\)](#)

⁸ To learn more about this case, see: [ResMed: Coaching Operations Staff About Shareholder Value](#)

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