

Strategic Budget Management Mode: Based on Financial Risk Prevention in Dynamic Environment

Xue Fei¹⁻², Gu XiaoMin¹, Li Dan³

¹ (College of management/Donghua university, China)

² (Office of Development planning and Discipline construction/Central South University of Forestry and Technology, China)

³ (Business School/Shanghai Normal University, China)

Abstract: *The dynamic complex of business competition makes corporate financial risk increase dramatically. By analysing the theoretical conjunction between strategic management and financial management, this paper constructs strategic budget management model based upon the financial risk prevention, exploring the implement process to link budget management and strategic management comprehensively and proposing the issues which should be paid attention to.*

Keywords- *strategy budget management, dynamic competition, static match, dynamic management*

I. Introduction

As shown in both theoretical research and management practices, with the acceleration of global integration progress, competitions among the enterprises have become intense and financial risks have increased. As a systematic approach of resource allocation, the budget has become a control tool for companies to achieve corporate strategic objectives and prevent financial risks. In the chain of management control, the strategy budget management based on financial risk prevention is a middle link in the management control chain of “strategic management-budget management-performance management”, and an effective tool to realize the overall strategies and avoid financial risks. The establishment of a strategy budget management system based on financial risk prevention can not only achieve the optimal allocation of corporate resources, ensure the effective implementation of corporate strategy, but also prevent the corporate financial risk effectively.^[1] Nevertheless, in the practical process of strategic budget management, the problems of budget being out of touch with strategy, financial risk, and the business process operation still existing in enterprises, causes the invalid strategic budget management and the endless financial risk. When analyzing the reasons of these issues, we can find that the problems of strategic budget management being not in place is closely associated with the institutional background of China's economic transition and the imperfections of modern corporate governance system. However, as one of the most fundamental reasons, the organic links---between budget management and corporate development strategy, between budget management and business environment, among the components in the budget system---have not been considered systematically. Especially, there are no systematic considerations on the relationships such as static match, dynamic adjustment and comprehensive integration among the elements of budget management. Via probing the theories related to the corporate strategic budget management, the paper aims to set up the framework of strategic budget management based on financial risk prevention.

II. Theoretical combination of budget management and strategic management

There are closely inevitable connection and internally logical relationships between budget management and strategic management. The first and foremost, budget management cannot play a better role until it connects with strategy. It is because corporate strategy determines budget target, and the budget target should reflect corporate strategic objectives. Budget target is a basic quantified description on corporate strategic emphasis and management guidelines. Secondly, budget management mediates the relation between corporate strategy and business activities. It makes corporate strategy intention be specifically implemented, makes the long-term and short-term budget plans be linked. Generally, corporate strategy, as a general guide for corporate long-term business, should be reflected in the annual budget and the performance target responsibility documents. As the action arrangement, the budget makes the daily business activities communicate with the corporate strategic plan, therefore forming budget system with favorable cycle. Thirdly, budget management is a tool to achieve the corporate overall strategy, a security and support system to implement the strategy. I.E. regarding comprehensive strategy as the start point and the end point, budget management converts and decomposes corporate comprehensive strategy goal, and implements with business objectives and plans. So each business unit can execute corporate overall strategy from bottom to top, and corporate strategic target can be achieved. Although the specific objectives of the future have been put forward in the strategy, it can only be

realized by the budget's quantitative index system. Fourthly, budget management is the process to coordinate the business activities of each unit comprehensively, a tool to monitor the process of business operations and strategy implementation, therefore promoting the achievement of strategic objectives. Namely, through the full participation and communication of each unit, focusing on corporate overall strategic objectives, the budget management disassembles the business objectives step by step. Then the budgets of the environment, market, investment, labor, and capital of each unit are interconnected, mutually matched, coordinated; the resources are allocated reasonably. Finally, budget management is the means to realize the unification among the responsibilities, rights and interests of each unit. It is the basic rule and standard for performance evaluation and strategic assessment. In other words, with strictly defined responsibility, rights and obligations among the units, they can obtain the necessary resources to realize the target when undertaking the budget target, assess and evaluate with their responsibilities and agreements of budget, therefore reaching the unity of responsibility, rights and interests.

As revealed in fig.1, the target of budget management should be in high accordance with the target of strategic management. The business objective in budget management specifically reflects strategic objective in strategic management. The business plan in budget management is the detailing of strategic plan in strategic management. The supervision and control in budget management is the embodiment of the analysis and evaluation of strategic management. Both have high agreement in theory. Combining the budget with corporate strategy helps to adjust resources allocation, improve strategy management level, and prevent financial risk effectively, in line with the feedbacks from external environment.^[2] Therefore, budget is an important means for strategies implementation and control. According to Anthony, as an important component of the management control system, "budget control" plays an important role of guiding the individual behaviors towards financial general goals and branched objectives fixed in the organization.^[3] That is to say, budget control connects the above strategy with below specific business and operation process, as the important tool for resource allocation and organization control.

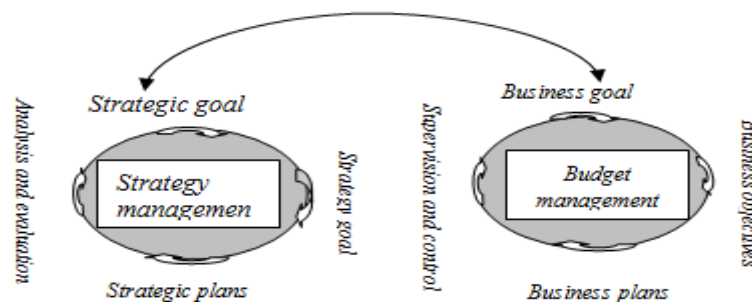


Fig.1 The theoretical conjunction of budget management and strategic management

III. Construction of the application mode of strategic budget management based on financial risk prevention

As a part of the organizational strategy management, strategic budget management takes the organizational strategy as the core, and the maximum value of the organization as the ultimate goal. By the evaluation of the organization's environment, strategic resources and capability, the strategic budget management uses a variety of analytical means and technology methods to provide and analysis the comprehensive information of the organization (E.G the financial, customer, internal business process, learning and growth), therefore keeping the long-term competitive advantage of the organization.^[4] Strategic budget management is a modern enterprise management mode. It is a comprehensive management system centered with budget management in internal enterprise. Starting from the enterprise's overall strategic goal, it balances the relationships among the responsibility, rights and interests, via the scientific budgeting process and reasonable organization safeguard system. It fully coordinates corporate operation and management at all levels with the form of value. Based upon the strategic decomposition and business plan establishment, it conducts the entirely closed-loop management from goal setting, budgeting, implementation control and analysis to evaluation, rewards and punishment in the process of corporate business and management activity.

Strategic budget management allocates the resources rationally in its platform, invests the limited resources into the maximum value-added work. Consequently, it can ensure the consistency between the strategic objectives and budget management objectives, realize strategy driving operation and resources. It can guarantee preferential resources distribution for corporate strategy and the achievement of strategic goals. The application framework of strategic budget management is shown as fig.2.

The application framework construction of strategic budget management is based on the financial risks prevention. It combines budget indicators with organizational strategy organically. The strategy decides

budget starting point, which remedies the lack of connection between the financial index and non-financial index in the traditional budget management. Uniting internal evaluation with market evaluation, it can realize the whole interaction between budget management and strategy management. As a result, it can not only prevent financial risks effectively, but also contribute to achieve and maintain corporate long-term competitive advantages.

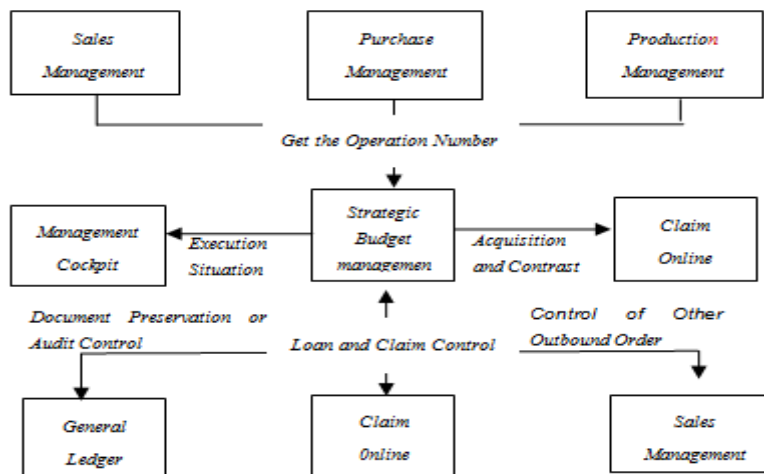


Fig.2 The application framework of strategic budget management

IV. Realization of comprehensive link between budget management and strategic management

From the above analysis, we can find that budget management and strategic management are inextricably linked with inherently logic. To maintain long-term competitive advantage, promote corporate intrinsic value, and maintain the evergreen foundation, it is necessary for enterprises to establish the strategic budget management system. Moreover, the prerequisite and key link to realize the strategic driving operation is to establish effective connection between strategic management and comprehensive budget management.^[5] To establish the effective cohesion, first of all, the problem of consciousness should be solved. The enterprise leadership should attach great importance to strategic management and budget management, promote both works actively, create the corresponding atmosphere in the enterprise, lead the staffs to establish the awareness and participate it actively. Secondly, in the respect of operating method and means, the enterprise need find and solidify the critical articulation in every process of strategic management and the comprehensive budget management to achieve normalized management via process analysis. The next moves to the vital articulation between strategic management and overall budget management and, the issues that need be concerned in the process of establishing the strategy-oriented budget management system.

In the contents, strategic management includes mainly four modules: environmental analysis, strategic programme development, strategic planning formulation and strategy implementation evaluation. Budget management consist of seven processes: budget goal setting, budget making, budget approval, budget execution control, budget report analysis, budget evaluation and budget adjustment. To establish both efficient association, the four modules of strategic management and seven processes of comprehensive budget management need to be combined and realized by the closed-loop management.

First of all, the targets need be articulated. Basically, strategic plan involves the setting of strategic goal, whereas the setting of budget goal should be based on strategic objectives, taking it as input, so as to keep the agreement with strategic goal. To achieve the convergence of both goals is the first key point to join strategic management with overall budget management. Of which, the environment analysis, industry analysis, market analysis of strategic planning, as well as the income interval and the trend prediction of market segments in the strategic goal are the important input reference of the corporate sales target and income target. The strategic investment plan is the important input reference of enterprise investment budget. The profit rate interval in strategic target is an important input reference of the budget available resources-cost space.

Secondly, annual work plan and business budget among departments can be joined through consolidated template. Strategic planning formulation is the embodiment of strategic goal, the main basis for the departments to develop a working scheme. The business budget formed after the resources allocation in each task is the foundation for cost budgeting. The annual work plan is a bridge to connect strategic management with budget management. In practice, designs contain the formworks of strategic measures, work plan, business budget, providing to the operating departments with completion before budgeting, which can effectively

converge strategy and budget.

Thirdly, examining and verifying should be linked. The precondition to establish budget is that the annual work plan prepared by the operating departments should be consistent with the strategic measures and strategic decision. To achieve the effective connection of intermediate bridge, strategic sectors need participate budget review, and ensure the consistency of business plan and strategic measures. The budget cannot be justified until it fits the demand of strategic management.

Fourthly, the analysis of budget implementation and the post evaluation of specific budget project must be achieved. The results of budget analysis and assessment must be taken as the input of strategy assessment. Budget analysis cannot only be restricted to the analysis of budget completion, but should concern the analysis and assessment of resource using benefit. The strategy need to be quantified on the comprehensive budget management platform, and then decomposed and distributed to each budget unit. The realization and effective completion for the strategic targets and strategic measures should be verified by the postback strategic management system. The feasibility of the strategic targets and strategic measures can also be found in this process. After the corresponding strategy adjustment and perfection, the next annual strategic targets and strategic measures can be formulated. What is more, the adjusted and perfected strategy will be the input for next new round of budget adjustment and establishment. Thus, the dynamic and closed loop management of strategic management and comprehensive budget management is taken shape. The specific key points to articulate comprehensively strategic management and budget management is depicted in Fig.3.

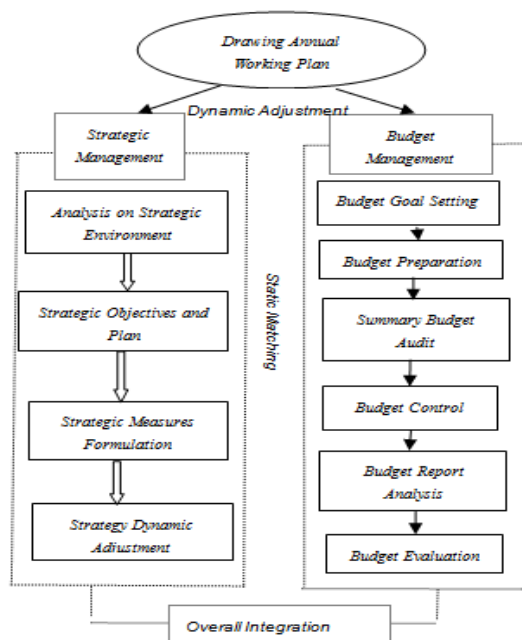


Fig.3 The strategic budget management whole framework of static match & dynamic adjustment

V. Research conclusion and suggestion

As an effective tool to implement enterprise strategy management, the strategic budget management based on financial risk prevention is significant in the dynamic competitive environment. It is an important tool to connect strategy and business processes. Setting strategic budget management objective systematically from the strategic perspective, the enterprises can not only overcome the one-sidedness and short-term of traditional budget management effectively, but also improve the pertinence of enterprise strategy implementation. From the perspective of financial risk prevention, the paper uses the theories of strategic management and budget management, combines the enterprise strategic environment with budget management, therefore exploring the relationship of static match and dynamic adjustment between corporate competition strategy and budget management. By taking the enterprise development strategy as the direction of budget management implementation, the paper constructs the framework of strategic budget management based on the financial risks prevention systematically. During the course of constructing the pattern of financial risk prevention based on strategic budget management, enterprises should realize the key points join of strategic management and budget management from the aspect of actual operation.

Being worth the whistle, the mode construction of strategic budget management based on the financial risks prevention is a systematical engineering. Hence, first of all, the task can only be carried forward after the

consent and concern from the leadership. Therefore, enterprises should establish and emphasize the concept of “target guides, business first, budget follows up”. They can organize and set up the strategic budget management committee composed of the enterprise leadership and the department principals, strengthen and implement the responsibilities of the strategic budget management committee, enhance the intensity of budget execution effectively, therefore ensuring the completion of the business plan which links to strategy and avoids the separation of strategy and budget, the separation of budget and actual implementation.^[6] Secondly, in addition to the participate in business plan and budget audit, the strategic management department should be clear about the responsibilities of operating departments in the process of the drawing-up and verify of business plans as well as the duty of strategic budget management. As the proponents of the strategic measures, the operating departments are also the specific executors. Only if the operating departments participate in the strategic budget management from the operation perspective, avoiding that the strategic budget management is only carried out by the strategic management unit and budget management unit, the enterprise strategy budget management can link with the actual operation of the enterprise closely. Finally, to establish the management system of strategic budget based on financial risks prevention, the enterprise should realize IT support, the electronic process connecting strategic management with budget management. Through the construction of strategic system and budget system, as well as consolidated and electronic modules, the enterprise should realize the connection of business plan and business budget. The enterprise should solidify the process, realize the routinization and synchronization of the joining point. So the guidance of budget towards production operation could be strengthened, the efficiency of management could be raised. The real-time information for business could be provided, the quick reaction of business to executive deviation could be promoted, and the implementation of enterprise strategy could be safeguarded.

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