Key considerations for improving the budgeting process while engaging stakeholders along the way.

BUDGETING TO STRATEGY *AND* MAKING BUDGETING STRATEGIC

XLERANT

energizing a culture of budget accountability

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TWO QUESTIONS:
Does your organization budget to strategy or to history and politics?
Is the budget function a strategic one in your organization or a mechanical one?

Most organizations have a strategy or vision for what they want to accomplish over the foreseeable time horizon. But the budget process is still disconnected from the strategy in most organizations. This disconnect is detrimental and unnecessary. The main reason a strategy will fail is that it is not supported or funded.

The primary role of the budget is to maximize and prioritize the institution's critical resources and to show how it will fund and execute the strategy over the next fiscal year. This is a simple concept, but lost on many organizations today. Ownership and participation are required in order to achieve this central objective…and to this end, the best thinking comes from the department heads. Additionally, this approach requires that the financial team (and CFO) treat the budget process as "mission critical" and strategic – *not* a mechanical exercise in putting numbers on a two-dimensional spreadsheet. Without these two basic underlying principals, the institution is doomed to a very poor budget process.

This eBook explores ideas for how to successfully budget to the organizational strategy.

Have a strategy: Well it might be obvious, but developing a strategy and communicating that strategy is the required first step. Many organizations either fail to develop the strategy or fail to effectively communicate or sell the strategy within the organization. It is impossible to budget to strategy if you don't have one or if it is not well-communicated.

Treat budgeting as a "mission critical" application: Budgeting is not a mechanical exercise. It requires thinking, communication and flexibility. Organizations must recognize the critical importance of this function in the overall process. It is important to recognize the key stakeholders in the budget process and what they want and need. The key stakeholders are finance, department heads, the CEO, management and IT. Organizations must treat the budget process with the same level of importance as the monthly closing process.

Budgeting must be collaborative: Strategy requires collaboration. It is essential to have a budget solution that supports a collaborative process. Collaborative budgeting means that groups can participate together, approval processes are fully integrated or woven in, and that the pillars of the organization's strategy are well communicated and budgeted to. It also means that various ideas and plans can be shared by individual departments and scenarios can be tested for profitability.
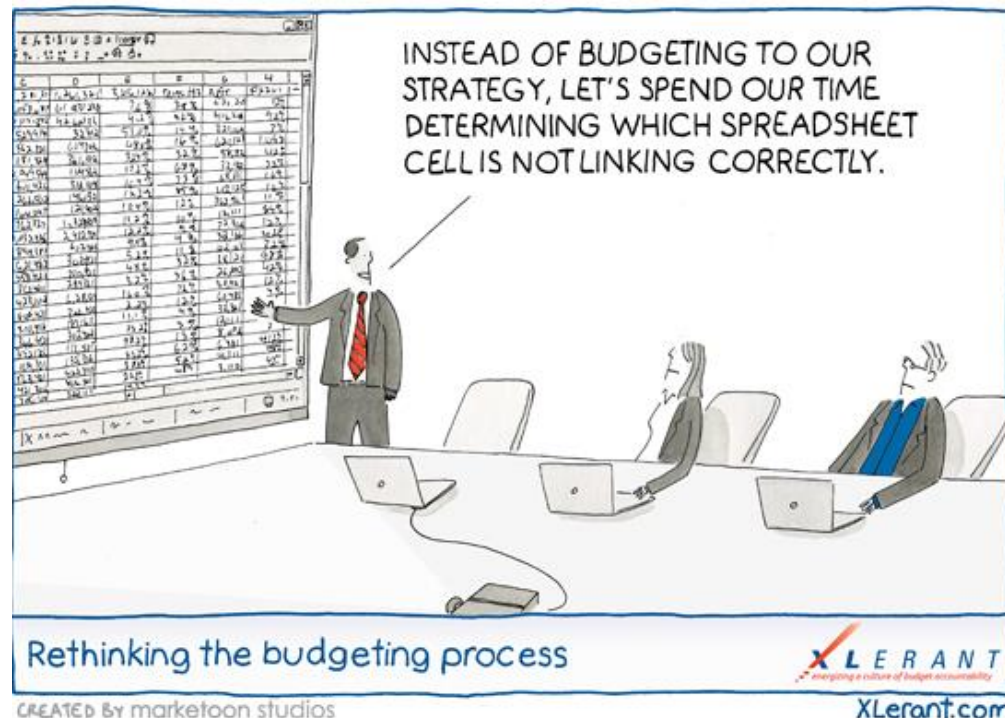

Support
Collaborative Budgeting

Focus on the user experience: In order to budget to the organizational strategy you must focus on getting the support, commitment and best thinking of the department heads. In the book "Competitive Strategy" by Michael Porter, the author outlined the importance of aligning short and long term departmental goals and objectives to the overall strategy. The best place to accomplish this is in the budgeting and forecasting process. But to be successful, you need to entice the departmental user into the process and offer the right user experience - one that allows them to budget their departments the way they think about them *and* offer the right tools to help them budget to strategy. Think Turbo-tax for budgeting, not spreadsheets or forms.

Providing flexibility: Users in different functions have different needs. They complain that Excel budgeting does not let them budget their departments the way they think about their departments nor align their budget to the strategy. No wonder they hate the process. Providing the flexibility for people to budget different accounts different ways, within the aforementioned user-friendly Turbo-tax-like environment is a key to success.

Support communications: Many organizations view the budget process as a financial exercise instead of a communications one. If budgeting is a financial process, why are 95% of the users non-financial people? The role of the budget is to justify how each department is going to fund the strategy of the organization over the next fiscal year. This requires the ability to justify, annotate and document different numbers and tie the budget to the strategy. Plus individual departments would like to propose initiatives and plans that support the strategy. If you don't account for this, you are budgeting to history or politics.

Provide intelligent budget functionality: Providing the right functionality is critical to budgeting to strategy. Budget intelligence allows for revenue, expense, headcount and equipment planning. In addition, you must allow for scenario management, situational budgeting to support different user needs, intelligent spreading algorithms, pragmatic what-if and a host of other practical pre-built functional needs.

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Provide the right reporting and analytical capabilities:
Budgeting to strategy requires careful planning in the reporting and analytical processes. This requires simple budget review reports, budget approval and audit trail reporting, consolidation reporting, variance reporting as well as special analytical reporting. Having the right mix of pre-packaged, but configurable reports and customized reporting is essential. But people do not want to learn new reporting languages. So offering the ability to use tools like Microsoft Excel as a lens into the resulting budget database can dramatically improve the overall process and easily add to the value of the budget.

Treat budgeting as an on-going process:. Finance often believes that it is difficult enough to actually create the budget - let alone revise it as the fiscal year unfolds. But a good system will allow organizations to do forecasts by marrying actual results with budgets, and easily allowing for fresh assumptions and revisions to keep the numbers accurate based on the reality of the year.

Be open to "change": Change can be scary to many people. But there is good change and bad change. Organizations wishing to budget to strategy must be open to good change. In this context, safe is the new risky. In other words, being unwilling to improve the budget process and change the way things are currently done in order to handle budgeting to strategy will be the riskiest path for an organization. This will require change....good change.

Select the right technology for the job: Choosing the right technology for the budget process can improve your ability to budget to strategy. Eliminating Excel budgeting is essential. Here are some key technical requirements. First, choose a product that offers budget intelligence. This means a pre-packaged solution that already has the user experience and functionality built in - so that you don't have to build it. Second, this requires a true database application so that finance does not need to manage a multitude of spreadsheets, do rekeying, or worry about errors. Finally, budgeting is perfect for cloud computing which requires no hardware or software and can be accessed for budgeting and reporting anywhere.

Contact us for more information on how you can utilize systems designed to better handle budgeting to strategy.

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LEARN HOW TO BUDGET TO STRATEGY

About the Author

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Ted Dacko serves as CEO of XLerant, the leading provider of the SaaS cloud-based budgeting software product BudgetPak. Prior to joining XLerant, Ted has led four other software firms as CEO. Most recently, Ted was CEO of HealthMedia, which he built and grew before selling the company to Johnson & Johnson. Ted has spent 40 years in early stage software companies and has spent the vast majority of his time growing end-user, financial software companies.

About XLerant

XLerant is *a cloud-based* software company that builds and implements innovative, practical and incredibly powerful budget preparation, forecasting and management reporting software to increase user participation and ownership of the budget and to eliminate errors and inflexibility associated with Excel budgeting.

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