Sample Report

Introduction

This report attempts to analyze the current organizational architecture of Domestic Services Limited (DSL), and discuss its overall balance with regards to the way in which budget allocation is currently carried out. It will then look at the possibility of implementing Beyond Budgeting techniques, the changes required, and the expected impact.

The organizational architecture of Domestic Services Limited

Currently Domestic Services Limited operates from a corporate headquarters in Brisbane, and regional offices in Brisbane, Sydney, Adelaide and Melbourne. Each regional office provides four services, these being home cleaning, interior home exterior maintenance, vehicle maintenance and garden maintenance.

Each of the four services DSL offers is overseen by a director, based at the head office in Brisbane. Each director reports directly to the managing director, who in turn reports to the board of directors. Each service director has their own small team of marketing and administration staff. In effect, each service is run along the lines of being a separate company in its own right, with the managing director promoting and supporting this concept.

Each regional office shares a common organizational structure, with four service managers, one for each of the core services which DSL provides. Each of these regional service managers reports to a local administrator and the director responsible for that service. The local regional administrators report to the director of finance and administration, who in turn reports to the managing director.

During the annual budget allocation, each service director is provided with an estimate of the next year’s sales from each local service manager, as well as an overview of projected sales across the entire service by the service director’s own marketing staff. Each service director then agrees the budget for the coming year with the managing director.

The managing director is becoming increasingly concerned that budgetary allocation is not accurate, and does not actually provide the company with any value. The managing director is aware that the company needs to become more adaptive in order to continue to remain competitive in a market which is becoming more saturated, and that changes need to be made to ensure that the company does not become mired down by overplaying the importance of budgetary control.

This is a fairly centralized decision making process, as we would expect from a company which is servicing four specific markets, and operating each division of the company which targets each market as a stand-alone business, but is controlled by a single managing director and board of directors. This is the standard empirical model which has been used by large companies with multiple divisions for decades.

With regard to the concept of allocating yearly budgets, the centralized decision making process which is apparent within the organizational architecture of DSL is clearly inflexible. (Rothberg 2011) defines this centralized form of budgetary management to be one in which the overall responsibility for decision is centralized upon top level decision makers, with goals being passed down through the management chain, with each department or division being micromanaged to deliver these results (p. 2). And this is clearly the model currently being used by DSL.

One of the major problems with the current organizational architecture of DSL is that with each division operating as a separate entity, without enterprise wide goal development, it is possible that there will not be parity between the goals of the division, and the goals of the business. “Assuming that both the principle and the agent seek to maximize their own utility, there are reasons to believe that the agent will not always act in the best interest of the principal.” (Østergren and Stensaker 2009, 7)

If we assume that the above statement is true, and that there is at least some lack of parity between the goals of the business and the goals of business units, then according to (J. Daum, The Origins of Beyond Budgeting and of the Beyond Budgeting Round Table (BBRT) – an Interview with Jeremy Hope 2003), the current budgeting process at DSL is influencing the company in a way which limits strategic management (p. 1).

Financial planning is a tool of business management; it should not become a driving factor in the development of the business, or the way it operates within its chosen market. Therefore, DSL should consider making some changes to the way it operates. The budgetary driven form of governance should be either entirely replaced with something more flexible, or adapted to become less centralized, yet still maintain a clear management chain.

Implementation of Beyond Budgeting at DSL

For DSL to begin reaping the benefits of a less formal way of budgeting, and operate a Beyond Budgeting style of financial control, two things need to happen. (J. Daum, Beyond Budgeting: A Model for Performance Management and Controlling in the 21st Century? 2002) suggests that there are two fundamental elements of beyond budgeting which DSL will need to adopt, and these are new principles which empower employees, and more adaptive management processes (p. 2).

Currently the centralized decision making process is limiting the ability for divisional managers to make operating decisions based on what the market requires. Instead, they are being forced to operate along pre-agreed lines, which are within the scope of budgetary allocation. This situation must be addressed, and the decision making process decentralized. DSL already perceives each division to be akin to a stand-alone business entity, and therefore the business is already open to the idea of granting some form of autonomy to each division. The next logical step is to decentralize the decision making process and move away from a budget restricted way of day to say operation, and to become more adaptive.

With regard to the required changes to the management model, then we need to ensure that these changes are accepted across the whole enterprise, (Hope, Fraser and Bunce, et al. 2006) rightly surmise that a good management model is a complicated entity, and that in order for it to work, every stakeholder must be aligned to its success (p. 6).

Looking at the current organization architecture, we can see that DSL already has people who should make effective decision makers position strategically throughout the hierarchy. However, currently the budgetary decisions these people are asked to make are required to be ratified at the highest level, entirely removing any ability for them to make changes based upon evolving market trends and requirements.

Sample Report

The entire centralized budgeting process is currently driven by forecast and best guess based evaluation. (Hope and Fraser, Beyond Budgeting Questions and Answers 2001) indicates that these kinds of numerically driven and measured budgetary systems, although widely used, are flawed (p. 5). DSL needs to instead, begin to operate a more strategic form of financial planning, which incorporates additional external influences such as market condition, and the reach of competitors. (Neely, Bourne and Adams 2003) states that top companies achieve results by developing effective competitive strategies, instead of operating strict budgetary management (p. 26).

To begin operating in this less budgetary restricted, more adaptable fashion represents a major change in the way in which DSL has traditionally managed its annual budget, by providing a vehicle which is adaptable and less driven by financial goals. DSL would need to operate more in line with the way (Morlidge 2005) suggests, with goals being set based upon the current market environment, including the health of the market and competitor performance (p 182). These goals are focused upon developing a better business performance, and not staying within set budgetary boundaries. Indeed, budgetary boundaries should be entirely removed, with the focus being shifted to value driven goals such as increased sales, service improvement and customer experience management. In short, goals should be attributed with a value based upon their value to the business, and not on the monetary cost.

If DSL were to adopt this more strategy driven approach to budget management, and to drop the traditional yearly budget allocation and target setting in favor of a more market driven, adaptable set of business processes for managing finances, strategies could be adapted to meet market conditions quickly. (J. Daum, Beyond Budgeting n.d.) correctly surmises that having the ability to adapt strategies to emerging market trends is a critical business tool (p. 11).

The downside of operating in a more adaptable fashion lays in the fact that the management team at DSL needs to be dependable, as they will be responsible for steering the company on a day to day basis, as it adapts existing strategies or adopts new ones to exploit the current market. In the (J. Daum, Interview with Lennart Francke: Managing without budgets at Svenska Handelsbanken 2003), Lennart Francke clearly states that one of the major problems faced by a company operating this kind of adaptive approach to strategy is that the business will need to be able to rely upon its people (p. 1).

Ultimately, DSL will need to adopt some form of new management strategy to remain competitive within its market, as there can be no doubt that eventually, it will face competition that does.

Conclusion

In conclusion, it would appear that DSL could benefit from incorporating many aspects of Beyond Budgeting methodology. Currently the business is run in a very centralized way, and is exhibiting many of the problems associated with this management technique in the modern commercial environment. Adopting a mot adaptive, strategic approach would help the business to maintain growth and increase market share.

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Sample Report

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