



IBM Global Business Services

Beyond Budgeting

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Agenda

- Introduction
- Planning excellence
- Commonly used PBF models
- Evolving the planning process

Introduction

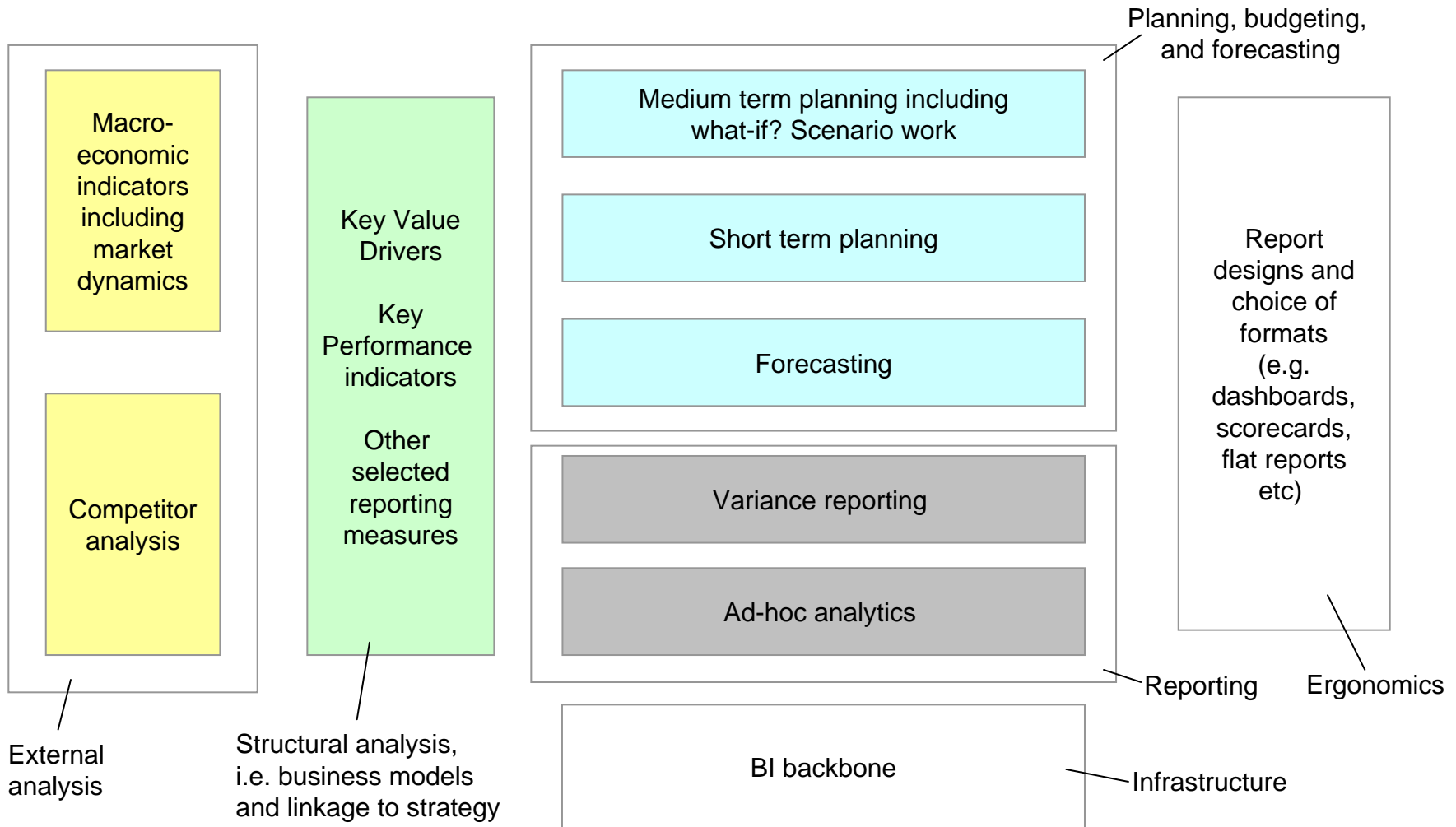
- What is your role in your organization
- What are you hoping to learn from the session today
- Are there any particular questions that you are hoping to address

Planning Excellence

What does planning excellence look like?

- **Relevant** – plans and forecasts are created in timeframes that allow decisions to be taken based on the information presented
- **Reliable** – incorporate the most recent data available, allowing managers to steer based on what is happening now rather than on what happened months ago
- **Collaborative** – business experts contribute insights to the process and review the plans to ensure that they are solidly grounded
- **Transparent** – communicated in the language of the business. Managers understand the levers they can pull to steer the business, and the impact of their decisions
- **Low-footprint** – the process is streamlined, allowing participants to focus on what the information is telling them and the decisions they need to make, rather than on crunching numbers
- **Integrated** – managers across the business use a consistent, enterprise-wide paradigm; the links between functions, such as the impact of sales on production, of production on distribution and so on are captured within the planning model
- **Continuous** – planning and forecasting continues on a rolling basis past ‘arbitrary’ breakpoints such as the end of the financial year, allowing managers to continue to use the planning process to steer the business at any moment in time

Performance Management – the broader picture



What are the benefits of an ideal planning process

- Business strategy is clearly articulated into executable steps via planning, budgeting and forecasting process
- Common understanding across the business of organizational goals, and how each part contributes to the overall plan
- Managers have clarity on what they need to do to achieve their plan
- More time is spent on delivering business objectives and less time is spent on PBF generation
- Finance is perceived more as a business partner helping with delivery of business objectives, rather than as an administrative function looking to set arbitrary constraints and requirements on business units

Commonly used PBF models

There are three main budgeting models used today

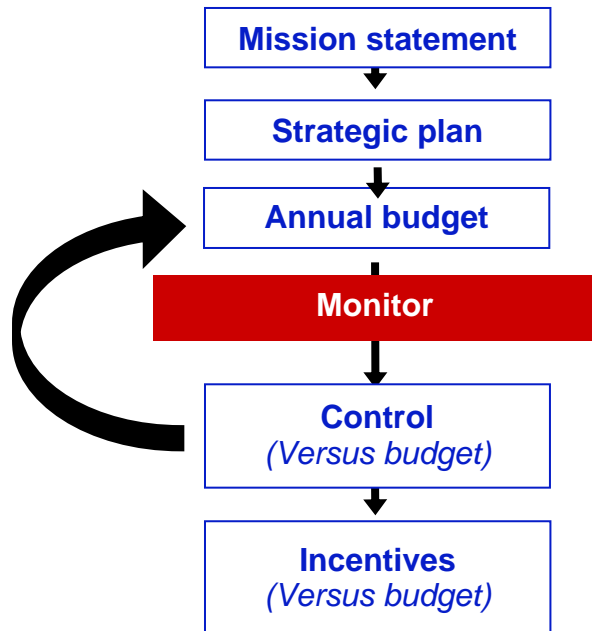
Traditional

Better budgeting

Planning Excellence

'Traditional' PBF model focuses on control but has limitations

- **Command and Control**
 - **Beat the budget**



Key Attributes

- Top down approach
- Rigid, structured budget procedure restricts flexibility in decision making
- Cooperation and communication between divisions can be limited
- Future plans based on past results
- Time consuming
- Can encourage gaming

Typical PBF issues our clients encounter

“We have a complete **lack of integration** between the business plan and the budget”

*“Our budgeting process strengthens **vertical command and control**”*

“We all focus on **data preparation** and little on analysis”

*“Luckily we have our **Excel wizard** to make sure all our input spreadsheets link to our consolidation sheets that link to our spreadsheet reports”*

“It is **unclear** what roles and responsibilities are linked to the planning process”

*“Our budget process causes damaging **“game playing”**”*

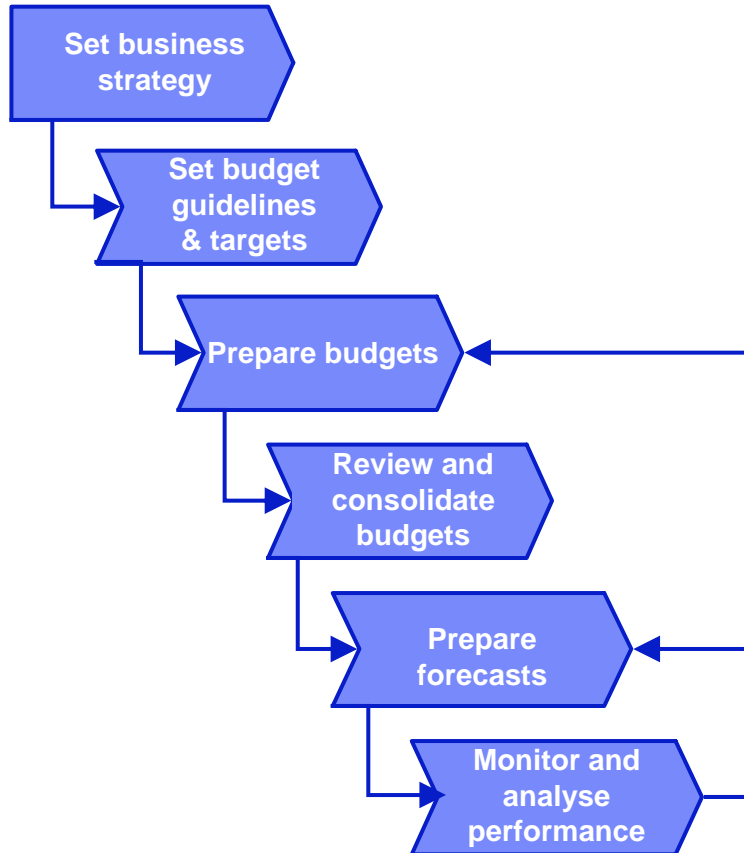
“We don’t have a **dedicated planning system** that allows us to enter, analyze, adjust and report on planning information”

“Our reporting system can not report all budgets and forecasts needed to understand our business with regards to products, markets or key clients”

“Our yearly **budget process** runs from September until January and is a **painful** and seemingly never ending exercise”

*“Our forecasting is not used effectively to **manage performance at a corporate level**”*

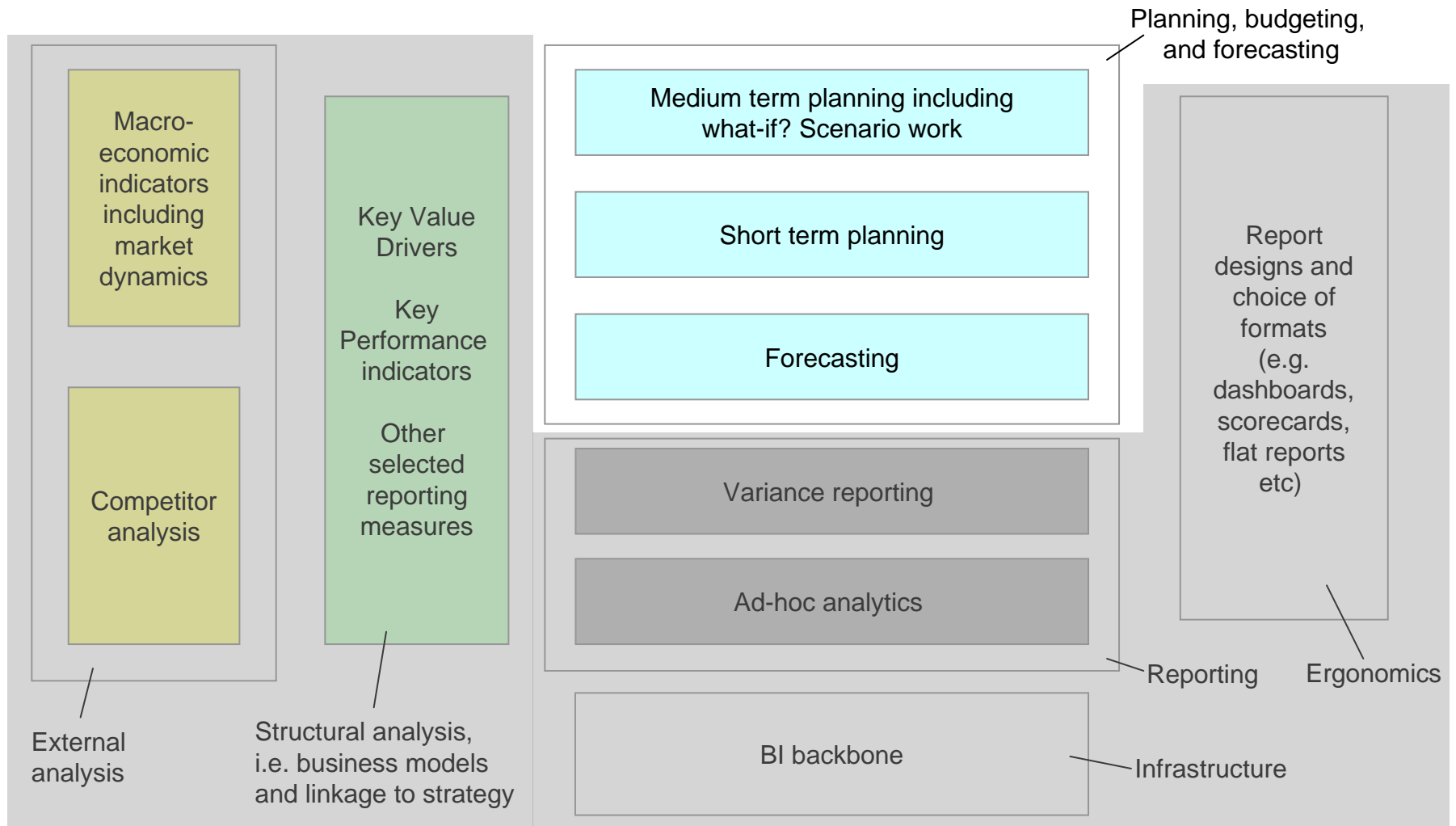
'Better budgeting' leverages latest technology for small-scale, incremental process improvements



Key Attributes

- Planning tools enable:
 - Single, integrated planning model
 - Distributed planning capability
 - Rolling forecast
 - Model consistency
 - On-line financial data
 - Workflow management
- Increased collaboration possible
- Driver-based planning and process simplification

Better budgeting is about improving the core PBF process



'Planning Excellence' provides a modular approach to achieving best practice at a pace and in a manner to suit the organisation

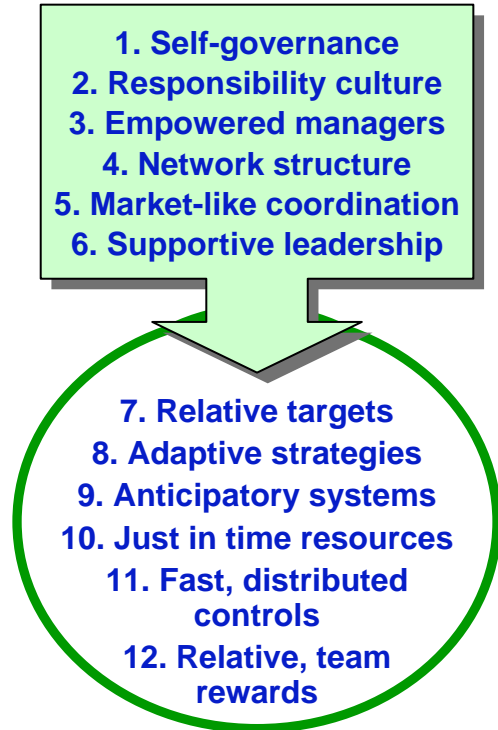


Key Attributes

- Operational plans aligned to strategic plans
- Targets externally focused, challenging yet achievable
- Rewards based on performance
- Performance measured relative to peers, external benchmarks, prior years
- The role of the budget (if any) is clearly defined
- Consistent planning model applied across the organisation
- Flexible, event-driven planning process promotes action and speed of decision-making
- Driver-based rolling forecasts reduce cycle-time, increase accuracy, enhance speed and agility
- Collaborative planning drives integration both within and beyond the organisation

Beyond Budgeting

- **Anticipate and Respond**
- **Beat the competition**



Key Attributes

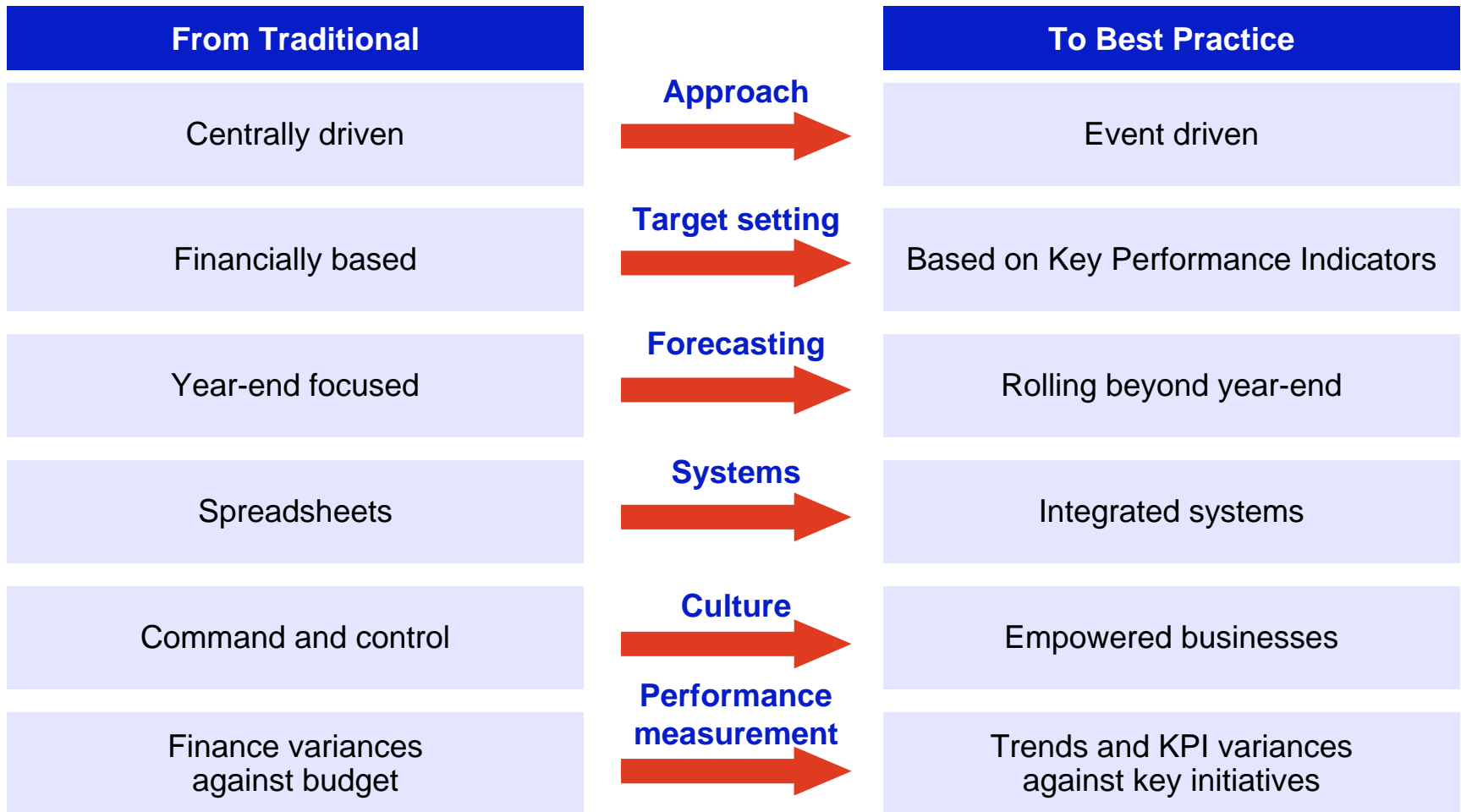
- Move beyond thinking only in terms of static budgets set at discrete points in time
- Devolved and continuous planning and resource management
- Relative goals and rewards
- Open and transparent information
- Dynamic co-ordination
- Robust management information systems support business control framework

Beyond Budgeting model is principles based

Managing with adaptive processes	Managing with a devolved organisation
<ol style="list-style-type: none">1. Base goals on maximising performance potential2. Base evaluation and rewards on relative improvement contracts, with hindsight3. Make action planning a continuous and inclusive process4. Make resources available as required5. Co-ordinate cross company actions according to prevailing customer demand6. Base controls on effective governance and on a range of relative performance indicators	<ol style="list-style-type: none">1. Provide a governance framework, based upon clear principles and boundaries2. Create a high performance climate based on relative success3. Give people freedom to make local decisions that are consistent with governance principles and the organisations goals4. Place the responsibility for value creating decisions on front line teams5. Make people accountable for customer outcomes6. Support open and ethical information systems that provide 'one truth' throughout the organisation

Evolving the planning process

Analysing the components of PBF



1. Agree the vision for the organisation: Where do you want to be?

	Traditional Model	Better Budgeting	Planning Excellence	
Options	Command & Control	'Light touch' Control	Empower & Monitor	Empower & use market forces to monitor
Processes				
Planning & Budgeting Approach	<ul style="list-style-type: none"> Centrally driven Bottom up "Do it" 	<ul style="list-style-type: none"> Centrally driven Top down 	<ul style="list-style-type: none"> Based on initiatives Integrated process between plan & budget 	<ul style="list-style-type: none"> Event driven Based on initiatives Integrated process between plan & budget
Target Setting	<ul style="list-style-type: none"> Financially based Prescriptive Annual basis 	<ul style="list-style-type: none"> Financially based Some negotiation Annual basis 	<ul style="list-style-type: none"> Targets linked to performance not budget Use of "stretch" targets 	<ul style="list-style-type: none"> Targets linked to external factors and growth Long term value creation
Forecasting	<ul style="list-style-type: none"> Reactive Year end position Flex on budget 	<ul style="list-style-type: none"> Quarterly Outturn 	<ul style="list-style-type: none"> Rolling financial forecast 	<ul style="list-style-type: none"> Integrated rolling forecast based on demand, supply, and finance
Systems	<ul style="list-style-type: none"> Stand alone planning Limited integration Hierarchical reporting 	<ul style="list-style-type: none"> Stand alone planning Some integration Hierarchical reporting 	<ul style="list-style-type: none"> Integrated systems & best of breed planning applications "Business Model" driven 	<ul style="list-style-type: none"> "State of the art" or not relevant
Culture	<ul style="list-style-type: none"> Short term focus on ROI 	<ul style="list-style-type: none"> Focus on achieving financial measures 	<ul style="list-style-type: none"> Focus on achieving strategic intent Business mentor 	<ul style="list-style-type: none"> Focus on achieving strategic intent "Opportunistic"
Performance Measurement	<ul style="list-style-type: none"> Financially based 	<ul style="list-style-type: none"> Mix of financial measures, some non financial 	<ul style="list-style-type: none"> Balanced scorecard cascaded to organisational unit 	<ul style="list-style-type: none"> Balanced scorecard cascaded to role Focus on leading indicators, e.g. customer and people

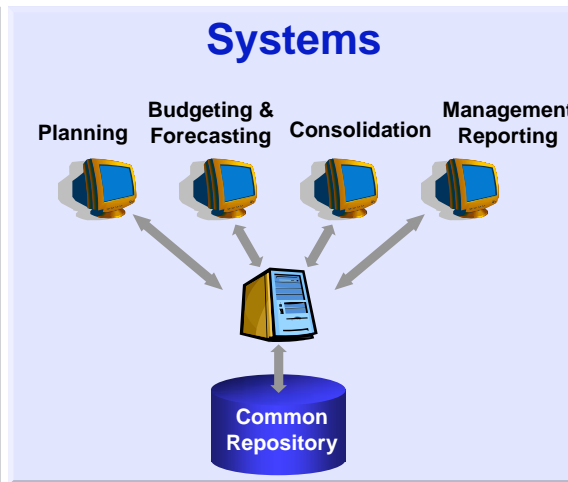
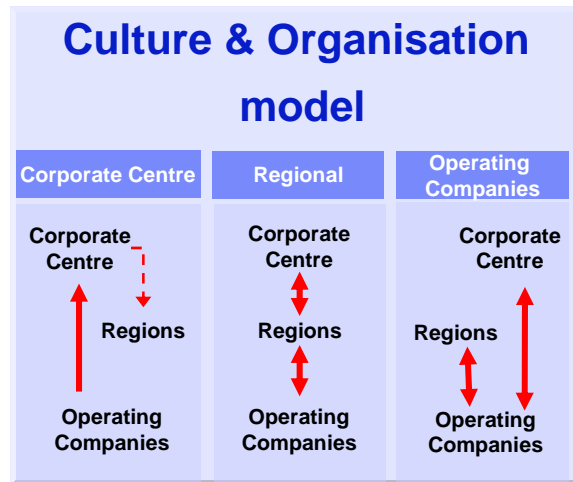
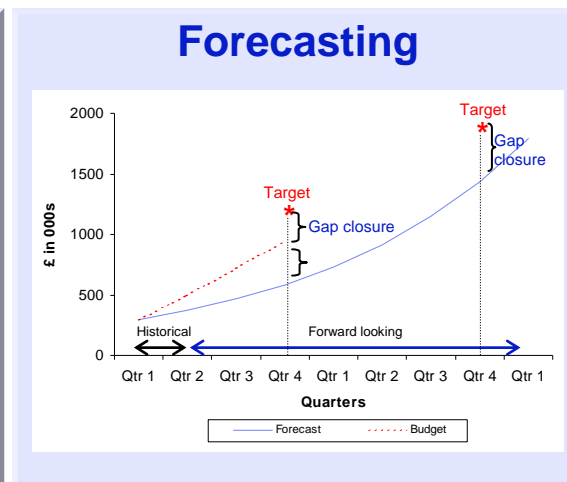
Example: Current Position Desired future position

2. Agree the high level design principles

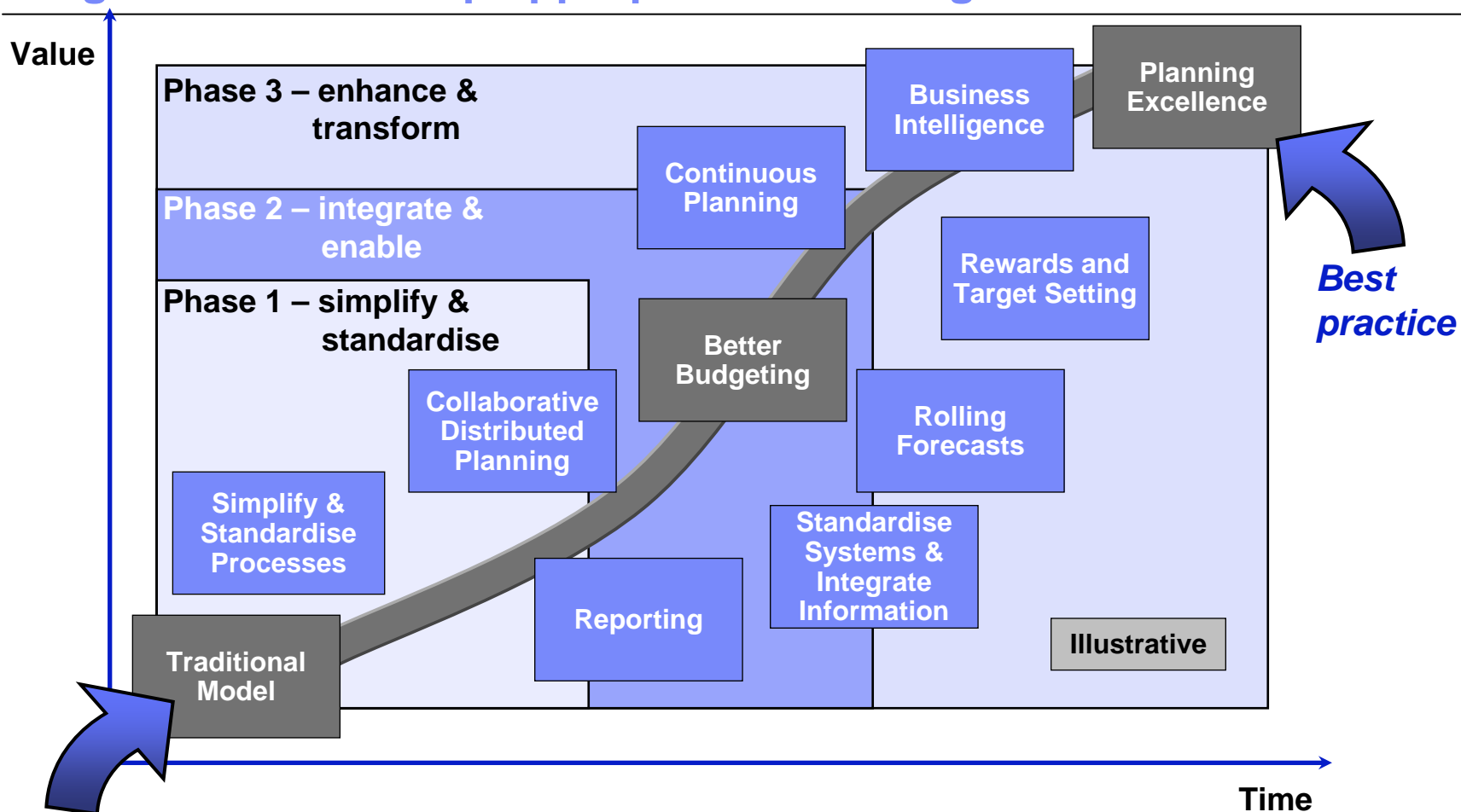
For Example

- Fully integrated management process: business plan, forecasting, and reporting
- Commonality of process across the group where appropriate with varying levels of detail for forecasts
- Targets set at appropriate (e.g. Business Unit) level, tight link with strategy, and refreshed if strategy changes
- Medium-term plan based on rolling forecasts for trajectory of business as normal
- Gap between target (using external indicators) and business as normal is closed by identifying initiatives
- Rolling financial forecast based on rolling sales forecast and other costs drivers.
- Rolling forecasts maintained regularly, with weekly/monthly data, for e.g.18 month time horizon, updated by event or quarter
- Budget will be a snapshot of the rolling forecast to provide short-term reference and control framework
- Forward looking process predicts outturn for year, comparison to business plan
- Design will take into account usability of selected BI solution, seeking to balance between functionality and effort

3. Agree design principles for every element of the planning models



4. Agree the route map appropriate to the organisation



 Destination and route varies according to the culture and readiness of each organisation