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## IMPROVEMENT OF BUDGETING AND OPERATIONAL CONTROL INSTRUMENTS

Bogdan CORLIUGA, *PhD. student*  
ORCID: 0000-0003-0990-2767

*Technical University of Moldova, bl. Stefan cel Mare, 168, Chisinau, Republic of Moldova*

**Abstract.** A tool for conducting such an analysis, making effective management decisions on its basis is budgeting, most important strategic component of planning and analytical work of all spheres of economic activity is the development of regular financial plans - budgets. Article describe definition of budgeting and propose budget function in connection with main management functions, this allows us to determine the place of budgeting as an tool of development of innovative activities aimed at achieving the strategic and operational goals of the organization through the consistent implementation of management functions. Article overlining two fundamental approaches to the concept of budgeting. The first is - budgeting is a financial planning tool used to solve operational problems in a limited period of time. The second approach proposes to consider budgeting as a technology for managing an economic entity. Two common approaches to budgeting are: Base Plus: Many organizations simply take the actual data from the previous year and make arbitrary adjustments. Zero Based budget: This type of budget is required when base plus type fails, different type of companies organizations migrate to a "zero base" type of budget. As a result proposed different approach to budgeting processes, which can be applied and differentiation of budgeting techniques in dependency of area of application.

**Key words:** *Budgeting, planning, forecasting, operational control.*

### INTRODUCTION

For the modern economy, strategic management of the enterprise is a perspective trend. Strategic plans are the fundamental documents for making management decisions. They determine development trend of the company, possibility of a stable presence in the target market, as well as the future value of business. A scientifically based strategy allows the company to focus efforts and internal resources on core areas that can bring financial success of the enterprise.

Main driver of strategic component of planning work of all spheres of economic activity without exception is development of constant changing financial plans – budgets, which must answer question where we are and which goals we are going to achieve. Budgeting helps to improve rational use of financial resources through the timely planning of economic operations, commodity and financial flows and control over their real situation.

Planning represents strategical methodology of view on performance of company business at a consolidated level. In majority cases, planning is the prerogative of a senior company managers occupied with focus on changing market conditions, they usually must to balance between assets and opportunities. Budgeting process in marketing conditions must to be completed quickly and must be in accordance of main strategical plan of working.

Budgeting is planning process, which distributed between individual areas of responsibility in company. This is resulting involvement of many employees from different organizational levels to be involved in the budgeting process, of course this also require time because of many details in the process, because of this sometimes budget, approved by top management become obsolete once it approved.

Forecasting is the processing of a budget — perhaps in a generalized form — to reflect market conditions, strategic plan, corrections of errors and revised assumptions in the originally approved budget. In a predictable economy, companies typically revise forecasts monthly, on a case-by-case basis, or on an event, a process performed by a handful of financial professionals.

**BUDGETTING FUNCTIONS AND EVOLUTION OF THE ESSENSE**

Currently, all economic entities set the task of ensuring a stable financial situation. To do this, company management needs to look for new approaches to solving the problem of improving the efficiency of its work, constantly improve new knowledge and skills, and the best practice of making managerial decisions. Reducing risks and neutralizing crisis phenomena is possible with the help of supplied budgeting system. The role of budgeting in the development of innovative activities of company is to accumulate and integrate the necessary financial information, reflect cash flows, production, and non-production costs, as well as to create mechanisms for interpolating indicators of economic activity to make effective management decisions.

Currently, there are two fundamental approaches to the concept of budgeting. The first is - budgeting is a financial planning tool used to solve operational problems in a limited period of time. The second approach proposes to consider budgeting as a technology for managing an economic entity. The use of the second approach assumes that budgeting data is actively used in management to improve company efficiency in the long term. Conceptual foundations of budgeting in economic literature reveal the dialectical nature of the definition under study. Table 1 shows basic definitions of the concept of budgeting.

**Table 1. Evolution of the interpretation of the essence of budgeting**

Approach	Definition
Budgeting as a financial planning tool	Budgeting is the process of building and executing the company's budget based on the budgets of individual divisions
	Budgeting is the process of drawing up and implementing a budget in the practical activities of companies
	Budgeting is a methodology for developing financial forecast
	Budgeting present a planning process of companies resources for future period or project.
Budgeting as a tool for company managing	Budgeting is the process of developing, managing, and controlling budgets in accordance with the company goals
	Budgeting is the process of making managerial decisions related to future events, based on data processing in order to improve company efficiency through orientation to company goal's, identifying and reducing level of risks, also budgeting must increase flexibility and adaptability to future
	Budgeting is a system of coordination for management of each divisions of an economic entity, which is based on systematic processing of economic information, the main task of which is focused on improvement of efficiency at all events covering changes and their sources
	Budgeting is a process that expresses projected costs and resources for planned activities over a period of time
	Budgeting is planification of company activities in future, results of which are formalized and systematized as a system of budgets
	Budgeting is a management system designed for internal users – managers and employees
	Budgeting is a management technology for achieving the financial goals, taking into account revenues, expenses, allocating the main budgets, as well as operating, auxiliary and additional budgets

The list of definitions given in table 1 is not exhaustive, but it can be concluded - there is no common point of view in the definition of the term budgeting. After analyzing various sources, the author clarified the functions of budgeting.

Table 2 presents the main functions of budgeting, namely the functions of planning, forecasting, organizing, analyzing, coordinating, motivating, and controlling. These functions have very important role in managing, since their implementation activates the budgeting mechanism. The foregoing allows us to determine the place of budgeting as an tool of development of innovative activities aimed at achieving the strategic and operational goals of the organization through consistent

implementation of basic management functions, like: planning, organization, coordination, motivation and control.

**Table 2. Budgeting functions**

Function	Content
Planning	The main management function. It deals with future and suggests of main direction of development to achieve established goals. Planning is required to create a possibility of proper use company resources, which helps to avoid confusion, uncertainty, and risks in company activities
Forecasting	Calculation of forecast indicators for the implementation of planned tasks based on management accounting. Forecast values are sales volume, stocks of finished products, materials
Organization	Building a budget system and creating its structure, performing this function allows us to determine the place of each executor and structural unit in the implementation of plans
Analysis	Comparison of actual data with planned indicators, as a result of which a deviation in the performance indicators of the enterprise is determined and further adjustment of the intended goals is carried out
Coordination	Formalization of budgets in a period, ensuring coordination of actions from the position of timely receipt of all types of resources for the fulfillment of tasks and balancing the budgets of all centers of financial responsibility
Motivation	Assessment of the contribution of each employee of the structural unit in achieving the goals of the organization
Control	Timely identification of problems and adoption of management actions in order to eliminate the negative impact

As a result of the pandemic, the world has changed, and it will not return to what it used to be. Therefore, organizations need to reconsider some of the budgeting methods that they have. In this turbulent and changing time, budgeting methods, such as phased or traditional budgeting methods, need to be revised or replaced with either zero or other institution-specific budgeting methods.

Incremental or traditional budgeting is a budgeting method in which a budget is prepared using the previous year's budget or actual numbers as a basis, with the addition of additional amounts for the new budget period. This type of budget planning system establish possibility that all company, including each department will continue to operate with at least the same plan, which was used in the previous year. Now the truth is that the working environment is constantly changing, and the activities during the year for which the budget is prepared (fiscal year) will basically not be the same as for the previous budget or the actual year. Thus, the organization will have to critically analyze each activity for which it intends to allocate a budget, which (critical analysis) does not make an additional budget. First of all, one of the biggest drawbacks of phased budgeting or traditional budgeting connected with impossibility to work with innovations, in our case this type of budgeting does not encourage innovation.

**BUDGETTING MODELS**

Based on the statements of Taylor (2017), innovation is the process of creating and implementing the processes and end products of a company (including services) that lead to increased efficiency, effectiveness or quality. So, in this changing world, if an organization wants to achieve its corporate goals, it will have to abandon the traditional way of doing things and embrace innovation. This includes budgeting techniques.

Two common approaches to budgeting are:

Base Plus: Companies usually simply take the actual data from the previous year and adjust arbitrary data. If business is stable and working in known conditions, without major changes on the market or other significant areas, this approach provide enough good results. Unfortunately, in today's economic situation, very difficult to found a company, which working in such conditions (static environment). As a result companies have very non-inaccurate budget with small management commitment without relevance to strategic plan.

Zero Based budget: This type of budget is required when base plus type fails, different type of companies organizations migrate to a "zero base" type of budget. As a result proposed different approach to budgeting processes, which can be applied and differentiation of budgeting techniques in dependency of area of application. As a result, managers focused on non-important things and required to make random assumptions for positions have no enough information, so decision is don based on experience but on known methodology, as a result the budget can be extremely far from the company's strategic goals.

Usual budgeting scenario, used in certain companies : Before creating a budget, finance department review the actual data for recent years to understand gaps, cost overruns, changes in the plan, than present this overview to top management. At the next stage, finance department provides guidance, seeks of top management as an agreement, and create an acceptable level, when budget will be carried out. Budget specialists and division managers then engage in discussion audits until an agreement between expenses and incomes is reached. At this stage is generated first version of budget, which is sent back to finance department. As it can be understood, this methodology cannot be done "online" and require time to make negotiation at different organizational levels, as bigger company as much time is required to approve final budget. That's why many big sized companies starts budget process at the beginning of August-September, this early start provide a way to have approved and negotiated budget till the end of the year.

Advanced budgeting model: The first step is to create a "business plan view" with sufficient detail for a thorough evaluation. For example, in the budget can be determined number of employees and compensation at the individual level.

Once the evidence starts flowing, specialists can identify deviations and make analyses of each case. Actual reports are a highly centralized process.

If the deviations significantly impact approved budget finance department may create a new centrally managed forecast with summary. For example, sales of similar type of product for holding company for different plants will be presented as total sales of specific type of product.

Thus, given the differences in the use of planning, budgeting, and forecasting tools, companies should distinguish separate models to produce results of a certain type. In modern practices, the best methodology will be a budgeting system that allows to ensure the relationship between these models, including between actual and forecast data. The budgeting process should have the necessary flexibility to accurately model the business, be adaptable to the changing external and internal environment, and provide a multi-user mode of operation.

One of the most common problems is the level of detail of budgets required in some companies, modern technical means allow you to process large amounts of data, so many managers try to create the most detailed plan, for example, planning the purchase of stationery materials with an accuracy of a pencil and pen, as a result, employees become victims of such a time-consuming micromanagement. . Such a high level of detail in budgeting is not achievable in real practice and does not give good results. The company's management needs to find the necessary balance between the details that are really required for the organization of key business processes and the superfluous information that is required only by the final data.

Very important strategy for successful budgeting process is creation a environment, which provide possibility to budget owners (participants) to identify factors, which represent key indicators for their area of responsibility, than based on this key factors, we must generate budget drivers and make budgeting accordingly known familiar business drivers, than accuracy will be greatly improved.

An advanced approach to budgeting is specific types of budgeting for specific activities or areas of responsibility. For example for HR budget, management usually need to know only targets and market values to budget market movement, but for sales department is very important to make monthly detail plan, because monthly plan directly affect logistic, purchasing and other's department. Generally we need to present two types of budget calculation.

Centrally distributed – this method is used in case, when main driver have no direct impact on budget indicators, for example if one of departments will hire new employee – this is not automatically required to rent new office, but if all departments will increase their capacity and we

will hire a number of employees, this will affect budget and will require to rent new office, in such case this decision must be taken by top management. In such case rent of new office will be distributed between all department in dependency of number of employees or office space, but all amount, paid for office rent should be budgeted centrally based on planned number of employees.

Volume multiply by rate, this methodology should be used when can be determined linear dependency between cost and volume. For example if we will hire few employees our office expenses (electricity, phone, coffee, etc.) will grow up, but in this case person, responsible for budget will not plan this expenses separately, he will use medium cost (rate) of each employee and will multiply this number with new number of employees. This rate can be established as an specific calculation, based on some measurements or as medium data from previous years with correlation for inflation, of course company should have responsible for this rate and methodology for it establishment.

Non-driver costs (and revenues): When the cost item cannot be associated with the driver, it is necessary to use other budgeting methods.

Base-plus model is based on previous year (experience) expenditures – this methodology is useful for big volume goods, with low cost.

For zero-based model budget manager must create detail budget on each specific expense account. This methodology is very useful, when previous period cannot be used for forecast or when previous period was affected by significant market changes (pandemic, political changes, etc.) and expenses have significant impact on final results. For example when budget manager is forecasting expenses for software, but we are planning to replace ERP system next year. Of course new ERP system may cost more than full budget of previous year.

### CONCLUSION

Of course, when we are talking about budgeting the one of the key points is automation of this process, introduction of a budgeting automation system cannot be considered as a rejection of the established planning methods, it is only a way to reduce the time of cyclic routine operations and their unification. An automated budgeting system should offer the user not only built-in standard algorithms, but also provide an opportunity to expand its functionality by describing its own schemes. And this implies the presence of tools for flexible adjustment to the existing planning scheme, the possibility of integration with other automated systems used in the enterprise, support for the exchange of actual data with accounting systems, the presence of functions for monitoring the norms of key indicators.

It should be noted that the proposed functionality for budgeting in modern replicable ERP systems allows us to fully take into account the specifics of various enterprises. And, in addition, serial applications also provide for the ability to quickly respond to such important changes in environmental conditions, such as exchange rates, tax legislation, etc.

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