STUDY REGARDING THE TRADITIONAL BUDGETING VERSUS SUSTAINABLE PERFORMANCE BUDGETING

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Abstract:
Budgets provide a measure of financial performance that the public institution or a company hopes to gain from its activities. By planning its activities, managers hope to anticipate the potential problems and the way the problems can be avoided. The introduction of performance-based budgeting has determined changes also in budgetary management, which implies a profound change, such as cultural and mentality, in the whole public sector. This major change in many countries had to be supported by systemic approaches in the current work of government, legal, organizational structure of public institutions and human resources.

The study presents the main policies and budgeting practices versus traditional budgeting for sustainable performance and discuss new mechanisms for more efficient allocation of budgetary resources and control, required to meet the new imperatives of widening the public sector and for providing strategic and sustainable development.

Key words: Traditional budgeting, program budgeting, performance sustainable budgetary policies and practices

JEL classification: M41, M48

1. INTRODUCTION

From the moment they were born, in the first half of the twentieth century, the budgets are the most famous tool for measuring economic performance (Weber and Linder, 2005). Like all management tools appeared in the beginning, the couple planning - budgeting is based on the environmental stability and involves optimizing the internal flow. Thus we can say that in a predictable environment, allows optimizing production budgeting, forecasting improves and simplifies the internal resource allocation mechanisms (Berland, 2000).

Budgeting is a combination of information flow, processes and procedures of the entity, being part of organizational control system. The budget system appeared in 1920 and was introduced around the same time in the U.S. (Du Pont and General Motors), France (Saint Gobain and EDF) and Germany (Siemens) (Helfer et al., 2000; Berland, 2002, Weber and Linder, 2005). The process of budgeting and budgetary control has been developed in particular economic entities but also outside their cells in local and family. The emergence and development of this process into the organizations has happened for two reasons: firstly in European countries, economic entities were adopting the same logic as for the local and state under which the budget process was a means of rationalizing the expenditure and the second, the U.S. budget was based on a logical type contract and was within management control techniques (Escoffier, 1998).

Public institutions in Romania and other countries carry out their activities according to their budget. Therefore, budgeting for them is a bridge between the resources available at national and sectorial policy objectives and planned activities. Budgeting system requires managers to introduce the concept of resource planning. Without resources, a government or a company can not implement their planned activities or to achieve overall development objectives. However, even if they have
access to resources they need to apply sound financial management for be sure that the
resources are properly distributed among the key priority areas.

In recent years a growing number of large economic entities have adopted more
flexible and complex organizational forms as a response to the increased speed of
technological advance, hyper challenge and increased market volatility (Daft and
Lewin, 1993; Illintich D'Avena and Lewin, 1996). Faced with market uncertainty and
shorter life cycles of products, economic entities have attempted to gain competitive
advantage through innovation and knowledge development, flexibility and adaptation
(Bartlett and Ghosh, 1993, Otley, 1994). These developments have led to change
organizations from using the traditional "command and control" to more contemporary
application of "facilitates and strengthens. " Although there are various theories which
have also been critical regarding the budgeting process, which led to debates such as
whether the budgeting have a future in management control systems (Hansen et al.
2003, Otley 2006), who argued that the budgets are increasingly less and less suitable
for the desire to attain high performance organizations in a competitive and should be
abandoned; however, budgetary practices are still regarded as an organizational
imperative to control costs and to predict financial performance. Otley argued that the
budgeting process "is still the central coordinating mechanism, often the only
coordination mechanism, which most of the organizations have and warns that the
budgets can not easily be abandoned (Otley 1999). Implementation of budgeting
facilitates information flow in economic entities, optimizes resource consumption,
highlights deviations, motivating employees and measures and controls sustainable
performance.

The paper explores the tensions between the use of traditional budgets and the
developing of more flexible ways of management. I presented the concepts of the
budgeting systems to clarify the ways managers combine them with other management
controls to achieve the objectives of competitive potential, flexibility and adaptation
required to implement the green strategy (social and environmental) and set financial
targets. The aim is to analyze which budget model leads to a sustainable strategic
management (economic, social and environmental). Thus, we examined patterns of
budgetary support or government managers who want to maximize efficiency and
effectiveness of expenditure and activities planned. The findings open opportunities for
new budgeting models, presents approaches to promoting a sustainable strategy in the
management of the entity, management and government issues addressed in the new
economy, providing premises for future research. The research methodology focuses on
fundamental research that establishes links with inductive accounting theory and uses
scientific methods to identify theoretical and practical difficulties of budgeting models
in conjunction with the strategies used by modern managers for sustainable
performance.

2. TRADITIONAL BUDGETING

Traditional budgets are based on standards and rules on the allocation of
resources, resulting restraints related to their cost. Wildawski and Calden (1997)
emphasized that the main feature of the traditional budget "incrementalism", was that
the key issue to preparing the budget for the current year is the previous year budget,
which represented the product of previous decisions. In their view, most terms are
standard and are set each year, unless there are reasonable grounds to be removed or
modified. The budgets of public institutions were almost never reviewed annually as a
whole, for the purposes of reconsidering the values necessary to expenditure programs
in relation to any possible alternatives. These budgets are based on the previous year's
budget and take into account increases or decreases of the existing base. Attention is
focused on a small number of terms which gives the budget battle. Political reality focus
the attention on factors where you can make changes, offer new programs or possible cuts in old ones (Wildawsky and Calden, 1997).

Traditional budgeting is associated with resources budgeting meaning that the system is also at the base of the Romanian budget, from ancient times. Traditional budgeting method is particularly prevalent in the public sector but it also applies in the private sector. With its help the managers knows only the costs of functions such as health, education, environment, etc. and evaluation expenditure is made in general terms. Basically, this method focuses on a budgetary cost analysis (quantitative), functions (goals) to achieve, and less on a qualitative analysis of results (objectives) achieved through the exercise of these functions (BA Moldovan, et. al., 2010). Starting from this method have developed other models based budgeting and budgeting - zero program budgeting and flexible budgeting in the private sector. The decrementalism supported by Schick (1986) promotes the redistribution of "pies" ever smaller, which resulted in a struggle for resources increasingly fierce. Changes produced by the reduction in public sector spending led to a likeness of U.S. private sector, especially due to the need to compete for resources and new customers, and in some cases because of possible agencies to be suppressed. Changes in public management and budget process traditionally have led the governors to consider the real and long-term costs of programs and their associated costs, something that is in private practice for more efficient spending. The need for alternative methods of budgeting has emerged as a consequence of the weaknesses of traditional budgets (Shah, 2007).

3. BUDGETING FOR SUSTAINABLE PERFORMANCE

Budgeting is an important control system in almost all organizations (Armstrong et al., 1996, Ekholm and Wallin, 2000, Merchant and Van der Stede, 2003) and there is an extensive research devoted to understanding the functioning of the budgetary process. However, most previous studies have focused on the alleged dysfunctional consequences of budgetary controls in the use of the budget performance assessment (Hartmann, 2000, Hope and Fraser, 1997, 2000, 2003, Jensen, 2001; Marcino, 2000; Schmidt, 1992), and considerable attention was paid less than other uses of budget organizations such as operational planning and establishing a sustainable strategy. These uses of the budget were not considered important, because many recent calls to improve the traditional budgeting process focus on the lack of connection with strategic and operational planning (Hansen et al., 2003).

Performance budgeting seeks to avoid the inherently restrictive nature of budgetary control by empowering managers, when confronted with unexpected events and, if necessary to implement a review of plans and reallocation of resources in pursuit of organizational strategic objectives. Therefore, managers and government should pay special importance in the budgeting process of implementing green strategies, which not only solve the current economic difficulties but also immunizes them. This project requires a continuous adaptation of society and the economy in order to enable effective management of future crises, greens strategies being seen as opportunities, solutions to avoid in the future such problems.

If economic entities with matrix organization and cross coordination, a major won in the last period the masters budget which is defined as the ciphered forecasting performance and financial position of the entity through periodic network modeling budgets, departmental and / or enhanced functional forecast financial reporting. Planning and control process applies to any organization, regardless of the activity to which it belongs. Depending on the specific activity of the master budget is built whose format is being developed through the subjective personality of the individual (and Dumitrana Caraiană, 2008). Construction of the master budget depends on financial forecasts and leads to estimate the need for funds for a specified period, depending on
strategic objectives and determining how various alternative financing will be reflected in cash flows of the entity. The first step in developing a master budget consists of regular budgets, meaning predicting the results of operating activities of a segment or a function within the organization for a certain period of time. The second stage determines the cash budgeting, account and balance sheet results. Based on the objectives defined, the expected annual budgets should be flexible to intervene with corrective action.

There is a tendency of managers to focus on the past, although in reality would be to look forward, to shorten future. Even if you learn something from the analysis of past activity, the information we really need to its referring to the current and future work. Budget entity is important for achieving sustainable performance since it causes managers to reflect on and plan future activities and events for short-term goals, medium and long term, involves the collaboration of the entire management team and by comparison with actual achievements enables performance analysis at all management levels (Dumitrana and Caraiani, 2010).

The public entities from a budget of resources, which has an objective annual, budget go to programs that are part of the costs linked to the achievement of medium and long term goals. Some programs can be established for a period of one year, others can not be limited to the annual budget and multi-annual budgeting is presented which is a useful and flexible budgetary practice, both at central government level and local. Multi-annual budgeting enables reporting of funds related to the next financial year and at the same time allow a "drag" the annual appropriations for the next financial year. Development of multi-annual budget uses as the main financial instrument forecast financial through which the public institution generates projections on revenue and expenditure for the next period, starting from a set of economic assumptions, political, legal and social. They are the link between annual budgets and financial policy on the medium term in the public institution. Budget programs, as a tool of modern public finance management, is tailored to the objectives in terms of broadening the horizon reference to a greater number of years. He is a management tool, but a method of allocating resources and tracking performance. "The program" is an objective of public policy that is associated with the necessary means to accomplish. This reflects an action or a coherent set of actions made by a central government entity to achieve a goal or a set of clearly defined objectives and performance indicators are established and evaluation of expected results within the approved funding. The budget sets programs and calculates the expected costs and results, enabling and prioritizing these goals. Performance, impact or effects directly related to the objectives set out and measured their level of public benefits derived and especially give the possibility of taking decisions on future action. "Proponents of the programs budget" hope the budgetary allocations could be based on precise knowledge of the level that will achieve results from the spending of budget funds allocated.

Although in some developed and developing countries program budgets are used in budgetary practice, the correlation between the level of budgetary allocations and the results obtained is not too obvious because it was found that the performance objectives not affect the budget process unless in countries where requires a whole institutional framework and promotes performance, because encourages autonomy and accountability in managing funds. "Program-budgets" are subject to economic and financial restrictions. To assess the appropriateness of public expenditure its starts on the comparison of costs and benefits of achieving the overall goal date.

The country's accession to the European Union resulted in the harmonization of Romanian legislation with the EU budget which was already focused on the budget programs. In Romania there are few local government authorities that define long term strategic plans and are therefore able to go beyond traditional annual budgeting. The
Ministry of Finance has directed the development of budget proposals for 2002 and estimates for 2003-2005 for the transition to a budget focused on policy. At the same time, the Government submitted to Parliament the draft law on public finances, focusing on budget requirements for each program, and it adopted the law in July 2002. Passing the budget based financing programs requires the establishment by each chief officer of programmatic documents, in strict concordance with the economic development strategy of Romania in the medium term, sectoral policies set out in the Government Program. In 2004, they were developed "Guidelines on the content, presentation and structure of programs developed by ministries and central institutions" that define concepts related to the budget on programs, the structure, funding sources and responsibilities for their inclusion in the strategy objectives sector. Since 2005, all principal authorizing officers have prepared budgets on programs, but they do not always cover the whole activity of institutions, budget on programs coexisting with traditional budgets prepared for the rest of the work not included in the programs. The planning process is beginning to have an increasing importance as a tool to attract the necessary financial resources to support programs and investment projects that lead to an increased interest in strategic planning, to relate this work with formal financial forecasting and planning.

4. BUDGETARY POLICIES AND PRACTICES

In the business sector and government policies are needed major changes for a country's or the whole world economic engine to start. Economic and financial crisis was generated by the current market model, a model which must be redesigned from scratch. A solution could come from a new model, sustainable and geared towards long term progress of human society. Timely and necessary, sustainable development measures are already implemented by more and more companies around the world.

Managers must "attack" in time and be flexible in addressing sustainable budgets and the benefits of a well prepared budget will always exceed the costs. Although there are notations of caution, the results on the performance of both entities are informative and encouraging, so well selected budgeting methods should have positive effects (simultaneous or delayed, linear or nonlinear) on organizational performance. A budget model depends on how effectively the organization has outlined the methodology, the way in which managers and subordinates carry out the procedures to be performed in planning, market conditions, direct system link, indirect and reverse, and the clarity with which perceive financial optimization parameters, taking into account that maximize an indicator may lead to worsening of another. Budgeting methodology means looking at the balance between different financial indicators, which would not only improve the financial situation of the entire company, but also a certain parameters, which are now or will become important in the future.

Budgetary models can have different shapes and contents, they are not frames and they are established by specialists.

<table>
<thead>
<tr>
<th>Budgeting models</th>
<th>Concepts</th>
<th>Strong points</th>
<th>Weak points</th>
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<tbody>
<tr>
<td>Traditional budgeting</td>
<td>● Resource allocation is based on standards and rules; ● The Guideline is based on the past looking at the previous year; ● Activity levels are planned at the beginning;</td>
<td>● This model works well on short time and within organizations with multiple activities; ● It is easy to be realized.</td>
<td>● It does not refers to concepts of efficiency, effectiveness and it's not medium or long term operating; ● It shows only</td>
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Developed in the early period in accordance with the planned activities for that period.

- Does not shows informations regarding activities sphere;
- Deviations calculated in relation to a traditional budget provides less information about the case to the managers.

**Budgeting for sustainable performance**

<table>
<thead>
<tr>
<th>Developed in the early period in accordance with the planned activities for that period.</th>
<th>Resource allocation is based on the efficiency and effectiveness measured by indicators of programs or projects;</th>
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<tr>
<td></td>
<td>● The orientation is towards plans, goals and objectives of economic, social and environmental</td>
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<td>● Actual activity levels are obtained during the budget period;</td>
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<td></td>
<td>● Designed at the end, when the actual work is recognized in the accounts.</td>
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<td>Highlights the strategic actions and results expected during that period;</td>
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<td></td>
<td>● Ensure consistency between the goals of each entity, expressed in programs or projects and the measures proposed by government policies or policies of economic entities, which include green strategies;</td>
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<td></td>
<td>● Stimulate creative initiatives in development programs or projects;</td>
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<td></td>
<td>● Deviations calculated in relation to a performance budget provides more information about the case to managers.</td>
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<td>Requires large amount of organizational resources;</td>
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<td>● time consuming and cause conflicts at the organizational level;</td>
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<td>● Makes a great resistance from staff to implement the model.</td>
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Adaptation after L. Popa, (p.15)

**CONCLUSIONS**

In the traditional administrative budgeted amounts are calculated based on previous budgets, without regard to a plan or project changes. The added value of a strategic management control is to harmonize resource allocation with strategic approach (Caraiani, et al, 2010).

Budget management capacity of managers is a strategic feature; stakeholders have greater confidence in the decisions of the organization and adequately provide for future investments and supporting business strategies. This should not be underestimated by
government organizations, which are becoming increasingly critical evaluated regarding expenditures, savings and efficiency.

Sustainable budget models for performance reasons ensure full incorporation of the objectives stated in the decision making process. Thus, sustainable management strategies must aim both to reduce costs and business risks and increased revenue and intangible assets. Management oriented to green should not sacrifice responsibility at the expense of gain, but neither profit at the expense of ensuring responsibility.

A budget model must meet the requirement of adaptability to reality, to provide credible and relevant information to users. There is no panacea of sustainable performance. However, a budget professionally done, adapted to internal and external reality, gives a guarantee of a profitable business or government program efficiently. The guarantee will not be 100%, because crisis can occur at any time (from outside or inside), unforeseeable events that may affect the overall planning. At the same time, having very good models for developing budgets, easier to cope with crises, we can estimate more accurately the risks. Preventive risk management is part of the responsibility of every manager or government and reduces them as prevention is better than cure.

Thus, budgeting is an important tool for sustainable management of economic and public entities, regardless of method used and the type of entity budget. Without budgeting the entities activity would be uncertain, very dangerous and short-lived. As they say, "No one entity does plan to fail, but many of those who failed lacked a plan."

AKNOWLEDGEMENTS
This work represents the partial results of doctoral research, which was realized with the support of the doctoral scholarship, within the project Doctorate in economy at the Europe’s knowledge standards (DoEsEc), POSDRU/88/1.5/S/55287 contract, financed from European Social Fund and from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/107/1.5/S/77213 „Ph.D. for a career in interdisciplinary economic research at the European standards” (DOCCENT).