CORPORATE BUDGETING MANAGEMENT

Ghenadie Ciobanu, PhD in Economics, researcher
INCSMPS, Bucharest / ARTIFEX University, Finance and Accounting Department
Alexandru Sandulsky
General Manager of the Finoko Group with representation in the Republic of Moldova, Italy, Frnața, Turkey, Romania

Abstract

In the current conditions of development, crises and challenges both at global level, as well as at regional and country level, the activity of firms and companies occupies an essential place in achieving results in the short, medium and long term. Therefore, we need as real and viable planning as possible for business development planning, planning activities in the short, medium and long term. Not in the last place and planning the budgets of firms and companies is necessary.

In this article we aim to review a short bibliographic studio of the problem and methodology approaches How to analyze the performance of the company for business planning, How to analyze financial performance? Vertical structural analysis, horizontal (dynamic) analysis, comparative analysis, etc. are reviewed.

Keywords: Corporate budgeting, financial analysis, company performance, business planning

I. **Introduction**

In order to build an efficient management of the corporate budget, it is necessary to have defined the strategic objective of the corporate budgeting whose concept, strategies and planning we form both from documentation, studies, researches, but also from the accumulated practical experience. Therefore, corporate budgeting we can define it as a practice of preparing and presenting a detailed financial plan, which is presented to a group of decision makers in a company. Respectively, the purpose of corporate budgeting is - ensuring that the company has those resources that it needs, in order to achieve its short and long-term goals.

The company has the resources, which it needs to achieve its short- and long-term goals.

The budget of a company / corporation, is the plan that mirrors the way in which an institution / organization that intends to invest, to manage its expenses in the short and long term. It is necessary to know how we can prevent financial problems in the future, especially now in these conditions of crisis and uncertainty. Therefore, budgeting is a process that helps companies manage and control their financial sources. Companies must be able to ensure that they have sufficient financial resources to cover expenses, and have financial resources for future investments.

II. **Bibliographic study**

The authors (Neely,A., Bourne,M. and Adams,C.,2003) argue that there is an interest in the financial community to improve the complicated process of planning and budgeting the work of firms and corporations. The authors **of Steed, E.** and **Gu, Z.** (2009) investigates current practices of U.S. hotel management companies in terms of budgeting and forecasting, and recommends a process to improve accuracy and efficiency. The authors Tiina Henttu-Aho & Janne Järvinen (2011) aim to examine the relationship between the budgeting process and strategic management in companies, especially in terms of strategic planning. Strategic management presents managers with the decision-making process, is a guide in the actions of a company, and budgeting provides information about financing and responsibility. The authors are of the opinion that those processes must be closely integrated, serve complementary but distinct purposes. Author Blumentritt, T. (2006) argues, when it was developed the corporate budget (almost a hundred years ago) was designed to serve three main purposes. 1. Coordinates the financial activities and the image of the organization. 2. Communicate your financial expectations. 3. Motivate managers to act in the best interest of the company. 4. Use rolling budgets instead of fixed budgets. 5. Use relative targets instead of a fixed budget to reward people.

The authors (Duan, W., et al., 2022) study the effect of standardizing the strategy translation process on procedural correctness in the firm's budgeting and performance. The authors, through this studio, enriched the literature on the economic consequences of strategic performance measurement systems, and expanded research on procedural fairness in budgeting and the factors that influence the firm's performance. The respective study reflects that the standard translation, the implementation of the strategy, will reduce the bias of managers in the process of setting targets, increasing the sense of correctness of managers in the budget process, also improves the performance of the firm. The authors (Baatwah, S.R., et al., 2022) during covid-19, study the problem and find that this period of the pandemic has caused a great economic panic among the population, governments and enterprises, respectively a great corporate social responsibility (CSR) was needed. A sample of companies listed in Oman was used. The authors show that the budgeting, the social responsibility expenditures of the corollaries have increased considerably during the pandemic. The study reflects that corporate social responsibility budgeting is being positively impacted by rising deaths from COVID-19. Spending on the social responsibility of co-workers is increasing with the number of confirmed and fatal cases of COVID-19. The findings suggest, that firms are resorting to corporate social responsibility to reduce the negative consequences of the pandemic.

The authors (Hadziosmanovic, M. , et al., 2022) argue that with the increasing pressure for climate action, scientifically supported emission target-setting commitments have become more common among firms. The methods of setting targets approved by the Science Based Targets Initiative (SBTi) use emission pathways that are aligned with long-term temperature targets of 1.5 °C and well below 2 °C for informing short-term corporate goals. Most scenarios lead to the temperature being exceeded, followed by a return to the temperature targets achieved by negative emissions in the second half of this century. The result is, the set of objectives aligned with an overshoot of the temperature target, without an explicit long-term commitment, to use negative emission technologies to reverse this.

The authors (Bedford, D.S., et al., 2022) argue thatprevious researches reflected management control practices, which are changing in response to global crises. We mention, that we have a little understanding of the behavioral consequences of these changes. The authors pursued the purpose of exploring the behavioral effects arising from crisis-induced changes, management control practices, factors that intensify, diminish the effects. The results have implications for practical implementation, we demonstrate how employees are ready to react to the tightening of budgetary controls.

The authors (Flassak, K., at all., 2022) in the study regardingthe Covid-19 p andemia and the transition to work from home, came to the conclusion that the Covid 19 Pandemic has amplified control problems within organizations, and raised serious challenges for managerial control, since the tasks of employees are difficult to comply with under the conditions of WFH. The authors examined the association between WFH and action controls. Based on a survey of employees of a large international corporation, they found that under fmh conditions, the organization makes greater use of standardization and participation in planning. The authors (Vaznonienė, M. and Stončiuvienė, N., 2012) argue thatthe main goal of a corporate budget is – supporting the planning of business operations. Budgets are - instruments that support when determining the scope of business activities, the necessary resources, the efficiency of their use. The analysis of scientific papers shows that their importance is much greater: they promote the harmonization of business activities and cooperation between business units, delegate tasks and allocate the expenses incurred, help motivate and evaluate the performance of staff and support the objectives of internal control. the organisation's system. The results of scientific research show that businesses still face budgetary problems and weaknesses. The purpose of this research is – to present the importance of budgeting a company, to analyze common budgeting problems and to propose solutions.

III. **Methods of financial analysis**

How to analyze the performance of the company for business planning?

Methods of financial analysis allow to analyze the use of resources, capital adequacy, profit resources and assess the risk of bankruptcy. Financial analysis answers the question: do we manage to do everything correctly in terms of financial performance? Are our results in line with our plans, and what to do if they are not? Therefore, the goal of a business is to make a profit. For a healthy business, the desire for high profitability is a natural thing. The owner of the business must understand the whole process, and the consideration of each element. What is the real state of the company? Without a permanent and systematic, permanent evaluation of performance, we cannot activate much. The company will have unclear trajectories of evolution, not understanding which line of business brings more profit, which less, whether there is an increase in revenue, whether the investment pays off, what resources are needed and whether the company is able to meet its obligations.

How is financial performance analyzed?

In This sends is appreciated the methodology of the Business Planning and Bugatare Software Finoko, which has a wealth of experience in several countries. In the current conditions of digital revolution, it is necessary to digitize the entire process of management of the activity of small and medium-sized enterprises on all segments of activity management, strategic and operational management, financial management, human resources management, implementation of the entire process of activity in construction and agriculture, trade, tourism and hotel services.

Analysts and economists use methods of financial analysis, which, in a holistic and individual way, help to create a clear picture of the state of business. The data sources are the balance sheet, the account of profit and loss, statement of changes in equity and other reports of the company. Analytical tables are compiled, and graphs and charts are drawn for clarity.

Vertical structural analysis

This analysis consists in determining the percentage of the total turnover. Thus, in the balance sheet structure, the balance sheet total is 100% and each item (separately for assets and liabilities) is presented with a certain weight (in %). In other words, vertical analysis allows you to determine the share of items as a whole: in the balance sheet – the ratio of fixed and current assets, the ratio of debt to equity and the structure of capital; in the structure of revenues or sales, the largest percentage (%) of the type of product that brings the highest revenues is examined; in the cost structure - which cost items have the highest percentages.

You can detail any balance sheet item to analyze its structure, thus revealing the initial problems. For example, more than 10-20% of a large counterparty, of the receivables structure indicates a low diversification of the product portfolio and, in the case of non-payment by such a borrower outside the payment term, can lead to large cash gaps.

Horizontal (dynamic) analysis

This analysis is used in identifying changes in indicators for a certain period of time, both in absolute values and as a percentage.

This method determines: *growth rate: 100%* Absolute change/ Base value;* It answers the question of how much revenues have increased compared to last year, whether costs have fallen or increased, whether profits have increased and whether losses have decreased. The time period may be different, but, as a rule, the dynamics of the main financial indicators are monitored quarterly, and the increase is compared with the increase in the indicator for the same period of the previous year. You should pay special attention to sharp spikes and decreases. For example, a significant increase in debt could be a reason to pay attention to the leverage of the company, and an assessment of these changes follows.

Aggregate balance sheet analysis in the Finoko

Comparative analysis. The comparative and horizontal methods of financial analysis are correlated and similar. the comparison is based on a horizontal method. In addition to comparing certain periods, the values are compared with the following: (1) Industry average values; (2) with established standards (limits, intervals) and optimal values; (3) with the performance of competitors for the same period or with the best company in the industry; (4) real target; (5) with the base period (e.g. with the best year in terms of profit and profitability or with the previous period (year, quarter, month); (6) with intercompany indicators (e.g. between branches); (7) before and after any event or change, etc.

Comparative analysis allows you to identify specific, or on the contrary, identical moments in the phenomena studied. The homogeneity of the values compared is a necessity, i.e. the time intervals, calculation methods and conditions for the processes studied (e.g. the same climatic conditions, similar technologies, etc.) should be comparable.

Integral method (factor) It is the most mathematical method of financial analysis, since it involves more calculations than other methods. It answers the questions: What led to the change in the indicator, what factors and in what quantity influenced the change in value. Thanks to computer technology, this analysis has ceased to be time-consuming, and is now available to any company. Both two-factor and multi-factor models are used. The integral method is considered more accurate than other methods of factor analysis. The essence of the method is the summation of the increments of a function defined as partial derivatives multiplied by the argument increment on infinitely small intervals. So, due to the increase in price, revenues increased by 6,420 thousand euros, but it was possible to sell a smaller amount of goods compared to the base period, which led to a "deficit" of revenues by 2,880 thousand euros.

Trend analysis One of the easiest ways to anticipate is to set a trend over multiple reporting periods. It analyzes the time series and concludes what trend is coming in the future. If a particular trend is analyzed by years, then the data for at least 5 years is used. Changes in each balance sheet item are calculated in comparison with the previous period; the figures are "cleaned up" of random influences and the specific characteristics of individual periods, and then, based on the current trend, future values are anticipated. So, if the growth rate of revenue (sales revenue) tends to decrease, this may indicate a reduction in economic activity or low competitiveness, which, without making management decisions, can lead to a critical state.

The profitability of the business does not always indicate the efficiency of the company and the absence of negative trends. Indeed, absolute values can be 'beautiful', however, we need to understand what resources are used to make this profit and what can affect the deterioration of financial stability. Financial reports are relative values calculated based on financial reporting data and determine how this data correlates. Different aspects of financial and economic activity are evaluated: Solvency, efficiency, financial independence, business activity, etc. Each company calculates the rates according to the special aspects of its business, but we will provide reports generally applied to all types of business.

Liquidity indicators. The values measure the company's ability to pay off its current liabilities (CL): (1) quick liquidity rapid liquidity – due to highly liquid current assets: (CA-Inventory)/CL; (2) current liquidity/ current liquidity – due to current assets: CA/CL; (3) absolute liquidity/absolute liquidity – Due to available cash (C) and short-term investments (ITS): (C+ TSI)/CL.

Profitability – is the ratio of profit to any indicator, which shows efficiency, profitability and profitability: (1) return on assets — net profit/ company assets — shows how efficiently the company uses its assets; (2) return on equity — net profit/equity — shows the return on each investment; (3) Return on sales — operating profit/ revenue — reflects how much profit is produced on the earned profit margin for each industry is different, but the higher the ratio, the more efficiently the company controls its costs and wisely builds a pricing strategy.

Conclusions

Two or more methods are used more often to achieve better results. These are vertical (structural) and horizontal (dynamic) analyses, and also these types of financial analysis are the basis of other methods. However, you should not rely only on them. Use a combination of methods to get a complete picture and comprehensively assess/measure your financial situation and business development opportunities.

Which type of analysis to choose depends on the objectives of the study, the evaluation functions and the factors identified during the analysis by one of the methods.

The company is a living and respiratory organism, all processes are interconnected, so the analysis should be based on aggregate values and their correlations. Comprehensive financial analysis not only shows poor, average and good financial status, but also reveals the factors that influenced this.

Focus on the right indicators and track them in dynamics, using various methods. Use the Finoko system to analyze the target and the actual results of work - a convenient analysis tool that will help you cope with the high level of uncertainty in modern businesses.

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