

12 best practices in FP&A

What are top-performing organizations doing?



Introduction

Most CFOs are not happy with their Financial Planning and Analysis (FP&A) process, believing it delivers too little value and squanders resources. The biggest challenge facing many companies today is the difficulty in accurately predicting future revenues and cash flows. This has been highlighted even further by a number of recent global events that impact standard businesses activities. As a result, previous assumptions and trends in FP&A are shifting to a place where they rarely remain viable. In short, planning today is far more complex.

As a result, **CFOs often ask, “What are the best practices in FP&A?”**

To date, the answer has flitted between conventional wisdom, anecdotes, and in-the-moment ideas propagated by finance articles. The one consistent thing that has been truly lacking is hard data...until now.

Looking at key insight gathered by the IMA® (Institute of Management Accountants) with opinions and thoughts collated from more than 700 organizations, we can begin to explore what great FP&A looks like and where businesses can implement the right change. The IMA survey focuses on what the most successful organizations are doing differently when it comes to FP&A. These successful organizations consistently meet or exceed their targets, and they consistently meet or beat their competition.

As a brief overview, the most successful organizations report back that their FP&A process:

- delivers shareholder value (or business value when privately held)
- drives execution of the strategy
- provides the mechanisms to ensure financial and operational goals are aligned and achieved
- builds organizational awareness of each department's role and overarching strategy
- ensures optimal allocation of resources
- coordinates initiatives, projects, and programs.

Combined, these points signify maturity and work to achieve top results for the business. The question is how did these best-managed organizations achieve these results? This guide lets you in on some of their secrets, running through the **12 best practices for FP&A**.



Lawrence Serven
Regional Sales Manager, Board

Planning today is not the same

Before we look at the practices, we should consider the contextual relevance of the pandemic and recent global events to how they impact today's planning landscape. In essence, they have highlighted the weaknesses of FP&A processes and exposed a clear need for significant improvement in an ever-changing business landscape.

Looking into this factor, the IMA conducted two surveys, one pre-pandemic and one during, to gauge the effectiveness of FP&A practices. Results show that companies were less equipped during the pandemic with:

- a strategic long-range plan
- a clear understanding of how operational planning impacts financial results
- the ability to identify real business reasons for plan-to-actual variances
- how to make necessary adjustments to plans when financial and operational goals are missed.

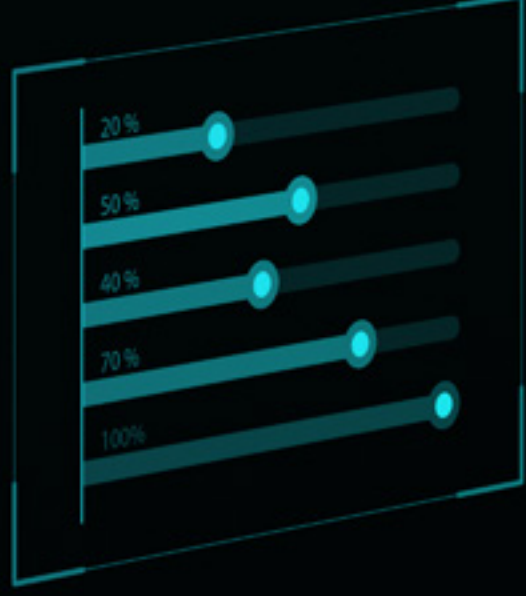
Pre-pandemic, businesses were already facing challenges such as siloed data, multiple platforms and applications, gut-feeling approaches, and heavy reliance on spreadsheet-based planning. The pandemic then exacerbated these weaknesses, making FP&A largely ineffectual. Large changes are now in place in the planning world, throwing out new challenges at a fast pace. Businesses must make changes to existing FP&A processes by adopting agility and robustness and making greater use of their data across to operate effectively.

What are the 12 practices of FP&A?

To aid businesses in achieving these goals, here are 12 practices that provide insight into enhancing FP&A processes:

1. [Align FP&A with strategy](#)
2. [Allocate resources at the right time](#)
3. [Connect operations and finance](#)
4. [Analyze variance](#)
5. [Act when you fall behind](#)
6. [Cascade financial and operational goals](#)
7. [Hold people accountable](#)
8. [Link incentives to goals](#)
9. [Identify what drives success](#)
10. [Establish targets](#)
11. [Develop initiatives to achieve targets](#)
12. [Monitor results](#)

By implementing these lessons, CFOs and FP&A professionals can improve the effectiveness and efficiency of FP&A processes. Global events have emphasized the need for enhanced FP&A, and by following these practices, businesses can remain competitive and continue to operate effectively.




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#1

Align FP&A with the overall business strategy



While most organizations have a strategy, the best-performing companies do a better job of translating them into executable plans.

Most organizations have a vision for their strategy, but without turning it into actionable plans, the impact is limited. The IMA survey shows that top companies do a better job when they make their strategy concrete and executable.

The key to success lies in defining the initiatives that will achieve the strategy and transforming them into short-term action plans. For example, a CEO may hold a 3-day offsite retreat with an established strategy consulting firm to define the business's strengths, weaknesses, opportunities, and threats. Working with the consulting firm a 'winning strategy' which deals with the company's

competition and produces rapid growth is created. Three months later, when reviewing the annual operating plan, the CEO is unable to see where the strategy is in the plan. The Office of Finance has a high volume of financial projections but nothing that directly connects the strategic initiatives discussed in the offsite meeting to the AOP. So, despite all the work, the results of the meeting are not accurately established, and the time and money spent becomes ineffective.

The best-performing companies have a clear connection between their strategy and actionable plans. As with a lot of other organizations, they have a strategy or long-range plan. However, what sets top-performing companies apart is how they establish specific initiatives to achieve a wider strategy and break those broad initiatives into actionable projects.

Finance plays a crucial role in translating strategy into actionable plans by designing and facilitating the process. The role may vary depending on the size, geography, and industry of the organization, but the principle remains the same.



#2

Allocate resources at the right time



The best-performing companies identify the right resources required to deliver projects while respecting the budget timeline.

Many well-conceived projects with great potential to drive desirable outcomes end up failing before they can get going due to the lack of adequate resources such as finance and time. Often, projects are executed without proper planning and being driven by the mindset of “let’s just do it.”

Another issue is the disconnect between the budgeting calendar and the process of developing a strategy. The plans are executed without being aligned with the allocation of fiscal resources, leading to their failure.

The budget holds the key to achieving strategic targets. Despite the negative reputation it has acquired over the years, the budget process remains the main allocation of resources in a company. Whether an initiative to enter a new market, improve employee retention through enhanced training, or speed up new product development, if it’s not in the budget, it’s unlikely to be funded.

One challenge for managers is a lack of knowledge in building a project plan.

Although it’s not difficult, it requires training to learn how to establish milestones, break down activities into tasks, and estimate the resources needed to meet key deliverables. Moreover, a manager’s plan

needs to be documented to be shared with others and become a tool for delivering results. Existing “inside their head” is no longer a viable option.

The typical budget process also lacks the ability to incorporate initiatives effectively. While it’s good at delivering a Profit and Loss (P&L) statement, it’s often difficult to identify project spending and how it relates to specific initiatives. To overcome this, project spending must be well documented and translated into the relevant General Ledger accounts. With the help of technology, this process can be made much easier and more efficient.

The best performing organizations have mastered the budgeting process. However, it’s typically a work in progress and never perfection! Start small by incorporating one or two key strategic initiatives into the budget and work out any kinks in the process. Over time, expand as needed.

#3

Connect operations and finance

The most successful organizations understand that their financial results are a direct result of their operational decisions and actions.



Finance continues to play a crucial role in bridging the gap between operations and finance by providing operational managers with an understanding of the P&L and their impact on it. This requires finance to have a deep understanding of business issues and to have a well-reasoned point of view. With this foundation, they can connect the dots between operational goals and the financial impact, and work with operational managers to develop their business acumen.

For instance, an improvement in manufacturing efficiency results in a decrease in the Cost of Goods Sold and a corresponding increase in EBITA. The correlation between operations and the P&L statement is undeniable, and top-performing organizations understand and leverage this relationship to drive growth. These organizations make the link between operations and finance explicit, and when they set a goal of increasing EBITA, they know the exact steps to take and implement plans accordingly.

To monitor progress and optimize results, these top-performing organizations continuously track key performance indicators and have a comprehensive understanding of how their progress impacts the P&L. For example, if a project aimed at increasing productivity by 5% experiences a six-month

delay, they could predict the effect on Cost of Goods Sold and EBITA with precision.


Moreover, these organizations utilize robust dashboards to display KPIs, goals, progress towards goals, and the status of initiatives, allowing for efficient monitoring of progress. Advanced organizations even have drillable dashboards that provide cascading goals and KPIs, enabling each level of management to focus on their specific responsibilities while also having a clear understanding of their place in the overall picture.

Continuous improvement is essential, both in refining KPIs and in strengthening the connection between operational performance and the P&L. For example, analyzing the impact of promotions on sales helps organizations understand the strength of the relationship and identify the most effective promotions. By incorporating lessons learned from real-world experience, organizations can improve forecast accuracy and ultimately achieve greater success.



#4

Analyze variance and what the numbers mean



The best-performing companies, who base plans on tangible projects and understand the financial impact, have a stronger ability to perform variance analysis and gain insight into the story behind the numbers.

Many companies have had to become even more efficient and strategic in their FP&A due to economic change. In order to stay afloat, it is crucial for companies to not only be aware of financial results, but to understand the reasons behind those results and how to improve for the future.

Successful companies consider the financial impact of their projects through variance analysis. Traditionally, variances are seen as something to avoid. However, they can be extraordinarily helpful in understanding what's happening in the business.

For example:

- What did we expect to happen?
- What actually happened?
- What can we learn from the variance?

With variance analysis, top companies gain more insight and drive a more complete business plan that goes beyond the constraints of financial results alone – which lack a comprehensive understanding of the business.

By having a well-structured plan, companies can not only forecast their outcomes, but actively work towards realizing their goals.

Finance plays a critical role in this process as they have a deep understanding of business operations and can effectively communicate financial analysis to other departments. They can also use their expertise to support the development of projects and initiatives and work toward achieving the company's targets. As the year progresses and actual results are reported, variance analysis can provide invaluable insight into the business and highlight opportunities for continuous improvement.

Companies need to be well-prepared and adaptable during these unprecedented times, as the ability to perform variance analysis and understand the story behind the numbers can be the difference between survival or failure. The best run companies use FP&A to not only predict their results but drive them to achieve their goals. They have a solid understanding of the strategies and initiatives put in place, the actions they're going to take, and who is responsible. By being well-informed, they greatly increase the chances of meeting critical goals and can pinpoint with far greater accuracy what happened should they fall short.

#5

Act when you fall behind

The best-performing companies are agile and can evaluate the situation to get back on track when faced with challenges. The ability to be agile and act when falling behind on financial or operational goals has become increasingly important.

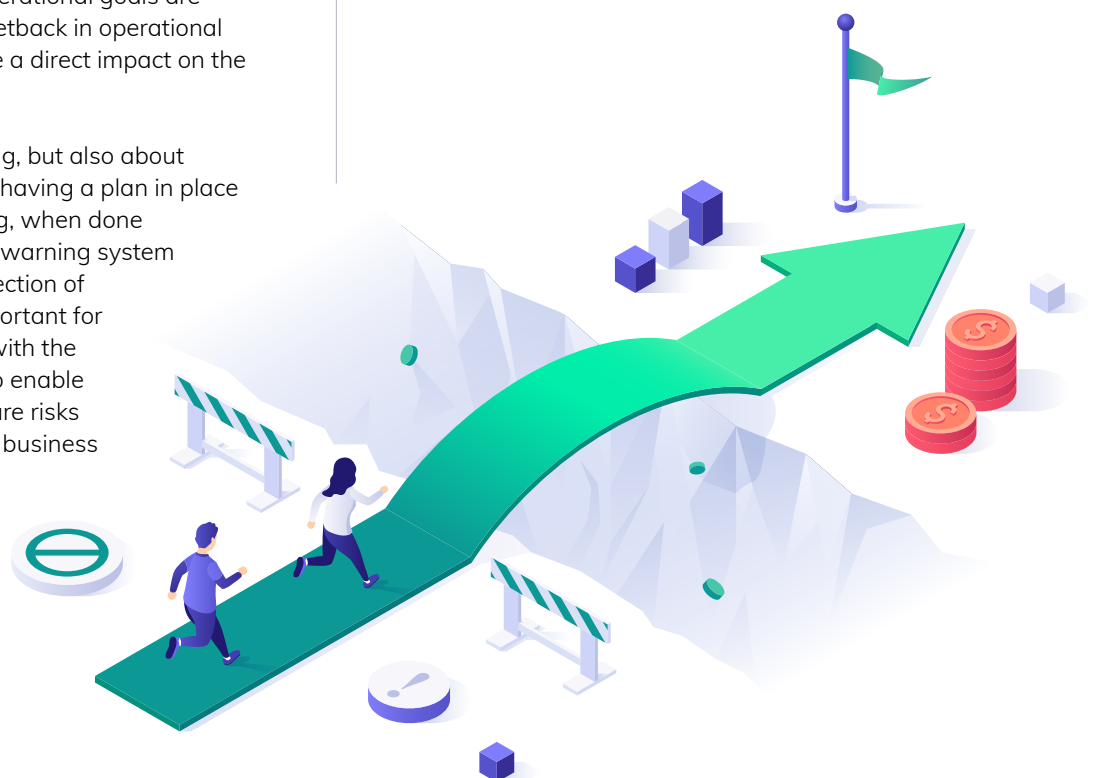
Today's business landscape is significantly different to even a few years ago. It impacts the way companies operate in new and challenging ways. This has made it even more crucial for organizations to monitor their financial and operational progress and act promptly if they fall behind. In the best-run companies, financial and operational goals are tightly intertwined, so any setback in operational performance is likely to have a direct impact on the financials.

Agility is not just about acting, but also about anticipating challenges and having a plan in place to address them. Forecasting, when done correctly, serves as an early warning system and provides a realistic projection of what could happen. It is important for companies to be equipped with the right technology and tools to enable scenario planning and capture risks and opportunities in today's business environment.

Forecasts should not be limited to financial projections; they should also include an assessment of the progress of initiatives and project plans. If the progress of these initiatives falls behind, the expected financial results may also be delayed. A thorough understanding of the business, including initiatives and projects, is necessary to make informed decisions and reset expectations if necessary.

The use of predictive analytics can also be beneficial in generating unbiased and realistic forecasts. Any significant discrepancy between the system generated forecast and the predictions made by people should prompt a business conversation to understand the reasons behind it.

Capturing both financial and operational measures and having the ability to store and report information on initiatives, project milestones, and deliverables, is crucial in ensuring that operational targets are met and maintaining agility in these challenging times.



#6

Cascade financial and operational goals down to specific targets

Top-performing companies understand the importance of cascading both their financial and operational goals down the organization to specific, tangible targets. This practice is essential for building accountability and ensuring success in meeting business objectives.

One of the key themes explored in this eBook is the integration of financial and operational planning, which extends to cascading goals down through the organization. Higher-level goals, such as increasing sales by 100K units, are broken down into incrementally smaller goals for each region, district, and individual salesperson.

Interestingly, our research of over 700 organizations found that public companies are more likely to cascade financial goals compared to private companies or non-profits. However, they are not more likely to cascade operational targets. This could be due to the high pressure on public companies to meet financial targets for their stockholders and analysts.

The best-performing companies differentiate themselves by cascading operational goals alongside financial targets, holding individuals accountable for their delivery. These organizations recognize the connection between operational metrics and financial performance, and therefore cascade operational goals to ensure that they are on track to meet their financial goals.

Effective communication and monitoring of progress is crucial in this process. Scorecards or dashboards that display both financial and non-financial measures allow for a clear line of sight from high-level goals to individual targets.

Global events have added new challenges to the cascading of goals in many organizations. The sudden shift to remote work, for instance, has made it harder to maintain clear lines of communication and monitor progress. Nevertheless, the importance of cascading goals remains unchanged, and companies must find new and innovative ways to effectively cascade their goals and monitor progress in this new reality.



#7

Hold people accountable to reach better financial results and link them to financial incentives

The best-performing companies have a culture of accountability where strategy is translated into specific projects, and individuals are responsible for delivering financial targets.

Holding people accountable for better financial results and linking them to financial incentives has become even more important in recent years. It goes beyond just calling out individuals for failing to deliver or praising them for meeting commitments. The true value is in having a means to link financial incentives to the achievement of targets. This means accountability takes on a deeper meaning, and those given this responsibility are in the best position to enable the organization to reach its goals.

It is essential that everyone in the organization has a clear understanding of performance. One effective way to do this is by rotating the responsibility of presenting financial performance to different VPs each month, elevating their “Financial IQ” and making them more accountable. Incentives should also include both individual and companywide metrics to avoid “gamesmanship” and foster a culture of collaboration.

Using technology to make financial results clearer is also key. People outside of finance need access to the data and the results should be presented in an easy-to-understand way.


The system needs to be highly configurable to meet unique needs and drive user adoption and engagement.

Accountability and incentives are essential components of FP&A, especially given the context of the disruptive events and the impact it left. Companies that hold employees accountable for financial results and link those results to incentives, foster a culture of collaboration, and use technology to make financial results clearer will be better equipped to navigate uncertain times and achieve their financial goals.



#8

Link financial incentives to operational goals



The best-performing companies hold people accountable for both achieving operational targets and driving financial performance.

In an environment where operational changes drive financial outcomes, it is important to create well-coordinated individualized goals with leading and lagging indicators of performance that lead to desired financial outcomes.

For instance, if a company wants to improve productivity by 5%, the head of manufacturing will have the responsibility for delivering that 5% improvement, and the project leader will have a goal of delivering the project on time and on budget. These individualized goals will form the basis for annual bonuses, merit increases, or other forms of incentive pay to motivate employees.

To make this process work, it is important to avoid blaming people and foster a culture where people

feel safe in reporting what happened. There should also be a clear cause-and-effect linkage between operational and financial outcomes.

In addition, easy-to-access and easy-to-read dashboards and scorecards can help employees see how they, their team, and the enterprise are tracking to meet their goals. This can be a crucial enabler of success from an FP&A perspective.

As we move forward, the last four practices are designed to help FP&A get to the next level by focusing on business drivers and integrating them into FP&A. If the first eight are firmly in place, FP&A can deliver significant value to the organization as it drives execution and achieves desired business outcomes. With these all in place, the use of drivers can take FP&A and the organization to a whole new level.


A quick note: Mastering the practices to take FP&A to the next level

We've explored eight facets of FP&A so far, all critical factors to consider and establish if you are to build a solid foundation for FP&A. With these firmly in place, FP&A will deliver significant value to the organization as it drives execution to achieve desired business outcomes. The final four practices are designed to help get FP&A to the next level. They focus on business drivers and their integration into the FP&A process; a more advanced topic that necessitates a deeper understanding of your organization's operations and goals.

Mastering these in conjunction with the initial practices will propel the organization to new heights. So, let's dig into the final four to understand their importance in today's business landscape and how they enhance data-driven decision making.

#9

Identify what drives success in your business and develop measures for those drivers



The best-performing companies have always had a solid understanding of what drives success in their business, but now more than ever, it's essential to identify these drivers and develop measures for them.

Following unprecedented disruptions in recent years, forecasting and predictive analytics are more critical than ever to make informed decisions and navigate uncertainty. While most business leaders know what drives success, the best-performing organizations go a step further to codify and formalize their beliefs so that they become widely shared and understood. They then develop clear measures for those drivers. In today's context, businesses need to re-evaluate their drivers of success and develop measures that account for the impact of global events.

For instance, in the high-tech industry, innovation is considered a driver of success. A company typically measures it as the percentage of sales from products introduced in the past two years. Similarly, for hospitality, customer loyalty, occupancy, and the average room rate are frequently regarded as key drivers of success. Companies measure customer loyalty through the Net Promoter Score, while occupancy rate and average room rate combine to calculate revenue per available room.

Regardless of the industry, it's important to note that these drivers of success, or economic drivers, remain relevant regardless of whether or not a company's strategy addresses them. However, the strategy will impact the drivers of success one way or another, knowingly or unknowingly.

From a technology perspective, this leads to a discussion of dashboards or scorecards. Businesses must carefully identify the right KPIs and ensure they are well presented to the organization. With the modern development of a far more remote workforce, dashboards or scorecards should be accessible on any platform – laptop, smartphone, tablet, or PC. They should also be uncluttered, visually attractive, easy to read, and just as easy to interact with.

Knowing what to measure and communicating it effectively is half the battle, but just looking at numbers for the sake of viewing them is not the goal. Ultimately, the objective is to drive those numbers in the right direction, which is crucial in these challenging times. By forecasting and measuring the drivers of success accurately, businesses can make informed decisions and come out stronger.

#10

Establish short- and long-term targets for business drivers

The best-performing companies not only identify and measure the drivers of success in their business, but also establish short- and long-term targets for those drivers.

By setting targets for business drivers, organizations develop a clear line of sight between where they are now and where they want to be in the future. This is particularly important during times of crisis, where organizations need to adapt quickly and make informed decisions to stay afloat.

For example, a high-tech company that has identified innovation as a driver of success could set a long-term goal of increasing the percentage of sales coming from products introduced in the past

two years from 20% to 40% over the next five years. To make this goal achievable, the company could establish shorter-term, annual targets to ensure they are making progress toward their long-term vision.

Predictive analytics can be particularly helpful in establishing a baseline for these targets, considering economic drivers and other factors that impact success. With this data, organizations can make informed decisions and adjust their strategies to meet their targets, especially during periods of uncertainty. While stretch targets should be sought, predictive analytics can help quantify how much 'stretch' is really in the targets, giving organizations a realistic and achievable goal to work towards.

Setting short- and long-term targets for business drivers is essential for organizations to stay on track and succeed, especially in the face of significant disruption. By leveraging technology and predictive analytics, businesses can develop a clear vision for the future and make informed decisions to achieve their goals.



#11

Develop initiatives and projects to achieve business targets



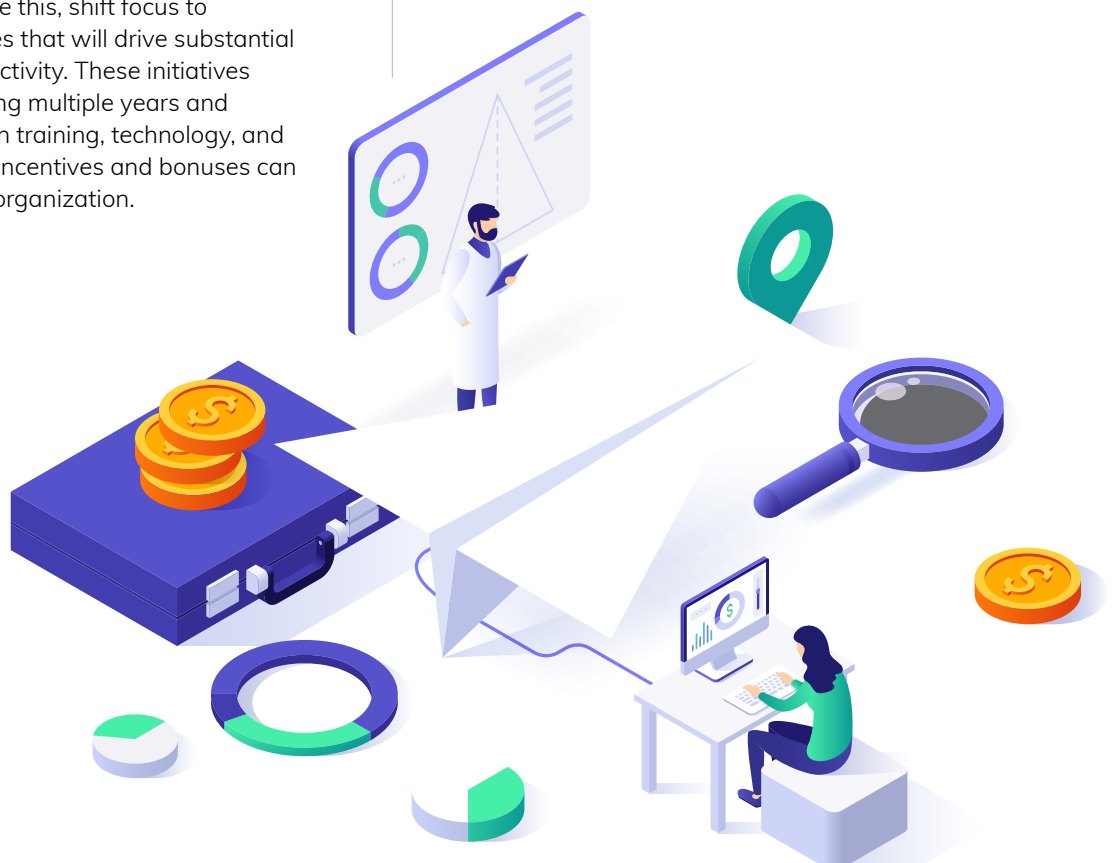
The best-performing companies develop initiatives and projects to achieve their targets.

Once an organization has defined its drivers and set targets for them, it must establish initiatives to achieve those targets. While longer term targets may require strategic initiatives, operational projects will deliver the nearer term results. This underscores the need for clear plans to achieve targets, especially in uncertain times.

For instance, a company that identifies productivity as a driver of success must develop initiatives to improve it. To achieve this, shift focus to identifying the initiatives that will drive substantial improvements in productivity. These initiatives should be bold, spanning multiple years and involving investments in training, technology, and process improvement. Incentives and bonuses can align goals across the organization.

Projects that contribute to long-term initiatives must be broken down into nearer term projects that can be staffed and funded, with detailed plans that outline activities, milestones, and tasks. With effective initiatives and projects, companies can achieve their targets and drive long-term success.

Technology plays a critical role in this process. Dashboards and scorecards can help capture and track drivers, while budgeting and planning help allocate resources effectively. Forecasting is also essential, as it allows companies to answer questions about whether they are heading in the right direction and if they will achieve their goals. As businesses adapt to new challenges, it is more important than ever to use technology to build a shared understanding and ease-of-use, ensuring alignment and success.



#12

Monitor business results and tie them to incentives

The best-performing companies also do a better job of monitoring results and tying them to incentives.

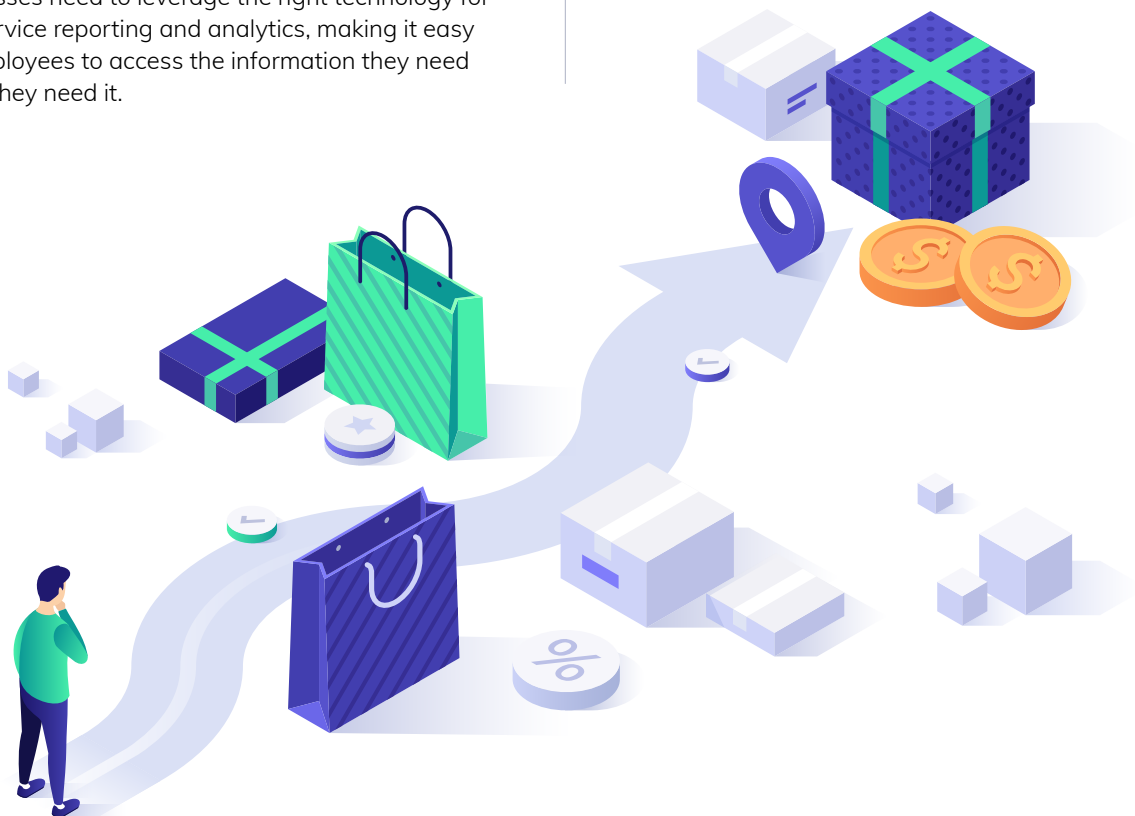


The final practice emphasizes the need to monitor business results and tie them to incentives, but in the reality of a more disruptive and harder to predict business landscape, this has taken on a new level of importance.

Effective monitoring of results involves having reliable data, trustworthy systems and processes, and measuring operational results to understand how they drive financial outcomes. To support this, businesses need to leverage the right technology for self-service reporting and analytics, making it easy for employees to access the information they need when they need it.

Incentive-based pay is an effective way to motivate employees to achieve business goals. However, it is essential to connect incentives to results effectively. It is no longer enough to simply tie incentives to achieving targets. Instead, businesses need to ensure that incentives are linked to results that align with the company's long-term vision and goals.

To do this, businesses must develop a deep understanding of how operational results drive financial performance and create a roadmap for achieving those results. This roadmap should be specific, measurable, and tied to employee roles, with the right incentives to help ensure that goals are met.



The best-performing companies...

As we wrap up this eBook on FP&A practices, it's important to take a step back and reflect on what we've learned. The best-performing companies out there have a few things in common. They:

- understand how operational improvements drive financial results
- place just as much emphasis on operational planning as they do financial planning
- hold people accountable for delivering specific results
- identify the right resources required to get those results and justify them in the budget.

And with the right mindset, tools, and processes in place, any company can begin to see massive value added to their FP&A processes.

Accelerate your FP&A journey with Intelligent Planning

With the right tool in place, FP&A unlocks immense insight for any business. With a proven track record of empowering finance leaders worldwide, the Board Intelligent Planning Platform propels you towards smarter planning, driving tangible outcomes, and leading the charge of innovation.

If you're not sure where your FP&A process stands currently, we recommend taking our [online FP&A Maturity Assessment](#). In just five minutes, you can identify the areas that require the most attention and focus your transformation efforts accordingly.

And if you're ready to start evaluating software vendors, don't miss the [2022 Gartner® Magic Quadrant™ for Financial Planning Software](#). This report will help you narrow down your list of options and choose the software that will best support your FP&A goals.

In conclusion, there's no one-size-fits-all approach to FP&A, but by following these lessons and using the right tools, you can take your FP&A to the next level and add significant value to your organization. So, what are you waiting for? Start your FP&A transformation journey today.



