Budgeting process: the organizational reality

Editor's note: This is the second in a series of three budgeting articles by Organizational Systems Inc. The first article appeared in October, 1979. It covered basic aspects of budgeting, including types and preparation. The third article in the series will cover the budget as a tool for control, a form of progress report, a standard for performance evaluation and a source of information for future planning.

In the first article "ABC's of Budgeting" we mentioned two aspects of budgeting — one as an accounting process and the second as a managing process. In that article, the main focus was on the accounting aspect and how it relates to the managing process. It is essential to understand the accounting concepts involved in budgeting because accounting is a common denominator for all the different activities that go on in any organization.

In a similar vein we put forth two different views of a budget, one as a set of resource allocation decisions and the other as a plan of activities for a specified period. For the purpose of putting a budget together, we again emphasized the planning view rather than the resource allocation view of the budget. What is the true picture then?

Although accounting is the common denominator for all the activities occurring in the organization, it has its own limitations. By its very nature, accounting produces a record of only the financial transactions. Who spent the money on what, and where did the money come from; this is the essence of accounting records. It will not say how money spent on a particular fertilizer at a particular time helps the revenue to go up during the season. A purely accounting view of budgets may interfere with the logical relationships between these two events. It is unfortunate, but true, that conflicts arise between managers who hold such different views and cannot communicate with each other.

The same is true of budget seen as a resource allocation decision. Some decisions must be taken as regards how the revenues are to be utilized for acquisition and maintenance of equipment and facilities. Who should get a larger share of this total pie — somebody whose work directly earns the revenues for the organization, or somebody whose work maintains the quality of facilities which ultimately provides satisfaction to the member and player? It is obvious that two managers with differing natures of work will also hold different and mostly opposing views.

It is an organizational reality that managers have their doubts and beliefs about what a budget means. These are lost under the surface in their day to day activities, except when they mutter about money being short for some of the activities which they consider important. However, these same differences of opinion surface glaringly when it is time for a budget, and, if not given proper attention and action, become topics of open conversation during professional meetings and conventions.

It is relevant, therefore, to look at the budgeting process as a meeting ground for different professionals with their own skills, competence and experiences, and how they play different roles in the preparation, presentation and approval of a budget which they will implement in the future to produce services that will satisfy the players and give them their money's worth.

Points of view

We shall try to understand the roles different actors play in terms of a "can do" approach. "Can do" essentially means three things:

(i) the scope of what a particular manager can do;
(ii) the limits on what a particular manager can do; and
(iii) the strategy to be adopted so that a manager can do what he wants to do.

It is possible that each one of us has either used the "can do" approach successfully, or has seen someone else use it successfully at some time or another during a budget process. A manager or committee member can play one of the four roles: someone who prepares a budget; someone who presents a budget; someone who approves the budget; and finally someone who implements the budget. We shall discuss in detail what each one "can do."

Who prepares the budget?

Scope: A superintendent who prepares the budget has two main concerns about the scope of what he can achieve. First is the scope for getting as large an amount of money as possible for his operations or projects. The second concern is to create as much cushion as possible. Most superintendents feel they need the cushion to protect themselves in case they underestimated the costs or overestimated the revenues.

Such behavior should not be attributed to greed. Although we all come across our share of greedy managers, more often than not it is the manager's devotion to his job and to his profession that makes him aim for as large a budget as possible. Every superintendent has a cherished dream of acquiring a particularly versatile and useful piece of equipment that also happens to be quite expensive, or he wants to do a little better job of the regular operations and that always requires a little extra expenditure. Inadvertently, his past requests for the extra amount of money happen to have been rejected, but he hopes that this time there may be a better chance of getting it.

The desire for a slack or padding normally arises out of a defensive posture. If the manager bases his estimates on his current information about prices and if later the prices go up, the superintendent runs the risk of overstepping his budget and looking incompetent in the eyes of the higher ups. As we shall see later, this tendency is definitely related to the uses the budget is put to.

Limits: What the superintendent actually achieves with respect to the size of the budget and the slack is limited by several factors. The first factor is the amount of resources or income available to the organization. In most cases, the budget committee uses conservative estimates about the size of income. This restricts the size of the total pie. The second factor is the competition offered by other managers to get their inflated budgets through. The third factor is what projects fit into the goals visualized by the approving authority. The fourth factor, and not one to be ignored, is the committee members' knowledge of operations. All these factors determine what the superintendent finally gets for his department.

Strategy: A fairly common strategy used by superintendents to get their

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projects through is informal persuasion. This is also called "soft selling." It is commonly carried out through casual talks with budget committee members accompanied by hints as to how a particular project is becoming more and more essential. There are a few instances where such "soft selling" has met with success.

The disadvantages of "soft selling" are two-fold. One is that the budget committee members tend to be weary of superintendents who keep harping on their projects at the slightest opportunity year after year. The second disadvantage is that the superintendent is seen as the one who needs the project rather than the organization needing it. On the face of it, such a distinction seems too fine, but in reality the superintendent is put in a manipulative position. It is the club and the members who want a certain quality of course, and the superintendent is there to ensure such quality. It is an irony then that the superintendent should have to "sell" a project.

A far better strategy, therefore, is to prod the committee into a bit of soul searching, and force them to decide what they want. This can be done with ease and no more effort than is needed to prepare your plans. Along with the projected budget, it is necessary to prepare an information sheet (see Table 1, page 24) that summarizes possible changes in plans, eg. adding or dropping a project, changing the level of some operations; a list of items (with their account numbers) which would require correspondingly more or less expenses; and most important of all — the consequences of such a change in terms of quality of operation and how reputation/revenues are likely to be affected. The final column is for the remarks of appropriate approving authority as to the changes they feel are appropriate in accordance with the goals of the organization.

This information sheet technically deals with the development of alternatives. Since the superintendent who prepares the budget is the most likely person to be conversant with details of the operation, the information sheet will provide accurate data about exactly how changes in budget amount will affect operations. Such information is valuable for the authority that makes a decision about resource allocation. In addition, if you need $5,000 for a particular operation, then you are not likely to be offered $2,500 as a compromise figure. The approving authority will either have to provide adequate funds or drop the project entirely.

This strategy forces the committee to make a hard decision with concrete information. This avoids the situation where budgeting process turns into either a gamble or haggling for the piece of pie. An additional precaution is to have the information sheet ready and circulated in advance to the budget committee members so that they find enough time to chew on the priorities they have. The notes on the consequences of each change also help them understand how the change will affect performance of other departments.

Who presents the budget?

The practices regarding who presents the budget to the approving authority vary greatly from place to place. In a large organization, the budget passes up through a number of levels, and the person who presents the budget may be far removed from the level where the budget is prepared. In a small organization, the department heads who prepare the budget are requested to attend the budget meetings, and are allowed to defend their budgets and asked to make compromises. In the field of club management the General Manager is expected to present the budget and get it approved. It is, therefore, essential to look at his role in the budgeting process. We shall start with the assumption that the person who presents the budget is different from the one who prepares the budget. If such is not the case, then the same activities can be carried out by the persons who both prepare and present the budget.

Scope: The manager who presents the budget performs the function of giving a complete view of what different activities will be carried out during the budget period, and how the resource allocation will maintain a balance between all these activities and keep them smoothly interlinked.

Limits: The manager is limited in this respect by two facts. One is the extent to which he is informed about the nature and details of all the operations; and second is his own professional background. These two are not independent. The controversy over the General Manager concept clearly points out that a General Manager tends to favor departments in which he has had most experience. Many times such favoritism is not intended, but simply occurs due to the fact that he can see behind many of the demands by the particular department. At times the past experience is an asset, and at other times it is a limitation in the sense that it prevents him from taking a balanced view of the budget.

Strategy: In order to avoid problems of favoritism and thereby causing unbalanced operation of the club, the person who presents the budget needs to perform the following activities. First, the manager must put together all the departmental budgets. Second, it is essential to confirm the nature of effects of changing certain operations in one department on some other operation in another or same department. Overstated claims about such consequences can be weeded out through such confirmation. Third, prepare sets of operations/projects that will be affected if one of the projects were to be dropped. Fourth, ask the departmental managers for their own priorities of certain projects. This information is vital, particularly when the manager who presents the budget is not aware of technical intricacies in some departments. These four steps should produce all the information needed by the approving authority to make effective decisions.

Who approves the budget?

Scope: The budget approving authority which is normally the budget committee has two functions to perform. One is to set goals for the organization. Sometimes the club's goals are set by some other body, eg. the Board of Directors. In such a case it is up to the budget committee to operationalize the goals in terms of what actually needs to be done. The second function is to ensure that budgets approved on the basis of operationalized goals are passed down with clear information about what criteria were used in the actual approval decision.

Limits: Most often the functioning of budget committees is hampered by conflicts about what are the appropriate goals for the organization. If these conflicts are not resolved prior to the approval stage, the entire budgeting process will be distorted. Clear-cut goals are the basis of effective decision-making.

Strategy: The best strategy for the budget committee is to collect information from the Board of Directors and/or club members about what they want. This information is to be used to prepare a statement of goals. There is no doubt that influential members can get in what they want,

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however, such political processes are inevitably judged and dealt with differently in different places.

Since these goals are used as criteria for approving the budgets, it is necessary to communicate the goals to the departmental managers along with the approved budgets. This step will bring to light any hidden goals used by budget committee members, if such is the case. It will also eliminate politicking by departmental managers, thereby reducing unnecessary animosities.

Who implements the budget?

Scope: There is a general misconception that it is the General Manager who implements the budgets. Implementation is different from control. The departmental managers implement the budget. The General Managers may control it through information about actual implementation. The person who implements the budget can perform two functions. First is to utilize the resources approved in the budget to do the best job possible. The second is to generate information about the exact manner in which resources have been utilized.

Limits: The person who implements the budget is limited mainly by his attitudes. If the resources approved are sufficiently adequate, then it would cover the cost of actual activities as well as keeping proper records. Most often managers responsible for implementation concern themselves only with the technical aspects of the job. Their attitude towards keeping records is that of apathy. "Too much paperwork" is a phrase heard most often from professionals.

Strategy: Keeping records of daily activities is as crucial a step as the actual performance for the person who implements the budget. The records should serve them in preparing future budgets. It is also helpful in evaluating their performance. The importance becomes obvious when we shall deal with the use of a budget as a tool for performance evaluation.

Outcomes of the process:

It is not too difficult now to visualize the outcomes of a budgeting process. Outcomes are not to be confused with uses of a budget, which we shall talk about at a later date. To make it brief, there are three outcomes of a budgeting process:

Defining goals and priorities:

As made clear throughout this article, different actors in the budgeting process come together with different views, skills and objectives. These differing objectives get gelled into a coherent set of goals during the budgeting process if carried out properly. Hidden goals are brought to light, overambitious goals get trimmed through information about technical limits, and professional competence can boost up new explorations.

Organizing your tasks:

Detailed planning occurs during the preparation stage and departmental activities get interlinked during the presentation and approval stages. Not only do the tasks get organized but understanding can also be achieved between different departments. The information system essential to the actual control of budget implementation, and without which budgeting would not be meaningful, gets actually established during the budgeting process itself.

Patterns of influence:

Even if the budgeting process is distorted, it is easier now to read the different patterns of influence that are considered to be part of the political process and, therefore, difficult to comprehend. In fact, in some places the budgeting process is deliberately carried out in a distorted fahsion to maintain certain patterns of influence. Such distortion, however, is a double-edged sword. While maintaining the patterns of influence, it also hinders proper organization of work and may ultimately cause far more serious problems.

Summary:

The process occurs in five stages. Each stage must meet its goals through the performance of certain activities. The table on page three shows who is to perform the activities. Practices as to who carries out the activities in stage 1 and 3 will vary from place to place. It is essential, however, that these activities be performed or else the process will be distorted. Such distortions occur much more often than is commonly believed.

Consideration of budgets remains incomplete without proper attention to the uses to which a budget is put. These will be dealt with in the last of this series of articles. □

Table 1.

Change in Project/Operations	Accounts Affected				Consequences	Remarks of Approving Authority
	List of Accounts	Account No's	Change in Expenses			
			Increase	Decrease		
1. Drop Project A	1.____	#____	$____	$____	1.	
	2.____	#____	$____	$____	2.	
	3.____	#____	$____	$____	3.	
	.	.	.	.	.	
	.	.	.	.	.	
	.	.	.	.	.	
Total			$	$		
2. Add Project B	1.____	#____	$____	$____	1.	
	2.____	#____	$____	$____	2.	
	3.____	#____	$____	$____	3.	
	.	.	.	.	.	
	.	.	.	.	.	
	.	.	.	.	.	
Total			$	$		
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