

# Best Practices in Budgeting... And How to Deliver Them



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 Budgeting is often exasperating process for everyone involved – from financial analysts to front line managers. But best practice companies turn budgeting into a management exercise that drives effective decision making – while cutting the time wasted on mechanics.

## How is Budgeting like Benefits Enrollment?

Up until about a few years ago, Human Resources collected benefits enrollment data on multi-part forms and manually keyed information into their HR/Payroll system for every employee in the company. Why? Because the process was complex, there were seemingly many ways an individual employee could mess things up, and the consequences were severe -- Payroll could be affected.

HR made the decision to get themselves out of the middle of data chasing, collection, interpretation, and entry. They opted, instead, to leverage available technology to guide their employees through steps to enroll themselves into complex benefit plans.

Risky, right?

Not at all. The latest generation of Benefits Enrollment systems are designed with user-friendly screens, present presenting employees with plain English prompts and selections, and based on those selections, the proper benefits enrollment and payroll deductions are automatically done on the back-end.

And the payoff?

HR, and the organization as a whole, spends considerably fewer -days each annual open enrollment cycle. And the old problems of miscommunication between (the H/R Rep) and the (the employee) have been eliminated. Best of all, there is no question about who “owns” the enrollment – it’s the

employee who logged in and self-selected the details of their benefit plans!

## Connecting the Dots - Best Practices in Budgeting

There are some very valuable lessons that we can borrow from the experience that companies had in transitioning to self-serve benefits enrollment. Those lessons can now be applied to help us transition from “accounting centric” to “business centric” budgeting & planning.

### 1. Budget in natural terms.

While G/L account #560037 might mean something to you, managers will recognize plain English descriptions, like Office Supplies.

### 2. Allow managers to bundle costs.

After all, it’s the way they naturally think about their spending. Marketing managers tend to think in terms of marketing campaigns. IT Directors often think in terms of IT projects. H/R executives think in terms of training programs. A lot of managers like to think in terms of “trip budgets” when they budget for T&E. The point is they “bundle costs” that might hit multiple G/L accounts.

### 3. Move beyond G/L account reviews.

The traditional budget review focuses on G/L account variances (i.e., budget vs. prior year). While that’s helpful and necessary, it’s also inadequate. It doesn’t fully answer the CEO’s question of “What’s really behind the numbers?” To get at that



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answer, you need to be able to see what the marketing department plans on spending for marketing campaigns or trade shows, or what IT projects are being budgeted, or what's being earmarked for that new strategic initiative. To get at that valuable information, you need to be able to bundle costs across various G/L accounts (see the previous best practice).

**4. Replace formulas and commands with plain English prompts and selections.** This not only saves considerable training time but helps eliminate user errors (that need to be caught and then corrected by the finance staff).

**5. Auto-update your reports and roll-ups** whenever new account or units are added. This saves time and eliminates the type of errors that are associated with linked spreadsheets.

**6. Make it easy to spread costs (intelligently).** Timing variances are often the result of "dividing by 12" but many managers don't give it much more thought than that. Best practice is to have the default "spread like last year's actuals" which may not be perfect, but gets a much better result than dividing by 12.

**7. Give users a map of their budget.** Managers sometimes forget to budget certain line items, or do their budgeting in fits and starts. Why not give them a "you are here" map of their budget so they can always see where they are in the process, and what they have left to do?

**8. Make "signing off" on a budget deliberate and intentional.** Too many times there are multiple versions of budgets and nobody knows which one is "really final." A major reason for this is the lack of a simple electronic sign off process for managers to follow.

#### **A Better Way**

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The problem has always been that these same managers dislike "wasting time" on budgeting. To be specific, they consider it a waste of time to write or edit formulas, to need to look up and refer to guidelines, to check calculations, to range name cells, to link spreadsheets, and all the other time consuming mechanics of creating a budget.

What managers want is to make managerial decisions and to have those decisions reflected accurately in a budget. This is not considered a waste of time, but part of the job of being a good manager.

Before the advent of tools like XLERANT's BudgetPak™, the only way to provide this level of service to managers was to assign Finance staff to interview business managers – a handholding solution that often proves to be both expensive and ineffective.



A better way is to provide a solution directly to line managers, one that they actually want to use. A system with built in intelligence that can actively guide a user through the process; effortlessly and without spreadsheets or templates (and all the onerous mechanics that go with them).

A better way to a cost effective, reliable, and accurately detailed budget is to provide a solution directly to line managers. A system that they actually want to use. A system with built in intelligence that can actively guide them effortlessly through the process – without spreadsheets or templates (and all the onerous mechanics that go with them).

### **The Payoff**

Best Practices boils down to a faster, better budgeting. Reduced cycle time and; refocused effort - from budget mechanics to budget decisions. Build an increased understanding among managers of how their budgets and actual expenses work, and ultimately improve their ability to manage resources.

The direct payoff for the Finance group is the elimination of the common errors and omissions that can retard the process, greater control, and an increased opportunity for partnering with the departments. A less quantifiable, but perhaps more material payoff for the Finance group, is an improved reputation for delivering user value added solutions to the organization.

Just like HR did when they introduced employee self-service for benefits enrollment across the enterprise.

### **Ramping Up**

Getting managers to develop and own their budgets is more like using a dimmer than an on/off switch. In every organization there are those who have simply been waiting for an easy to use, plain English like

application to assist them in their budgeting. Others will still want Finance to hold their hand in the process, but even they will become more engaged in the process; as they sit side by side with an analyst and go through the BudgetPak™ decision screens.

### **About the Author**

Lawrence Serven is President of XLERant. His extensive work in the area of planning and budgeting has appeared in *CFO Magazine*, *The Harvard Business Review*, *The New York Times* and other leading publications. Lawrence is also the author of *Value Planning* (John Wiley & Sons) a blueprint for best practice planning.

### **XLERant, Inc.**

XLERant helps companies save time and add strategic value to their budget process by moving from accounting-centric to business-centric budgeting through its unique BudgetAgent capability. XLERant's award-winning BudgetPak™ software redefines Financial Planning & Analysis (FP&A) by guiding business managers through the process of building their budgets while providing financial managers a powerful front-end to any existing G/L, CPM, or ERP system. Hundreds of business managers are now engaged in budgeting in a very powerful new way.

For more information, there are a number of useful tools available on our website, including informative video clips and testimonials.