Integrated Performance Management (IPM)

Driving strategy, engaging workforces

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1 Foreword

In 2021, AICPA® & CIMA®, together as the Association of International Certified Professional Accountants, and the World Business Council for Sustainable Development (WBCSD) published *Reimagining Performance Management*, the first significant output on our journey to explore how performance management must evolve to respond to present-day business challenges. In that research report, we found that businesses across the world are struggling with performance management because there is a disconnect between strategy, operations, performance, incentives, and people. We identified that leaders grapple with the complexity of connecting team and individual objectives with strategic organisational objectives. Our analysis confirmed that leaders need to actively and purposefully blend strategy, performance, and incentives within a new culture of performance and aspiration.

Fast forward to 2023's global landscape that reaffirms our view that businesses must look beyond traditional ways of managing performance. The unprecedented pace of regulatory change and a shift from voluntary to mandatory reporting on sustainability and environmental, social, and governance (ESG) matters, coupled with increasing stakeholder pressures on companies to deliver positive financial returns alongside positive sustainability performance, confirms that people are at the heart of both system and business transformations.

This second report continues our journey to evolve how businesses and individuals approach and implement performance management. We have developed an Integrated Performance Management (IPM) framework that builds on established good practice, which we hope will guide businesses on a journey that leads to a more inclusive, holistic way of managing performance through improved workforce engagement with strategies.

This new Framework is designed to guide companies towards achieving their strategies and objectives, including sustainability or ESG objectives, by maximising the positive impact that people can have on their business model and long-term value creation. The Framework will help businesses integrate relevant ESG factors into their organisation's management information, decision-making, and resource-allocation processes. And perhaps most importantly, the Framework will help foster a workforce that is engaged with strategy, performance, and purpose.

This report marks a significant milestone towards IPM. With this momentum, we will continue to work collectively and collaboratively to drive organisational change at scale. We are committed to supporting our members and the profession on the path to IPM by developing implementation guidance, training resources, and continuing professional development tools.

We invite businesses to start their journey towards IPM so they can succeed in managing performance in a volatile, uncertain, complex, and ambiguous world.

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2 Context

Phase 1 of the IPM project developed by AICPA & CIMA and WBCSD confirmed that businesses continue to struggle with decision-making and strategy execution. Previous research had indicated that 70%–80% of companies fail to realise the full potential of their strategies and that there was a general lack of understanding of, and connection to, strategy.[1] Embarking on Phase 1, we also assumed that companies were predominantly focused on financial capital. Accordingly, our hypotheses were (1) that few businesses thoroughly integrate relevant capitals in ways that create an understanding of how value is created or destroyed (and influence decision-making) and (2) that human capital is the capital that drives the value (positively or negatively) of all the others.

As noted, our Phase 1 research highlighted that employee engagement and multi-capital strategy execution continue to be problematic. Ongoing barriers to success that the research identified include the following:

- Companies continue to struggle with employee engagement and empowerment.

- The achievement of a clear line of sight between team and employee activities and strategies that fosters trust in devolved decision-making and accountability for results continues to be challenging.

- The widely practiced process of annually cascading of strategic objectives down to teams and individuals is bureaucratic and often limited by a lack of cooperation and coordination, usually due to a prevailing silo mentality.

- This silo mentality also impairs resource-allocation decisions, including the funding of innovative initiatives.

- Incentives at higher levels of the organisation are well-aligned with the overall success of the business, but this alignment weakens lower down in organisational power hierarchies.

- Despite the emphasis placed on connecting people performance with enterprise performance and on cooperation and coordination, in most businesses, finance and human resources (HR) work in separate silos where finance is largely responsible for business performance management and HR is responsible for people performance.

- Although the information used for management decision-making aligns well with information provided to governance, challenges associated with nonfinancial data, especially environmental and social issues, remain.

In addition, emerging pressures are changing the way business leaders need to think about managing the performance of their organisations:

- **There is a growing expectation for businesses to integrate both financial and nonfinancial capital into their strategies.** This includes setting net-zero ambitions and demonstrating progress towards being nature positive, as well as other ESG objectives.

- **Consumers are increasingly aware of sustainability and ESG issues and want to interact with businesses that share their values and concerns.** Businesses must review their operating models to meet changing expectations.

- **Businesses are coming under increasing pressure to report on their impacts and dependencies on material issues across multiple capitals.** Much of this pressure is coming from investors, as well as other stakeholder groups, and is being translated into accounting standards and regulatory requirements.

- **As shareholders are becoming more sensitised to these factors, boards are positioning their businesses to meet shareholder expectations.** At the same time, shareholders want their businesses to be profitable and to generate free cash flow and

survive and thrive over the long term. Increasingly, they know that profit and free cash flow are outcomes of the effective, economic, and sustainable use and production of non-financial capital.

▸ **The global regulatory and standard-setting landscape is rapidly evolving,** which is placing additional requirements on businesses to manage and disclose across a range of ESG factors.

— In June 2023, the IFRS® Foundation's newly created International Sustainability Standards Board launched its first two standards, IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*, and IFRS S2, *Climate-related Disclosures*, which are intended to be the first step in the development of a global baseline for sustainability reporting.[2]

— Regulatory bodies around the globe have been actively formulating and mandating disclosure requirements. In the UK, a host of reporting requirements are in place, including the Financial Conduct Authority (FCA) rule for climate disclosure by large, listed companies. In the US, the Securities and Exchange Commission (SEC) has developed an extensive plan entitled 'The Enhancement and Standardization of Climate-Related Disclosures for Investors'.[3] Similar disclosure requirements have been, or are being, imposed in other major capital markets around the world.

— Perhaps most notably, in the European Union (EU), the Corporate Sustainability Reporting Directive (CSRD) requires all companies that access the European market to report according to the European Sustainability Reporting Standards (ESRS) using a double materiality perspective. This requires not only consideration of the effect of sustainability issues on the enterprise, often referred to as the 'outside in' view, but it also

requires that companies take an 'inside out' view, assessing the impact that the organisation has on the environment, society, and the economy.[4] Furthermore, the EU Corporate Sustainability Due Diligence Directive (CSDDD) is likely to mandate that companies with more than 250 employees conduct and disclose climate neutrality transition plans in their long-term corporate strategies and link them to the remuneration of company directors.[5]

These factors complement the rationale for the second phase of the IPM project. Today, businesses need to adapt to a world where success is no longer solely measured through financials. Organisations need to respond to growing expectations to generate returns for shareholders and create long-term value for other stakeholders, including customers, employees, suppliers, and communities.

Businesses can thrive amid this changing landscape by enhancing long-term resilience and by assessing, adapting to, and mitigating emerging risks. This increased complexity for businesses, set against our Phase 1 findings that businesses are struggling to integrate relevant non-financial capitals into their decision-making and to fully release the potential of their workforces behind their strategies, sets the scene for our focus in Phase 2 of this study.

3 IPM Phase 2 — Rethinking performance management

Based on the findings from Phase 1, the ambition of Phase 2 of the IPM project was to rethink performance management and develop an IPM framework to engage workforces with strategy and create a performance-oriented culture, leading to resilient, sustainable, and innovative businesses.

As noted above, there are many emerging pressures on businesses and the world has changed significantly since AICPA & CIMA and WBCSD published IPM Phase 1 findings in 2021. It is now estimated that up to 90% of company value is represented through intangible assets,[6] meaning that value is no longer measured by physical assets but through the thoughts, experiences, and expertise of people. Success happens through talented, purposeful workforces who are engaged with their work and aligned with their business's aims and objectives. It is this intangible value that the IPM framework seeks to harness, preserve, and optimise.

To triangulate the evolving landscape with Phase 1 findings and Phase 2 ambitions, additional research was undertaken to explore how businesses are responding to this evolving landscape and explore any implications for the development of an IPM framework. Interviews were held with 25 executives from major companies, 7 round-table discussions were hosted with over 50 participants, and a steering group of WBCSD member companies was established.

The interviews and round-table discussions encompassed a range of questions and topics including the perception of ESG in the participants' enterprises; strategy, risk, and governance considerations; and operational elements such as how ESG was embedded into the organisation, culture, goal alignment, and incentive arrangements. The findings from the interviews and steering group supported the development of the Framework, and summaries from these discussions can be found throughout this document.

4 Overview of the IPM framework

The IPM framework is designed for senior business executives, particularly those actively involved in strategy execution, finance, and sustainability, to inspire them to transition their organisations to focus on strategy execution and challenge existing thinking on how performance is assessed and managed. The Framework is applicable to organisations of all sizes, in all sectors, and in all regions of the world. However, the timeframe and complexity of implementing the IPM framework will depend on individual organisational circumstances and aspirations.

The IPM framework provides a roadmap for implementing a performance management system aligned with the organisation's purpose and values. The Framework embraces multi-capital, multi-stakeholder, long-term value-creation principles and places the workforce at its centre.

The objectives of this Framework are as follows:

- Guide companies in achieving their strategies by maximising the positive impact of human capital on the functioning of the business model and long-term value creation.

- Support companies in adopting a multi-capital approach to execute strategic objectives and create greater clarity on who is responsible for achieving those objectives at every level of the organisation.

- Help businesses incorporate relevant ESG factors from their strategies into their organisation's management information, decision-making, resource allocation, and performance management processes.

- Develop a culture aligned with the organisation's purpose, values, and strategic objectives and to create a workforce engaged with strategy.
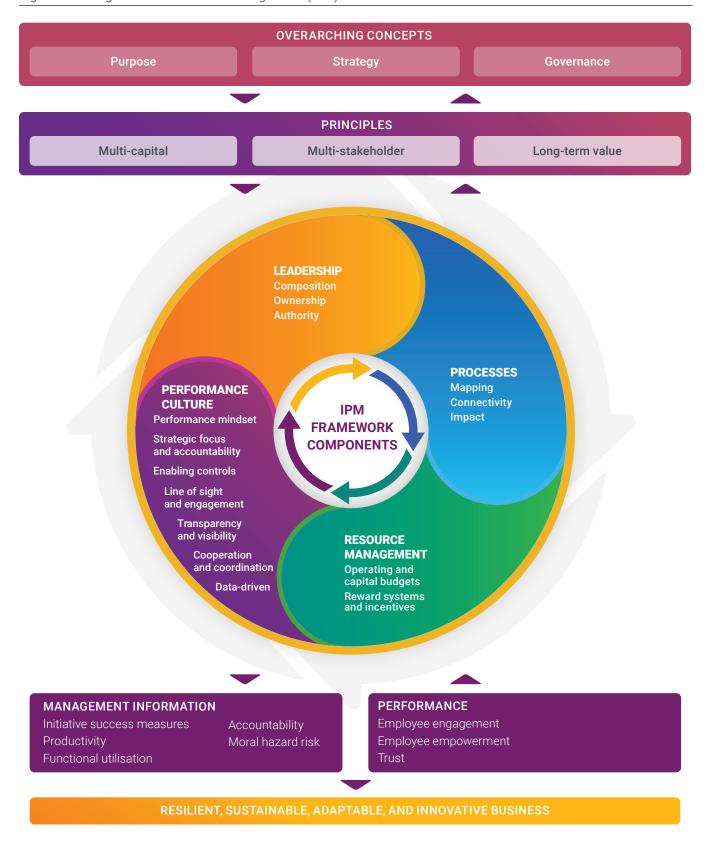
- Make incentives meaningful and motivational for individuals at any level by better connecting individual and team performance with corporate performance, strategy, and purpose.

The IPM framework (figure 1) includes the following:

- **Overarching concepts** — The IPM framework focuses on strategy execution and refinement founded on a clear, defined organisational purpose, a robust strategy, and effective corporate governance.

- **Principles** — The IPM framework embraces multi-capital, multi-stakeholder, and long-term value-creation principles. It provides mechanisms for continuous feedback on the performance of strategies and supports the refinement of strategies to deliver value creation for a broad range of stakeholders.

- **Components** — The IPM framework includes components related to leadership, culture, resource management, and processes. The Framework requires ongoing and cyclical application with each component providing feedback loops on the execution of strategy.

- **Management information and performance** — The IPM framework components facilitate the provision of management information that drives insights into effective strategic execution. It helps drive performance by engaging and empowering employees and building trust.

The IPM framework is also supported by an IPM maturity model (chapter 8), which provides guidance on transitioning from traditional performance management to an IPM approach.

Figure 1 — Integrated Performance Management (IPM) Framework

OVERARCHING CONCEPTS

| Purpose | Strategy | Governance |

PRINCIPLES

| Multi-capital | Multi-stakeholder | Long-term value |

IPM FRAMEWORK COMPONENTS

LEADERSHIP
Composition
Ownership
Authority

PROCESSES
Mapping
Connectivity
Impact

PERFORMANCE CULTURE
Performance mindset
Strategic focus and accountability
Enabling controls
Line of sight and engagement
Transparency and visibility
Cooperation and coordination
Data-driven

RESOURCE MANAGEMENT
Operating and capital budgets
Reward systems and incentives

MANAGEMENT INFORMATION
Initiative success measures
Productivity
Functional utilisation
Accountability
Moral hazard risk

PERFORMANCE
Employee engagement
Employee empowerment
Trust

RESILIENT, SUSTAINABLE, ADAPTABLE, AND INNOVATIVE BUSINESS

4.1 Overarching concepts: Purpose, strategy, and governance

The overarching concepts of the Framework are purpose, strategy, and governance. These elements should be considered prerequisites for any business wishing to successfully transition to an IPM approach. There are many existing resources to support companies in developing purpose statements, strategies, and effective corporate governance, so guidance on these concepts are beyond the scope of this Framework.

However, these overarching concepts are imperative for several reasons:

▶ **Purpose** — A purpose statement expresses what an organisation and its employees deliver for its other stakeholders (customers, suppliers, shareholders, communities, and other interest groups). A meaningful and memorable corporate purpose defines why a business exists and can be an invaluable tool in guiding decision-making and creating a performance culture. The IPM framework provides for translating corporate purpose into meaningful statements for every level of business operations.

▶ **Strategy** — Strategies set the priorities and direction of the business. Taking a multi-capital approach involves adopting a strategic focus that expands the breadth of strategic objectives beyond results that prioritise short-term financial capital and operational or functional excellence. A lack of connection and understanding of organisational strategy is a significant barrier to success. It is important for strategies to be consistently understood at all levels of the organisation. The better employees understand the strategies and the connectivity with their roles, the more engaged they can become. Central to the IPM framework is the integration of these concepts into every level of business operations, bringing them to life for people everywhere in businesses.

▶ **Governance** — Governance is how purpose and strategy are embedded, owned, and managed within a company. A strategic focus that embraces a multi-capital perspective requires rethinking how an organisation is governed. Governance also encompasses how organisational performance is assessed, investments are made, and strategic challenges and opportunities are discussed.[7]

The IPM framework focuses on the visibility of performance management processes, a key responsibility of audit committees. In addition to being a key component of governance, enhanced risk and opportunity awareness is a byproduct of increased engagement with strategy. Ongoing performance conversations in a risk-aware environment create feedback loops that can mitigate risks, create new opportunities, identify strategic innovations, and drive performance. The IPM framework integrates operational risk management with initiatives at all levels in businesses.

Phase 2 findings of good practice — Integrated ESG into strategy and governance

Participants in Phase 2 research highlighted several practices they had undertaken to integrate ESG or sustainability ambitions into company strategy and governance processes. These included the following:

- Leveraging the materiality assessment to develop a broad understanding of emerging ESG issues and using this process to prioritise actions on high-impact topics

- Creating a 'sustainability board' to act as a stage gate to ensure all projects were tied back to strategy and aligned to ESG goals

- Leveraging the internal audit department as a vital business partner in assessing how strategic objectives, including ESG objectives, align with operational management information and decision-making processes

- Ensuring that not too much emphasis is placed on specific ESG risks (such as climate change and decarbonisation) to the detriment of other ESG risks (like staff engagement, well-being, and empowerment), which highlights the importance of thinking holistically, ensuring capital allocation reflects commitments and potential impact

- Developing information flows up and down the organisation to ensure that ESG commitments are being met at both strategic and operational levels, which allows leaders to review whether commitments are understood across the organisation and reflected in practices at all levels of the business

4.2 Principles: Multi-capital, multi-stakeholder, and long-term value

The IPM framework embraces three principles that organisations should adopt when transitioning to an integrated performance management approach. These are as follows:

▶ **Multi-capital** — A multi-capital approach endeavours to identify all the major resources (capitals) a company relies on to fulfil its purpose, support its business model, and deliver on its strategy. Considerations may include accounting for environmental and social impacts, considering aspects of planetary boundaries and social thresholds in decision-making, and identifying non-substitutable impacts, for example, where negative environmental impacts cannot be compensated for with positive impacts.

▶ **Multi-stakeholder** — A multi-stakeholder approach recognises that organisations create value for a wide set of stakeholders: shareholders, employees, customers, suppliers, communities, and governments. Considerations may include balancing the interests of different stakeholder groups and examining the power and influence of different stakeholder relationships. For example, shareholders prefer predictable, stable, and competitive returns but decisions taken for short-term gain can have consequential adverse impacts on longer-term business prospects and other stakeholders.

▶ **Long-term value** — Ultimately, the long-term success of any business depends on thriving societies to trade with and a healthy planet for us to exist on. ESG and sustainability factors are already forcing businesses to consider their impacts and develop strategies to continue to enhance long-term shareholder and other stakeholder value by integrating such material externalities into their thinking about long-term business success.

This IPM approach aligns with the concept of integrated thinking, which the International Integrated Reporting Council (IIRC) defines as 'The active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation, or erosion of value over the short, medium, and long term'.[8]

5 IPM framework components

To the extent that businesses are purpose-driven and are integrating multi-capital, multi-stakeholder factors into their strategies, the Framework components enable businesses to better engage workforces and to execute their strategies through productive, strategically focused operations. The Framework components address the following:

▸ **Leadership** composition, ownership, and authority options for increasing focus on strategy

▸ **Processes** to map and identify connectivity between strategies and business activities, processes, and projects

▸ **Performance culture** to facilitate the ongoing engagement with strategy and the application of the IPM components in the organisation

▸ **Resource management** to highlight how connectivity between strategies and business activities can improve operating and capital budget allocation processes and the effectiveness of reward systems and incentives

Each component will be further discussed in the subsequent sections.

5.1 Leadership: Composition, ownership, and authority

Most critical to an IPM approach is a shift in the 'power hierarchy' of the organisation. This involves shifting responsibility, authority, and ownership of strategic initiatives to affect the balance of focus of the organisation between functional excellence and strategic execution. However, the IPM framework has been designed to be applied to varying approaches to strategic responsibility, ownership and authority. Literature highlights that major leading high-tech firms have started to consider significant changes in power hierarchies and are transitioning to becoming more project-oriented organisations like the integrated model.[9]

The following summarises the differing characteristics of leadership authority and ownership of strategic objectives:

▸ In 'traditional' organisations, the primary focus of leadership is on functional excellence. The executive leadership team owns strategic objectives; functional expertise is valued over strategic expertise and authority resides with functional executives.

▸ In an 'evolving' organisation, strategic objectives are owned by functional executives with both functional and specific strategic responsibility (dual citizenship). We characterise this as a form of a 'weak matrix' (appendix B) of functional and strategic responsibilities, where responsibility for strategic initiatives and accountability for their success is balanced with functional responsibilities.

▸ An 'advanced' organisation continues to have functional executives who own strategic objectives and receive input from strategic programme owners, where these exist. Overall authority continues to reside with functional leadership. We characterise this as a stronger form of a weak matrix of shared functional and strategic responsibility, but where authority is balanced by input from dedicated owners of strategic initiatives.

▸ In a fully 'integrated' organisation, the relationship between leadership authority and ownership of strategic objectives is flipped. Authority resides with strategic leaders, strategic objectives are owned by Strategic Executive Officers (SEOs), and strategic objectives are built out with functional expertise being provided on a 'supply and demand' basis. We characterise this as a strong matrix, where authority, responsibility, and accountability rest with SEOs.

There is no 'right' way of assigning ownership of strategic objectives at the executive leadership level. Organisations must find an approach that works best for their particular needs and objectives. However, the IPM maturity model (chapter 8) provides a summary of options to help executives think about what might best work for their business.

Givaudan — Governance and reward system

Our purpose, 'Creating for happier, healthier lives with love for nature. Let's imagine together', is at the heart of everything we do.

It is our guiding star to drive sustainable growth and is embedded within our business strategy, which sets the roadmap to achieve ambitious financial targets while progressing on our longer-term ESG ambitions linked to our purpose. Our governance structure is the cornerstone that allows us to be a successful, sustainable business.

The strategy, including ESG aspects, is set and overseen by our board of directors, who discuss selected ESG topics in their meetings.

Our executive committee (EC) is responsible for the strategy's implementation, including ESG ambitions. The EC agenda includes discussion of progress and decisions linked to the strategy and ESG aspects.

The Sustainability Leadership Team (SLT), a team of internal experts on key ESG topics led by the Global Head of Sustainability, supports the EC. The SLT supports the business and functional leaders in reaching relevant ESG ambitions. Business and functional leaders integrate the ESG ambitions into strategic plans and allocate resources to deliver our business and ESG agenda.

Our compensation policies are an essential component of this strategy and a key driver of organisational performance. Our Performance Share Plan (PSP) rewards executives and selected top management (top 500 employees) who significantly influence the long-term results of the business and our purpose ambitions through the award of performance shares.

Since 1 January 2021, the financial metrics of sales and free cash flow, previously used to calculate the PSP awards, have been complemented by nonfinancial ESG metrics linked to our purpose, as follows:

- 80% financial targets (sales and free cash flow)

- 10% environmental targets (net greenhouse gas emissions reduction)

- 10% social targets (employee safety and diversity of senior leaders)

All the financial and nonfinancial metrics used in the PSP are rigorously measurable and audited.

Case example provided by Givaudan.

5.2 Processes

The IPM framework involves a three-step process for identifying and clarifying the relative influence that various strategic initiatives have on the achievement of organisational strategies (figure 2). In the context of this Framework, initiatives encompass the broad range of activities, projects, and processes that contribute to strategic success.

Figure 2 - Three-step mapping process

1 MAPPING	2 CONNECTIVITY	3 IMPACT
Identify the strategy that each initiative supports.	Identify initiatives that are connected.	Assess supporting initiatives' relative impact on strategy

This three-step process proposes that companies establish connectivity between all initiatives within strategies and each initiative's relative impact on connected initiatives within each strategy, as follows:

1. **Mapping initiatives to strategy** — Mapping is the process of identifying the strategy that each initiative relates to or supports.

2. **Connecting initiatives to other supporting initiatives** — Connectivity involves identifying the relationship between initiatives. For example, if one of the business strategies is 'achieving net zero by 2035', some supporting initiatives might be 'carbon accounting', 'offsetting', or 'engagement of suppliers and other stakeholders', to name a few. This connectivity may be on a one-to-one basis or one-to-many basis, where initiatives may support other initiatives, and would be expressed as a Boolean (true/false) value.

3. **Assessing impact** — Assessing impact includes the evaluation of a supporting initiative's influence on the success of the initiative it supports and coming to agreement about this impact in relation to other supporting initiatives that are connected to the same initiative. This impact is expressed as a percentage.

These foundational concepts are key to engaging employees with discussions on strategy. Establishing connectivity between initiatives enables conversations between connected initiative owners about the impact (or contribution) these initiatives have on the execution of strategy and value creation.

The three-step process addresses common challenges raised by leaders in both Phase 1 and Phase 2:

▸ **More effective resource allocation** (see illustrative example at appendix A) — Connecting initiatives and assessing their impact should allow for

more effective resource allocation, reducing redundancies, and identifying activities that may not be contributing significantly to strategy execution.

▸ **Improved accountability** — Connectivity creates a 'line of sight' that improves accountability at all organisational levels. Every initiative should support, or be supported by, at least one other initiative within a strategy. This also enables managers to understand how their roles connect with strategic execution and how their contributions impact organisational results. When this connectivity is implemented at the organisational level, accountability for

strategic performance, costs, and returns are determined and enforced within the context of a matrix of connected initiatives. At the employee level, this connectivity translates to individual and team goals related to strategic objectives. This is critical for managing performance and fostering the desired engagement with strategy.

The improved line of sight, engagement, and accountability gained from this three-step process helps make incentives meaningful and motivational at any organisational level.

Potential challenges identified include the following:

▸ **Multiple initiatives across strategies** — One challenge with establishing connectivity between initiatives is an initiative connecting with multiple other initiatives, possibly across multiple strategies. In such situations, conversations would be needed to resolve the complexity between the affected initiatives and strategies. This could lead to simplification and prioritisation decisions.

▸ **Granularity** — Another challenge is the level of granularity that this process could lead to. On the one hand, the democratisation of decision-making implicit in the process, coupled with the empowerment that this process enables, makes granularity an issue that can be resolved at the appropriate level within strategies. Alternatively, leaders may wish to limit the level of granularity by agreeing to a connectivity target appropriate to the level of desired connectivity.

To assess the performance of initiatives, the IPM framework proposes that each initiative has attributes as set out in table 1, 'Initiative attributes for IPM,'

of this section. These attributes, which include ESG factors, allow the value that each initiative generates to be discussed and better understood, driving wider engagement with strategy.

An initiative might have ESG measures and targets as well as financial and other operational measures and targets. Any trade-offs between these targets are aligned with and agreed within each strategy. Measures and targets for all relevant capitals, and representatives of all relevant stakeholders, are integrated into each initiative, as agreed at the planning stage. Conflicts that might arise during the execution of initiatives are discussed, compromises agreed, and results reported so that these are visible to the wider business.

An initiative's attributes should be recorded (phased) over relevant accounting periods to monitor performance over time. This is especially important where there is a significant time lag between resource allocation and the benefits accruing to the initiative.

Table 1 — Initiative attributes for IPM

Attribute	Comment
Initiative ID/code	A unique identifier.
Name	The name of the initiative.
Narrative	Description of the initiative, including how it fits with the purpose of the organisation and why it should be resourced.
Values statement	A statement on the values and expected behaviours of initiative team members.
Strategy	The strategy the initiative supports (mapping).
Initiative owner	Initiative owners may change over time, which should be recorded to ensure that results and owners are linked.
Finance business partner	Supports conversations between initiative owners.
Cost	Phased over accounting period.
Revenue	Phased over accounting period.
Output or control measures	In addition to operational output measures, other measures could include, for example, ESG measures.
Targets	Phased over accounting period.
Risks	Description of the risks associated with the initiative.
Risk indicator	If there is an indicator (measure).
Likelihood/severity	Scores of likelihood and severity.
Risk mitigation	Description of mitigations.
Initiative that it connects to	Initiatives should support, or be supported by, at least one other initiative.
Start date	First day of the initiative.
End date	Last day of the initiative.
Performance commentary	For each accounting period, a brief narrative should be added that explains performance. This would be done by the initiative owner and be reviewed by the owner of the initiative that it supports (or owners, if more than one).
Impact	The percentage contribution of a supporting initiative. The sum of the percentages of all supporting initiatives must be 100%.

Our research suggests that leading organisations have started to use an outline like the initiative attributes table to monitor and report on the progress of strategic initiatives, whether capital or operational in nature.

For further insight into how the data attributes of initiatives can be used to assess progress towards IPM and be used to drive performance, please refer to the section 'Management information' and an illustrative example in appendix A.

5.3 Resource management

Resource management is 'the consideration of the priority of resource availability in the context of organisational decision-making. It helps organisations to efficiently and effectively manage transformational or continuous improvements to products and processes. It involves the alignment of resources, systems, and employees to strategic objectives and the organisation's priorities'.[10]

Many organisations interviewed in Phase 1 use a formal 'goal cascade' process, repeated annually, to connect team and individual goals with strategic goals. This process is also connected to financial budgeting and capital-allocation conversations with the finance team.

Criticisms of the goal cascade process for allocating capital include the following:

▶ Activities are based on decision-maker biases rather than what might be best for strategy.

▶ Managers take a safety-first approach, choosing tactics that play to their strengths.

▶ Managers select initiatives that are most likely to reward them or position them for advancement rather than what might be best for the business (moral hazard).

▶ Managers have different interpretations of strategy.

▶ The bureaucratic nature of the process impedes efficiency, visibility, and agility.

The latest literature also criticises goal-cascading practices, emphasising the need for companies to better align employee goals with organisational objectives. Employees become more engaged and motivated when they witness and understand how their objectives contribute to achieving their organisation's goals.[11]

To ensure their objectives are aligned with the organisation's strategic goals, we recommend giving teams and employees the responsibility for setting their objectives, in agreement with initiative owners, whilst ensuring they have access to the information they need about the organisational strategy. Also, engaging employees in ongoing conversations that help connect individual performance to strategic objectives serves to improve line of sight and increase engagement.

5.3.1 Operating and capital budget

Finance leaders struggle with financial capital-allocation conversations because they have less understanding of the workings of operational activity of functions than functional leaders and are not always confident in capital-allocation decisions. Finance leaders are, however, responsible for connecting financial resources with functional activities aligned with strategies and generating strategic value. As a result, functional leaders often 'own' their budgets based on prior-period budget levels, an approach to budgeting that entrenches an entitlement mindset and constrains business responsiveness.

The IPM framework addresses this challenge with the use of productivity measures that provide opportunities to determine budgets for strategies and set functional utilisation targets that help determine budgets for functions.

Resource management conversations should take place with the strategy's SEO, supporting initiative owners, and functional leaders. Because SEOs are held accountable for productivity targets and functional leaders for functional utilisation, they should be empowered to allocate resources to maximise their chances of achieving their respective targets. Imposing central controls on what natural accounts SEOs or functional leaders allocate resources to could be counterproductive, entrench rigidity, and detract from increasing their accountability for results.

Consequently, SEOs and functional leaders should be empowered to determine resource allocation within their strategies and functions in ways that are most likely to enable them to achieve their targets. Because of this, there may not be a need to budget by natural account, which can simplify the budgeting process and improve responsiveness when things, inevitably, change. It should be of no consequence which natural account receives budget. Budgeting could be done, in total, at the initiative level, potentially simplifying the budgeting process, subject to enabling controls.

Apart from this, it may make sense for certain budgets to be managed centrally, for example, payroll costs, or depreciation and amortisation.

Phase 2 findings — Operationalising ESG

Participants in the Phase 2 research shared ways in which ESG was being operationalised across their organisations. These actions included:

- decentralising the ownership of ESG factors so that ESG is part of each function's strategy, with resource-allocation risk and controls being dependent upon the priorities of each function.

- addressing ESG issues within their supply chain by introducing extensive supplier screening processes so new suppliers must provide a significant amount of performance data before any collaboration can start.

- taking a broader 'systems perspective' that considers the impacts across the food system to ensure suppliers are prepared for the operational impacts of climate change.

- reviewing a broad range of organisational processes to ensure ESG factors were considered. These included reward systems and incentives, procurement processes, human resources processes including recruitment, and revisiting governance processes so that ESG initiatives can receive the necessary support.

Ramboll — Management in a complex project environment

Being a technically led, project-based environment, Ramboll has a complex matrix structure, which results in inherent complexities when managing resources and performance in a global engineering and management consultancy. However, this also enables us to be agile against challenges in the external environment and respond to specific market or geographical needs.

In 2023, one of our UK market teams launched 'strategic initiative workstreams', whereby each member of the leadership team would take responsibility for a specific thread of the strategy (e.g., our sustainability offering, external market engagement, or people initiatives). Each then formed an employee-led working group to resource and deliver against each of the strategic threads. These groups were determined on suitability (e.g., role or market placement), with a focus on representing diverse views and backgrounds across the business unit.

This enabled the leadership in our business to ensure there was a clear thread from our strategy down through to the business, giving equal importance and focus to strategic priorities as well as the day-to-day operational performance.

Importantly, it also ensured upwards engagement from our people within the business, resulting in advocates for different elements of the strategy. Because people were involved in and supporting the decision-making, the strategy wasn't an ethereal concept that only leadership was concerned with — but instead was something we could all take responsibility in understanding and moving forward.

Case example provided by Ramboll.

5.3.2 Reward systems and incentives

Rewards systems and incentives are a powerful enabler for advancing strategic objectives, including sustainability objectives. However, in many organisations, there is a disconnect between organisational purpose, which may take a long-term 'multi-capital' view, and short-term financial performance. Recalibrating reward systems and incentives to align purpose and strategic objectives for long-term incentives and short-term bonuses for top executives, middle management, and employees is an integral part of an IPM approach.

Reward systems and incentives work best when people understand how their efforts are connected to and influence strategy and drive value creation. Without clear connectivity between personal objectives and organisational objectives, incentives fail as a way of motivating people to excel.[12] However, when reward systems and incentives rely on quantitative performance ratings, this can create a culture of fear within the organisation. This is particularly true for employees further down power hierarchies, as measuring their accomplishments at the end of the appraisal period becomes more challenging. However, whilst financial incentives create an accountability and performance culture in some individuals or industries, in others, they may not.

We should also note that the design and implementation of incentive systems can significantly influence perceptions of fairness, which can impact employee engagement. Transparency, consistency, communication, and involvement in the decision-making process are factors that can impact fairness perceptions. Many organisations determine individual rewards and incentives using an annual appraisal process. But a process that looks backwards for a year may not be the most effective way of managing future performance. Waiting for a year to evaluate individual performance risks managers more vividly

remembering the things that went badly than those that went well. Annual appraisals, therefore, focus more on improving on the bad than celebrating success and building performance from strengths.

As decision-making increasingly considers ESG and sustainability, it is vital for every team in an organisation to take responsibility for implementing and achieving ESG strategies and for individual objectives to align with ESG goals. ESG-related compensation schemes that are based on ESG performance should reflect the wider ESG agenda so that companies can foster the required level of accountability.

Effective reward systems often have the following characteristics:

▸ The incentive scheme structure links individual or team goals to the company's strategy through ongoing conversations that evaluate the performance of connected initiatives.

▸ Incentives focus on achieving company-wide collaboration. Increased visibility helps encourage this collaboration.

▸ Finance works with HR to ensure that shared team and individual objectives are consistent with initiative measures and targets, learning and development programmes support the needs of strategies, and hiring and promotion are aligned with the requirements of strategies.

▸ SEOs influence decisions on incentives for teams within their strategies.

▸ ESG goals are fully integrated into the incentive schemes of strategies and the business.

Sonae — Aligning strategy and incentives

At Sonae, we embrace value creation in all its dimensions — economic, social, and natural. Sonae understands the paramount relevance of upholding the highest sustainability principles as part of its business strategy. The Sonae Sustainability Advisory Group was established long ago, aiming to accelerate our sustainability path. This advisory group is sponsored by both the Sonae chair of the board of directors and the CEO and is led by Sonae's chief development officer. Sonae Sustainability strategy has been reviewed in 2023: Five strategic axes were defined and the ESG goals to which we are committed. Finally, we also reviewed our governance model to reinforce the importance of the sustainability agenda throughout the holding and our businesses.

For those axes and commitments, roadmaps of actions were set by Sonae's companies aligned with best practices, to minimise our negative social and environmental impacts and grasp opportunities to scale value for our people, our communities, and our planet.

Within that context, to ensure everyone's commitment, we integrated into the variable remuneration of all Sonae Group employees, targets on greenhouse gas (GHG) emissions reduction and an increase in women in leadership positions, among other planet and people key performance indicators.

The progress on results and the continuous challenge of our ambitious goals and commitments are supervised by Sonae's board of directors through the board remuneration committee and the executive committee.

Moreover, our financing approaches are in line with Sonae's goals to achieve a sustainable future for all. Sonae reached an important milestone of having 75% of its financing operations associated with its ESG performance, demonstrating the recognition of national and international banking institutions in Sonae's sustainable development strategy. As a result of the initiatives managed either directly or through its businesses, the Group entered financing operations considered as 'green' or 'ESG linked', amounting to almost one and a half billion euros. This represents 75% of Sonae Group's medium- and long-term facilities (either used and available), and 85% for the holding company.

At Sonae, our mindset of action is inspired by our purpose — creating today a better tomorrow for all.
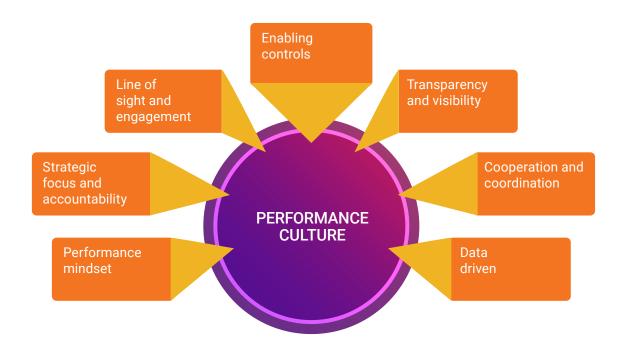
Case example provided by Sonae

5.4 Performance culture

Every business is a people business. Incorporating ESG factors into strategy and operations is challenging, but it requires a shift towards a more inclusive approach to performance management. This means considering multiple capitals and stakeholder perspectives and taking a longer-term view, in which people are the main driver of value.

A critical challenge for executives in today's complex businesses is creating a culture that actively engages employees in the business's strategies and drives value creation. In short, executives want to create a performance culture — an environment where people are empowered, trusted, and engaged, driving strategy and creating value.

Our research identified seven aspects of culture that are needed for a successful transition to IPM (figure 3).

Figure 3 — Performance culture

5.4.1 Performance mindset

Critical elements of a performance culture are the purpose and values of the business that contribute to a mindset that influences workforce behaviour and drives strategy execution.

In a performance culture, the purpose of the business is succinctly articulated, memorable, and motivational. The purpose statement explains a key element of the business model and describes the value the business and its employees deliver to its stakeholders.

In the IPM framework, purpose is cascaded to and translated for all initiatives and justifies their raison d'être, or reason for existence. The 'Narrative' field in the 'Initiative attributes for IPM' table is where the organisation's purpose is translated into the reason for the initiative. By embracing the organisational purpose in this way, an employee can experience a corresponding sense of individual purpose. This creates a performance mindset that leads to improved confidence to take on responsibility, enhances trust, and increases engagement with strategies.

In turn, the values of the organisation must be related to its purpose[13] and widely communicated. A business's purpose statement and its strategic objectives, or priorities, are aspirational. Strategies are needed to deliver them. Values must serve to guide the behaviours of the organisation's people and inspire them to deliver strategy. The values must be authentic to the organisation and rooted in ethics and integrity. The set of shared beliefs and principles that shape the culture must be kept front of mind, guiding employee interactions and decision-making within the business and with outside parties, driving the behaviour that enables delivery of strategy. The 'Values statement' field in the 'Initiative attributes for IPM' table is where initiative teams express the values and behaviours that guide the ways in which they work to deliver their initiative targets.

Phase 2 findings —
Short-term mindset

There was recognition by some of our interviewees that the increase in stakeholder expectations regarding company ESG performance provides an opportunity for innovation and growth. However, Phase 2 participants remain concerned that integrating ESG and sustainability initiatives may involve potential trade-offs with short-term financial performance. For example, interviewees in the retail food sector highlighted that circular economy initiatives — such as reprocessing/redesign and recycling — which will reduce environmental impact, prepare for forthcoming regulatory development, and, over the long term, reduce costs, may not be appropriately valued by investors in the short term.

Although the aforementioned initiatives may require upfront investments and potentially impact short-term financial outcomes, organisations can adopt various approaches to align long-term sustainability objectives with short-term financial performance.

The IPM framework enables businesses to achieve such alignment through the conversations around strategy that will occur as a result of the Framework's implementation.

Many examples from the food producer and retail businesses we approached refer to integrating sustainability considerations into decision-making processes to help mitigate any trade-offs by identifying win-win opportunities where sustainability initiatives contribute to long-term value creation whilst also generating short-term financial benefits.

In addition, it is noteworthy that non-compliance with stakeholders' sustainability expectations poses regulatory, reputational, and supply chain risks, which may impact short-term financial performance. Organisations should, therefore, prioritise achieving alignment of sustainability initiatives with short- and long-term financial goals.

5.4.2 Strategic focus and accountability

Having a strategic focus involves balancing strategic execution with functional excellence. Business power hierarchies tend to be based on functional structures.[14] A more strategic focus involves creating a more even power balance between functional excellence and strategic execution. This involves creating strategies in which strategic objectives are connected to the business's supporting initiatives — and appointing owners for each. This transition to a strategic focus also emphasises strengthening accountability for achieving strategic objectives.

5.4.3 Line of sight and engagement

Enhancing the strategic focus in an organisation involves increasing the workforce's engagement in conversations about strategy execution and refinement, improving cooperation for coordinating the execution of strategies, and establishing accountability for performance goals at all levels.

This is enabled by the three-step process (figure 2, section 5.2). In this environment, strategies are owned by executives with strategic responsibility in evolving, advanced, or integrated organisations (section 5.1). Such an approach fosters a consistent interpretation of strategy, improves resource allocation, creates a 'line of sight' that improves accountability, makes incentives more meaningful and motivational, and enables performance management connected to organisational strategy.

This requires engaging people in ongoing conversations about strategy at all levels of the organisation. These conversations are essential to connecting individual and team goals and strategic objectives. Establishing this improved line of sight provides better accountability for results at all organisational levels.

5.4.4 Enabling controls

Historically, businesses could rely on top-down command and control power hierarchies to get things done. Now, there is a growing awareness of the importance of human, intellectual, social, and natural capital in value creation and understanding intangible value.[15] A key challenge in prevailing business culture is how to trust employees to have the right motivations, even though motivations cannot be measured, monitored, and managed.

This quote from a senior finance executive of a global multi-brand manufacturer captures the challenge of empowering people to take on responsibilities, make decisions, and be comfortable with being accountable for results: 'We have a lot of policies to put people in the square and say, you cannot move out of this square. Many of them complain and say, "Oh, but it's not aligned with our message to behave like an entrepreneur."'[16]

In a performance culture, prioritising enabling controls that allow flexibility and adaptability and contribute to a no-blame culture is more likely to drive performance and innovation than coercive controls (see definitions). Enabling controls encourage employees to take on challenging responsibilities that could lead to better performance and innovation. Stage gate reviews, for example, allow innovative

activities to succeed or fail fast and fail safe. Controls that provide guidance and clarify responsibilities can reduce stress and help individuals feel more effective. Implementing controls like stage gate reviews or setting clear boundaries for individuals to work within is more effective than exerting comprehensive top-down control with inflexible procedures.[17]

Coercive controls, conversely, are based on compliance-oriented systems, processes, and procedures and create a culture of fear of failure that discourages people from taking on responsibility and inhibits decision-making and risk-taking.[18]

It is important to ensure that controls in businesses are aligned with the stated values of the business. If controls conflict with the values, this will cause confusion and disengagement, discourage people from taking responsibility for challenging work, and lead to a culture where accountability for results is avoided.[19]

5.4.5 Transparency and visibility

Transparent internal processes are crucial for achieving strategic goals and improving performance, especially considering the increasing demand for ESG disclosures. At a high level, this involves clarifying the purpose and values of the organisation and articulating expectations for strategic objectives. It is also about providing information related to achieving performance goals and the business's strategic objectives. This clarity serves to foster a sense of alignment and connectivity within and across the organisation.

To help people understand the impact of their work on strategy, it is important to have visibility of all major strategic objectives across an organisation's business and operating model. Embedding transparency and visibility in an organisation involves using the three-step process (figure 2) to connect initiatives to strategies and making initiative attributes visible to all employees.

It is equally important that owners of connected initiatives engage in ongoing performance conversations. These conversations include openly receiving feedback about challenges and possible ideas for change and innovation and providing guidance and feedback regularly (the feedback loop).

The value of the feedback loop is that frontline operational employees are often the first to experience factors that could impact (positively or negatively) the business. Encouraging feedback loops enhances a business's responsiveness. These ongoing conversations also build knowledge, trust, and empowerment, facilitating greater employee engagement with strategies and purpose.

We propose that strategic data and related management information across all strategies should be visible to all employees, subject to competition-sensitive data concerns. Such visibility should inculcate a culture of trust, improve understanding of and engagement with strategies, encourage conversations focused on operational excellence and strategic execution, and inform employees of possible career paths and opportunities.

Phase 2 findings — Visibility

Phase 2 participants noted that visibility is an important consideration in operationalising ESG. One organisation interviewed envisioned merging their production and planning activities with their greenhouse gas (GHG) reporting and modelling with the ambition of achieving improved visibility across the organisation of the materials and quantities used, including on recycling, content, emissions factors, and packaging data.

As illustrated in the example above, robust data collection and reporting contribute to enhancing visibility across the organisation and effectively operationalising ESG. This involves tracking environmental and social impact as well as monitoring and measuring the effect of any governance practices and associated initiatives through measurement. To operationalise ESG goals, they should be integrated into initiatives and comprehensively represented in the attributes table in section 5.2 for initiatives and should form part of the ongoing performance conversations between owners of connected initiatives.

Other examples to enhance visibility included engaging internal and external stakeholders such as employees, investors, customers, suppliers, regulators, and local communities and actively seeking their feedback on the organisation's decision-making to build further trust and legitimacy.

5.4.6 Cooperation and coordination

Another challenge for leaders is the need for people to collaborate across their organisations to coordinate the execution of their strategies. This much-needed cooperation is often impaired by challenges presented by silo-based power hierarchies or mentalities.

The IPM framework seeks to overcome these challenges and improve cooperation and coordination through the mapping and connectivity processes as set out in chapter 5.2. These processes encourage ongoing conversations about the impact of initiatives on the strategic success of the organisation and the effectiveness of cross-functional teams,

decision-making, and resource allocation. Rooting organisational performance to an organisation's purpose and developing a performance culture will also enhance responsibility and accountability and contribute to improved cooperation and coordination between different business units and functions.

5.4.7 Data-driven

Data-driven decision-making combines objective analysis and empirical evidence to guide businesses towards success. By basing decisions on factual data rather than gut instincts or personal biases, businesses can make informed choices that minimise risks and maximise opportunities. Data enables a comprehensive understanding of complex issues and encourages continuous learning and improvement so plans and strategies can be refined, leading to more accurate predictions and reliable planning. It fosters a culture of transparency and accountability, as decisions can be justified and communicated based on evidence. The AICPA & CIMA Global Management Accounting Principles contain useful guidance on data planning.

Phase 2 findings — The role of being data-driven for IPM

Phase 2 research highlighted the vital role of being data-driven and having the appropriate systems and processes to monitor ESG performance and inform decision-making. Companies revealed challenges associated with data and information that included

- getting data from suppliers external to the organisation,
- difficulties associated with identifying the data needed from inside the organisation, and
- how to structure and deliver data so it can be of use to the business.

In response to these challenges, businesses specified that a prioritisation exercise helped ensure the right sustainability data was collected from the most important suppliers. The prioritisation exercise was depicted through a pyramid, where all suppliers were required to provide basic (base of the pyramid) sustainability data. Only certain important suppliers were asked to provide more sophisticated data. The more important suppliers were selected based on several criteria, which may differ for every organisation. Companies leverage both outsourced systems providers and internally developed, cloud-based systems to facilitate the flow of performance information to decision-makers.

To tackle some of the difficulties associated with identifying internal data needed, many companies agreed that establishing clear data requirements for their sustainability agenda took priority. Some respondents who succeeded in identifying and understanding these requirements specified that data governance and ownership was the next step. A relevant example on tackling data access issues due to the existence of multiple data owners specified the creation of a unique place from which information could be fed to the business, supply chain actors, and the sales organisation to inform the many reports generated.

Another business specified that investing in an appropriate, rigorous sustainability software tool that can streamline data collection and analysis was key to generating reports more efficiently and tackling any data access concerns.

Regarding the structure and delivery of sustainability data to the business, there was consensus on the fact that the needs of stakeholders, including shareholders, had to be understood. Steps companies mentioned as necessary included identifying the key people in their organisation using sustainability data and conducting analysis to understand their information needs. One interviewee stressed that tailoring data to meet specific stakeholder requirements enhanced its usefulness and relevance, noting that different sides of the business used data differently and required different levels of data granularity.

The following table highlights the key characteristics of the different components of a performance culture and the expected benefits of implementing these in an organisation.

Table 2 — Characteristics and benefits of a performance culture

Performance culture component	Key characteristics	Expected benefits
Performance mindset	• Purpose is clear, memorable, and motivational. • Purpose is articulated at the level of every activity, process, and project.	• Empowerment • Trust • Engagement
Strategic focus and accountability	• Strategy execution prioritised over functional excellence • Mapping of initiatives (activities, processes, and projects) • Establishing accountability for performance goals at all levels	• More even power balance between functional excellence and strategic execution • Improved accountability for results
Line of sight and engagement	• Engagement of the workforce in strategic conversations • Supply-and-demand concept	• Consistent interpretation of strategy • Improved resource allocation • Improved line of sight between initiatives and strategy
Enabling controls	• Enabling controls over coercive controls • No-blame culture	• Responsibility assumed • Risks taken • Empowerment
Transparency and visibility	• Clarity of purpose, values, and strategic intent • Accessibility of performance data	• Alignment • Connectivity • Engagement • Trust
Cooperation and coordination	• Ongoing conversations — cross-functional teaming, coordination of activity	• Enhanced decision-making. • Improved resource allocation.
Data-driven	Data • is linked to organisational objectives. • supports decision-making. • is readily accessible. • is consistently defined and labelled. • is resilient to change. • is efficient.	• Better decisions • Learning organisation • Increased engagement

6 Management information

Management information in the context of the IPM framework focuses on measuring the transition from a traditional performance management system of budgetary control to IPM over time. Management information provided by the Framework focuses on the extent to which an IPM approach has been implemented and the quality of its adoption. This is distinct from the management information that managers use to inform their decisions, which is unique for every business.

6.1 Initiative success measures

Decisions need to be taken throughout businesses for better execution of strategy. Senior leaders should know the extent to which decision-making across their business is based on measurement rather than bias or hunch. Indeed, many businesses increasingly leverage their analytical capabilities to gain a competitive edge by making data-driven decisions.

This is not to say that all decisions must be evidence-based — some initiatives may be too difficult or costly to measure — nor is it to say that instinct shouldn't be a factor.

Sometimes, it can be difficult to determine valid measures for activities, and proxy measures are used instead. Providing that initiative owners of connected initiatives agree measures with each other, then proxy measures should be acceptable and can contribute to conversations about the execution of strategy.

Still, where measurement is impractical, decision-makers should explicitly agree to not measure before the commencement of these initiatives.

To evaluate how well their business is implementing its strategy, leaders can use measures of connectivity and impact to analyse the degree to which people rely on data to support their decisions rather than following their instincts. For example, all initiatives drive costs and revenues. If initiatives undertaken have no success measures, how can decision-makers evaluate how much cost could be saved through improvements in measured performance? How much opportunity cost is at risk?

Other measures that can be derived from the initiative attributes include:

▶ the cost of initiatives with no measures of success (decision-makers assess performance instinctually or not at all). This could also be expressed as a percentage of total costs.

▶ the number (or a percentage of the total number) of initiatives that have no measures of success.

▶ the average cost of initiatives with no measures of success.

▶ the concentration of initiatives with no measures of success. This could be by business unit, function, initiative (rolled up), strategy, manager, or any other demographic that makes sense to the business. This could be analysed by cost or number.

In addition to these measures, it is important to be clear on the timescales and frequency of measurement.

6.2 Productivity

Businesses are constantly expected to produce more for less. The challenge for leaders is understanding where such opportunities exist in their businesses. Operating models have often evolved to efficiently and effectively execute decisions that have been made over years or even decades. At the same time, businesses have sought economies of scale to remain competitive and have grown organically and by acquisition. Inevitably, there will be parts of operating models that have been shaped to deliver decisions that are no longer relevant to success and, perhaps, should no longer be operating and consuming resources.

Finance leaders face challenges in determining resource allocation from one year to the next due to the expectation of operational leaders to receive resources based on prior-period resourcing levels, regardless of how the business ecosystem has changed, leading to stagnant productivity of ongoing activity and new initiatives being starved of resources.[20] Companies that reallocate budgets more proactively tend to perform significantly better than those with static resource allocation.[21]

Using initiative attribute data, SEOs can be targeted with productivity improvements over time where productivity is expressed as a function of operational (including ESG) outputs and costs (see appendix A for illustrative example). Identifying which initiatives could be reduced or cut and which to invest more resources into can drive productivity improvements. It is then the responsibility of the SEO, in agreement with the initiative owners connected with the strategy, to determine how to allocate resources to achieve operational (including ESG) and financial targets.

6.3 Functional utilisation

In the strong matrix management concept, functions provide an optimum level of functional resources and capacity for servicing strategies. Functional leaders provide expert advice and input to SEOs on the best way to achieve the outputs of any given initiative. Therefore, the main uses of budgets in functional silos are to develop and maintain the quality and availability of functional resources and expertise required to support strategies. Resources and expertise are supplied to strategies and the strategies bear the cost. Unassigned costs (i.e., those remaining unutilised) are used to calculate the function's utilisation.

Because SEOs are accountable for costs and incomes and operational outputs of their strategies, this should trigger conversations with functional leaders on how to optimise functional resources and improve the efficiency and effectiveness of the execution of strategies, with the finance business partner acting as an adviser and consultant.

Utilisation is calculated as the quotient of costs allocated to strategies and the total functional cost base.

6.4 Accountability

All initiatives should have an owner. Reporting on the extent to which initiatives are owned highlights accountability for results. Accountability can be assessed in several ways:

▶ The cost of initiatives not owned. This could also be expressed as a percentage of total costs.

▶ The number (or a percentage of the total number) of initiatives not owned.

▶ The average cost of initiatives not owned.

▶ The concentration of initiatives with no accountable person. This could be by business unit, function, initiative (rolled up), strategy, manager, or any other demographic that makes sense to the business. This could be analysed by cost or number.

This information could inform executives on the distribution or concentration of initiative ownership. In parallel, this could inform key people policies and address concentration risks (where a key person might be accountable for an excessive number or value of initiatives). The information could also provide insights into initiative owner turnover and possible resulting execution risks.

6.5 Moral hazard risk

In employer-employee relationships, moral hazard refers to situations where an employee takes decisions with the understanding that accountability for any negative consequences of their decisions will be borne by their employer or line manager. It is common for individuals in positions of responsibility to be influenced by their personal experiences or become overly attached to past decisions, which may not be beneficial for the future of a business. Goal-setting and resourcing decisions can be affected by a range of factors:

▸ Activities being based on decision-maker biases rather than what might be best for strategy

▸ Managers taking a safety-first approach, choosing tactics that play to their strengths

▸ Managers selecting initiatives that are most likely to reward them or position them for advancement

▸ Different interpretations of strategy[22]

Business leaders might not be cognisant of the motivations, fears, or biases of all decision-makers, so business leaders should aim to reduce situations where decisions are made on hunches or personal biases. The initiative attributes and measures of connectivity and impact can help lower moral hazard by providing opportunities for constructive challenge discussions between owners of connected initiatives.

The following measures for a strategy can help with evaluation and management of organisational risks:

▸ Connected initiatives have the same owner (number, value, concentration).

▸ Initiative owners have a line management relationship with the owner of a supporting initiative (number, value, concentration).

▸ Preceding measures expressed as a percentage of all connections (% of number and % of value).

The connectivity of initiatives in strategic themes provides an opportunity to lower moral hazard risk by identifying, reporting on, and minimising line management relationships between owners of connected initiatives. The extent to which such relationships exist (agency) indicates the degree of constructive tension between them and, therefore, the risk that there is insufficient challenge between people and teams over the execution of strategy.

7 Performance

The IPM framework organises performance management around connected initiatives rather than traditional functional structures and seeks to improve employee engagement in strategy delivery. Logically, this implies that workforce performance is managed through initiative hierarchies.

7.1 Employee engagement and empowerment

The Framework can empower employees. By establishing enabling controls to provide guardrails to prevent missteps from going too far, leaders can trust people to take risks and innovate. People are empowered to seize opportunities, making businesses responsive and strengthening business resilience.

Managing performance is linked to connecting the workforce with strategic initiatives. Initiative owners who rely on the performance of connected initiatives to achieve strategic objectives should

- ▶ assess the performance of owners of supporting connected initiatives;

- ▶ collaborate and support owners of supporting connected initiatives in delivering results, particularly where these initiatives' budgets or output targets are under stress; and

- ▶ support owners of connected supporting initiatives on an ongoing basis, discussing challenges together and focusing on performance development rather than reflecting on individual past failures, which should make an annual appraisal process redundant.

Improving employee engagement about strategy delivery through ongoing conversations reduces the chances of things going disastrously wrong. Indeed, if 'difficult' conversations are necessary between the owner of an initiative and the owner of a supporting initiative, this is more likely to result from a communication breakdown.

Fujitsu — Engaging employees with purpose and strategy

In 2020, Fujitsu set our purpose as 'make the world more sustainable by building trust in society through innovation' and refreshed our core values as 'aspiration', 'trust', and 'empathy'. Guided by our purpose, Fujitsu works with customers and other stakeholders to find solutions to overcome society's challenges and develop new business models to provide services that generate high added value with a cross-industry approach.

Several initiatives have helped embed our purpose, supported the transformation of our organisational culture, and accelerated collaboration across different industries:

1. A purpose-led dialogue programme to all employees called 'Purpose Carving'. This programme supports individuals to articulate and shape their personal purpose through exercises that include life reflection sessions, articulating and refining individual purpose, and group meetings to share purpose, listen to others, and encourage collaboration and cooperation.

2. A human resources–led evaluation system to establish a connection between Fujitsu's purpose and personal performance measures. This evaluation system encourages dialogue between employees and supervisors to align individual personal purposes and objectives with Fujitsu's purpose and strategic objectives to create a consistent evaluation framework across the organisation. The objective is to encourage employees' independent growth and actions, ensuring their contributions align with Fujitsu's purpose and create value for our customers and society. To facilitate communication between employees and their supervisors, managers and all employees are encouraged to have guided discussions in one-on-one meetings with new tools introduced to help them prepare in advance. These one-on-one meetings play an important role at Fujitsu since they enable employees to align organisational strategy with their career ambitions, discuss their growth opportunities with their managers, and receive valuable feedback on strategic performance. As a result, scores on the employee engagement survey for company direction and expectations, learning and growth, and equal opportunity to succeed are trending significantly upward.

Case example provided by Fujitsu

7.2 Resilience

The IPM framework improves organisational resilience by creating ongoing opportunities for conversations on initiative performance and strategic performance that enable ongoing decisions. This should allow failure to be spotted before the scale of failure becomes consequential (fail fast, fail small). Conversely, in a performance culture where employees feel emboldened to explore new or risky ideas, initiative owners can commission new supporting initiatives or people can recommend and discuss new initiatives when opportunities emerge. This drives responsiveness and improves organisational resilience in rapidly changing operating environments.
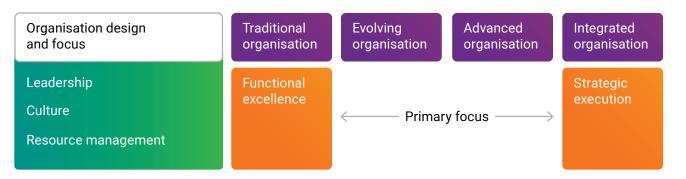
The IPM framework also reduces the risk of information asymmetry through the increased visibility of initiative attributes, connectivity, and impact. Boards represent the interests of shareholders and other stakeholders. The audit committee provides assurance that the information that boards rely on is symmetrical with, although less granular than, the information managers use to run the business on their behalf. In an organisation that applies the IPM framework, the board narrative information and key measures should be symmetrical to the information relied upon by SEOs to assess the success of strategy execution and would be distilled from the initiative attribute tables.

8 IPM maturity model

The IPM maturity model is designed to enable businesses to position themselves at different stages on their journeys to adopting an IPM approach. The transitions needed will likely be iterative and will vary depending on where businesses want to get to and their implementation journey.

Organisations can use the IPM maturity model to plot their progress towards a more strategically oriented business across a range of indicators and use it as a diagnostic to plan future progress. Ultimately, a shift in leadership authority will, organically, lead to corresponding shifts in other aspects of the organisation over time, including underlying relationships and resource management processes.

Figure 4 — IPM maturity model flowchart

Organisation design and focus	Traditional organisation	Evolving organisation	Advanced organisation	Integrated organisation
Leadership Culture Resource management	Functional excellence	← Primary focus →		Strategic execution

The IPM maturity model helps organisations identify their current approach to managing enterprise performance and plan their journey towards a more integrated approach to managing enterprise performance.

Table 3 — IPM maturity model

IPM framework		Traditional	Evolving	Advanced	Integrated
		Primary focus on function	Strategy focus within functions	Strategy focus within functions, supported by strategic programme leaders	Strategy-driven focus
IPM leadership	Composition	Executive leadership team composed of functional executives.	Executive leadership team composed of functional executives. 'As-needed' advice or updates on strategic projects sought.	Executive leadership team composed of functional executives supported by strategic programme leaders.	Executive leadership team composed of SEOs, supported by key functional executives.
	Ownership	Strategic objectives jointly owned by executive leadership team; functional expertise valued over strategic expertise.	Strategic objectives owned by functional executives with functional and specific strategic responsibility ('dual citizenship').	Strategic objectives owned by functional executives with input from strategic programme leader(s) on a 'supply and demand' basis.	Strategic objectives owned by SEOs; strategies built out by connecting supporting initiatives. Functional expertise provided on supply-and-demand basis.
	Authority	Based on functional authority.	Based on functional authority with specific input sought on strategic projects.	Primarily based on functional authority. Strategic programme leaders provide scheduled advice to executive leadership team.	Based on strategic authority with input from functional leaders.
IPM performance culture	Performance mindset	Purpose defined but not widely articulated. Connection to purpose limited by functional focus.	Purpose defined and articulated, but not widely understood. Functional focus still predominant.	Purpose defined, articulated, and understood but not widely embraced in connection to engagement with strategy.	Purpose well-defined and clearly articulated. Integration of purpose into initiative attributes drives effective decision-making and employee behaviour.
	Strategic focus and accountability	Limited employee understanding of strategy, subject to manager/ individual interpretation. No wider employee engagement with strategy. Functional activity front of mind. Performance culture not conducive to fostering accountability. Individual performance goals set by functional managers, driven by functional excellence ambitions. Annual goal cascade process; annual performance reviews.	Employee understanding of, and engagement with, strategy is based primarily on annual top-down communication of key strategic themes. Functional activity is still front of mind. Accountability established for performance goals combining functional excellence and strategic aspects but biased to functional excellence ambitions. Periodic reviews.	Increased level of strategy discussions leads to wider understanding of, and engagement with, strategy. Employees encouraged to provide feedback through formal channels and processes. Accountability established for performance goals combining functional excellence and strategic aspects, with limited connectivity of strategic objectives. Frequent reviews.	Connectivity encourages conversations between owners of connected initiatives and, in turn, forms the basis of improved understanding of, and alignment and engagement with, strategy. Accountability for performance goals determined by connecting initiatives within strategy. Continuous review process.

IPM framework components		Traditional	Evolving	Advanced	Integrated
IPM performance culture (continued)	Enabling controls	Primarily coercive, compliance-oriented controls; fear-of-failure culture. Controls may contradict values and hinder expected behaviours.	Increasing orientation to enabling controls. People comfortable taking on additional responsibilities with limited exposure to personal risk.	Primarily enabling controls that support empowerment, flexibility, and decision-making. People more inclined to take on additional responsibilities as personal risk is reduced.	Enabling controls aligned with values, which facilitate expected behaviours. No-blame culture. People empowered to take on additional responsibilities freely and willingly.
	Line of sight and engagement	Connections to strategy not established. Poor line of sight.	Connections to strategy made within functions but not challenged. Nominal line of sight.	Connections to strategy discussed with strategic programme leaders, but degree of connectivity not specifically measured. Improved line of sight.	SEOs responsible for strategic connectivity. Degree of connectivity is a measure. Targets for connectivity agreed with SEOs. Clear line of sight.
	Transparency & visibility	No or limited visibility for employees on the information used to manage the business.	Key business results information published. More detailed information on functional performance made accessible.	Visibility of key strategic project performance along with key business results.	Full visibility of all initiative attributes and management information. Connectivity, impact, and productivity (and other measures) actively used in communications between initiative owners and SEOs.
	Cooperation and coordination	Limited dialogue, cooperation, and cross-functional coordination.	Cooperation and coordination driven by functional or individual goals.	Increased cross-functional cooperation and coordination but limited to specific strategic projects. Teams draw on other functions depending on need.	Cooperation, coordination, and cross-functional teaming driven by needs of connected initiatives in strategies. Teams are multifunctional and fluid.
	Data-driven	Data focused on functional excellence.	Strategic objective data used to track strategy results. No connectivity with supporting initiatives means operating model impact on strategy not monitored.	Data for impact of strategic initiatives on strategic objectives assembled and analysed. Data supports decisions.	Data for impact of strategic initiatives on all initiatives assembled and analysed. Data supports decisions.
IPM resource management	Operating and capital budgets	Driven by functional leaders' sense of 'ownership' or entitlement; often based on prior-year amounts.	Budgets driven by 'goal-cascading' process; CFO responsible for reconciling functional activity to strategy. Functional primacy prevails.	Budget processes reflect better balance between functional excellence and strategy. Increased emphasis on value creation and innovation.	Operating and capital budgets determined by continuous conversations with SEOs based on productivity measures and targets
	Reward system and incentives	Centrally governed reward system that is 'one size fits all'. Not clear to individuals and teams how their efforts contributed to performance and, therefore, how they earned their discretionary reward. Not motivational.	Functional leadership has limited discretion on rewarding. Goal cascade nominally clarifies how individual and team effort contributes to success. Limited feedback loop and motivation to achieve.	Functional leadership has wide discretion on rewarding, with guiderails. Frequent conversations, improved visibility, and better collaboration, together with a stronger feedback loop, lead to improved motivation.	SEOs have discretion on rewarding system, with guiderails, based on a balance of enterprise success, strategic theme success, and initiative success.

9 Appendix A —Illustrative example

Pro Surf & Turf — a U.S.-originated company based in Houston, TX — is an integrated fishing, farming, processing, and production company for beef, fish, and shrimp products.

Pro Surf & Turf's vision is to be the global leader in meat and seafood production whilst demonstrating continued commitment to sustainable growth and operational excellence.

Pro Surf & Turf has defined three strategic objectives consistent with its purpose and vision and aligned the organisation around the strategic objectives in a matrix-managed structure with SEOs responsible for delivering each strategic objective. These strategic objectives are as follows:

▸ Strong and stable growth

▸ Sustainability leadership

▸ Customer focus

As part of their transition to an IPM approach, they have

▸ assessed the initiatives in the strategy and identified the connections between them.

▸ assessed the impact of each of these initiatives towards the strategic objective. For this assessment, they have used a simple percentage measure to stimulate thinking and conversations about the relative value of each supporting initiative. Logically, the sum of all supporting initiatives' impacts on another initiative is 100% and these values arise from conversations between initiative owners and SEO.

▸ identified unconnected (stranded) initiatives. During this process, some initiative owners were not able to agree on the connectivity or impact of their initiative on other initiatives or with the strategic objectives.

▸ identified the total costs of each strategic objective and the costs of the connected initiatives.

▸ assessed the productivity of each strategy as a function of strategy's cost and units of output and used this information to determine budgets for future years.

Measuring connectivity and impact

Table A1 shows the overall connectivity for Pro Surf & Turf; table A2 shows the impact measurement for the supporting initiatives of the customer focus strategic objective. Table A3 shows productivity measures for each strategic pillar and table A4 shows how budgets for year 3 were determined based on previous years' productivity.

Table A1 — Overall IPM connectivity for Pro Surf & Turf

Strategy	Number of initiatives in strategy	Connections made	Connectivity	Strategy cost(in USD)	Connected cost(in USD)	Stranded initiatives cost(in USD)	Costs at risk
Strong and stable growth	10	8	**80%**	$1,000,000	$200,000	$800,000	**80%**
Sustainability leadership	30	20	67%	1,000,000	750,000	250,000	25%
Customer focus	20	7	**5%**	1,000,000	900,000	100,000	**10%**

Strategy	Impact	Initiative cost (in USD)	Cost/impact
Customer focus		$900,000	
Call centre performance	70%	500,000	**79%**
Digital supply chain	20%	200,000	111%
Loyalty programme	10%	100,000	**222%**

This process revealed 13 initiatives where the connectivity to the customer focus strategic objective could not be agreed upon by the initiative owners, resulting in a low level of connectivity. Although this might appear to be a major problem, when reviewing the connected cost, Pro Surf & Turf identified that 90% of the total cost of the strategy was made up of the seven initiatives where connections had been made. These issues still need to be explored, but the cost at risk from the stranded initiatives is relatively low.

One follow-up action for the SEO with ownership of customer focus strategy was to dig deeper into why 13 of the 20 initiatives only comprised 10% of the strategy's total cost. This exploration revealed the following:

▶ Several initiatives were under-resourced and would require further investment to make connectivity and deliver impact for the strategy.

▶ In transitioning to a matrix-performance management approach, some initiatives had become surplus to requirements.

▶ The performance measures of a contact centre that was supporting the customer focus strategy were targeting throughput (efficiency), which was having a detrimental impact on the resolution of issues and, consequently, a detrimental impact on customer loyalty and, therefore, on the customer focus strategy.

Similarly, since the cost of connected initiatives rolls up to the strategic objective level, a review of the strong and stable growth strategy was deemed worthwhile to understand what caused the potential cost (investment) at risk.

Using productivity measures to agree budget levels

Pro Surf & Turf's senior leadership team (SLT) were also able to identify output measures for each strategy to establish productivity measures.

Table A3 shows how, in year 1, the productivity column is calculated by dividing the strategy's cost and unit outputs. In year 2, the productivity change column reflects the movement from year 1 to year 2.

Table A4 highlights how the year 3 budgets are determined by setting productivity improvement targets for SEOs and calculating the productivity per target output.

These measures can address challenges for finance leaders at Pro Surf & Turf in trying to agree budgets for the business. A finance executive in Phase 2 agreed, 'I think this is a proxy for a third-party contract that would be in place because if it was a third party, you'd have a price. So, the utilisation is the equivalent of the price basically. I hadn't thought of it in these terms before, but I think it's a very neat way of doing it'.

SEOs have full authority (subject to any enabling controls) to deploy their resources flexibly throughout the budget period to achieve their strategies' outputs or outcomes.

Table A3 — Productivity measures

Productivity		Year 1 actuals			Year 2 actuals			
Strategy	Output (measure)	Strategy cost (in USD)	Output (units)	Productivity (in USD)	$200,000	Output (units)	Productivity (in USD)	Productivity change
Customer focus	Customer retention rate	$1,000,000	5	$200,000	$900,000	6	$150,000	25%
Sustainability leadership	Reduction in scope 1, 2, 3 GHG emissions	1,000,000	5	200,000	750,000	6	125,000	**38%**
Strong and stable growth	Intrinsic value	1,000,000	**5**	200,000	900,000	5	180,000	**10%**

Table A4 — Budgeting year 3 using productivity

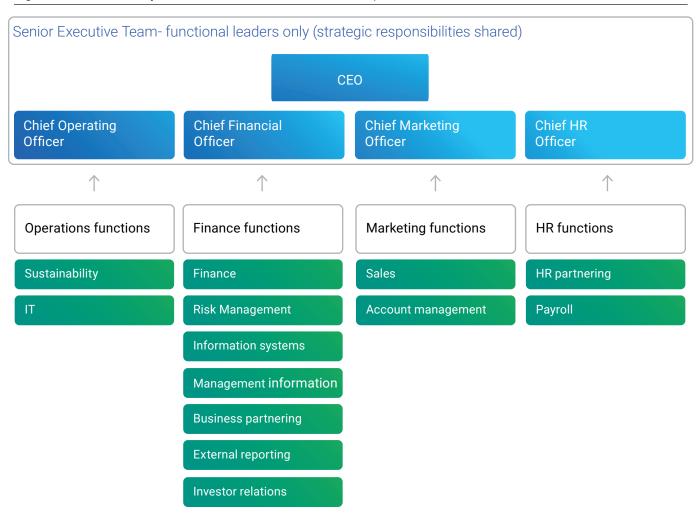| Productivity		Year 3 targets			
Strategy	Output (measure)	Targeted productivity change	Targeted output	Targeted productivity	Year 3 budget (in USD)
Customer focus	Customer retention rate	**30%**	7.80	$115,385	$900,000
Sustainability leadership	Reduction in scope 1, 2, 3 GHG emissions	**30%**	7.80	96,154	750,000
Strong and stable growth	Intrinsic value	**25%**	6.25	144,000	900,000

If an adverse productivity target is forecast at any point, then this should trigger conversations about the factors that could be driving the adverse forecast. These conversations could happen at any level within a strategy.

9.1 Appendix B — Strong matrix concept

Although structural reorganisation is by no means a requirement for implementation of the IPM framework, the strong matrix concept summarises research findings and thinking that supported the development of the IPM maturity model.

Many businesses organise their workforces into functional silos of expertise (figure B1, 'Functionally structured business illustrative example'). Research suggests that there may be significant limitations to this management approach. In these functionally oriented businesses, budgets and resources are 'owned' and controlled by functional leaders, resulting in a silo mindset. Capital allocation follows suit, with budgets frequently being inflexible from one year to the next. Finance functions can experience difficulties with a culture of budget entitlement and entrenched budget expectations grounded in historical resourcing decisions. As a result, new strategic initiatives are often starved of investment. [23]

Figure B1 — Functionally structured business illustrative example

Senior Executive Team- functional leaders only (strategic responsibilities shared)

CEO

Chief Operating Officer	Chief Financial Officer	Chief Marketing Officer	Chief HR Officer

↑	↑	↑	↑

Operations functions	Finance functions	Marketing functions	HR functions
Sustainability	Finance	Sales	HR partnering
IT	Risk Management	Account management	Payroll
	Information systems		
	Management information		
	Business partnering		
	External reporting		
	Investor relations		

The matrix performance management concept, where leaders are responsible for functional excellence and strategic execution, is an alternative to a functional, silo-based power hierarchy.

We identify two forms of matrix:

1. A 'weak' matrix (figure B2, 'Weak matrix (function bias) illustrative example'), where a senior leader has functional and strategic responsibilities

2. A 'strong' matrix (figure B3, 'Strong matrix (strategy bias) illustrative example'), where a senior leader only has strategic responsibility[24]

A key advantage of moving towards a matrix management concept is increased management attention on strategy. Matrix-managed businesses typically also provide opportunities for employee development and engagement with the ambitions of the business, strengthening ownership, communication, cooperation, and coordination.[25]

In both the weak matrix and strong matrix management concepts, the composition of the senior executive team evolves to take greater ownership of the organisation's strategic objectives.

Figure B2 — Weak matrix (function bias) illustrative example

Senior Executive Team- functional leaders only (some with additional strategic responsibilities)				
		CEO		
Chief Operating Officer	Chief Financial Officer	Chief Marketing Officer	Chief HR Officer	
↑	↑	↑	↑	↑
Operations functions	Finance functions	Marketing functions	HR functions	Strategies
Sustainability	Finance	Sales	HR partnering	Customer focus
IT	Risk Management	Account management	Payroll	Sustainability leadership
	Information systems			Strong and stable
	Management			
	Business partnering			
	External reporting			
	Investor relations			

In a weak matrix, functional leaders own functional excellence and strategic goals ('dual citizenship'). The weak matrix combines the diverse expertise and resources required to successfully deliver projects, processes, and activities.

In general, a weak matrix management concept has numerous advantages over a functionally oriented management concept:

▸ Management attention is more evenly split between functional excellence and strategic execution.

▸ Businesses can more flexibly align resources with strategies.

▸ It encourages people to be mobile and to autonomously lend their expertise to multiple endeavours.[26]

However, the weak management concept is still characterised by features which may reduce the focus on strategy (the first three of the following bullets are drawn from Kaplan and Norton[27]):

▸ Because functional executives dominate the senior executive team, ownership and authority are split between strategic and functional responsibilities. Leaders tend to prioritise their functional responsibilities over their strategic responsibilities. This could be because authority remained based on functional structures.

▸ Accountability in functionally managed and weak matrixed organisations is often shared, fragmented, and uncertain, whereas functional accountability is well-defined, which may help explain this functional bias.

▸ Apart from occasional strategic initiatives, power and control over budgets and resources are still predominately held by leaders of functional silos.

▸ Project managers operating in weak matrix performance-managed businesses mention that low levels of authority and weak control over resources are detrimental to performance and to operating successfully.[28]

The IPM framework proposes that businesses transition towards a strong matrix performance management concept (figure B3) where the power hierarchy is determined by strategy.

Strategic Executive Team (Strategic Executive Officers, CFO, and Ops Officer, in this example)

Supply side

CEO

Demand side

Functional Officers - resources and functional expertise

Chief Operating Officer

Chief Financial Officer

Strategic Executive Officers

Customer focus

Sustainability leadership

Strong and stable growth

Operations functions

Sustainability

IT

Marketing

Sales

Account management

Other business functions

Finance

HR

Strategic Responsibilities

- Business partnering
- Resource management

- Performance management
- Risk management
- Data planning
- Information systems
- Reporting continuum
  - Management information
  - External reporting
  - Investor relations

Initiatives

The strong matrix performance management concept has characteristics that shift the organisation's emphasis and focus to strategic excellence and mitigate the challenges associated with functional and weak matrix management concepts. These characteristics include the following:

- The composition of the senior executive team shifts to include 'strategic executive officers' (SEOs) who have sole ownership and authority for the strategic objectives to which they are assigned.

- SEOs have ownership of their strategic objectives and related supporting initiatives.

- Supporting initiatives are 'owned' by managers accountable for their initiatives' success, connected to higher-level initiatives, and support the SEO in strategy development, execution, and refinement.

- Budgets are allocated directly to strategies in addition to being mainly allocated on a functional basis to mitigate the problem of functionally based entitlement (silo mindset). This enables SEOs and connected initiative owners to prioritise, flex, and refine their strategies, focusing solely on delivering targeted operational, ESG, and strategic financial outcomes.

- The CEO mediates between functional officers responsible for building, maintaining, and supplying the capability and capacity of functional expertise and SEOs, who require functional expertise and resources to achieve strategic objectives.

- SEOs are accountable for all their initiatives' financial and operational outputs (including supporting initiatives), reducing bias in selecting and resourcing activities.

Although transitioning to a strong matrix management concept will be a gradual process, it will potentially enable businesses to create a dynamic network of capabilities and resources that can be deployed flexibly based on all initiative needs. Businesses can prioritise maximising interactions, connections, and conversations, bringing together different skill sets and expertise to work on various initiatives. Such organisations are less focused on hierarchy, which means the initiative owner has the most decision-making power over their initiative.

The matrix management concept also requires a mindset shift. Transition steps will be needed to effectively engage the workforce and strengthen the organisation's purpose and performance management culture. In a strong matrix-managed business, everyone is responsible for contributing to initiatives that generate value. The transition should allow employees to take on new responsibilities and participate in multiple initiatives within the business's strategies.

The following diagram provides a summary of some of the challenges with silo-based organisations, along with the advantages and challenges associated with both weak and strong matrix -performance management models.
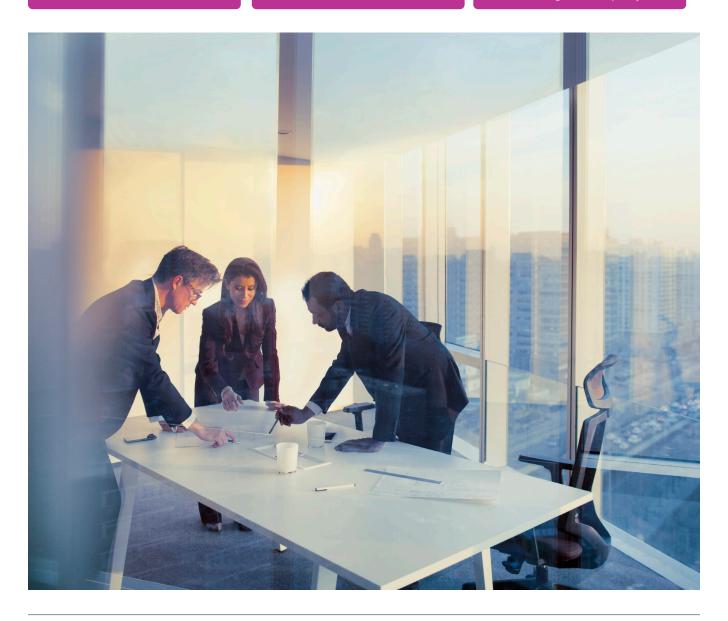
Figure B4 – Advantages and disadvantages of performance management models.

Silo structure

- Focus on functional excellence
- Cooperation hard to achieve
- Accountability for results shared, fragmented, avoided
- Connectivity between operational activities and strategic objectives unclear
- Transparency of performance drivers increasingly opaque lower down power hierarchies

Weak matrix

- Improves resource alignment with strategy
- Improves accountability for key strategic initiatives
- Encourages employee mobility for specific projects, processes, and activities

- More complex resource allocation and management
- BAU remains siloed
- Functionally biased leadership.

Strong matrix

- Power hierarchy determined by strategy
- Shift from "dual citizenship" to "strategic accountability"
- Resource allocation determined by strategy
- Functions serve as suppliers to strategy
- Transparency of performance drivers
- Democratised information and decision-making
- Multi-disciplinary and dynamic

- Resource management complexity

10 Definitions

Corporate net-zero — According to the Science Based Targets initiative (SBTi) Net-Zero Standard (2021), achieving corporate net-zero entails the following:

▸ Reducing scope 1, 2, and 3 emissions to zero or to a residual level that is consistent with reaching net-zero emissions at the global or sector level in eligible 1.5°C-aligned pathways

▸ Neutralising any residual emissions at the net-zero target year and any GHG emissions released into the atmosphere thereafter

Controls — Controls in business are formal, documented methods, procedures, processes, and rules for controlling the execution of activities. There are two predominant types of controls:

▸ **Enabling controls** recognise that not every possible contingency can be anticipated and, therefore, be designed into formal controls. Enabling controls are intended to act as a guide for informed, expert, motivated, and well-managed people to help them execute their activities. Good enabling controls will include 'guiderails' that clarify when remedial actions should be triggered and stop limits for minimising possible negative effects of unforeseen negative events. Enabling controls may rely more on guiding principles than fixed and inflexible rules. The intention of enabling controls is to provide support to people and to encourage them to use initiative, whilst also limiting their exposure to risks.

▸ **Coercive controls** are focused on compliance with strict rules. Coercive controls are designed with the assumption that all possible negative events have been considered and factored into the set of rules. Coercive controls discourage the use of initiative, and therefore stifle creative responses to events that have, inevitably, not been preconceived and designed into the rules.

Double materiality — Describes how corporate information can be important both for its implications about a firm's financial value and about a firm's impact on the world at large, particularly regarding climate change and other environmental impacts. The idea of double materiality comes from a recognition that a company's impact on the world beyond its financial impact can be material and, therefore, worth disclosing for reasons other than the effect on a firm's bottom line.

ESG — An umbrella term that consists of three key factors — environmental, social, and governance — which provide investors with means to measure the risks and the impact in these areas of the organisation, evaluate companies, and make investment decisions. ESG has an outside-in perspective, focusing on the effects of the environment and society on a company.

Human capital — Defined by Brian Keely, human capital 'consists of the knowledge, skills, competencies, and attributes embodied in individuals that facilitate the creation of personal, social, and economic well-being'.[29]

Initiatives — Business activities, projects, and processes.

Intangible assets — Nonmonetary assets which are without physical substance and are identifiable (either being separable or arising from contractual or other legal rights). Some examples are copyrights, trademarks, patents, or lists of customers.

Intangible value — Value derived from nonmonetary assets or intangible assets.

Integrated performance management (IPM) — Long-term value creation and the integration of multi-capital drivers, like environmental, social, human, and relationship, that reduce risk and improve resilience, agility, creativity, sustainability, and trust in business.

Integrated thinking — The International Integrated Reporting Council (IIRC) defines this as 'the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation, or erosion of value over the short, medium, and long term'.

Multi-capital – Financial, as well as manufactured, human, intellectual, social and relationship, and natural capitals.

Performance management — The processes and practices companies use to measure, monitor, evaluate, and drive enterprise performance and the execution of strategy. This could include, for example, setting key performance indicators and targets to track progress towards the achievement of a company's strategy and objectives, or internal decision-making functions and processes (e.g., budgeting, evaluation and appraisal, and forecasting). The CGMA® Global Management Accounting Principles (GMAP) set out four key steps to the performance management system — strategy, plan, execute, and review (SPER).

Stage gate reviews — These are pre-agreed points at which work is paused and progress is reviewed before commencement of subsequent stages of work. They are usually triggered by work done rather than time elapsed, although elapsed time could also trigger a review.

Sustainability — Sustainability has an inside-out perspective, considering the effects of a company on the environment and society in addition to ESG.

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Covestro

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CRH

Cummins

CurrencyFair

DBS

Diageo

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Heidelberg Cement Asia

Hershey

Hexagon Mining

HSBC

IBREI

IFAC

Ikea

Indykpol Group

Intel

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Sinarmas

SPAR

Standard Chartered Bank

Subway

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Tata

Tenshi Peak Ventures

Tetra Pak

Transnet

Triodos

True North CFO

Unilever

UNISA

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12 Disclaimer

13 About the World Business Council for Sustainable Development

The World Business Council for Sustainable Development (WBCSD) is a global community of over 225 of the world's leading businesses driving systems transformation for a better world in which 9+ billion people can live well, within planetary boundaries, by mid-century. Together, we transform the systems we work in to limit the impact of the climate crisis, restore nature and tackle inequality.

We accelerate value chain transformation across key sectors and reshape the financial system to reward sustainable leadership and action through a lower cost of capital. Through the exchange of best practices, improving performance, accessing education, forming partnerships, and shaping the policy agenda, we drive progress in businesses and sharpen the accountability of their performance.

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