

# Looking at budgeting in a new way

By IAN HARVEY

The good news: you only have one budget meeting on the agenda today. The bad news: it runs from 9 a.m. to midnight.

The sad part is for many companies that's no joke, says Karine Benzacar, managing director of Knowledge Plus Corp., which specializes in business training and financial, accounting and management information services.

"For some companies, the budget process takes six, eight, nine months," she told the CGA Controller's Congress in Mississauga recently. By the end, she added, not only are the numbers outdated, it's time to start over.

The amount of resources companies dedicate to the annual budget dance would be better used elsewhere to grow and analyze the business, she argued.

"The average company investment is more than 25,000 person days per \$1 billion in budgeting and planning," she said. "The average time to develop a financial plan is 4.5 months and some five per cent of employees are involved."

And the upshot?

"A *CFO Magazine* survey found 88 per cent of respondents were dissatisfied with budgeting and 66 per cent thought their planning process was influenced more by politics than strategy."

Even more surprising, 78 per cent of companies do not change budgets within the fiscal cycle and some 60 per cent don't link strategy and budgeting.

With responses like that, Benzacar asked, why don't more companies rethink the process?

"Because for the most part finance is so busy we don't have time to breathe," she responded. "We've found that companies which have made a transition away from the traditional budget approach have often done it when the CFO was about to retire."

If it works, she said, they leave a lasting legacy; if it doesn't they can go back to the old school method and the initiator doesn't have to make the ultimate sacrifice because they've already retired.

As it stands now, she said, that budget dance is a sly two step which is universally despised.

"Operations managers leave their budget submissions to the last minute, they're late and no matter how much you've spent on software like SAP it comes in on an Excel spreadsheet where formulas are often wrong and there are errors," Benzacar said. "The process encourages managers to play games since their evaluations and bonuses are tied to performance against that budget."

The tricks are well documented: sales estimates are low-balled, expense projections are padded and fourth quarter spending sprees pop up to burn allocation lest it show up as a sur-

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BENZACAR

plus and be cut in the next year.

The alternative, she said, is to rethink and re-engineer the process so it can be an asset, not a grudge task, something which can help the enterprise identify its most profitable clients, channels and margins, and something which participants eagerly engage in because it feeds self interest.

Of course, she said, in some circles evangelizing a wholesale corporate culture shift is heresy because the approach throws out the traditional top-down, hierarchical, control and command system of management and institutes a more fluid and organic concept in which overarching goals aren't rigidly captured as pure numbers.

First, Benzacar said, its time to wake up and realize times have changed, as have workplaces.

"For the most part, the current budgeting process came about in the industrial age, developed by large organizations to control costs, at companies like Dupont and General Motors," she said. "We're now in an information age, the pace of change is more rapid, customers more demanding and fickle."

Change is constant, she noted, employees are empowered and collaboration is the status quo.

The first question to ask, she said, is what's the point of the budget? If the answer is to provide a roadmap to success, then the traditional process isn't working.

"What creates shareholder value?" she asked. "Things like customer satisfaction and loyalty, meeting customer expectations, innovation, developing intellectual property, attracting and retaining top talent. Where is this measured in the budgetary process?"

It's not as radical as it sounds, she said, with many large companies successfully changing their budgeting process, among them Ericsson, Volvo, Ikea and

Chrysler.

Swedish Internet bank Svenska Handelsbanken, for example, has outperformed its Nordic rivals for 40 years with a return on equity 33 per cent higher than its closest competitor and high customer satisfaction even during the recent financial meltdown.

It achieves this by establishing profit centers, each run like its own business.

These European ideas can work in North America, insists Benzacar, especially in organizations which have already abandoned the culture of command and control and substituted a modern "coach and support" style of management.

"The best boss says, 'I'm here to work for you, how can I help you?'" she said, noting there are enough examples of successes to show it is no fluke.

The first challenge in the redesign of the process and culture is to set performance targets.

Depending on the organization, they could include out-selling the competition by 10 per cent, growing market share by 10 per cent or raising customer satisfaction.

Next, instead of a 12-month outlook, use a rolling forecast updated monthly or quarterly, which is not linked to performance evaluation.

"Rolling forecasts are faster to prepare and there's no finish line — why would you do a budget for a year?" she asked. "Are you planning to go out of business the following year?"

However, she added, the culture must change concurrently, by empowering employees to make decisions and commit resources with set goals, and to reward teams rather than individuals, modestly.

Relative performance targets let employees stretch, take risks and focus on creating value, she said.

"For example, I flew WestJet three times over a week last year and they were just one hour flights, Toronto, Montreal, Ottawa," Benzacar said. "The first flight was delayed hours because of a baggage issue and the second was two hours on the runway waiting for them to get us a ramp. When I showed up for my last flight I was early and wanted to take the next flight but the rule is they charge \$50."

After detailing her travails with WestJet, the ticket counter rep smiled and waved her through, no charge. "WestJet has a 'care-antee,'" she said.

"Employees are owners and they are empowered. She didn't have to ask anyone."

It's an example which has turned the corporate world hierarchy on its head, Benzacar said, since the decision making is now in the hands of the front line staff who deal with customers.

The same concept works internally, she said, with departments treating each other as if they were dealing with customers. The net result is a more cohesive team rather than competing silos.

The process still measures key

performance indicators such as profit, cash flow, market share and more, but it frees up resources.

"As CGAs we like to say 'We see more than numbers,'" she said. "So why don't we?"

Liberating finance to mine the numbers rather than merely account for them is more productive and profitable, Benzacar said. "Finance is well-positioned in the tree because we see everything."

"We can identify where the high margins are, which customers or channels are the most profitable," she said. "We can partner with operations managers so finance won't be the policeman or enemy. You'll be welcome every month and they will wait with bated breath because you'll bring information to help them do their job better."

## CGA dies fighting fire in hometown

By JEFF BUCKSTEIN

A 30-year-old certified general accountant died in the line of duty as a volunteer firefighter last month.

Ray Walter died while fighting a blaze at a downtown retail store in his hometown of Listowel, Ont. Walter was killed alongside fellow volunteer Kenneth Rea, 56.

Walter had worked for Ward & Uptigrove, a Listowel chartered accounting firm, since 2004.

The native of Listowel received his CGA designation in 2007, two years after earning a degree in accounting and information technology from the Southern Alberta Institute of Technology.

"Ray was a dedicated employee. When there was a job that had to get done, he was usually in the forefront," says Dave LeGault, a senior principal with Ward & Uptigrove.

Walter was always willing to pitch in and work extra hours to get projects completed on time, and served as one of the firm's leaders in its farming department, notes LeGault.

On a personal note, "Ray was always a friendly guy. He got along very well with his co-workers and the firm's partners (and) was the type of person who would put others in front of himself," LeGault added.

Walter joined the North Perth Volunteer Fire Department in 2008 and was also vice-president of the local Kinsmen Club.

"On the day of the tragic fire, Ray's pager went off and he dropped everything he was



WALTER

working on at the office and ran as fast as he could to get to the fire station three blocks away," LeGault recalls. "Ray was the type of individual to be first to help his colleagues."

"Ray Walter as a firefighter was a credit to our organization. He was a fine gentleman and very well liked by everybody in the department. Our deepest sympathies go out to his family and that of Kenny Rea; we lost two very good men," says Edward Smith, fire chief of the North Perth Fire Service.

Walter also loved sports. A passionate fan of the Toronto Maple Leafs, he played hockey and softball, and was also a curler, golfer, and competitive pool player. Don Cherry paid tribute to Walter and Rea's sacrifices on Hockey Night in Canada two days after their deaths.

"Ray will be missed as a friend and team member of Ward Uptigrove," says LeGault.