Prophix

Future of Finance: Today's Reality (2018)

Five steps to better align budgets and strategy

What is the starting point for your annual budget? We all know that the right answer, in an ideal world, is the organisation's strategy. The budget should flow from this, providing support where needed, and cutting where required, to support leaderships' goals. But how often does this ideal become reality?

A Prophix white paper

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Introduction

According to respondents of Prophix's Future of Finance audit, not as often as we would all like. 12.5% of respondents told us that the reference point for each year's budget is not the strategy, but last year's budget. In fact for this group, there is no real reference to corporate strategy in the budget at all. A further 45% said that the strategy is only referenced at the highest level in the budget. Beyond that, it's last year with a few modifications.

30% say that budget and strategy are closely aligned. And just 12.5% reach the ideal, saying that each year the starting point for the budget is the latest iteration of the strategy.

What this shows is a continuum of progress for finance organisations around the world. As with all other aspects of maturity in Corporate Performance Management, some organisations are pulling ahead and others have some way to go. Almost every organisation is on a journey towards improvement, albeit moving at very different speeds.

This paper is aimed at those in the majority of organisations for whom budget and strategy are at best aligned at a high level. How do you take the next steps? Based on the feedback of your peers who have managed to bring budget and strategy into closer alignment, what can you do?

Carve out time

At the most recent Prophix User Conference, we engaged a group of around 100 finance professionals in a workshop conversation around the results of the audit, and discussed people's challenges and their stories of success. Those who had made the greatest strides in advancing their Corporate Performance Management had one thing in common: they had carved out time for a more strategic focus.

How did they do this? The single most common answer, unsurprisingly, was automation. All had made some capital investment in moving away from manual processing and automating the production of reports and forecasts. This had, at minimum, smoothed out the workload across the year and freed up time for more proactive work.

Some respondents had the luxury of increasing headcount, having made the financial case for investment in better strategic planning and operational insight. Some had carved out time by changing the budgeting process through collaboration – more on this below.

Whatever the steps you take – and these will depend on the situation at your organisation – the first thing to do is assign a defined chunk of time to strategic planning, then find a way to carve that chunk out.

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Change the engagement

Part of the challenge in aligning budgets with strategy is that finance is often involved too little or too late in the strategy-setting process. 60% of those who took the audit say that finance's role is limited to providing historical evidence of performance, or validating other people's proposals based on that evidence. 20% are involved in validating other people's hypotheses, and just 22.5% get to define future scenarios.

In order to better align budget and strategy, finance must be more deeply involved in the strategy-setting process from the start. The budget should be built alongside strategy rather than retrofitted to it at the end – a process that inevitably has to be completed in a very short time frame, leading to the limited alignment between budget and strategy.

Advancing finance's role in this process isn't necessarily simple. It's about personal and career development for those involved in the planning side of the function, as much as it is about organisational change. But developing this greater participation is crucial.

Figure 2. Financial planning responsibility is...

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Build collaboration

Two thirds of respondents complain about the amount of time taken up by the budgeting process, with many saying that multiple revisions consume three or more months each year. But a third report a much more efficient process. A collaborative process that engages all of the different teams in the business to contribute their information.

A contributive budgeting model doesn't inherently mean better strategic alignment. Without the right culture and conversations, people may well be tempted just to return a lightly tweaked version of last year's budget. A truly collaborative model would make this process part of a wider conversation about strategy that sees the budget built alongside the strategic plan.

But offloading some of the budgeting headache to other functions can certainly help carve out time. And if the process is well constructed, it can put finance at the centre of the strategic conversation and improve the quality and depth of that conversation.

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Get in the driving seat

In some organisations, the challenge is not that finance isn't included in the strategic conversations, it's that there is no strategic conversation at all. Or what conversations there are, are ill-informed and poor quality.

Part of the transformation involved in improving Corporate Performance Management is shifting the focus of finance from the past to the future, and from the inside to the outside. Finance is uniquely positioned to provide rigorous analysis of not just the company's performance but the behaviour of customers, suppliers, distributors and the wider market. It has both access to the data and the skills to understand it.

Sharing this insight with leaders in sales, marketing and operations can be the basis for starting a better strategic conversation, especially if it is combined with a perspective on what's happening beyond the immediate business environment – something that is so often lacking in strategic conversations. Finance may not be able to own the strategic conversation, but it can be the catalyst for improving it.

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Model scenarios

Too often the challenges of the budgeting and planning process mean that the organisation can only afford to produce a singular view of the future. Ultimately there will always be one plan, but modelling multiple scenarios before that plan is defined allows for a much deeper discussion about strategy and more confidence in the path that is chosen.

With the right skills and systems in place, finance can model multiple future scenarios based on today's data and make real the potential impact of different strategic decisions. This is a powerful platform for collaboration across all functions of the business.

Next Steps

None of these steps can be taken overnight and all require some form of investment, be it time, finance, or political capital. But the benefits of these steps are without question. Through our work at Prophix on the Future of Finance, it has become clear that the finance function has a huge role to play in helping organisations adapt to a more fast-changing environment. Part of that adaptation is the ability to see changes coming earlier, build a response, and translate that plan into action, and the strategic planning process is where much of this foresight and development takes place.

Releasing time for greater strategic insight and enriching the planning process with information on multiple future scenarios will help to develop a more agile, future-ready business, shaped to deliver sustainable success over the long term.

About Prophix

Your business is evolving. And the way you plan and report on your business should evolve too. Prophix helps mid-market companies achieve their goals more successfully with innovative, cloud-based Corporate Performance Management (CPM) software. With Prophix, finance leaders improve profitability and minimize risk by automating budgeting, forecasting and reporting and puts the focus back on what matters most – uncovering business opportunities. Prophix supports your future with AI innovation that flexes to meet your strategic realities, today and tomorrow. Over 1,500 global companies rely on Prophix to transform the way they work.

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