

Results Based Budgeting, Forecasting and Performance Management

A www.capabuil.com Program for
People Empowerment

Course Outline

- Financial Planning- Supporting Strategy
- Objectives, Measures and Targets
- Measures &Targets (KPIs)
- Objectives, Measures and Initiatives in Practice
- Linking – Corporate, Business Unit and Personal Goals



Financial Planning- Supporting Strategy

- Why do budgets often bear little direct relation to a companies long term strategic objectives?
- Answer: Because they do not take enough into consideration.
- The divide between simplistic budgets vs the strategy driven budgets is clear.

Financial Planning- Supporting Strategy

BSC augments traditional financial measures with benchmarks for performance in the non financial performance areas,

- Relationship with customers
- Internal processes
- Learning and growth

Financial Planning- Supporting Strategy

- Inclusion of the Non financial measures make the Budgeting process a powerful management tool.
- It gives a deep and broader perspective on entity activities/programs.
- This approach aligns all organisation activities to strategy.

Financial Planning- Supporting Strategy

- BSC aligned Budgets Bind day to day activities to long term objectives of the organisation. You can trace what every coin spent aims to achieve.
- Results Based Budgeting, Forecasting and Performance Management underpins effective business planning

Financial Planning- Supporting Strategy

- Most companies have separate procedures and units for strategic planning and budgeting.
- The discipline of creating a balanced scorecard forces companies to integrate the two functions
- This ensures budgeting process supports strategic goals.
- Budget & Strategy based performance measures are arrived at.
- This leads to agreement of key performance drivers- 20/80 rule

Budgeting

- **Budgeting** is a quantitative expression of a plan for a defined period of time.
- It is a plan of future financial transactions.
- It may include planned **sales and revenues**, resource quantities, **costs and expenses**, assets, liabilities and cash flows.
- It expresses strategic plans of business units, organizations, activities or events in measurable terms (Aligned to Strategic Plan – what is your vision?).
- Budget codes- for implementation and control

Benefits of Budgeting

- Enhanced financial planning
- They communicate plans to various responsibility center managers and their staff
- Enhance control of resources
- Motivate managers to strive to achieve budget goals (What happens when you cant absorb allocated funds?)
- Provide visibility into the company's performance
–Meeting Strategic Goals
- Evaluate the performance of managers
- Promote accountability

Types of Budget

- Fixed Budgets & Flexible
- Rolling Budgets
- Incremental Budgets
- Zero Based Budgets

The Master Budget

- A master budget is a set of interconnected budgets of
 - a) sales,
 - b) production costs,
 - c) purchases,
 - d) incomes, etc.
- It also includes pro forma financial statements.

The Master Budget

- Master budget has two major sections which are,
 - a) the operational budget and
 - b) the financial budget.

Master Budget- Operational Budget

- Sales Budget
- Production Budget
- Direct Material Purchases Budget
- Direct Labor Budget
- Overhead Budget
- Selling and Administrative Expenses Budget
- Cost of Goods Manufactured Budget

Master Budget- Financial Budget

- Schedule of Expected Cash Receipts from Customers
- Schedule of Expected Cash Payments to Suppliers
- Cash Budget
- Budgeted Income Statement
- Budgeted Balance Sheet

Driving Results and Performance Through the Budgeting Process

- How does the Budget process underpin Vision and Strategy link with the four perspectives?
- How often do you ask your boss to give you a budget if you were to effect business unit programs?
- Do you always get a budget? Why or why not?

Driving Results and Performance Through the Budgeting Process

A Look at the Four BSC Perspectives

- Financial
- Customer
- Processes
- Learning

FINANCIAL: *To succeed Financially, how should we look to our customers?*

Objectives	Measures	Targets	Initiatives	Budget Forecast: Revenue/Ex penditure
Double revenue over 3 years	Increased Earnings	15% Profit Margin per annum	Marketing, Process improvement, Staff training; Number of new stores/branches	

CUSTOMER: *To achieve our vision how should we appear to our customers?*

Objectives	Measures	Targets	Initiatives	Budget Forecast: Revenue/Expenditure
Grow market share by 50% over the next five years.	Market share growth, Customer retention, New Customer acquisition	10% annual Market share growth; 98% Customer retention rate	Marketing Campaign, Process Improvement, Training	

PROCESS: *To satisfy our shareholders and customers, what business processes must we excel at?*

Objectives	Measures	Targets	Initiatives	Budget Forecast: Revenue/Cost
Achieve above industry process quality over five years	Efficient, shorter, cheaper, defect free processes.	30% improvement in cycle time per annum; 20% savings on cost per annum; 4/6 process sigma level	New technologies; staff training; Customer engagement	

Learning & Growth: *To achieve our vision, how will we sustain our ability to change and improve?*

Objectives	Measures	Targets	Initiatives	Budget Forecast: Revenue/Expenditure
Enhance strategic competencies by training more than 75% of staff in relevant areas.	Enhanced knowledge and skills among staff	Ratio of staff with relevant expertise for the job; Number of training opportunities (%&absolute); staff satisfaction survey score of more than 60%; Staff retention rate/turnover	Training programs; Needs assessment; Acquisition of new enabling technologies; Benchmarking visits and exposure	

Budgeting for Results/Strategic success

- Many financially based management systems fail to link change programs and resource allocation to long term strategic priorities.
- Senior executives go offsite annually for several days in a session sometimes facilitated by a consultant to craft strategy.
- The outcome a strategic plan that often sits on executives' desks for the next 12 months

Budgeting for Results/Strategic success

- Meanwhile, finance staff separately make targets for revenue and expenditure for the next period.
- The budget produced is largely financial numbers that bear little relation to targets in the strategic plan.
- Which documents do managers discuss in their monthly and quarterly meetings? –usually the budget.
- This because the periodic reviews are a comparison of the actual vs budget for each line item.

Budgeting for Results/Strategic success

- The strategy is next discussed at the following annual strategy meeting when managers draw up a new set of plans.
- I wish the budget was strategy driven. Every thing else described above would just be fine.
- Tell me the vision and mission of your organization? (We will validate on internet)
- BSC forces companies to integrate their strategy formulation and budgeting processes.

Budgeting for Results/Strategic success

- BSC approach helps integrate initiatives
- The score card links and aligns action with strategy by influencing managers to concentrate on improving or re-engineering those processes most critical to the organisation's strategic success.
- Detailed financial planning remains very critical.
- But financial goals taken by themselves ignore the other three score card measures.

Results Performance & Management Fads

- Heard about Intrapreneur, TQM, Re engineering, MBWA, Employ empowerment, best practices etc
- These promise to deliver results but also compete with one another for scarce resources including the scarcest of them all: Senior managers' time and attention!
- Such numerous initiatives are usually inadequately integrated into strategy.

What Have you Learned from This Session?

Discussion/ Question/ Answer

Discussion

- Discussion/ Question and Answers

