Different type of budgeting technique

Economics, Budget

Budgeting lies at the foundation of every financial plan. It doesn't matter if you're living paycheck to paycheck or earning six-figures a year, you need to know where yourmoneyis going if you want to have a handle on your finances. Unlike what you might believe, budgeting isn't all about restricting what you spend money on and cutting out all the fun in your life. It's really about understanding how much money you have, where it goes, and then planning how to best allocate those funds. Here's everything you need to help you create a budget using different approach. a)Incremental Budgeting This is where the current budget and actual figures act as the starting point or base for the new budget. The base is adjusted for forecast changes to, for example, the product mix, sales volume, sales price, expenses and capital expenditure that are expected to occur over the next budget period. It is called incremental budgeting as the approach does not focus on the base, but focuses on the increment (the changes from the base). An example would include increasing last years operating expenses by the rate of inflation to calculate the new budgeted figure.

The major disadvantage of this is that the major part of the expense (the base) does not change and in fact is overlooked and not questioned under this approach. For example the base figure may be distorted due to extraordinary events in the previous period which are not expected to reoccur. Thus if this is not taken into account, the budget could be misleading. Advantages of Incremental Budgeting Easy to implement If you are looking for a budget that is very simple to implement, incremental budgeting might be for you. You do not have to send your department managers to any special type of training in order to utilize this budgeting system.

It is easy to learn and the process can be completed within a very short period of time. Gradual Change One of the benefits of incremental budgeting is that it allows gradual change for the business. If you value gradual change instead of trying to change everything quickly, this type of budget is ideal. Many times, if your business tries to change too fast, it can become unstable and lose sight of what it does best. There are some other benefit regarding the incremental budgeting: * Flexibility--This type of budgeting is very flexible. You can easily do it from one month to the next.

This allows you to see change very quickly when you implement a new policy or budget. * Avoid conflict--Companies with many different departments often run into conflict between departments because of their different budgets. With this method of budgeting, it is easier to keep everyone on the same page and avoid conflicts between departments. * The model operates under a stable and predictable system and any change will be gradual. * Managers can operate their departments on a consistent basis. * Conflicts should be easily avoidable if departments can be seen to be treated similarly. It is Appropriate where there is a large number of cost centres/budgets to calculate and forecasts do not change significantly from one year to the next * Co-ordination between forecasts is easier to achieve. * The impact of change can be seen quickly. Disadvantages of Incremental Budgeting * It assumes that activities and methods of working will continue in the same way. * It allows no proper incentive for managers to develop new innovative ideas. * Its normally on an upward trend, hence providing no incentive for managers to reduce costs. It encourages spending up to the budget limits so that future estimates are maintained next year. * The forecast may become out of date and no longer relate to the level of activity or type of work being carried out. * The priority for resource allocation may have changed ever since the prior estimates were originally set. * May perpetuate past inefficiencies. In other words incremental budgeting does not cause serious challenge to the status quo of managers concerned because different methods of achieving performance objectives are not put to test * There may be budgetary slack built into the estimates, which is never reviewed.

In other words Managers might have overestimated their requirements in the past in order to obtain a forecast which is easier to work towards, and which will allow them to achieve favorable results. * Does not account for change--This method is based on the idea that expenses will run pretty much as they did before. However, in business, this is rarely the case. There are always variables. * No incentives--Such a simple method of budgeting really does not provide your employees with much reason to be creative.

They have no incentive to innovate and come up with new ideas or policies. When a budget allows a little extra room for innovation, you might find that your employees come up with something great. * Use it or lose it--Many employees view this as a " use it or lose it" system. They know that next year's budget is going to be incrementally based on this year's. Therefore, if they do not spend everything that is allocated to them, they may not have enough money to work with next year. This creates anenvironmentwhere waste is encouraged. (b)Zero Based Budgeting his method was briefly popular during the 1970s but didn’t quite make it as a widely held practice. Yet in today’s current business set-up, the method is being revived and regarded as the better approach. ZBB starts off with practically nothing on which to base one’s budget assumptions. This stands in contrast to the traditional method, in which managers and supervisors calculate their projections by using the previous year’s budget as their baseline. ZBB as a budget preparation method lost its popularity due to the numerous documentation requirements imposed.

Managers and supervisors have to justify every projected cost and its purposes, plus the presentation of one or more alternative courses of action, which should be similarly justified. The procedure doesn’t end there, as every proposed budget and its alternatives have to be measured in terms of productivity and efficiency performance, including the results of cost-to-benefits analyses. Moreover, the manager is also required to present the consequences, in case a majority of the top management members would vote against the proposed cost projection.

It’s no wonder that ZBB lost its following in its early years, since the procession of numerous calculations, justifications, analyses and documentation are indeed too tedious for comfort. But that was in the '70s, when computerization was still in its budding stage and personal computers were unheard of. Under the current business set-up, in which research and data analyses are common, all those requirements can be produced in a jiffy, by simply using business intelligence capabilities. Inasmuch as the best budget estimations are those that are closest to the real thing, zero-based rojections may finally come of age by getting the support it needs from today's data marts and data warehouses. (Charles, 1995) Pros and Cons of Zero-based-budgeting This budget preparation method is actually a spin-off of the budget plans introduced during the 1920s. Due to the excesses and corrupt practices of local public officials, the federal government developed a system of controlling the disbursements of public funds by way of a revised budget plan. The success of this method encouraged other industries to adopt the same system.

It was modified through the years, along with certain developments in the methods of accounting for manufacturing costs. However, as businesses grew and flourished, the financial managers and accountants became overly burdened by the processes involved in developing ZBB plans. Too much time and effort were being wasted in collecting, summarizing and analyzing recorded data, only to be set aside for future implementations, which oftentimes did not materialize. Despite this drawback, ZBB was regarded as a sensible approach because of its high degree of efficiency in controlling costs and maximizing productivity.

In fact, government sectors and non-profit organizations still make use of the ZBB approach, as it allows each organization to visualize the incoming year's performance based on present trends and conditions. In summarizing all documentation to support the master budget, redundancies in initiatives and functions become more visible and are thus eliminated. Although no longer popular, some industrial companies still make use of a zero-based budgeting approach on a per-department or per-project basis.

This is particularly true if the departments or projects require a greater degree of cost leveling, inasmuch as their outputs do not directly contribute to business profitability Financial managers today are hardly affected by the re-emergence of this budget approach, as their trainings are basically founded on methodologies that make use of research and data analysis. Not only that, the advent of PCs and business intelligence applications and tools makes the preparation of supporting documentation as easy as pie, so to speak.

All they have to do is click or double-click on their mouses and the BI financial report writers will simply drill-down, drill-around, and drill-through databases and data warehouses or even from web-based browsers to produce reports that will provide up-to-date information. There is spreadsheet integration and its capability to automate calculations, as well as the intelligent trees, process diagrams, and balance scorecards that can establish hierarchies, workflow mapping and key performance indicators.

The drawback that was once attributed to the zero-based budget planning method has become part of its history, but its usefulness fits perfectly with the methodologies of the 21st century. (Cantoria, 2011) (c)Rolling Budget Businesses are increasingly using rolling budgets. Also called continuous budgeting, rolling budgets always involve maintaining a plan for a specified time period in the future. To implement rolling budgets, many advocate leveraging new technological resources, which means software.

It must be understood that thetechnology(e. g. , bolt-on software packages) is not the solution. It is a tool by which and an environment in which management can have the opportunity to develop solution sets. Published surveys of financial officers of the largest industrial companies in the United States, Australia, Holland, Japan, and the United Kingdom show a number of interesting similarities as well as differences in budgeting practices across countries. (1) First, the use of master budgets is very widespread in all of these countries.

Another significant finding is that financial managers in many countries distinguish between cost behavior patterns--variable versus fixed costs--for a common reason: They want to prepare more meaningful budgets by building flexibility into the model. How do these facts impact the concept of rolling budgets? Rolling budgets always involve maintaining a plan for a specified time period in the future. This result is achieved by adding a new time period in the future as the current time period that ended is dropped.

Large companies, such as Electrolux and General Electric, prepare strategic plans and then integrate annual operating budgets that are divided into four-quarter rolling budgets, and smaller high-tech public companies, such as Keithley Instruments in Solon, Ohio, follow a similar pattern of planning. The annual operating budgets are prepared based upon best estimates of what management expects to occur and wants to achieve during the coming year. Flexibility is built into the process by considering how costs and revenues will change if different levels of activity occur (e. g. flexible budgeting), and each quarter's changes are made to reflect changes in the economic and financial environment--things such as what the competition is doing, how the economy is spending for capital goods, and any planned changes in their product mix (adding or dropping a product line). In short, sound managers operate an entity with one eye always on the horizon, and a well-prepared business plan as reflected in a " flexible rolling budget" can be one of the financial managers' best tools to assist them in their role of planning and controlling the operations of this company.

For publicly traded companies, an earnings forecast " miss" can have an immediate and devastating impact on share price. And for both public and private companies, effective allocation of resources mandates that the organization have the best possible understanding of what the short-term and long-term future brings. The speed of change in today's economy has generated a trend toward adopting continuous forecasting as part of the planning process. While this type of " rolling forecast" offers many benefits, organizations often have trouble separating their forecast from and coordinating their forecast with the operational budget.

Instead of truly forecasting--which ideally should be a higher-level projection--organizations end up preparing mid-year or even quarterly " re-budgets," with all of the associated effort. The result is a budget that takes too much time and effort--not a forecast that provides vision and direction. Advantages of Rolling budget No More Free Ride The result: an always-current financial forecast that reflects not only the company’s most recent monthly results but also any material changes to its business outlook or the economy.

In addition, it provides fewer opportunities for account directors to ride the coattails of past performance. Although traditional one-year budgets are still the norm at most companies large and small, many accountants argue that rolling budgets can be a far more useful tool. Unlike static budgets, they encourage managers to react more quickly to changing economic developments or business conditions. They discourage what is too often a fruitless focus on the past (“ Why didn’t we meet our numbers? ”) in favor of a realistic focus on the future.

And they produce forecasts that, over the near term, are never more than a few months old, even when companies are rolling them forward on a quarterly basis—the more common approach—rather than REL’s monthly basis. Implementing rolling budgets doesn’t necessarily require any fundamental change in the way a company has been doing its budgets—except, of course, it no longer does the job just once a year. However, companies that decide to step up to rolling budgets may want to take advantage of the decision to make a change and consider what else they can do to improve the process.

After all, if a company can get everyone on board to make such a fundamental change, a further nudge to make the process more effective and efficient in other ways may be possible, too. (Morrow, 2010) The Problem Of Relevance In the view of many accountants, traditional budgets too often are useless because they are out of date soon after they are assembled. Assuming that much of the decision making that goes into them gets done in the fourth quarter of the prior year, by the end of the following year, traditional budgets reflect thinking and data more than 12 months old.

Not surprisingly, such documents tend to get short shrift from front-line managers. In worst-case scenarios, they can even promote behaviors and business decisions that are counterproductive. Consider the real-world example of a Fortune 500 company that has been talking with REL about how it might improve its forecasting to produce better financial results. The company uses a traditional static annual budgeting process in which it sets monthly salesgoalsfor each of its products.

If the company misses its sales targets in the first month, product managers will typically push those projected sales into the final quarter of the year. By doing that, corporate management is acting as if the outlook for the full year remains unchanged even though sales were off to a slow start. But if the slow pace continues and product managers begin to realize that their lost sales can’t be made up in the last quarter, they start to budget them out over all of the remaining quarters of the year. Frequently, they wind up running massive discounting programs at the end of each quarter to hit their annual targets.

Fortunately, the company can afford such budget maneuvering because it enjoys relatively high margins on its products, but such manipulation isn’t maximizing its return on investment. Acting Rationally The static budget encourages managers to create artificial demand for their products, not end-user demand. In other words, the company stuffs its distribution channel and simply delays future shipments. If the company had a more realistic budget, product managers would be able to act more rationally, eliminating the last-minute forced discounts. Payne, 2010) Not only are static annual budgets restrictive, it turns out that many managers don't really like them. Most of the clients complain that their current planning process is extremely painful and time-consuming. General manager of the Stanford, Connecticut, office of Parson Group, a national consulting firm focused onfinance, accounting and business systems. Assuming the client is operating on a calendar year, everyone runs around feverishly in October and November to do budgeting, and then at the end of the process, they're happy to get it over with—knowing they don't have to do it again until the next November.

Manage The Information Implementing a rolling budget involves more than going through the annual budgeting process four times a year instead of one. Because the time between budgets has been compressed, management must access and process information more quickly than it was able to do in the past. To do that, line managers must become more involved in the process and the company must embrace technology that will allow it to quickly capture and disseminate the raw data needed for decision making and forecasting.

Most organizations today rely on Microsoft Excel spreadsheets to do their budgeting. They work, but they can be laborious, requiring finance managers to piece together input from all the operations managers throughout the organization. The process was slow and exhausting, producing a static and reactive product that was built on data that was typically at least six months old. Today, that company uses a specially designed budget planning, forecasting and analysis software product to do the job. (For a list of such software, see the sidebar “ Software for Budget Planning and Analysis.) This kind of software makes it easier for managers throughout a company to access, enter and share data on a real-time basis, using the Internet as a communications medium. “ Managers used to spend a lot of time allocating expenses among different segments of the business. Since the new software automates the process, managers can spend more time analyzing the data. (Swaller, 2010) The Big Picture For public companies, the benefits of more timely and accurate budgets may ultimately extend beyond operations. Under Wall Street’s close scrutiny, meeting earnings forecasts has become more important than ever.

A misstep, even one that’s just a penny per share below expectations, can translate into a sharp stock sell-off and, in the long run, drive up a company’s cost of capital. Theoretically, between rolling budgets and predictive accounting, companies can minimize the controllable factors that cause inaccurate earnings projections, Therefore, they would have fewer actual-to-forecast variations, which in turn would help cut down on stock price volatility. ” Although no budgeting technique can predict the future, these techniques allow companies to get much closer to the ideal.

The only holdback is the willingness of a company’s managers to use these new technology tools that are now available. Unfortunately, most " static" annual budget processes fail to provide a clear vision of the enterprise's impending direction. Forecasting allows organizations to close the gap between the overall strategic plan and the detailed operational budget. An ideal planning cycle includes an ongoing forecasting component that flows directly from the overall strategic plan and integrates with the operating budget. The output from this higher-level planning system then directly impacts the outcome of the detail budget.

This principle of a continuous/rolling forecast that drives a target-based detail budget is a key financial component of many organizations' highest-level strategic planning process. The " Strategic Plan" involves many nonfinancial processes (competitive analyses, initiative-focused plans, and the like) and becomes the driver for the rolling forecast. The forecast translates broad-based initiatives into key statistical and operational factors and results. The operating budget, in turn, provides plans and budget-to-actual control functions at the lower levels of the organization (e. g. cost center) Another useful feature of the forecasting system is to visually portray trends of such metrics. For example, a forecast for product revenue might include the historic revenue-per-salesperson ratio and allow a manager to forecast this future rate, in combination with the expected number of salespeople, in order to determine future revenue (see Figure 2 for a parameter-driven forecasting layout). Statistic- or parameter-driven results provide a useful basis for review of the forecast. (Montgomery, 2010) DISADVANTAGES OF ROLLING BUDGET. 1. It is very expensive because of the elaborate set up of the budget department. . The budget might be so reviewed on such a manner that there will be no significance between the budgeted and actual results. The managers may tune budget to actual and it will not serve as a good yardstick 3. It requires account forecast of changes in economics, political, social ecological and business conditions. In practice this changes may not be ascertainable because of lack of statics. Above is the major limitation of rolling budget. 4. It is very expensive and elusive fro small organization. 5. It is cumbersome for data collection except where computer is in use. (d)Activity Based Budgeting

Activity based budgeting is an approach to the budgeting process that focuses on identifying the costs of activities that take place in every area of a business or organization, and determining how those activities relate to one another. The data regarding those activities and how they relate to one another is used to establish goals that allow the organization to move forward. By understanding the relationship between all the activities of the organization, it is often possible to create realistic budgets for each department that are more equitable and in the best interests of the company in the long run.

The concept of activity based budgeting is different from the process known as cost-based budgeting. Often, the cost-based approach relies on assessing the actual expenditures connecting with a previous budgetary period, and simply adjusting those amounts based on the current rate of inflation, or to account for changes in the amount of revenue generated. By contrast, activity based budgeting is more concerned with what is being done within the organization, how those actions or activities work together, and then allocating funds to each activity based on how much it will cost to successfully complete those activities. Brimson, 1991) Proponents of activity based budgeting see this approach as more realistic, since it involves looking inward at activities and costs rather than basing the budget on outward influences. From this perspective, this strategy is understood to create financial forecasts that are more accurate, and thus prompt the organization to make the most efficient use of its resources.

As a bonus, the analysis of each activity and its contribution to the ongoing success of the organization means that any activities that do not appear to relate to other activities within the organization structure may in fact be unnecessary, and can be eliminated without having an adverse effect on the overall operation. Those who favor a cost-based approach over the use of activity based budgeting note that this approach does not necessarily allow for the possibility of events such as an increase in the cost of raw materials or the need to replace outmoded equipment.

According to this line of thinking, the inward focus of the activity based method only accounts for part of the data needed to develop a workable budget. Only when this inward analysis is coupled with consideration of outside factors that could exert some degree of influence during the upcoming budgetary period can the organization hope to draft a budget that is truly practical and likely to meet the needs of the organization over the course of the upcoming period. (Gietzman, 1992) Disadvantages of Activity-Based Budgeting Complexity

The many advantages of activity-based budgeting notwithstanding, this technique remains a comprehensive and time-consuming exercise. The process requires identification of activities, estimation of activity output demands, and estimation of the costs of resources needed to provide the demanded activity output. The budgeting of physical inputs and costs as a function of a planned activity requires the use of an activity-cost hierarchy and making estimates on the consumption by such activities. Activity-based costing bases itself on defining or analyzing the relationship among costs and activities, which might not always be possible.

Even otherwise, the contextual information that plays an important role in shaping the results may not always be available or considered. Success of activity-based budgeting depends on a thorough and in-depth understanding of the business processes and an accurate activity analysis. Not all managers remain competent to perform such tasks, and the resultant distortions make the activity an exercise in futility. Resources Among the major disadvantages of activity-based budgeting is its consumption of organizational resources.

Spending too much resource on an analytical function such as activity-based budgeting becomes counterproductive. The complexity of the activity-based budgeting exercise means that it takes away considerable organizational resources in the form of managerial time and money. Such resources, if deployed in a core operational activity, would contribute to a much better bottom line. The broad scope of activity-based budgeting invariably necessitates an activity-based budgeting software, as well as training all managers to use the software and learning how to make correct activity analyses, adding to the resource demands.

Duplication A major limitation of activity-based budgeting is that it is not a control budget and as such does not replace the department or line-item budget. Activity-based budgeting only provides supplemental information, and it acts as a panacea rather than a tool. It therefore does not eliminate or substitute any process but adds to the administrative functions of an organization. Short-Term Focus Finally, another major activity-based budgeting disadvantage includes its tendency to focus on the immediate and short term and ignore the long term.

Activity-based budgeting uses historic data for forecast analysis, which may not always be practical. Focusing on activities that create immediate results might work well in the short term, but might cause long-term damage to an organization. While activity-based budgeting helps the organization if implemented with the correct data, preparing an activity-based budget with distorted data runs the risk of arbitrary budget cuts and creates a dysfunctional organization. (Morrow, 1991) Behavior Aspect of Budgeting

A main problem involves a variety of behavioral conflicts that are created when the budget is used as a control device. To be effective, the budget must be used by the managers it is designed to help. Thus, it must be acceptable to all levels of management. The behavioral literature on budgeting supports the view that the budget should reflect what is most likely to occur under efficient operating conditions. If a budget is to be used as an effective planning and monitoring device, it should encourage a high level of performance and efficiency, but at the same time, it should be fair and obtainable.

If the budget is viewed by managers as unfair, (too optimistic) it may intimidate rather than motivate. One way to gain acceptance is referred to as participative (rather than imposed) budgeting. The idea is to include all levels of management in the budget preparation process. Of course this process must be coordinated by a budget director to ensure that a fair budget is obtained that will help achieve the goals of the total organization. Rahman, 2011) Another way to reduce the behavioral bias against budgeting is to recognize the concepts of variation and interdependence when using the budget to evaluate performance. Recall from our discussion of the statistical control concept in that there is variation in all performance and most of this variation is caused by the system , (i. e. , common causes) not the people working in the system. The concept of interdependence refers to the fact that the various segments of a company are part of a system. Inevitably, these segments, or subsystems influence each other.

Failureto adequately recognize the interdependencies within an organization tends to cause behavioral conflicts and motivate participants to optimize the performance of the various segments (subsystems) rather than to optimize the performance of the overall system. THE 'BEYOND BUDGETING' MODEL - PRIVATE SECTOR In the private sector, managers are forced to consider current and future opportunities and threats, particularly where rolling monthly forecasts of financial performance operate together with a focus on other non-financial 'value drivers'.

In essence, the 'beyond budgeting' model entails devolved managerialresponsibilitywhere power and responsibility go hand in hand. The view held by proponents of the beyond budgeting model is that the following benefits may accrue as a result of its successful application by management: (Johnson, 1995) * It creates and fosters a performance climate based on competitive success. Goals are agreed via reference to external benchmarks as opposed to internally-negotiated fixed targets. Managerial focus shifts from beating other managers for a slice of resources to beating the competition. It motivates people by giving them challenges, responsibilities and clear values as guidelines. Rewards are team-based, in recognition of the fact that no single person can act alone to achieve goals. * It devolves performance responsibilities to operational management who are closer to the 'action'. This uses the 'know-how' of individuals and teams interfacing with the customer, which in turn enables a far more rapid adaptation to changing market needs. * It empowers operational managers to act by removing resource constraints. Key ratios are set, rather than detailed line-by-line budgets.

For example, gearing and liquidity ratios may be used to show there is enough cash in the bank to meet liabilities. Local access to resources is thus based on agreed parameters rather than line-by-line budget authorisations. This is aimed at speeding up the response to environmental threats and enabling quick exploitation of new opportunities. * It establishes customer-orientated teams that are accountable for profitable customer outcomes. These teams agree resource and service-level requirements with service departments via the establishment of service level agreements. It creates transparent and open information systems throughout the organisation, which should provide fast, open and distributed information to facilitate control at all levels. The IT system is crucial in flexing the key performance indicators as part of the rolling forecast process. THE PUBLIC SECTOR The legal framework of public sector organisations would probably prevent such a system being introduced. As with all alternatives, the success of a particular process depends on the needs of the individual organisation.

The alternative of the beyond budgeting model places considerable emphasis on the need for organisational, managerial and cultural changes in order that it may be successfully applied by organisations. This will present considerable behavioural challenges and individual managers might become overwhelmed by the complexity of decision-making in such an unregulated decision-making environment. In the public sector, the budget process inevitably has considerable influence on organisational processes, and represents the financial expression of policies resulting from politically motivated goals and objectives.

Yet the reality of life for many public sector managers is an increased pressure to perform in a resource-constrained environment, while also being subjected to growing competition. In essence, a public sector budget: * establishes the level of income and expenditure * authorises that expenditure, once agreed, out of the planned income * acts as a control on expenditure and income * communicates policies and plans * focuses attention on the future * motivates managers and staff. While these issues may be common with the private sector, a number of issues arise which are specific to the public sector.

For example, UK local authorities are prevented by law from borrowing funds for revenue purposes or budgeting for a deficit. If the beyond budgeting model is to allow greater freedom for managers then it will take a considerable change of mindset in the public sector to achieve the flexible agenda envisaged, especially where such flexibility would involve considerable and increased delegation to managers. One wonders therefore, from a behavioural perspective, if such managers are capable of making this change, as it would entail the adoption of a radically different approach.

Local authority financial regulations also tend to prevent the transfer of funds from one budget head to another (otherwise known as virement) without compliance with various rules and regulations. These rules (expressed in the financial regulations of public sector organisations) will be consistent with the policies of the organisation and are designed to prevent expenditure on items such as permanent staff where such costs would go beyond the budget year and represent a commitment of future resources.

Budgets in the public sector tend to concentrate on planning for one financial year ahead. Attempts are being made by UK central government, through the comprehensive spending review, to place an emphasis on the longer-term. However, considerable difficulties exist within the individual organisations that make up the public sector when creating a budget system that reflects longer-term objectives and goes beyond the annual cycle. It also remains to be seen how the relatively new system of resource accounting in central government will fit into the budgeting framework.

Traditional methods of budgeting in the public sector centre on the bid system and incremental budgeting. These approaches focus on changes at the margin and generally reflect acceptance of the budget base from the previous year. This is partly a reflection of the size and complexity of public sector organisations, but also the internal political power of large departments, which protect their positions through their relative strength. Bid systems also minimise conflict, as debate and power struggles are only concerned with the 'incremental' items.

More advanced approaches are represented within financial planning systems, and include such concepts as zero-based budgeting and planned programme budgeting systems with a timeframe greater than one year. Whether the public sector can adapt to the concept of greater flexibility - which lies at the heart of beyond budgeting - remains a matter of ongoing debate. Such an adaptation would require a mindset which not only moves away from control but also requires a reduction in the internal political power of large departments which has been at the heart of public sector budgeting for many years.

The desire to generate improved performance - essentially considered the driver for the beyond budgeting model - is present in the public sector evidenced in initiatives such as key performance indicators and 'best value' plans. But this is not matched by a desire for the flexibility inherent in the model. In terms of beyond budgeting, managers in such organisations are likely to remain constrained by the inability of their organisation to change. Finally, the behavioral conflicts associated with budgeting are reduced by using flexible budgets when evaluating performance Other factors affecting behaviour

Dysfunctional behaviour may be caused by the following budgetary problems: • Budget targets that are perceived by employees as too difficult to attain will result in resentment and a feeling ofstress. • Budget targets that are perceived by staff as too easy to achieve do not provide a challenge and may lead to a slipshod performance by staff. • Managers may experience a loss of autonomy by being hemmed in by the budget and not having sufficient flexibility to use their own initiative. • Managers may become narrow minded, focusing only on their own department, and create disadvantages for the organisation as a whole. The emphasis on financial goals to the detriment of non-financial goals may havea debilitating effect on the organisation. Budgetary slack or sometimes it is referring to budgetary bias, is a common process where implementer intentionally underestimates revenue or overestimates expenses in the tight budget. Managers may attempt to create budgetary slack in three ways. Managers may deliberately underestimate the production or sales budgets potential. For example, the sales budget for the month of July is RM 1 million. If the manager is able to achieve the target budget then the sales budget for the following month will be increases to RM 1. million. Manager creates budgetary slack by undervalue the budget so that the budget for August will be easier to achieve although they are able to hit the tight budget. Manager may also attempt to achieve slack by cost overestimation. They purposely used more than the budgeted expenditure so that the budget will be increases for the following months. After that they spend less than the budgets to shows that they have improve in their performance. For instance, the cost budget is set to be RM 1 million in January. Then the manager spends RM 1. 2 million in their expenditure so that the cost budget will be increase to RM1. million in February. Subsequently, they spend only RM 1. 1 million in March which is RM 0. 1 million lesser than February to prove that they have better performance. Moreover, manager may use up all the budgets to pretend that there is no slack in the recent budget. Manager may waste his extra cost budget on non-essential expenses. Let say the cost budget is RM 2 million for March, the manager will try to finish his allowance although he only spend RM1. 8 million. This may cause by the fear of the manager that the future budget will be reduces unless the allowance is fully utilise. Rahman, 2011) We see the behavior aspect of budgeting as having particular relevance for knowledge-based companies which are increasingly a feature of a developed economy. Other companies may see specific benefits in such a system, given the rapidly changing environment in which they also operate. These changes will not be introduced without conflict and difficulty due to the challenges faced in introducing change. Such challenges may be beyond the achievement of the public sector, due to the expression in the budget of politically-motivated policies and objectives eveloped within a complex legal and financial framework. What we can say, however, is that if we are to see the successful application of the beyond budgeting model in both private and public sectors, then this must be underpinned by a considerable organisational, cultural and managerial change. Otherwise it is doomed to failure. (John, 1995). References * Brimson, J&Fraser, R. (1991), The Key Feature of ABB, 42-43 * Cantoria. c. s, (2011)Walking Through an Example of Creating a Zero-Based Budget * Gietzman, MB,(1992) The Development and Design of An Activity Based Budgeting System, Initial Experience. Johnson, HT. (1988)Activity Based Infromation: A blue Print for World Class Management. 23-30 * Johnson, S. (2005), Beyond Budgeting, Retrieved from, http://www. acca. co. uk/students/acca/exams/p5/technical_articles/2950520

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