



Make Planning More Strategic

Benchmark Research Shows Companies Can Improve Planning and Budgeting

by Robert D. Kugel CFA | 6/6/2008 | Article ID: V08-21 | Article Type: VentanaView | © 2008 Ventana Research

Summary

Ventana Research recently completed extensive benchmark research on how companies [plan and budget](#). Planning and budgeting are fundamental to performance management. Ideally, they are how companies harmonize the sometimes conflicting objectives of departments and business initiatives and align operations with strategy. In our view, planning and budgeting ought to be a structured dialogue about the future – structured in the sense that there are concrete, measurable goals (revenues, market share, units produced and so on) and definable constraints (spending and investment). Planning and budgeting also create baseline objectives against which performance can be assessed at the company, business unit and individual levels. While our benchmark research shows that some companies have achieved an advanced state of planning and budgeting maturity, more are lagging. We urge CFOs and controllers to take a fresh look at their process, with the goal of making it more relevant to managing the business and supporting performance improvement efforts.

View

Companies increasingly have embraced performance management so they can respond more effectively to an increasingly 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 initiatives. Planning should be the basis for objective assessments of performance and the efforts of all corporate units and individual employees. Planning in this sense goes beyond financial budgeting by explicitly integrating both operational and financial projections. In practice, however, our found that most companies have considerable room for improvement to achieve this ideal.

Ventana Research asserts that planning and budgeting ought to provide a company with five basic benefits:

- Insight into its performance and the factors that drive results
- Accuracy sufficient to support smoothly functioning operations and financial management
- Alignment of corporate, departmental and individual objectives
- Agility to enact coordinated responses to change
- Collaboration across the organization to ensure clear communications (a necessary component that supports the first four items on this list).

We find that organizations make two fundamental errors that prevent them from fully realizing these five benefits. First, they focus on budgeting more than planning. People tend to use the terms interchangeably, but there are important differences. 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. Planning is about what's possible; budgeting is about setting limits. Too often, planning is an implicit – not explicit – part of budgeting. In this case, important assumptions about the things that drive a business (the people and things behind the budget numbers) are not shared and thus are not available when reviewing performance.

Second, many companies fool themselves about the effectiveness of their process. We find disconnects between people's assessments of how well they are managing their planning and budgeting process and how well they might actually do. For example, a majority of research participants said their budget is closely aligned with the company's strategy. Yet when asked what objective for improvement they want to implement, these same people said they want to enhance strategic alignment. Similarly, though half said their budgets are accurate, many of these people want to improve their accuracy.

Our research has shown repeatedly that software can be an important component in how effective planning and budgeting are. A majority of companies continue to use desktop spreadsheets to manage the process. Yet the research confirms that users find spreadsheets fall short of dedicated planning and budgeting applications when it comes to handling financial budgeting, sales and operational planning, cash-flow forecasting, capital budgeting, compensation planning and HR planning effectively. While desktop spreadsheets are an invaluable tool for finance and some other parts of a company, they have inherent limitations when applied to repetitive and collaborative processes and cause planning and budgeting to be less effective as a performance management tool. Dedicated applications (including those that use spreadsheets as the user interface) do a better job because they do not have these limitations. Not long ago, dedicated applications were available only to large corporations because of their cost and the complexity of managing them. Today, however, all midsize and larger companies (those with 100 or more employees) have multiple options that can fit their operating (and operating budget) requirements.

Assessment

Our research shows that a majority of companies have considered making changes to their planning and budgeting activity within the past 18 months. Often, the changes they put in place are relatively minor, aimed at tweaking the process without addressing fundamental issues. Yet some have made major modifications designed to make this more than a yearly financial exercise. We urge CFOs and controllers to consider how making their planning and budgeting process a more useful management tool could enhance their corporation's competitiveness and profitability by integrating it more closely with performance management initiatives. For companies contemplating change that still use desktop spreadsheets to support the process, we advise them to consider alternatives that would make implementing fundamental changes much easier.

Related Research Notes:

[Planning and Budgeting Remains Immature](#)

Few companies have tied it to performance management

[Plan While You Can](#)

Seize the opportunity to adopt driver-based planning

[The Importance of Planning in Midsize Companies](#)

Appropriate planning and budgeting is key to performance management

[S&OP – A New Approach to the Single Enterprise View](#)

S&OP integrates fragmented plans to improve operational performance

[Keep Sales and Operations Planning Simple](#)

Research shows that best-performing companies create aggregate plans and review them monthly

[When CFOs Should Consider SaaS](#)

Increasing options are attracting finance organizations

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