Portfolio Management and Your Annual Budget
(Budgeting Reinvented)

Key Points:
• Budgeting is a painful process, dominated by spreadsheets and squeaky wheels
• #1 goal must be alignment of investments with strategy
• A repeatable system, made up of people, processes, and technology, can accelerate your ability to select the right investments and drive higher ROI.
1. **BUDGETING IS NO FUN**

Budgeting is painful

If you’ve ever been involved in an annual budgeting process, you will be familiar with the rush of excitement around it (sarcasm intended). Typically, a timeline for an annual budgeting process might look something like this:

- Look for last year’s spreadsheet
- Try to understand the spreadsheets
- Create new process and spreadsheets
- Was that on Bob’s laptop?
- Who designed this ... oh look, a math error
- Better to start again ... I can do better any how Experience
- Compile spreadsheets
- Fill spreadsheet templates
- Train people on new process
- Introduce new process
- Discover formatting issues across sheets... Revise your compiling process
- Discover math error in all templates
- Drat ... Sue found a math error
- Why does everyone hate this?
- Tune Process and spread sheets
  *Return “fixed” spreadsheets and ask for revisions*
- Present compiled budget
- Squeaky wheel gets the grease (Budget)
- Request revisions (Reduce $$ to serve the squeaky wheel)
- Approve Annual Budget
- Experience macro errors in master spreadsheet
- Stomp feet and complain until a pet project is selected over others
- Use the budget as desired
Budgeting is an annual process. The process is renewed, or more often reinvented, every year. Planning and preparation might take several months, and then the business organization is asked to complete budgeting activities in a couple of months. The entire planning cycle is compressed, and becomes an exercise in creating buckets of money for each department.

Alongside that, three of the most challenging problems with the budgeting process are:

1. **Budget processes are dominated by spreadsheet templates** – which are error-prone and don’t roll-up easily. Errors can exist in the templates themselves (e.g. simple formulas missing rows in summation, or missing departments in pull-downs), in macros in more sophisticated spreadsheets, in the roll-up of individual sheets across a workbook, and in bringing workbooks together.

2. **Budget processes are focused on costs.** They miss other important enterprise limitations – specifically resources and risks. Even if selected projects are allocated budget money, the company may not have the right people (either as employees or contractors) to do the work. Similarly, the budget may point to investments that carry unrealistically high risks, for reasons like technology limitations and dramatic culture changes. A company must not select these types of investments without thorough analysis, and traditional budgeting systems don’t provide that.

3. **Investment ideas only come from the people that are involved in the budgeting process** – maybe senior management, department VPs and their direct reports. While this helps to keep the process focused and moving forward, it prevents participation from the rest of the company, and countless good ideas never get fed into the selection process. Because of this, the budget process explicitly ignores many great investment opportunities.
After all that hard work, budget decisions are often made around pet projects and the squeaky wheel. Without objective metrics, it’s hard to tell a Senior VP that their idea isn’t as valuable as one that comes from the shop floor. Equally, department VPs that scream and cry that they need a critical project done can suddenly take the focus away from strategically important investments. Without objective measures and scoring, high-risk and low-strategic-fit projects can be driven forward, and push truly critical projects to the back burner.

Does this sound too familiar? You probably have your own “tales from the crypt” about budgeting processes gone awry. Without question, budgeting is a painful experience.

**Budgeting is a strategic failure**

The Project Management Institute’s 2017 edition of their annual study of the project management industry\(^1\), shows that organizations only have about a 37% alignment of projects to strategy, while the remaining 63% of projects have a medium or low tie to strategic objectives (and this is an improvement from previous years). This highlights a management quandary, as organization’s executives should be focused on bridging strategy formulation and execution of projects.


While business leaders are struggling to change their organizational culture to be strategic, agile, and customer-focused, the annual budgeting process lags behind. It subsists on practices created in the 70s, and built-into legacy ERP systems, all supplemented with spreadsheets.

For these reasons, budgeting is a strategic failure.
2. **A NEW WAY OF BUDGETING PLANNING**

What is needed in the planning process is a different way of considering what should be done, and how to plan for it, along with the ability to be agile in selecting and deselecting investments. This is a transformational shift in the planning process for an organization. The budgeting process must become a planning process. The outcome from the planning process includes a budget as a deliverable, along with resource plans and risk assumptions.

The planning process must also capture the key benefits so that a return on investment can be calculated. In addition, the actual benefits should be tracked – so that an organization can learn from the benefits realization management and tune ideation and selection processes.

The goal of the planning system is to select project investments that maximize the business goals – especially strategic fit.

Here is a short-list of critical requirements for the new way of planning:

- **Objective multi-factor scoring:** As ideas come in, it must be easy to score them against objective factors – specifically the strategic fit and risk. In addition, there may be scores for projects which must happen, for example for regulatory purposes. Scoring may happen multiple times, as the idea is developed.

- **Off-ramps, parking-lots, and iterations:** The gating process for an idea may take an individual idea through many steps before it is ultimately approved. Through the process, ideas may be “off-ramped” if it is evident that they won’t make the cut. At that point an idea may be placed in a parking lot, from which it could eventually be restarted, or it could be moved back through additional iterations by directing it back through an earlier step in the gating process for further consideration and analysis.

- **Iterative model development:** An individual idea will need to be elaborated to provide full understanding of goals, deliverables, costs, benefits, resources, risks and mitigating factors, co- and pre-requisites, cultural changes, and more. This means that the gating process needs to track through a variety of people in the business – potentially marketing & sales, engineers, finance analysts, project managers, and more. Through this gating process, the project investment model is created and can be objectively and fully scored.
Along with those top-3, you will need to have an ongoing intake process, an electronic suggestion box available to everyone, consideration of costs, benefits, risks, and resources, visibility to Existing and Proposed project investments, analytics, sensitivity analysis, and the ability to review and repeat the cycle frequently.

Some other requirements

The concepts above must fit inside your enterprise architecture and system considerations. To that end, you might also consider the following requirements when looking for your Planning System:

1. **Single source of truth**: One place where you can go for all information

2. **Capture supporting documentation** (e.g. drawings, pictures, spreadsheets): Add documents that increase the understanding of the idea.

3. **Roles-based access and tight security**: Access to your store of ideas must be tightly managed.

4. **Disaster/Recovery**: One place where you can go for all information

5. **Easy configuration**: The system must be easy to configure and re-configure to meet your needs.

6. **Performance**

7. **Mobile access**

8. **Integrate project approvals into your Project & Portfolio Management system**

9. **Integrate idea collection from other systems**: You might have multiple entry points to your electronic suggestion box.

10. **Integrate project approvals into ERP**
Gartner identifies that matching project selection to strategic drivers is one of the most important PPM improvements that companies need to make. Act now to put a business system in place that helps you select and plan for strategic investment projects.

1. Evaluate your current business process for budgeting. Is it part of a planning process? Who can participate in providing ideas? Is your process repeatable? Does it provide visibility to in-process and proposed investments? Can your organization adapt to be more agile and perform planning in an ongoing way?

2. Evaluate your process for the ability to elaborate on ideas with experts who can evaluate outcomes, deliverables, costs, risks, and resource needs. Who does this today and how? Are the right people involved?

3. Evaluate your process for selecting investments. Does it adequately align projects with strategy? Does it allow for assessment of risks and plan for the right resources?

Western Principles can help you with your assessment of your current budgeting system and create a plan to help you improve the match of your project selection with your strategy. Additionally, we can help you configure Microsoft Project Online to deliver your ideation and selection planning process, along with executive-ready reports for your management team.

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Western Principles offers a variety of services, including:

- Microsoft Project Online/Server implementation
- Partner product implementations
- Strategy Consulting
- Operations Assessments
- Project & Portfolio Visibility
- Cost & Change Controls
- Project Scheduling
- Portfolio Selection & Management
- Project Risk Analysis
- Resource Optimization
- Migration to Microsoft Project Online
- Change Management Consulting
- Training and Support
- Staff Augmentation