Hey! What's New? 2024-100

Avoid the Budget Season Trap

An article on the *Chief Executive* webpage, written by Tara Rethore, notes that, when CEOs and their finance chiefs embrace the budget as a strategic tool, they can unlock the potential to accelerate performance.

"It's budget season. We've got to figure out how to deliver on our priorities with 30% fewer resources." This is what Rethore heard from a C-Suite executive recently. That executive heads a critical business function, globally, for a complex, $1.5B enterprise. Probing further, Rethore discovered that the mandate to cut costs wasn't driven by poor business performance. In fact, business was good. And her unit's work has been deemed mission critical for the organization's success in managing its expected growth. Unfortunately, she notes, "this executive's situation is not unique. As the traditional 'budget season' gets under way, CEOs and their CFOs might want to consider the following points.

Too often, budgeting is reduced to a plus-or-minus-percentage exercise. Rethore points out that "leaders are directed to create a budget that allows a specific decrease or increase versus prior-year spending. Certainly, deliberate attention to cost is important. Yet, blind adherence to percentage change disconnects the investment from intended outcomes. It may be expedient to forecast based on percentages; it does little to add clarity.

"When budgeting is reduced to a plus-or-minus-percentage exercise, 'budget season' becomes a trap. It's no wonder, then, that people dread it."

Budgeting is always imperfect. The budget projects future spending and revenue based on experience and what's known now. Says Rethore, "budgeting is always imperfect because you can't predict the future. You can make reasonable assumptions about familiar uncertainties—the economy, political or regulatory shifts, throughput, inventory, etc.—and anticipate potential opportunities. But there's always something that's missing or wrong. As the year progresses, leaders learn. Conditions change. Investments drive progress or fail to deliver. Competitors and customers make unexpected decisions. Each of these shapes action and informs the numbers."

Transform the budget into a strategic tool. Making your strategy work effectively requires aligning strategy and operations. This, she says, "is precisely what a strategic budget does: it connects resources and investment to the things that matter most to achieving your objectives. Further, a budget is highly visible throughout the organization. When CEOs transform the budget into a strategic tool, they ensure that everyone understands the relationship between resources and intended outcomes."

Strategic budgets create line of sight for everyone. In this way, budget is no longer a season – or a trap, says Rethore. "It's an opportunity. Strategic budgets create line of sight for everyone about the impact of specific actions on the success of your strategy. The executives I advise review the strategic implications of the budget at least three times a year." She adds that they ask the following:

- What does actual revenue tell us about customer and competitor reactions to our products/services?
- To what extent will our current resource allocation and investment enhance or impede growth?
- What needs to change, by when, to correct course, maintain momentum or accelerate progress?

***Stop moving numbers around on a spreadsheet*.** The plus-or-minus-percentage approach does little to enhance strategy. So, advises Rethore, "stop moving numbers around on a spreadsheet. It's time to transform the way leaders think about budgets. Connect it directly and explicitly to the decisions and actions that have the greatest potential to achieve your vision. CEOs and CFOs that embrace the budget as a strategic tool and process unlock the potential to accelerate performance – all year long."

For more, have a look at Avoid The 'Budget Season' Trap (chiefexecutive.net),