



# Bigger Bucks from Your Budget

by  
James Leong

**"In preparing for battle, I have always found that plans are useless, but planning is indispensable."**

*General Dwight D. Eisenhower*

*It costs your organisation a lot in terms of time and resources for your annual budgeting exercise. Are you getting the most benefit from it, or is it only a form-filling formality initiated by finance department and begrudged by other department heads?*

### Planning is indispensable

In the battle field of business, budgeting is an indispensable tool for planning. It lays the business plan for the new year. It sets the organization's financial objectives for the next 12 months and considers the people, equipment, logistics and financial resources needed to implement the plan.

Budgeting is considered indispensable as it aligns everyone in the organisation with a common mission and coordinates all resources within it for its achievement. In a world of decentralised management decision making, this provides the means to ensure that all actions taken collec-

tively together will achieve the outcome of the organization as a whole. It serves as a communication and feedback tool. Overall organisational objectives are quantified and made known. Sub-objectives are set at divisional and departmental levels. Results are measured using a financial yardstick. A feedback loop is established to ensure that the organization is steered on a path to reach its financial destination at the end of the year.

For budgeting to achieve its intended objective as an effective planning and control tool, it needs the participation of all key players in the organization. These key players are the operational heads of department.

To the extent that operational people understand the financial impact of their decisions, the budgeting process can be highly productive, effective and efficient. This is especially crucial in decentralised decision making organizational structures.

### Plans are useless

However, plans may not be effective if operational managers do not fully comprehend the intent and content of detailed budgeting requirements. As a result, busy executives often treat this as an obligatory form-filling exercise for submission to finance department. The result is often unsatisfactory. Operational folks are not contributing effectively to a highly important business activity, while finance guys have to frequently correct logical errors, uncover unrealistic assumptions through time consuming discussions and disagree over transgressions of fundamental accounting principles. All these add up to the hidden costs of a budgeting exercise.

### The cause

Very often, the cause is an insufficient grasp of financial and budgeting concepts by operations management. Most budgeting exercises proceed on the assumption that everyone knows the common language of business-accounting. But experience shows that there is frequently a gap between what is needed to put together a financial budget with sound budgeting practices based on generally accepted accounting principles and what is actually being submitted to finance department.

### Bridging the GAD (Great Accounting Divide)

To bridge the GAD, operations management need to understand fundamental accounting principles used in financial statements preparation and communication to shareholders. This is the basis that finance departments will use to put up budgets and deal with common financial constraints such as cash flow. Once equipped with the lingo of accounting and finance, it provides a common



platform for operations and finance teams to communicate effectively for productive discussions and a mapping of strategies that are financially sound.

Understanding sound budgeting practices would empower them to set up budgets that are robust and could withstand scrutiny.

From experience, operations managers are very keen to see their own financial contribution to the overall company success. They want to understand the financial impact of their decisions. But often, they end up frustrated and disempowered because of an inadequacy grasp of the language of business.

This divide can be easily breached with a hands-on learning program designed just for this purpose. For a small investment of just two days of their time, the return on investment is almost indefinite as this is a fundamental corporate competency which managers will utilise every day and in every decision they make.

With the GAD bridged, operations managers and their financial department would be able to enhance their business partnership and maximise the full potential of budgeting. This would enable budgeting to be not just indispensable, but the resulting budgets are also useful. ■



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