

# Planning and performance management paradigm

Planning and performance management are key issues for finance professionals in the challenging times that many organisations face from the rapidly changing economic environment. The responses to the survey that was undertaken as part of this research suggest that finance teams are still looking to regress to the approaches of planning and performance management that were adopted prior to the pandemic.





This report, which has been jointly developed by ACCA and Chartered Accountants Australia and New Zealand in association with PwC, has been compiled from nearly 3,000 survey responses and interviews and discussions with nearly 100 finance professionals across the world.

## Planning and performance management today

There are several comments that are typically made about the planning and performance management cycles in organisations. These often represent the 'as-is' state for many and components of it may well be the starting point in their journey to improvement.

The first comment is that finance is too **financially focused** in its approach to planning. That the sole focus is on producing a forecast profit & loss and balance sheet against which performance is managed for the rest of the year. The survey results show a slightly more encouraging view with 56% saying that they had an equal focus on financial and operational objectives in their planning process, whilst a further 34% said that they partially included both.

This opens the second and third comments that, as finance teams, we provide only **limited insight** which tends to be very **historic in nature**. Simply reporting numbers in a dynamic world does not help drive financial performance. 57% of the survey respondents said that one of the main efforts was in the calculation of historic variances.

Planning processes tend to be **disjointed** within organisations. Sales and marketing may well have separate plans which are not integrated into the financial forecast. When they are they are connected through a series of spreadsheets which are quite static in the data that they share. This constrains the forecasting approach.

Finally finance teams have a **reputation of perfectionism**. Taking time to get a perfect budget or plan when a lower level of accuracy might be sufficient to support decision making.

Finance teams need to be effective in the way that they contribute to their organisations otherwise they run the risk of not being relevant.

## Drivers for change

There is a need for finance teams to improve their planning and performance management activities.

The first driver is the impact of the **economic challenges** that organisations face. The black swan events of 2020 and 2021 have been replaced by geopolitical uncertainties in 2022 which are impacting all organisations in many ways, from increased energy costs, inflationary pressures, supply chain disruptions and resource constraints. There is no certainty in forecasting any more, just a range of options which as one chief financial officer who contributed to the report commented, may be the 'extreme', the 'slight less extreme' and 'worst' case. Understanding the drivers, integrating these with the risk management activities to identify early warning signs, and developing a range of outcomes to support decision making are essential.

Whilst the economic pressures may be shorter term, the longer-term objectives around the **environmental, social and governance** agenda have not gone away. 82% of the survey

respondents considered that there was a need for a broader view of performance for a range of stakeholders that is not purely financial in nature. For many chief financial officers, the question is one of balancing short-term survivability with longer term investment if the organisation is to achieve its 2030 targets, for example. Cash and liquidity become key in this.

In turn this challenge requires a **faster response**. Many of the finance leaders who contributed to the research used the word 'agile'. Whilst it might be slightly overused it does convey the sense that there is a need to break away from traditional annual cycles into a more dynamic planning model if organisations are to address the issues of the moment and support decision making when it needs to happen.

The economic uncertainties have led to changes in how organisations operate. Through the pandemic there was an acceleration of adaptations to deliver against changing customer demands. Those organisations who had invested in transformation before the pandemic were more prepared to adapt their operating model, to develop micro-solutions to meet specific needs. This **customer-centricity** comes from having the data available to tell the story and the ability to analyse it and to communicate that analysis and turn it into action. From a planning perspective having access to **data**, both internal and external, is essential. Having the **systems** to analyse it is a necessity. No longer can the organisation treat performance management as a siloed activity. It needs to draw together data from many systems and sources and have one integrated plan.

That **integrated plan** comes from a culture of performance management which pervades the whole organisation. It breaks down silos and focuses upon the delivery of purpose. It comes from integrated planning teams from all functions working together on one plan. May be a virtual, may be a physical, **centre of excellence**. Culture, however, starts at the top. It is for finance leaders to drive the value.

## Broader view of performance

What is the performance landscape that organisations need to embrace? In part of this addresses the comments that are frequently made about the approach that the finance function takes, yet it also reflects a broader need to engage across this agenda.

Firstly, as commented previously, it has to be **forward looking**. It needs to use data and technology to develop robust perspectives on the future. Finance teams need to enable decision making across the organisation. It is a view of performance that everybody within the organisation, and indeed stakeholders outside it too, need to embrace and see it as a **collaborative** effort.

The scope of performance management can no longer be just financially focused. The concept of **stakeholder capitalism** may have been first introduced in 1932, yet it represents this broader view. Performance for organisations is now a value driven concept which embraces the planning, creation and

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distribution of long-term sustainable value for the benefit of stakeholders. If we take this into the planning domain, then there is a strong case for **integrated planning** that includes all elements of the organisational model.

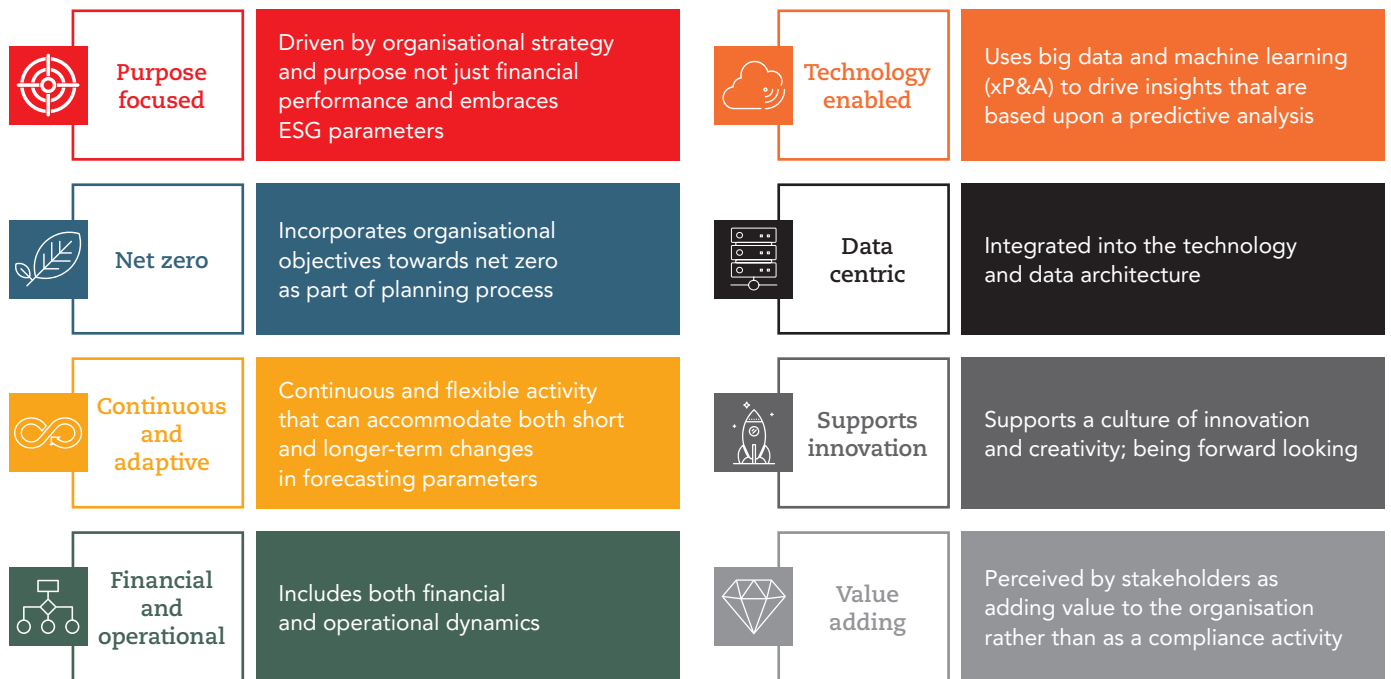
One of the examples of developing more integrated planning is **supply chains**. The supply of raw materials is a key issue in developing a robust plan for an organisation. Having transparency across the value chain is becoming essential. Interfacing this into the planning and performance systems of an organisation has strategic benefit. Organisations who have Cloud-based solutions that can be integrated using APIs have the flexibility to remodel and forecast with ease.

In these constrained times the management of inventory is one aspect of **working capital**. For many of the roundtable participants there was an important shift in planning underway. The pendulum is swinging towards working capital and cash management as economic pressures build. Having confidence in the modelling will enable finance teams to manage their stakeholder relationships more effectively.

### Role of finance in planning and performance management

Let us conclude our evaluation of planning and performance by considering the finance team role in the broader planning and performance management landscape.

To articulate this view eight hypotheses were developed and tested with both the survey respondents and the roundtable participants. These summarised that the planning and performance management process in an organisation should have the following characteristics:



Looking at the responses of those who took time to complete the survey, it is clear that most believe that the journey is one that will happen, although very few see it as one that is a reality at the time of the survey. It should be noted that there is less conviction around the use of big data and machine learning which scores significantly lower than some of the other hypotheses. It ranks as the lowest with the inclusion of the organisational objectives towards net zero. In other areas finance teams are starting to recognise the journey that they need to take with planning and performance management. It needs to be aligned to purpose, continuous and flexible, forward looking and value adding.

In this broader view of performance, the vision is of a collaborative finance team that looks at performance across an organisation and embraces an **integrated approach**. At the core of the delivery of this is the **finance business partner** role. These individuals represent the view of finance in many circumstances, and as has been noted in our report *Finance Insights – Reimagined* the **skill sets** are not solely technical, they embrace a range of softer skills such as influencing and storytelling, but also need to have a deep understanding of the changing business model. Effective finance business partners are key to the role of the function in delivering the broader view of performance into the organisation. They need to utilise **data** in creative ways to deliver those insights.

At the C-suite level the chief financial officer is the ultimate business partner. In planning, recording and evaluating performance there is a need to take a value centric perspective, no longer the chief financial officer more the chief value officer.

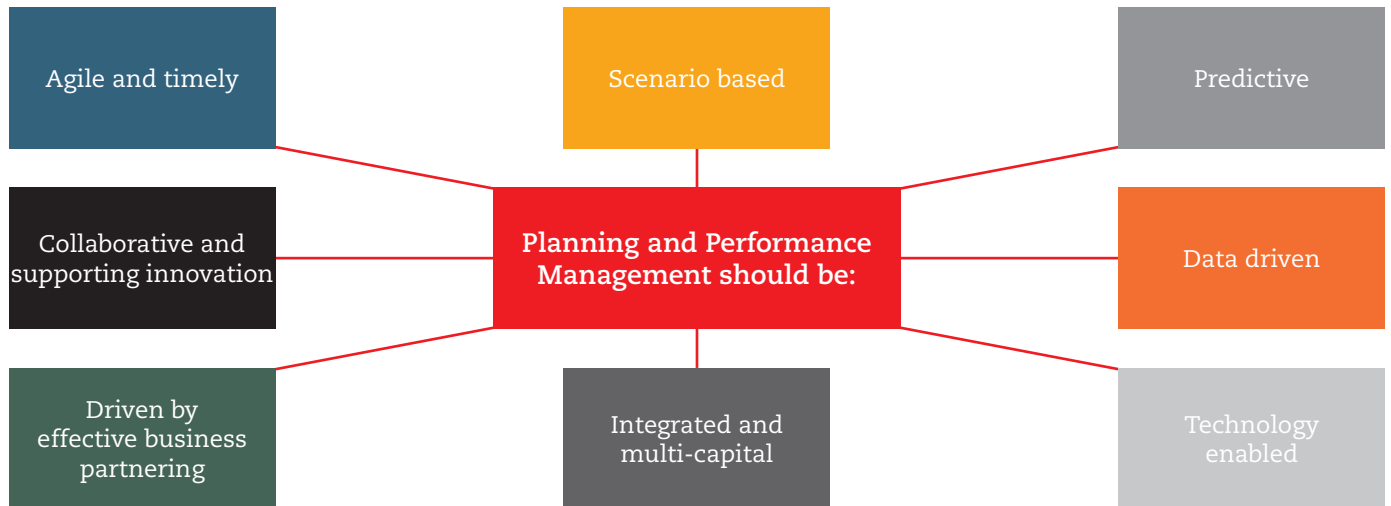
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## Conclusion

To conclude, the attributes of an effective planning and performance management system are the following:



This is the planning and performance management paradigm.



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