CFO Budgeting Survey

Realising the value of budgeting and forecasting through priorities, processes and accuracy measurement.

2012
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Historic economic uncertainties underscore the challenges Luxembourg CFOs face: in developing their budgets and forecasts, weighing significantly dynamic external and internal factors while striving to streamline processes and properly aligning an approach for growth.

Senior management require a refined information flow, which not only properly balances the variety of internal and external indicators for planning purposes but also enables improved organisational focus, coordination and accuracy.

In this context, we have conducted the CFO Budgeting Survey 2012 of the Luxembourg market. We have focussed on organisational priorities, current budgeting and forecasting processes as well as related controls and accuracy. This survey complements our 2011 CFO Reporting Survey, which focussed on the closing and reporting processes of Luxembourg companies. We continue to explore how senior finance executives adapt their management, planning, reporting and assessment to effectively compete in difficult market conditions.

We have found that there are clear statements of preference amongst all CFOs, with some striking differences between those in the financial sector and those in the non-financial sector. Importantly, we see that:

• External business events are of considerable concern to a large majority of CFOs and this compounds the sentiment that they must have more responsive financial processes – especially focussed on improving business analysis, cash and cost management, with risk management of particular concern to the FS sector;

• CFOs require additional detail on projects and business initiatives; with CFOs identifying cash flow, direct costs and workforce costs as areas where information can be improved;

• While decision making is largely inclusive, a substantial number of respondents are conservative in their forecasts and underestimating business performance;

• Forecasting accuracy needs improvement and it appears clear that the majority of CFOs in our survey are responding by deciding on rolling forecasting as their preferred method to complement their budget process. Indeed, in several aspects the rolling forecast group outperforms the non-rolling forecast respondents for both financial and non-financial service companies.

We trust you will find this study interesting and useful. Should you be interested to discuss PwC service offering in that area, do not hesitate to contact us.

François Génaux, Partner
Advisory Market and Financial Services Leader
Introduction

This survey is representative of the Luxembourg corporate environment and therefore financial service companies feature amongst the respondents including banks, asset management companies and insurance providers. In addition, respondents include industries and services referred to as non-financial companies.

In both local and international companies, the finance function is responsible for guiding the business with timely and accurate planning, regardless of the difficulties in developing the required information. To illustrate the variety of approaches, we present the responses with respect to the type of business. Results include those for all respondents, with the financial sector results are referred to as 'FS' and the non-financial sector responses are listed to as 'NFS'.
Uncertainty. Pressure on costs. Volatility. These are the challenges of today’s business environment and in times like these, the importance of being able to understand and respond to change is critical.

All financial managers face the challenge of balancing needs from both internal and external stakeholders. In this climate of increasing economic uncertainty, the “do more with less” mandate, combined with competitive pressure, means that companies need to accomplish more, with fewer resources, and less room for error.

Better processes and technology systems for financial planning can do more than only help decision makers respond to changing business conditions more effectively. These improvements can also allow line managers to focus on some of the highest-value activities in the enterprise: producing goods and delivering services efficiently, developing new business, and meeting customer requirements by offering them a clearer view of the factors involved in the decision-making of launching products and services.

The ability to forecast and plan for the future is a critical dimension of companies' efforts to meet demand and serve customers, while maintaining hard-won operating efficiencies. Survey results confirm that finance executives are turning their attention to these and other performance-management activities. When we asked finance executives to consider their improvement priorities in finance for the next two years, survey respondents most often predicted that Decision Support (82%) and Internal Reporting (77%) would become higher priorities for improvement (combining ‘much more’ and ‘slightly more’ important). These performance-management activities managed to edge out Cost Management (76%) and Risk Management (76%) - even as survey results amply reinforced the importance of Working Capital Management to respondents (71%). Noticeably, companies in the financial services sector are markedly more interested in improving their risk management than those in non-financial services, 95% to 46% respectively. (See Figure 1)
As economic conditions slowly ease, companies are working to map their path to growth amid specific industry and company level circumstances. Factors such as burgeoning regulation and more intense investor scrutiny are shaping industry dynamics, creating new opportunities for growth - and introducing new risks to performance. Improving processes and systems for financial planning, CFOs have stated, can help companies make the most of these opportunities, while minimising their accompanying risks.

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Figure 1: In your opinion, to what extent is your company’s interest in improving the following finance activities likely to change over the next two years, compared to today?

<table>
<thead>
<tr>
<th>Finance Activity</th>
<th>All Respondents</th>
<th>NFS</th>
<th>FS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision Support</td>
<td>41%</td>
<td>40%</td>
<td>42%</td>
</tr>
<tr>
<td>Internal Reporting</td>
<td>29%</td>
<td>38%</td>
<td>58%</td>
</tr>
<tr>
<td>Cost Management</td>
<td>35%</td>
<td>46%</td>
<td>42%</td>
</tr>
<tr>
<td>Risk Management</td>
<td>35%</td>
<td>53%</td>
<td>53%</td>
</tr>
<tr>
<td>Working Capital</td>
<td>40%</td>
<td>34%</td>
<td>42%</td>
</tr>
<tr>
<td>Planning, Budgeting</td>
<td>17%</td>
<td>31%</td>
<td>37%</td>
</tr>
<tr>
<td>External Reporting</td>
<td>12%</td>
<td>56%</td>
<td>32%</td>
</tr>
<tr>
<td>Regulatory Compliance</td>
<td>20%</td>
<td>67%</td>
<td>21%</td>
</tr>
<tr>
<td>Transaction</td>
<td>24%</td>
<td>13%</td>
<td>37%</td>
</tr>
</tbody>
</table>
Key challenges and trends in financial planning

In our interaction with CFOs, we recognise the multiple challenges that they face in dealing with competing and often conflicting priorities. Today, CFOs and finance organisations are not only tasked with enhancing performance insights but also maintaining control and delivering services more efficiently.

The finance executives who participated in this study recognise that overhauling processes and technology for financial planning is a major challenge. These improvements demand not just a substantial commitment of time and resources, but a careful consideration of company organisation and culture. Our research shows that many finance executives - convinced of the benefits that will flow from change - are championing financial planning improvement at their companies. In this section, we examine the current state of financial planning and capture what they are doing now to improve their capabilities to manage future performance.

Time-consuming, inflexible processes

Although the time it takes to finalise a budget or prepare a forecast naturally varies from industry to industry and company to company, most of our respondents agreed that their companies are spending a great deal of time and effort on consolidating, summarising, communicating, explaining, and reviewing information for financial planning. One unfortunate consequence of these lengthy planning cycles is that final budgets can fall out of step with quickly evolving business conditions.

Importantly, finance organisations that have successfully revamped their planning processes can today complete a forecast and develop an annual budget quickly. These organisations have reduced the time spent on lower value planning activities and benefited from having prospective information and plans available earlier in the cycle to impact business performance.

Companies rely on forecasting processes to help them adjust their financial plans as the year proceeds (with varying results). The majority of finance executives readily agree that the time and effort spent on the most mechanical tasks associated with budgeting and forecasting - tasks like data-gathering, reconciliation, and consolidation - would be better invested in more valuable activities.

We asked survey respondents to identify key financial-planning activities that are absorbing their resources. A substantial number of respondents (over 50%) reported that their companies spend an overwhelming amount of time and effort on nearly all of the activities listed - from Reviewing the Budget, to Analysis, to Developing Targets and Preparing Reports. However, Gaining Consensus was not one of the most demanding activities in financial planning. (See Figure 2)
Our current survey results further confirm that financial planning activities are complex, iterative, and time-consuming at many companies. Nearly half of all respondents (46%) reported that budgeting takes two months or longer to complete at their companies. Meanwhile, more than half of all respondents (53%) reported that it takes five business days or longer to produce a forecast, and nearly one-quarter (24%) said that it takes more than 10 business days for their companies to generate a forecast. While the majority of non-financial service companies are able to complete their budgeting more quickly than the majority of financial service companies (60% for NFS in two months or less, with only 50% for FS), the opposite is true when it comes to forecasting (60% for less than 5 days for FS, with only 29% for NFS). (See Figure 3)
Many of the finance executives who participated in this study said their companies are working hard to strike the right balance between too much and not enough granularity in the reporting and deliverables associated with financial planning – including a comparison with the needs for actuals. One of the most difficult tasks in getting to the right level of detail is reconciling the information needs of various company elements. It is sometimes difficult to balance the varying information needs, from finance and corporate management in one group, to operations in the other. This is a daily effort for CFOs and their colleagues in management.

**PwC View**

The level of detail in the planning process should be defined adequately to enable managers and planners to focus on the key drivers of the business. Although planners and managers may need to drill down on actual results in order to explain variances, finance teams benefit from focusing on controllable drivers, rather than detailed accounts to drive overall forecast and plan accuracy. While hundreds of planning accounts and substantial detail can provide a level of review and insight into a planner’s thinking, it does not necessarily correlate into improved forecast or plan accuracy.

The key findings that we have found in our experience with planning and forecasting with many accounts and great detail is longer timelines, more complex processes. Improved granularity is the basis of enhanced comparison and of forecasts with actuals. We also observe that leading finance organisations develop plans and forecasts at a maximum of 50 account lines, major product groups or families, and at an entity level that is consistent with their accountability structure.

Obtaining the right level of detail for an organisation means that a company has to understand and focus on the real drivers of the business that significantly impact their financial statements and spend less time managing detailed accounts and products that have little impact.

Developing the balanced level of detail in a company’s planning environment translates into the following benefits:

**Avoids giving the wrong perception of accurate planning and forecasting:**

A company may have a very complex and detailed planning model which is not necessarily that it is more precise or that develops a better projection than a simpler model. Detailed plans and models with elaborate calculations can lure planners and managers into the trap of thinking that a plan or forecast is more accurate simply because a model performs more calculations or calculates more accounts and products.

**Allows financial planners to focus on the most important accounts:**

Many times we see elaborate models and calculations supporting accounts with small balances that are not significant to the overall financial plan.

**Allows scenario analysis and “what-if” challenges:**

By moving the organisation to a higher level of detail in the forecast and plan, the finance community will now potentially have time to run additional versions of the forecast or plan to understand the earnings impact under different assumptions. This now moves finance from a role of plan developer to one that can help make solid recommendations to its business partners.
The survey results suggest that, broadly speaking, between one-quarter and one-third of finance executives aspire to increase the level of detail in their forecasts to gain a more granular view into the future while recognising that additional detail may increase forecast timelines and provide additional challenges. There is a clear difference of preference amongst FS and NFS in desired granularity for Capital Costs.

Only 16% of FS companies seek to increase their detail while 43% of NFS companies look for greater granularity. (See Figure 4)

In the end, finding the right level of detail involves tailoring deliverables to fit the requirements and objectives of the task at hand - and of the needs of individual users. The fundamental service orientation of the finance function, according to respondents, should lead finance to weigh carefully the burden that its requests for detailed information can place on business lines. This in turn facilitates a comparison of forecasts and actuals.

**Figure 4:** In your opinion, would your company benefit most from: increasing the detail of its forecasts in each of the following areas (to gain a more granular view into the future), or decreasing forecast detail (to focus on the most critical factors)?

<table>
<thead>
<tr>
<th>Area</th>
<th>All Respondents</th>
<th>NFS</th>
<th>FS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Costs</td>
<td>27%</td>
<td>14%</td>
<td>16%</td>
</tr>
<tr>
<td>Direct Costs</td>
<td>27%</td>
<td>7%</td>
<td>21%</td>
</tr>
<tr>
<td>Workforce Costs</td>
<td>31%</td>
<td>8%</td>
<td>27%</td>
</tr>
<tr>
<td>Working Capital</td>
<td>24%</td>
<td>7%</td>
<td>16%</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>35%</td>
<td>8%</td>
<td>16%</td>
</tr>
<tr>
<td>Revenue</td>
<td>24%</td>
<td>7%</td>
<td>16%</td>
</tr>
<tr>
<td>Projects</td>
<td>50%</td>
<td>46%</td>
<td>47%</td>
</tr>
</tbody>
</table>

- Increased
- Neither
- Decreased
- Not sure

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A tendency toward conservatism

A persistent issue in financial planning is the challenge of establishing a realistic view of future performance while encouraging appropriate risk-taking. Business-line managers are close to emerging trends and provide much of the internal data that influences the financial planning processes. At the same time, managers are sometimes more conservative in their outlook than business conditions warrant. While this can be seen as a risk management response to global economic uncertainty; it is troubling because, over time, overly conservative financial plans can lead companies to miss opportunities and, ultimately, to underperform.

When we asked survey participants where their companies’ budgets did well - and where they could be improved - finance executives were most likely to say that their budgets effectively set out a clear framework for the analysis of actual results (19% of respondents reported “excellent performance”). But finance executives often reported that their budgets were less effective at motivating managers to take appropriate risks to grow the business (13% report as “low” and 59% as “average” in assessing their performance). FS companies rated themselves more highly in their ability to allocate resources (47% ‘Strong’ compared to 23% for NFS) and setting Business Checks (67% either ‘Strong’ or ‘Excellent’ FS v 44% for NFS).

(See Figure 5)

Many companies that rely on forecasts to refresh financial plans and adjust their objectives throughout the year are finding that their forecasts tend to be conservative, too. Forecasts are expected to vary compared to actual results - “the question is by how much,” one finance executive told us. Over time, however, a company’s forecasts ideally should fall within a reasonably circumscribed range.

Figure 5: The following items are commonly cited benefits of budgeting. In your opinion, what do your company’s budgets do well? Where could they improve?

<table>
<thead>
<tr>
<th>Item</th>
<th>All Respondents</th>
<th>NFS</th>
<th>FS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivating Managers</td>
<td>28% 39% 13%</td>
<td>8% 54% 38%</td>
<td>21% 63% 16%</td>
</tr>
<tr>
<td>Allocating Resources</td>
<td>38% 53% 9%</td>
<td>8% 63% 23%</td>
<td>47% 42% 11%</td>
</tr>
<tr>
<td>Day-To-Day</td>
<td>6% 45% 39% 10%</td>
<td>8% 38% 6%</td>
<td>5% 44% 11%</td>
</tr>
<tr>
<td>Business Check</td>
<td>13% 45% 32% 10%</td>
<td>16% 50% 28% 11%</td>
<td></td>
</tr>
<tr>
<td>Performance Targets</td>
<td>47% 50%</td>
<td>47% 47% 6%</td>
<td>6% 47% 11%</td>
</tr>
<tr>
<td>Clear Framework</td>
<td>19% 59% 19% 5%</td>
<td>16% 54% 23%</td>
<td>17% 61% 22%</td>
</tr>
</tbody>
</table>

- Increased
- Neither
- Decreased
- Not sure
It comes as no surprise that CEOs and CFOs are demanding “reality” from the financial planning process. Budgeting and forecasting are key pillars of an enterprise performance management system and getting realistic and accurate planning information is critical for executives to quickly adapt to changing business conditions and maintain confidence of external stakeholders.

**PwC view:**
From our experience, we observe that as there are more organisational review layers, there is a greater level of conservatism, added at each organisational layer.

Survey results suggest that forecasts are falling short of actual results at many companies. More than half of all respondents (58%) reported that their companies’ actual performance has generally varied at least 6% compared to forecasts over the past three years. Indeed, 35% of respondents reported that actuals have generally varied more than 11% compared to forecasts. Forty-two percent of respondents said their forecasts have tended to be evenly distributed between conservatism and optimism. Similarly, 42% of respondents reported that their forecasts have tended to be conservative over the preceding three year period - while only 16% confirmed that their forecasts have tended to be optimistic.

Non-financial service companies responses show that they have been more accurate in forecasting accuracy over the past three years, with 46% able to stay within 5% error, while only 39% of FS companies managed this. Noticeably more non-financial service companies see their forecasts as optimistic, with 24%, compared to only 12% for the FS sector. (See Figure 6)

We often observe that management views the budgeting process as a control mechanism to achieve a target and culturally start to think within its boundaries. This mindset keeps an organisation focussed inwards and limits the value it can provide to manage a business which naturally is externally focused.
We asked finance executives to tell us which factors are most likely to lead to variances between forecasts and actual performance of their companies. More than half of all respondents (68%) confirmed that uncertainty in the business environment leads to variances.

The point of forecasting, however, is to gain insight into the future despite uncertainty. So it is perhaps more troubling that survey respondents also frequently report that forecast variances resulted from difficulty forecasting over long-time horizons (48%), and from difficulty in accessing and incorporating external information (32%). Forecasting over the long term was significantly more relevant for NFS companies (62%) rather than those in FS (39%). (See Figure 7)

**Figure 7:** In your opinion, which of the following factors are most likely to lead to variances between forecasts and actual performance at your company

<table>
<thead>
<tr>
<th>Factor</th>
<th>All respondents</th>
<th>NFS</th>
<th>FS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertainty in the external business environment</td>
<td>68%</td>
<td>61%</td>
<td>77%</td>
</tr>
<tr>
<td>Forecasting over long time horizons</td>
<td>48%</td>
<td>39%</td>
<td>62%</td>
</tr>
<tr>
<td>Difficulty in accessing and incorporating external information</td>
<td>32%</td>
<td>31%</td>
<td>33%</td>
</tr>
<tr>
<td>Confusion between forecast and targets</td>
<td>29%</td>
<td>23%</td>
<td>33%</td>
</tr>
<tr>
<td>Difficulty in assessing risk to forecast</td>
<td>16%</td>
<td>15%</td>
<td>17%</td>
</tr>
<tr>
<td>Forecasting in too much details</td>
<td>10%</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>Unreliable financial data</td>
<td>6%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>Unreliable non-financial data</td>
<td>6%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
<td>23%</td>
<td></td>
</tr>
</tbody>
</table>
Leading finance organisations are addressing the challenge of conservatism in forecasting by culturally shifting the focus of the forecasting exercise away from control to how effectively the business exploits new opportunities and how successful they are in gaining market share from the competition. The focus here is not if the organisation beat the budget; instead, the focus is on winning in the marketplace.

Finance can help drive this change by focusing less on looking for holes in the forecast and comparing it with budget and more on upfront collaboration with the business units to proactively identify new opportunities, appropriate risks, and to incorporate those opportunities and risks in the forecast process on a continuous basis in comparison to actuals.

The external sources of data - including macro-economic indicators, industry reports, and competitive benchmarks - can provide a useful perspective on internal performance projections. Additionally, discussing why internal/external indicators conflict can be a rewarding experience in bringing together planning teams. Exploring these questions and contradictions, however, has often proved to be a valuable exercise.

In the difficulty of forecasting, there is “little integration of operational and financial data – and understanding of interactions between both.”

Head of Group Finance for a large financial services group

PwC view:

It is not surprising to hear that uncertain and changing business conditions are contributing to forecasting variances versus actual results. However, the leaders in this environment have consistently shown a disciplined forecasting process that tackles uncertainty by increasing attention to external influences and key business drivers.
A blend of top-down and bottom-up approaches

Some finance executives have indicated that older technology platforms often can’t accommodate the annotations and analytics that contribute to more accurate, risk-sensitive forecasting.

Which approach to financial planning yields greater value: a top-down approach? Or one that proceeds from the bottom up? Participants in this study pointed out that each approach has its advantages. On the one hand, a top-down approach can help mitigate conservatism and encourage managers to stretch their divisions to better performance, respondents said. On the other hand, the most reliable information on critical business trends tends to bubble up from the bottom and factoring in the increased sense of participation a bottom-up process can give to those involved. In practice, many companies seek to gain the best of each approach by employing a combination of the two.

**PwC view:**

Our hands-on experience in collaborating with clients to analyse various budgeting approaches suggests that a balanced approach incorporating both top-down and bottom-up inputs is the optimal path. It encourages upfront target discussions and negotiations which streamline the number of planning iterations and changes on the back end. Leading companies that utilise a 12-month rolling forecast process frequently provide top management the initial view of next year’s plans to help set initial targets.

Some finance executives have indicated that older technology platforms often can’t accommodate the annotations and analytics that contribute to more accurate, risk-sensitive forecasting.

Which approach to financial planning yields greater value: a top-down approach? Or one that proceeds from the bottom up? Participants in this study pointed out that each approach has its advantages. On the one hand, a top-down approach can help mitigate conservatism and encourage managers to stretch their divisions to better performance, respondents said. On the other hand, the most reliable information on critical business trends tends to bubble up from the bottom and factoring in the increased sense of participation a bottom-up process can give to those involved. In practice, many companies seek to gain the best of each approach by employing a combination of the two.

**Figure 8:** In your opinion, which of the following statements best describes the current budgeting process at your company?

- **All**
  - Activity Based: 16%
  - Bottum-up: 3%
  - Top-down: 6%
  - Zero based: 29%
  - Other: 3%

- **NFS**
  - Activity Based: 38%
  - Bottum-up: 6%
  - Top-down: 11%
  - Zero based: 22%
  - Other: 33%

- **FS**
  - Activity Based: 62%
  - Bottum-up: 11%
  - Top-down: 28%
  - Zero based: 33%
We have consistently observed that leading finance organisations have a mindset of continuous forecasting. However, the business-unit update to corporate remains a monthly/quarterly process, based on corporate requirements. One of the key lessons that finance organisations have learned is that increasing forecasting frequency is desirable.

**Figure 9:** In your opinion, which of the following statements best describes the current budgeting process at your company?

![Figure 9](image)

Based on the responses to this survey, we do not see a direct link between the budgeting methodology (top down, bottom up) and accuracy or time to create a budget. Other factors seem to significantly influence these measurements, including size of the company, its internal processes and its global complexity.
Rolling forecasting as the emerging standard

While it is notable that a majority - 58% - of respondents to our survey say they have already adopted rolling forecasting, it may be even more notable that another 13% of respondents say they plan to transition to rolling forecasts. Only 29% of respondents say they have not adopted rolling forecasts and are unlikely to do so in the foreseeable future. FS companies seem more comfortable with Rolling Forecasting (61%) than NFS (54%), though 23% of NFS companies plan to adopt it compared to only 6% of FS companies. (See Figure 10)

In the survey, finance sector companies that have adopted rolling-forecasting, showed clear advantages in being able to produce budgets and forecasts with greater accuracy. Further, respondents described a variety of hybrid approaches to budgeting that clearly aim to reap the benefits of both top-down and bottom-up approaches to financial planning.

Some of the finance executives we spoke with acknowledged that more frequent forecasting can yield a better view into swiftly emerging trends. But moving to more frequent forecasting, they said, poses challenges - not least of which is identifying the right level of detail for those forecasts. Implementing more frequent forecasting can create unnecessary burdens in finance and in the business unless companies take compensatory measures: automating processes, reducing the amount of forecast detail, or some combination of both.

Figure 10: Has your company adopted rolling forecasting?
**Technology, process, and organisational improvements**

The results of our survey confirm that finance executives have wholly embraced the “people, processes, and systems” paradigm: the idea that technology, processes, and organisation are each important and complementary dimensions of improvement. More than 40% of respondents said their companies are “very likely” to pursue improvements in their financial-planning technology, processes, and organisation and governance. A solid majority of respondents (77%) said their companies are at least “somewhat likely” or “very likely” to pursue improvements in each of these areas.

Financial Planning improvements are ‘Already in Place’ for 17% of NFS companies, only 11% for FS, with another 58% of NFS ‘Very likely’ to implement plans over the next two years in contrast to 50% for the FS sector. (See Figure 11)

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**Figure 11:** In your opinion, how likely is your company to pursue improvement in the following areas over the next two years, as it works to improve its financial planning (including both budgeting and forecasting)?

<table>
<thead>
<tr>
<th>Area</th>
<th>All Respondents</th>
<th>NFS</th>
<th>FS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational</td>
<td>10% 44% 33% 13%</td>
<td>17%</td>
<td>33% 33% 17%</td>
</tr>
<tr>
<td>Financial planning</td>
<td>13% 54% 23% 10%</td>
<td>8% 17% 58% 17%</td>
<td></td>
</tr>
<tr>
<td>Technology Systems</td>
<td>10% 60% 23% 7%</td>
<td>8% 17% 58% 17%</td>
<td></td>
</tr>
</tbody>
</table>

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**PwC view:**

Based on PwC’s experience, all three areas - people, process, and technology - must be considered when looking to improve an organisation’s financial planning and forecasting activities.

Simply stated, organisations should be structured to support rationalised financial processes, and technology should be viewed as an enabler. If all three are not aligned, improvement in only one area often will not yield sustainable results. While taking some of the detail out of forecasts can help make frequent updates a less intensive effort, adjusting to high-level reporting can itself be an adjustment. There needs to be a well thought out process which encourages those involved to participate, share and learn to adapt to changing requirements. Resistance should be expected and well reasoned and prepared change management can play a significant role in convincing unwilling participants.
While few technology-improvement efforts are successful without attention to both process and organisational factors, it’s also true that financial-planning change efforts, in particular, often require technology improvements. However, nearly three-quarters of respondents to our survey (73%) said their companies are using spreadsheets and manual processes - not ERP, custom-built applications, or best-of-breed systems - for financial planning.

Perhaps unsurprisingly, the FS sector is more diverse in its IT systems used in forecasting with all four possibilities selected by FS respondents while none of the non-FS participants use custom built systems. (See Figure 12)

**PwC view:**

A common misconception is that all spreadsheets will be eliminated through the implementation of “best-of-breed” technology. The fact is that many best-of-breed planning solutions integrate fully with spreadsheet programmes and the goal through implementation is to reduce spreadsheet reliance, not fully eliminate it.
Cross-functional collaboration

The path to financial-planning improvement, our respondents said, starts with strong leadership from the top - and continues with the close, cross-functional partnerships that arise when business constituents come together to work for change.

IT and finance leadership provide the initial impetus for change and there needs to be a clearly defined rationale to motivate everyone and gain organisational momentum.

KPIs as important indicators of finance measurement priorities

The finance function, along with senior management, use Key Performance Indicators (KPIs) as checks on aligning operations to strategy, improving efficiency levels as well as motivating managers to achieve certain goals - and be compensated for such accomplishments. It is therefore all the more surprising, that while the majority of respondents compare their actual to budgeted figures on a monthly basis, there are three KPIs which are performed only on demand or never by a significant portion of respondents in both the financial and non-financial sectors. The monitoring of KPIs varies substantially from one sector to another, and even within sectors based on company size and other considerations.

Responses for all respondents revealed that the following KPIs are used as follows:

- Cash flow: 20% either Never compare or On Demand;
- Capital Costs and Requirements: 31% either Never or On Demand; and
- Projects/Business Initiatives: 26% either Never or On Demand.

Indeed, a deeper analysis reveals that even amongst Finance sector companies, 28% do not run Cash Flow checks unless required or never. This is especially striking given the current economic climate and in light of financial pressure on liquidity and capital requirements.
Conclusion

Improving financial planning brings long-term benefits

The budgeting, planning, and forecasting process at most organisations is an expensive and time-consuming activity that has often failed to fully deliver its intended value. Having more reliable and timely views of future financial performance continues to be at the top of the improvement agenda for many CFOs. Transforming the financial planning process requires strong leadership and the ability to have finance and other departments work together to offer realistic views of the future. Through collaboration, a higher level of planning detail utilising business drivers, reduced planning cycle times and system automation, companies are beginning to reap the true benefits of integrated financial planning.

Many of the executives we contacted during this survey confirmed that financial planning at their companies could be improved through better integration of external business influences and greater insight into longer term planning techniques. Limited resources and competing priorities restrict the finance function’s ability to act in all areas simultaneously – and take into consideration the economic uncertainty companies face due to increased regulation and capital.

For those companies keen to press ahead and adopt major financial planning improvements, especially through implementation of rolling forecasting, there is recognition that change requires time, effort and resources. In the short to mid-term, there are benefits in aligning the financial and strategic objectives of companies including greater cross-functional understanding and collaboration.
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