

CRITICAL REVIEW

Stepping ahead with rolling forecast: Can Bangladesh look beyond?

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Rolling forecasting
Annual budget
Traditional budgeting
Business environment

Received: 22 December 2015**Accepted:** 24 January 2016**Published:** 22 February 2016

Abstract. This paper analyzes the overall business scenario of Bangladesh and examines the existing literature on rolling forecasting. A rolling forecast is one of those incorporated in the organizations alongside the traditional annual budget. As rolling forecast provides a skeptical look into a financial period that goes beyond a year and updates the forecast continuously, the chances of success in the predictions are increased. The possibilities business industries of Bangladesh might have to implement rolling forecasting are presented briefly. In addition, the paper tries to present a basic implementation process for rolling forecasting. However, applying new changes to a conventional method always breeds anxiety among the practitioners. Bangladesh, a yet to be developed economy, may face barriers and fierce challenges while it tries to implement rolling forecasting in the budget operations of the companies. As a result, an attempt is also made to formulate some recommendations by reviewing existing literature for the business organizations of Bangladesh.

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INTRODUCTION

The business world today does not seem the same as it did only a couple of decades ago. Digging even deeper, it is almost impossible to find when was the last time any business has come up with targets fulfilled and performances done the same way as they were planned in the annual budget of that business. Businesses today operate in an environment that has become more turbulent over the years due to the adverse changes and underlying uncertainties in the global economy, external pressure on performances of the organizations, failure to meet demands of the stakeholders and volatility of the resources required.

While such scenarios are evident, traditional annual budgets of companies reflecting overall goals and performance benchmarks for the running period often fail to foresee what lies upfront and establish the results, as the goal itself has become a moving target. To deliver results that are not only more accurate, but also achieved taking into account the turbulent wind of the business world,

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organizations need to adopt new methods to forecast performance apart from applying conventional annual budgets. A rolling forecast comes forth at that very moment as a new dimension added to the budgeting arena of business. This study focuses on how rolling forecast can make organizations forecast more efficiently taking into account aspects that conventional budgets usually overlook to some extent. Also, the scenario of Bangladesh is analyzed to assess the probability for businesses in Bangladesh to add rolling forecasting in their regular budgeting operations.

LITERATURE REVIEW

Rolling Forecast

When businesses move ahead with a right planning and budgeting, the people associated with taking the right decisions and making profitable investments for the business do so with confidence. But it's rather difficult because the only thing business forecasting is certain about is that it may go inaccurate (Castellina, 2013, Hill, 2016). A rolling forecast on the other hand has room for changes and modifications to fill in the performance gaps with rapid considerations regarding any volatility affecting the target and performance (IBM, 2010, Miller, 2013). It is a formal process which leading business organization now embrace to update their forecast more often (Nguyen, 2013). Rolling forecast demands forecasting horizon to go beyond current fiscal year to project the future and the associated perks and downsides. This method, also called continuous planning helps organizations to find out new possibilities among the threats the outside world poses upon them. It involves projecting the key drivers affecting the business, analyzing the pros and cons of those and rethinking the options available to the organizations to get near the targeted performance (pp. Garlapati,).

Rolling Forecast Being Different than Conventional Budget

The traditional annual budget and the accompanying updates and estimates have come a long way to establish their image on the business world surface. Nonetheless, the level of detail being minimized and politicized process often contribute to a long period to prepare that budget, making it outdated when it is actually finished (Rolling Forecast Solutions, LLC, 2011). The annual business budgets people are normally aware of use historical data to plan the future performance outcomes. But what about the ever changing volatile factors lurking out there ready to alter the decisions and targets that are set sitting on a round table? Now that can be called a severe drawback of annual forecast as it does not allow enough time to adjust the plans when hit by such factors (IBM, 2010).

The existing literature provides us with numerous differences between the conventional annual budget and the contemporary rolling forecast. The traditional budget is defined as the quantitative expression of proposed targets and goals serving a specified time period, normally a year (Horngren et al.,). The budget also includes requires course of action to achieve those targets. As a result, budgets are evaluated based on whether it actually made it to the center of the dartboard. A rolling forecast however incorporates the likely future outcome, analyzed through current assumptions and conditions (Morlidge and

Steve, 2010). It's more like a normative approach in which the words 'should' and 'what if' carry lot more importance.

In one end, leaders following the annual budget take decisions within the scope of current operating plans, get feedback from variance analysis and dedicate time to comprehend those variances. Meanwhile, another scenario steps in and outdates previous outcomes. As the budget is static in nature, changes are made again in the next years' budget. On the other end, the proactive leaders go for a rolling forecast (Zeller and Lawrence, 2013). They respond quickly as the forecasting period extends beyond the current year into the following two or three quarters, resulting in drawing out the opportunity and threats map. However the initial financial and operating plan were, these sudden changes calls for adjusting the sails of business ship. A flexible rolling forecast does that efficiently.

Putting together the traditional budget is a broad work based on researching historical data, analyzing and making them available and finally reviewing. This whole process takes up too much of the financial and human resources of the organization in the beginning of an accounting period. But as the rolling forecast requires plans to be updated throughout the year and beyond, the load on the organizations' resources is reduced and resource needs are allocated over the full rolling forecast period, which may range from a total of 15 to 18 months, poles apart the known annual budget. The outlook of these two method as a result differs. One sets sail with a 12-month plan and counts down as each month passes whereas the other sets out with additional two or three quarters from the following year. Once a month is completed with actual results on hand, another one is added updating remaining ones. Overall, rolling forecast brings in an increased chance of medium and long-term success (Zeller and Lawrence, 2013).

Coming to the wider use of rolling forecast as a planning tool, the numbers worldwide also agree. The American Productivity & Quality Center research shows that 48% of them direct their businesses using a rolling forecast (Durfee, 2006). Banham (2011) pointed out leading companies in world that changed their mindset regarding the budget process and now uses rolling forecast. Unilever updates its forecast at the unit level and Norton Lilly updates its revenue and profit goals, using 8-month and 12-month rolling forecasts respectively (Banham, 2011).

Also there are other successful examples of companies that broke free of their conventional outlook to remain agile in the market such as, American Express, Southwest Airlines, Elkay manufacturing etc. (Player, 2009). When Aberdeen Group came out with its research results, it was found that 83% of financial reports were accurate for companies practicing rolling forecast in comparison to 74% for others. Moreover, organizations with rolling forecast had increase in revenue and operating margin by 10% and 8% respectively compared to the 7% and 6% growth for others (Castellina, 2013). So, there is no scope denying the growing significance of rolling forecasts for the businesses over the last decade.

DISCUSSION

Glimpse of Bangladesh-Business Environment and Vulnerability

Bangladesh as a developing country still has a long way to go to ensure a sustainable business environment for its industries and organizations, both in the public and private sector. Different successful industries- ready-made garments industry, food and beverages, textile, pharmaceutical, telecommunication, banking, hotel and tourism etc. are running across the country. Several small and medium enterprises as well as the giant ones are operated on the national and international level. However, looking closely, it is evident that these businesses and industries are not immune to the vulnerability that the external environment poses. As mentioned before in this paper, business decisions taken today sitting on a round table cannot really apprehend what is/are coming forth the very next day.

According to the 'Doing Business Rankings' report published by the World Bank, Bangladesh recently slipped two steps. While it stood at 172 position in 2015, it now stands at 174 for 2016 (World Bank, 2015). This decline is not astonishing for a country where there are manifested politicized pressure on the companies, economic slowdown, outdated laws and regulations, less knowledge and training on part of the executives. Likewise threats by the competitors, instability of demand of particular products or services, sudden environmental changes, misallocation of resources, be it human or financial, internal politics of the company, lower productivity of the line men, slower advancement in technology and changes in the customer base all generally account for the below standard performance by the industries and individual companies of Bangladesh. Organizations in Bangladesh are prone to all of these above mentioned volatile factors.

Operating amidst all the unexpected internal and external aspects of the surrounding world, the executives and top level management of any company operating in Bangladesh should always be aware in taking informed judgment and decisions and be agile in responding whenever any storm hits it. They need proper planning, budgeting and forecasting. In line with the need to have conventional budgets prepared annually reflecting targets and action plans for the next 12 months, it must also be considered whether planning and budgeting to set things right should cover more than a year, as rolling forecasts offer. Building current plans, performance targets and even the compensation and rewards depend on what the future holds for that company.

Conventional budgeting ties up resources for too long as they take longer to prepare. They are costly and the assumptions holding them together may go all wrong sometimes (Player, 2009). The motivation of lower level management works most when reality and the target goes hand in hand. A rolling forecast, if in position, provides real time data and works as a 'communication platform' for the company (Nguyen, 2013). In a country like Bangladesh where budgeting is only done on the upper level and the plan executioners merely know the detailed purpose of those figures laid out in front of them with a deadline, rolling forecast comes with a clear focus on possibilities and threats. Therefore, the risks by the uncontrollable elements are reduced (Nguyen, 2013). For example, if a company operating under the ready-made garments industry in Bangladesh becomes ready with the annual budget along with alternative what-if scenarios done with the help of rolling forecast right in the beginning of a financial year, it might be expected that the company would outperform others in that period. This might happen because the company had taken into account

actual export level, changes in the regulation, demands in line with seasons, the economic conditions of countries exporting to as well to update the budget continuously. These drivers may vary industry-wise, but the bottom line always remains the same, going for a flexible rolling forecasting technique.

Implementation of Rolling Forecast in Bangladesh

The implementation of rolling forecasting technique in the already established operational process of the companies of Bangladesh will demand changes across the companies. These changes range from technical and strategic to a change in the overall outlook of business people. The implementation can be divided in two phases, model development phase and model implementation phase.

The model development phase. This is the foundation period which a company should go through to carry out rolling forecasting. This phase includes the following actions to take:

A strong performance management solution should first be ensured to control all the data underlying the forecast (IBM, 2010). Organizations in Bangladesh still depend heavily on the spreadsheets and traditional bookkeeping method. A robust performance management solution will allow for collaborating and linking the whole organization with respect to its data. This system however should focus on both strategic and technical aspects (Garlapati, 2011). The technical focus includes providing training to the middle and lower management level to handle the system, provision to customize the data and linking spreadsheet and databases to get a big picture of the position of a company.

The next focus should be placed on identifying and thoroughly analyzing the key business drivers or the vital financial and non-financial driving forces. The senior management team becomes responsible for the selection of the drivers. These core drivers varying within and across organizations may include, competition in the market, price sensitivity, technology transformation, business cycle, supply chains of particular business etc. (Rolling Forecast Solutions, LLC, 2011). After tracking down the drivers, several what-if analyses and scenario planning based on those analyses should be conducted in line with the key forces incorporating both the management and the finance team.

Rolling forecasting makes decision making a continuous process (Zeller and Metzger, 2013). This happens as the forecasting period taken for a rolling forecast varies from that of a traditional budget. The forecasting horizon should cross the year-end barrier and go beyond, depending on the nature and type of business involved. Generally, a four to six quarters ahead the current year is selected as the forecasting period whereas a two year ahead forecasting can also be considered if the business is a seasonal one. The plan is updated on an ongoing basis each time a month or quarter is elapsed according to the current actual trends. Whatever the timeline is, it should be pertinent to the business operations.

The model implementation phase. The implementation phase of rolling forecast starts off right after the developments above are ensured by the business organization which intends to take a shift in its budgeting process.

A forecast will plot the current trends and provide alternative decisions to choose from, a target on the other hand is the bull's eye, as in where the

business is headed (Morlidge and Player, 2010). A rolling forecast at this stage generates realistic forecasts rather than forecasts or targets the senior management wish to accomplish. The convention is that when targets are hit, management is rewarded. Contrary to this, a rolling forecast is a strategic tool splitting up the whole time horizon and updating the results based on real business demands and environment. That's why targets and associated rewards should not be linked to the established forecast measures.

After everything is set in place and the realistic forecasts are made, management gets some time available before a month comes to an end with its actual outcomes. Senior management of companies should get its hands on preparing flash forecast, another essential component of the rolling forecasting process, in the middle of each month. Flash forecast assist managers to look to the end of the running month with further two months frontwards. These flash forecasts primarily work as short-term forecast to ensure the company is not off the track of its predetermined operations. The final stage of the model implementation phase deals with back testing and updating previous forecasts made for the time period in consideration. With actual results of a foregone month in hand, it is easier to find the loopholes in the forecast and new directives are added to the plan and new decisions are made accordingly. The process starts over again with the newer version of the plan and shows up with confirmed results for the subsequent month along with some evident variations, continuing the cycle. Also, back testing is done to improve the predictive accuracy of the forecasts. Prior period forecast data is retained in the organization to back test forecast accuracy and identify areas where business logic needs to be altered. Back testing as part of the implementation process also analyzes different alternative outputs from the same input of information.

The overall implementation of rolling forecast in companies of Bangladesh might follow the above described procedure. Each of the components discussed needs to be ensured by the company willing to think out of convention in terms of budgeting. However, the linkage of developing a model for rolling forecast and implementing that very model lies in confirming an enterprise wide bottom-up approach. In a country like Bangladesh, the lower level management is often not encouraged to come with ideas and assist the higher management in operation of the business. But it is the people from below who are responsible for converting plans into actions and models into reality. People are not accustomed to alter projections to fill the gaps of forecasting. Shifting to this new method will call for a major cultural change within the organization and in the mindset of people. If people do not embrace the change management policy, mere models won't play the right tune. Everyone in the organization should be aware of the change and comprehend its objectives, time frames and potential outcomes. Rolling forecasting demands continuous learning, participation and support along with review meetings and training programs for the people executing the plans. The bottom-up and top-down communication becomes more routine. Explaining new opportunities and their potential capitalization to the lower management becomes essential while going for this budgetary change.

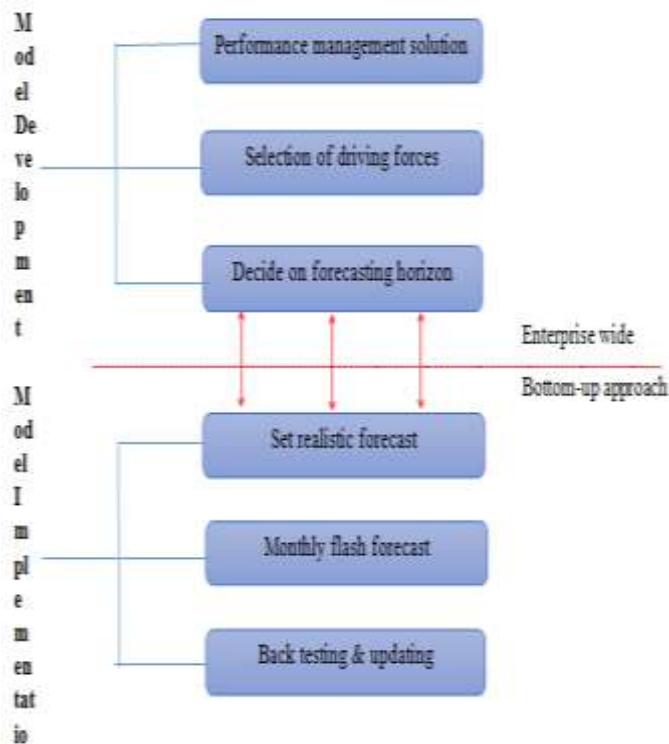


FIGURE 1. Rolling forecast implementation process

In addition, forecasting should be done within a range, implying a range of possible outcomes should be accounted for, not a single number. The preset model should be cross matched with the requisites of the business organization, as businesses might have varying purposes. As the employees need to adapt themselves to the model, the model should provide an easy to comprehend layout.

CONCLUSION

Budgeting processes are always looked upon as complex methods and in a country like Bangladesh, people rarely have appetite to change. In such a scenario, an overnight revolution in budgetary process is not really suggested in this paper. This paper only calls for prioritizing rolling forecast so as to get visions beyond current operating period once the annual budget is all set in motion. Budget falls in short when targets are far from being realistic. Uncertainties surrounding the business environment are overlooked and hence reality comes forth with a different image than that apprehended, ultimately resulting in a drop in overall profitability of the business. Then again, without any budget to relate to, forecasting loses its meaning in operation. A simultaneous approach is recommended where the annual budget is prepared along with a critical insight into the uncertainties through the preparation of rolling forecast in the organizations of Bangladesh.

LIMITTIONS AND RECOMMENDATIONS

Starting small and getting bigger would be the main idea for establishing rolling forecast in Bangladesh. Small groups or departments should first initialize this

new method and if it brings out successful outcomes, others will automatically take the lead. Earliest periods should grab the concerns, not the detailed plan for the whole upcoming year. It should be kept in mind that the annual plan is not foregone here, rather it is a by-product of rolling forecasting process, generating a full-fledged annual budget.

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