Four Steps to Effective Planning and Budgeting

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In 1998, when *CFO* magazine surveyed its CEO readers, it found that only 12 percent of them thought their budgeting process was completely reliable. Ninety percent labeled it cumbersome.

Despite these alarming statistics, and the recent onslaught of lower-than-expected earnings reports, many financial institutions still rely on inadequate and exhaustive planning and budgeting processes. These processes often yield historical documents that neither reconcile nor align objectives with the corporation's strategic vision. Moreover, they often fail to measure systematically each manager's performance compared to the plan.

Today's fast-paced banking environment demands that business leaders use dynamic plans and budgets to support and drive action. In an effort to construct plans and budgets that help improve corporate performance, a growing number of financial institutions are revamping their planning and budgeting processes.

The following four steps are the foundation of a pragmatic, yet strategic, approach to planning and budgeting:

1. Communicate strategies, objectives, and goals.
2. Encourage involvement and collaboration.
3. Adopt and measure performance metrics.
4. Adjust plans to maximize success.

COMMUNICATE STRATEGIES, OBJECTIVES, AND GOALS

The first step in constructing a sound plan and budget is for management to communicate corporate strategies, objectives, and goals to employees throughout the organization. Industry surveys indicate that many financial institutions' planning and budgeting processes suffer from a lack of communication. When employees are not aware of the company's strategies, objectives, and goals, it is impossible for them to build a plan and budget that reflects the company's strategic vision. These days, the task of communicating companywide is less daunting than it used to be because of intranet and portal technology.

In addition to communicating objectives, management should convey to every manager the critical assumptions that are essential to effective, unified plans across the organization. Examples of such assumptions include increased business and retail accounts, increased cross-selling of services, cost-reduction targets and amounts, and market-growth projections.

ENCOURAGE INVOLVEMENT AND COLLABORATION

To get every manager in the organization involved in the process, the finance department, which traditionally has owned the planning and budgeting process, must share control of the budget and take on the role of facilitator.

By allowing managers to actively build the plan and budget, companies can be certain that departmental and business-unit goals are aligned with overall corporate goals. Getting every manager involved in the process also ensures that managers are committed to their budget submissions.

In addition, encouraging managers to get involved in the process and implementing the necessary technology make collaboration possible. In planning and budgeting, collaboration among the ranks and across departmental borders helps to establish consistent and unified plans throughout the organization. For instance, financial executives can integrate information from customer accounts, investment portfolio performances, and customer relationship management and human resources systems into their plans and budgets to enhance the overall process.

While collaboration can be a challenge for an organization with offices, branches, and employees around the globe, taking an "every manager" approach to planning and budgeting means that department heads, analysts, and branch managers can work in unison toward a common goal. Using familiar, standardized tools, such as personalized spreadsheets and Internet browsers, makes the process easy to implement. Having an understanding of what other departments and business units are experiencing also can open the doors to new opportunities.

ADOPT AND MEASURE PERFORMANCE METRICS

Many planning and budgeting systems do not enable managers to analyze corporate performance compared to the plan in a consistent, timely manner. Managers can gain the benefits of planning and budgeting only if they are able to analyze and compare performance metrics in real time.

Experts report that, in most industries, fewer than 10 key operating metrics directly influence financial results. To ensure that their view of the organization is complete, managers should identify and analyze financial metrics (such as operating income and margin, profitability, and labor overhead) and nonfinancial metrics (such as the number of opened or closed accounts, customer satisfaction levels, and employee retention).

Using operating metrics keeps managers up-to-date on how their departments are performing and allows them to react and adjust their plans accordingly. This is particularly important when business conditions change. For example, if there is a bear market or sluggish economic growth in the financial institution's key markets, management must be able to adjust earnings and revenue plans to offset losses from investments and slowdowns in customer activity.

On an individual level, managers can use performance metrics to measure and analyze their achievements compared to the corporate standard or industry benchmarks.

ADJUST PLANS TO MAXIMIZE SUCCESS

The final step in constructing a sound plan and budget requires a new way of thinking. Financial institutions must shift from static or infrequent planning and budgeting processes to continuous, flexible processes. Their goal must be to produce a reliable budget that management can use as a strategic weapon to support and drive action.

When a financial institution plans and reforecasts on an ongoing basis, it can adjust to unforeseen conditions by adapting tactics and strategic plans. With appropriate process and security controls, managers can elect to revise their plans and strategies globally or selectively. Ultimately, this ensures that organizations are ready to seize market opportunities as they arise.

PLANS AND BUDGETS THAT WORK

A flawed planning and budgeting process can harm corporate performance and reputation. Lost business opportunities, lower-than-expected earnings, increased scrutiny from Wall Street, and enormous pressure from investors and other stakeholders are only the beginning.

Severe competition and consolidation make dynamic plans and budgets important for driving action. Fortunately, new technology makes possible a more informed, collaborative, and timely budgeting process.