Positive Changes To Improve The Budgeting Process With Real Success

Explain what positive changes can be made to improve the budgeting process with real success examples.

Using Web Technology to Improve the Budgeting Process

Over the years, the development of web technology has enabled enterprises to control and manage their budget through cloud-based budgeting system. For example, Budget Maestro, Accenture, and Host Analytics. Drury (eds. 2004) stated that cloud-based budgeting system is an automated budgeting system that allows participants to access anytime and anywhere through internet. It provide a centrally administered system that enables participants to model, update and monitor the budget constantly and quickly in cloud. As a result, the flexibility of cloud-based budgeting system can eliminate the bulky process of traditional budgeting system by reducing manual data collection and aggregation, streamlining budget review and approval, and accelerating the budget reporting process (Host Analytics 2019).

For instance, The Host Analytics EPM Suite has helped more the 500 companies to improve their budgeting process. It is a cloud-based system that automates the cumbersome manual process to save time and reduce errors, it successfully reduced average time close up to 75% (Host Analytics 2019). By using the Host Analytics EPM Suite, Health Integrated Limited successfully cut down their budgeting cycle from 8 weeks to 3 weeks and Parsons Electric also able to cut down their annual budget process from 5 months to 2.5 months (Host Analytics 2019).

Beyond Budgeting Model

Beyond budgeting is one response that tries to resolve the perceive weakness in traditional budgeting, as it is more adaptive and empowered than traditional budgeting (Kaplan Financial Knowledge Bank 2019). Beyond budgeting is a decentralized process that focuses on process principle and leadership principle which support enterprise to be more responsible on competitive environment, customer orientation, and long-term strategy. Thus, adopting beyond budgeting is a positive changes that can be made to solve the criticism in traditional budgeting which only focus on short-term financial measurement.

For example, Svenska Handelsbanken AB is a Swedish bank that has operated without budgets for almost 50 years since they have adopted beyond budgeting in 1970. Over the years, Handelsbanken has successfully developed eight high degree independence regional banks by creating long-term value through higher customer satisfaction and lower cost than its competitors (Denning 2019).These branches are fully autonomy to optimize their performance on the KPIs benchmarks, which are return on equity, income ratio, and customer satisfaction. As a result, by changing the traditional budgeting to the beyond budgeting, Handelsbanken is now the most cost-effective universal bank in Europe (Corporate rebels 2019).

Evaluate Manager’s Performance-based on Relative Benchmark

In order to increase motivation of managers, enterprise need to avoid forming fixed performance contracts which can only maintain the motivation through fixed standards. Enterprise should evaluate manager’s performances based on relative target that not only focus on the financial objective of the company (Rick 2016). Hope and Fraser (2014, p.73) stated that anger should also be rewarded based on performance improvement contracts with hindsight, such as reward-based on multilevel performance, balanced scorecard, and relative success of the group.

According to Hope and Fraser (2014, p.76), Rhodia implemented personal rewards based on the multilevel performance measurement. Rhodia rewarded bonus to the manager according to the individual performance appraisal, the business unit’s performance, and the firm’s performance as a whole. Borealis also adopted multilevel performance measurement by using balance scorecard to apply the bonus formula to the senior manager. In summary, they successfully motivated their manager and also improved the entity’s business performance at the same time.

Participative budgeting

Ram Balakrishnan, Konduru Sivaramakrishnan, and Geoff Sprinkle (2008, p.278) stated that participative budgeting is an approach that arouse organization-wide input into the budgeting process, it break through the rigid formal organization structure that emphasis by traditional budgeting. Participative budgeting promoted cross-functional interaction by empowered all budget holders to into the budget process. As a result, it gives employee a sense of a better participation the company.

According to Ram Balakrishnan, Konduru Sivaramakrishnan, and Geoff Sprinkle (2008, p.279), in 1998, the city of Porto Alegre has changed their budgeting system into participative budgeting by involving the population in the budgeting process. Instead of develop budgets in the bureaucrats and obtain approval in city council, they disclosure the preliminary budget documents in every March and also offer public ten months to discuss until the approval of final budget in December. As a result, public will be more committed towards the budget by involving themselves in budgeting process.

Conclusion

In summary, budgeting is a major formal way to show the organization’s cash inflows and outflows which can aid in planning, control and decision making of organization. It successfully translated the business objectives into specific plans and motivate the employees to attain the goals. Thus, budgeting is the foundation of all business success (Karen 2018).