White Paper

How to Budget and Plan for High Performance

Agile and Connected Planning Methods Help Financial Institutions Achieve Strategic Goals, Build Resilience and Grow

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CFOs are often asked to adjust plans and make time-sensitive decisions. Being able to find, test and forge profitable strategies using forecasting and modeling tools gives CFOs and their financial institutions the advantage they need to face ultracompetitive (and sometimes uncertain) markets.

Whenever market conditions change or new information becomes available, CFOs and financial leaders have to react and respond quickly. If they don't, their financial institutions may have challenges tackling new opportunities, avoiding risk, staying in compliance and fending off competitors. Name a threat; today's financial institutions are facing it.

Financial leaders know they need to become more agile and resilient, and the requirement to make "data-driven" decisions is assumed. Yet, in practice, these are all easier said than done.

Three things can get in the way:

- Lack of an enterprisewide strategy surrounding data, its access and application
- Poor data quality, which results in wasted time and effort
- Siloed and slow data ingestion/inclusion practices

When these obstacles are present, financial organizations spend too much time collecting information, cleaning or manipulating data, and creating reports. There's no time for inquiry, curious exploration or even decision making. And the "data problem" grows as data increases in volume and speed.

The Three Most Challenging Reporting Tasks for Financial Institutions

62% Pulling data from multiple sources into a single report

44% Accessing clean, consistent and trusted data

41% Creating dashboards and visualizations

Source: "CFO Outlook for Financial Institutions," Syntellis Performance Solutions, 2021

Become More Agile and Connected

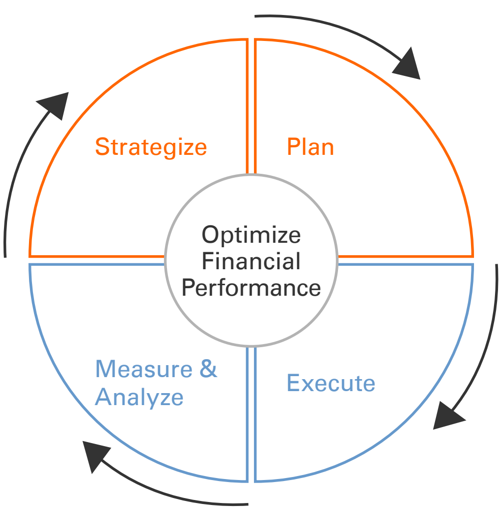
Financial institutions can overcome these barriers with connected planning practices.

Budgeting, planning, forecasting, performance analysis – all of these have become cycles now, not point-in-time activities. Conditions change too frequently for these to occur only annually or even biannually.

Likewise, it's becoming ineffective – and inefficient – to conduct planning and budgeting activities as isolated, separated processes. Having a single, enterprisewide planning process improves the consistency and efficiency with which financial institutions collect and apply data.

According to "CFO Outlook for Financial Institutions," a 2021 survey by Syntellis Performance Solutions, economic uncertainties associated with the pandemic have prolonged budget cycles, with 43% reporting that budgeting takes 12 months or longer (compared to 14% in 2020). And continued reliance on spreadsheets also hampers progress; 39% report using spreadsheets as a primary means of budgeting.

In a full-circle planning cycle, long-range plans and strategic initiatives provide a high-level roadmap for the organization, which informs budgeting and tactical planning. Execution relies on effective communication. Reports and operational plans need to be disseminated to the right leaders and teams so they can allocate resources appropriately and measure progress toward goals.



It's imperative for financial leaders to monitor progress against budgets and goals throughout the year. Leaders need regular access to financial and operational results so they can make mid-course adjustments or reforecast expected results – in essence, starting the cycle again.

Leverage Agility and Connection to Optimize Performance

According to the 2021 Syntellis Performance Solutions report, most institutions (71%) said they lack a clear understanding of profitability analytics and reporting. However, to design a profitable strategy – and track performance against it – financial institutions need to know what drives profitability. That means analyzing and understanding a range of profitability drivers across business lines, products, accountholders, channels and other complex relationships. Greater insight into connections and relationships can help financial institutions become more agile.

By following the five steps that follow, financial leaders can increase visibility into performance drivers, gain agility and build resilience. Then, they can steer their organizations toward higher performance:

1. Collect the Right Data and Ask the Right Questions

To become agile and resilient, financial leaders need two types of information: descriptive analytics (**what** happened) and diagnostic analytics (**why** something happened).

Diagnostic data digs into inputs and assumptions that drive business decisions. These could be business or environmental factors, assumptions about interest rates or prepay speeds, pricing spreads or other levers. All of the variables count. They impact the balance sheet, income and expense levels individually and in combination.

Where will all this data come from? It can be imported from core systems daily and combined into a singular, unified platform. When data collection happens automatically, there's no need for staff to move or validate data (or to inadvertently introduce duplications, error or risk). Reports and dashboards are created from a combined source of truth, so the consistency and credibility of the data improve – as do any decisions that result from its analysis.

Leverage all the source systems that are creating data for the organization, and understand each source system so import rules and timings make sense (including what it collects and how it reports). Spend time upfront doing quality assurance and validation testing, and occasionally cross-check data practices to make sure new data sources are included and accurate.

2. Build Comprehensive, Multidimensional Budgets and Plans

To manage performance, financial leaders need to know where they stand. But it's not as simple as showing them "You are here" on a graph.

Often, financial institutions focus on making "right-now" numbers accessible. Those are important – but only as one piece of a much more complicated puzzle. Managers also need to see performance across different dimensions, such as against prior-year budgets and plans; by vendor, product, officer or location; and even at the transaction level.

Comprehensive budgets and plans also account for a range of scenarios: the best case, the worst case and some mixes of "in-between." Financial leaders can use advanced planning and modeling tools to proactively measure the impacts of different market conditions. Then they can develop financial and operational reactions.

Try to understand how each scenario would affect the organization's balance sheet strategy, liquidity options and operations. Test each scenario and reaction plan to see if it has the desired impact. The goal is to mitigate risk – and surprises. With comprehensive budgeting and planning methods, leaders can reforecast how earnings, staffing or processes would change the scenario.

3. Monitor Effectiveness and Results

Throughout the year, assess performance against key financial and operational metrics. Evaluate the organization as a whole, and drill down into layers of performance (such as line of business, region or channel).

Evaluations should be forward and backward-looking. Which "what-if" scenarios (or combinations) came to life? During the assessment, ask:

- What did you expect to happen?
- What actually happened?
- Why did it happen?
- How will it affect future performance?

Then, update projections, budgets and plans to account for actual performance data and any revised assumptions. Look at three time horizons: the near term (one to three months), the remainder of the fiscal year and the long view (18 to 36 months).

Reforecasts may affect longer-term strategic objectives. Reset strategic ambitions, if needed, then restart the cycle of aligning teams and resources to the goals.

Timeliness is key to this entire process. Evaluations and corrections must be quick and accurate to be effective. Leveraging a single planning tool or platform can provide important efficiencies and shorten the cycle.

4. Drive Profitability

In some respects, driving profitability is about setting priorities. But in order to do that, financial leaders first need to know which strategic actions contribute the most revenue.

Profitability analysis tools capture revenue contributions and aggregate them by instrument, branch, product, officer or customer/member. Full profit and loss reports can be created for any of those dimensions – consistently, accurately and automatically.

Executives and line-of-business owners can use profitability information to lower organizational risk, especially during uncertain times. When leaders are asked to pivot toward new opportunities, profitability tools can help clarify which opportunities to pursue.

5. Align Incentives to Strategy

As a best practice, profitability should be factored into the strategic decision-making process and compensation and incentive plans.

Profitability is a powerful performance metric. Yet, many organizations focus their compensation plans on volume levels or units sold, which may not directly influence profitability.

Create a profitability mindset by rewarding work that contributes to profitability targets. Then, empower leaders and analysts with the right data and tools to pursue profitability.

Plan for High Performance

To budget and plan for high performance, leaders and analysts need relevant data. Rethink data security and governance rules so they're protecting the organization – without limiting how you access and apply data assets.

Consider which statistics, ratios, KPIs, and other data leaders and analysts need to do their jobs well. If they can't get to it, you're not fully leveraging the organization's data – or your team's abilities.

Consolidated budgeting and planning tools give financial leaders the speed and agility to plan in a rapidly changing environment. A single tool for planning, budgeting, and forecasting also supports a more connected and collaborative planning cycle.

A holistic, future-proof approach to financial management helps financial institutions become more agile and resilient. In turn, that drives performance and decision making, even amid uncertainty.

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