

This Report will be analysing and evaluating the role of budgeting as well as the applicability of traditional approaches to budgeting. Firstly, what is budgeting. The term Budgeting refers to revenue and expenses over a future period of time. Budgeting is utilised by governments, businesses and individuals at any income level. This term is a financial plan for a length of time, usually a year which is known to increase the individual at any income level. Budget is 'an estimation of revenue and expenses over a specified period that is re- evaluated on a period basis' Ganti, A. (2023). The purposes of budgeting include motivation, forward thinking, delegation, utilisation of resources, planning, evaluation and control.

Businesses use budgets to keep track of spending as well as improve ways to reduce costs and maximise profit. Budget planning for the current or next following year is sometimes based on budgets from other years. Traditional budgeting starts with the previous year's budget and implements percentage increases or decreases to meet new goals. These percentages range anywhere from 1% to 10%. Schmidt, J. (2023). Sometimes, budgets can get out of control, in such scenarios, it doesn't make sense to look at last year's budget as the big changes within a company's situation have already taken place. The whole budget needs to be redone from scratch; this is why there is a zero-based budget.

One approach to budgeting would include Zero based budgeting. Zero-based budgeting means going through and approving every expenditure for each accounting period instead of basing it on past spending. By starting from a 'Zero base' at the beginning of each budget, this can create an effective process for analysing and deciding where to allocate funds. 'This overall is a way of improving the return on investment across a business 'Business Bank. (2023). This approach would be encouraging more collaboration throughout the business. Performance is improved and operations efficiency by challenging assumptions and examining expenditures, as well as this, by avoiding traditional budgeting percentage increases, there is a significantly better chance of making cost reductions. Schmidt, J. (2023). Although zero budgeting is an option that creates a lot of benefits, there are also a few drawbacks. If businesses rely heavily on maintaining a positive, and accessible environment for their employees but all expenses to maintain this environment were shut down because of the zero-based budget process, the businesses overall culture may change. This can lead to higher turnover rates as well as negative changes in brand perception.

One other approach would include rolling budgets. A rolling budget is frequently updated to add a new budget period until the most recent budget period is completed. This term involves the incremental extension from the existing budget model; therefore, a business always has a budget that extends another year into the future. Rolling budget is also known as continuous budgeting. The advantage of this approach is having someone constantly attend to the budget model and look through budget assumptions for the last period of the budget. The downside of this approach is that it may not have a budget that is more achievable than the traditional fixed budget, since the budget periods prior to the incremental month just added are not revised. Bragg, S. (2019).

Another type of budgeting process would be the Top down and bottom up approach. A top down budget is a budget that is set without allowing the ultimate budget holder to have the opportunity to participate in the budgeting process. A bottom up budget is a system of budgeting in which budget holders have the opportunity to participate in setting their own budgets. Also called participative

budgeting. KFKB. (2020). The top-down approach focuses on trends and high-level goals for company growth. Senior management determines the goals for the following year. Using previous years' budgets as a benchmark they consider how each department of operations can utilise their budget in each department. In this approach management may consult lower-level management towards what they would like to budget in each area. The bottom-up process starts with each department identifying their goals and plans for tactical projects for the year. Each department identifies their goals and what it would cost to achieve this. An example would be a marketing team hosting events for the year and outlining how much would be spent on promotion and estimating how this would contribute to revenue and profit. 'In top-down budgeting, upper management sets budget constraints for departments. In contrast, bottom-up budgeting lets departments formulate their budgets and present them to the upper management for approval. Miller, C. (2022).'

Since top-down budgets look at the big picture, they may not provide department managers with the details they need to create their budget. A top-down budget may create unrealistic expectations for departments to work with since they weren't involved in the creation process, with many details overlooked. Accuracy can also be an issue, with this approach usually eliminating many details that a bottom-up budget could provide. 'A top-down budget may create some resentment in department heads as they were not involved in the preparation process. Girsch-Bock, M. (2022).'

Looking at the bottom-up approach, there are a few disadvantages. One would be the limited involvement of higher-level management. Although this can be an advantage, senior managers may view it as restrictive. Another big disadvantage is that departmental budgets are often created with little consideration for the big picture as well as being very time-consuming.

Moving on, the second part of this report will be analysing the beyond budgeting model. Firstly, what is beyond budgeting. This term is the idea of overthrowing the traditional budgeting processes to improve managements control over an organisation, by doing this a business would aim to establish a highly decentralised organisational system and an adaptive set of management processes. Beyond budgeting is where companies need to move beyond budgeting because of inherent flaws in budgeting. 'It proposes a range of techniques such as rolling forecasts and market related targets, can take the place of traditional budgeting. AICPA. (2018). The reasons why beyond budgeting is useful within organisations is because it provides agility and adaptability. Beyond budgeting enables commercial, hospitality, and residential portfolios to respond quickly to market changes. Decentralised decision making and greater autonomy would also drive employee motivation, empowerment and engagement positively, impacting portfolio performance. Beyond budgeting enables companies to support good governance and ethical behavior. Adaptive organisations are held together by strong values. Businesses would show people that they can achieve real performance improvements and must always be prepared to be judged against others with similar problems and opportunities. Below is the Beyond Budgeting model.

Beyond Budgeting - the adaptive management model

Leadership principles	Management processes
1. Purpose - Engage and inspire people around bold and noble causes; <i>not around short-term financial targets</i>	7. Rhythm - Organise management processes dynamically around business rhythms and events; <i>not around the calendar year only</i>
2. Values - Govern through shared values and sound judgement; <i>not through detailed rules and regulations</i>	8. Targets - Set directional, ambitious and relative goals; <i>avoid fixed and cascaded targets</i>
3. Transparency - Make information open for self-regulation, innovation, learning and control; <i>don't restrict it</i>	9. Plans and forecasts - Make planning and forecasting lean and unbiased processes; <i>not rigid and political exercises</i>
4. Organisation - Cultivate a strong sense of belonging and organise around accountable teams; <i>avoid hierarchical control and bureaucracy</i>	10. Resource allocation - Foster a cost conscious mind-set and make resources available as needed; <i>not through detailed annual budget allocations</i>
5. Autonomy - Trust people with freedom to act; <i>don't punish everyone if someone should abuse it</i>	11. Performance evaluation - Evaluate performance holistically and with peer feedback for learning and development; <i>not based on measurement only and not for rewards only</i>
6. Customers - Connect everyone's work with customer needs; <i>avoid conflicts of interest</i>	12. Rewards - Reward shared success against competition; <i>not against fixed performance contracts</i>

(BySouth, 2017)

From this model the principle for 'purpose' is to encourage the shareholder as well as employees to have the same goal in order to prevent conflict within the industry and boost motivation in order to grow. Everyone within the organisation should have the same goal, imagination, and ambition. When this purpose is successful it can help attract and maintain people within the company. 'value' encourages employees to work harder within the company. Value based management provides guidance for employees as individuals. This gives freedom for employees to work solely within the business, choose their way to work on things and take responsibility in case anything goes wrong. Judgement and common sense replacing strict rules can make employees feel important. Looking at transparency, organisations should open for innovation, regulation, and self-control. In the point of view from employees this would send a message that the business they are working for are fully transparent and have nothing to hide. Frontline employees would be able to react faster when enough information is communicated. For the 'organisation' principle, the company is decentralised, free communication, and is encouraged to initiate new ideas. This would lead to high engagement and create a sense of accountability and belonging. 'Autonomy' shows that companies that adapt this technique should provide freedom and responsibility towards their people to increase accountability and organisational performance. Trust should pass through from top management to front managers, and then the team. Productivity and focus would increase in the workplace, adding more rules/ procedures might not add any value and may increase problems and issues. 'Customers' are the main purpose of any business, focusing on what they need is important to drive sales and attention to an organisation. Everyone within the company has to know that customers come first, conflict with customers should be avoided.

Looking at the management processes, the 'Rhythm' business operation has nothing to do with the calendar year. There would be no point in setting the target sales and profit for each year. Target,

resource allocation, as well as performance evaluation should be based on rhythm, less Calander driven, and event driven. The 'Target' should be the key to provide direction within the business and linked to the organisations purpose. The objective should not be fixed as there may be uncertainty later on, especially in fast-changing industry environments. The 'Plan and forecast' should be unbiased and reflect where the business wishes to go, this would represent the most likely outcome. 'Resource allocation within the management process would encourage the company to manage costs but not minimise costs. Costs that don't add value should be removed. Moving on to the performance evaluation, the performance within businesses should take into account the value achieved, peer feedback, and other qualitative factors. This purpose is to improve learning and development. Finally, 'Rewards' are there for the company to provide motivating profit-sharing schemes and avoid individual incentives.

The Rational behind the Beyond Budgeting framework is that the traditional processes carry some flaws. The flaws include the following:

- Budgets generally do not stimulate value creation.
- Budgets increase the centralisation of power within an organisation.
- Budgets are rarely focused on the company's strategy.
- Budgets may create obstacles for changes.
- Development of budget is time-consuming and costly.

The concept of Beyond budgeting is still new. Beyond budgeting development framework had originated in Europe in 1998 (Bain, 2022) as an alternative to traditional annual budgeting, it's rise is associated with the shift from a traditional organisational model to an agile business structure. The framework is based on the idea of business agility. The techniques a company may adopt within the beyond budgeting approach would include, operational managers being provided with sufficient empowerment to cope with changes within the business environment, this enables a swift reaction and dynamic management practices. Organisations would have to establish their targets based on their KPI'S (Key performance indicators.) Companies may create forecasts monthly/quarterly instead of making an annual budget. This would address the changing needs of a business. For this technique the company must evaluate the managers' performance depending on external standards instead of past performance.

Beyond budgeting management strategy challenges traditional budgeting by having flexibility, adaptability, and decentralisation. The approach uses rolling forecasts instead of fixed budgets for the year. This allows businesses to adjust plans in real time based on changes in market conditions. The decentralised decision making is an important element in this budgeting method, and it empowers employees within organisations to make decisions based on understanding local needs as well as customer preferences. This promotes accountability, innovation, as well as faster responses to emerging opportunities or challenges. This strategy promotes a customer-centric approach and prioritises delivering value than only meeting financial targets, beyond budgets has a culture of continuous learning, as employees are encouraged to learn and experiment from their experiences. Compared to traditional budgeting, this technique is a known approach in which businesses have fixed annual budgets

based on past data and targets. Traditional budgeting involves top-down decision making where the management allocates resources to different areas of department. These budgets are in place to control the costs and manage the overall financial performance of the organisation, however it can be a struggle to deal with unexpected changes. While traditional budgeting has a clear view, this hinders the ability to adapt quickly to evolving market dynamics and a fast-paced industry.

Some barriers that may occur would be that decentralisation could lead to

- 'Decentralization can lead to challenges in maintaining consistency and standardization across different teams and impact overall organizational performance.
- Without strict budgetary controls, there's a risk that teams may overspend or allocate resources inefficiently, impacting financial stability.
- Moving away from rigid targets can make performance evaluation and comparison more challenging, affecting accountability and rewards.
- Implementing this budgeting requires a significant shift in organizational culture and mindset, which may face resistance from employees and management accustomed to traditional practices.
- In some cases, this may lead to a focus on short-term results at the expense of longer-term strategic goals.
- One of the significant disadvantages of beyond budgeting is that shifting to this strategy can be complicated. It may require substantial changes in processes, systems, and leadership practices, potentially causing disruption.'

(Vaidya, CFA, FRM, 2023)

Overall, beyond budgeting decreases the barriers for implementation. Having a model which benefits employees, and creates a positive environment for customers can create a successful business in the long run while also allocating budgets made within the business to areas and departments that are important. Even if there are a few disadvantages, Beyond budgeting plays a very important role in determining business success.

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