

Budgeting Your Company into A Corner How Budgets Shackles A Company

Roy Setiawan, Luigi Pio Leonardo Cavaliere, Urvashi Varma, Muhammad Adnan Khan, Manjula Shastri, Kartikey Koti, Athambawa Haleem, and G. Jerusha Angelene Christabel

Authors

Roy Setiawan, Universitas Kristen Petra, Universitas Airlangga, Indonesia. roy@petra.ac.id

Luigi Pio Leonardo Cavaliere, Università di Foggia, Foggia FG 71121 Italy. luigi.cavaliere@gmail.com

Urvashi Varma, Amity Business School, Amity University, Uttar Pradesh, India. uvarma@amity.edu

Muhammad Adnan Khan, School of Business Management, Universiti Utara Malaysia, Malaysia.

Manjula Shastri, Amity Business School. drmanjulashastri@protonmail.com

Kartikey Koti, Acharya Bangalore B school, Bangalore University, Bangalore, India

Athambawa Haleem, Faculty of management and commerce, South Eastern University of Sri Lanka. ahaleem@seu.ac.lk

G. Jerusha Angelene Christabel, Sathiyabama Institute of Science and Technology, Tamil Nadu, India.

Abstract

The concept of budgeting has been the subject of debates between scholars in the business world for decades. This paper tends to shed light on the definition of budgeting. It impacts whether it be positive or negative on a company, the numerous purposes of budgeting and how the concept has evolved throughout the years in a unique way that has never been tackled before. Various scholars and business minds have contributed in the development of this concept for it to reach a point where it was once thought as an essential part of every company whether it be a large multinational company or a small family-owned business; everything needs to be budgeted for from the first screw used to the planned expansion into new markets, and even the yearly objectives of employees. This paper will evaluate the purposes of a budget while clearly stating the limitations of each one of them and providing primary and secondary data and research, along with interviews with top financial managers with years of experience to back up the hypothesis provided.

Keywords: Budgeting; Company; Corner; Budgets Shackles; Financial managers; Business minds; Family-owned business.

Introduction

Companies who have often taken use of the conventional budgeting concept always prepare to invest and attempt and estimate both cash inputs and outflows required to be carried in the course of a given era. “A budget is a series of interlinked plans that describe an entity’s future activities in quantitative terms. A budget is used to determine the results, the funding allocations, and the budget’s future operations. Budgeting is an extremely broad concept used in public and private organisations, whether for profit or not. “Budgets were born in the 1920s so that managers control costs and cash flows. The evolution of budgeting is remarkable. By the 1960s, the company superiors and subordinates had become fixed performance agreements. They focused on estimating future income and expenditure and became, in due course, the main drivers and management performance evaluators [1].

The budget is nevertheless in an ideal global setting. It expects that everything can proceed as anticipated throughout the budgetary cycle, which paralyses an organisation even if the unforeseen has been planned. However, this does not mean that a company or an individual in this sense does not plan its finance forwards, it is not the notion that this paper aims to go over, since this is disastrous, and what a greater illustration to emphasise this argument than to look at the economically impaired Lebanon because of years of financial mismanagement. However, I think it will be an important measure to demonstrate the realistic and real-life influence that misguided budgeting decisions have on all of our lives as Lebanese residents. We’re not going to research the effects of budgeting on a national level but company and management decision making [2].

Problem Statement

Budgeting is an incredibly detailed and complicated concept, with a variety of ways and styles, which often allows businesses to search for the right budget that fits their needs, which results in a large amount of capital, time and energy to be invested on a budget which may not help them make the decision they are planning on. Moreover, even though an organisation discovers the right budget, many limitations render the entire process unworthy and unreliable, the main items which I intend to address in this paper; inaccuracy of the budget, time needed to complete a budget, strictness, unnecessary spending, administrative coercion, possible sources of capital. The “Who wants budgets [3]” Harvard Market Revisit was released in February 2003. “Calls for the elimination, amendment, and redesign of budgeting when we realise that it is a sluggish, bureaucratic mechanism that negates the capacity of a business to reply to an evolving environment: ‘the businesses that promise to react to market changes rapidly are dedicated to budgeting, a method that slows down their reaction to market patterns until it is not yet long enough” [4].

The same source continues that companies should eliminate the historically tired out budget concept: Budgeting should be scrapped like most businesses are, sounds like a controversial statement; yet this is merely the result of long-term attempts to turn organisations into unified hierarchies into devolved network changes [5]. And businesses that have already discarded budgets are already free and have saved time and money when they are no longer for budgeting and forecasting purposes, and use new techniques to evaluate their success: “An annual set output contract no longer determines what employees would give to their supervisors in the year ahead. They do not have the requisite financial resources and resources. The key issue concerning this paper is, then, “Does budgets ultimately decrease an organisation and lead it to become short-sighted?”[6].

Research Objective

It remains uncertain if budgeting is helpful to a business after numerous researches about the budgeting issue [9]. This paper explores the strengths and drawbacks of budgeting, how it impacts companies, regardless of the size and intent of an organisation, and how the industry’s success may be improved or slowed down [8]. This paper will also aim to introduce and explain precisely the “beyond” budget concept, which, in my view, should be the way organisations plan for the future and demonstrate that budgeting is a lengthy, rigorous and waste-driven process that slows down the capacity of a company to meet changing markets and rapidly changing consumer demands [7].

Literature Review

Either in the corporate environment or not, individuals are still separating from each other on the right approach to accomplish things. Budgeting doesn’t vary; since it was “born” in 1920, scientists have varying views and theories of what budgeting is and whether it is necessary that an organisation allocates a budget to the budget and incorporate it in its policy and decision-making [10]. Many academics and business persons have defined it as an integral component of organisation accomplishment and industry longevity: “The central business budget that determines the basic funding system of a corporation and the handling of cash within this structure is where management interacts with other main members the management team. Business budgeting helps reduce the uncertainty that often accompanies expense and cash flow forecasting, providing executives with a fiscal framework for all of the company’s financial decisions.” While another claim that budgets are an unnecessary waste of time that does not tell the entire story regarding a business’ financial position, Donald Curtis, a senior partner at Deloitte and Touche [11] claims that the reliance on a budget is a fundamental flaw and that you can’t manage a business by simply managing the money, he continues by claiming “Just because a budget was not overspent doesn’t mean it was well spent” [12].

Purpose of Budgeting

The budgeting method is the standard approach to organising and tracking businesses [13]. Organisations use their budgets to prepare and coordinate their corporate operations in the upcoming year notes that there are several budgeting uses; some of them are listed below:

Timetable

Budgets are used to prepare an organisation's planned strategic plans to guarantee that the corporation acts best towards meeting its objectives. Budgets are used to schedule purchases, purchasing materials or properties and others while at the same time containing statistics about the sum of money required to plan potential liquidity inflows and outflows. Managers must "predict the future" while setting budgets to recognise potential issues and challenges to prepare before they arise [14].

Coordination

Both units of an organisation rely more or less on each other, and units must collaborate and negotiate to share the scarce resources of a corporation by allowing budgets [15].

Communication: Communication

The budget leads to effective collaboration through meetings and knowledge sharing that happens through the budgeting process; it tends to link separate divisions of an organisation, encourages staff to explore their thoughts, and expresses them, thus enabling managers to convey their organisational plans [16].

Assessment of performance

The budget may also be used as a monitoring mechanism for performance appraisal. Supervisors and staff are kept responsible by budgeting a specific goal if the goals are not fulfilled [17]. For top management, though, it is really necessary to ensure sure the budget is accurate and not understated by administrators to hold them on the "good side."

Allocation of responsibility

The budget is also used to delegate separate workers responsibilities; administrators need to explain what their employees expect; the organisation will then administer the money required to employees to accomplish what they wish. The employees will be liable or accountable.

Goals to create

Budgets often help to establish goals for administrators and staff, and these priorities are designed to reflect the aspirations of various divisions and branches of the organisations in the subsequent budget cycle.

Motivation

Particularly if workers were engaged elsewhere in the budgeting phase, budgets would often be used as a motivating mechanism. Hence, employees are encouraged to accomplish the goals laid out in the budget if they assisted. Furthermore, administrators and staff are most frequently given a bonus if a budget is respected in terms of expenses and goals.

Awareness

They concentrate their work on reaching the organisation's purpose and leading to its growth rather than simply pursuing their and their needs. by expounding company priorities to staff and getting them to see "the big scene."

Incitation

Companies should equate their budget results to real results and compensate over-running workers by establishing a standard on what is appropriate for the success obtained. A survey of 57 managers responsible for budgeting for each of their businesses carried out in the article "Multiple Facets of Budgeting: An Analysis Exploratory" found that the four key budgeting objectives are: performance assessment, strategy, planning and communication of objectives. Furthermore, a survey was done to get further practical ideas about budgeting purposes.

Concerns Regarding the Budget

The budget has historically been a straightforward instrument for management planning. Still, it has increasingly been addressed and criticised: 'Budgets are estimates for the coming year and intend for the business for a duration of two, three, or four years in certain situations. The budget is focused on predictions of general demand rise, prices, exchange rates, transfers, costs, etc. [...] Let us now presume that your estimates are based on the same expectation of the 'even weather.' If you create those predictions and make them the foundation of the budget, you advise the business people to continue functioning as they do. However, they could strive to be a little more successful, as they did in the past, selling a couple more cars. But you don't require a complicated budgeting method, to convince them that. It's enough to instruct them to do this and then verify that's what they do. Companies working in unexpected and constantly evolving

business environments allow no use of the expenditure since the detection of issues is inefficient and obsolete until eventually applied because unexpected circumstances cannot be taken into account correctly. The expenditure has often been charged with unnecessary time-consuming and vacuum in its supposed worth.

In comparison, the budget renders the business too brief and relies on short-term targets rather than on long-term value-added tactics that are counterproductive to an enterprise. A study by Libby and Lindsay reveals that a budget can make a business sluggish and reduce its adaptability to unforeseen situations, causing one to believe that spending on planning and budgeting is entirely pointless. Many firms, including Statoil and Borealis, have discarded the conventional form of budgeting and are instead doing it without a budget. Most administrators assume that budgeting, focused on expectations and assumptions, is already a waste of time and is now out of date in the end.

Schedule and predict accuracy

In a healthy and natural business climate, alignment of resources and preparing outcomes is possible, thereby allowing correlation between the expected and real results reliable and leverage over the employee fair's success. However, the market becomes increasingly fierce, and as the period of commodity, life is cut down, forecasting the future literally cannot be forecast correctly and based on unpredictable expectations. Wallander suggests that the historical data gathered were used to predict the future, but there are limits because there are predictions that may be misleading. That management has a false sense of confidence that can significantly harm the business to build a budget. Whether there appear to be patterns, the budget is correct, and if unforeseen changes break trends, then there would be a false budget, so regardless of if the trends proceed as planned, budgets are inefficient of time and cash. The budget mechanism is focused on trends.

Dynamic sector uncertainty

In scenarios in which business dynamics are uncertain and volatile, there is no need to prepare a budget in future, since this budget is obsolete even as it is introduced and would help managers in no way. Instead of relying too heavily on the budget, companies must be willing to handle adjustments. The conventional budget is a structured mechanism for decision making that leaves an organisation redundant against industry insecurities. The inflexibility of the method inhibits senior management from responding to different circumstances. This is necessary for the company's survival on the market, unlike decentralized companies who eliminate the budget, where personnel and managing directors will adjust to changes rapidly.

Fixed Budget Target Leading to Undesirable Behavior and Low Morale

Another expenditure issue is the risk of undesirable actions for both employee and management if set goals are utilised for performance assessment purposes. Libby and Lindsay argue that when the budget is used as a performance evaluation tool, it will become a fixed contract which staff must comply with and may lead to budget play, for instance, units will spend the rest of their budget allocation at the end of the budgetary year, even if not necessary because they fear that they will receive less money in the next period. Employees who are worried about the inability to achieve short-term goals would rely primarily on growing the commodity's expense rather than generating demand. Other concerns that have been made are that the budgets are built for the correct climate, but it is tougher to create a valid budget if the environment is turbulent, like a sudden political dispute in the country. It should not be left out of reach to keep workers motivated; controllable and uncontrollable incidents should be divided. To ensure employee satisfaction

Conflicts in Budgeting Purposes

For example, preparation could clash with success evaluations and motivations as businesses had to build a budget. Suppose the budget can be motivational more than expectations. In that case, objectives can be fixed on a challenging level, so for planning purposes, they should be placed on a practical level, for example. This is an indication of the discrepancies and inconsistencies between budgetary priorities. Many academics blame the financial system for causing difficulties, although Wallander, former boss at the Handelsbanken, lowered his budget in 1970 and since then the bank has had considerable success. It isn't a matter of incorporating a modern management technique, rethinking how businesses operate and implementing new strategies for managing stuff, we substitute the conventional Budgeting methodology with the Beyond Budgeting definition.

Research Methodology

Research is a structural method of addressing a problem. It is a science about how to carry out an analysis. In essence, study methodology is called the methods by which researchers operate to define, understand and forecast phenomena. The analysis of methods by which information is acquired is often described. The research project aims to include the research strategy. In brief, the research technique is essentially the roadmap to be used by the researcher in his report, which involves the design of samples, the test design and the processing of data, and research restrictions.

The object of the sampling design is to educate the population that the researcher aims at. The sample's specification would also illustrate the size and characteristics of the chosen sample and the process the scientist used to pick the sample. The sampling approach that I would use in this

study is the judgmental sampling, where a sample is chosen based on its experience and judgment, “Judgmentary sampling is a method that is impossible because the researcher uses his intuition to pick the desired or reliable details from the community participants he believes. Judgmental sampling means selecting topics that are well prepared with appropriate knowledge for the researchers. This implies that the collection of the study represents the goal of the test [...] the approach is used particularly when the demographic of the trial that is desired is rare or quite difficult to find and use.

I assume I have selected the right sampling methodology for this study because, to validate the research paper correctly, the average individual may not know anything about business budgeting. For this purpose, I will submit my questionnaire to Malia Community Finance and Accounting, the organisation I work for, with 20 staff, and will send several other people, who, I believe, are qualified to address my questions correctly, so I will send around 50 questionnaires in total with the expectation of getting 30 responses. I will also hold an interview with Mr Khattar Nasr, Finance Manager and an incredibly talented individual at Malia Company. The object of the sampling design is to educate the population that the researcher aims at. The sample’s specification would also illustrate the size and characteristics of the chosen sample and the process the scientist used to pick the sample.

The sampling approach that I would use in this study is the judgmental sampling, where a sample is chosen based on its experience and judgment, “Judgmentary sampling is a method that is impossible because the researcher uses his intuition to pick the desired or reliable details from the community participants he believes. Judgmental sampling means selecting topics that are well prepared with appropriate knowledge for the researchers. This implies that the collection of the study represents the goal of the test [...] the approach is used particularly when the demographic of the trial that is desired is rare or quite difficult to find and use.

I assume I have selected the right sampling methodology for this study because, to validate the research paper correctly, the average individual may not know anything about business budgeting. For this purpose, I will submit my questionnaire to Malia Community Finance and Accounting, the organisation I work for, with 20 staff, and will send several other people, who, I believe, are qualified to address my questions correctly, so I will send around 50 questionnaires in total with the expectation of getting 30 responses. I will also hold an interview with Mr Khattar Nasr, Finance Manager and an incredibly talented individual at Malia Company.

Research Design

The key role of the study design is to ensure that the gathered data helps us to address the issue statement as simple as practicable, that is, that it permits us to answer the query: “What facts need we to answer the question as convincingly as possible? I assume that exploratory design

will be the ideal form of designing research on a paper like this because budgeting is a subject that persists for several decades. I hope to investigate this large topic to conclude my problem statement.

Data Analysis

Every sample was conscious of and had an opinion about, a budget planned for the organisation in which they were employed, one way or the other because the population had been chosen based on their occupation and experience. What can be evident from the table above is that the same 10 % of people who are “yes” when questioned if the budget has had a significant effect on their professional lives, who are “pro-budget” are only as “yes” because they currently assume that their budgets are good for an organisation? “And if they reached a goal and were disciplined for it, will they have the same feeling? When asked the same question, 80% answered with “no,” while 10% said they do not know who the same 10% operates with small enterprises who don’t use appropriate budgeting or success assessment.

The answers gathered indicate that most workers and particularly non-senior workers who do not say have a bad experience in the budget and do not agree that the budget is a successful mechanism, the limited proportion of those who endorse the budget are the same people who placed the budget together in the first place. As the company does not consist largely of senior management personnel, but rather of “foot soldiers” in front, who work day and night for the firm and often make it undervalue and exclude them from the whole budgeting and strategy process, this could result in a huge blow to company ethics that will lead to the productivity of employees and a feeling of belonging to the company.

Conclusion

I think it is fair to assume that the negative of conventional budgeting strategies is well beyond optimistic following the comprehensive testing and data review given by this paper; budgets are focused on the fact that the business exists in a perfect market that cannot go farther than reality, since conditions are still shifting now and unexpected circumstances begin to arise. The budget is an old and worn-out idea, limiting any part of an enterprise and rendering it futile against the rapidly evolving economy. Many businesses have become the prisoners of their jail because they have budgeted for the full year in advance and wind up with costs that they must fulfill and expectations that cannot be reached due to unpredictable business shifts. It cannot be predicted as reliably as managers might want in an unpredictable budget, for whatever reason it is named unexpected! You really can’t see that happening.

Furthermore, the expenditure shakes a business and renders it ineffective against the abovementioned chaos. If a non-predicted cost is reached in the future, the corporation may not

be willing to move fast enough; a rapid amount of money to acquire much required raw materials will be needed as approval arrives to allocate more funds to purchase such goods. Not to suggest that businesses do not regulate what they invest, but merely that budgets take too long if immediate intervention is often required.

Another purpose of the budget mentioned in this article is that it is used as a metric for evaluating success. Goals are often set in ideal world environments that turn workers into short-sighted robots to achieve the often-impossible objectives. As also shown by the data gathered and evaluated by the sent-out questionnaire, workers typically believe that the aim they set is unavailable, which adversely affects their morale and efficiency. In this document, the idea of outside the budgeting mechanism is often talked about by the publishing of authors' scientific papers that think it's the path to the future and enable an organisation, while taking external variables correctly into account, to adapt to any shifts in the market in the region. Furthermore, we have looked at several businesses that have taken the gamble and taken over and have now been more successful than ever.

This is not to suggest that the idea outside budgeting is flawless. It has its limits. Even without much study, it is also a very recent concept that might raise flags for businesses who dread the unfamiliar and want the evil they know so well – conventional budgets. Also, in the accounting and finance sectors, a person with several years in the budgeting sector is more precise. This is in my field of specialization, as an individual with an unlimited dedication and enthusiasm for finance and who will soon be a CFA member.

Recommendations

Based on the findings presented in this research, whether they come from primary sources, I could obtain from the finance manager of large companies in the MENA region through questionnaires and interviews. I believe it is important for companies to begin moving away from the traditional method of budgeting and free themselves from that prison. Though beyond budgeting is still a new concept, this doesn't mean that there is a great deal of success for businesses that have adopted this new concept. However, it is essential to note that it will not be easy to transition from traditional budgeting to budgeting. Specialist project teams have to be set up to ensure that all is running smoothly, this transition won't occur every night, and it could lead the company to some money initially, but it will save time, money and time in the long term.

References

- [1]. A. Abu-Rumman. Project Management: a help or hindrance a collaborative research. *Al-Balqa Journal for Research and Studies*. Vol 23 Issue 1, Article 9, Nov. 2020.
- [2]. A. Abu-Rumman. Challenging tradition: Exploring the transition towards university entrepreneurialism. *Academy of Entrepreneurship Journal*, Vol. 25, Issue 2,1-12. Jun, 2019.
- [3]. A. Abu-Rumman, A. Mhasnah, T. Al-Zyout. Direct and Indirect Effects of TQM on the Patients' Satisfaction and Loyalty in the Jordanian Health Care Sector. *Management Science Letters*, Vol.11, Issue 2, 493–502, Sep. 2021.
- [4]. A.Abu-Rumman. Gaining competitive advantage through intellectual capital and knowledge management: an exploration of inhibitors and enablers in Jordanian Universities. *Problems and Perspectives in Management*, Vol.16 Issue 3, 259–268. Aug 2018.
- [5]. A.Abu-rumman. TQM and Competitive Advantage: Experiences within the Engineering, Electronics, and IT Industrial Sectors in Amman. In *Excellence in Services 21th International Conference*, 0-12. Aug 2018.
- [6]. Ahmed, E. R., Abdul Rahim, N. F., Alabdullah, T. T. Y &Thottoli, M. M. An Examination of Social Media Role in Entrepreneurial Intention among Accounting Students: A SEM Study. *Journal of Modern Accounting and Auditing*, Vol. 15, no. 12, pp. 577-589, 2019.
- [7]. Ahmed, E. R., Islam, A., Alabdullah, T. T. Y., and Amran, A. A Qualitative Analysis on The Determinants of Legitimacy of Sukuk. *Journal of Islamic Accounting and Business Research*, Vol. 10, no. 3, pp. 342-368, 2019.
- [8]. Ahmed, E. R., Islam, M. A., and Alabdullah, T. T. Y. The moderating role of Shariah supervisory board on sukuk pricing benchmark. *International Journal of Excellence in Islamic Banking and Finance*, Vol. 6, no. 2, pp. 1-32, 2018.
- [9]. Alabdullah, T. T. Y., Ahmed, E. R. Board Diversity and Disclosure of Corporate Social Responsibility Link: A Study in Malaysia. *Journal of Adv Research in Dynamic & Control System*, Vol.11, no.11, pp. 1124-1131, 2019.
- [10]. Alabdullah, T. T. Y., Ahmed, E. R., & Nor, M. I. New Ideas from Management, Finance and Accounting Perspective: The Research for A New Link Between A Company's Outcome and Risk Management. *5th International Conference on New Ideas in Management, Economics and Accounting*, 2018.
- [11]. Girish Bagale and S. S Rajest Roy Setiawan, Vijay D. Kulkarni, Mahmoud Al-Odeh, Nordiana Ahmad Nordin, S.Sam Santhose, Ismail Raisal. The Impact of Corporate Reputation on Organizational Performance” *Productivity Management*, Vol.25, No.1S, pp. 668-681, 2020.

- [12]. Goode, M. a. Beyond budgeting: the way forward? *Pakistan Journal of Social Sciences*, vol. 31, no.2, 207-214, 2011.
- [13]. Hansen, S., Otley, D. and Van Der Stede, W. Practice Developments in Budgeting: An Overview and Research Perspective. *Journal of Management Accounting Research*, vol.15, pp. 95-116, 2003.
- [14]. Ismail Raisal and S. S Rajest Ardhariksa Zukhruf Kurniullah, Anjali Kulkarni, Nordiana Ahmad Nordin, Roy Setiawan, Girish Bagale, Rajesh Deb Barman. Positive Outcomes of Human Resources Engagement and Impact on Motivation. *Productivity Management*, Vol.25, No.1S, pp. 638-667, 2020.
- [15]. Libby, T. and Lindsay, M. Beyond budgeting or budgeting reconsidered? A survey of North-American budgeting practices. *Management Accounting Research*, vol. 21, no.1, pp. 56-75, 2010.
- [16]. Rickards, R.C. Beyond budgeting: boon or boondoggle. *Investment Management and Financial Innovations*, vol. 3, no. 2, pp. 62-76, 2006.
- [17]. Roy Setiawan, Kanchan Rani, Luigi Pio Leonardo Cavaliere, Ngo Tan Hiep, Sudipta Halder, Ismail Raisal, Ruby Mishra, and S. S Rajest. References for Shopping Online Versus in Stores What Do Customers Prefer and How Do Offline Retailers Cope with It?. *Productivity Management*, Vol.25, No.1S, pp. 874-898, 2020.