

## Executive Summary

**In 2003 improving the budget was clearly an agenda item for European CFO's. Today, budgeting is "on the move". However the pace is slower than planned.**

Increasing market volatility and business uncertainty, coupled with continued internal restructuring, has led many to question the value of the traditional annual budgeting process – with its propensity for tedious negotiations and rigid targets.

Although traditional budgeting approaches have been widely criticized, just how is the criticism metamorphosing into more efficient and effective approaches at European companies?

Until The Hackett study in 2003, reliable information about current process performance and plans to reengineer the budgeting process or even abandon the budget in European companies had been difficult to come by. The 2005 study further builds the database on empirical data.

However, as it is a proven Best Practice to integrate tightly the mid-term planning process and the budgeting cycle, more and more questions are arising as to the characteristics of mid-term planning in European companies. Just as it was for budgeting, historically it has been difficult get reliable information about how well the mid-term planning process fulfills management's expectations and which changes are anticipated in the near future. This study bridges that knowledge gap.

In order to establish an empirical baseline on current budgeting and mid-term planning practices within European companies, The Hackett Group surveyed 80 Europe-based companies. Most of these are large, multi-level organizations. Below are some of the study's main findings:

- The clear majority of participants (79%) reengineered their budgeting process during the last 1 to 2 years. However, a closer look at the implemented changes reveals that only a minority (18%) can be described as large-scale change initiatives leading to breakthrough performance improvements on efficiency and/or effectiveness.
- As most companies made only minor changes to the budgeting process it is not surprising that the average duration of the process at large, multi-level organizations has, at 4 months, remained nearly unchanged from 2003. More than a quarter of the surveyed companies in 2005 (27%) need at least 5 months to complete the budget.
- Fully 70% of companies surveyed stated that their budgeting process does not fulfill management's expectations regarding efficiency and/or effectiveness of the process. Unsurprisingly, therefore, more than two thirds (69%) plan to change the process within the next 1 to 2 years.
- Mid-term planning is widely used or will be used at European companies (87%).

- Although 44% of surveyed companies intend to change their mid-term planning process, it is perceived as less of a burden than budgeting.
- Looking at the planning “big picture”, the majority of companies work to a sequential planning cycle. In this, mid-term planning is completed prior to the budgeting process. A monthly detailed/ weighted planning phase often takes place post budget. On average, the cycle time of the entire, sequential planning cycle adds up to 8 months. The Finance staff of a few companies is even caught in a 10 to 12 months planning cycle.

Any company starting a reengineering initiative in the area of budgeting must keep in mind these critical success factors:

First, there is no single, one-size-fits-all solution to fixing the problems that plague budgeting and mid-term planning at European companies. Instead the key is to identify and understand the Best Practices and solutions that are appropriate to each company’s particular situation. To implement these solutions successfully requires a commitment to making improvements holistically, across processes, content, technology, people and, most importantly, corporate culture.

Secondly, in today’s world, the limited predictability of the future requires a change of paradigm from an overengineered “forward accounting” approach toward a lean and focused approach. More resources, time or line items will not increase the benefit from budgeting. The significant progress of such a project will only be achieved by de-emphasizing the budget.

Third, given the structural and, most notably, the cultural challenges, a project to reengineer the budgeting process will only work when championed and driven by the most senior executives in the organization – most particularly the CFO and CEO.