Disadvantages Of Traditional Budgeting Processes

This essay analyzes whether traditional budgeting processes makes organizations inflexible, prevent them from focusing on the current along with future problems, inadequate to adapt to the constantly changing world and whether Beyond Budgeting could solve these problems. Some state that Beyond Budgeting could be an alternative for traditional budgeting, while others say that organizations should keep using traditional budgeting. In traditional budgeting, the revenue and expenses of the last year are taken as the basis and the current year's budget is prepared in accordance with it. traditional budgeting aims cost reduction requires managers or financial officers to predict profits while projecting sales and revenues.

There are several disadvantages of traditional budgeting, in their literature review Nguyen et al. (2018) divided these into five clusters as, expenses, gaming behaviour, low adaptability in dynamic business environments, misalignment with the organization's strategy and vertical command-control. As its name suggests traditional budgeting has an orthodox approach compared to other alternatives and Uyar (2009) states that the planning and budgeting process precisely consumes up to 20 per cent of all management time. While analyzing last year's budgets a vast amount of time is used. Also adds that "...most companies devote four to eight weeks for the annual budgeting cycle." (Uyar, 2009) Another problem with traditional budgeting is projections can be easily manipulated, the budgeted expenses and revenues could be exaggerated. These behaviours are inappropriate as well as unethical in the business environments. Managers feel that they are at gunpoint because they are expected to meet the targets and this leads to an increase in gaming behaviour. Also, subordinates, which are low-level employees would try to acquire easier budget targets. (Sandalgaard and Bukh, 2014). Furthermore, vertical command-control is a related disadvantage which creates a hierarchy within the organization and prevents the development. Some say that normally hierarchy allows specialization, only a group of people focuses on the budget and the rest do their tasks. In contrast, some people believe that it limits communication between departments, make lower-level employees feel not appreciated and discourage knowledge shares. In addition, Hope and Fraser, (2003a) believe that "..., the same companies that vow to stay close to the customer, so that they can respond quickly to precious intelligence about market shifts, cling tenaciously to budgeting—a process that disempowers the front line, discourages information sharing, and slows the response to market developments until it's too late." Another disadvantage is low adaptability in always changing business environment, Hope and Fraser (2003a) state that the current business environment is unpredictable; costs and margins are continually in a state of stress, product life cycles becoming shorter and consumers ' preferences are changeable. This condition gives rise to the value of being adaptable and versatile. They claim that budgeting is antagonistic to these criteria because once set, budgets are not usually changed, resulting in schedules and goals get easily out of date. According to a case study, a manager said, "We want a form of management that is forward-looking instead of backwards-looking." (Sandalgaard and Bukh 2014). The form of management they want is the Beuond budgeting.

Beyond budgeting could be defined as "beyond command-and-control toward a management model that is more empowered and adaptive." (Beyond Budgeting Institute,n.d.). Meanwhile, Uyar (2009) defines it as a decentralized model which gives responsibility and autonomy to people who work below the management. The aim could be described as "...not only to reduce

the costs of budgeting and implement more adaptive planning processes, but also to devolve the responsibility for strategy and the accountability for results to teams closer to the customer." (Hope and Fraser, 2003b, p. 109). Beyond Budgeting is based on 12 principles, the names differ by source, however, the contents are similar. According to Beyond Budgeting Institute (n.d.) , first 6 which are about leadership principles, listed as; purpose, values, transparency, organisation, autonomy, customers and last the 6 which are about management processes listed as rhythm, targets, plans & forecasts, resource allocation, performance evaluation and rewards. These 6 leadership principles create a management structure that causes responsibilities transferred to front line employees. Also, Uyar (2009) claim that the last 6 principles are about creating a flexible organizational structure.

In Beyond Budgeting Institute's website the benefits of Beyond budgeting are shown as faster response, innovative strategy, lower cost and more loyal customers. Simplicity is essential in organizations which use Beyond Budgeting, it can achieved by empowering front line employees along with providing them the opportunity to behave quickly and effectively under specific beliefs, standards and strategic limits. "Operating within a flexible network is also important to enable people to respond quickly to customized requests by reconfiguring processes." (Beyond Budgeting Institute, n.d.). In contrast to traditional budgeting, in Beyond Budgeting rewards are based on the whole team, as Hope and Fraser (2003b) believe sharing the profits are essential, likewise they state it makes employers feel important and emphasize that they depend to each other. In addition to this view, Nguyen et al. (2018) believe that linking rewards to fixed targets should be changed to more flexible targets. There is a benchmark, so evaluation of the employees are made accordingly. Equally important, Hope and Fraser (2003b) indicate that while using Beyond budgeting model cost gets lower, profits are maximized according to a Watson Wyatt study, organizations which align rewards with strategic goals had higher total shareholder returns. As an example for this a bank named Handelsbanken is given. "Handelsbanken aims to make a better contribution to society than other banks. This should be done by offering a better service while using fewer of society's resources, i.e., by having lower costs. If we succeed in this we will also achieve higher profitability." (Hope and Fraser, 2003b, p.119). As Beyond Budgeting Institute (n.d.) say, customers should be placed in the center of the attention. These benefits of Beyond budgeting leads to an increase in customer satisfaction. Further, Nguyen et al. (2018) divided the changes Beyond Budgeting makes in the management into different groups, and evaluated them according to empirical and conceptual studies. Their findings were Beyond budgeting is a useful model, however they are not sure whether organizations can implement it. For example, companies use fixed targets to evaluate performances could have problems when they switch to more flexible targets.