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Management of Objectives and Budgetary Planning

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Abstract: It is required to set short-term and long-term goals, to assess the means we need to achieve the objectives and to make budgetary decisions, as it is about choosing an action program according to the means at our disposal, on the basis of objective criteria by studying system and cost-effectiveness analyzes, even if it is difficult to assess whether an effective decision was taken on a scientific or intuitive basis. This article aims to present two budgeting methods, PPBS and MBO, which could together reduce the disadvantages of a separate action. It is therefore necessary to identify, in a general way, the ways of combining these two methods and their consequences in economic and social terms. Applying this strategy opens the prospect of effectively solving economic problems by rationalizing the budgetary procedure.

Keywords: budgeting process; objectives; programming

JEL Classification: H72; H61; G31

Introduction

Practical activity demonstrates that it is much simpler to specify the conditionality of the budget process as a set of useful information and tools for performing management. The first need is to provide a hierarchically superior leadership to discuss possibilities, options, issues and goals, with the lower leadership segments, which are even in charge with the budgets. The second necessity is the existence of clear, relevant, chronological and real-time information on resource consumption and the sharing of responsibility for this consumption.

In this case, the digitalization of the management structures is essential, which ensures the regular monitoring of consumption, costs, etc. The third issue requires the budgeting team to interact frequently, openly and constructively with budget officials, to facilitate budget clarification, facilitate teamwork, match goals, and remove any budget or conflict uncertainty quickly and correctly. Businesses have gradually become very competent in budgeting and have gained real knowledge in this area. Master budgets are being drafted, constituting a synthesis of organizational structures and activities, together with operational and financial planning tools for a given period (Swain et al., 2005).

Apart from the difficulties, management accounting has been subject to a number of restrictions. Thus, the figures obtained are difficult to read and interpret. Managing accounting information addresses the following categories of users:

- those who develop policy, strategic and operational plans;

- those who plan activities and control operations.

Those figures that is available only after a fairly long period, sometimes one month after the end of the month in question, to obtain the expected results. Meanwhile, the means of calculation were limited. Most of the work was done manually, or by electro-accounting or mechanographic

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equipment. Since the 1960s, these treatments have begun to be done with computers. But they were carried out on the lot with a fairly long duration. It was not until the 1980's that microprocessors developed the tools to adapt to these treatments.

From Top to Bottom or Bottom Up

There are two basic approaches to substantiating the budget for individual management. The top-down approach involves the following: the budget specialist or the accountant, prepare a draft outline for each person in the management chain, outlining the approved strategic plans, revenue and production forecasts, etc., for each year or budget period. Many budgets interact. Thus, resource consumption and projected achievements are interdependent and must be considered together (Glynn & Murphy, 2003).

The Budget specialist sends the budget sketch to the management structures and then has to hold discussions and present the budgeting of each management department in order to obtain the agreement that the sketch is feasible and that the budget can be held accountable.

The bottom-up approach refers to how the specialist provides the manager with a white-out budget plan, together with a copy of the budget for the past year and a summary of the most relevant strategic and forecast indicators. The manager can go on to substantiate budget revenues and expenditures. He also has the option to call the specialist for further information or technical advice. Theoretically, the bottom-up approach brings greater realism and accuracy to the budget plan so drafted. In practice, the budgeting process will often be described by a mix of compromises between the two approaches. Budgets for managers will have to be approved by senior hierarchical management structures. For budgets to be credible, for each level of management, it can be a problem for each structure in the management hierarchy to assume responsibility for its budget, in agreement and with the hierarchical superiority, after discussion with and after consulting with the budget. This agreement is often recommended for MBO-based systems.

Management by Objectives (MBO)

MBO was introduced in the early 50's by Alfred Sloan as an additional management tool. Still, Drucker identifies shortcomings in the method: we cannot discuss the goals if we do not know what they are. Confusion arises from the fact that goals are often confused with the organization's goals, values, policies, goals. Once the objectives are correctly identified, and an appropriate work environment based on cooperation and interactive participation of the participants in the process has been established, the MBO approach is a success. But there is a series of failures.

Thomas P. Kleber, points out that one of the reasons MBO has encountered failures in the past (Drury, 2008) is that effective cooperation has not been established among the actors in the process. Budget systems focus on total costs, spending and revenue, budget centers or budget leaders. It is not easy to keep budgetary control attention on a managerial, isolated issue, diverting attention from the rest of the responsibilities. Also, in theory, budgets can be expressed in physical units rather than in money, in practice, all managerial budgets are financial.

Thus, in order to complete the budgeting process, it is useful to use the Management by Objective (MBO) method. The basic principles of this method are related to the goal-objective analysis of the strategic mission of the organization, and can be grouped as follows:

- establishing a strategic goal-objective level;

- achieving a succession of organizational goal-objective pairs, at the level of operational objectives and action plans;

- development of an organizational role, and at the same time a set of objectives and action plans for each individual member, in the functioning of a participative decision-making system;

- establishing the standard results/performances for each goal;
- periodic measurements of the situation at a given time of the proposed goal-objective package.

Management by objectives implies setting one or more operational objectives for individual management structures for measurable improvements over a period of time normally between 6 and 12 months. For example, improving the morale of the team may be an important goal, but this can be very difficult to measure. By contrast, labor productivity is measurable. Moreover, while increased labor productivity involves costs, in layoffs, temporary staff reduction, recruitment and training, which are not clearly highlighted in departmental budgets, so the manager's attention is not focused on the problem. Usefulness recommends that only an important goal, or a problem, should be the attention of the manager at some point. An MBO expert may be a budget expert or an accountant who responds to superior hierarchical structures for running and reporting on projects. The objective or problem to be solved must be measurable and the MBO targets in good condition must be measured and reported periodically. At certain intervals and certainly at the end of the process, the expert has to meet with the manager and his supervisor to review and evaluate the course and determine the next stage of the MBO process.

PPBS (Planning, Programming, and Budgeting System) – A Return to the Method

The purpose of PPBS is to ease decision-making managerial work by keeping information on the allocation of resources to meet the organization's important goals. First, the general objectives are set by those who have this responsibility. Secondly, there are identified the programs through which these objectives can be achieved. Normally, these objectives are closely related to the major activities of municipal or governmental organizations. Finally, the costs and benefits of each program are determined, so that budget allocations can be made on the basis of the cost-benefit analysis of different programs (Drury, 2008).

PPBS at the level of organizations is the correspondent of the long-term planning process at the level of the companies (Drury, 2008). The first step is to review the organizational goals for the activities the company wishes to accomplish. The second step involves identifying the programs that can be taken to reach the organization. The following programs can be exemplified: extended childcare facilities, improving the health of elderly citizens, etc. The third step involves identifying and evaluating the alternative methods of achieving the objectives for each specific program. Such a comparison and evaluation will show the costs of each alternative and the resulting benefits. The fourth, final stage, is to select the right programs based on the cost-benefit principle. At this level, it would be useful if the programs were hierarchies/classified, but this is a very difficult one. Therefore, a subjective decision of the organization's top-manager is needed to allocate available amounts to various programs.

Since the structure of the program is less likely to match the structure of the organization, an independent person should be responsible for controlling and supervising the program. In 1988, Anthony and Young suggested that there was the possibility of adopting a matrix-type organizational structure with a matrix consisting of program managers in a dimension and with responsibility centers functionally organized in another. This allows the budget for one year to be analyzed by several accountability centers. Such an organizational structure requires that the budget and the present achievements be compared on programs. In addition, information should be accrued by departments or accountability centers and so-called “line item budgets” should be used to control spending.

Noteworthy is that the budgeting process focuses on one year, while PPBS focuses on activities that extend over a few years. A budget is in these conditions a slice of the organization's programs where costs are reported to departments or accountability centers rather than programs (Moşteanu, 2008). In the 1960s and early 1970s, efforts were made to implement PPBS in budgeting by the US Government, but in the mid-1970s the attempt was abandoned. Pendlebury (1996) concluded in a study that efforts to implement this method of buckling failed because many of the data needed for outputs were impossible to obtain. He argued that the philosophy behind the PPBS was good, but the practical difficulties and the realities at the level of the organizations led to the minimization of its use. An influence that he has and which is recognized to him next is to strengthen the idea of the benefits of a program structure.

In other words, even if the impact of those programs may not be measurable and the cost-benefit relationship is not possible, the budget should at least highlight the expenditures proposed for different activities and programs (Stauber, 1968). Nonprofit organizations, such as central and local governments, hospitals, etc., often prepare detailed conventional budgets that highlight different categories of expenditure. A particular problem of these organizations is that outlined above, namely, the quantification of outputs is difficult and sometimes impossible. As a consequence of this, the budget process frequently only makes a comparison of current spending with planned spending with timely attempts sometimes to compare expenditures versus performance. By contrast, at the level of corporations, comparing expenditures to the resources needed by inputs with outputs in terms of income and profits is much more present (Lucey, 2000).

In addition, as far as the reporting of inputs to the benefits is concerned, the non-profit organizations exemplified above also have difficulties in terms of long-term planning and realistic allocation of resources. The short-term financial process of annual expenditure budgets was used in planning with obvious disadvantages (Solem & Werner, 1968). PPBS method is based on systems theory and its objectives are focused on increasing the allocation of resources based on economic analysis. The system is based not on organizational structures and traditional divisions but on programs viewed as groups of activities with common objectives. PPBS require a complex information system capable of monitoring progress towards meeting the objectives. The reporting system should be able to report the results within the activity schedules as opposed to traditional reporting that is commonly used in the sub-divisions of organizations and typically only concerns spending. It is highlighted that budgeting or short-term planning is the process through which the long-term plan is put into practice. A properly organized budget system can bring substantial benefits that may include: coordination, clarification of responsibilities, communication, control, motivation, and goals conformity. The budget process is an important formal way of vertically and horizontally communicating.

Conclusion: Improving the Budgetary Process by Combining Methods

It is known that with the PPBS method there is no possibility of making a clear correlation based on common indicators or sufficient common elements. Thus, if “vertical” selection is possible, horizontal comparison is cumbersome and often impossible. A common criterion of efficacy is needed, which is hard to find and apply in practice, and is the main technical deficiency of the method. Being a method applicable at macro level, there is a major disadvantage, this time of a political nature. PPBS, refers to long-term planning, sometimes periods of 10 to 20 years. Due to the democratic political rhythm and the involvement of the political factor in the technocratic decisions, such as budgeting, the issue of the inconsistency of the goal arises. Thus, a program deemed to fulfill a precisely determined purpose and an increased importance for a political regime may fall into the disgrace of another political regime. The situation can be considered serious if we take into account the fact that at the macro level it is the administration of public money.

Both the technical and the political issues could be removed by a mix of the methods presented. Mixing methods is done through a two-way relationship:

- in the first instance (1), a breakdown of the program budgeted according to the PPBS method, chosen through a cost-benefit analysis, by activity, with quantifiable quasi-independent results;

- identifying objectives (2) by activity through a goal-objective analysis (goal being the objectives set, the goal of the program) in the case of a MBO process.

Figure 1. MBO<=>PPBS Relaţionship

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