

: *What is active enterprise financial planning?*

Active enterprise financial planning is a collaborative, participative, real-time, web-based approach for budgeting, performance management and financial planning. It is the latest buzzword and "must have" application. Why the sudden interest in improving budgeting and forecasting? Duh! Bad results! The weak economy since April 2001 has decreased financial performance "visibility" in many companies. In these companies, the profit forecasts have been very inaccurate. The resulting embarrassment (or anticipation of such embarrassment) for the company's CEOs and CFOs from revising forecasts downward has sent many of them scrambling for new forecasting and decision support capabilities. Managers want better performance "visibility going forward". Some software vendors argue active financial planning supported by web-based software is the answer to poor performance management and budgeting woes. This Ask Dan! briefly examines decision support for budgeting and financial planning.

According to a survey of 165 European Chief Financial Officers (CFOs) at the PwC Consulting (<http://www.pwcconsulting.com/>) website, the "role of the CFO is evolving from merely transactional activities to encompass decision support." The survey from May 2001 indicated a greater interest among CFOs in decision-support activities such as performance management, budgeting, reporting, profit and cost management and shareholder value analysis. CFOs in large companies in the U.S. and Europe may be a little bit ahead of the curve, but the new attention to financial decision support seems widespread.

Let's review the basics (cf., Stedry, 1967). A budget proposes expenditures for specific items and specific purposes for a future time period. Also, a budget is a set of goals with "price tags attached". Budgeting is a goal setting process in which managers need to actively and meaningfully participate. Managers who will be expected to meet a part of the overall budget should participate in establishing that part of the budget. The amounts in the budget need to be challenging and the targets must be accepted and perceived as attainable by those charged with achieving them. Budget processes do not always improve financial performance because of estimating and behavioral problems like overestimating needed expenditures and then spending that amount whether needed or not and underestimating receipts and then not working very hard to exceed the estimate. From an "accounting perspective" budgets are tracked against actual receipts and expenditures so that "corrective action" can be taken. A good tracking system should provide managers timely reporting of where the budget is NOT being met. Creating and tracking a budget can be supported by a computerized system and in large companies computerized support is probably necessary. Budgeting can be time-consuming and tracking expenditures against a budget can be tedious, delayed and difficult.

Today web technologies are enabling companies to redesign and improve their budget development and performance management processes. So what works? Budgeting has been a popular topic in recent months at darwinmag.com and I have tried to follow the arguments and discussion related to the latest buzzword -- "active financial planning". The website is an extension of Darwin Magazine (which I don't receive). In a series of articles at darwinmag.com, Alice Dragoon (May 2002) has discussed budgeting and active financial planning. Her series started out with some Excel bashing, discussed some process issues, and then she summarized some vendor success stories. She quotes Steve McMinn, a partner at Accenture, as claiming the recent lack of financial foresight has occurred because most companies' financial planning processes are mired in "Excel hell".

Ms. Dragoon cites the following "facts" from her interviews and from principals at consulting firm Answerthink:

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- "some 80 percent of global companies use Excel almost exclusively as a planning tool"
- "finance folks spend weeks attempting to consolidate hundreds of spreadsheets with inconsistent data definitions, altered formulas and extra rows added by creative managers"
- "the typical billion-dollar company's finance staff alone spends some 35,000 hours a year supporting the planning, forecasting and reporting process"

The above statements definitely identify some problems. So what is the solution? Should companies stop using Excel for budgeting and move exclusively to what AMR Research (www.amrresearch.com) calls "active enterprise financial planning" tools? Yes and No. CFOs definitely need to investigate purchasing web-based budgeting and financial planning software. Also, Excel definitely is a poor tool for data collection and data aggregation. Web-based software can help to speed up budget data collection, management and monitoring, but Excel can be used to build powerful planning, budget analysis and decision support tools.

Excel "hell" occurs when managers use Excel for data collection tasks it was never intended to perform. An Excel budget tool can help unit managers develop a budget using "what if?" capabilities and then the proposed budget can be submitted using a web form. Budget tracking can also occur using a web-based application. Senior managers may also want to use Excel to analyze budget data from multiple business units. Budget data can and should be centralized on a company intranet and everyone involved in the process should use the same data definitions.

The days of consolidating budgets from Excel spreadsheets completed by managers of business units that are sent by "snail" mail or emailed to headquarters should be over. Companies do NOT need to use an Excel application for data collection and aggregation. Managers can focus on using Excel applications for data analysis and decision support (when Excel is the best development tool). New web-based tools can fit into and support a more sophisticated budgeting and financial planning process.

So who are some of the budget decision support vendors to check out? What vendors should be investigated? First, Comshare (www.comshare.com) has always been a favorite of mine. Dagoon doesn't mention Comshare, but she does mention three excellent vendors, Adaytum, Hyperion, and OutlookSoft. The OutlookSoft product may be particularly interesting for Excel users because marketing materials claim it "leverages the power of Microsoft Excel". Another new vendor in this product space is Elevon, Inc. (www.elevon.cc). Elevon received the Best Product Launch award at the 2002 Budget Masters Conference. These five vendors provide a starting point for finding new tools. I've visited their websites and read the promotional materials, but I have not used their products.

What can we conclude? Active financial planning is possible and using web-based support is better than manual, bureaucratic planning processes, but it doesn't solve all problems. For example, technology company Cisco has been identified for a few years as a leader in using the web for financial consolidation and planning, but even Cisco CEO John Chambers has been troubled recently by poor financial performance forecasts. The vendor success stories indicate web-based budgeting decision support tools can be useful, but short-run forecasting is and will remain difficult in turbulent environmental conditions. All we can do is reduce the budget process cycle time -- we can get the financial performance news faster; we can take corrective action sooner. Also, despite the inappropriate use of Excel for gathering budget data in some companies, a spreadsheet-based DSS

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can be part of a redesigned active financial planning process.

Finally, in a classic paper, Andrew Stedry (1967) wrote "The success of a budgetary control system then may be measured in terms of its ability to induce the formulation of plans which contribute to organizational goals, at lower levels in the hierarchy (p. 415)." Improving the overall control system and budget process is the key; web-based budget decision support is intended to facilitate and support the overall budgeting and performance management process.

References

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