

PLANNING AND BUDGETING IN A DOWNTURN

Now that the budgeting and planning season is upon us I thought it would be a good time to visit one of the major challenges associated with this exercise. In good times organizations had the luxury of relying on full-fledged Financial Planning and Analysis (FP&A) teams. These teams were structured to perform this annual, or in the case of some ambitious organizations, semi-annual exercise and calculate progress against the budgeted figures. These teams have shrunk in size now, and perhaps even disappeared, but the challenges in this area have not diminished. In fact, the challenges have been magnified reflecting the downturn in the oil and gas industry.



Do you have the buy-in from Business Operations teams?

It might be obvious to FP&A folks but we all have seen this happen far too often. Business Operations teams believe that this is an accounting team exercise which they have to support. Accounting teams believe that the ultimate ownership of results lie with the Operations team and expect a higher level of commitment from operations. Operations individuals, at managerial level and up, are involved in providing inputs, confirming details and a host of other activities through the planning cycle. If the ownership of this exercise is ambiguous then this planning exercise can also be seen as a hindrance in day to day activities by profit and loss leaders, as well as by the finance team, especially the ones whose primary responsibility is period end and associated reporting.

This is where Executive Management, including from both finance and operations, needs to be explicit regarding the purpose and priority of the exercise. If this step is not addressed appropriately then planning might as well be stopped at this stage as the organization will be setting itself up for failure. It will only lead to mistrust among teams, internal struggles and chaotic monthly/quarterly reviews.

It is hard to be enthusiastic about an FP&A exercise and it is often seen as a chore. It is imperative that Executive Management articulate the background, expectations and vision of this exercise before it begins.

There are several other challenges that come to mind:

- What is an appropriate baseline to start from?
- Are you calculating variances or are you managing performance?
- Are the periodic reviews forward looking?
- Is there a follow up on action items progress after the periodic reviews?
- Have you planned for divestitures or other liquidity events?

There are likely other ones that I have not mentioned, but **which FP&A challenge keeps your organization on its toes?** I would welcome your answers, or if you would like to discuss further please send me an [email](#).

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