

# Value of budgeting in for-profit organizations

[Literature](#), [Russian Literature](#)



Academia research Beyond Budgeting Value of Budgeting in For-Profit Organization Maribel P. Jabido 5/6 Beyond Budgeting has become a trend across the globe that some believe will replace traditional ' budgeting.' According to research, the adoption of beyond budgeting by major corporations has proven its success. This literature analysis describes the difference between the two methods for planning and control and why beyond budgeting is a good alternative. The 12 principles of beyond budgeting are outlined here. BEYOND BUDGETING 1 Maribel P. Jabido Academia Research May 6, 2011 Value of Budgeting in For-Profit Organization Budgeting can be an adequate tool for planning and control. Companies use budget for the purpose of having control over finances by delegating the responsibilities for meeting its goals to divisional or departmental managers. The planning process of the budget cycle involves steps that are critical in meeting the company's financial goals. These include reviewing of the competitive landscape, developing strategies, setting objectives, and establishing performance targets. If implemented properly, the company will be successful in meeting the desired outcome such as increased profits, reasonable spending, or proper allocation of resources. However, it would probably be best for the company if they are able to determine a) when traditional budgeting loses its effectiveness, and b) whether the way budget is used impact the value that organization experiences. (Beyond Budgeting or Better Budgeting, 2001, p. 51). Using budget contract involves time and effort spent on negotiating the budget rather than focusing on ' creating value for customers and shareholders.' It is expensive and preparing the budget requires a lot of time. According to

research on financial institutions, most banks take nearly six months to complete a budget cycle. While shortening the budget cycle time may reduce cost, it is believed that financial analysts must spend time on actual performance instead of implementing tasks that BEYOND BUDGETING 2 requires a lot of effort such as developing budgets, negotiating with all who are involved in managing, establishing budget distribution, and analyzing adjustments or changes. There are criticisms to using traditional budget. The annual planning in budget contract takes too much time and effort. And, it sets up a schedule for what everybody must do for the period ahead and go according to the supposed budget plan. It requires everybody to follow a fixed direction. However, there will be surprises and unexpected events. The future is unpredictable. There will be adverse effects in productivity, customer service, overtime, absenteeism of staff, and other costs (Beyond Budgeting, 2001, p. 7). Here is where beyond budgeting in planning and control becomes a more effective way of dealing with these situations. According to Wheatley, " we should start by recognizing that in creating a vision, we are creating a power, not a place, an influence, not a destination." There are options beyond budgeting which may be used for planning and control. The primary objective of beyond budgeting is to satisfy customers' profitability. Its success is driven by competitive return to its shareholders. Unlike the traditional budget prepared for a fixed period, ' planning does not revolve around the calendar.' Decisions are made on a continuous basis and should adapt to certain events and unexpected changes. There are no specific measures for controlling what will happen in the future. The skilled analysts will see the present and the evolving future and observe the

patterns and trends and determine where the performance is heading. The accuracy of forecasts will be improved. It focuses on managing the future rather than the past which will provide warning signals ahead of time so that managers can respond appropriately with the right decisions. BEYOND BUDGETING 3 Perhaps in a distant future, traditional budgeting will be obsolete and will no longer be considered an efficient method. Since the introduction of beyond budgeting in 1990s, more companies are following the trend. Different countries and cultures have adopted beyond budgeting. Bulmers and Sight Savers International in UK have taken the idea seriously. IKEA, Volvo Cars, Borealis, Fokus Bank, and SKF in Scandinavia have implemented beyond budgeting principles (see Table - 1). Rhodia in France and Phillips in Holland have started the trend in continental Europe. UBS in Switzerland and Siemens in Germany are well on their way. In North America, AES stands as a supreme example, CIBA Vision have proven its success, GE looks promising, and Toyota in Japan have used strategies without 'performance contract' for many decades. A research was conducted in North American financial services and shows what are driving banks to change. There are factors that influenced their decisions based on their needs. One, they have the desire to make a more accurate forecast. Two, they have the need to stay focused on high business performance. Three, they have the need for increased agility and business responsiveness to market and competitive conditions. And finally, the desire of CFO's to increase the level of value from the planning and budgeting process (M. Max, Journal of Performance Management, 2005, p. 3). They have proven that preparing a budget was not sufficient enough for them that they sought to

investigate this new strategy. Though, statistics say that more companies consider the budget indispensable, it does not mean it is the only best method. BEYOND BUDGETING 4 Table 1 - The 12 Beyond Budgeting Principles

1. Beat the competition
2. Reward team-based competitive success
3. Make a strategy a continuous and inclusive process
4. Draw resources when needed
5. Coordinate cross-company interactions through market-like forces
6. Provide fast, open information for multi-level control
7. Create a performance climate based on sustained competitive success
8. Build the commitment of teams to a common purpose, clear values, and shared rewards
9. Devolve strategy to front line teams and provide the freedom and capability to act
10. Champion frugality and challenge the value-added contribution of all resources
11. Organize around network of teams and dynamically connect their capabilities to serve the external customer
12. Support transparent and open information systems

Note: The data on 12 principles are adapted from "Beyond Budgeting" by J. Hope and R. Fraser, 2001, p. 12, retrieved from <http://www.balanced-scorecard.de/docs/Beyondbudgeting3.pdf>.

BEYOND BUDGETING 5 References Hope, J., Fraser, R. (2001). Beyond Budgeting Questions and Answers., Retrieved from <http://www.balanced-scorecard.de/docs/Beyondbudgeting3.pdf>.

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