**BEYOND BUDGETING: The dynamic budget**

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By Kevin Phillips CA(SA)

*There’s been much talk in recent years about “Beyond Budgeting”, a movement to replace the traditional budget process with a more flexible system (usually rolling forecasts) that enables organisations to be more fast-moving and adaptive.*

The problems identified by the Beyond Budgeting movement are the same ones I’ve talked about in previous columns: Top-down annual budgets, done the way most companies do them, are worse than a waste of time. They lead to rigid thinking, they don’t explain how and why reality differs from the plan, they allow too little room to adapt to changing circumstances, and they encourage an attitude that looks only as far as the next target and not beyond.

But none of these problems are inherent in the act of budgeting: They’re a consequence of HOW budgets are done. Things can be done differently – and if you get it right, you reap all the advantages of flexibility without having to go through the pain and potential destruction of re-organising all your systems from the ground up.

A budget should not be an inflexible set of targets, or a paper exercise that is ignored in practice. It should rather be a communication tool, giving guidance and coherence to all the company’s activities. Budgets set goals and timelines, and are absolutely critical to holding people accountable for their work. Without a budget, how do you measure performance?

Sure, it’s a bad idea to confuse the budget goal with an incentive target – but you don’t need to throw out the budget to fix that. Just set separate targets, and make clear to everyone the difference between “this is the least we’re expecting” and “this is what will make us sit up and shower you with rewards”.

As for the criticism that budgets are “inflexible”: Well, sure they are if you do them once a year and then lock them away in a drawer. But a budget that you don’t revisit regularly to revise your assumptions is not a very useful budget. Adapting and fine-tuning the budget throughout the year as circumstances change should be part of the core discipline of every organisation.

What we should all be doing is what I like to call “dynamic budgeting”: A continual process that ensures the budget is a living document, a chart by which people can steer. A budgeting system worth its salt should make this process of continual revision easy, and should give everyone from accounting officers to line managers an easy way to view actuals alongside the budget as they come in. Explaining variances should be as simple as entering a comment next to a line item in the actuals.

If you budget dynamically, as the actuals come in, you start being able to see a bigger picture: What are the dynamics affecting your business; what is changing, and why? In this way the budget becomes a critical tool for identifying issues early on.

Budgeting, in short, is not broken. It remains the single most effective management tool we have, especially in a decentralised environment.

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