

# Planning and Budgeting

Improving Effectiveness through  
Best Practices and Technology

Executive Summary

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*Aligning Business and IT To Improve Performance*

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**The CFO Project**





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Ventana Research performed this research for a fee to determine the needs and practices of organizations in their planning and budgeting process. This document is based on our research and analysis of a quantitative survey administered via the Web to qualified respondents. Qualification was based upon involvement with planning and budgeting and predicated on meeting demographic requirements (only those that work in companies with 100 or more employees) and excluded people employed by software vendors or whose employment in the appropriate organization could not reasonably be verified.

This research was designed to investigate the practices and needs of individuals and organizations with respect to the core planning and budgeting functions. This research is not intended for use outside of this context and does not imply that organizations are guaranteed success by using only these results to improve organizational productivity effectiveness. Moreover, gaining the most benefit from planning and budgeting requires an assessment of your organization's unique needs.

We certify that Ventana Research wrote and edited this report independently, that the analysis contained herein is a faithful representation of our evaluation based on our experience with and knowledge of the process and how software plays a role in it, and that the analysis and conclusions are entirely our own.

*Ventana Research*

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## Executive Summary

Over the past decade companies increasingly have embraced the concept of performance management to help them respond effectively to a more challenging competitive environment. Performance management seeks to optimize business processes while ensuring they are aligned with the organization's strategy.

Planning and budgeting are critical components of any company's performance management initiative because they are a means of translating strategy into a coherent set of initiatives and provide a basis for objective assessment and alignment. Planning and budgeting should be a collaborative process – a structured dialogue on the future direction of the company. Planning should be the basis for objective assessments of performance and for assessing the efforts of all corporate units and individual employees.

That, at least, is the idea. How well are companies doing in achieving this ideal? Our recent benchmark research examined the people, process, information and technology components – components that in sum reveal how effective planning and budgeting are.

Ventana Research tracks five key attributes that when optimized define effective planning and budgeting:

- Insight into a company's performance and the factors that drive results
- Accuracy sufficient to support smoothly functioning operations
- Alignment of corporate, departmental and individual objectives
- Agility to effect coordinated responses to change
- Collaboration across the organization to ensure clear communications (a necessary component to enable the first four).

We found that while some companies are realizing the benefits of a mature planning and budgeting process, many others are not; some lag far behind. We find that companies are doing better on the people and information aspects, but many fall short when it comes to the process itself and the technology they use to support it.

### ***Key Points***

The research findings show where companies do well, and where they need to improve, in their planning and budgeting activities. The following are particularly revealing:

- Most participants, regardless of their functional role or department, believe that planning and budgeting are important to the success of a company.
- There is a wide variation in maturity across all aspects of the planning and budgeting. Some companies are doing well, a few are excelling, but our analysis finds that one in five are at the lowest level.
- There appear to be several disconnects between people's assessments of how well they are managing their planning and budgeting process and the improvements they would like to see. For example, a majority of participants in the research said there is close alignment between the company's strategy and the budget. Yet when asked what they would change, these same people said they want to improve strategic alignment.

- While many focus on the time spent budgeting and planning, the research found no strong connection between the hours devoted to the process and the accuracy, relevance and strategic alignment of the finished product. What companies do with this time is what matters, and this should be the focus of their efforts. Moreover, as in past studies, participants in midsize companies were more likely to say they spend too little time planning, while people in the largest corporations were more likely to say they spend too much time on it.
- The right software is important. While a majority of participants continue to use spreadsheets for this purpose, those using dedicated applications more often said they do a good job in a range of planning tasks. Users of dedicated applications also were far more likely to report that they produce more accurate plans and budgets that remain more relevant over the course of the term of the plan or budget.

Is your company getting all it should from its planning, budgeting, forecasting and review processes? Based on the findings from this research, the answer is probably not – or at least not as much as it could. Making planning and budgeting a more effective tool for improving your company's performance should be a priority. Evolving your process probably will be a multiyear project because it should address the people, process, information and technology aspects that are the keys to more productive use of the significant time your company spends charting its future, assessing its results and making adjustments where necessary. The findings of this research can suggest areas where your organization can improve, and using our benchmark analysis will highlight specific areas for improvement.

## What To Do Next

Over the past five years, Ventana Research has conducted extensive research into how companies plan and budget. We conclude from the current research and our past efforts that most companies can and should make significant improvements to their process. In doing so they can enhance its accuracy, increase organizational and strategic alignment and improve organizational agility. The following recommendations are intended to guide companies as they strive to do this.

### **Broaden your focus.**

We find that most people begin to examine change with limited, specific objectives. In the case of planning and budgeting, they may set out, for example, to shorten the annual budgeting period or make the actual-vs.-budget reports easier to produce. However, the first step in rethinking this process should occur at a higher level. Take a step back and ask what objectives planning and budgeting ought to fulfill, how well it is delivering on those objectives and what needs to be done to close the gap between them

### **Plan and budget more often, with more people involved.**

Planning and budgeting are closely related core functions of the finance organization – so closely related that they are often referred to as a single process. Matching the resources available to these functions to the company's objectives and strategy makes it possible to control costs more effectively, which in turn ought to increase

operating efficiency. You should structure planning and budgeting for high participation, so that all people with budget authority are meaningful contributors. When this is the case, more buy-in and accountability result: It stops being “finance’s budget” and becomes everyone’s budget. And it should be a high-frequency process, done more often than once a year, so that the company can respond faster as conditions change. When this is the case, management and executives are more likely to be able to understand the implication of changes, weigh their options more intelligently and respond appropriately.

**Realize that planning and budgeting are not the same.**

While they are related, there are important differences between the two. Planning is about creating a program for action; it’s part of an overall design to achieve specific objectives. Budgeting is about creating a statement of the financial position of an organization for a specific period of time based on estimates of revenues and expenditures. Planning is about things such as activities, people, resources needed and time spent. Budgeting is about money. We believe that companies spend too much time budgeting and not enough time planning.

If performance management and aligning strategy with action is the goal of your organization, you need to be planning. The typical budgeting process winds up burying a lot of important information in spreadsheets, including assumptions about the future and information that could promote better alignment of actions across the company. In planning, these assumptions have to be explicit; because they are, companies can achieve greater alignment and allocate resources better. Because plans focus on things as well as money, they make it easier to understand root causes, to focus on exceptions and to do so faster and more accurately on a consistent basis. Then you can do internal benchmarking to highlight the best-performing people and operations in the company and use their examples to figure out how to improve everyone’s performance.

**Replace spreadsheets with dedicated applications.**

Over years of observation we have concluded that an important reason why companies don’t plan is their reliance on spreadsheets to execute the process. The limits of this tool forces them simply to budget, which limits the insight that can come with planning. That is, because spreadsheet budgeting is so time-consuming it curtails what-if analysis. This makes it more difficult to spot threats and opportunities and also limits a company’s agility in responding to divergence from the plan. Using a dedicated application for planning is better than spreadsheets because it’s possible to shorten the planning cycle; you can replan and rebudget more often, and more easily perform exception-based reviews.

Even if your company just wants to budget, we recommend you nonetheless use a dedicated application. The benefit here is that the process becomes much more efficient. Time that would be spent wrangling spreadsheets can be used on more important tasks. Moreover, companies that use dedicated applications are better able to compress the budgeting cycle, sometimes significantly (for example, cutting a four-month process in half). For a company operating on a calendar year, an annual budget completed in November tends to stay relevant longer than one prepared largely in September or October.

**Answer these key questions.**

Our research shows that companies invest a great deal of valuable time in planning and budgeting. They should ensure that they are generating a return on that investment. Planning and budgeting are important to the success of any company. Ventana Research advises companies to periodically assess their process, the technology they use to support it, the information flows associated with it and the people aspects (training and communications, chiefly). Here are five groups of questions that the CFO, controller and head of financial planning and analysis should ask:

**1. Is the planning and budgeting process as strategic as it could be?**

The CEO has a strategy, but how effectively does the budget reflect it? Are the objectives realistic given the allocation of resources, or is this budget just an extrapolation of last year's budget (which probably was driven by political clout, not strategic necessity)? When changes occur in the economy or competitive landscape, can the company change its budget to support its strategic goals? Or should the company change the strategy to fit the available resources?

**2. Are the budgets as accurate as they should be?**

Does the budget process itself create systematic errors? (This is of particular concern if your company uses desktop spreadsheets to support the process.) How much time is spent dealing with hidden arithmetical or logical errors? Does anyone know? How many of these errors remain undiscovered?

**3. Does your planning really help increase your company's agility?**

Does the company respond as rapidly as it should to changes in the environment or to the competitive landscape? When things are not going as planned, how well-coordinated is the company's response? Does the organization do contingency planning or what-if analysis? When necessary, can the plan take the entire company into account, not just one department or product line?

**4. Could your process provide deeper insight to more people?**

What assumptions are people making in forecasting revenues and expenses? Can you drill down easily to find out what they are? Are the assumptions consistent? Does the revenue forecast make sense given the sales budget? Are there too many or too few support personnel? In reviews, can people quickly spot why a variance occurred (not just a number but whether it was unit- or volume-related)? Will everyone agree on the answer?

**5. Is the process itself of high quality?**

Could your company shorten the interval needed to prepare a detailed budget and cut the hours spent on purely mechanical tasks? Is the budgeting process performed consistently across departments and businesses? Is it performed consistently from one year to the next?

## How Ventana Research Can Help

Ventana Research helps organizations develop, execute and sustain a Performance Management program that aligns people, processes, information and technologies essential for success. As an objective, trusted advisor, we are your insurance that your Performance Management initiatives will drive immediate and long-term improvements to your business.

We offer a variety of customizable Performance Services to meet your specific needs, including workshops, assessments and advisory services. Our [workshops](#), led by analysts with more than 20 years of experience, provide a great starting point to learn about hot Performance Management topics – from Compliance to Business Intelligence to building a Performance Management strategy and driving adoption of best practices. We also offer tailored [assessment services](#) to help you connect the business and technology phases of your project by leveraging our research foundation and Performance Management methodology. We also deliver access to our analysts for trusted and objective [advisory services](#) on an as-needed basis to help you keep up with market trends, technologies and best practices.

Everything at Ventana Research begins with our focused [research](#) on Performance Management. We work with thousands of organizations worldwide – conducting research and analyzing market trends, best practices and technologies with the purpose of helping our clients improve the efficiency and effectiveness of their organizations.

Through our [Performance Management Community](#), we also provide opportunities for professionals to share challenges, best practices and methodologies. Sign up for Basic membership to [www.ventanaresearch.com](http://www.ventanaresearch.com) and gain access to our monthly Performance Management newsletter and learn about upcoming educational and networking events – such as webinars, conferences and network roundtables – in your area. We also offer the following membership levels to view entire research notes for expert advice and recommendations:

**Premium membership:** For business and IT professionals\* interested in full access to our research notes - including assessments of market impact and recommendations on technologies and trends.

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*\*Premium Community membership is for end-user professionals. [Additional services](#) are available for solution providers, software vendors, consultants and systems integrators.*

***The full research report, including the detailed maturity model analysis and question-by-question examination, is available for purchase from Ventana Research by calling (650) 931-0880 or contacting [sales@ventanaresearch.com](mailto:sales@ventanaresearch.com). For a list of available research, visit [www.ventanaresearch.com/research](http://www.ventanaresearch.com/research).***