

# No more blindfold budgeting



For many companies, the budgeting process is confused, inefficient and often erroneous. Yet successful strategic planning demands consistent and reliable figures. Chris Field of Infor tells Jim Banks how a single-vendor solution can improve your performance management.

It consumes precious time, causes endless frustration and is all too often inaccurate, but the annual budget is essential. If such complexity, inefficiency and unreliability were present in any other business process, most corporates would act swiftly to remedy it, yet budgeting processes remain

unchanged. To make matters worse, the reasons for budgeting are often poorly understood within many companies.

Chris Field, Business Consulting Manager for Infor performance management UKIMEA, says: 'Ask around in any company,

and people will tell you that budgeting is something that just has to be done every year or that it is the stick that management can use to enforce guidelines or even that it is done to determine management bonuses.

'Considering that the typical budgeting cycle lasts four months and needs up to 25,000 person-days each year for the average billion-dollar company, are these the real reasons?'

## Budget for long-term success

Budgets often end up being short-term, reflecting the pressure for rapid growth felt by many corporates, particularly listed companies facing the quarterly demands of shareholders.

While many best-practice companies have realised that corporate value is created when operations are aligned to a clear long-term strategy, many more organisations still need to adjust their budgeting processes to fit this mindset.

Field points out: 'Three or four years ago, rolling forecasts were not considered necessary, but we are seeing them much more now. Most FDs and CFOs that we talk to are strategically focused. The big accounting firms and IFRS bodies include performance against strategy in their accounts and valuations, which drives a long-term focus.'

Enterprise software developer Infor has targeted budgeting and forecasting optimisation with the Infor performance management (PM) solution, recognising that a strategically focused business will soon see the importance of budgeting in determining the corporate vision and its means of execution – and will soon see the many shortcomings of existing processes.

Field believes: 'The stick is the long-term focus required by accounting bodies. The carrot is the improved performance that systems such as Infor PM can deliver.'

## Align your strategy and execution

Budgeting and planning are vital elements of broader corporate performance management (CPM) implementation. Successful CPM requires strategy and budgets to be closely interlinked.

Field believes that there are six clear steps to achieving this. Firstly, senior management must establish long-term



objectives and assign values to measure the success of each objective. They should then devise strategies for achieving those objectives and give each of them a weighting in terms of their influence on corporate performance.

Through clear examination of the key assumptions and measurements regarding the business environment, a company can then move to the tactical level, where high-level operational budgets come into play. Assigning measures to tactical elements is crucial at this stage.

When budgets and tactics are defined, a company can assess the feasibility of the entire plan, identify the risks and make the strategy more realistic. Once agreed, the high-level costs and revenues from the plan become budget targets.

Field explains: 'The budget is the gearbox transferring power from the engine to the wheels, so it must work as part of the overall system in the closed loop of performance management. It determines the allocation of resources at many levels, so companies must look at making it more efficient. It defines how a company is going to outperform its competitors, which is the goal of any strategic plan.'

A strategic view demands a longer time horizon for planning, but requires companies to remain focused on how they track performance against long-term goals. Field believes that it is important to have a compact set of measures, which should also include many non-financial indicators.

He points out that many best-practice companies restrict their budget to around 40 key items, compared with ordinary businesses, which can track over 2,000 items.

Field adds: 'It is also important to account for the context when the budget was set. For instance, if the budget is set when the dollar is as weak as it is today but the currency then appreciates, it will have an impact on the budget and the feasibility of the plan it represents.'

A more focused, responsive and strategic approach will lead many companies to replace jerky, inefficient budgeting with a more dynamic planning process – possibly rolling forecasts. Field notes that a major oil company recently scrapped its long drawn-out budgeting process in a major division,

replacing it with an 18-month rolling forecast – just like the 71% of best-practice companies that use rolling forecasts to look beyond their current financial year.

### Systems and psychology

The use of tools such as rolling forecasts reflects a change in thinking at the heart of a company, but this shift in corporate psychology can only be made real if it is reflected in a company's technology.

Field stresses that rolling forecasts alone are not a perfect solution, and that their value is optimised when finance software packages such as Infor PM are used to bring powerful statistical models and forecasting techniques to bear on budgets.

## 'The stick is the long-term focus required by accounting bodies. The carrot is the improved performance that systems such as Infor PM can deliver.'

He also believes that there is a growing appetite for single-vendor systems to remove the complexity and integration challenges that budgeting and planning often present.

He says: 'The key is a "one version of the truth" approach. A company needs a single database, but often they have many systems from different vendors cobbled together or "integrated". This means data has to pass between different systems, which then need to be audited and checked.'

Another problem identified by Infor is the widespread use of Excel spreadsheets as the user interface for budgets. They are familiar, readily available, easy to use and flexible, but Field believes they have many shortcomings. This is backed up by findings from KPMG Management Consulting, suggesting that in 91% of cases where spreadsheets are used for consolidation or budgeting they produce the wrong answer and that users are often unaware of the errors. Single-vendor systems

such as Infor PM aim to address the problems of user interfaces and data consolidation.

Field explains: 'The system is the glue between strategy and execution. It identifies the impact of budget items on a company's overall plan. It arose from a single product set, so it has one data repository, meaning there is only one version of the truth. It is totally web-based, too. Users can link to the budgeting system through a URL so there are no files to be sent. Users have an immediate view of the new budget when they enter data.'

### Thorough reporting

Infor PM also offers end-to-end functionality, right through to the reporting phase. Field says: 'Reporting must be part of the solution. It cannot be an add-on that is integrated into the budgeting and performance management processes.'

There are signs that companies are starting to understand the benefits of a single-vendor solution as they try to simplify their budgets and align them with strategy. CPM systems such as Infor PM bring together all data used for consolidation, budgets, forecasts and strategy management. Web-based systems dramatically change how users interact with data, reducing errors and improving reliability and accountability.

BPM systems linking strategy to budgeting also shorten the budget cycle and allow companies to better measure whether strategic initiatives are successful.

This, of course, assumes that companies have first communicated their strategic vision throughout the organisation. Field notes: 'Organisations must also have adequate access to information. The strategic plan is often treated as a secret document, but it can't be. People need to understand the plan so they can have ownership of and responsibility for what they enter into a budget.'

The change to strategic thinking must happen first, but the technology is there to support the changes to key processes such as budgeting. ■

#### Further information

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