

MODERN APPROACHES TO BUDGETING AS A METHOD OF FINANCIAL CONTROL

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Abstract: The article treats of the need for the implementation of financial planning as a basic management tool in a competitive environment and present instability. Several definitions of the term "budgeting" from different perspectives are given. The goals and functions of budgeting, through which it exerts its economic substance, are described. Also there are described current budgeting models and their advantages and disadvantages. The key problems of the traditional budgeting are identified, and new tools and techniques to replace it are proposed. Hereinafter each proposed method, its specifics and principles are described in more detail. As a conclusion of the article, possible positive impact of new budgeting tools as a method of financial planning is described.

Key words: financial planning, budgeting, management tools, budgeting models, moving budgeting, balanced scorecard, managing for value, beyond budgeting round table.

At present problems of financial planning, which is the definition of adequate resources from different sources and their rational allocation over time and structural subdivisions of the enterprise, are particularly relevant. Competition and instability necessitate the introduction of planning, monitoring and analysis of results in terms of budgeting as a primary management tool providing leading of accurate, complete and timely financial information. There are several definitions of the budgeting process.

Budgeting is a way of financial management, which consists in building of organization budget based on budgets of individual units (activities) (Kucherenko, 2010).

Budgeting is the process of drafting and adopting of the commercial organization annual budget, and subsequent control over its execution (Sertakov et al. 2009).

Budgeting is a management tool of resources distribution (planning), expressed in monetary and physical terms, to achieve strategic goals of the company (Novikova, 2009).

Budgeting can also be represented as a process of analysis or control over decisions, through which company evaluates the appropriateness of the company assets actual use.

Consequently, budgeting is a capacious concept that includes methods and processes of financial management, as well as resource allocation management tool, allowing achieving certain goals. Budgeting covers a range of tasks:

1. Operations planning, that provides the commercial operations objectives achieving.
2. Coordination of different businesses, departments, interests of workers, and groups in the whole organization.
3. Operative finding of departure of actual organization results from planned ones; detecting and analyzing of their causes; timely decision-making.
4. Effective control over the consumption of materials and financial resources.
5. Motivation of financial responsibility centers managers for achieving of their business units goals (Kochnev et al., 2007).

Budgeting also shows its economic substance through its functions:

1. Planning and coordination.
2. Decision-making and delegation of authority.
3. Activities evaluation.
4. Assessment and reassessment of trends.
5. Interaction and motivation.
6. Monitoring and analysis.

The table 1 shows the budgeting model.

Formally, all models comply with the generally accepted concept of budgetary control. All of them possess features that distinguish budgeting in certain management technology:

- 1) the presence of financial responsibility centers (although in some cases they do not exist);
- 2) the presence of related budgets;
- 3) the possibility of improving and optimizing of the system (Karpov, 2006).

Table 1

Budgeting models

Budgeting model	Advantages	Disadvantages
1	2	3
I. Model, covering all activities of the company		
1. Integrated	<ol style="list-style-type: none"> 1. focused on the enterprise specifics; 2. sufficiently detailed planned and actual figures; 3. covers all areas of the company. 	<ol style="list-style-type: none"> 1. quite a long period of development; 2. high cost; 3. high risks in achieving of the desired result.
2. Universal	<ol style="list-style-type: none"> 1. short-term development and implementation; 2. chance of a relatively simple accounting internal circulation; 3. rapid planning and consolidation of evidence. 	<ol style="list-style-type: none"> 1. absence of functional plans.
II. Budgeting model of specific areas of economic activity		
1. Production activities budgeting	<ol style="list-style-type: none"> 1. quick and cheap implementation, which allows short term gain control of the most relevant activity areas; 2. effective functioning of the model due to the small number of budgets and their simplicity. 	<ol style="list-style-type: none"> 1. sometimes not taken into account factors that affect the model; 2. low level of budgets reliability and efficiency.
2. Cash flows budgeting	<ol style="list-style-type: none"> 1. short implementation time; 2. low cost of implementation; 3. most acceptable for the Russian economy. 	<ol style="list-style-type: none"> 1. no specific date of funds receipt; 2. divergence of actual receipt of funds from the accounting data.
3. Inventory flows budgeting	<ol style="list-style-type: none"> 1. low cost and time of implementation; 2. possible profit management, purchasing, production, sales; 3. possible control over direct and indirect costs and management. 	<ol style="list-style-type: none"> 1. insufficiently complex and dependent on investment and financial flows; 2. lack of completeness and accuracy of financial results.

Budgeting is one of the main company management tools. It has been actively used by companies as a financial planning technology. However, in recent years, traditional budgeting is increasingly criticized. The main problem of traditional approach is the lack of clear connection between strategic management and budget planning. Thus, it is possible to identify the main problematic aspects of traditional budgeting :

- employees cannot fully understand the corporate vision;
- there is no possibility to connect corporate strategy with the objectives of individual departments and specialists;

- lack of communication between strategy and resource allocation, as it is traditionally carried out on the basis of previous decisions, without considering what results it is necessary to achieve in the future.

- feedback in the traditional budgetary control is used for comparing actual costs with the figures given in the budget, but not for direct comparison with the results (Kucherenko, 2010).

At present, it is necessary to replace the outdated traditional methods of budgeting, which blocked innovation, or at least supplement their activities with new devices to improve the performance of companies.

Among the tools and techniques that are successfully used to replace traditional budgeting include moving budgeting, balanced scorecard, managing for value, beyond budgeting round table.

The method of moving budgeting is based on budget planning period division for years, quarters, months, and weeks. This enables company to react to changes in the environment and make appropriate adjustments to the targets. It also enables management of the company to take decisions in the longer term at the end of the financial year that would be impossible for a fixed budgeting (Sertakov et al., 2009)).

The Balanced Scorecard enables to perform management strategy simultaneously in 4 areas: finance, customers, business processes, learning and growth. Additionally, the Moving Budgeting allows the information processing on the prospects of development of the organization. Benefits of Moving Budgeting are that indicators are summarized in a convenient schedule, which records the tasks measuring parameters of progress, specific targets, projects or programs required to perform tasks.

Managing for Value provides opportunities for management aimed at achieving maximum value (shareholder value) of the company. Basing on the assumption that "cash flows drive value", the concept of "Managing for value" allows to select the main task of management which has such important characteristics as efficiency, link between strategic objectives and the capital market cost, which helps build sustainable profitability and growth rate of shares.

Managing for Value highlights 4 main processes affecting the company value:

- way of management organization;
- strategic planning;
- resources allocation;
- performance management and compensation of senior executives.

Performance management without budgets and fixed requirements (Beyond Budgeting Round Table - BBRT) based on the following principles:

1) management principles using BBRT:

- focus on potential maximizing;
- system of rewards and evaluations based on previous experience;
- adjustment of the current action plan in accordance with situation;
- availability of resources on demand;
- correction of intra- action in accordance with the actual demand;
- control in terms of good governance principles and according to the relative performance indicators.

2) the principles of devolution :

- the control system should be based on clearly formulated principles;
- employees should be able to make their own private decisions without departing from the organization's principles and objectives;
- decision-making responsibility should be shared between members of customers relations team;
- staff should be responsible for the outcome of the customer relations;
- information policy of the organization must be open (Novikova, 2009).

Everything forgoing allows to conclude that budgeting is primarily a tool for effective company management. This tool allows you to plan financial indicators, as well as to manage business performance and to achieve strategic goals and objectives. Budgeting is a technology of business management, reliable implementation of which can significantly improve performance and competitiveness of the enterprise. However, there are certain aspects of the problem that have been identified in the article. These aspects are currently being explored by experts, both in Russia and

abroad. In this area research is conducted, modern methods of budgeting are developed. Their competent combination will enable enterprises to reduce costs associated with budgeting and improve management efficiency.

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