Multiplayer GAME

Making multi-participant budgeting work

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KEY TAKEAWAYS:

- There are benefits to engaging employees across an organization in budgeting. Department heads often have the most accurate insight into what's necessary to achieve the company's strategic objectives.
- Creating a successful budget requires a vast exchange of knowledge and information between budget holders, finance and leadership. To get the dialogue started, spread the strategy to all constituents.
- Multi-participant budgeting works best when budget managers are able to document their assumptions and defend the rationale behind their requests.

When it comes to budgeting, CFOs and finance staff are clearly the experts. Oftentimes, however, organizations engage multiple employees and departments in budgeting—meaning that both financial and nonfinancial participants will have a hand in the process. There are significant benefits to engaging employees across an organization in budgeting. As experts in their individual fields, department heads are closest to the day-to-day execution and have the most accurate insight into what's necessary to achieve the company's strategic objectives. And when executed successfully, multi-participant budgeting can ultimately make CFOs' and finance staff's lives easier, leaving them more time to analyze and forecast.

Nonetheless, engaging multiple nonfinancial participants in this complex financial exercise is not without challenges—and for most organizations, increasing employees' individual ownership and accountability in the budgeting process is at the top of the list.

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The case for multi-participant budgeting

With more than 25 years of experience as director of budgets and accounting prior to her promotion to controller at Northwood University, Cheryl Warner is a staunch advocate of the multi-participant approach to budgeting. "I believe the key to a truly strategic budgeting process requires engaging department heads across the organization—they are the fiscal frontline," she said. "By including staff and faculty in budgeting, we benefit from their innovative thinking and creative ways to cut costs or reallocate funds to accelerate the strategic plan."

In Warner's experience, effectively executing this approach requires successfully engaging the staff who actually "live the budget" to help create and uphold it. By building upon each individual's enthusiasm and expertise, organizations lay a solid foundation for fiscal stability and organizational viability. Engaging staff with diverse areas of experience—but little financial expertise—can be particularly difficult. "To be successful we needed a process that would make just as much sense to the director of marketing as it would to the athletic coach," she said.

As financial executives like Warner can attest, with the right blend of budgetary tools, strategies, and controls in place, it is possible to create an accurate, achievable budget with hundreds of participants—even if they are in different parts of the country or world. The following are five proven strategies for successfully achieving a multi-participant approach to budgeting.

1. Communicate the strategy to all

Creating a successful budget requires a vast exchange of knowledge and information between budget holders, finance and leadership. To get the dialogue started, **spread the strategy to *all* constituents**. Budgeting to strategy means building a budget with clarity of purpose, rather than simply cutting and pasting last year's numbers.

In addition, multi-participant budgeting calls for **two-way communication**—an open line of back-and-forth dialogue between senior leadership and staff to resolve questions and concerns, gather valuable insights, inform budget approvals or cuts, and ensure that everyone is on track.

"A sound business strategy is critical for success, so that employees know where the leaders are taking the company," said Jennifer Eversole, CPA, co-founder and managing partner at Management Stack LLC. "It has to be communicated with every single pivot. We've all seen organizations where the leadership knows what to do, so they assume that everyone else does also. But that's usually not the case. Employees need to understand the strategic plan and objectives in order to know if the initiatives they are working on are having the right effect in moving the company towards the vision."

Of course, it's simply not scalable or time efficient to have 100 one-on-one conversations with budget managers. **Leverage technology** wherever possible to facilitate the process. Today's budgeting software can enhance communication through online data collection, process automation, and up-to-the-minute insight—identifying which budget holders are making progress, and enabling the finance team to support those who may need one-on-one intervention.

2. Ask for documentation

Multi-participant budgeting works best when budget managers are able to document their assumptions and defend the rationale behind their requests. **Ensure budget managers include justification** for line items and projects—including documenting how these costs align to key strategic objectives, to help the finance team make informed decisions about what to fund and what to cut. Documentation also serves as a tool to facilitate communication. Detailing one's thoughts and ideas is a way to **share insight efficiently** without the need for direct conversation—a time saver for everyone (especially the finance team). In addition, documentation captures, and makes accessible, critical historical data—lessening the impact of turnover and making the transition process easier for new hires.

3. Make ease-of-use a priority

From smartphones to social media, our personal technology assumes ease-of-use. But for most organizations, budgeting is executed via homegrown Excel-based spreadsheets: difficult for non-finance folks and prone to user error. And the time and energy required to create, distribute, collect and consolidate numerous worksheets can be especially problematic for the finance team.

Warner recalled her experience with the Excel-based process she inherited. "It took weeks just to build the templates," she said. "Then I had to email them back and forth, compile the spreadsheets, and finally proof for broken formulas, links, and number errors. With thousands of account numbers in Excel, you can make a lot of mistakes."

Warner ultimately initiated an organization-wide transition to budgeting software. "You have to look at the whole picture," she said. "Don't just take what you already have and duplicate it. How do you make it better? Just because that's the way we've always done it, doesn't mean it's the way we need to do it in the future."

Making the shift to budgeting software can help—but not all systems are designed to support a multi-participant approach. Consider the following criteria for engaging nonfinancial end-users in the budgeting process:

- **Friendly interface:** Software with a guided step-by-step interface allows users to spend their time thinking about their objectives, tactics and numbers.
- **Self-service functionality:** Finance should be able to easily maintain their software and not spend lots of time waiting for support. And users should be able to quickly accomplish tasks and run reports without help.

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- **Cross-organization collaboration tools:** Consider budgeting software that gives participants the ability to collaborate across departments for special projects or strategic initiatives. This provides an organization-level view of the impact of key initiatives.
- **Flexible format:** Most laypersons don't like using spreadsheets. Most financial people do. So, in order to get buy-in, it makes sense to employ a budgeting solution that keeps every user in their comfort zone.

4. Increase engagement

Employee engagement may seem like a "nice-to-have" element in budgeting—as the budgeting process itself is often a mandatory job requirement for participating employees. However, a growing body of research shows that engaged employees result in better business outcomes. Research by Towers Perrin found that companies with engaged workers have **6 percent higher net profit margins**, while Kenexa research revealed that engaged companies have **five times higher shareholder returns** over five years.

With multi-participant budgeting, the higher the level of engagement, the smoother the process will go. Research shows that engaged budget holders are more in tune with organizational goals and are more willing to do the work of creating an honest budget. And the more honest each participant's budget is, the more reliable the final rollup will be.

The issues discussed in the previous three strategies—communication, documentation, and ease-of-use—can all serve to engage budget managers in the process. "People generally want to be a part of something bigger than themselves," Eversole explained. "Giving employees a direct line of sight between the work that they are doing today, and how that makes a difference can significantly increase employee engagement."

5. Balance control and flexibility

We've all heard of top-down versus bottom-up budgeting. The truth is that organizations with multiple participants need a balance of both styles, including the right mix of financial controls for accuracy and flexibility. Ideally, control of the budgeting process will flow in both directions. Budget managers need the flexibility to choose the budgeting method that works best for them, whether that is simply spreading an expense based on historical trends or managing each line item individually. And finance administrators need the control to lock down key aspects of the budget process, such as assigning custom target budgets, setting key drivers, or determining salary or benefit expenses.

"We can actually look at all the moving parts because it is a totally transparent process," said Warner. "Our budget managers are becoming more sophisticated users who want more data because they understand how to get access to the information they need."

Benefits for all

By adopting effective strategies and tools, organizations can maximize the full potential of a multi-participant budgetary approach, while gaining important benefits. Successful execution of multi-participant budgeting delivers an exponential return—starting with improved collaboration and ownership and resulting in increased **productivity, performance and profit**.

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