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Integrated Performance Management
Plan. Budget. Forecast.

Key points

- Deloitte's research into planning, budgeting and forecasting has analysed the survey responses of over 500 senior Finance professionals.
- Organisational culture drives inefficiency and ineffectiveness. We found that the typical budgeting process takes up to six months to complete. A focus on detail at the expense of analysis drives excessive effort and time spent on budgeting.
- In 86 per cent of organisations Finance is still the primary owner of these critical business processes. As a result more than 60 per cent of respondents only look at financial outcomes rather than other corporate performance indicators.
- Over a third of organisations still use spreadsheets as their main budgeting and forecasting tool. Barriers to technology implementation, as with many other planning challenges, were no different in large or small organisations.

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Foreword

Welcome to this Deloitte Finance report investigating the barriers to change in planning, budgeting and forecasting (PBF).

In the face of growing internal and external complexity, what could be more important than an understanding of where we are today, where we want to be tomorrow, and the steps we need to take to get there? However, macroeconomic challenges emerging from the global financial crisis and increasing stakeholder and consumer demands mean that traditional PBF processes no longer effectively serve the business.

Most executives are aware of this. You do not have to look far in a typical organisation to find business managers who see little value in their PBF activities. While from a Finance perspective improving the budgeting and forecasting processes regularly figures on the agenda of Chief Financial Officers. Today it is still top of mind for Finance executives but significant change is rare.

In an effort to understand the reason for much of this frustration and why so little progress has been made Deloitte carried out an in-depth survey of senior Finance professionals from around the world and from a wide range of industries.

Survey responses suggest that organisational culture is a significant inhibitor of PBF effectiveness. An inability to change and align values and behaviours both in Finance and the wider organisation is the primary reason why organisations continue to struggle to improve this critical business process.

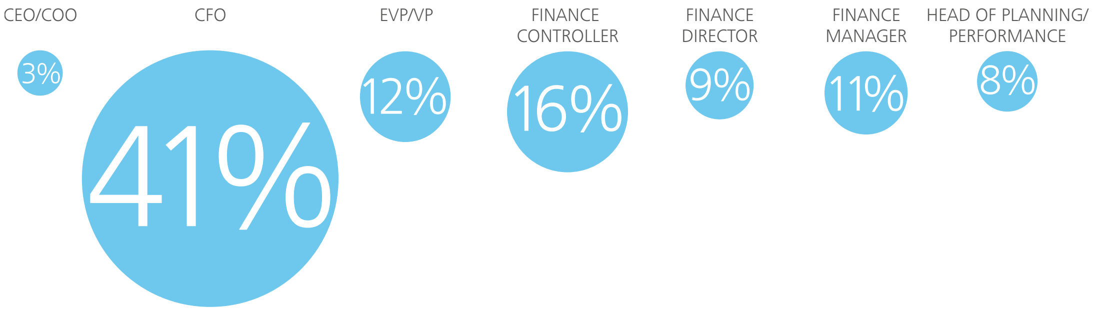
Deloitte's view is that PBF does not have to be a source of pain and dissatisfaction. Done well it can and should be a source of competitive advantage.

We would like to thank the 597 executives who participated in the survey. We hope that you find our insights thought-provoking and useful, and welcome your feedback.

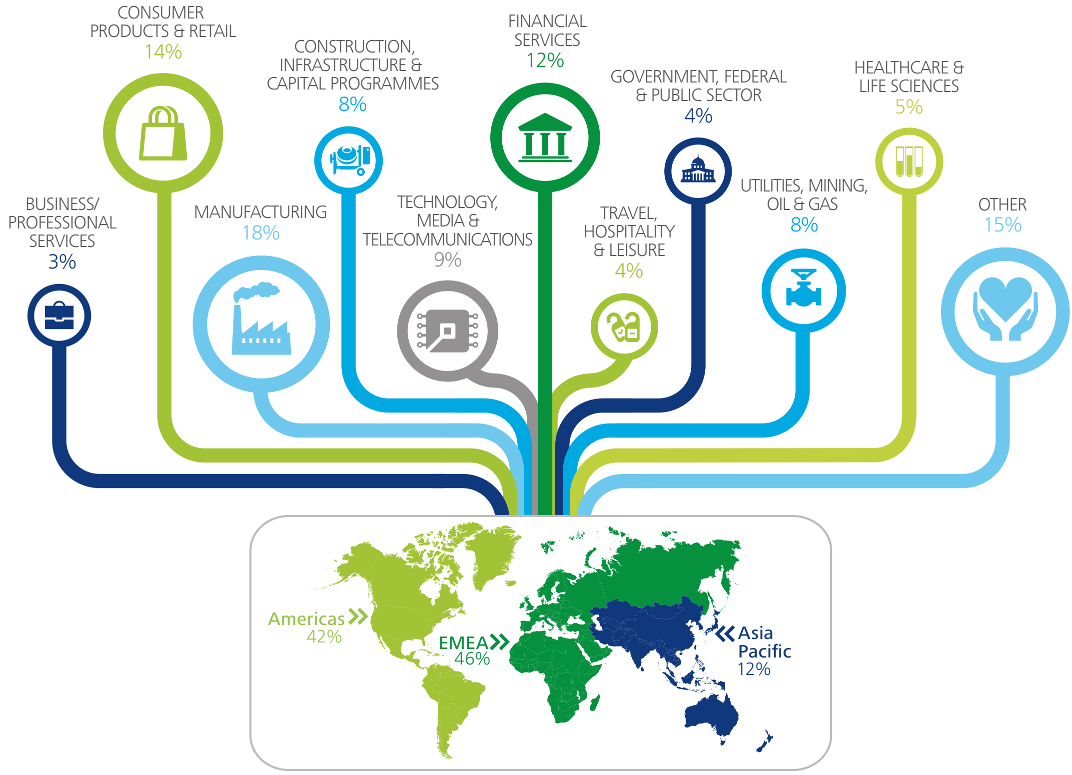
Simon Barnes

About the survey

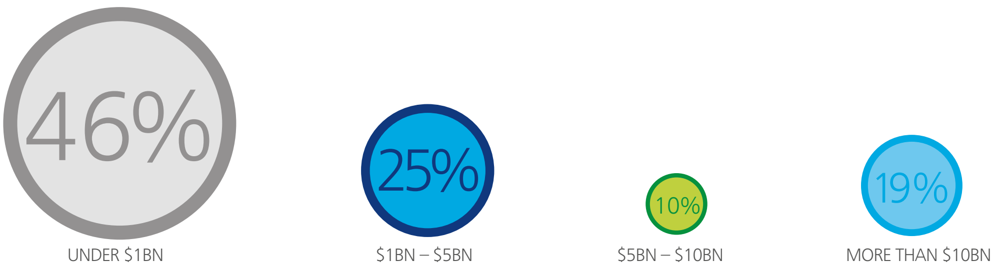
ROLE OF RESPONDENTS



INDUSTRY AND GEOGRAPHICAL BACKGROUND OF RESPONDENTS



COMPANY SIZE OF RESPONDENTS



Definitions

Strategic planning

- To define the strategic objectives and targets that will deliver maximum shareholder value over the long term.

- To evaluate strategic business development options, and define and agree high-level strategic activities and initiatives.

Planning and budgeting

- To cascade annual targets across the business and agree a performance commitment from each business unit and function.

- To develop detailed bottom-up operational and financial plans to deliver annual objectives and targets.

Forecasting

- To provide a realistic and projected outlook based on changes in the business environment and the latest view of expected underlying performance.

- To allow management to make timely decisions and interventions based on a realistic understanding of performance and gap to targets.

Executive summary

THE LEVEL OF DETAIL DEMANDED FROM PBF REMAINS CONSISTENTLY HIGH.

The frustrations that executives feel with planning, budgeting and forecasting often leads to a loss of perspective. Executives forget the purpose of PBF. They lose sight of why they plan, what a forecast is for and what they want to achieve in their day-to-day enterprise performance management. Most importantly they lose sight of the metrics that they should be monitoring and managing.

Many organisations are undertaking significant finance transformation activities but the implementation of PBF best practice still struggles to find traction alongside projects on business partnering, analytics and operating model changes.

Similar processes, similar detail

Responses to Deloitte's survey suggest that PBF processes and capabilities are remarkably similar across organisations regardless of company size and industry sector.

The level of detail demanded from PBF remains consistently high. Fifty-five per cent of organisations have a culture of financial detail, which drives excessive effort and a focus on outcomes rather than the plans to deliver them. The demand for detail is similar in both large and small organisations. While the impact of a high level of detail is difficult to quantify in terms of corporate performance, it does create excess time in the budgeting cycle.

Organisations still take a long time to produce their budgets. Forty-two per cent take two-to-three months to complete their budget while 32 per cent of respondents take up to six months. Total effort is difficult to determine when contributions are spread across the organisation but it is clear that it is a struggle to achieve fast, efficient and effective processes.

A third of the respondents felt frustrated that plans and budgets were often changed at the top with no clear action or reasoning fed back into the bottom-up plan. It is clearly an unacceptable waste of time, effort and resource to spend over three months preparing a set of numbers that few in the enterprise believe and even fewer utilise.

Spreadsheets remain ubiquitous in both large and small organisations. Over a third of survey respondents still use spreadsheets as their main budgeting and forecasting tool. Vendor planning tools such as IBM Cognos, Oracle Hyperion or SAP BPC and bespoke tools are widely used. However, these tools are typically used to collect data rather than to fulfil their primary purpose of developing and modelling budgets and plans. It is clear that organisations are not fully using the capabilities available to them from their planning tools.

Only a quarter of respondents use rolling forecasts. Most organisations forecast to the end of the financial year. Smaller organisations are more likely to have implemented rolling forecasts than their larger counterparts.

Successful change rooted in culture

PBF is a key component of how information is generated and processed, how decisions are made and how responses are formulated to steer the organisation and impact future performance. The processes involved are tightly linked to many others. They involve and connect many people and functions across the entire enterprise. The rules which regulate PBF are deeply embedded in organisational culture and there can often be a “this is the way we do things here” mind set.

Change not only requires processes to be reengineered. A cultural shift must take place across all executive and staff communities. It is not just about making Finance processes more efficient and effective. It is about making the organisation as a whole more effective and more responsive. The success of any initiative to improve PBF processes is rooted in the culture and behaviour of the whole organisation.

Culture is the key to unlocking the potential of planning and forecasting. As expected, a significant proportion of respondents, 34 per cent, agreed that the culture of their organisations drives inefficiency and reduces PBF effectiveness. Large and small organisations are equally impeded by their culture. Organisations can invest in the best technology, define clear roles and responsibilities, integrate their budgets with corporate strategy, and refine their internal processes. However, if behaviours are wrong, particularly the behaviour of leaders, then PBF effectiveness will remain low.

An organisation’s approach to performance incentives is a key element in determining culture. Many organisations pay annual bonuses on how executives and their teams meet the plan produced during the PBF process. This provides a perverse incentive. Executives can be tempted to produce a plan with low goals so that it can be easily overachieved. This type of sandbagging is often engrained in an organisation’s culture and planning becomes a process of negotiation. If incentives were linked to actual performance rather than negotiated targets this culture would not exist. Only when executives understand that there is a better way of driving individual performance will this change substantially. Altering how bonuses are rewarded and removing the link between incentives and targets can be used as a powerful step in effecting change.

CULTURE IS THE KEY TO UNLOCKING THE POTENTIAL OF PLANNING AND FORECASTING.

Top five challenges

In addition to culture five areas emerged from the survey responses as challenges to achieving improved PBF effectiveness:

1. **Integrating planning, budgeting and forecasting** Thirty-seven per cent of respondents admitted to a failure to align their planning, budgeting and forecasting effectively with corporate strategy. In these circumstances there is a risk that the activities of the organisation will be misdirected, lack focus, alignment and cohesion because expectations have not been properly set.

2. **Using forecasting properly** Sixty-one per cent of survey respondents recognised the importance of forecasting as a way of compensating for the static nature of budgeting. However, there is a failure to appreciate how forecasting can enhance corporate agility and specifically a lack of understanding of how it fundamentally differs from planning, budgeting and target-setting.

3. **Applying process discipline** Nearly a third of respondents have no formal mechanism for monitoring and managing forecast quality, while less than half of respondents are able to forecast either revenue or costs to within a five per cent variance. Too often PBF processes are poorly defined or they are changed in an ad hoc manner. The need for process skills and discipline, especially in forecasting, is not recognised and proper measurement is limited.

4. **Clarifying decision-making responsibilities** A key differentiator between high-performing organisations* and the rest is clarity on where responsibility exists for decision-making within the organisation's specific operating model. A clear decision-making framework, reinforced by culture, helps organisations strike the right balance between an inclusive process that engages executives and managers and one where clear decisions can be made swiftly and decisively.

5. **Exploiting technology** Collecting, aggregating and analysing data via the ubiquitous spreadsheet still constrains most businesses, making the process of dynamic forecasting and planning slow, opaque and prone to error. Where purpose built software is employed its modelling and analytical capabilities are often not properly exploited.

* High-performing organisations are defined as the top 20 per cent of respondents by descending share price performance.

Now that the moment of economic crisis has passed it is time for organisations to tackle the long recognised deficiencies in PBF, not only to exploit the opportunities that lie ahead, but also to ensure that they are better prepared for future crises. The findings from Deloitte's survey along with the work we undertake with many organisations across multiple industries and geographies provide solutions to the obstacles identified and to why frustration with planning and budgeting has persisted for so long.

Integrated and effective PBF processes have a fundamental role to play in identifying and exploiting areas where new growth exists and in modelling and managing risk and uncertainty in plans and forecasts. In this way PBF becomes the critical business process that it ought to be rather than the financially-skewed exercise that is ingrained within many organisational cultures.

Integrating planning, budgeting and forecasting

Executing your strategy

PBF activities that erode more value than they create often result from planning and budgeting being undertaken in isolation of the organisation's strategic plan. A lack of alignment between strategic plans and PBF activities and objectives increases the likelihood of decisions being made that detract from an organisation's long-term goals.

THE BUSINESS STRATEGY SHOULD SET EXPECTATIONS FOR MANAGERS AS THEY UNDERTAKE PBF ACTIVITIES.

Organisations often struggle to translate the goals identified in their business strategy into shorter- term objectives in their budgets. If a budget incorporates strategic targets it guides employees to make decisions which contribute to the strategic goals of the organisation.

The business strategy should set expectations for managers as they undertake PBF activities. Without clear expectations managers, functions and business units risk pursuing their own self-interests. Moreover, it creates a culture where executives and teams from different parts of the organisation pull against each other rather than all pulling in the same direction.

Without alignment with the strategic targets the adoption of a shared understanding of what is important to the organisation becomes challenging. That tends to generate confusion, unnecessary iterations, lost time, loss of ownership and reduced value. A well aligned planning process translates a business strategy into a simple story about an organisation's objectives and the role that each part of the organisation needs to play.

The importance of end-to-end integration

Just as PBF processes should be integrated across geographies, divisions and functions, so they should be integrated across different planning horizons. Long-term strategy should provide a clear framework for medium-term planning and resource allocation. In turn, these assumptions should be reflected in shorter-term operational activity planning. Decisions and responses to market changes should be tested in forecasts to understand the impact on the strategic plan and whether an organisation is delivering in line with its goals.

In reality organisations struggle with integrating these processes as they operate at different frequencies, levels of granularity and often with different owners. Many organisations entirely miss the point of medium-term planning and leap to budgeting. They kid themselves that the additional two years in their spreadsheet templates constitutes a medium-term plan. In reality the entire focus is on securing the best budget targets to secure next year's bonus.

Organisations that fail to link PBF activities end-to-end run the risk of confusion and misalignment. A failure to ensure that operational and financial forecasts are aligned and plans are shared and properly funded can lead to a 'stop/go' approach to decision-making.

Poor levels of end-to-end integration

A significant proportion of respondents, 37 per cent, believe that there is poor integration of the end-to-end process from strategic planning through to operational planning, budgeting and to forecasting.

The lack of an integrated approach even extends to performance measurement. It is surprising that more than 60 per cent of organisations still look only at financials, not at demand, revenue or cost drivers such as headcount or training hours and other drivers of performance or indicators of corporate health.

There is a clear explanation for the lack of an integrated approach. Budgeting and forecasting are commonly seen as a finance process owned by Finance. As a result PBF tends to happen in silos. The Executive outlines the strategy. The Finance function drives the short-to-medium range planning process. Then the operating units deliver against a target that they had little or no input in formulating. Each level focuses on its own objectives and does not seek to understand how each affects the other.

THE FIRST STEP TOWARDS ACHIEVING AN INTEGRATED PBF PROCESS IS TO DEFINE AND CLARIFY THE OBJECTIVES.

Be clear about the purpose of PBF

The first step towards achieving an integrated PBF process is to define and clarify the objectives. Essentially, to address the question, what is the purpose of each PBF process and how do they fit together? Once that has been achieved it is important to standardise terminology, definitions and documentation between processes. By building a common language it is possible to achieve greater adherence to a given plan.

The second step is to agree on what needs to be measured. Organisations need to understand how their resource allocation impacts outcomes. They also need to define clear boundaries for decisions regarding the allocation of scarce resource in support of their medium and short-term plans. However, this is not just about monitoring financials. To achieve the strategic goals, the impact of real performance drivers must also be monitored. For example, monitoring forecast variance trends will focus attention on internal demand-matching skills, while monitoring customer complaints will focus attention on reputation and market placement. Finally, these boundaries, assumptions and targets need to be integrated into and tracked in forecasts to validate the decision-making process, especially in light of changes to key assumptions about the operating environment. This offers the opportunity to change tack if decisions have knocked the organisation off course or if new opportunities present themselves.

Using forecasting properly

THE MAJORITY OF ORGANISATIONS ENTIRELY MISUNDERSTAND WHAT FORECASTING IS ABOUT.

Leaving the budget behind

Regardless of technology adoption rates, in 80 per cent of organisations budgeting still takes eight weeks or more. Those frustrated with the budgeting process argue that it is antiquated and no longer fit for purpose in today's more volatile global business environment. It is rigid, inflexible and not dynamic. However, few are prepared to discard budgeting. In fact, only three per cent of organisations surveyed claim not to have a budget at all. Progressive organisations use the budgeting process to set a medium-term plan that provides direction and a framework of targets and then use regular forecasts to inform flexible and dynamic decision-making to deliver their targets. Together this supports powerful and responsive decision making.

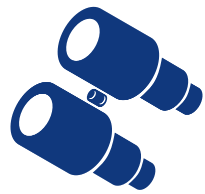
It makes little sense to put forward rigid commitments based on plans that make assumptions about conditions in 12 to 18 months' time. It is far better to set direction, make a judgement on where to invest scarce resources and allow the business to work within that framework. Forecasting then becomes a tool for informing a far more dynamic resource allocation process. Compared to budgeting alone it provides a much better tool for steering and managing the future.

However, the majority of organisations entirely misunderstand what forecasting is about. To many a 'forecast' is often no more than a quick re-budget to reconfirm targets and manage expectations internally and externally. It means organisations can end up budgeting 13 to 15 times a year.

Forecasting should be a fast and agile process. Sixty-seven per cent of respondents execute a forecast in under two weeks. It involves an honest assessment of the real direction of travel, making course-correction decisions and modelling the impact that these, along with other environmental and market factors, have on performance over the short and medium term. Organisations that use forecasts effectively use them as an estimate of most likely outcomes before and after decision-making. In fact 71 per cent of respondents agreed that forecasts provide them with a best estimate of future performance, providing an early warning system that helps them to take action when the performance of the organisation is off-target.

Current approaches to forecasting

Despite forecasting increasingly being seen as important, Deloitte's survey confirms a level of confusion and a failure among Finance executives to recognise the purpose and role of forecasting as distinct from budgeting. Forty-seven per cent of respondents believe they confuse forecasting with targets and commitments. More still, 66 per cent said that forecasting is used to recommit to annual targets. Yet at the same time, 76 per cent believe them to be a best estimate of future outcomes and 80 per cent believe that they represent an early warning system. However, 56 per cent of respondents forecast to the financial year, rather than using rolling horizons and only 40 per cent reforecast more frequently than every quarter. These contradictory statements point to a great deal of confusion about the purpose of forecasting.



FORTY-SEVEN PER CENT OF RESPONDENTS BELIEVE THEY CONFUSE FORECASTING WITH TARGETS AND COMMITMENTS.

Further confusion surrounds the use of rolling forecasts. For 51 per cent of organisations polled it takes three to six months before they can see the impact of operational decisions on organisational performance. Yet 56 per cent limit the use of rolling forecasts to periods within the current financial year. Clearly, these organisations need to be managing performance beyond the end of the financial year and yet they do not have the insight available to monitor and manage this.

As a consequence it is not surprising organisations still feel constrained rather than empowered by budgeting. Deloitte's survey reports that 60 per cent of respondents fix their investment budgets annually rather than managing them on a rolling basis and variance against budget is still the most popular method of analysing performance.

Even within organisations where the limitations of budgeting are well understood there is often a reluctance to move to a more sophisticated and relevant approach. It is difficult to unlearn long-entrenched organisational behaviours and change culture, especially in large organisations.

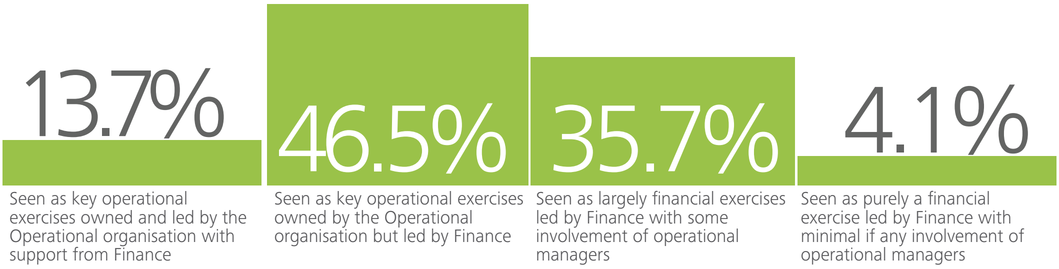
Moving to a more quantitative approach

Forecasting can and should be fast and provide a significantly more flexible approach to decision-making and ongoing resource allocation on a rolling basis rather than just once a year. Forecasting should not be an intermittent, periodic activity. It should be a fundamental part of what managers do in their day-to-day jobs.

It is difficult to unlearn behaviours. Realistic forecasting requires a fundamental shift in mind-set. It takes focus and the commitment of to break the existing tendencies of managers to tell management simply what they think they expect to hear. High-performing organisations forecast monthly where appropriate. They use realistic forecasts to help manage external expectations, focusing on realistic projections based on underlying drivers rather than variances against a long out-of-date set of financial budgets.

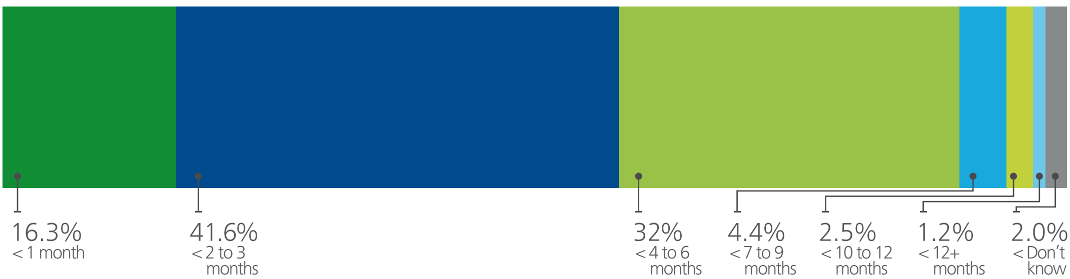
OWNERSHIP

WHO OWNS PLANNING, BUDGETING & FORECASTING IN YOUR ORGANISATION?

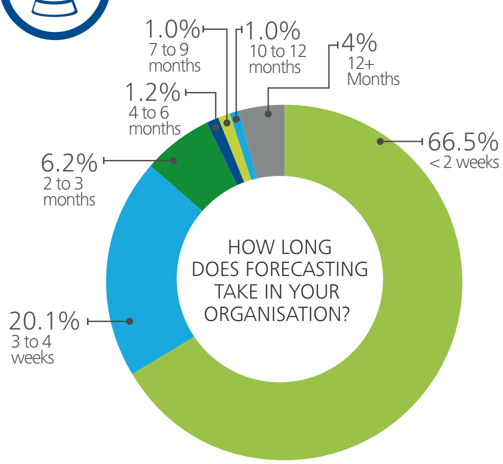


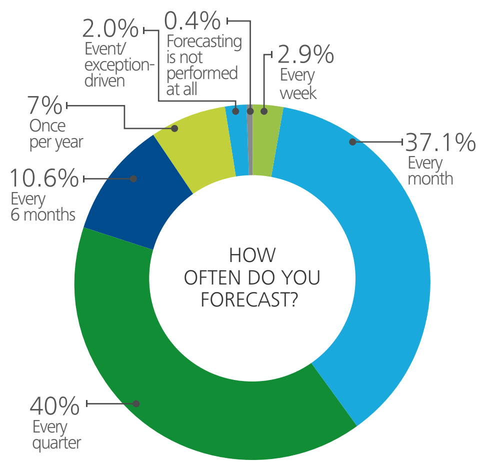
PLANNING & BUDGETING

HOW LONG DOES PLANNING & BUDGETING TAKE IN YOUR ORGANISATION?

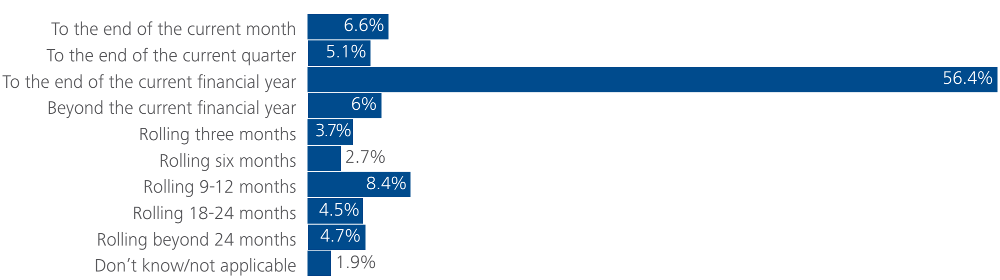


FORECASTING



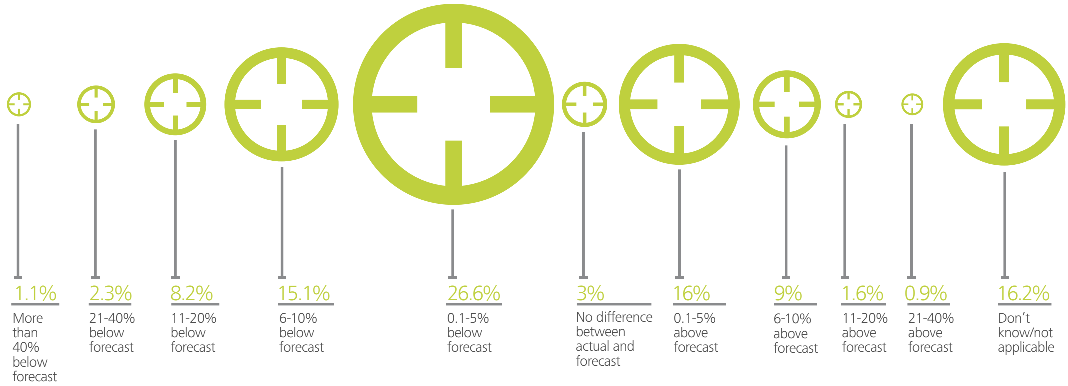


HOW FAR FORWARD DOES YOUR ORGANISATION FORECAST?



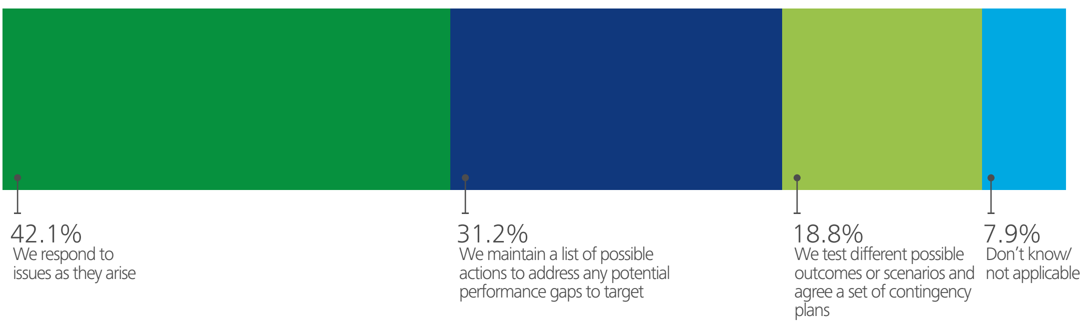
FORECASTING ACCURACY

HOW ACCURATE ARE YOUR FORECASTS, WHAT IS THE VARIANCE BETWEEN ACTUAL REVENUE AND YOUR FORECAST REVENUE?



MANAGING UNCERTAINTY

HOW DO YOU TRACK AND MANAGE FORECAST ACCURACY IN YOUR ORGANISATION?



EXPLOITING TECHNOLOGY

WHAT IS THE MAIN TECHNOLOGY THAT YOUR ORGANISATION USES FOR BUDGETING AND FORECASTING?

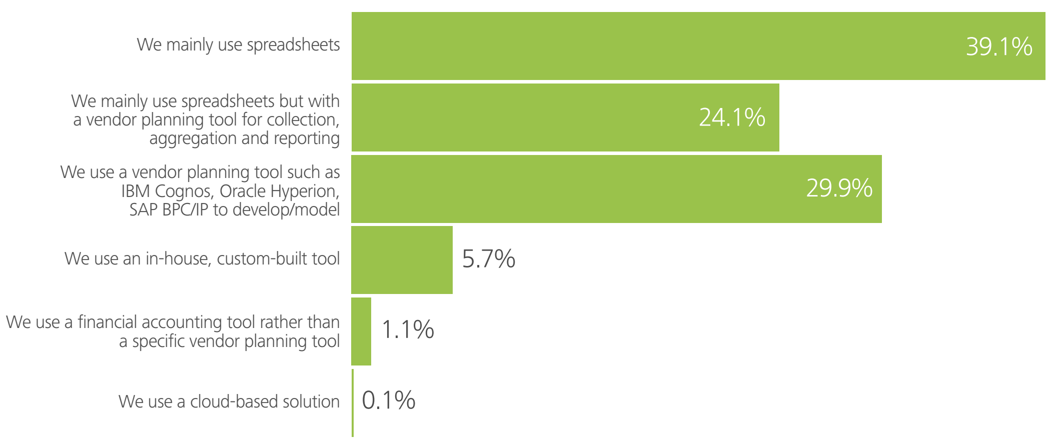


Figure 1. Current approach to forecasting versus a more quantitative approach

- Forecasts based largely on single-point estimates and metrics.
- Sensitivity analysis focused on single variable.
- Strong variability in assumptions and inputs across business units.
- Inadequate application of formal stress testing approaches.
- Limited integration between strategic planning, financial forecasting and budgeting, and risk analysis.
- Single sourcing of inputs.

- Migrate from single point forecasting and single input sensitivity to multi-factor perspectives.
- Build in the use of quantitative distributions and aggregation of individual volatilities to evaluate ranges of possible outcomes.
- Shock the financial forecasts with major risk drivers to get a cashflow or earning distribution for each period.
- Better linkage between the uncertainty in cash flow and earnings and the impact on key balance sheet metrics and financial ratios.

Many executives typically only focus on the data intensive nature of the PBF process when diagnosing why their budgeting and forecasting is so onerous and ineffective. As a result there is a tendency to see technology investment as the primary solution. Technology is certainly a key enabler, but as with so many process issues, it is not a cure-all.

A more sustainable approach is to first design the process to match the characteristics of the organisation's operating model. The more volatile the market or operating environment the more frequent forecasting needs to be to enhance organisational reflexes. The longer it takes to make changes and to course-correct the further into the future the organisation needs to forecast. Organisations with lengthy supply or investment cycles will need to take a longer-term view which will certainly necessitate rolling horizons that extend beyond the financial year-end.

Once the shift has been made to a more agile mind-set and process, forecasting can incorporate more advanced modelling and analytics. Building upside and downside risk into forecasts gives high-performing companies visibility of the magnitude of change. It also enables them to understand how well individuals manage the risk relating to their targets and tie this to a more balanced reward and incentive structure.

All of those practical steps are important, but to change ingrained behaviours they must be underpinned by cultural change. Effective forecasting relies on a transformation of culture, whereby managers stop seeing budgeting and forecasting as isolated, onerous tasks imposed by Finance, and instead embrace forecasting as an ongoing, integrated process that breaks down organisational siloes and informs their day-to-day decisions.

Applying process discipline

The importance of process improvement

Process discipline and process improvement have long been a key characteristic of successful organisations. So it is no surprise that leading organisations apply the same scrutiny to PBF processes as they do to other operational processes.

While other organisations complete the forecasting processes, struggle to explain the variances and protect their targets, leading organisations actively track and manage forecast accuracy. The main objective is to reduce uncertainty and eliminate human bias over time. A focus on forecast accuracy enables organisations to continuously, anticipate gaps and highlight the need for corrective decisions.

Quality of current processes

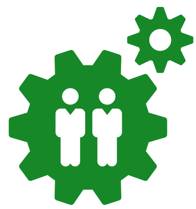
A third of respondents do not formally track forecast accuracy at all. Even less encouragingly, only a quarter of those who do track forecast accuracy actively follow up on errors in an effort to improve the process. Instead, organisations focus their efforts and attentions on explaining past variances.

In many organisations there is a tendency towards sandbagging, which sees the under-estimating of sales and/or the over-estimating of costs so that results look better than forecast. This may help individual careers and bonuses but it does little for enterprise performance.

A failure to measure the process properly and take remedial action contributes to the persistence of significant variance on the short-term. Variances are reported to be plus or minus 20 per cent between actual and forecast performance across most organisations surveyed. Where organisations focus on forecast accuracy they are able to reduce the variance to within five per cent.

Forecast accuracy is only used as a Key Performance Indicator by 13 per cent of respondents. Too few organisations benchmark performance against competitors and in many cases a review of forecasting performance is focused on outcomes rather than on drivers.

Ineffective PBF processes are frequently the result of the person at the top of the organisation failing to recognise the importance of organisational competence in this area. For example, a carefully considered and detailed budget that involved multiple stakeholders and saw a significant time investment may often be changed by the executive at the final step in the process. The executive may change the target by five per cent, ten per cent or even more. Precisely the same thing happens with forecasts – despite the fact that they are supposed to be a best estimate.



ONLY A QUARTER OF THOSE WHO DO TRACK FORECAST ACCURACY ACTIVELY FOLLOW UP ON ERRORS IN AN EFFORT TO IMPROVE THE PROCESS.

Focus on drivers not detail

The specifics of an effective PBF process vary from organisation to organisation but the principles remain the same. Targets tied to strategy should frame the planning process and set clear expectations. There should be much less detail and more focus on drivers that have a material effect. Forecasting should be explicitly separated from target-setting while forecast horizons should match volatility in the organisation's operating model and the time it takes for decisions to impact outcomes. However, it must not be forgotten that culture runs through all this as the primary driver of an inefficient and ineffective process. An organisation can re-engineer processes, it can invest heavily in technology, but unless it develops a culture that understands the purpose and value of effective planning and forecasting it will never realise the full potential of these critical business processes.

Clarifying decision-making responsibilities

The importance of a clear operating model

It is not uncommon for decision-making to stall during the PBF processes. Often executives are asked to make or accept plans regardless of whether they can control the outcome. Second-guessing takes place at each level of the organisation, between centre and region, between region and division, between division and operating unit. Where the traditional hierarchical organisation has given way to a highly matrix-based model the lines of decision-making and control are blurred even further. In larger organisations, central functions often have responsibility for managing key business operations that impact across the organisational hierarchy, yet the precise nature and scope of that responsibility is not entirely clear.

AN EFFICIENT AND EFFECTIVE PBF PROCESS REQUIRES CLARITY ON WHO IS RESPONSIBLE FOR MAKING WHAT DECISIONS.

An efficient and effective PBF process requires clarity on who is responsible for making what decisions. Once made, these decisions should not be second-guessed. Executives have the right to challenge and test decisions but changes should be made by agreement and decision-makers should then be fully accountable for the outcomes and delivering their commitments. Often this will require a significant cultural shift as second-guessing, 'adding value' and imposing a top-down 'stretch' or 'challenge' have become second nature in the PBF process.

Failure to involve the right stakeholders can result in plans that are not only strategically and operationally misaligned but which also suffer from a lack of credibility. Yet planning processes that receive too much input become unwieldy and prohibitively expensive. Gathering information and engaging executives on one hand and delivering clear, rapid decisions on the other can only be achieved where there is clarity on organisational roles and responsibilities. Clarity regarding the decision areas for which each part of the organisation is responsible, for example the corporate centre, a functional centre of excellence or a business unit is critical to the PBF process.

Current levels of clarity

Surprisingly respondents are broadly confident that their organisations provide enough clarity into roles and responsibilities within the PBF. Only 22 per cent of respondents feel that it is unclear who owns the plans or forecasts. However, clarity clearly makes a difference to performance. Clarity about ownership and responsibility between different organisational levels is 13 per cent higher in high-performing companies compared to the rest of the cohort.

Make decision-makers fully accountable

Organisations can do much to improve clarity over where in the organisation responsibility for each decision area sits. The challenge is firstly to understand that there is an issue and then to agree who exactly has the right to make which decisions. In high-performing organisations decision-makers will be fully accountable for the outcomes of their decision.

However, in many cases the obstacle of culture will need to be tackled at the outset. In many organisations there is an ingrained resistance to sitting down and agreeing roles, responsibilities and hand-offs across the operating model. Executives are often reluctant to recognise that there is an issue and then to invest the time required as its importance is not recognised. Additionally, accountability for decisions is often confused by team incentives.

To achieve this difficult balance, corporate leaders must make it clear who are the right participants and in what role. From there the role of the corporate centre and the operating units must be defined. The role of Finance in PBF and performance management must also be clear. In high- performing organisations, Finance facilitates and advises other parts of the organisation through the PBF processes but it does not own the process. Planning and forecasting are critical organisational processes and as such need to be owned by the managers and decision-makers.

Addressing process and technology issues will deliver incremental improvements but if behaviours are wrong, particularly those of leaders, then PBF effectiveness will remain low.

Exploiting technology

PBF PLATFORMS ALLOW ORGANISATIONS TO PLAN AND FORECAST ON A MUCH MORE COLLABORATIVE BASIS.

The importance of PBF technology

Most organisations invest in technology platforms such as those provided by IBM Cognos, Oracle Hyperion or SAP BPC to improve the speed, reliability and transparency of their PBF processes.

While spreadsheets have their place as powerful personal productivity tools, implementing these PBF platforms allows organisations to plan and forecast on a much more collaborative basis. They allow organisations to collect, aggregate, report and analyse information far more quickly than it is possible with spreadsheets alone. They also provide the capability to model different scenarios and the potential impact of variations in sales, input costs, currency fluctuations and other variables. Sophisticated tools are now available for crunching large volumes of data to identify correlations between disparate data sets and provide predictive analysis that supports forecasting. Crucially, this allows organisations to be more responsive through a better and timelier understanding of the potential impact of external factors and internal constraints on performance.

These systems also provide greater control and accuracy. Manual data re-entry and opaque and complex spreadsheets are a notorious source of mistakes. Solutions using purpose-built technology and properly engineered interfaces can significantly reduce the possibility of system error as well as automate and simplify the process.

The final key benefit is transparency. Large organisations in particular are complex, interdependent and yet siloed. Plans and forecasts are vital to manage and steer the organisation and as such it is important to have visibility and rapid access to this data across the enterprise as well as the assumptions that underpin them. Workflow capabilities provide transparency to monitor and manage the completion and submission process. This is simply not possible with a dispersed and fragmented spreadsheet solution.

Current levels of technology investment

Large or small, organisations are struggling to make effective use of planning and forecasting technology. Thirty-five per cent of respondents agree that there is poor use of planning and forecasting technology. Indeed spreadsheets are still the most popular technological platform (as noted by 37 per cent of respondents) with a further 19 per cent using a vendor planning tool simply for collecting, aggregating and reporting plan and forecast data from across the organisation. Only a third use a vendor planning tool. Interestingly, there was little variance here between the smallest and the largest organisations.

SPREADSHEETS ARE STILL THE MOST POPULAR TECHNOLOGY PLATFORM.

This reluctance to invest in technology is often a result of an inability to articulate the benefits of investment. Twenty-two per cent of survey respondents stated that the main impediment to implementing an organisation-wide PBF technology solution is that the benefits are not clear. Moreover, 28 per cent stated that other priorities were the main impediment to PBF technology implementation.

In many cases organisations seek to base their investment in PBF technology solely on reducing the overall amount of effort spent in planning and forecasting, and potentially in reducing headcount. The greater benefits come from freeing up staff to spend more time in modelling potential future outcomes and providing insight to support decision-making. And more significantly, within the right cultural and process framework as described elsewhere in this report, these tools alone enable the collaborative, dynamic and rapid forecasting that is critical to quick, responsive decision-making. The primary goal of a technology implementation should be as a key enabler for driving sustainable performance improvement.

THE RELUCTANCE TO INVEST IN TECHNOLOGY IS OFTEN A RESULT OF AN INABILITY TO ARTICULATE THE BENEFITS OF INVESTMENT.

Pulling your head out from under the spreadsheets

When asked to describe the impediments to implementing an organisation-wide technology platform, no single answer emerged clearly from our respondents. Twenty-eight per cent cited other organisational priorities, 22 per cent said benefits are not clear or well understood, 21 per cent feel existing tools work well enough, 16 per cent state a lack of implementation capability and 16 per cent simply lack the money to make the investment.

However, there is an overarching inability to articulate the benefits of investment in technology and therefore make the case for change. As discussed earlier, PBF is always important but never a priority and the difficulty in making the case for investment in technology is a key part of this inertia. Much of this difficulty is again rooted in organisational culture. Planning and forecasting are seen as Finance processes and many executives are not keen to engage in trying to identify the potential improvements that PBF could drive. Not surprisingly fewer still are keen to commit to improvement targets based on the almost mythical prospect of making better decisions.

This is a significant missed opportunity. The reason for adopting technology is not fundamentally to do with reducing headcount and process costs. It is about strengthening the ability of the organisation to plan and execute, to anticipate and respond and to maximise value for the organisation. As such any investment programme needs to be taken beyond the realm of Finance. Finance needs to work with the organisation's leadership to develop a clear understanding of the true extent to which performance is impacted by existing issues with the PBF process and the potential improvements that investment in technology can drive as part of a broader programme of change.

Conclusion

The process of planning, budgeting and forecasting should sit right at the heart of every organisation. After all, what could be more critical than an understanding of where we are today and where we want to be tomorrow? More importantly, understanding the steps we need to take to get there is critical to ensuring we stay on course.

CULTURAL INERTIA ACTS AS THE SINGLE BIGGEST BARRIER TO CHANGE.

Yet as Deloitte’s survey highlights many organisations still struggle to drive real value from their performance management processes. Processes are unclear, ill-defined and unwieldy. They lack ownership by the real decision-makers, they are disconnected and more often than not they entirely miss the point. More than that, as over a third of respondents agree, the very culture of the organisation is working against an efficient and effective process.

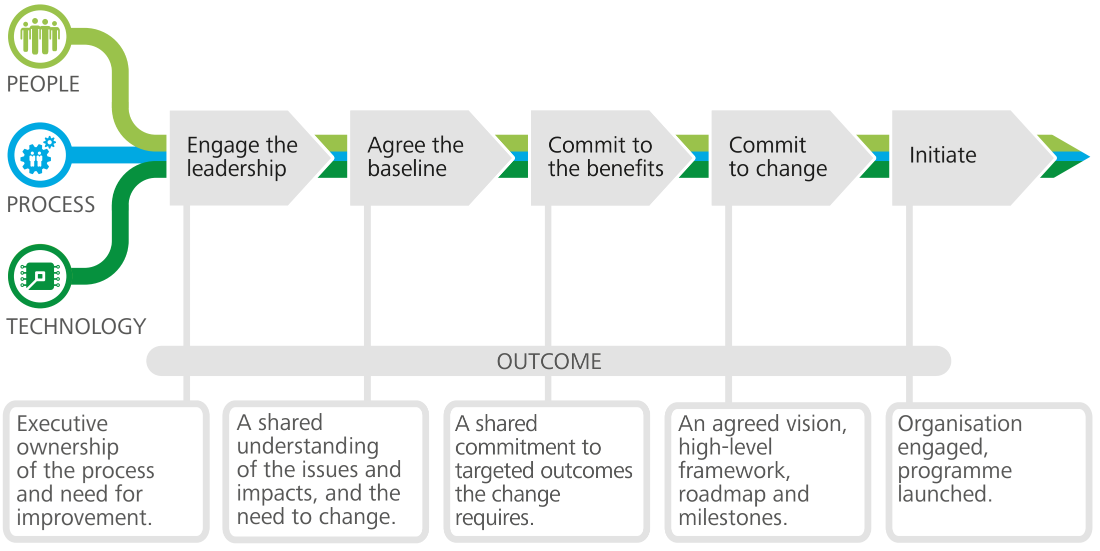
Addressing process and technology issues alone will certainly deliver incremental improvements in efficiency and effectiveness. However, it is clear that any programme aiming to deliver significant change and real and lasting value needs to recognise that these processes touch a significant number of people, perhaps as many as 30-40 per cent, right across an organisation. Cultural inertia acts as the single biggest barrier to change.

Finance people love detail but data is not the same as insight. Process immaturity and the prevalence of a culture of financial detail combine to create an inefficient system that provides access to too much information but little insight. More detail does not necessarily mean better decisions. The right insights, easily accessible, at the right time will drive improved decision-making.

Finance cannot afford to tackle this as merely a Finance initiative. Achieving true change needs to involve executive and operational managers and decision-makers from across the organisation. Bringing about change requires Finance to help managers to adopt a coherent and disciplined approach to planning change. The organisation as a whole needs to have the commitment to see it through.

How then to move forward? Deloitte believes the first step is to engage the executive team in a full, frank and open debate about the issues and challenges with the existing processes and behaviours. Their ownership of the process and commitment to change is paramount.

Figure 2. Achieving PBF change



The result will be greater transparency with a more responsive and adaptive organisation better able to:

- Identify and exploit opportunities.
- Identify and manage issues and risks.
- Respond to changing circumstances in a highly uncertain world.
- Consistently outperform the competition.
- Increase long-term value for stakeholders.

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Designed and produced by The Creative Studio at Deloitte, London. 33624A