The Role Of The Budgetary System In Achieving Enterprise Performance

~ Ph. D. **Adriana Mihaela Ionescu** *(Politehnica University of Bucharest, Romania)*
E-mail: amihaela.ionescu@gmail.com

Abstract: *The long-term existence of an enterprise can only be assured by achieving of the performance. In the current economic climate, the companies pay more attention to effective management of resources and use for this purpose different management tools of performance. Along with material and financial resources necessary to productive activities, the people in an organization represent more than a source of cost or consumption. Their systems of needs and values, along with degrees of motivation and satisfaction determine individual and organizational performance. This is why the managers are tasked to reconcile and correlate the economic performance of the organization with the skills and capabilities of the employees. Flexible approach to business organization and permanent training of the human resources are the ingredients of success of an enterprise that aims to adapt to the current business environment changes.*

Keywords: performance, budget, resources, motivation, learning
JEL Classification: M19, M41

1. Introduction

The performances of the organizations are the result of mobilizing resources they have, primarily of the human resources. In this context and to face an increasingly fierce competition environment, managers explore all methods for flexibility and adaptation to internal and external requirements of the organization.

In this paper we propose highlighting the features of the budgetary process and its role in achieving performance within organizations. Moreover, the study shows the importance of the employee motivation and link between motivation, learning and performance.

The paper highlights the importance of the relationship between strategy, resources and motivation, through the budgetary process in the context of a stable environment and in the context of crisis. The study shows that the alignment of organizational objectives with those of employees is an important driver in improving the productivity and growth of the entire company.

In the first part of the paper are presented the concepts and the utility of the budgets as performance management tools. How the instrument is used and the functions assigned to it vary from one organization to another due to influence factors inside and outside the organization: strategy, organizational structure, employee motivation, technology, external environment.

In the second part of the paper, we highlighted the role that employee motivation has in achieving the objectives of the organization. We affirm strongly that motivating staff to achieve organization's objectives can only be performed by a set of concerted policies and actions, both financial and non-financial that meets the aspirations of employees, their needs for personal development, esteem and self-realization.

At the end of the paper we have opened the door for a new direction of research: the importance of continuous professional training and of organizational learning. Through the process of the continuous professional development that permanently ensures a high level of competence and creativity embodied in inventions and innovations, the human resource of the company develops and perfects itself and contributes to the evolution of the organization. On the other hand the organization, through the culture that it develops, stimulates the necessary flexibility of the change that it anticipates according to the future requirements of the internal environment and the external one.

The subject approached in our work was the object of numerous research reflected in academic articles, in professional journals, in accounting and management control books. Existing studies support our demarche and are summarized in the specialized literature section.

2. Literature review

Numerous studies in various fields such as accounting, management, sociology, psychology, education have analyzed the connection between different aspects related to the life of the organization, performance, motivation and learning. Defining the objectives of the organization, establishing the performance criteria of the employees, evaluating the performance in relation to them, maximizing the learning and development process contribute to the success of the people and organization. Setting of clear and measurable objectives for employees and arising from the strategic objectives of the organization are in the ten top practices of successful companies.

The companies consider financial forecast as the main activity of planning within the enterprise (Vintila, 2004), an effective tool in the fight for survival, which acts to eliminate, if possible, random phenomena. The companies set their goals to such an extent that if they are achieved, enabling performance improvement. It becomes necessary the development of projections included in the budget, which are used by companies as a performance management tool.

The word "budget" is taken from English, but it seems that its origins are found in old French, where "budget" (petite bourse) represents a small market, a sum of money, always insufficient. The budgeting system appeared in the 1920 -1930 in USA (Du Pont and General Motors), then in France (Saint Gobain and EDF) and Germany (Siemens). At the basis of the spread of the budgetary practice have stayed several reasons: a way of rationing the money (that entered first in families and local communities, and then entered the life of the companies), covering a period of stability and growth, decentralization of organizations that compel the use of connection tools and necessity that involves using more carefully of resources scarcity (Albu and Albu, 2003). In time, the budget became the most famous instrument of the first half of the twentieth century (Weber and Linder, 2005). In the understanding of Merchant (1981), a budgetary system is a combination of information flow, administrative processes and procedures, it is also part of the short-term planning and control system.

Many authors show that the role of the personnel and of the learning processes is essential in the context of the strategy developed by companies (Savall and Zardet, 2001; Venkatraman and Subramaniam, 2002). Human resource policy tends to be of paramount importance within organization. Relation between strategy and human resources gets new values and the strategic capabilities are developed through knowledge contained in people. Also, now it is identified a strong link between employee capabilities and firm performance (Venkatraman and Subramaniam, 2002).

3. Paper Content

3.1 Enterprise budgets - performance management tools

Two of the concepts that dominate modern management of organizations are the value and the performance. To measure the performance is to assess the value and to know the causes of the value means to "explain" the performance (Albu and Albu, 2003).

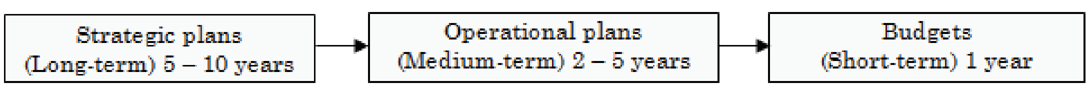
The company sets its goals to such an extent that if they are achieved, enabling performance improvement. It becomes necessary the development of enciphered projections in the budget, which are now used as tools of performance management.

The forecast is a special feature of the process of management and decision-making, because it establishes the actions to be taken in the future and that will cover the entire activity of the company. The financial projections are materialized in a company's financial plan which is a complex set of provisions deducted from the firm's strategy and adapted to market conditions, developed and put into practice by top management, which seeks to materialize the forecasts of market competition, internal factors, the economic environment etc. (Costache, 2003). It is a response given to the inherent uncertainty in the enterprise operation. Therefore, the companies consider financial forecast as the main planning activity within the enterprise (Vintila, 2004), an effective tool in the fight for survival, which acts to eliminate, if possible, random phenomena. If this instrument is missing, the enterprise risks to pass from working state to that of reaction at the influence factors.

The first step in forecasting is to prepare strategic plans treating the global objectives on long term (5-10 years) and operational plans detailing the overall objectives in medium term (2-5 years). Each company has a certain strategic objective aimed at strengthening the business (capital growth, increasing profits, maintaining market share, achieving leadership position in a certain area, etc.) and which will be implemented in the strategic and operational plans.

The second step is the development of budgets, which is done by detailing the strategic plans in short term plans (usually one year) for enterprise's activities. The process of budgets drawing up is one of the most important in the prediction and control scheme within the enterprise, by which can be find the right way to achieve the proposed objectives and deploy profitable economic activities.

The relationship between strategy and budget can be presented as:



Like all management tools appeared in the early twentieth century, the duo planning - budgeting is based on the environmental stability and involves optimizing internal flows. In a predictable environment the budgeting allows optimize the production, extends predictability inside and simplifies resource allocation mechanisms (Berland, 2000).

As defined by the Institute of Certified Accountants in the accounting and management field of the U.S., the budget is "a quantitatively expressed plan in monetary terms, prepared and approved for a time, which usually indicates the size of the income planned to be reached and / or expenses to be incurred during this period and the capital necessary to achieve the purpose".

The budgetary system of an organization is a system of short-term forecast management, which performs a technical dimension - the accounting and statistical aspect of budgets and budgetary control - and a sociological and psychological dimension - motivation system that cause staff to work towards the sense determined by budgets. To ensure that a budgetary system is functional, the following conditions must be satisfied (Malo and Mathe, 2000): (1) to translate business strategy, (2) to comply with the organizational structure, (3) to predict both objectives and means and resources, (4) to provide "a priori" control, (5) to ensure tracking achievements and (6) to involve "a posteriori" verification.

The budgeting process requires the development of three major distinct tasks but equally important: preparing of budgets, drafting of budgets and budgetary control. According to many researches, most of the budgets which do not reach their goals were not properly planned and monitored. Often, organizations go to step of drafting the budget without previous training and later, in the budgetary cycle, have no reference points.

In the preparation stage of budgets it is pursued to establish a strategy and identify factors of influence. General direction of an organization is transmitted through its strategic objectives. Since the annual budget is a part of the firm's strategic plan and reflects a certain stage in order to achieve the settled objective, it is necessary to identify hypotheses that will be carefully tracked and will take into account influences of environment in which the organization operates.

The environmental analysis is done routed through a specific marketing tool, SWOT analysis, which will highlight the internal hard points (S = strengths) and weaknesses (W = Weaknesses), also external opportunities (O = opportunities) and external threats (T = threats). The analysis of internal and external environmental factors should guide the strategy selected by managers in order to fruition of the internal hard points and of the external opportunities while avoiding the external threats and internal weak points. The success in business depends on the way that management knows how to respond to environmental factors, uncertainty and instability in the strategic planning process. They have to capitalize on the numerous strengths and take advantage of existing opportunities.

SWOT Analysis

STRENGHTS strong image the involvement of the management team positive attributes of staff (knowledge, education, contacts, reputation) low cost of labor force cheap labour equipment devoted customers high volume of sales existing distribution channels	WEAKNESSES low level of technology limited resources financial difficulties / lack of liquidity low involvement of the management team inexperience unmotivated / large staff reduced distribution network difficulty in changing old mentalities
OPPORTUNITIES a new distribution network new investors new markets export growth	THREATS financial crisis inertia of shareholders subordination towards suppliers foreign competition unstable legal and institutional framework

Along with environmental determining factors, in the budgetary process will be used all existing tools of information as systems of measurement, control and informational support.

Drafting budgets is another step in the budgetary process, through which is performed the allocation of resources per responsibility centers. First are prepared the following: shopping budget, investment budget, purchasing budget, production budget, cash budget and overheads budget. Subsequently are prepared synthesis documents: treasury budget, forecast effects account and forecast balance sheet. Between the budgets developed by the company there is a strong connection and viewed in their entirety, they must form a coherent picture. If a budget is influenced by a certain factor, the effect of its influence spreads on other budgets.

Budgetary control. The budgetary process does not end with approval of the budgets. Periodically, during the year, the provisions of the budgets are compared with the actual budgets. The control technique leads to the analysis of observed deviations in order to take required corrective decisions.

In terms of budgeting forms, several authors (Hope si Fraser, 2000; Berland, 2002; Weber and Linder, 2005) talk about Budgeting(1), Better Budgeting(2) and Beyond Budgeting(3).

(1)Traditional budgeting is the annual process of planning and resource allocation.

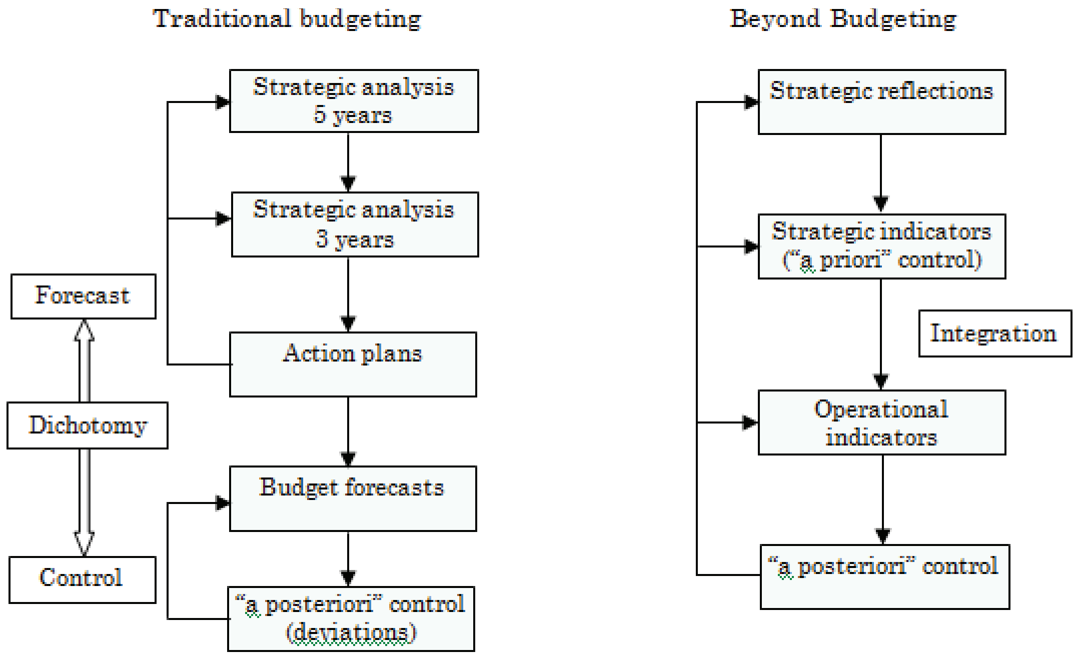
(2)Improved budgeting (better budgeting) implies renewal and modernization of budgets through improving the entire process of control. The specific techniques are the following:

- Zero Base Budgeting - all passed data are ignored in the budget construction process
- Activity-Based Budgeting - is based on the ABC method of cost calculation and is included in the strategic planning process
- Value Base Budgeting - involves outward orientation and value analysis
- Rolling Budgets - through which businesses can cope with unforeseen changes, without affecting the planned performances

(3)Beyond Budgeting is a method that involves giving up the traditional budgeting and introduces some tools such as Balanced Scorecard and Benchmarking.

In recent years traditional budgets have been subject to several critics, mainly targeting its inability to adapt in conditions of uncertainty. These criticisms have been initiated by a group of American researchers from CAM-I (Computer Aided Manufacturing International), led by Hope and Fraser, who proposed the Beyond Budgeting method. The process has three phases (Berland, 2002): development of the strategy, development of action plans consistent with the strategy and sliding forecasts for a year.

The traditional budgeting stages and the Beyond Budgeting stages can be presented comparatively as follows (Wegman, 2003):



Typically, the budgets of enterprise are prepared with almost a year prior to the effective deployment of the operating cycle. During this time, changes may occur and the managers are forced to take them into account, even if these are not included in the initial budget. Therefore, the budgets must describe the outline of financial developments and must provide a leeway within their provisions and the opportunity to be reviewed.

Many researches in the field show the importance of the traditional budgeting process proven practically in times of stability. But in crisis, budgets have a reduced capacity to play attributed traditional roles: setting objectives, allocating resources and motivation. This is explained mainly by the high degree of uncertainty which coerces the budgets to deviate from their goals. In the conception of many authors, in a turbulent environment, the budget is used as a reflection tool to understand the environment (Gervais, 2009). This turbulent environment results from the uncertainty regarding behavior of the actors (the unpredictability of their actions) and from the dynamic complexity of the environment in which they operate (Gervais, 2009).

Despite the turbulent context, using the budgetary tool as a vector in order to achieve performance the organizations choose to pay continuous attention to dynamic relationship between objectives and resources, not only during the preparation of the budget, but throughout the budget year. The instability compels the using of the rolling budgets or even practices of management without budget. In the context of crisis, the budgets play a new economic role: to meet the information needs of investors (Bescos, 2011).

3.2 Motivating staff in the budget execution. Competencies, responsibilities, rewards

The success or the failure of the budgetary activity depends largely on the ability of the company and its managers to develop a policy regarding the human resources and the enterprise culture, compatible with logic of budgeting, enabling the best possible integration of staff and achieving performance. From the top management to the last hierarchical level of the company, in the budgetary process must be involved actively and honestly everyone.

Furthermore one of the necessary conditions to transform the budget into a tool of leadership is that of determining competences and accountabilities for the budget execution, at the level of each responsibility center, through individual performance plans. From the analysis of the phases of goals setting and budgeting, it results that budgetary management are an instrument of decentralization and delegation of responsibility within the company structure, which involves dissemination the management spirit from the top management to the bottom of the hierarchy, thus creating a true system of participatory management by objectives.

The budgets must be instruments of dialogue, learning and control. Advocating for budget management model based on stakeholder involvement, enabling the organization to better achieve its objectives and the individual feels more responsible and freer, so more efficient, P. Bouloc, the parent of the technique of management by objectives, shows what are advantages of the participating in decisions and delegating of responsibilities.

The benefits from participation in decisions are: decisions more adapted, a better motivation for execution, better information of people, a greater degree of flexibility in adopting solutions, a more responsible conduit, so more effectively, improving work in group, developing the spirit of team, developing a sense of solidarity, calling on imagination.

The advantages of delegating the responsibilities are: development of initiative, increasing autonomy and independence, increasing competition between groups and alleviating competition between individuals, simplifying communication, facilitating the human contact, clarifying the dependence and the subordination in relation to the superior hierarchical levels.

By decentralizing the management and by trust invested in responsibility centers, the managers aim at motivating staff to accomplish individual and team goals, to fulfill its responsibilities, outcomes measurement, appreciation and reward. Experts have often argued that the dedication of employees is essential in achieving the goals of company; employees need to feel they are able to achieve them. Thus, it is important for employees to participate in the process of setting objectives, to accept and be motivated to internalize them. It is also important for managers to express their desire to assist employees in achieving these goals by providing the necessary resources, guidance and removing obstacles.

The proper motivation of organization's employees who are dedicated to increasing the performance and competitiveness of the organization is realized through a reward system designed in accordance with the strategy and the specific policies. The reward system must motivate employees so they adopt the behavior which is desired by the organization. Often reduced to pecuniary offer (wage increases and bonuses), this form of reward is not sufficient to create a well-motivated workforce.

It is understood, therefore, that the staff motivation can only be performed by a set of concerted policies and actions, both financial and non-financial, that meets the aspirations of employees, their needs for individual development, assessment and self-realization (promotion, a wider area of responsibilities, greater participation and consideration, more work means, etc.).

The employees can be rewarded with two types of rewards: extrinsic rewards and intrinsic rewards (Hilton, 2003). The intrinsic rewards come from the individual itself and these are manifested in the form of satisfactions achieved through the work done by own forces (forms of self-appreciation). The extrinsic rewards (money or moral) are those assigned to a third person (partners, organizations) and are constituted by money, awards, titles, honors, recognition of professional ability.

To ensure that the reward is truly motivational one, there must be some contributions (Coleman, 1991):

- Employees really want to be rewarded, otherwise reward losing its proper importance;
- Employees have clear consciousness of the fact that their supplementary effort will further enhance the performance, which will determine their reward;
- The link between supplementary effort, performance improvement and reward must be clear, direct and equitable

Changes in the economic, social and cultural area, as well as accelerating competition in the business world creates pressure on organizations to constantly adapt, leading to the need for a process of learning, which is the premise for a sustainable organizational performance (Schaffer, Steiners, 2004).

On theoretical plane were developed new theoretical complementary concepts, which can fundamentally influence the organizational performance: management of knowledge, organizational learning, organization which learn, unremitting professional education. In Romania, the theory and practice of management is just at the start of adopting these modern concepts, but the interest shown in harnessing the benefits arising from these concepts is increasing.

4. Conclusions/Discussions and implications

In conclusion, we can say that the budgetary practices can be used in various ways in organizations and the functions performed by budgets support more or less the strategy depending on their capacity to adapt.

As a short term pilot scheme, the budgetary management provides the following:

- Consistency of the management activity because the budget network covers all aspects of enterprise: commercial, productive, financially. It allows strengthening of the actions inserted in the general budget and presentation of the synthesis forecast documents.
- Sizing and control of the performance based on revenue-expenditure relationship that allows test several budgetary hypotheses. This point is becoming increasingly important due to the uncertainty and complexity of current markets.
- Establishing of competencies, accountabilities and incentives because the

management of the budgets involves a decentralization of power and an increase of confidence invested in the managers of responsibility centers.

The same time the role of the employees involved in the formulation and implementation of the strategy is essential. They will accept this role only if they feel able, for example if they will be masters of their own value, knowledge and opportunities they have and if they will feel motivated by the results of their work and by the beneficial effects that will be generated. In such circumstances, employees will become dedicated in achieving organizational objectives and will not be controlled in the classic manner, by oversight or by the punishment and reward, but rather by increasing the intrinsic motivation versus extrinsic motivation. The strategy is seen as the work of a group, not one of a single individual.

Motivating staff to achieve the performance and the productivity growth cannot be obtained by a single method applicable in all companies or for all employees. The companies motivate their employees differently, so the correct solution is to develop their own motivational strategy. In economic terms, the people quality can make the difference between two competing companies.

The approach that the author of this paper have done is theoretical and he recognizes the need for some case studies to understand the complexity of situations that involve the use of budgets, could thus overcome the barrier between the academic discourse and the practice, which would be beneficial to both sides. Other lines of research could be the analysis of the behavior of budget users or the effect of organizational learning on enterprise performances.

REFERENCES:

1. **Albu, N., Albu, C.**, *"Instrumente de management al performantei"*, Editura Economica, Bucuresti, (2003).
2. **Berland, N**., *"Fonctions du controle budgetaire et turbulence"*, 21-eme Congres de l'Association Francais de Comptabilite, Angers, (2000).
3. **Coleman, D**., *"Managementul resurselor umane"*, The Open University, Open Business School, Centre for Open Distance Education, Romania, (1991).
4. **Gervais, M**., *"Contrôle de gestion. 8ème edition"*, Economica Gestion, Paris, (2009).
5. **Hilton, R.H., Maher, M.W, Selto, F.S.,** *"Cost Management-Strategies for Bussiness Decisions"*, Ed. McGraw Hill Irwin, Boston, (2003).
6. **Malo, J.L., Mathe, J.C.**, *"L'essentiel du controle de gestion"*, Les Ed. D'Organisation, Paris, (2000).
7. **Merchant, K.A.**, *"The design of the corporate budgeting system: influences on managerial behavior and performance"*, The Accounting Review, vol. 56, nr. 4, (1981).
8. **Savall, H., Zardet, V.**, *"Evolution des outils de controle et des criteres de performance, face aux defis de changement strategique des entreprises"*, 22-eme Congres de l'Association Francais de Comptabilite, Metz, (2001).
9. **Schaffer, U., Steiners, D.**, *"The use of management accounting information, learning and organizational performance"*, European Business School Working Paper on Management Accounting and Control, nr.11, (2004).

10. **Sponem, S., Lambert, C.**, *"Pratiques budgétaires, rôles et critiques du budget. Perception des DAF et des contrôleurs de gestion"*, Comptabilité – Contrôle – Audit 16, (2010): 159-194.
11. **Venkatraman, N., Subramaniam, M.**, *"Theorizing the future of strategy: Questions for shaping strategy research in the knowledge economy"*, The Handbook of Strategy and Management, Sage Publications, (2002).
12. **Vintila, G.**, *"Gestiunea financiara a intreprinderii, Editia a IV-a"*, Editura Didactica si Pedagogica, Bucuresti, (2004): 253.
13. **Weber, J., Linder, S.,** *"Budgeting, better budgeting, or beyond budgeting"*, Cost Management, vol. 19, nr. 2, (2005).