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BUDGETING

BUSINESS PORTFOLIO

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EXECUTIVE SUMMARY

The purpose of this work is to perform a thorough examination of a few budgeting techniques, looking at each one's unique traits, advantages, disadvantages, and suitability for use in various organisational environments. In addressing the changing financial needs faced by modern businesses, this analysis seeks to provide a comprehensive knowledge of the various budgeting types by highlighting their unique characteristics and contextual importance.

With their own unique qualities, benefits, and drawbacks, traditional budgeting and Beyond Budgeting are two different strategies for financial planning and management in businesses.

Traditional budgeting techniques have long served as the foundation of organisational financial planning. Traditional Budgeting includes Incremental Budgeting, Fixed Budgeting, Activity-Based Budgeting, Zero Based-Budgeting.

These traditional methods have disadvantages even if they provide structure and a starting point for financial planning. They can take a lot of time and place a lot more attention on historical data than on methods for the future. They might also encourage a fixed mindset, which makes it more difficult to change in rapid workplaces.

Beyond Budgeting emphasises flexibility and adaptation but may face opposition in its adoption owing to cultural barriers, whereas traditional budgeting provides stability but lacks response to change. The organization's setting, risk tolerance, industry dynamism, and ability to accept cultural change are typically determining factors when choosing between these two approaches. Effective financial planning and management in a business environment that is changing quickly may depend on finding a balance between the flexibility of Beyond Budgeting and the rigidity of traditional budgeting.

INTRODUCTION

Budgeting it is the compass that directs businesses through the always changing waters of the economy. When it comes to guiding businesses towards success and resilience in the world of business, where change is the only constant, the approach taken with respect to budgeting is essential.

The current business environment is defined by rapid changes, unpredictability in the market, and fluctuating demands from customers. Due to these ongoing developments, traditional, inflexible budgeting techniques must give way to more adaptable and flexible ones. Organisational sustainability and growth are increasingly dependent on an organization's capacity to adopt innovation and react quickly to changes in the market.

The primary elements of financial planning for a long time have been traditional budgeting techniques like incremental, fixed, activity-based budgeting and zero based budgeting. Although these techniques have given resource allocation structure and a framework, their rigidity frequently prevents flexibility in the face of unpredictable market dynamics. Reliance on previous data and rigid yearly schedules may prevent the flexibility needed to deal with the changing business atmosphere of today.

Budgeting represents the strategic plan for how a business organization will spend its resources within its regular operations (Schick, 2019). It's more than just financial planning; it's a tool crafted by the management team to navigate the company's future. By meticulously organizing both expenditures and earnings, the budget acts as a compass guiding the company's growth and development trajectory. Think of it as a roadmap illuminating the path to future company growth. Moreover, it serves as a means to analyze and determine the long-term savings of the business organization (Silva, Mota, and Moreira, 2022).

The many methods that organisations use to plan, manage, and distribute their financial resources are referred to as budgeting styles. These approaches vary in their specific qualities and implications for organisational management, from traditional, fixed procedures to more modern, adaptive options.(Jeff Schmidt,2023)

In order to ensure financial stability, drive financial decisions, and match the company's operations with its strategic goals, budgets are essential. They give the business a disciplined framework for handling money, encouraging accountability, and guiding it towards its financial objectives.

MAIN BODY

Evaluation of the role of budgeting and application of the traditional method of budgeting in relation to the business environment

Budgeting involves creating a comprehensive roadmap for a business organization's finances. It encompasses tracking both incoming revenues and outgoing expenses, serving as a crucial tool for both individuals and businesses in their long-term planning endeavours. By outlining sources of income and expenditures, budgeting lays the groundwork for forecasting future financial goals and objectives over an extended period. Here are the key roles performed by the budgeting system:

- **Establishment of the financial goals** – the budget helps in the establishment of the financial goals of the business organisation. This helps in setting up the financial goals and plans and also in the setting up of the targets which results in the accomplishment of the goals and objectives of the business organisation in the required time (Purposes of Budgeting., 2023)
- **Allocation of the resources** – the allocation of the resources is an important part of the budgeting plan of the business organisation. This helps the business organisation in proper resource allocation and resource utilisation which results in saving the cost and reducing the cost of the business organisation in the future of the company (Ho., 2019).
- **Management of the cash flow of the business organisation** – Cash flow ensures the company has enough liquid funds to cover day-to-day operations, pay bills, and meet financial obligations promptly. It's essential for keeping the lights on.

- **Controlling and reduction in the expenses** – the control and reduction of the expenses of the business organisation can be done with the help of the preparation of the budget plan. The budget helps in controlling the expenses as well as reducing the expenses (Schiff, and Lewin., 2019).
- **Evaluation of the financial performance of the business organisation** – the evaluation of the financial performance of the business organisation is possible with the help of the budgeting method and budgeting constraints. This helps the business organisation in the effective growth and development process in the long time period (Cherep, Gorbunova, and Shcheblykina., 2020).
- **Identification of the shortfall and surplus in the financial statements** – the budget is also used to identify any kind of surplus and shortfall of the money in the business organisation. The shortfall can be balanced by adding more funds while the surplus can be used as per the plans of the business organisation (Ahmed and et al., 2021).

The traditional form of budgeting provides a framework for managers that decide whether to take corrective measures to correct the default or not (Pavlatos, and Kostakis., 2021). The traditional form of budgeting is a budget that is prepared on an annual basis and this makes changes according to the previous year's budget plan. This covers the financial obligations of the business organisation which is based on the income level of the individual. This traditional budget determines how income should be generated and how it should be spent. The traditional budgeting process influences the growth and development of the business organisation in the long run of the business (Escobar., 2021). It helps the business organisation in the growth and development in the long run of the business. The traditional budget also provides opportunities and growth objectives of the business organisation (Petit, and Marnewick., 2023).

Traditional budgeting methods include Incremental Budgeting, Zero-Based Budgeting (ZBB), and Activity-Based Budgeting (ABB), each offer distinct approaches to financial planning and resource allocation within organizations.

Incremental Budget

Strengths: Easy to apply, offers consistency and familiarity, and makes comparing current data with historical data simple.

Weaknesses: Lacks flexibility to adjust to changing demands or possibilities; can perpetuate inefficiency by simply adjusting earlier budgets; may not reflect changes in the business environment.

Zero-Based Budgeting

Strengths: Encourages efficiency and careful assessment of every expense, reduces unnecessary spending, and raises cost consciousness.

Negative aspects: It takes a lot of time and effort to justify every spending, and it might cause people to prioritise short-term goals above long-term strategic investments.

Activity-Based Budget

Strengths: Improves cost management by focusing on activities that add the most value to the company and provide a more accurate resource allocation.

The cons include the need for an in-depth activity analysis, which can be laborious and complex, and the possibility that activities will be impacted by unforeseen changes or outside causes.

These methods highlight different approaches' advantages and disadvantages, highlighting the necessity for organisations to assess their unique situations and demands in order to select the budgeting strategy that best fits their objectives and operational requirements.

Aside from all of this, the traditional budgeting approach has additional disadvantages. These are mentioned below:

- **Time-consuming process** – the budgeting is a time-consuming process as it requires a lot of time to arrange all the financial statements of the business organisation and also prepare the financial statements as per the needs and requirements of the business.
- **Expensive process** – the preparation of the budget is an expensive process as this process requires a lot of time and advice from the expert (Valuckas., 2019)

- **Lack of flexibility in the process** – the budget does not provide any flexibility. This means that the budget, once prepared, should be followed. This reduces the creativity and innovation in the employees of the business organisation and this can even result in demotivating the employees in the long run of the business (Weibel., 2022).

Analysis of the beyond budgeting model.

The beyond budgeting model refers to the model in which the traditional form of budgeting is eliminated to form and practise the new and advanced form of budgeting method which results in increasing the demand of the budget forecasted method and this also results in an increase in the efficiency in the formation of the budget in the long time period (Beyond budgeting., 2023). This is important for the growth and development of the business organisation in a long time period. The formation of the advanced budgeting plan or the beyond budgeting model helps the business organisation in effectively managing the business.

The beyond-budgeting model is a very successful model that has benefited many companies since its introduction (Wampler., McNulty, and Touchton., 2021).

The beyond-budgeting model is flexible and has high adaptability which makes this more responsive to the changing needs in the market (Sureka et al., 2023). The companies using this model become dynamic and develop a certainty towards the changing environment which helps them in the growth process.

Setting organisational values above set targets is a key component of Beyond Budgeting. In order to establish a stronger link between purpose and action, this fundamental concept promotes matching the organization's values and principles with its strategic objectives.

Under the Beyond Budgeting concept, teams are empowered to make independent decisions based on common values and principles through the decentralisation of decision-making process. This change encourages teams to feel more accountable and own their work, which makes the organisational structure more flexible and adaptable.

Another important component is transparency, which promotes openness and information exchange at all organisational levels. This encourages a culture of cooperation and trust, which facilitates better alignment towards common goals.

Beyond Budgeting promotes shared accountability for organisational success as opposed to focusing just on personal performance goals.. Teams are motivated to collaborate to achieve overall goals by this collaborative accountability, which fosters a sense of shared responsibility. Beyond Budgeting has further characteristics, such as: Rewards, Planning, Targets, Coordination, Controls, Performance, Learning.

Additionally, this approach concentrates on creating value that aids in achieving the budget's target and goals. Because of this, the business is able to respond to the needs and demands of its stakeholders and customers, increasing its efficiency. Customers are the company's stakeholders and this model facilitates communication and transparency between them and the firm. (Nikulina,2019.)

Despite being a successful model, there are still many challenges to get over before using it in a corporate setting. These obstacles are listed as follows:

- **Resistance in the culture** - the companies that are following the traditional budgeting method are not comfortable in changing their budgeting method and switching towards the beyond budgeting model. This is the barrier to the beyond budgeting model (Frost, and Rooney., 2021).
- **Issue with the management** -in traditional budgeting, the company's management holds significant power.
- **Low trust level** - the beyond budgeting model works on the trust between the employees and the management of the company. In case, there is a lack of trust between the employees and the management of the company, this model may not work effectively and may turn out to be a big failure for the business organization (Martin., 2021).
- **Inadequacy in the performance management system** - the traditional budgeting method works on the fixed performance targets which are managed by the business organization. On the other hand, the beyond budgeting model works on the performance

measurement system which is used to measure the performance of the business organization in the long run.

- **Improper skills and lack of understanding ability** - the beyond budgeting model requires essential skills and knowledge so that this model can be understood efficiently and the company can work accordingly. In case this model is not understood in an efficient manner, this can turn out to be a loss for the company (Escoba., 2021).

The company that wants to include the beyond budgeting model in its management system should decrease the barriers so that this model can be implemented in an efficient way and the company should also increase the performance of its specialist organization to understand the effectiveness of the beyond budgeting model. The company should invest in human resources and should provide training to enhance the skills and knowledge of the human resource. This is important for the growth and development of the business organization and for the successful implementation of the beyond budgeting model (Rubin., 2019). Implementation of this model can result in long term success of the business organization and also in the effective management of the financial performance of the existing and upcoming projects of the company. Therefore, the beyond budgeting model should be implemented in an appropriate way while taking all the character measures only in case if the company wants to implement the beyond budgeting model and their business organization (Chohan., 2019).

CONCLUSION

A multitude of budgeting models are available, each with unique advantages and disadvantages. The process of choosing an appropriate budgeting model requires a thorough comprehension of the demands of the organisation, the market, and the industry in order to successfully guide financial planning and management inside the company.

From the above report, it can be concluded that budgeting is an effective tool for the growth and development of the company in the long run of the business. Budgeting helps in the development of the plan and in providing the strategies for the business to spend and earn at different expenditures and from different sources respectively. This helps the company in

developing a strong plan for the business organisation in the long-term period. The report concludes the evaluation and analysis of the budgeting theories and concepts, applicability of the traditional form of budgeting in relation to the changing business environment, disadvantages of traditional budgeting, evaluation of the concepts of the Beyond Budgeting Model, and the barriers to the Beyond Budgeting Model.

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