

IMPROVING THE VALUE ADDED OF BUDGETING ACTIVITIES

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Abstract

This paper aims to identify major deficiencies of contemporary budgeting by reviewing recent surveys. Based on this the paper will analyse and compare modern budget improvement concepts suggested in literature such as “better budgeting”, “advanced budgeting”, “modern budgeting” and the “10 theses for planning”. The potential impact of those concepts on the budgeting process will be evaluated. The expected result and contribution of this paper is to develop a harmonized synopsis of modern budgeting concepts making it more transparent for companies how to improve the value added of their budgeting activities.

Key words: *controlling, better budgeting, advanced budgeting, corporate planning*

JEL classification: M41 Accounting

1. Introduction

Since there are no legal requirements regarding the controlling function in companies or the quality of results it should deliver (U Krings, 2012), the organization of the controlling system differs from one company to another. The "Controlling Process-Model" set-up by the (International Group of Controlling, 2012) gives a good overview on the portfolio of processes which make up the controlling function in modern companies. This systematic

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structure can serve as a basis to set-up and organize the portfolio of activities of a given controlling function (Laval, 2015b):

Table 1: Controlling main processes

1.	Strategic Planning
2.	Operative Planning and Budgeting
3.	Forecasting
4.	Cost accounting
5.	Management Reporting
6.	Project and Investment Controlling
7.	Risk Management
8.	Function Controlling
9.	Management Support
10.	Enhancement of organization, processes and systems

Source: (International Group of Controlling, 2012)

The scope of this article relates to process number two “operative planning and budgeting”. The paper aims to contribute to the understanding how the controlling function can improve the value added of this process and thus to contribute to the success of the company.

2. Problems associated with the planning process

In the following, the results of recent surveys regarding the planning process are further analysed to outline the current satisfaction with the planning process:

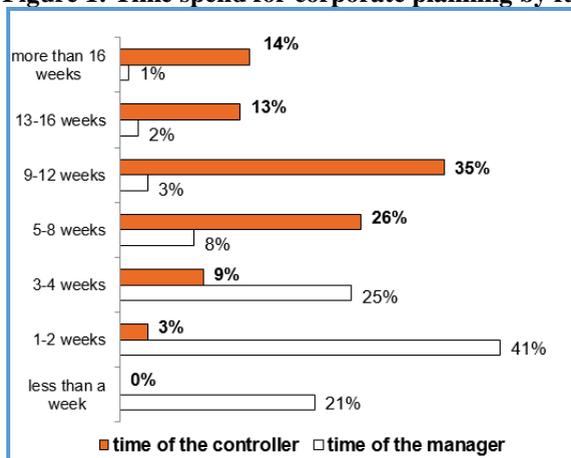
Table 2: Recent surveys regarding the planning process

Survey	Year
Voußem, Weber, & Rehring	2010
Deloitte	2011
V. U. Schäffer et al.	2013
Epstein, Witzemann, & Witze	2015

Source: Author’s table

The survey of (Voußem, Weber, & Rehring, 2010) analysed the time spent during the planning process differentiated by managers and controllers. For this, they evaluated 400 responses from company representatives of which 39% were head of controlling and 21% were Head of Finance and Controlling. 62% of the companies had a medium size between 50 and 1.000 million EUR, 23 % were of big size above 1.000 million EUR sales volume. Following this study, the majority of controllers spent more than 9 weeks with the planning while the majority of managers spent less than two weeks. The reduced planning time in comparison with the study from 2013 is due to the mix of company sizes in this analysis of 2010.

Figure 1: Time spend for corporate planning by function



Source: (Voußem et al., 2010)

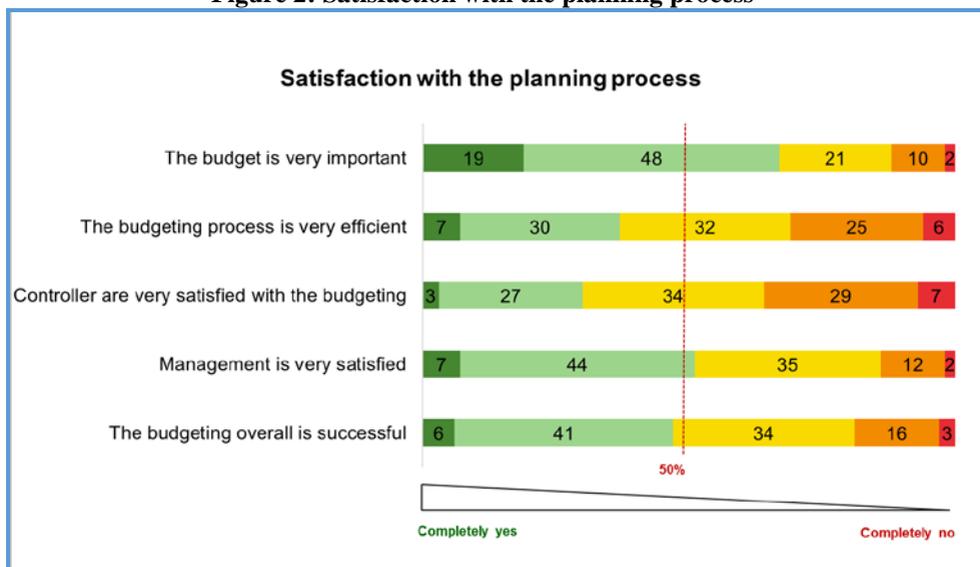
According to this study, the level of dissatisfaction rises with the time spent on the planning process. The increased dissatisfaction level of the controllers with the planning process in comparison with the satisfaction of the management can therefore be explained by the increased time the controllers typically invest in the planning process.

A study performed by Deloitte in 2013 with 597 companies worldwide confirmed this results stating that in 40% of the analysed companies the planning process took more than four months (Epstein, Witzemann, & Witze-, 2015). In same Deloitte survey 37% of the companies stated an insufficient

integration between operative and strategic planning and 61% stated that the planning was mainly focused on financial KPI.

The survey of (Schäffer, Weber, & Mahlendorf, 2013) evaluated 441 responses from company representatives of which 51% were head of controlling and 22% were CFO. Half of the companies had a medium size between 50 and 1.000 million EUR, 30 % were of big size above 1.000 million EUR sales volume. According to the study, the majority of respondents agree that the planning process is very important. However, almost half of the respondents is not fully convinced, that the current planning process is very efficient. Almost half of the managers are not fully satisfied with the budgeting process. Asking the controllers, the level of non-satisfaction rises to above 50%.

Figure 2: Satisfaction with the planning process

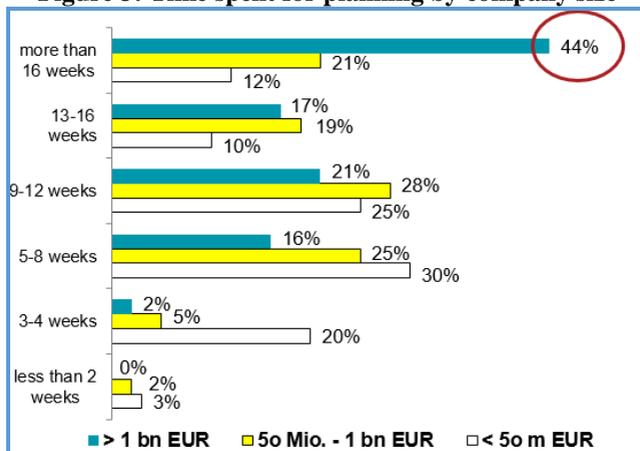


Source: Based on (Schäffer et al., 2013)

The study of (Schäffer et al., 2013) revealed that in 44 % of the big companies with sales more than 1.000 million EUR spent more than 4 months for the budgeting process. In medium size companies this is decreasing but still 40 %

of the companies between 50 and 1.000 million sales spent more than three months with the budgeting process. In average the companies in the survey spent 13 weeks for the budgeting process:

Figure 3: Time spent for planning by company size



Source: Based on (Schäffer et al., 2013)

The time needed to fulfil the planning is directly related to the level of detail of the planning package. The level of detail refers to the number of reporting lines on the one hand and the number of reporting periods on the other hand. Deloitte conducted a survey in December 2011 with 72 participants asking for the main drivers of high resource usage for the planning process. For 71% of the participants, the resource usage is highly correlated to the number of line items. 78% stated that the necessity of coordinating different planning sub-plans is a driver for the resource usage (Epstein et al., 2015).

The general criticism with traditional planning can be summarized with too much time and resource consumption for the planning process and too little guidance as planning output. The following paragraph will review recent concepts to improve this situation (Laval, 2015a, 2015c).

3. Review of concepts and measures to improve planning and budgeting

Because of the common dissatisfaction with the planning process, surveys and concepts describe measures to “fix the problem”. Following the survey of (Schäffer et al., 2013) 27% of the participants suggested measures they considered necessary to improve the planning process. The suggested improvements together with the number of responses are outlined below:

Figure 4: Suggested improvement measures



Source: Based on (Schäffer et al., 2013)

Beside single measures, literature suggests several improvement concepts which can be understood as bundles of “optimized measures” for improvement. The concepts vary the composition of ingredients and differ hereby in the intensity of change from traditional budgeting. The concepts which will be further analysed are “better budgeting”, “advanced budgeting”, “modern budgeting” and the “10 theses for planning”. The concept “beyond budgeting” will be briefly reviewed as well, although it does not include any measures to improve budgeting. It represents instead a management concept to overcome budgeting.

„Better budgeting“ is a concept to improve the efficiency of planning in an evolutionary way. The concept is the first of the concepts mentioned in

literature and is comparable moderate in the measures to improve traditional budgeting. The improvement suggestions are:

Table 3: Principles of “better budgeting”

1.	Improved IT support especially business intelligence (BI) to reduce redundant work
2.	Improvement of data models used in the budgeting
3.	Harmonization of data used to avoid of data inconsistencies
4.	User friendly planning forms and better training of the people involved
5.	Gently reduction of the budget detail

Source: Translated by the author from (Gleich, Greiner, & Hofmann, 2012; Paul, 2014)

An improved IT support depends in many cases on the firm size. This has two reasons. Firstly, in smaller companies the degree of complexity is not seen as high enough to require the setup of complex controlling tools. Secondly, due to the small-turn over, the costs for management systems in relationship with the turnover is too high and the smaller companies cannot afford the extra costs (Lavia López & Hiebl, 2015). Technical support for the planning process, e.g. with IT depends on the proficiency and the amount of resources the company wants to designate for the planning process.

“Advanced budgeting” was introduced by Jens Kopp and Jörg Leyk, both consultants of Horvath & Partners, in 2002 (Linder, 2003). It considers some of the suggestions of the “better budgeting” concept but includes further measures to increase efficiency and effectiveness of the planning process. The main suggestions are the following:

Table 4: Principles of “advanced budgeting”

1.	Usage of global budgets and focus only on relevant details
2.	Replacement of year end focus with rolling planning
3.	The strategic planning must give specific impulse and provisions for the operative planning
4.	Emphasis on all relevant KPI instead focus only on financial KPI
5.	Focus on business processes instead focus on business units
6.	Output oriented process focus instead focus on input orientated costs
7.	Set targets based on benchmarks

8. Usage of self-adjusting relative targets

Source: Translated by the author from (Gleich, Kopp, & Leyk, 2003)

“Modern budgeting” introduced by the ICV relates to the improvement of budgeting from two angles (Gleich, Kraus, & Michel, 2009). The first angle refers to processes and structures which include improving of simplicity, flexibility of planning as well the promotion of the better integration of strategic and operative planning (Becker, Leyk, & Riemer, 2015). The second angle relates to the contents of the planning. In total the ICV suggests “6 principles” of modern budgeting:

Table 5: Principles of “modern budgeting”

1.	Simplicity, meaning reduction on decision relevant planning contents based on limited input data preferable made top-down
2.	Flexibility includes planning with sensitivities and scenarios, usage of relative targets based on benchmarks, rolling forecasts, flexible usage and shifting of resources
3.	Integration of strategy, planning and forecasts. Only few but related targets. To management compensation should only be loosely connected to the budget
4.	Organization, explicit targets based on the overall targets, the organization must support short decision processes
5.	Value creation, understanding of the own value chain, the planning should be determined by targets, bottle necks and restrictions
6.	Transparency, the core ideas of the planning and the responsible persons for implementation have to communicated, the planning iterations should be reduced by top down targets

Source: Translated by the author based on (Gleich, 2015)

“**10 these for planning**” introduced from the Schmalenbach Group” (Günther & Schomaker, 2012) includes the following 10 rules for budgeting:

Table 6: 7 principles of the Schmalenbach Group

1.	The operative planning has to be connected with the strategic goals using value drivers
2.	The operative planning must follow important strategic trends
3.	No planning without connection to the measures
4.	The planning should follow benchmarks and work with relative KPI instead

	absolute KPI
5.	The budget planning has to consider the cornerstones of the business model
6.	The budgeting systems need to be integrated
7.	Usage of global budgets and top financial KPI allow a reduction of planning detail
8.	The production cost should be calculated with actual costs unless there are structural changes
9.	Rolling forecasts support a flexible planning
10.	The efforts invested in the planning must be reduced and reallocated between operative and strategic planning

Source: Translated by the author based on (Günther & Schomaker, 2012).

“Beyond budgeting” introduced by (Hope & Fraser, 2001) can be seen as an extreme position which replaces the budgeting as part of common management systems with 12 management principles with self-empowerment of the managers. The 12 “beyond budgeting” principles set by (Hope & Fraser, 2001) are as follows:

Table 7: Principles of “beyond budgeting”

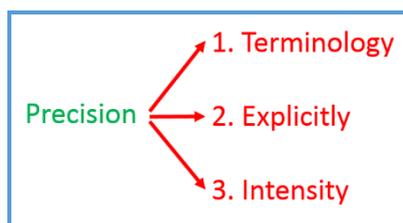
1.	Beat the competition
2.	Reward team-based competitive success
3.	Make strategy a continuous and inclusive process
4.	Draw resources when needed
5.	Coordinate cross-company interactions through “market-like” forces
6.	Provide fast, open information for multi-level control
7.	Create a performance climate based on sustained competitive success
8.	Build the commitment of teams to a common purpose, clear values, and shared rewards
9.	Devolve strategy to front line teams and provide the freedom and capability to act
10.	Champion frugality and challenge the value- added contribution of all resources
11.	Organize around a network of teams that dynamically connect their capabilities to serve the external customer
12.	Support transparent and open information systems

Source: (Hope & Fraser, 2001).

Beyond budgeting is not about how to improve the planning process but introduces a management philosophy in which planning would become obsolete. As this article is about the improvement of the planning system, there are no measures related to the planning which can be further analysed. The further analysis therefore concentrates on the other concepts.

The precision of the concept comparison is challenged by three factors. First, the terminology used is not the same between all authors. Second, some authors mention individual measures explicit while others use more general terms which might or might not imply details. For example, if one author explicitly suggests to improve the IT support of planning, this does not imply that other authors would exclude this measure. Third, the level of intensity for implementing the measures might differ.

Figure 5: Imprecision comparison of concepts



Source: Author's figure

In other words, the recipes cannot be compared in “grams and millilitres” but in more general terms. Despite potential inaccuracies in details, the following figure homogenizes the main measures discussed to reveal the bigger picture of alternative budgeting concepts. The measures were grouped in three aspects which refer to the planning detail, to the strategy and business model and to technical aspects:

Figure 6: Comparison of concepts and measures

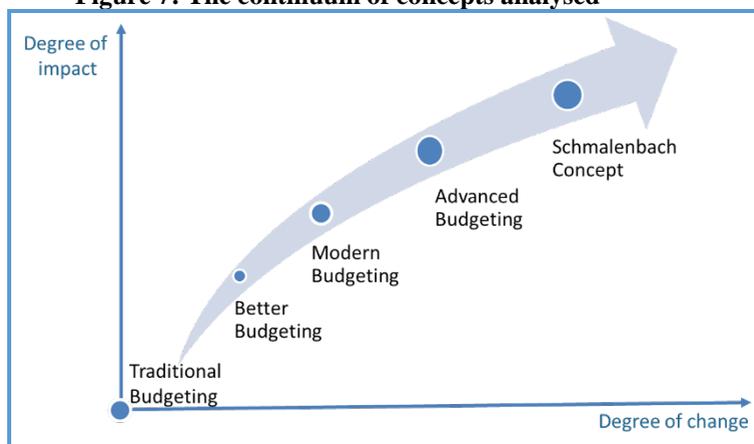
	Better Budgeting	Advanced budgeting	Modern Budgeting	Schmalenbach	Survey
Year of Introduction	2001	2002	2009	2012	2013
Aspect of planning detaill					
Reduce the level of detaill	x	x	x	x	x
Usage of global budgets		x		x	
Self adjusting relative targets		x		x	
Strategy and business model					
Integrate mid term and strategic planning		x	x	x	x
Inclusion of non financial KPI		x		x	
Inclusion of measures				x	
Usage of benchmarks		x	x	x	
Output orientation		x			
Inclusion of the buiness modell			x	x	
Communication and training					
Increased top-down orientation			x		x
Technical aspects					
Flexibilization using rolling forecasts		x	x	x	x
Improved IT support to automate planning	x				x
Avoidance of data inconsistencies	x				x

Source: Author's figure

4. Conclusion and outlook

The above analysis made transparent, that the reviewed concepts have a different degree of impact on the budgeting process. The concepts can be seen as a continuum of from the traditional budgeting on the one side until the concept of the Schmalenbach group with the most measures included in their concept:

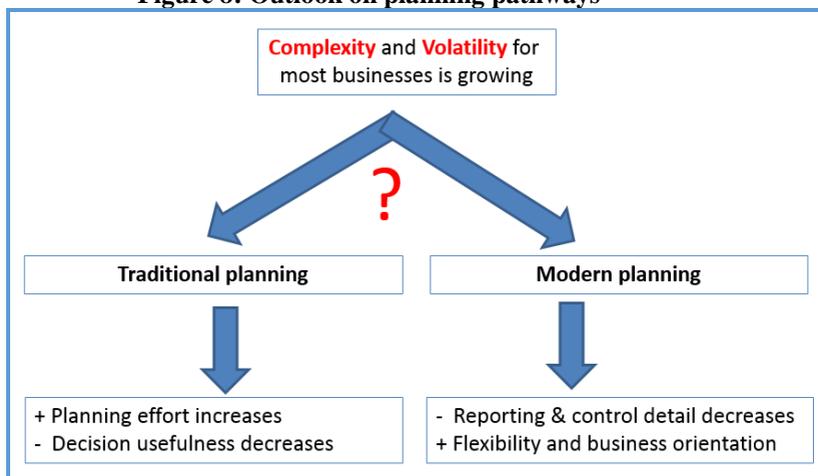
Figure 7: The continuum of concepts analysed



Source: Author's figure

The analysis further revealed, that all concepts explicitly emphasize the reduction of planning details. The reduction of planning details would enable companies faster, more flexible and with less resource consumption. The complexity and volatility for most businesses is growing (Forum, 2011) and the combination of both will further increase the challenges corporate planning challenges (Rieg, 2015). Because 40 % of the major companies spend more than 4 months for planning the next year, the value added of traditional planning gets smaller and smaller. To avoid this planning should shift from traditional planning approaches to more modern planning approaches:

Figure 8: Outlook on planning pathways



Source: Author's figure following (Rieg, 2015)

It can be assumed that the traditional planning with endless planning details reached its peak and that the increasing demands on the planning system will lead to more lean and business orientated budgeting systems in the future. Still it needs to be analysed why so many companies still face troubles to perform this step to modern planning concepts and how the obstacles on the way to modern planning can be overcome.

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