

# Budget management analysis essay sample

[Business](#), [Strategy](#)



Budget management analysis is used by Chief Executive Officers, (CEO's), and managers to assist them in determining whether or not the resources at hand are being used efficiently. An organizations budget is most generally yearly or quarterly and may be based on a financial committee's decision. Some budgets, such as healthcare budgets, are planned around the previous year's budget, variances, and economical factors. No matter how sound a budget is, there will be variances due to situations such as lack of nursing staff and use of nursing agency staff can create huge variances in a budget. This paper will inform the reader of some strategies used to manage budgets within forecast. It will inform the reader of five comparisons of expense results with budget expectations. The paper will inform the reader of some reasons for variances, strategies to use that may enable results to equal expectations, and lastly, three benchmark techniques.

A budget is important to any organization because it, for lack of a better term, is the financial blueprint of the organization. Every organization must have a budget to help guide cost and improve on financial areas that are weaker than others. Financial planning takes form as a budget. Most budgets are yearly based and necessary to meet a company's goals. One strategy to manage budgets within forecast is strategic planning. Several techniques can be used in the attempt to maintain accurate budget adherence. The first strategy is to ensure that the budget is aligned with the strategy of the organization, (Nayeb, 2011). This allows management to identify the priorities of the organization and identify if the goals of the organization are being supported.

The second strategy is to boost the correctness of forecasting and planning. Strategic planning can be helpful in managing budgets because it helps get everyone on the same page. A mission statement that explains why the company exists and what plans need to be carried out in order to achieve these financial goals involves everyone in the organization and is beneficial to large companies. Plans and goals are analyzed and thought up based on a thorough assessment of the organization and the external environment, (Evans, 2000). Another strategy is to enhance the organizations agility in budgeting and review. It is important to review a budget so that mistakes can be found and corrected. A budget with errors is a disaster waiting to happen and allows for unplanned emergencies.

Finally, it is important that the financial team brainstorm and come up with the best solutions for the organization to bring the company to its full potential earning level. With proper planning, organizations often expand at a fast pace and turn a lucrative profit. A budgets forecast is based on sales, this meaning how well the company did the year before by comparing profit to loss. In order for a budget to stay within forecast, sales, production, material expense, and the previous year's financials must all be taken into account. Labor is also plays a big factor in staying within forecast. One example where the budget may show variances is when the use of agency nursing is used as opposed to regular nursing staff. Agency nursing is very expensive and can bust a budget wide open. A second example is the necessity to stay within a budgets forecast. Production and labor go hand-in-hand; this means if productivity is down then labor costs should also be down. If productivity is down and labor cost remains the same or increases,

the company will suffer by not staying within said budget parameters. A manager must keep a close eye on these things and staff according to patient census.

If hospital patient census is down then nursing labor expense should also be decreased. This is where a good manager will keep their eyes open for the number of patients being discharged as opposed to the number of staff on the clock. The third budget variation can occur with supply expenses. This can go either way. Supply expense can go up if there is a patient on the floor that requires extensive wound care supplies and maybe they do not have health care insurance to reimburse the hospital. Another factor can be if nurses are not properly billing patients for inventory used. Many times the billing process is broken on hospital floors and the unit ends up covering the majority of these expenses out of their budget. The money spent on covering unbilled supplies could be used in a more beneficial way, such as to buy new equipment or raise nursing staff salaries or even give bonuses to increase staff retention. The fourth budget variance is due to a more common problem and is errors.

Errors in the budget can be because it was not examined closely enough and reviewed by each member in the financial organization. Mathematical errors can be detrimental to a budget if overlooked. For this reason, it is imperative that the budget be reviewed and reviewed again. A simple mathematic error can become very problematic and is harder to correct than it was to make. The fifth budget variance is simply not taking into account for unexpected events. There should always be a reserve available for disasters that occur.

This can be compared to a person's own finances and that they should have a savings account on hand to use for unplanned expenses. If there is not a reserve, an organization will more than likely have to apply for a bank loan and high interest rates can be hard on a company's budget when it comes time to begin repaying the loan. Occurrences that impact a company's budget should not have a negative outcome on the day to day operations of the company (Nayeb, 2011). Again, this is why having a reserve is crucial. Internal benchmarking can be used and shared among the financial team to discuss ways in the past that have proven successful for the company (Stroud, 2011). Internal benchmarking can be used for small companies when comparison data is not readily available (Stroud, 2011).

Competitive benchmarking can be used to see how well a company stacks up against its competitor. Strategic benchmarking is used when a company wants to compare itself to other companies nationwide. This type of benchmarking is most useful to hospitals because of such competitiveness and the desire to obtain magnet status. Hospitals often use this type of benchmarking to continue their road to excellence. A well thought out and planned out budget can make or break a company. When dealing with healthcare, anything can happen; this is why it is crucial that budgets be error free and followed down to the last cent. Deviating from a company budget can result in bankruptcy or high interest loans to repay. By looking at the previous year's budget, it can help determine what changes can be put in place to avoid financial outcomes and ways to increase productivity. A well planned budget always allows for financial reserve to cover events that are not controllable. A reserve in capital helps a company to not deviate in the

day to day operations because of unexpected financial obligations. A good budget allows for budget variances and has enough reserve to cover these variances so the company does not face financial ruin or financial distress.

#### References

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