

About Face: Why BPM Front Ends Are Failing

Most performance management software is designed to look and feel like a spreadsheet. That's the interface finance people consider to be intuitive. But a recent study shows that line managers aren't buying it.

A SURVEY OF 150 FINANCE EXECUTIVES CONDUCTED BY the Buttonwood Group and CFO Magazine recently revealed that most companies are failing to fully engage nonfinance users in their performance management processes. Our data is specific to the use of budgeting software, but it's telling. Not only is budgeting a core function within most business performance management (BPM) software suites, but it also sets the foundation for the company's forecasting and variance analysis activities. And few people outside of finance are budgeting efficiently — or effectively.

Our survey found that line managers have, for the most part, rejected budgeting and planning applications (see exhibit 1 on page 10), which means finance has to step in and prepare the budgets on their behalf. This creates a lot of extra work for finance. The survey found that it also results in a lot of budget mistakes. For every 100 budgets submitted, close to 40 contain an error or an omission, and even the most sophisticated enterprise planning and budgeting applications do not reduce the frequency of these problems. The only factor that we found to lower the proportion of budgets that contain errors or omissions is having line managers key their own figures into the company's budgeting software system. In the 10 percent of companies where line managers type in their own budget data, 30 percent fewer budgets are submitted with errors and omissions.

The idea that budget data entered by line managers is more accurate may seem counterintuitive. Finance people understand the mechanics of spreadsheets and budgeting far better than people in operations. But consider that there are two types of budget errors and omissions. The first type is purely mechanical; it includes errors in formulas, data missing because someone forgot to budget for a particular line item, etc. Operational managers are more likely than well-trained finance professionals to make mechanical errors because they have far

by Lawrence Serven



Lawrence Serven is a principal with the Buttonwood Group and is president of XLERant, producer of the BudgetPak budgeting application, which takes a TurboTax-like approach to budget development.



less expertise in spreadsheets and formula-writing and in the general mechanics of budgeting. However, budgeting errors of the second type — those that result from misunderstandings, misinterpretations, etc., between the people responsible for spending the money and the people keying in budget data on their behalf — are eliminated only when line managers enter their own budget data. If finance professionals continue to key in budgets after the company purchases a sophisticated enterprise planning application, the software can't prevent communication errors from making their way into the budget.

The BPM software industry is standing at a crossroads. The adoption rate for BPM software has soared within corporate finance departments. Accountants and finance professionals have eagerly embraced BPM dashboards, analysis, and modeling tools. But performance management applications have failed to win over the rest of the organization, and that failure is costing BPM customers dearly.

A Failure To Excel

It can be hard to put yourself in someone else's shoes. As a former manager of financial planning and analysis for Pepsi, I sometimes have trouble remembering that people are born without an innate knowledge of how to build a budget in Excel. I think that's where finance departments are getting into trouble in their efforts to engage line managers in budgeting. Finance managers long to break out of the role of budget mechanic, but first they must understand their internal customers.

Finance professionals love Excel, but our survey revealed that few other businesspeople do. The bulk of line managers don't use Excel every day, and most are not nearly as competent or skilled with it as is the finance staff. How much skill is necessary to key numbers into an Excel spreadsheet form? Very little, of course — but that is the wrong question to ask. The right question is whether managers have the Excel skills necessary to build up accurate budget numbers to begin with.

A line manager's budget doesn't just appear out of thin air. Let's say a sales manager wants to budget for three trips next year: one to Europe, one to Asia, and one to South America. She wants to budget for each trip separately, with spending totaled for each trip and then combined for an annual travel budget. But what does she get to assist her in building her travel budget? The finance department hands her a budget input form with three rows: G/L#6500400 Transportation, G/L#6500500 Meals, and G/L#6500600 Lodging. What the analysts care about is consolidating these general ledger accounts, but she can't get the finance department a total for each account without first building a budget for each trip.

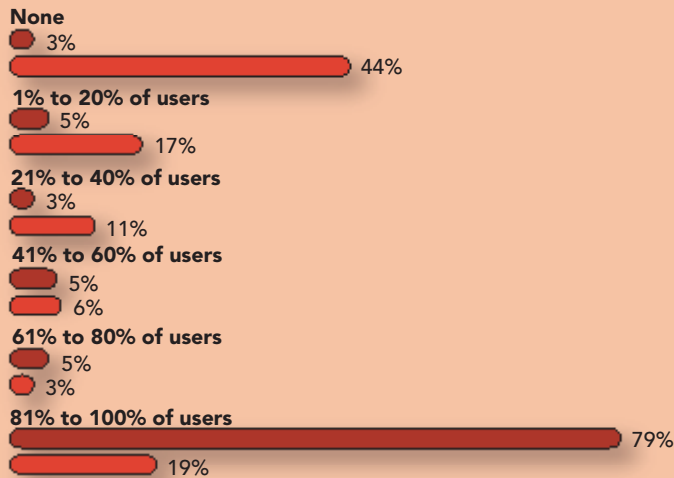
Another example is an IT manager who wants to budget for multiple projects, each of which will incur consulting, hardware, and software expenses, or a marketing manager who wants to budget by marketing campaign. These are the tip of the iceberg. There are as many examples of differences between how budget managers and accountants think as there are people frustrated by the corporate budgeting process. Yet in most cases, the managers have to create their "real budget" offline and then map it to the corporate budget template.

Do most line managers have the Excel skills necessary to create a budget in their own terms and then map it to finance's budget template? According to our survey, the answer is no. The survey pinpointed four everyday tasks in Excel that a manager should be able to do in order to put together an accurate and meaningful budget. Then we asked respondents what proportion of line managers within their organization can perform those tasks without creating an

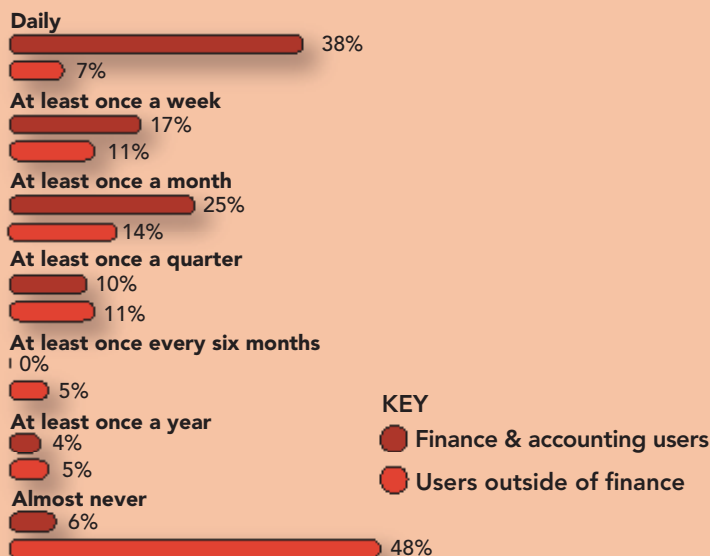
Exhibit 1

Loved Inside — but Languishing Outside — Finance

Among the users in your organization for whom a budgeting software license was purchased, what proportion have logged into the software in the past year?



How often do the majority of users log into your organization's budgeting application?



KEY

● Finance & accounting users

● Users outside of finance

Exhibit 2

Survey Says ... Budget Holders Can't Use Excel Effectively

Excel Task #1:

Create a formula that references a relative column but an absolute row.

Example: My Travel account appears in row 67, with a column for each month. I want to budget \$1,000 per head per month for travel. I enter headcount numbers in row 68, then write a formula for row 67 that references row 68. Since I am going to apply the formula to multiple months, I need to make it relative to the column but absolute to the row.

Proportion of nonfinance people in respondent companies who can do this:

None	26% of survey respondents
Fewer than half	33%
About half	15%
More than half	16%
Almost all	10%

Excel Task #3:

Copy and paste values without pasting formulas.

Example: I have built up my Software Licensing expense by project and created a subtotal for it. Now I want to make the Software Maintenance line item equal to 18 percent of my Software Licensing expense. That means I need to copy the values resulting from the formula and not the formula itself.

Proportion of nonfinance people in respondent companies who can do this:

None	23% of survey respondents
Fewer than half	30%
About half	22%
More than half	15%
Almost all	10%

Excel Task #2:

Link a formula in one spreadsheet to a number in another spreadsheet in the same workbook.

Example: I create a separate spreadsheet in the same workbook to build up my headcount number (based on hires and departures). I would like to reference that spreadsheet in my Travel expense formula. To accomplish this, I need to link a formula in one spreadsheet to a cell in another.

Proportion of nonfinance people in respondent companies who can do this:

None	27% of survey respondents
Fewer than half	37%
About half	19%
More than half	9%
Almost all	8%

Excel Task #4:

In a worksheet column that contains multiple subtotals and a grand total, insert rows and a new subtotal, then adjust the formula for the grand total.

Example: The cost for seminars goes on row 23, and I want to budget for three separate seminar events. I need to insert three rows and create a subtotal for seminars, then adjust the grand total for my Travel account.

Proportion of nonfinance people in respondent companies who can do this:

None	27% of survey respondents
Fewer than half	34%
About half	21%
More than half	8%
Almost all	10%

error. The tasks: creating a formula that references an absolute column but a relative row, linking a formula in one spreadsheet to a number in another spreadsheet in the same workbook, inserting a subtotal and properly adjusting the grand total formula, and copying and pasting a value instead of a formula. The finance managers who responded to our survey were not optimistic about their line managers' Excel skills (see exhibit 2, at left).

Here's one simple example of the spreadsheet savvy that someone might need in order to put together a budget from the ground up: Suppose an HR manager wants to budget for five training and development programs over the course of a year. Each program will incur some outside professional fees, some facilities charges, and some other meeting expenses. Each of these expenses is represented by an account within the budget, but since the budget input form has just one line for each account, my HR manager will need to take the following actions before entering his budget numbers. He'll start by opening a new spreadsheet in the budget workbook. He'll type in a name for each of the five training programs. He'll enter, under each training program heading, the name of every account for which the program will have a budgeted expense, along with the budgeted amount. He'll create a subtotal for each training program. Then, to create a grand total for the budget line item Outside Professional Fees, he'll write a formula that looks something like:

=C7+C15+C23+C31+C39

This is a very simple exercise, but only 18 percent of the finance professionals we surveyed think the majority of nonfinance managers in their company could perform it without making a mistake.

If my HR manager totals his consulting costs without making a mistake, he'll need to create grand totals for the remaining two accounts. The easiest way to do that will be

to use the "fill, down" command on Excel's "edit" menu — but how many HR managers do you know who can use the "edit, fill, down" procedure? Assuming my HR manager is well-versed in Excel and correctly totals all three accounts without an error, he will then need to click on the cell that contains the grand total for the Outside Professional Fees account, select "copy" from the "edit" menu, navigate to the cell in the original budget that contains the Outside Professional Fees expense line, and select "paste, special." There are multiple radio buttons on the submenu that pops up; near the bottom is a button marked "paste link." When my HR manager clicks that button, he will have successfully completed one portion of his budget.

Simple summing of disparate numbers in Excel and linking from one spreadsheet to another are second nature for most finance people, but many nonfinance managers struggle with this type of task. Just 17 percent of the people we surveyed think that most nonfinance managers in their company can link a

formula in one spreadsheet to a number in another spreadsheet in the same workbook without creating an error or omission.

The most popular solution that finance managers devise to overcome line managers' lack of Excel competence is to lock down the input form. They allow budget managers to enter their account data only in specific fields, and they write calculations into the spreadsheet as unalterable formulas. This approach does prevent certain types of mechanical errors in the final budget, but it may introduce other errors by forcing managers to work outside the system to develop their budgets. Locking down the input form doesn't make the complex process of coming up with the budget numbers for each account any easier. Is it surprising, then, that 40 percent of budgets contain errors or omissions?

Worse yet, the typical spreadsheet budget tends to encourage expense inflation. In many companies, the budget input form presents an account — say, G/L #1500300 Consulting — along with the previous year's spending — say, \$50,000. For a budget manager who's given the amount of spending the previous year, the easy approach to budgeting for the next year is to take that account up by some percentage. That's the way it's visually displayed, and that's even the way many financial analysts interview line managers: "OK, Frank, you spent \$50,000 on consulting last year. How much do you think you'll spend next year?" That's obviously a recipe for expense inflation, which finance reacts to with a chainsaw, cutting budgets across the board — which adds to operations managers' cynicism about the process and makes them more likely to take the path of least resistance (i.e., last year's numbers plus X percent) when working up their budget numbers in years to come. But that's not really a budget; it's just a calculated result.

A quality budget, on the other hand, reflects quality thinking. Line managers should start the budgeting process by determining what their business unit is trying to achieve in the next year, what the company's priorities are, and how their department can contribute to organizational goals. Then, given the answers to those questions, a line manager can determine what resources he or she needs for the following year. A quality budget is not just a list of general ledger accounts and amounts in a spreadsheet grid. A quality budget breaks out spending by project or initiative or program. It provides each major line item with supporting detail. It provides a narrative for each major spending category that illuminates why the manager requests that particular level of spending.

Budget Holders' Expectations About "Easy"

If a quality budget sounds like a tall order, it is. It is an especially tall order given today's choices in budgeting software: Excel or an application with an end-user interface that looks just like Excel. While finance people think Excel is the pinnacle of ease of use, nonfinance managers have a different gold standard. They're used to ordering books on Amazon, booking trips on Expedia, and listening to music on an iPod. Think about the "training" you needed the first time you ordered a book on Amazon. That's the expectation nonfinance managers have for ease of use. And unless the bulk of your nonfinance managers already know what an absolute cell reference is in Excel or how to link formulas in disparate spreadsheets, they're going to find nothing intuitive about a spreadsheet interface on a budgeting system. That seems to be the real reason why two-thirds of budgeting and planning seats purchased for nonfinance managers go unused.

To convince the people who spend the money to budget their own spending, finance needs to provide line managers with both real-time Budgeting 101 training and a tool that truly simplifies the process, extending the intuitiveness of budgeting well beyond what Excel budget templates or Excel add-ins have to offer. My experience indicates that the ultimate tool is a budgeting agent that uses contextual commands, plain-English prompts, intelligent workflow, and a highly intuitive user interface to elicit numbers as managers think of them, then automatically roll those numbers up into the proper G/L accounts. This budgeting agent should act as a front end that dovetails with existing enterprise general ledger or BPM systems.

For a very practical precedent of such an intuitive interface, look no further than tax preparation software. Way back in 1983, Intuit fundamentally changed the way individuals master the complex and often exasperating task of completing a proper tax return. Rather than presenting users with an electronic version of IRS forms, which was the prevalent interface for personal tax applications at the time, Intuit thought people would prefer to answer questions and respond to plain-English prompts. The company was right, of course, and TurboTax became the undisputed leader in personal tax preparation software.

Isn't it amazing to think that in the nearly 25 years since the introduction of plain-English personal finance applications like TurboTax, nobody has come up with a similar answer for corporate budgeting? At first blush, it may appear that trying to replicate the TurboTax approach in corporate cost-center budgeting would be challenging. Don't managers in the pharmaceuticals industry think completely differently than managers in, say, publishing? When it comes to day-to-day operational issues, yes. But when it comes to budgeting, no. There is a surprising degree of commonality in the way line managers think about their

Locking down the input form doesn't make the complex process of coming up with budget numbers any easier. Is it surprising, then, that 40 percent of budgets contain errors?

The Budgeting Thought Process Is Universal

Following are examples of questions that conscientious managers ask themselves as they build their budgets, almost regardless of their industry. But often there is a disconnect between the person asking these questions (the manager) and the person keying in the budget (the accountant). In many cases the budget input form lists the G/L accounts that are impacted by the answers to these questions — but is of no help in finding those answers.

- **Do I want to earmark any special spending** for a one-off project? How will I keep that budget synchronized with my other spending?
- **Who on my staff might leave?** What does that do to my budget?
- **What PCs, leased cars, or other assets do I need next year?** What's that going to cost me?
- **When I budget for a specific line item,** do I want to build that up with any detailed spending? How can I do that?
- **Do I want to hire anyone?** What salary grade? Should I plan on hiring at the midpoint of the salary band or higher to get someone with experience?
- **If I am looking at an entire category of costs** — say, office expenses — can I just take up the entire category by some percentage?
- **Are there any costs** that I want to budget on a per-head basis?
- **What type of raises and bonuses do I want to give employees?** What's the corporate guideline? Do I want to request any specific exceptions?
- **What happens if I delay all my new hires by three or four months?** How many dollars will I save in my budget? What if I want to exclude one specific new hire from that delay?
- **If I need to reduce my budget,** how many dollars can I save if I take down all my discretionary spending by 3 percent? What if I want to exclude spending on one particular strategic initiative from the 3 percent reduction?

cost center budgets, no matter what industry they're in. The questions at left are industry-neutral. These are not, of course, the only questions line managers must answer as they complete their budgets. But software that helped them answer these questions would be a step above traditional budget input forms. What's needed to better engage the typical operations manager in financial planning isn't a grid of general ledger accounts but something closer to what Intuit developed for tax preparation.

Budgeting software vendors want to get their products onto the desktop of every line manager in their customer companies, then have those line managers use it religiously. I think the biggest reason the industry is not succeeding in that mission is that end user interfaces are designed for finance people rather than line managers. But the vendor community at large is working to overcome this problem.

For our part, Buttonwood Group consultants wracked our brains over the interface obstacle and ended up joining with a software developer to create a product called BudgetPak, which embodies our beliefs about what makes the budgeting process intuitive for people outside of finance. While BudgetPak is alone in being vendor-agnostic (it can work in conjunction with any other financial or BPM system), it is not the only application to take a step in this direction. Some large, well-established vendors are working on developing budget agents as well. SAP's Express Planning breaks down the planning process into a few major tasks, asking users to click on the action they would like to take next. SAP gave thoughtful consideration to the correct progression of tasks, and that is precisely what users see. Hyperion's Workforce Planning is focused exclusively on the planning of employee-related expenses, such as bonuses, fringe benefits, overtime, and merit increases, but it uses forms that are more intuitive than a simple spreadsheet grid. And Microsoft's PerformancePoint Server, due out later this year, will take advantage of some features originally developed for the Vista Office suite. PerformancePoint will replace static drop-down menus and toolbars with a "ribbon" loaded with options that dynamically change according to what the user is poised to do next. This navigation system should make PerformancePoint easier for casual users to find their way around.

All of these advancements can help move budgeting tools in a TurboTax direction, which should make it easier for nonfinance managers to generate a well-thought-out budget. With increased participation from the front lines would come a significant reduction in the need for rework driven by communication problems. Perhaps more important, the increased sense of ownership among operations managers could improve the management of expenses. Given today's highly competitive environment, that could mean the difference between healthy and anemic profit margins.

A more intuitive interface does not entirely ensure, of course, that managers will actually use the finance department's budgeting tool of choice. For that, finance's best bet is to involve line managers in the BPM vendor selection process. They are the internal customers of the budgeting and planning process and so are crucial to the selection of an appropriate software application.

Finance teams rethinking their performance management processes should also keep in mind that no matter what application is in place, a budget is only as good as the thought that goes into it. The key to getting good budgets is to encourage the people who actually spend the money to think about their goals and their needs in managerial, rather than strictly accounting, terms. To get to that result, finance needs to think more iPod than Excel when designing or purchasing a budgeting system. **bn**