



THE IMPORTANCE OF BUDGETING FOR STRATEGY IMPLEMENTATION

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Abstract

This article reveals the importance and the role of the budgeting for the strategy implementation. The authors also points a range of issues related to the organization of the budgeting process within the manufacturing entities. Attention has been paid to the key aspects regarding the budgeting process, as well as of the connection among strategy, planning and budgets. The authors suggest a scheme which reflects the structure of the budgeting process. Considering the topicality and importance of the research in the field of the budgeting process, the authors enlarge upon the concordance between the stages of preparation of the budget structure and the documents / results obtained by the manufacturing entities. Upon the completion of the research, the authors set forth advantages and disadvantages of the budgeting.

Keyword: budgeting, strategy, production entities, budgeting process, control, responsibility centers

JEL Classification: L 96; M 21; M 40.

I. Introduction

Budgeting as a system of registration and optimization of costs is already spread and studied in many organizations, but is not applied in the work of production entities. At present, development and implementation of an effective budgeting system is practically a necessity, as production entities are in a deep instability and periodic crises, which are influenced by the financial and economic fluctuations. Therefore, management of the

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production entities faces difficulties of internal nature, characterized by increased costs, poor discipline in the implementation of tasks, lack of transparency and clarity in the delivery system of the entity, which directly determines the worsening of financial indicators.

II. Application of budgets: difficulties and advantages

Although many entities notifies the necessity and effectiveness of the budget schemes in the work of their entities, its real application impose a number of problems that do not achieve the expected support. In this context, some of them are specified:

Lack of budget coordination with the strategy of the entire entity. With reference to this matter, the budget is not the first step in developing a strategy. However, entity managers must know the strategies and access to budget in order to determine the algorithm in order to achieve the tasks stipulated.

Heads of departments do not participate in the approval and control of budgets. This causes discontent and criticism both heads of departments and individuals who directly perform the tasks proposed. If the budget is not made known to the workers, it gives no motivation and no influence on the results of the effort, but becomes an object of assessment and detection of errors.

Analysis and control are performed by employees of economic departments, but not by those responsible for budgeting. Thus, managers are outside the budget process, considering that this does not refer to their direct duties.

Reduced data specification and control. Often, developing a budget requires more time, sometimes even a year. During this period a number of changes may take place: reorganization, restructuring, the attitude of suppliers and competitors may change or other reactions, which are usually not budgeted. In this context, budget does not reflect the reality, which reduces the reliability of the management towards its data.

Subjectivity in the process of drafting the budget. Some managers involved in the development budget increases or decreases some indicators intended to have a backup if the owners will require their reduction or growth. This is done in order to protect them in case of failure to achieve the proposed plan, the charges or reprimands.

Budget fragmentation takes place within entities, i.e. development of certain budget segments and not the general, for example, budget income statement or cash budget or forecast balance sheet.



Budgeting comes as a simple and effective method for solving these problems. It ensures functionality of administrative records, creating a system of self-regulation of business, which adequately and timely react to external environmental influences in all areas: purchasing, production, sales, new product launch, improving the quality of development techniques and technologies.

Investigation of the budgeting significance has allowed identifying that it lies in the planning activity of the entity, based on strategic goals and tactical predetermined, based on tangible indicators of budgets, focused on achieving objectives. In this context, the correct choice of strategy is the most important stage of the budget process.

Practice shows that in the process of planning / budgeting is necessary to take into account several stages:

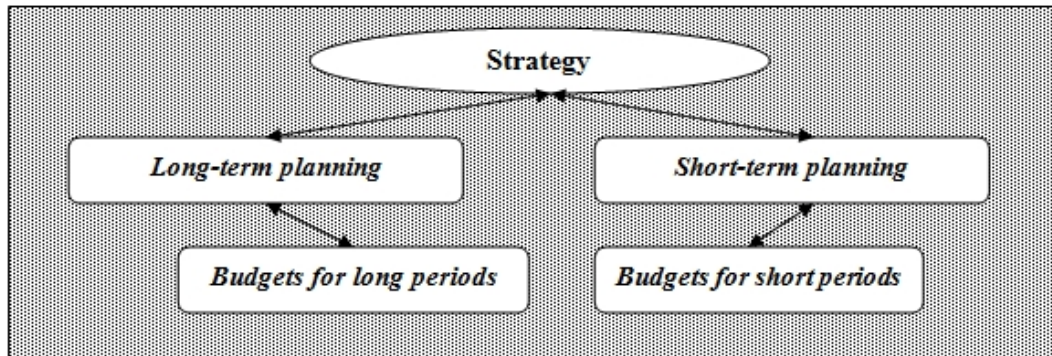
- Type of planning (depending on the degree of binding: planning is binding or of voluntary nature);
 - Unit of measurement (applies various units like natural value, conventional);
 - Range of finished products / services / works (production activity within the entities should be planned both in terms of quantity and in terms of assortment of finished goods / services / works);
 - Type and quality of raw materials / materials (improving the quality of raw materials purchased, as well as basic and auxiliary materials, allowing fully exploit the production). The production program is calculated in accordance with supply agreements of raw materials and products for consumers and release the norms set for the return of products

The optimization decision as part of the planning perspective and more detailed program of these actions is called a budget. One may conclude that at the beginning of the budget is a plan of intent, and at the end it becomes a tool to control the results, in order to compare them with planned data.

Planning is related to establishing the objectives and strategies to achieve them. Budgets shows how resources will be allocated to implement the strategy and the strategy specifies how an entity combining their capabilities with market opportunities for the goals. Within an entity budgets can be developed both short-term (1 month, quarter) and long-term (from one year) Figure 1. [1, p.199].



Figure 1. The connections between strategy, planning and budgeting



Both planning models can be applied in the activity of an entity. In the analysis of budgeting process, is not always respected the comparison principle of operating data records with the accounting records. Consequently, this condition makes incompatible data records, provided by entity subdivisions with the accounting records. Therefore, in most manufacturing entities short-term budgets are not applies, in addition to this, a short-term budget cannot highlight future development objectives, however, can contribute to reducing costs for long-term budgeting.

In the context of the above, budgets are prepared by the planning department in collaboration with the heads of responsibility centers. They are developed at both levels: the entity - general and sub-level – subdivision, compiling a bottom-up budgeting.

In developing budgets the range of manufactured products will be considered, which is reflected in the current plans. In addition to the assortment a number of factors will be analyzed in order to choose the variant able to meet demand, efficient use of materials, human resources, improve profitability, selling products and profit maximization.

Currently, for making these calculations, sometimes quite complicated different methods, mathematical models and software is applied. It is to note that budgeting is an internal information system, using specific tools.

III. Budget as element of planning

The aim of budget is to develop plans correlated with the whole entity and certain sections or separate sectors, based on established strategies and financial structure



formation, fulfillment of the plan, control, analysis and correction, which is shown in Figure 2.

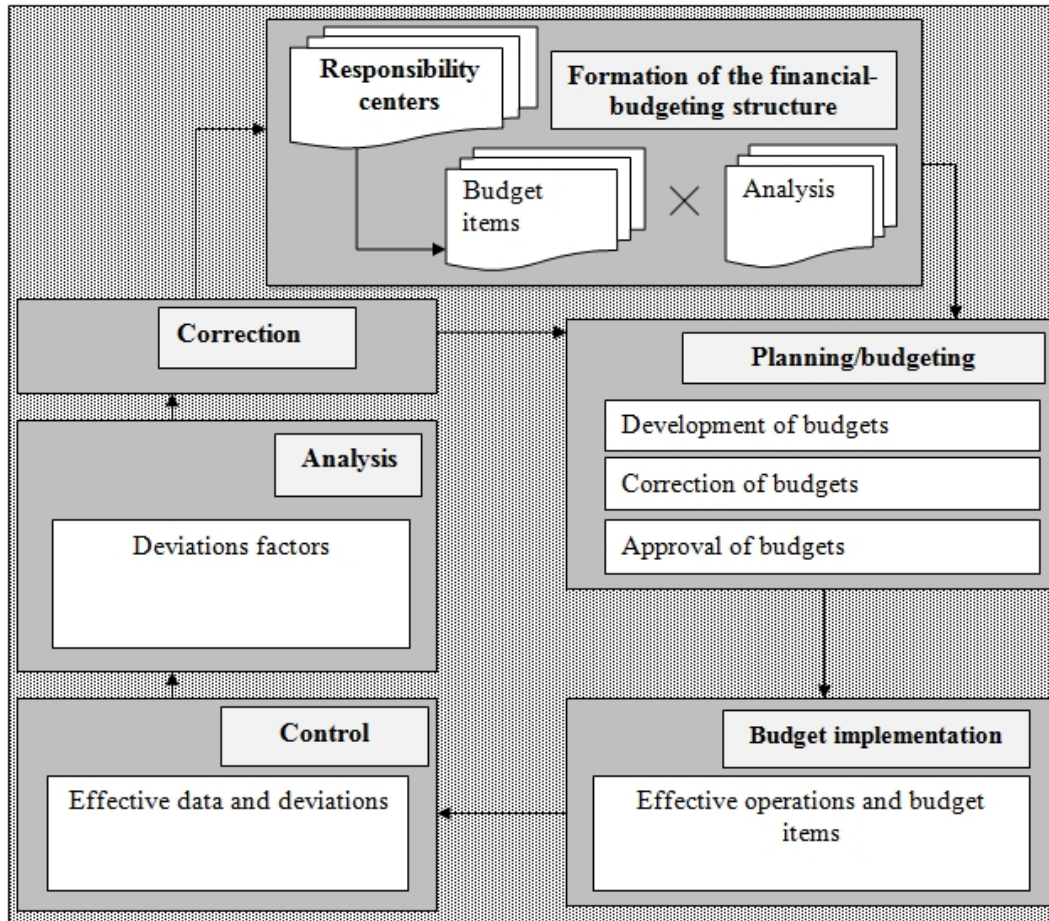
According to the data presented in Figure 2, the financial structure formation budgeting is supposed to perform the following procedures: to determine the structure and presentation of financial responsibility centers, determining the type of budgeting, budgets and enumeration mutual connection between them, developing budgets articles and structure indicators, appointment of managers at three levels (head / head center of responsibility, responsible person per article, executor) and finally the development and regulation of the planning process (definition of powers, terms, procedure, necessary documents).

The planning phase is to establish key indicators and tasks of planning, developing detailed plans by managers, operational and functional consolidation plans, approval of plans and budgets.

The implementation phase is characterized by the adoption of the budget plans that are known to the responsible persons, managers. In this context, the staff shall carry out measures to implement the plan, setting results through various tasks and documents.



Figure 2. The structure of the budgeting process



It is worth mentioning that there is a clear link between the planning phase and the implementation phase because depending on the existing real circumstances certain corrections can be made in planned actions. First of all, control and correction may occur in cash flow budget.

The control phase involves control over compliance in fulfillment of cash budgets limit, data from primary documents compliance with the budget.



The analysis phase focuses on examining the company's activity through reports: operational, accounting, on the performance of budgets; analysis of deviations; dynamic data comparison.

The correction phase presumes correction of budgetary indicators in subsequent periods of planning, budget structure of the entity.

Investigations show that, budgeting is following the aims:

- *Reduce* costs and increase revenues entity;
- *Planning* of the entity activities for a specified period;
- *Coordinating* the various sections or parts of the entity;
- *Motivate* managers for achieving the set tasks;
- *Communication* (presentation) of data to department heads;
- *Optimize* cash circuit.

The shape and structure of the budget is standard for all entities, but may vary depending on the subject planned size of the entity, and the qualification of people that develop it. The data presented in the budget should be realistic, based any documents. The budget can be effective if it identifies the following features:

- Allows the opportunity to make a *forecast*;
- Clear *delineation* of the information flow and direct responsibility of individuals who form it;
- Allow *comparability* of data;
- Contains *detailed and real* information;
- Is of *interest* for entity and is essential for leadership.

Analysis of the stage of the budget process in the production entities demonstrated the following results, shown in Figure 3.

The initial step is necessary to create a body, which should be included in the composition of the competent financial managers. The optimal variant for an entity is the creation of a special budgeting department. The first step in preparing the budget system is to establish organizational and financial structure of the entity, i.e. existing hierarchical structure. At this stage it is very important to establish financial responsibility centers namely: revenue centers, cost centers, cost centers, financial intermediaries, expenses and optimization centers.



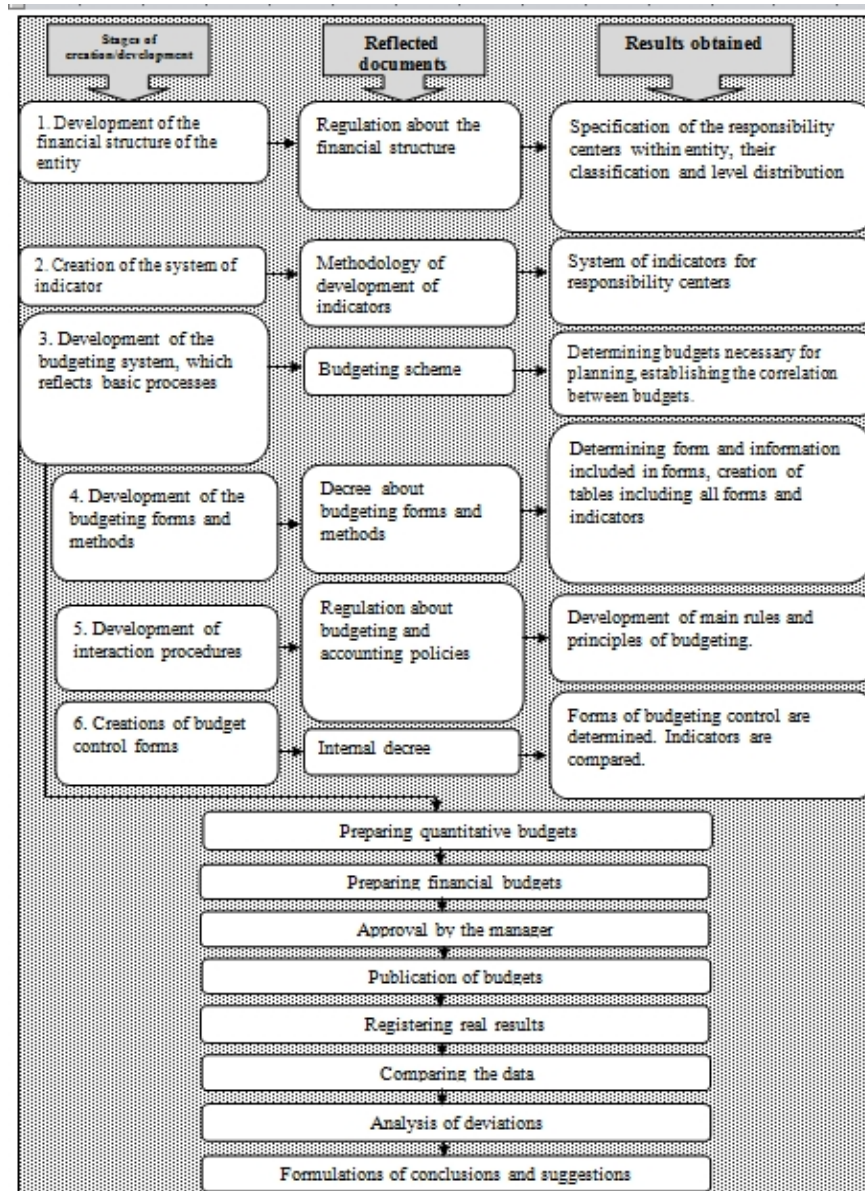
In addition to the above, it is recommended to determine the structure of each sector budgets, specifying the budget items, outcome indicators, and their basis, selecting appropriate planning method.

IV. Internal budgeting rules

In measuring the effectiveness of the budget process, a particularly important quality is dedicated to internal document, which shall be disclosed to the basic rules and principles of conduct of the budget. Thus, entities need an internal budgeting rules or regulations.



Figure 3. Correlation among stages of creation of the budgeting structure with documents and results obtained





The internal regulation about budgeting is a document containing templates and forms that relate and describe existing budgets within the entity. This regulation can replace an order issued by the head entity because it contains terms of development, reporting, adoption and budget analysis, and forms - kind of a budget for training.

Usually, specifying the persons responsible is performed in oral form, but this is not a favorable assessment because it is not possible to verify the achievement of those tasks set.

The regulation should contain the following items:

1. Goals and objectives of the entity;
2. The order of elaboration of the general budget;
3. Establish concrete persons responsible on budgeting;
4. The functions and responsibilities of persons participating in the preparation of budgets;
5. The method of review of budgets and determining deviations;
6. Analysis of budget fulfillment;
7. The method of approving the report on the implementation of the budget;
8. Reporting period.

Consequently, budgeting allows entities to specify the cost structure, and detect deviations related to expenses. Overall, the budget provides fortification for cost saving, spending and control.

As an alternative for budget planning support for the conduct of actions to improve the entity management it can elaborate a complex system of budgets (consolidated budget) composed of functional budgets, which is presented in Table 1.

Table 1. Budgeting system within the entity

Budgets	Subdivision									Total budget (consolidated)
	Production			Auxiliary			Additional services			
	Real	Plan	Deviation	Real	Plan	Deviation	Real	Plan	Deviation	
A	1	2	3	4	5	6	7	8	9	10
Consumption of materials										Σ MC
Salaries accrued										Σ SA
Electrical										Σ EC



energy consumed										
Amortization										ΣA
Other costs										ΣOC
Total budgets subdivisions	Σ	Σ	Σ	Σ	Σ	Σ	Σ	Σ	Σ	Σ
	Production budgets			Auxiliary budget			Additional services budget			Subdivision budget

Source: developed by authors

Budgeting subdivided on sections must take into account each lower budget because it represents a breakdown of the budget for a higher hierarchy level, i.e. the data of production sections are included in total production budget and the production budget is materializes in complex budget (consolidated).

All functional budgets developed on the corresponding categories of costs and expenses shall be attached to the consolidated budget. Responsible for budget developed is the manager (person in charge) and cost center expenses.

Execution and tracking follows after the budgeting, and then the presentation of reports, called "inspection reports". The inspection reports can see the achievement of budget and can analyze the deviations between planned and actual revenues and expenditures during the year or appropriate.

Developing proper budget system can bring benefits. In this context, the advantages of the budget process are [5]:

- Provides clear parameters for managers and the entire leadership, the major route of transformation of the overall objectives in specific tasks and objectives of individual managers;
- *Important means of communication and coordination both horizontally and vertically;*
- *Reduce the time of organization, attention is focused on the issues of greatest interest;*
- *Integration enables better budget oversight and management of capital;*
- *Ensure effective control through regular and systematic monitoring and reporting activities;*
- Encourage consistency interests and increase motivation.

However, despite all positive sides, budgeting may have some disadvantages:



- The existence of well-documented programs can lead to inertia and lack of flexibility in adapting to change;
- Wrong approach to budgeting systems with excessive pressures or lack of interest in behavioral factors can cause low morale performers.

Generalizing information on budgeting, the *advantages* of using budgeting as a tool for prediction and control are important in planning, because it focuses the objectives and develop strategy. However, in order to implement the strategy, budgets show how resources will be allocated. The document (budget) has a title that stated period and is developed in a short time, where work is evaluated in detail. Budgets can have different forms and content should be presented in a logical order. Too much information could affect the meaning and accuracy of the budget and spending too little data lead to too small or too large expenses indicated.

V. Conclusion

In conclusion is necessary to mention that while operating, no matter how perfect entity strategy is, it has to detect the causes of the occurrence of violations, establishing responsibilities and the provision of remedies for them. Budgets well organized can bring significant benefits. The advantages do not appear directly in the budget process, but results from its implementation. Also, note that budget execution must be based on the regulation on budgeting, prepared by the entity, as this will determine the scope of responsibility of each manager (responsible) and will enable to assess the work of controlling costs and expenses.

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