

# [Budgeting in a non profit making organization](https://assignbuster.com/budgeting-in-a-non-profit-making-organization/)

## Introduction

Budgeting is enormously significant in a non-profit making organization. A profit enterprise centralizes on maximum the profits and shareholder value, whereas, a non-profit organization is focus on their goals. Deficient of financial flexibility always appear in a not-for-profit association as they are not undertake an exchange transaction, they just provide social service and their funds is rely on the donation. There will be a disaster for them if the demands for the social service are increased because their resources may be not enough to deal with and it is hard to predict the demand from year to year. Hence, they will emphasis on manage resources, most non-profit making organizations are using zero based budgeting rather than incremental budgeting, because it presents every decision package in detail so that zero based budgeting can “ serves as a tool for systematically examining and perhaps abandoning any unproductive projects”(Drury, 2008, P. 375).

## Zero-based budgeting

Zero-based budgeting is a method of planning and decision making which seek to overcome the deficiencies in traditional budgeting. In traditional budgeting, the organization will take the existing operations as a base to prepare a new budgeting (what has been already spent is automatically allowed). The base will alter for the changes that forecast to happen in the next period and plus changes for the inflation. By contrast, zero-based budgeting begins with zero bases in every period as if the activities were beginning like the first time.

This method requires all manager demonstrate the suggest budgets in complete detail such as how many worker are needed, what material will purchase, what difficulties will occur when implement the activities and so on and illustrate why these budgets the organization should be spend on. Then the management ought to prioritize all budget bases on the importance of the needs, it can merge all old and new budgets into one ranking that permit top management to contrast and estimate the needs of each budget and make funding allocation.

Zero-based budgeting helps managers to classify the activities which should continue, which should withdraw and which should concentrate on. Furthermore, zero-based budgeting can compare different departments which can help the management more easily to ranking each activity.

## About the Company

The Samaritan Befrienders Hong Kong (SBHK) is a non-profit making organization. During 1960, it was established and using the name of Suicide Prevention Society. It was no other similar organization established in Asian, they are the fist one. They renamed the organization as The Samaritan Befrienders Hong Kong in 1963. During 70s, SBHK offered services by two languages which are Cantonese and English. SBHK is non-religious in nature. Their missions are on humanitarian basis, to befriend, people that are facing difficulties or are forlorn and disheartened, and then help them to rebuild their confidence. In addition, they will organize seminars, talks, education programme to publicize and further the spirit of their service in the society. Furthermore, they will help South East Asia and near region to set up organizations with a character and mission similar to them.

## How zero based budgeting could be used at the organization?

## The objective of the activity

The objectives of suicide crisis intervention centre are to provide 24 hours core services to those have high and moderate suicide intention people. Also, they will offer intensive counseling, arrange different types of therapeutic and support volunteer teams. Furthermore, they will share the experience to public and via the training, media and advisory service to develop the awareness of knowledge that how to identify and handle the suicide problems.

## What extent are objective achieved

We can see that from the annual reports that the objective achieve is successful, their organization is become more big each year, and the figures of using the service is increase every year which means that their effort is success, because many suicide people look for them to asking a help, it may decrease the number of suicide.

## How is the achievement measured

There are some measure methods to evaluate the achievement. For instance, the overall statistics of services which can show how many people have used the service during the year, we can see that the main user group is by phone call, it almost have around 70% of total services. The other main measurement is the figures about suicide in Hong Kong. Because their aim is to reduce suicide in Hong Kong, the figures can illustrate that how many people committed suicide each year. It is easy to see that if the figures are decreased within the year, the activities were successful and vice versa.

## Alternative ways to meet objective

They also have other way to achieve the objective which is life education centre. The works of life education is organize the education programmes such as workshops, talks, follow-up groups, volunteers training course, publications and suicide prevention resources library to reduce and prevent suicide and broadcast the message of life cherishment to public.

Also, there are some other organizations that have work on the same objective, for example, International Association for Suicide Prevention, Befrienders International and etc.

## Most cost effective alternative

This is a non-profit making organization, the funding is limited, and therefore cost effective is very important. The most cost effective method is to recruit more volunteer workers which are free workers, it can save much money.

## Impact of discontinuing the activity

If discontinuing this activity, it will be some problems appear. Some people may have already use this service for a long time, but suddenly closing the activity will make them loss the support, then may suicide again. Moreover, discontinuing the activity will lead the existing user change to other organization to look for help, but it may make other organization overload, therefore, they can not help all people, it will result in increase the suicide numbers.

## The types of activities in this non-profit making organization that is best suited to a zero-based budgeting approach.

Decision Packages:

There is several decision packages that are now undertake in this activity seeks to win the funding. We are taking two of them to discuss.

Types of services

Person aimed

1. Case counseling service

-providing the evaluation of the crisis of commit suicide, emergency of handling crisis and in depth crisis counseling service in 6 to 8 weeks.

– providing the assistance on the crisis cases in once and outreach service for the high or middle level of commit suicide person.

– providing the follow-up service in about 12 weeks after passing the crisis according to different requirement of the case.

1. High or middle opportunity of commit suicide person (intention of commit suicide or person commit suicide at any time)

2. Person who need to have a further step of evaluation

3. person who has been affected by the relative or friend who has the crisis of commit suicide

2. Professional talks/Workshops/forum

-providing the knowledge of identifying the alert of commit suicide, the evaluation of the crisis of commit suicide and the training of handling skills through the different training services.

1. All social welfare agencies, counseling organization, SSBs, police and medical sectors and other front-line staff

2. Person who have the need to know more about the alert of commit suicide. wish to enhance the ability of handling commit suicide

We can see that the case counseling service will be the best, because it is more matches with the activity objective and more directly reach the goal which is offering intensive counseling. The second package has achieved the goal too, but it is indirectly reach the goal, and it may take a long period to achieve the objective. Therefore, the decision packages ranking is that Case counseling service is the first one and Professional talks/Workshops/forum is the second.

## The advantages that a zero-based budgeting system may offer to the organization that over an incremental system

The main advantage of the zero based budgeting over an incremental system is that it combine budgeting and planning into one process which is focused on analysis of needs, objectives and priorities. In incremental system, the organization tends to use existing budget as a base, then adjust for changes that they predict happen in the next period. But, zero based budgeting requires manager justify all budgets in detail which can help the top management efficient distribution of funds by organization needs, objectives and priorities.

Furthermore, it can detect inflated budgets and eliminate wasteful and outdated activities because those activities are not cost-effective operation and it will not be allocated funds. This can encourage manager to detect a cost-effective ways to amend the operations, not like incremental budgeting system that previous activities are automatically allowed. Also, it increase subordinate staff responsibility and initiative for decision-making since not only the manager involves in decision process but also include the lower level staff which can improve coordination and communication in the association. In additional, zero based budgeting capable to discover the chances for outsourcing and helpful to measure achievement of results for service departments rather than incremental system.

## The problems that might be faced by the introduction of zero-based budgeting

The main problems of zero-based budgeting is that deal with vast amount of work and time consuming as it need to collect and analysis a lot of information and demand managers must distinctly realize the operation at different level for prepare budgeting which will increase the training cost. Apart from time consuming, the other problems arise to management is that it is really difficult to judging and prioritize decision package since they have to read numerous packages source, if compress the data down to a acceptable size the significant information may be removed, and have to follow the internal politics, sometimes, they might use personal sense to estimate therefore it is not truly objective.

Moreover, the organization may face dishonesty managers who might overstate the results or understate the expenditures. In addition, it is costly to operate because of this budgeting is really complexity and it may focus on short term benefits rather than long term planning. There are more managers participate in the operation as a result of difficult to communicate and manage.

## Conclusions

Zero based budgeting requires a huge resource and staff to run and prepare the budgeting because of the workload is vast. But this method creates a positive outcome such as better management and allocation of resource. The management cans appraise the operation from the viewpoint of in depth study of productivity, output, and cost and so forth. It encourages manager at all levels in the organization to participate in the budgeting progress. Zero based budgeting is focus on efficient of allocation resource and it depends on the manager capacity of persuasion which has to persuade the other management to support.

At the end, although zero based budgeting has a lot of benefit when it implement, in this organization. But they do not have that much resource to apply full set of zero based budgeting since they are non-profit organization and the resource is limited, hence, the optimum suggestion is that they can exercise part of incremental budgeting and part of zero based budgeting or just partial implementation of zero based budgeting to solve the resource allocation problems.

Word Count: 1684 words