

## The 3 Worst Practice Traps of Budgeting... And How to Avoid Them



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Budgeting is often exasperating process for everyone involved – from financial analysts to front line managers. What’s really behind that, and why does this one process create so much frustration and rework?

In a recent survey, managers said that completing a budget was more stressful than preparing their own tax returns.

That stress is indirectly felt by the finance department when budgets are submitted late with obvious errors or omissions, when phone calls about those budgets do not get returned, and when they hear once too often “That’s not my number.”

### Worst Practice Traps

In response, some finance groups simply take it upon themselves to complete most of the budget tasks. They assign analysts to work with cost center managers to complete their budgets. Most often this means the analyst is keypunching numbers into the system, and not the manager.

The theory is that the financial analyst knows all the necessary mechanics of completing a budget, and can ensure no errors are made in the process.

In practice, this can actually increase the total man-hours spent budgeting, rather than reducing it. Here are three reasons why:

**1. Miscommunication leads to rework.** An analyst is told “Take my travel budget up by 5%.” The analyst increases the Transportation budget by 5%, but not Meal or Lodging expenses (which was the manager’s intent).

### 2. You’re doubling the number of people that need to be involved in the process

if each departmental budget requires both a manager and a financial analyst. Let’s do the math. If you have 50 department managers each completing a budget in say 5 days, that multiplies out to 250 man days. If now you assign a financial analyst to each budget and they are also involved for 5 days, the time has ballooned to 500 man days. You would need to have an eye-popping 50% efficiency improvement just to get back the *original* 250 man days required. Given point number one (miscommunication leads to rework) that is not likely.

### 3. Analysts are not Managers.

Financial Analysts are highly trained professionals that play a vital support role in any organization. But they are not the same managers who are actually spending the company’s money day in and day out. Those are front line managers in engineering, plant management, sales, marketing, human resources and so on. The front lines are where the action takes place, and who knows better how resources should be allocated?

### A Better Way

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The problem has always been that these same managers dislike “wasting time” on budgeting. To be specific, they consider it a waste of time to write or edit formulas, to need to look up and refer to guidelines, to check calculations, to range name cells, to link spreadsheets, and all the other time consuming mechanics of creating a budget.

They simply consider it a waste of time to punch numbers into a budget template.

What managers want is to make managerial decisions and to have those decisions reflected accurately in a budget. This is not considered a waste of time, but part of the job of being a good manager.

Before the advent of tools like BudgetPak, the only way to provide this level of service to managers was to throw people at it. As we saw from the discussion above, that solution can be both expensive and ineffective.

A better way is to provide a solution directly to line managers, one that they actually want to use. A system with built in intelligence that can actively guide a user through the process – effortlessly -- without spreadsheets or templates (and all the onerous mechanics that go with them).

### **The Payoff**

It boils down to faster, better budgeting. Reduce the cycle time; refocus the effort away from budget mechanics and to budget decisions. Build an increased understanding among

managers of how their budgets and actual expenses work, and ultimately improve their ability to manage resources.

The direct payoff for the Finance group is the elimination of the common errors and omissions that can retard the process, greater control, and an increased opportunity for partnering with the departments. A less quantifiable, but perhaps more material payoff for the Finance group, is an improved reputation for delivering user value added solutions to the organization.

### **Ramping Up**

Getting managers to develop and own their budgets is more like using a dimmer than an on/off switch.

In every organization there are early adopters who have simply been waiting for a Turbo-Tax like application to assist them in their budgeting. Others will still want Finance to pilot the process, but they will become more engaged as they sit side by side with an analyst and go through the BudgetPak decision screens.

### **Learning More**

There are a number of useful tools available on our website including a [downloadable calculator](#) to help you estimate the current cost of developing a budget; [10 Unique Features of BudgetPak](#); Answers to [FAQs](#); a downloadable walk through of BudgetPak, and many other materials.

Of course you can reach us directly at [info@xlerant.com](mailto:info@xlerant.com). We look forward to hearing from you.



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### **Ten Surefire Ways to Derail Your Budget Process**

If you're looking for ways to make budgeting a completely miserable and disastrous experience, just do the following:

1. Don't let line managers do their own budgets. Have the budget done by someone in Finance who isn't actually responsible for spending the dollars.
2. Give line managers Excel templates. Spend a great deal of time fixing broken formulas, re-distributing updates, and doing consolidations.
3. Give line managers a budgeting tool designed for accountants.
4. Give line managers a blank template and no guidance. Let them figure out company standards and guidelines for budgeting.
5. Give line managers a template with every general ledger account. Let them figure out which ones apply to their department, and which ones should be ignored.
6. Don't tell line managers what changes you made to their budgets, they wouldn't understand any way.

7. Cut budgets with a chainsaw, not a scalpel. Treat all budgets the same.
8. Present line managers with cryptic codes instead of rational names for expenses.
9. Make line managers budget for projects off line, then synchronize them with the standard operating plans.
10. Whatever you do, make sure your budget system requires specialized training.

Remember, the above are ten ways that make budgeting time-consuming and expensive.

If you've identified yourself with any of the above points, don't despair. XLERANT's BudgetPak software was created with you in mind.

To learn more, go to [www.xlerant.com](http://www.xlerant.com).