

## Emerging Markets Queries in Finance and Business

# Difficulties of the Budgeting Process and Factors Leading to the Decision to Implement this Management Tool

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**Abstract**

Budgets are management tools universally recognized for their ability to support planning and efficient management of resources and activities in economic entities. The preparation and use of budgets is not without difficulties. This paper presents a synthesis of the studies on the difficulties of the budgeting process and the factors that determine nevertheless the adoption and use of this tool. We intend to put in balance the efforts and the effects of preparing and using budgets, in order to see if they deserve to be implemented within economic entities. The information obtained regarding the importance of budgets and the difficulties generated by these tools is supported in this paper by the use of a questionnaire distributed in the Romanian academic and business environments. The results show that budgets are useful tools and offer numerous advantages, despite the issues generated, which determines their importance and use in economic entities.

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*Key words:* budget difficulties; the advantages of budgets; beyond budgeting; better budgeting; the utility of budget;

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**1. Introduction**

In the current economic and market conditions, budgets are among the most controversial managerial tools. International literature discusses the benefits but also the disadvantages and issues of using budgets. If we

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analyze the current studies, we will find that there are three different approaches. The first refers to the maintaining of the budgetary process- the Traditional Budgeting approach. At the opposite end are those who sustain the replacement of budgets in the Beyond Budgeting approach. Between these two extremes we find those who believe that budgets should be enhanced- Better Budgeting.

We believe that although budgets offer disadvantages and difficulties for the entities, the benefits that they generate are not only more numerous, but also more valuable. We think that the budgets difficulties can be overcome or at least attenuated. Thus, if we were to balance the effects arising from the use of budgets and efforts involved, we tend to believe that the balance will tilt in favor of budgets. This research aims to support the usefulness and necessity of their implementation within the economic entity by studying the international literature and by analyzing the budgeting process in Romania, according to the academic and business environment. This paper brings a contribution to the literature by analyzing in an objective and comparative manner the advantages and disadvantages of the budgeting process. The research also shows the vision of the academic and business environment from Romania on the subject, by comparing the benefits and the disadvantages arising from the use of budgets, seeking to include this country in one of the three approaches.

## **2. Difficulties of the budgeting process and the advantages offered**

The results presented by the literature review are contradictory. The study performed by Libby and Lindsay 2010 reveals that budgets are still used for control purposes and that entities are not planning to abandon them, but rather to improve them. Bourmistrov and Kaarbøe, 2013 recognize the problems associated with budgets use and analyze the companies that abandoned these instruments. Neely et al., 2003 present the 12 weaknesses of traditional budgets, identified in the analyzed studies and the methods by which the budget can be improved. Hansen and Van der Stede 2004 support the multiple uses of budgets. Bunce et al., 1995 noted that the alternative to traditional budgets is not budget improvement but an advanced management system. Ahmad et al., 2003, following a study on budgets in Malaysian companies, contradicts the claim that budgets are useless. Wallander, 1999 however, argues strongly that budgets are an "unnecessary evil". Sandalgaard, 2012 states that budgets are still being used in Danish companies. Waal, 2005 analyzes the 12 principles of Beyond Budgeting. He believes that any entity should consider this approach and abandon budgets. Rickards, 2008 discusses a new approach: Advanced Budgeting. Frow et al., 2010 analyze in his study the concept of Continuous Budgeting. Marginson and Ogden, 2005 support the positive role of budgets in an uncertain environment associated with role ambiguity.

The main criticism towards budgets mentioned by Libby and Lindsay, 2010 refers to the fact that they consume time, they do not allow the entity to seize opportunities, prevent flexibility and adaptability to the environment, are not connected to the entity strategy, can be handled and eliminate the desire to improve. Neely et al., 2003 discuss a study that presents twelve budget disadvantages. Critics argue that budgets do not reflect the entity's strategy, are focused on costs rather than adding value, reduce flexibility and the entity's ability to adapt to change, are bureaucratic and limit creativity. Budgets consume time and resources, are rarely updated, are based on assumptions and facilitate budgetary games. Other criticisms of budgets are the fact that they support a vertical control, limit communication between departments, do not take into account the structure of the entity and make employees feel unappreciated. Furthermore, the work of Bunce et al., 1995, which presents the results of a literature study, mentions the fact that budgets are not connected with the entity's strategy, are too bureaucratic, focus more on cost and allow opportunities to pass by. Ahmad et al., 2003 also analyze budgets criticism. Among those, they mention the fact that budgets do not take into account customers and quality, are not effective in a changing environment, are inadequate for products with a reduced life cycle, create opportunities for manipulation, can lead to conflict, they focus on achieving short-term results, are time consuming and high cost.

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