

# **New Budgeting and Forecasting Approach for Our Current Difficult Times**

Presented by:

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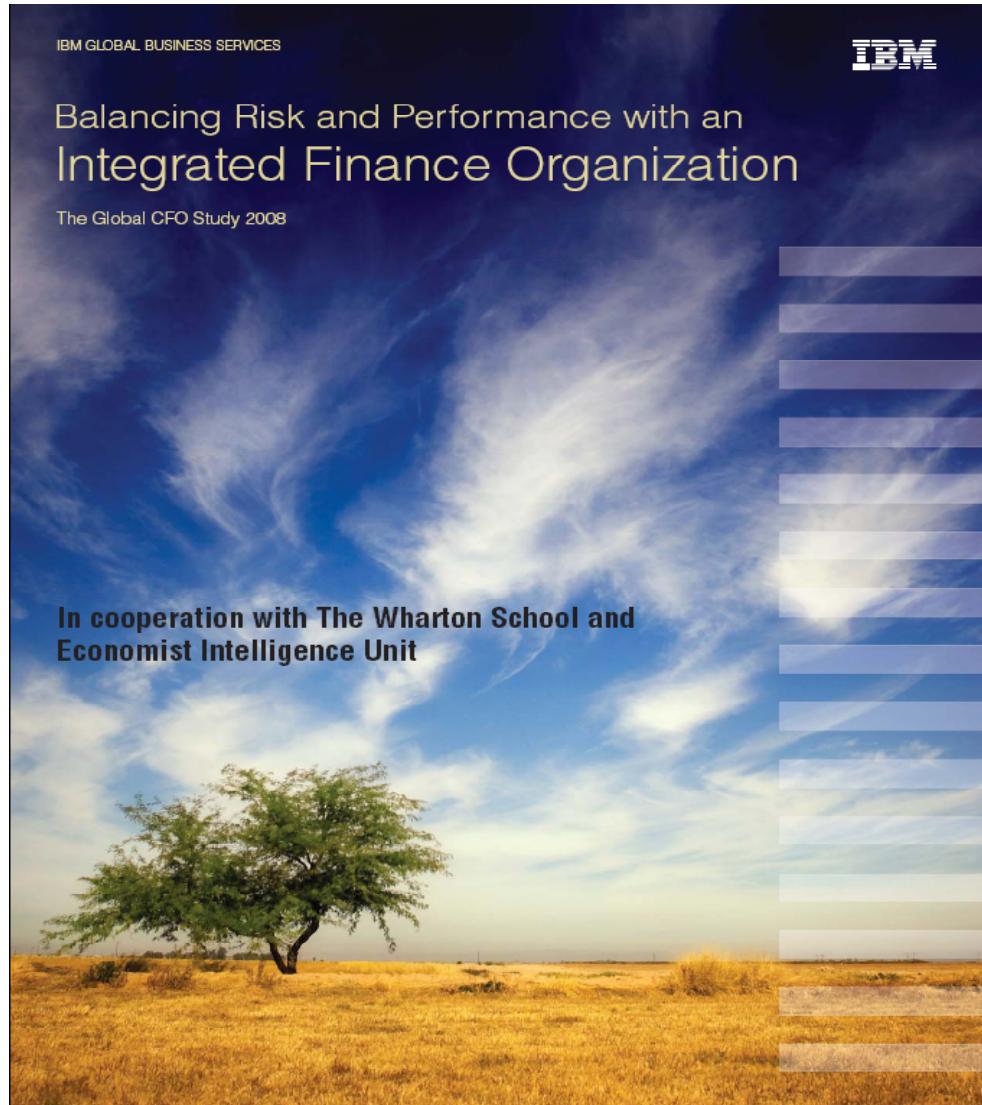
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# Interesting Times??

- Dubai – 360 ----- >>>> 24
- Parked Up – 12
- Swine Flu
- SARS
- Use Budgets TMA – TMB      YTDA – YTDB

# IBM 2008 Global CFO Survey



## Key Messages

- > Risk
- > Performance
- > Measurement / Management
- > Integrated Finance



## Being the best

Insights from leading finance functions

ADVISORY



“The EIU research shows that top performing businesses have top performing finance functions ... but few finance functions can be referred to as leading.”

[www.kpmg.com](http://www.kpmg.com)

## Being the best: main research findings

- Top performers spend less time on cost control and more time on decision support
- Forecasting and management information: the two main priorities for improvement (Rolling forecasts)
- Companies must simplify and consolidate their global finance operations
- CFO & emerging role in risk management

# Directors need to set agenda

Boards under pressure from increasingly onerous corporate governance rules must change the way they work to ensure they focus on their most important task, deciding company strategy, write **Narelle Hooper** and **Damon Kitney**.



Boards should limit the amount of information being fed upwards, otherwise they drown in detail, says Graham Bradley.

Photo: ROBERT ROUGH

“Boards should limit the amount of information being feed upwards, otherwise they drown in detail.”

# New Governance Model for Reporting to Boards

"Often directors are reluctant to agree to receive less information. They feel they need to know.

I think it's a mistake, because ultimately boards will be footed with liability for those smoking guns that might be buried in the bottom of a 50-page report that no director has enough time to absorb in the time available and review critically.

We've worked hard to reduce the amount of material and keep it focused on the strategic, important issues."

## New Governance Model for Reporting to Boards

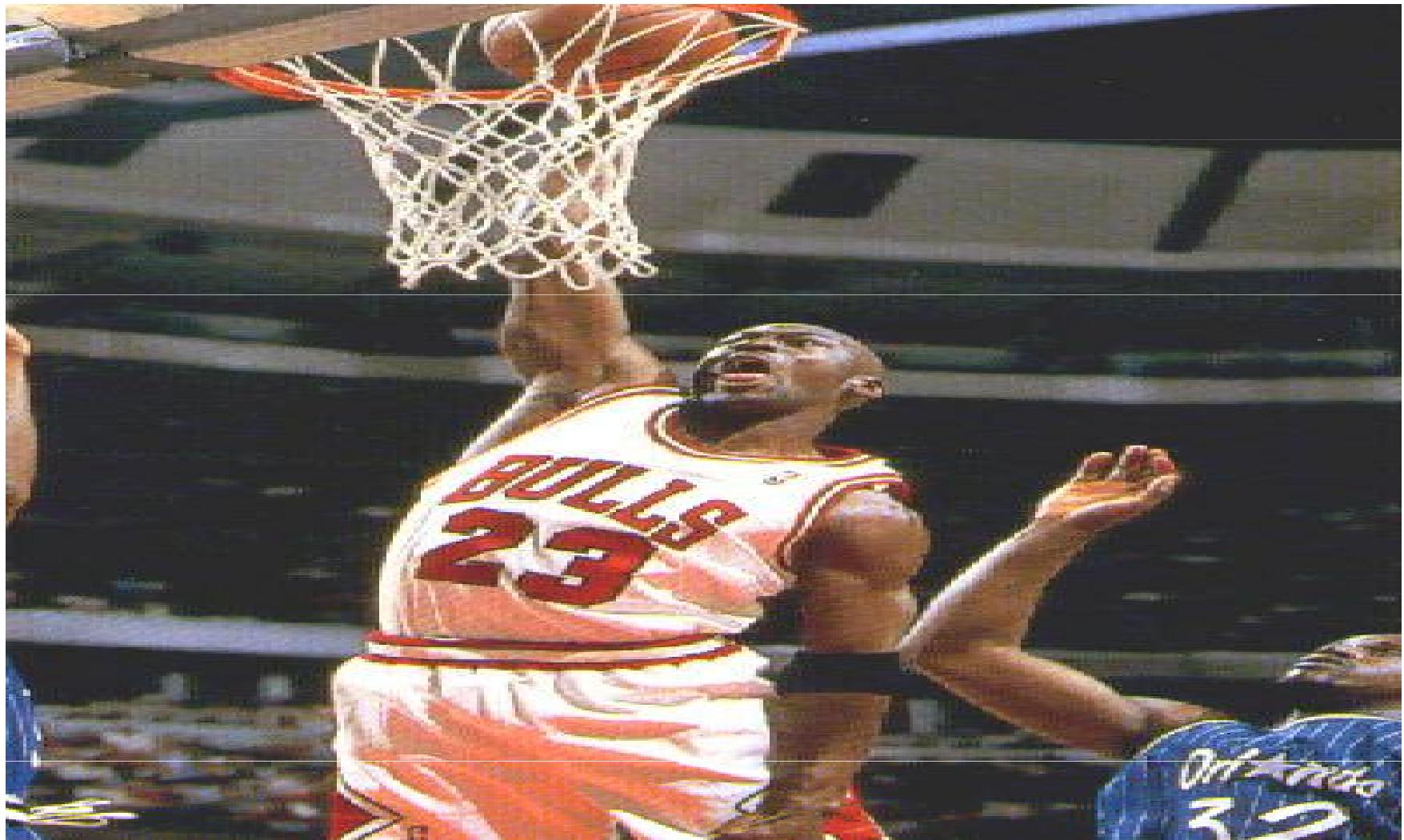
“Far too much in too many papers, and far too much of it not focused on board-level policy and strategy.

There was a great tendency to feed up to board far too much detail for want of knowing what the right balance was between the role of board, management and **risks** involved.

In the last year I've worked with the executives to refine and reduce the amount of material. Literally we were being **swamped with paper.**”

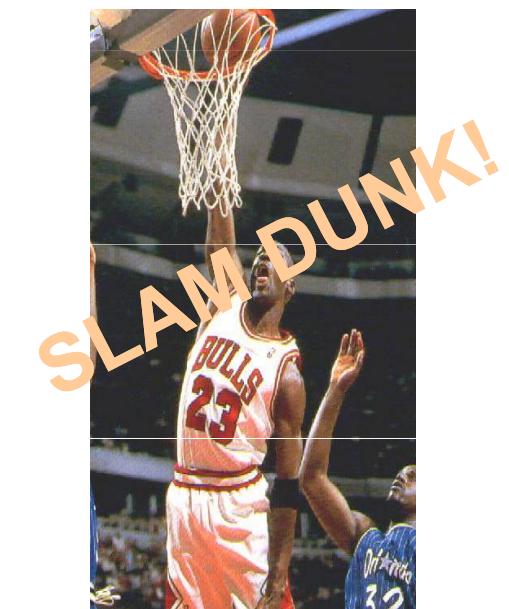
Graham Bradley, Chairman, Stockland, HSBC (Aust),  
Director, Singtel and Queensland Investment Corp,  
AICD Chairman of the Year

# The Michael Jordan Performance



# Strategic Business Management

- 1 STRATEGIC BUDGETING – ROLLING FORECASTS
- 2 BALANCED SCORECARD / CORPORATE METRICS SCORECARD
- 3 SUSTAINABILITY / TRIPLE BOTTOM LINE REPORTING / CSR REPORTING
- 4 AT or Moving TOWARDS ONE DAY REPORTING
- 5 REPORT ON A PAGE (ROAP)
- 6 ENHANCED CAPITAL AND REDUCED OPERATING SPEND FOCUS
- 7 STRATEGIC REVENUE MANAGEMENT & PRICING
- 8 TARGET PRICING & TARGET COSTING
- 9 TOTAL PRODUCT LIFE CYCLE COSTING / STEWARDSHIP
- 10 FULL PRODUCT/SERVICE COSTS
- 11 TOTAL WORKING CAPITAL MANAGEMENT
- 12 PROCESS MAPPING / BUSINESS PROCESS REENGINEERING
- 13 BENCHMARKING – Internal and External
- 14 CUSTOMER PROFITABILITY ANALYSIS
- 15 CUBE MANAGEMENT
- 16 CHANNEL MANAGEMENT
- 17 ACTIVITY BASED COSTING / MANAGEMENT
- 18 NEW TRANSFER PRICING MODELS eg PURCHASER - PROVIDER ROLE
- 19 SERVICE LEVEL AGREEMENTS / EXPENSE REDUCTION ANALYSIS
- 20 MANAGING & ACCOUNTING FOR QUALITY
- 21 EVA / SVA / MVA / VBM
- 22 KNOWLEDGE MANAGEMENT
- 23 REAL OPTIONS ANALYSIS : STRATEGIC PREDICTIVE ANALYSIS



Score: ... / 23

# The BPM Trifecta

> 60% Abandoned / Refocused Budgeting  
→ → → Rolling Quarterly Forecasts

> 40% One Day Monthly Reporting  
→ → → Virtual Close

> 87% Corporate / Balanced Scorecard / Dashboards  
= 187%  
= New Budget, New Reporting Time, New Score

# PwC Advisory: Performance Improvement – 2007 Budgeting and Forecasting Study

Highly effective financial planning now recognized as critical to successful execution of business strategy

1. Budgeting and forecasting processes face significant transformation; linkage to strategy is top of mind.
2. Today's budgeting process is too granular and not focused on value-added activities.
3. Underlying technologies and applications lack integration.
4. Finance and operations must be more closely aligned.

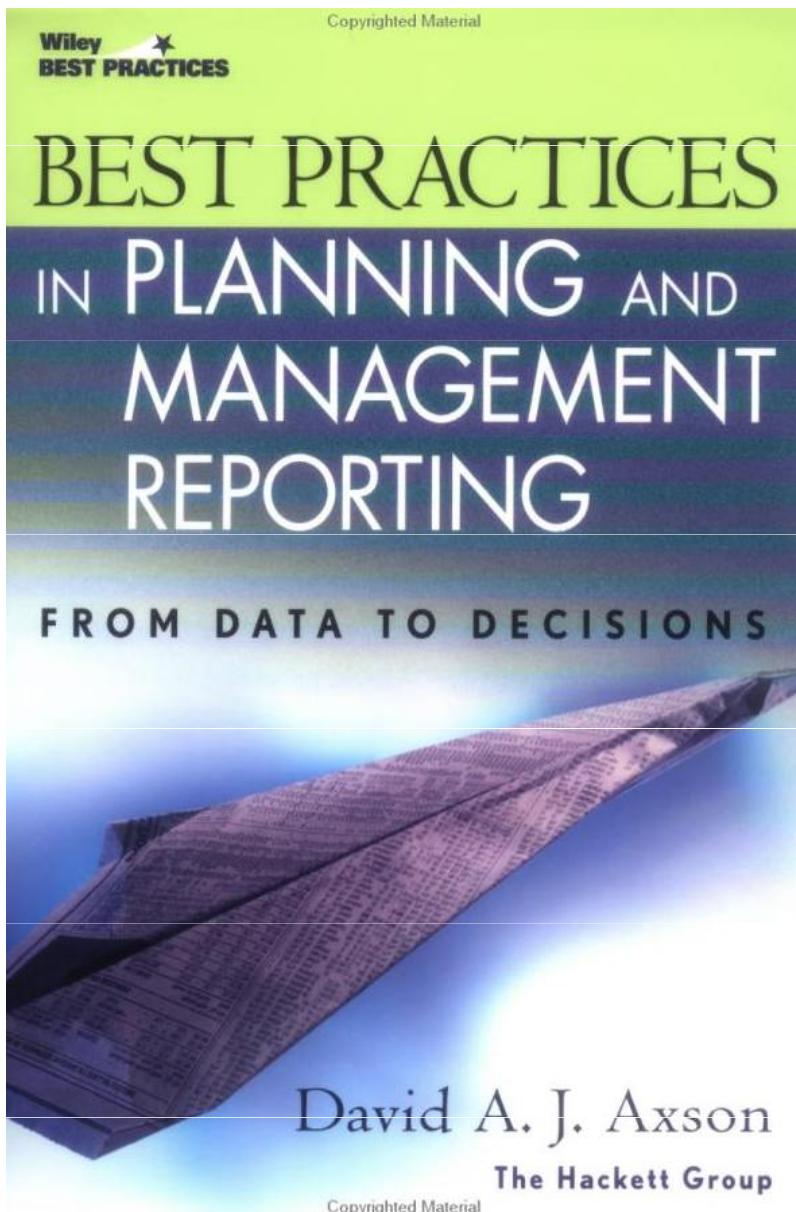
## How to tackle budgeting and forecasting improvements:

- Budgeting takes too long: must reduce and de-complicate  
6 months → → → → 6 weeks
- 42% Australian G100 use Rolling Forecasts

2007  
42%

Now  
>60%

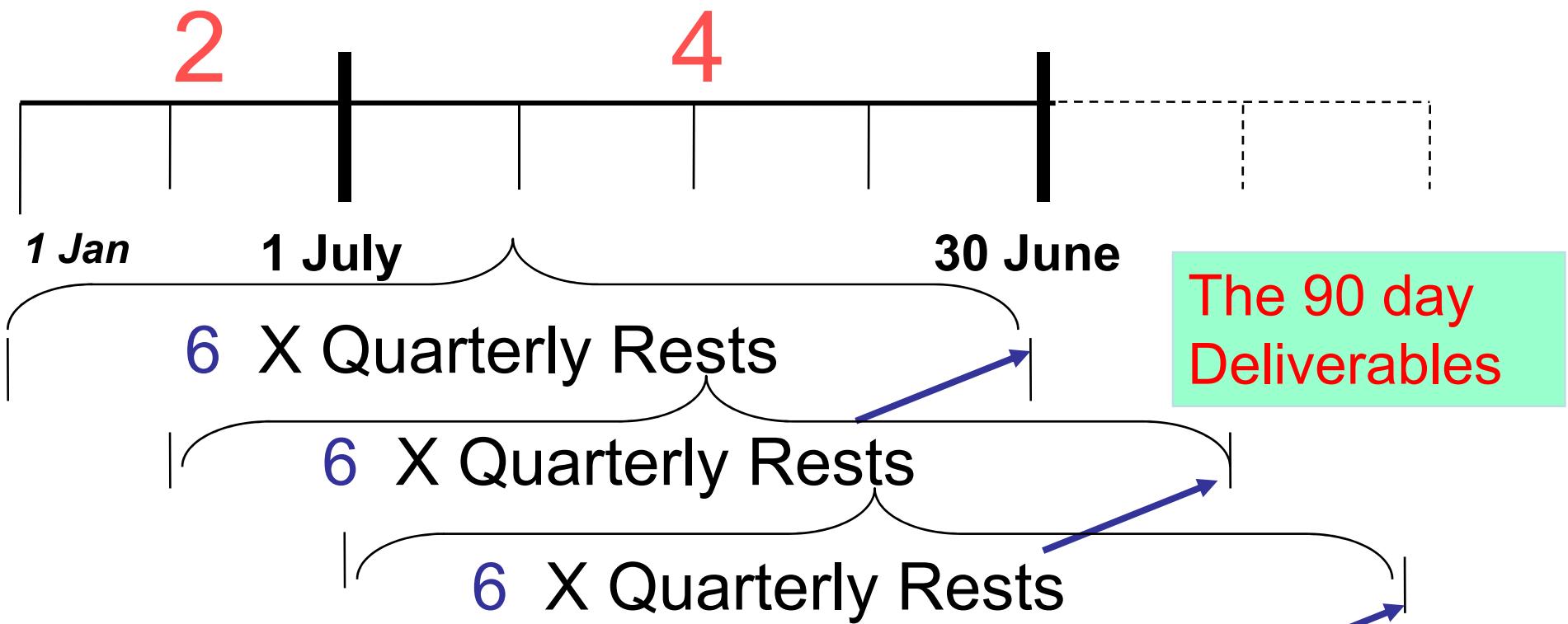
The annual budget is dead,  
long live the Rolling Forecast



“Since the first edition of this book, [ 2004 ] the rolling forecast has come to be seen as an almost universal best practice truth.

... rolling forecast process that extends the forecast over a consistent time horizon, typically four to eight quarters out, depending on the nature and cycle of the business”.

# NEW BUDGET FOCUS/APPROACH: 'ROLLING FORECASTS'



*Bye Bye Budgeting... “The annual budget is dead.  
Long live the rolling forecast.”*

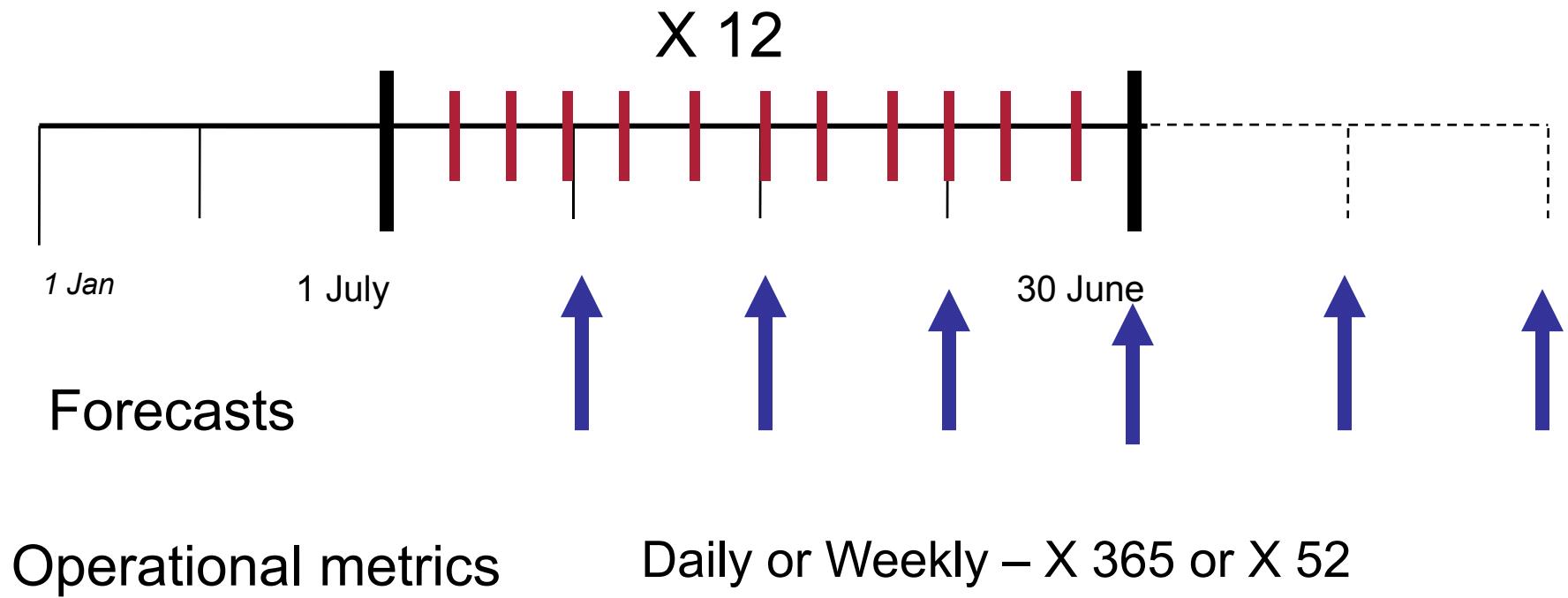
Annie Gurton, International Management Magazine

*Bye Bye Budgeting... “The annual budget is dead. Long live the rolling forecast.”*

- Month 1 - Day 1 – FLASH
- Month 2 - Day 1 – FLASH
- Month 3 = End Quarter – full 90 day review
  - performance for quarter against previous forecast of quarter
  - detailed quarterly review
  - rolling next quarter out for 5 quarters
  - add another quarter

# Monthly Reporting is DEAD

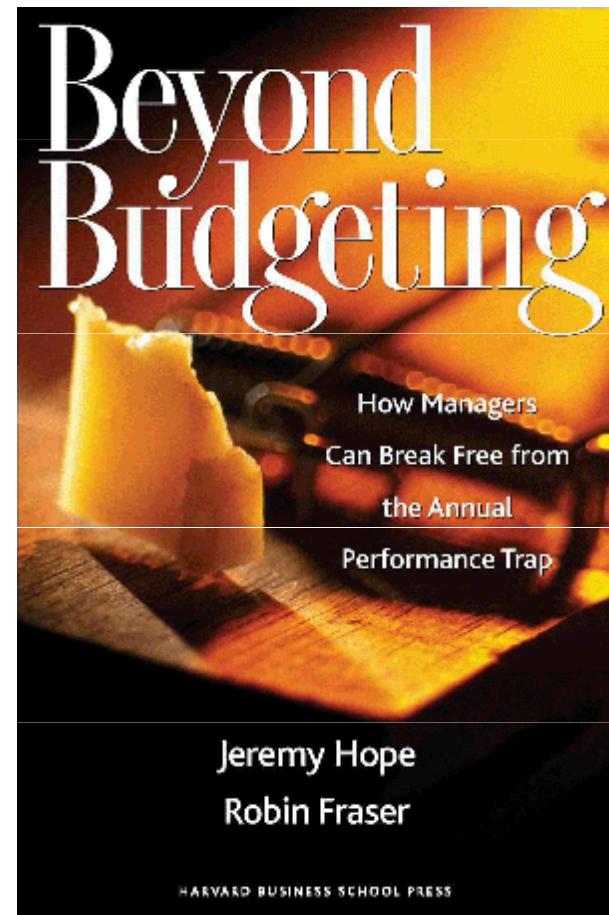
- > Report Key Metrics Daily and Weekly
- > Rolling Quarterly Forecasts



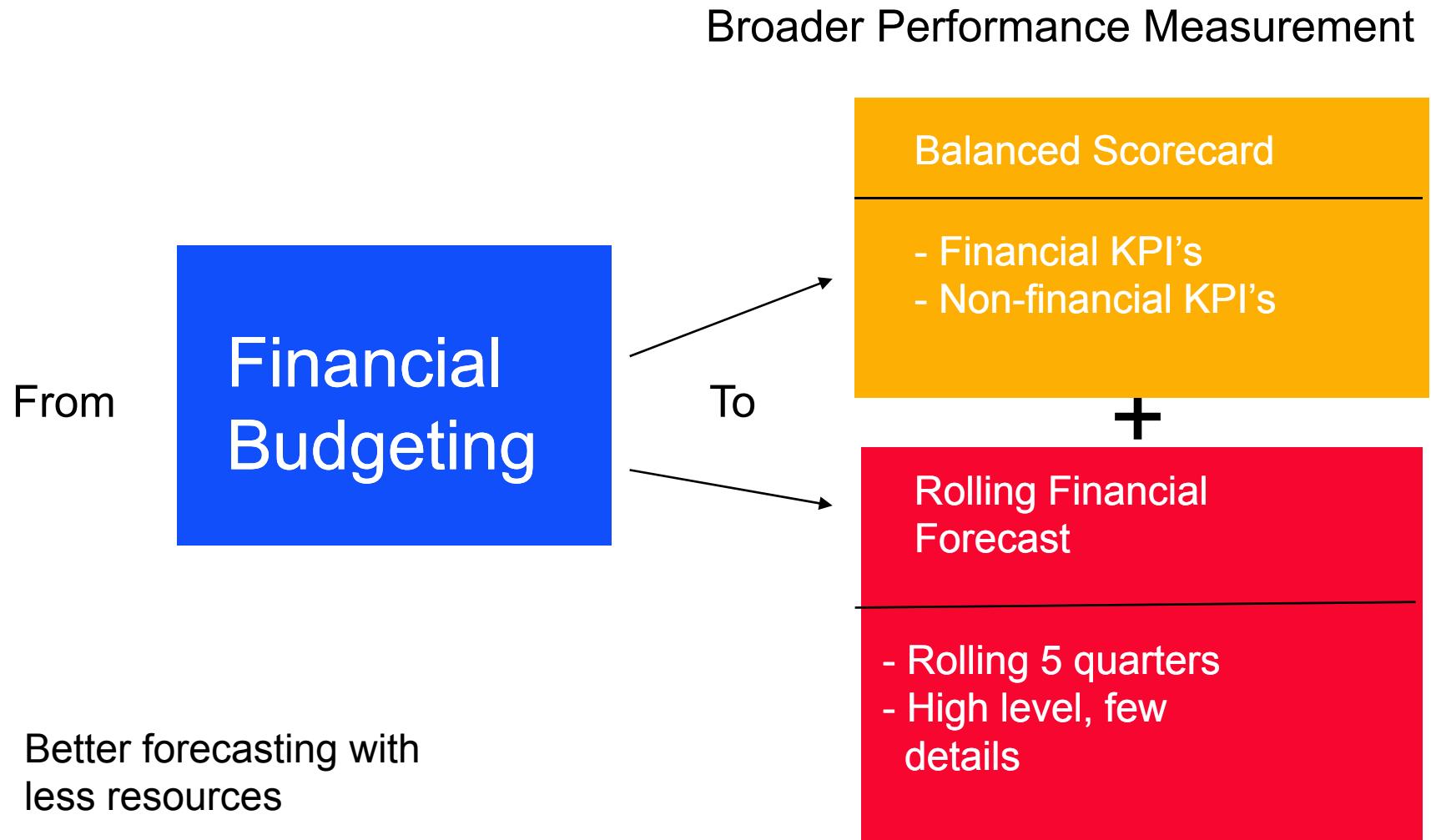
## Can Traditional Budgeting Thinking continue: Charles Horngren says ...

*“Beyond budgeting is ... a positive idea that uses the abandonment of budgeting as a trigger for improving the entire management control process.”*

Foreword by Dr. Charles T. Horngren, Littlefield Professor of Accounting, Emeritus, Stanford University, to the book “Beyond Budgeting” by Jeremy Hope and Robin Fraser, published by Harvard Business School Press in April, 2003. Dr Horngren is the author of “Cost Accounting”, now in its 11<sup>th</sup> edition.

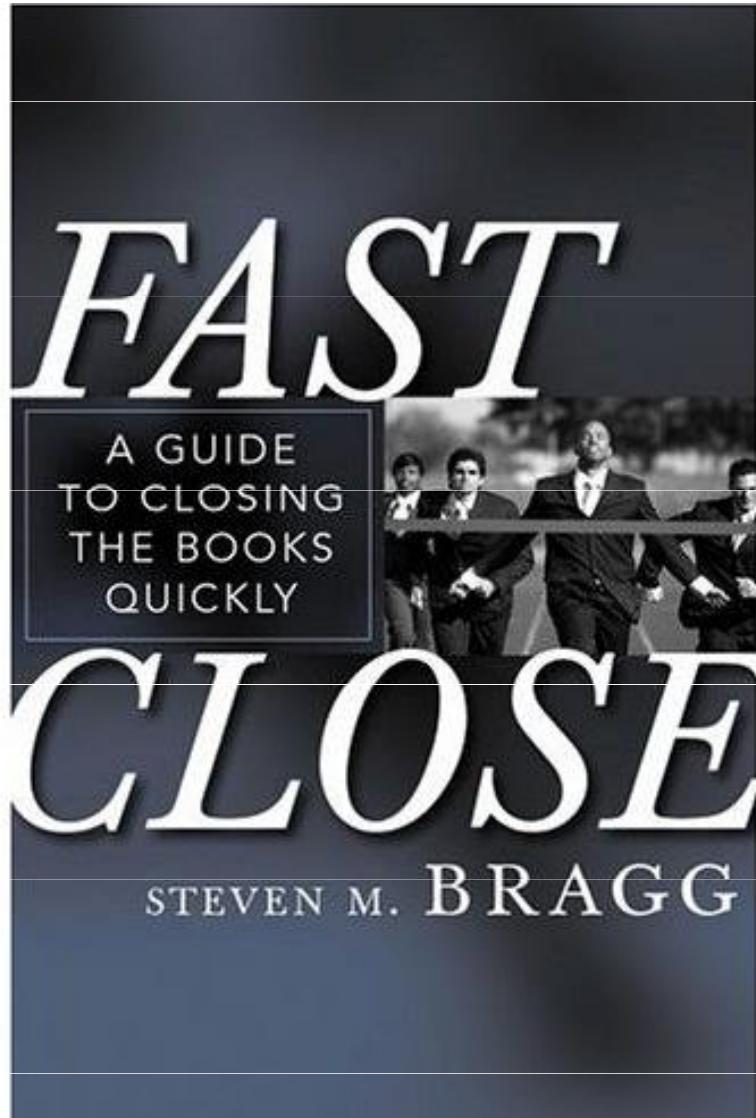


# BBRT- Separated Performance Measurement From Financial Forecasting



# New Tools & Techniques: Cover What the Budget Did, and Also a Lot More





Today's management accounting information is too late, too aggregated and too finance focused to be relevant for managers planning and control decisions; accountants need time to add insightful commentary on business performance:

Robert Kaplan.

# Reinventing the CFO – Jeremy Hope

## Reinventing the CFO



2006

Beyond  
Budgeting®

HOW FINANCIAL MANAGERS CAN TRANSFORM  
THEIR ROLES AND ADD GREATER VALUE

JEREMY HOPE

HARVARD BUSINESS SCHOOL PRESS

# Reinventing the CFO – Jeremy Hope

How Financial Managers can transform their roles and add greater value

- liberate CFO's from their number crunching responsibilities
- eradicate value-sapping work – such as irrelevant reports and overly detailed planning processes
- too much detail and complexity
- inadequate forecasting capability
- too many measures
- lack of risk management expertise

Reinventing  
the CFO



HOW FINANCIAL MANAGERS CAN TRANSFORM  
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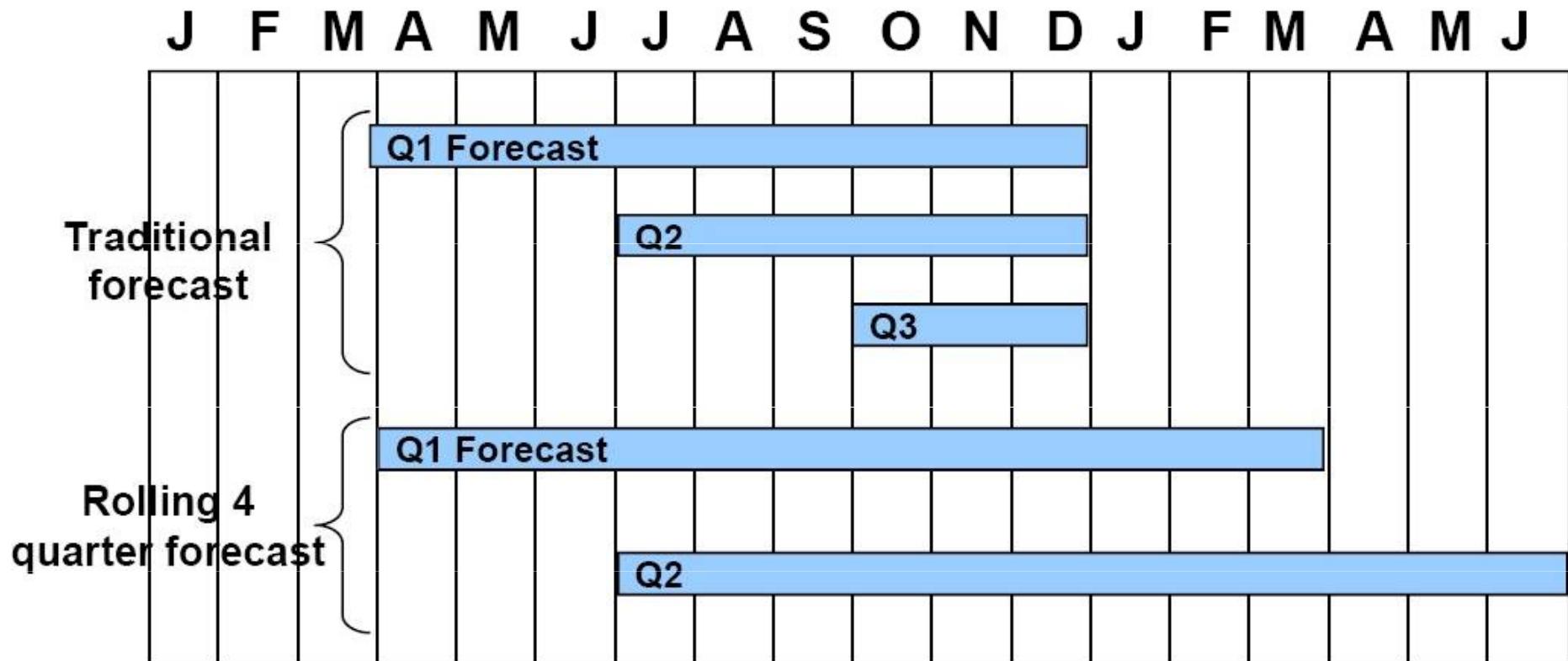
## Transforming performance management

*Author: Jeremy Hope, Beyond Budgeting Roundtable*

In ***Transforming Performance Management***, Jeremy Hope, co-founder of the Beyond Budgeting Roundtable, explains the six reasons why performance management systems so often fail to meet user expectations:

- Systems are too complex
- Information is too slow
- Systems are inflexible
- Forecast quality is poor
- Decision support capabilities are inadequate
- Systems lead to dysfunctional behaviour

# *Rolling forecasts provide a modern framework*

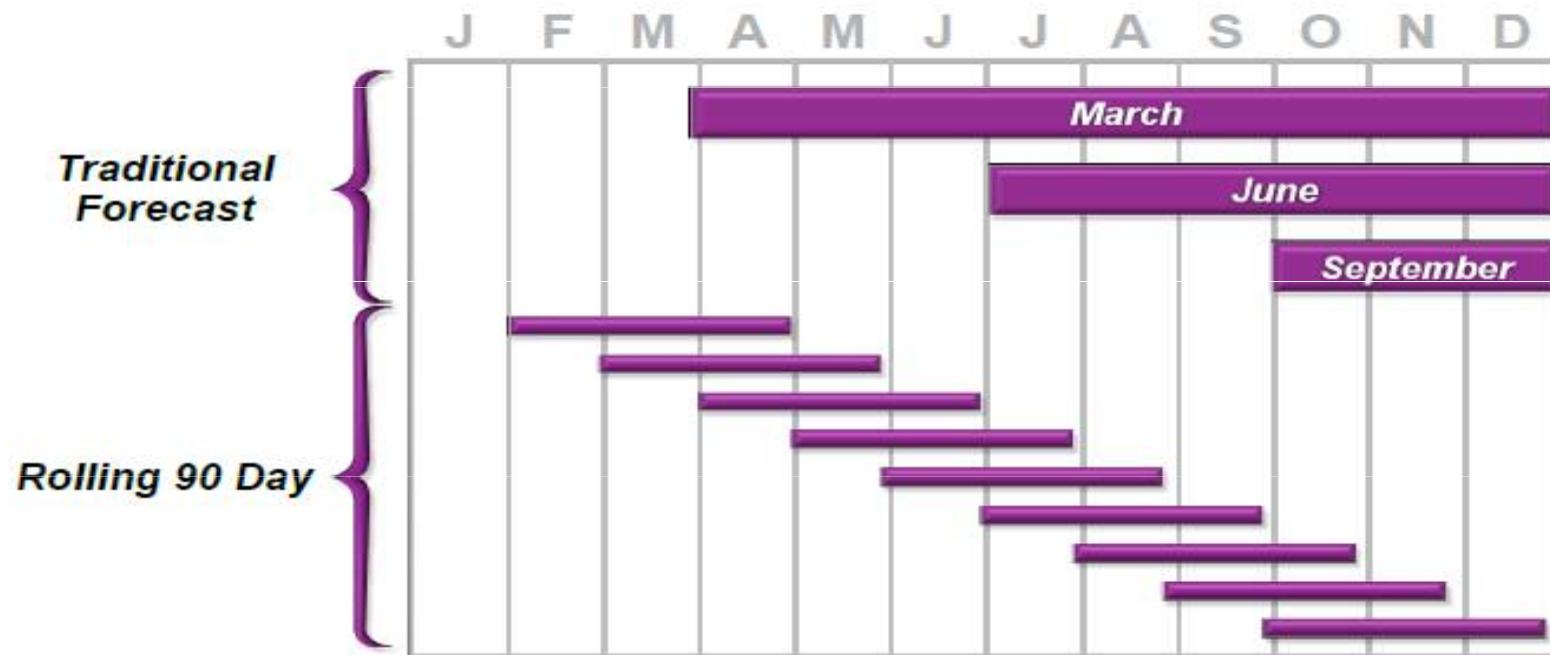


# David Axson – Rolling Forecast

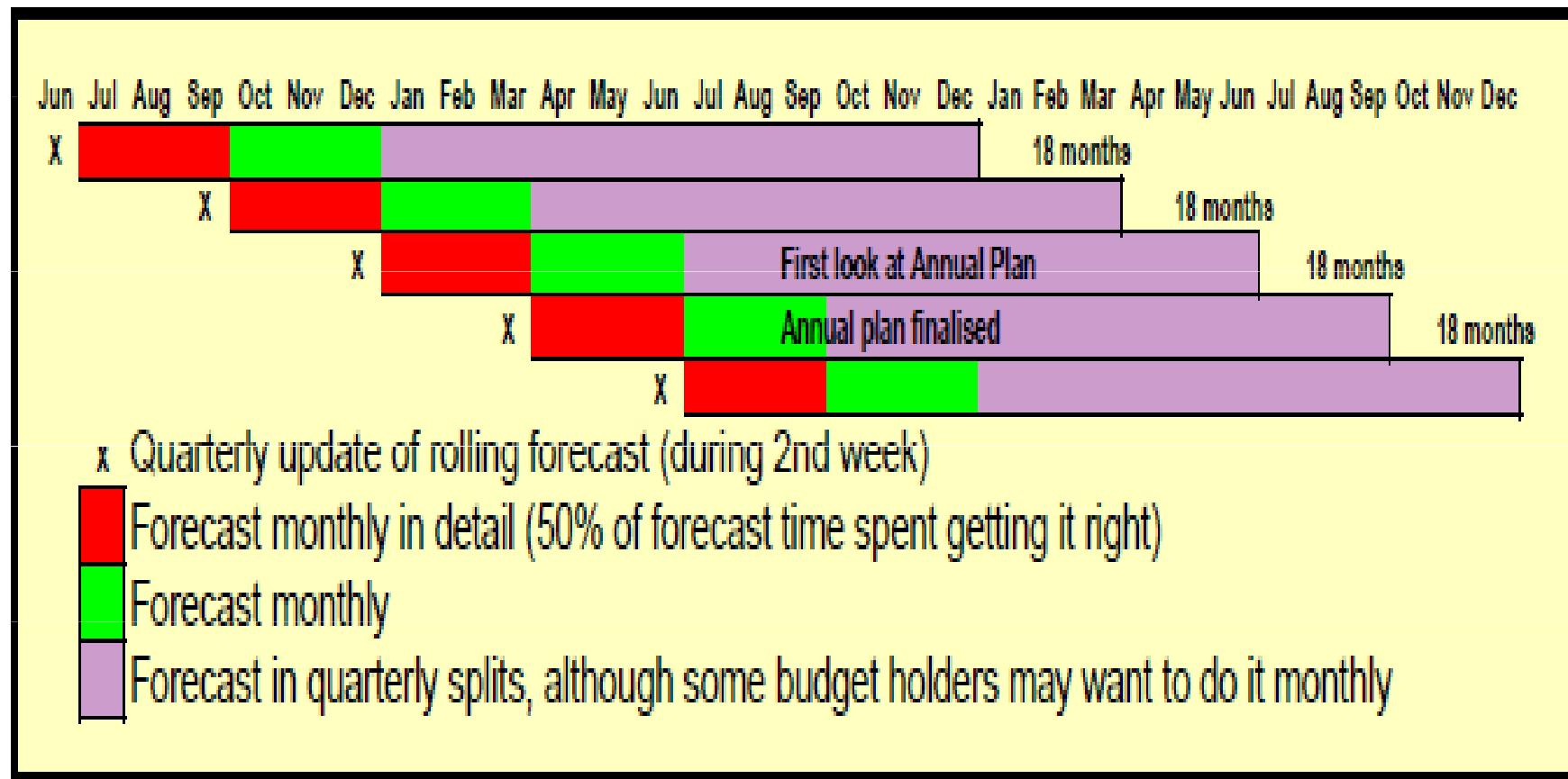
FINANCE FORUM 2009

IBM

***Forecast More Frequently But With  
a Shorter Time Horizon***



## Diagram of how the rolling forecast works for a organisation (June year end)



By David Parmenter ([davidparmenter.com](http://davidparmenter.com))

# The Next Step: BBR



ICAA  
Oct 2008

# BBBR: Broad Based Business Reporting

- there is clear scope for businesses to supplement reporting on financial performance with greater explanation of corporate strategy and the value drivers, and key performance indicators (KPI's) critical to understanding business success and prospects
- an awareness of material business drivers and risks is critical to managing effective long-term performance of the business



**DETAILED KPI GUIDANCE**



# BBBR: Broad Based Business Reporting

- Current internal management reporting is often a more effective tool than external reporting for communicating performance in executing the business strategy, managing business risks and providing a more complete and relevant information set
- BBBR is an enhanced awareness of material business drivers and risks is critical to managing effective long-term performance of the business

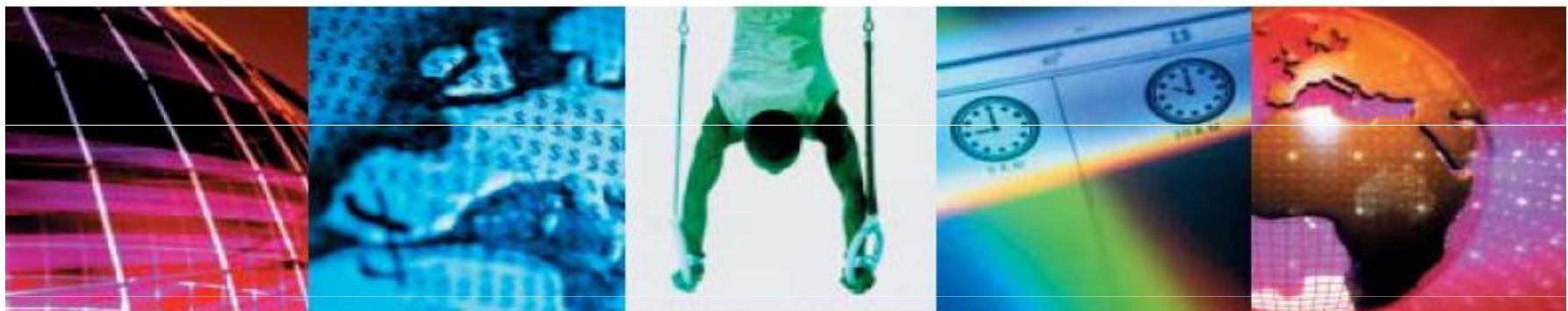
[www.charteredaccountants.com.au](http://www.charteredaccountants.com.au)





**International Federation  
of Accountants**

2005



**Enterprise Governance**  
Getting the Balance Right

# Strategic Scorecard



Figure 2: The CIMA Strategic Scorecard

# Strategic Scorecard

## The CIMA Strategic Scorecard

<p><b>Strategic Position</b></p> <p>This section lists the key areas of importance for the organisation. No more than ten issues and listed in order of importance e.g.</p> <ul style="list-style-type: none"><li>• Regulatory developments</li><li>• Technological developments</li><li>• Competitors</li></ul>	<p><b>Strategic Options</b></p> <p>This section lists the major 'strategic bets', and should contain no more than five.</p> <ul style="list-style-type: none"><li>• Merger in related business</li><li>• Outsourcing major process</li><li>• Major divestment and refocus of business</li></ul>
<p><b>Strategic Implementation</b></p> <p>This section lists major strategic projects that are in progress. Should be different from items listed under Strategic Options.</p> <ul style="list-style-type: none"><li>• Development of major new delivery channel</li><li>• Major relocation</li><li>• Expansion into Eastern Europe</li></ul>	<p><b>Strategic Risks</b></p> <p>This section lists the key strategic risk issues, in terms of appetite, process and actual risks.</p> <p><b>Risk appetite</b></p> <p><b>Process issues</b></p> <ul style="list-style-type: none"><li>• Risk review process</li></ul> <p><b>Strategic risks</b></p> <ul style="list-style-type: none"><li>• Employee retention</li><li>• Reputation</li></ul>