Recognize this scenario? As a career CFO, I’ve lived through it, like you. But the scary part isn’t the aggravation that CFOs endure. The scary part is the inaccuracies resulting from this less-than-perfect budget development process that dramatically decrease confidence in the budget, according to a survey conducted by Centage and the Institute of Management & Administration (IOMA).

The CFOs surveyed, who represented companies of all sizes in more than 20 industries, expressed a wide range of confidence levels in their ability to budget for bookings, revenues, expenses, cash flow, and collections/disbursements. CFOs are most confident budgeting expenses. The smaller the company, the more confident they are: 58% of companies with less than $10 million in revenue are “very confident” budgeting cash flow compared to only 29% of those companies with revenue of $500 million or above.

Overall, most finance executives surveyed—about 45%—are only “somewhat confident” in the accuracy of their budgets, and 12% are “not very confident” or “not at all confident” in most budget areas. Yet about 42% are “very to extremely confident” in all areas, particularly in the accuracy of budgeting for their expenses.

The budget process at most companies is broken—an opinion backed up by our survey findings—because of persistent problems that fall into three areas: people, process, and tools. Figure 1 shows how the three are interrelated. For example, a cumbersome Microsoft Excel-based budget template in the hands of department managers who are unfamiliar with spreadsheets is a
recipe for frustration that leads to alienation from the process. Some CFOs might see the resulting bad attitudes as the root of their budgeting issues, but, in fact, the attitudes are a symptom, not a cause. The root causes lie in the technology and the process.

To improve the budgeting process and build a more accurate budget that inspires confidence, CFOs must address all three problem areas.

People Problems
When CFOs participating in the Centage/IOMA survey were asked to write in their greatest budgeting “pain point,” the most common issue by far—regardless of company size—was dealing with department managers. Specific complaints were that managers don’t take ownership or hold themselves accountable for their pieces of the budget, don’t fully cooperate or participate in budget development, don’t understand the process or what’s required, don’t meet deadlines, pad their budgets, or provide unrealistic numbers.

Robert Cowan, who was CFO of the Professional Convention Management Association (PCMA) at the time of the survey, elaborates on these issues: “The biggest pain points in budgeting and forecasting involve getting buy-in and involvement in the process from all the users and departments. Although management is clear that department heads are responsible for their budgets and any variances, it often seems that too little attention is paid to the budgeting process and…a well-developed budget. Sometimes this is due to other priorities at the time the budget is being created, but oftentimes, it is a direct result of lack of involvement and/or understanding of the purpose of budgeting and why we go through this extensive exercise every year.”

Managers’ inability to think about budgets strategically frustrates many CFOs, such as the author of this anonymous survey comment. “[Our] biggest budget concerns are getting adequate detail for revenue forecasting—we have multiple product lines, so amounts generated by product line are as important as an overall revenue total. [Also an issue is the] capability of managers to think about the long term and the important metrics that drive their operations; e.g., if they need to increase revenue, what are the drivers, and what items can be leveraged?”

Managers aren’t the only ones being called out by CFOs. Survey respondents cited senior executives for their lack of direction on or support of the budget, making late changes to key assumptions and targets, not communicating well between parent company and subsidiaries, and micromanaging the numbers. It’s a delicate balance: Too much direction, and managers feel the numbers don’t belong to them; too little, and the process wanders aimlessly.

Tool Troubles
While CFOs addressed the bulk of their budgeting vitriol toward managers, inadequate technology was a clear second, with 15% of those who submitted a pain point lamenting the shortcomings of their budgeting tools. Four out of five of these replies expressed frustration specifically with budgeting in Excel spreadsheets with comments such as: “Changes are very difficult in Excel, and it is impossible to drill down into data.” “[The] process is very manual and FTEs/headcount very difficult to budget and manage. Pulling together all the details in summary and detail reporting is cumbersome.”

Other complaints included the time-consuming nature of budgeting in spreadsheets, the frequency of errors, difficulties rolling up numbers, and the inability to create “what if” scenarios. Cowan sums up the concerns with an understatement: “While Excel or other spreadsheet programs are excellent financial tools, they are not necessarily optimized for budgeting.”

Given the anti-spreadsheet sentiment pervasive in the
financial industry at budgeting time, it’s surprising that spreadsheets remain the de facto tool for budgeting, used by an average of 81% of companies either alone or in combination with a general ledger (GL) or enterprise resource planning (ERP) system (see Figure 2).

Three out of four small to medium enterprise (SME) companies (with annual revenue of $100 million to $499 million) budget with spreadsheets alone or in combination with a GL/ERP system. For the small to medium business market ($10 million to $99 million in revenue), 85% of companies build their budgets this way. Although larger companies are more likely to have broken away from spreadsheets and use dedicated budgeting software or applications built in-house, the majority (57%) still use spreadsheets alone or with GL/ERP systems.

If spreadsheets are so troublesome for budgeting, why are they still so prevalent? Evidently, some companies can get by with “hand-grenade budgeting,” i.e., almost is close enough. More likely, though, the barriers to change are either a lack of knowledge about other options or inertia. There’s no financial equivalent of a heart attack in the budgeting world—some life-changing event that sends the CFO running for the nearest budgeting software vendor. Instead, some companies eventually realize that their “budgeting cholesterol level” has hit 300 and that they need to change their lifestyle or find themselves in big trouble very soon. In reality, as with physical health, many refuse to acknowledge the early warning signs and take action.

**Process Pain**

Issues around the budgeting process are a little harder to quantify because a process is wrapped up in people and tools. Theoretically, the process defines how tools should be used and how people are expected to perform, but in truth what happens is that the limitations of the tools and the inherent weaknesses of human nature bend and reshape your process until you may not recognize it. That’s why the end result is never as clear, clean, or accurate as CFOs would like.

Some process issues stem from situations described earlier, such as executives who don’t provide enough direction or support on the budgeting process or who feel they can change the budget parameters at will, giving you a moving target as you build the budget. Process issues often emerge at companies with no clear link between the budget and corporate strategy. If one doesn’t support the other, your process breaks down at the very top, never mind what shape it will be in by the time it hits the lower ranks.

Suffice to say, if the tools or people aren’t working well, chances are the process is broken, too.

**Why the Budget Matters**

With so many reasons to be dismayed about the budgeting process, it’s tempting to give up and accept the status quo. CFOs who want a reason to persevere in their quest for a better budget simply need to be reminded of how much depends on it.

No longer a relatively quick exercise performed once a year, the budget has become a strategic business plan in itself, analyzed and updated regularly throughout the year in the form of monthly forecasts and sliced and diced to allow various views into the company’s operations, performance, and future direction. Today’s budget is:

**A cash flow management tool**—Executives at 46% of the companies surveyed view their budgets as “extremely or very important” cash flow management
tools, and 38% rate them “somewhat important” (see Figure 3 for a breakdown by company size). The budget’s cash flow management aspect is most important at companies with annual revenue less than $10 million.

A forecasting tool—More than three-quarters of the executives surveyed reforecast their budgets to help their companies adjust to marketplace fluctuations and changes, and about one-third use rolling forecasts to better manage the business.

A reporting/disclosure mechanism—Almost all companies conduct some regular performance analysis and reporting. About three-quarters of finance executives create full financial reports to meet investor and bank disclosure requirements, and most provide the management team with regular operational/managerial reports. More than 60% also use their financial reports to manage cash flow, reiterating the importance of the budget as a cash flow management tool.

The tool for measuring progress toward key performance indicators (KPI), the most common of which are net income/loss, gross profit, operating expenses as a percentage of sales, and earnings before interest and taxes (EBIT), according to the survey.

A factor in compensation—The overall trend is to link compensation and the achievement of goals such as meeting budget. Even at small companies 55% tie the two, although the trend is most prevalent at larger companies (82% of those with revenue of $500 million and above). The implications of this aren’t inconsequential: The majority of companies with up to $500 million in revenue put 10%-20% of compensation in this at-risk category, and 20% or more is most common at the largest companies.

A crystal ball—For CFOs with the right tools, the budget facilitates the creation of “what if” scenarios that show the impact of various business decisions on the numbers. This type of contingency planning is critical for start-ups and other fast-growth companies that need to be prepared to turn on a dime if an initiative doesn’t deliver as planned. It also allows CFOs at more traditional companies to weigh various strategic alternatives before settling on a course of action.

Improvement Plan
Now that you’re feeling revitalized because you know how important budgets really are, how can you help improve the imperfect budgeting process?

Tackling the weaknesses of spreadsheet budgeting is the easiest challenge, and it’s possibly even the most cost-effective one compared to the staff hours required to solve the people aspects of budgeting. A variety of good budgeting applications exist, geared for different sizes of companies and ranging from a few thousand dollars to hundreds of thousands. As Robert Cowan warns, though, “[the] software must be easy to use for those who must use it regularly. Reporting and documentation must be easy, self-contained, and able to be done with minimal assistance from Finance.”

Here, again, the tools, people, and process are intertwined. Upgrading your budgeting technology will make your life easier in the obvious ways, such as improved ability to roll up numbers, time savings, and increased accuracy through automation. In addition, by improving your budgeting tools you increase your ability to invest managers in the process and to extract accurate and meaning-
ful data from them. Software that’s more sophisticated than spreadsheets often can be easier for novices to use and understand. If it provides a dashboard that managers can adapt for a quick view of their performance, including meeting budget, their interaction with and interest in the budget can grow. This greater ease of use will help adjust management attitudes toward budgeting chores.

But better tools aren’t enough. How do you turn the budgeting process from a threat into an opportunity for department managers? How do you get them to accept the need for an accurate, well-thought-out budget; build that budget accordingly; and be supportive of the process? How do you get them to accept accountability?

You can accomplish these objectives by overhauling your budgeting process using seven steps that are drawn from my own experience and backed up by CFO feedback from the survey:

1. **Evaluate your process.** This is where all CFOs must say mea culpa, for part of the blame for an imperfect budgeting process lies on our shoulders. Is your process as streamlined, simple, and clear as possible? Are assumptions and deadlines clearly defined? If not, make adjustments. Next, assign responsibility. As one CFO commented in the survey, “Leave no area of the P&L (profit and loss statement) without an owner.” Finally, work with Human Resources to tie managers’ compensation to their P&L. Nothing drives behavior like a well-thought-out compensation plan.

2. **Upgrade your technology** if you’re still using spreadsheets for budgeting, and turn a weakness into a strength.

3. **Communicate.** The best process in the world can fail without adequate communication. With any employee, first and foremost, always address what your initiative means to them. Most likely, an accurate budget affects them in two ways: It influences the financial health of the company, and it possibly affects their compensation (see number 1). Explain how the budget supports the achievement of corporate strategy and goals and how the company and they prosper if the budget is met.

4. **Communicate some more.** Explain the process, clearly stating the timetable, assumptions, and responsibilities. Then explain why the budgeting process matters. No one wants to spend time on a process that doesn’t matter. Teach them why it does. Sometimes this is handled best by showing the result if the budget is done incorrectly.

5. **Train and educate.** Conduct training sessions to be sure that all employees with a role in budget development have a basic knowledge of how to build a budget and understand their roles and how to use the tools you provided. As Cowan points out, “Users with a nonfinancial background oftentimes aren’t comfortable working with financial figures and don’t have the skills to accurately project and cost out what their proposed activities will involve. [Finance] needs to work closely with those departments to obtain and document the budget assumptions and requirements. Often this is not done or not done well, leading to errors in the budget.”

6. **Collaborate.** Be inclusive and collaborative, survey participants told us. “Keep department heads involved; their knowledge of their specific areas of influence is invaluable.” Once the training ends and the process begins, check in regularly to provide answers and guidance.

7. **Follow through.** Budgeting never stops for Finance staff, so why should it for managers? After the annual budget is built, update managers regularly. Your new budgeting tool should make it easy to provide tailored reports for each manager and desktop dashboards where they can follow their performance in many areas, including the budget.

**Rolling Up**

The difficulty in collecting accurate data from managers who are uninterested or inadequately trained and in consolidating that data using imperfect technology leads to budgets in which CFOs aren’t overly confident. As Cowan says, “If the budget inputs are not accurate, then the outputs cannot help but be inaccurate as well.”

Yet so much is riding on an accurate budget. Done properly, budgets help CFOs, CEOs, and board members better manage the business and plan for the future. Companies have much to gain by improving their budget process. For starters, it will put the trust back into the numbers they rely on so heavily, and it just might get department managers to understand that their accurate input is vital to the budget’s success.

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