

# Corporate level strategy



On top of it, account and finance department is also treated as core center of the company that retentive the rigid analysis and monitor the balancing of business in term of revenue, overhead, development and capital evaluation. All the analysis will finally report to board of management directly by account and finance managers in consistence period. In the accounting coverage, operating budget is usually projected yearly. The budget is a statement of likely sources of income and anticipated expenses for operation and capital development. Never be slacken, the board notices that the major sales and revenue contribution to the company is form the central of Malaysia, Kuala Lumpur. In order to continue growth and providing extensive benefit to consumers of Malaysia.

Again decisions make by the Board to restructure the Head Quarter from North to Central Malaysia. ES is now operational on its new premises in Central Malaysia. In compliance with the principle of the company, the ES new office is being equipped with a R&D laboratory to promptly respond to tailor made developments. 42. 0 Definitions and Understanding the Budgeting System Budgeting system is planning expectation of financial performance in achieving cash flow balancing. Budget may also be known as financial planning to the organization in assist finance manager to achieve cash flow management. Board and management used to analysis the stability and availability of organization??™s financial situation thru budgeting system to decide to for future direction in term of expansion or investment. Budgeting is a key role of financial actions plan and management for most of organization and company in today??™s business world because it work as part of management control process again assuring

of which alignment of resources obtained is used effectively and efficiently to complying the objective of organization.

Therefore, budgeting process in consultation with budget committee and most of the time involve of management participation. Budget process involve the relation of both expenditure vs. income estimation and planning of an organization in period of preset and most common period is one year. The budget works as plan and outline an organization's financial estimation from the sources of income to expenditure allocations by itemize estimation. In the earlier stage of budgeting process planning, the budgeting planner must clearly identify the total costs of expenditure into two different type of expenditure such as fixed cost and variable cost. Fixed costs is always remaining at priority ranking, those expenses will never change as a function of the activity of a business.

Nevertheless, the variable costs are adjustable related to proportion of volume and business activities involvement. 5[pic] (DR Jake, Mitchell. ? Fixed Cost) There are several types of budgets available to tackle the specific purposes of objectives that the budgeting process is required. However, the types of budgets are generally line in three major categories such as Capital Budgets, Financial Budgets and Operating Budgets. Harvard Business Review, The Magazine July ??" August 1977, Conflicting Roles in Budgeting for Operations. Capital budgets eliminate as the organization planning again the capital expenditure for the specific period of duration set by management probably for one year to ten years depending on investment value. Capital budgeting sometime call as investment appraisal because the purpose of this budget process use to the planning and determine the long

term investment to the organization such as new facilities investment, new or and existing products development and any other major expenditure or investment.

(James E. Gurun, Capital Budgeting) Most of management and board used capital budgets to determine impact of investment decision such as cost and benefit impact. 6 A straight forward financial budget is typically focus on financial data matters that such as balance sheet, income statement and cash flow statement. Harvard Karen Berman, Financial Intelligent for HR Professional, 20, March 2008 Business Review. This budget process able to assist finance manager in cash flow allocation and on top of it will assist to identify the organization's financial healthiness.

Most of organization needs to forecast the volume of sales and predict the return revenue of the business. On top of it, the production and selling expenses will also preset in beginning of production stage. Further to it, the general and administrative expenses will also estimate and take into account to compile the final business operation preview.

This process circle in the organization is identified as Operational Budget. This budget involves of several and most of the departments and involve of both type of fixed and variable costs. Therefore, Operational Budget used to prepare in yearly basis, however, it will be broken down into monthly and or quarterly for control and monitoring purpose. (Marty J. Schmidt, Budget/Budgeting) The literature research proved that five principles of budgeting techniques that aid to value add the budgeting system.

These were: Zero Base Budgeting Rolling Budgets Top-Down Budgets Bottom-Up Budgets Consultative Budgets<sup>7</sup> Each of the above indicated budgeting technique representing the varying method of preparing budget. The Zero Base Budget used start collecting data and resources from zero basis. This method enable the organization to look at its operation afresh, instead the managers have to justify anew decision of next budget planning. The previous years<sup>??</sup>™ resources is assume obsolete and not consider as basis of new financial year. Rolling Budgets is a method of budgeting in which each month of the financial period passes, and an additional? budget month is added such that there is always a 12-month? budget. The main advantage of rolling budget are it always giving chances to management to revise the budget planning in according to urgency and priority.

Contemporary, the forecast will more accurate for the next coming of few months. Top-Down Budget is budgets that created by hierarchy basis and it is starting from the highest level working towards the bottom using parametric relationships. In this circumstance, the subordinate have less influence power in setting the budget. Contrast, the Bottom-Up budget is the budgets setting starting from lower level of hierarchy and the subordinate have more influence while setting the budget. The preparation and planning the budget by taking consider the idea and suggestion of subordinate.

However, the budget is prepared and finalize by the manager. 83. 0 Use Budgeting as Instruments A budget is a financial map that important in business to understand and forecast the financial situation for an organization future preparation. The budget fundamentally able to deliver the solution to organization in term of financial status that within the

financial year and how much of expenditure expected to be spend. However, a good budgeting is not simple an exercise the balancing in between revenue and expenditure but it make more essential to organization strategy in short and long term because budgeting proceed work beyond the realities. A good budget carries the characteristic of essential objective that able to establish the linkage to broad goal and provide an effective business tracking in all section and department that within the organization.

(Anonym, Budget Process) The organization today respectively set the company vision and mission towards to achieve the company goal. The framework set which needs instrument to for delivery. Budgeting system work as one of the instrument to the organization control and planning at the fundamental reason that the company funds needs to be managed in projects, departments and even detail to sections and segments.

Consequent, the fund allocated to be control by policies and procedure again the project and task in ensuring of effective financial outflow. Budgets are planned expectation of performance in term of the financial achievement of the operation. The most fundamental technique of the budget is consistently comparing the actual performance again the budget set for the specific task or expenditure.

Often there is a difference between budget expectations and real occur thin the situation. Any difference between a budgeted figure and an actual figure is known as variance. (Anonym, Budget Variance) 9 Variances different in favorable variance that have lower outgoing spend or higher revenue then the budgeted amount and unfavorable variance is over outgoing spend or lower revenue then the budgeted amount. With that, variances will to

determine whether significant and therefore decide the necessary action take again to correct the significant variances. Budget process make alert to respective department or task manager to make necessary respond again either revise the original budget or most common is the manager take the responsible to apply more exercise in monitoring and controlling the respective performance.

The main options of action again the significant unfavorable variances are increase the performance by providing training, implement disciplinary procedure, and increase business revenue or either decrease expenditure. Most budgets reflect the cash flow either with sales, general expenses, labours, direct and indirect material purchases. A business income mainly depends on the sales revenue of products that deliver to respective markets. The organization is likely to have range of budgets for varying departments and purposes such as sales budget, production budget, inventory budget and general expenses budget. A skillful manager of the organization should able to formalize all those budgets into Master Budget that entirely forecast and estimate the sales revenue, operation costs and expenditure in next financial period estimation. Consequently, the management making use of the Master Budgets in setting and finalize the business direction in parallels balancing in financial stability again the business growth. This is probably the most important feature of making use of budgeting system in control and planning to organization because it lead all department??™s manager to participate and work corporation and communication towards achieving the business goal and at the same time it forces management look ahead and set plans in detail.

(Steve Carter. Budgetary Control)<sup>10</sup> Another instrument of budgeting system is identifying the break even point of investment. This budgeting process is absolutely benefits to new begin organization or existing organization but new developing products in term of forecast and identify the break even point of the business. It is means that the investment recovering period. Break even point is where the business revenue are equal to business costs that invested to that setup or development.

Therefore, this is a crucial point that management define the business is growing healthy and stable. The break even analysis is making up from comparing the business revenue vs. the total costs that make up from fixed and variable costs that incur in the operation. The below graph is demonstrate the explanation.[pic](Anonym, Introduction to Break Even Analysis) Other benefits that deliver by budgeting system of controlling the budgetary performance and financial management of organization are the inventory control. Stock control may include direct and indirect material incur in production of goods. This is potentially assist in reducing financial burden and improves the cash flow budget performance that purchasing does not over stock the unwanted materials. Beside to financial benefit, over inventory may cause stock obsolete and stock expired if the stock carry with the expiry date set.

<sup>11</sup> Budgeting, as most of organization practice it and sound like radical proposition of organization in financial perception. In some cases, company use budget to force performance improvement. For tactical purpose, budgets provide useful information tolls to control<sup>124</sup>. 0 Budgeting Assessments and Recommendations Technically, a budgeting system is not a decision system, <https://assignbuster.com/corporate-level-strategy/>



contrast it is a system for implementing decision. Nevertheless, each budgeting system shapes and informs performance and achievement on the allocation of resources to task or and investment respectively. A budgeting system that will be justified as effective to the organization when it success in moving the operation of organization toward it vision. Business is economic entities, while vision of organization is usually requires financial stability and strategic planning against.

Elegance Spirit (ES) Company as a company that business in economic entity, they must maintain financial viability to survive. This similarity is reason why ES generally has budgeting system implemented to company in ensuring the viabilities as well to keep aligned with the moving toward the business goal. The current practice of budgeting system that applies by ES is mostly concentrating to operation budget that in method of top-down budgets. Therefore, the practice of budget allocation with very little change from year to year that mostly reference to previous year experience in practice by the finance department of finance manager with the approval of board before deliver to respective department. The simple and direct characteristic of current budget is simply relatively few new investments in term of product and marketing development during the healthy financial years and contrast will effectively across-the-aboard cut in financial recession years. 13 This budgeting system is advantages in term of simple and direct. Therefore, it less manpower and financial involvement in planning the budgets and it be able to deliver to respective department very timely.

The strategy across-the-board cut is a strategic decision that pushing the organization to financial safety while economic recession with the least

amount of financial risks in existing and achieve in sustaining the organization in some critical circumstances. In many situations sustaining is simply desired the boards. However, every budgeting is varying in weaknesses that sometimes fail to satisfy every department and very employees in that involve in implementing.

The ES practice of budgeting system does not foster a strategic allocation of resources but simply reference to old practice in allocation. As a well stable company of ES, it must now begin to apply financial strategies that accord the standards and eschew the old habit that unsuited to support the business world today that fast changes. The preparation of operation budget have involve of several departments such as R&D, Purchasing, Sales and marketing, Account and Administrative Department.

The preparation of departmental budgets must much base on department??  
™s work base and goal set respectively. The inappropriate resources allocation sometime difficult to be defined to specific project by cause not reach the goal has set by organization to respective department. This situation is used to happen in two departments in ES that are R&D and Marketing department.

These two departments are mostly performance in project base as they both work according to business future expectation. For example, R&D used to research the products that new to market but potential in development. Similarly to marketing department, the sufficient advertisements and promotions fund is playing the major role of success in pushing the product to highest awareness to new products launching to market. 14 The current

budgeting system of top-down basis is lack of comprehensive in data collecting from all involving departments. The budgeting planning process is not communicated among. The allocation of financial fund is generally assigned without focus to the real needs and the urgency of projects in running. This has made a lot of significant variance in the budgeting system cause by non-budgeted overhead incurred.

In some views of budgetary approach, the department budget has not establish for quality and project performance assessment, It is still a very rough estimation or a simple estimations and lump sum manner without the clear policies of control focusing towards business goal achievement. The funds are approved with the assumption of estimation. In the circumstances, this has cause wastage to the financial fund allocated beside to the non-budgeted overhead occurred in the organization. The impact of rough estimation and without policies to control has obviously caused inefficiency in R&D department in term of products development. The role of R&D department is always new products development and identified the market??  
™s potential and benchmarking products.

Nevertheless, ES??™s R&D has not performance that effectively due to guideless while funds approved by board. All department budgets are encouraged to engage with specific policy or requirement therefore achieve the role focusing and avoid of confusing. For example, quantity of items to be developed per year should be set as goal of R&D so that department objective identified. The budget must be detailed, as it is necessary to specific in segment, specific in performance and specific in project.

15 The current practice of ES??™s budgeting system is not catch up to financial strategy advance that suitable to today??™s business environment. The budgeting system is at least partially market driven in order to improve strength the organization and towards the objective and goal. A key aspect of financial strategy that is the responsibilities of the budget manager towards identify the financial risk to the organization. Risks are embedded in the optimism of revenue forecast against the size of contingencies in organization. Therefore, both of each feature must be aligned in detail and reference to current financial conditions in matching each and others. Current budgeting system of ES was not showing confident to board in making budget risk evident because it is prepare in brief and not built the projection of strategy. In summary, budgeting system must be detailed and able to refine the specific objective of the budgets prepare and therefore achieve to improve and or increase the efficiency and effectiveness of departments and organization.

Beside, the establishment of comprehensive in terms of data collecting, budget assignment and policies development that it identify the standard measurement of budgeting planning. Budgeting system is an instrument that derives and design specifically from organization??™s desire. Therefore, budget must be updated and changed from year to year for the new perception to eschew of old practice that lead slowness to business development. ES budget manager is encouraged to implement specific performance budgeting model such as expenditure vs. developments budget, project base budget to marketing department and sales revenue budget vs.

operation budget to ensure of cash flow balancing in term of in and out flow.

165. 0 Conclusion Budgeting System is one of the fundamental instrument of decision making processes in organization. During budgets planning and formulation, the budget committees of the organization begin with data collecting and consequently planning the resources allocation to respective tasks or projects by priority. Budgets often establish with vision and objective preset. Budgeting used to play as key role of financial actions plan and management for most of organization and company in today??™s business world. Budgeting processes is consultation and coordinate by a team of budgeting committee and sometime in some organization that board of management is get involve in this process. The board of management used to believe that budgeting drive the net revenue of organization for every end of financial year.

There is several type of budgeting appear in organization and follow by several method of organizing the budget panning and process. The types of budgets are such as capital budget, operation budget, and sales revenue budget and so on. However, the type of budget selection is very depending on the business strategy that the management is aiming for the next financial year. Therefore, the budgets are used to prepare according to priority and urgency need. Among the methods of budgeting that we discussed earlier, we found that the top-down budget is the most effective to organization decision that less influence by employee. The top-down approach can enhance financial sustainability by authoring the preference of management. Beside, top-down is always ensuring of achieve of a broader

understanding and support of aggregate financial policies those issues from decision makers.

17 Elegance Spirit (ES) Company is established as importer and distributor that is endless facing the fully competitive economy today. In some circumstance, the financial strategy and financial risk analysis the crucial information that derive the future of ES company. Therefore, the management is authorizing the Finance Manager as the budgets manager to the organization and allowed to report to the board of management immediately. However, the current budgeting system is fixed for years for operation budget at top-down basis. The practice of budget allocation with very little change from year to year that mostly reference to previous year experience in practice. Most of the time the budget is rough estimation and less focusing into projects and respective urgency in view.

The change is required in order to improve the operation of ES and therefore achieve the organization objective and goal. The budgeting system must be plan detailed and able to refine the specific objective of that budgets being prepared. At least it should be recognize as instrument of achieving and improving the efficiency and effectiveness of departments and organization. Beside, the establishment of comprehensive in terms of data collecting, budget assignment and policies development that it identify the standard measurement of budgeting planning. 186. 0 Referencing: Anonym.

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