Research on the Application of Comprehensive Budget Management in China Based on Operation: Problems and Countermeasures

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Abstract—As an advanced management mode with budget as an instrument, comprehensive budget management is widely applied abroad. However, its application in China is faced with many problems, and its further application is thus greatly hindered. As a new method of cost management, operation management is formed based on operation cost and its key lies in operation analysis. Comprehensive budget management based on operation refers to apply operation management in the whole process of comprehensive budget management. The authors firstly probe into the problems presented with the application of comprehensive budget management in China and concerned causes as well, and then analyze corresponding countermeasures including the establishment of comprehensive budget management frame based on operation and guarantee mechanism necessary for the effective implementation of comprehensive budget management.

Key words—budget; comprehensive budget management; operation management; countermeasures

The origin of comprehensive budget management can be dated back to 1920s and it has developed into one kind of modern enterprise management mode from the initial internal control system. Though the application of comprehensive budget management in China has brought great economic benefits to enterprises, there arise many problems greatly hindering its further application. Therefore, innovation should be made for comprehensive budget management. At present, in the theoretical field of managerial accounting, the idea of reconstructing managerial accounting based on operation management attracts more and more attention. Thus, it is of great significance to probe into the application of comprehensive budget management in China.

I. INTRODUCTION

A. Operation management

As a new cost management system, operation management is formed based on the approach of operation costing. Its main objectives are to optimize resource allocation, to reduce cost, to create more value for customers and realize the value of an enterprise as well, and to accomplish the strategic intention of an enterprise by operation costing and analysis. It undertakes four functions of planning, harmonizing, control and performance measurement. The basis for operation management lies in operation costing, while the key lies in operation analysis.

The implementation of operation management includes three steps. Step One is to find opportunities for improving operation by analysis. Step Two is to find out cost elements and make sure the waste causes. Step Three is to establish performance measurement system for assessing the performance of operation management. These steps constitute the basic procedure for operation management and it is evolved following the thread of “operation analysis to cost element analysis to performance measurement”.

B. Comprehensive budget management

Comprehensive budget management as an enterprise management mode refers to plan, organize, harmonize and control the budget activities systematically. It undertakes four functions of planning, harmonizing, control and performance assessment. It can be divided into operation budget and financial budget. The former refers to a budget about future operation activities including sales, purchasing, production and capital expenditure. The latter is about the operation financial budgeting including forecasted cash flow, forecasted profit and loss statement, and forecasted balance sheet.

Comprehensive budget management is a process consisting of budget development, budget implementation, budget control and budget check and assessment. Budget development involves budget objectives, enterprise budget and responsibility budget. Budget implementation involves effective budget information collection and feedback and formation of democratic decision mechanism by designing incentive system. Budget control refers to the functions of harmonization and routine control including budget harmonizing, adjustment, monitor and arbitrage. Budget check and assessment is intended to find out potential problems in the operation of budget by analyzing budget differences and to correct existent errors, and meanwhile to cash on reward and penalty.

II. APPLICATION OF COMPREHENSIVE BUDGET MANAGEMENT: PROBLEMS AND CAUSES

A. Problems arising in applying comprehensive budget management

The application arising in applying comprehensive budget management definitely brought remarkable benefits to those large and medium-sized enterprises. However, there arise many problems as follows.

1) There is not an even distribution about the recognition of the scientific nature of comprehensive budget management among industries. According to an investigation made by researchers from Accounting Department Nanjing University about the application of comprehensive budget management, 94.4% enterprises investigated show their recognition. However, as far as industries are concerned, their recognition is quite different. Enterprises in such industries as petroleum, machinery and construction enjoy 100% recognition while enterprises from weaving industry have lowest recognition of 75%.
2) The organization of comprehensive budget management is far from scientific, the content is far from complete and the development method is too simple. As to the above-mentioned survey, there are still many enterprises failing to establish special departments for budget management. Even though some enterprises have established departments for budget management, their functions are not designed in line of criterion. Furthermore, most enterprise in reality just develop budgets for sales and administration cost and rarely develop forecasted balance sheet, forecasted investment income, forecasted cash flow and investment expenditure. In addition, most enterprises develop their budgets surrounding profit. It is in line with market-oriented economy but will lead to false accounting information and artificial accounting profit. As most budgets developed are incremental, problems are hid and exactness of budget is then lost.

3) The control of comprehensive budget management relies on financial and planning departments too much. It is revealed in the above-mentioned survey that 77% investigated enterprises have their budget implementation controlled by financial departments, 31% by planning departments, 3.3% by the board of directors and 2.8% by special budget departments. Obviously, there is no much participation for planning and special budget department in budget control.

4) Boards of directors for most enterprises rarely get involved in budget adjustment. Rights to budget adjustment mostly go to general managers (42.1%), chief accountants (29.8%), financial departments (28.1%) and planning departments (24.6%). In addition, the incentive function of comprehension budget management fails to play its role. At present, many enterprises neglect the check and assessment on the implementation of budget and thus there are not much incentives among staffs.

B. Main causes leading to the above-mentioned problems

1) Imperfect market-oriented economy. Comprehensive budget management relies on the development of market-oriented economy. However, because of imperfect market-oriented economy in China, some enterprises still fail to realize the dominance of market. Thus, the development of budgets fails to follow market orientation and many budget indicators are unacceptable to markets or inflexible.

2) Faultiness in corporate governance. Up till now, special departments for comprehensive budget management have not been established in some enterprises. According to Company Law, approving rights to financial budgets go to boards of directors in China. However, 43.3% budgets are approved by general managers, only 30% by boards of directors, and 16.7% by special budget departments. These are greatly related to faultiness in corporate governance in China.

3) Imperfect recognition of comprehensive budget management. Comprehensive budget management is of imperfection, not all concerned parties get involved in the development, and intermediate control and afterwards control are neglected. Budgets such as balance sheets, cash flow and investment income are rarely developed.

III. ESTABLISHMENT OF COMPREHENSIVE BUDGET MANAGEMENT FRAME BASED ON OPERATION

Traditional comprehensive budget management system has its defects because of its inherent characteristics. Changes in social and economic environment make it necessary for enterprises to apply new methods or technics to improve comprehensive budget management. Compared to traditional comprehensive budget management, comprehensive budget management base on operation has more advantages and can accomplish the objectives of comprehensive budget management.

A. Analysis on the feasibility and advanced features of comprehensive budget management based on operation

1) Feasibility analysis. Firstly, operation management and comprehensive budget management shares the same objectives of realizing the strategic goal of enterprises. They are all instruments for enterprises to realize their strategic goals. Secondly, operation management and comprehensive budget management shares the same research objects. Comprehensive budget management researches on future operation activities conducted by functional departments. Operation management studies on operation chains and aims to integrate and manage the whole operation chain. And operation chain is in fact the division of business activities in terms of operation. Thirdly, the development of budget based on operation can rely on the existent methods for the development of budgets. Methods for developing budgets include fixed budget, flexible budget, rolling budget and zero-base budget. In terms of traditional budget system, they have one thin in common, that is, business volume. Therefore, budgets based on operation can be developed in terms of the same methods. Fourthly, operation management can be combined with the advanced budget management mode. With the development of management science, a relatively advanced budget management mode of participative budget management is formed. The participative budget management bases its theory on modern theoretics of organizational behaviors chiefly including incentives and leadership and can meet the various demands of budget executors. Obviously, the operation management requiring the involvement of all staff caters for the participative budget management and provides a practical operation platform for the latter.

2) Advanced features analysis. Firstly, as operation analysis can provide detailed data about product cost, budget cost information will be more exact. Meanwhile, budget cost management can be conducted more efficiently. Secondly, operation in an enterprise can be greatly improved since comprehensive budget management based on operation can efficiently combine operation management with budget management. On one hand, comprehensive budget management based on operation reveals how to reduce cost by analyzing cost drivers. On the other hand, operation-based budget management can help to improve operation performance by eliminating unnecessary operation and reducing resource consumption. Thirdly, with the adoption of operation analysis and rationalization of enterprise operation flow, management efficiency can be improved remarkably. Fourthly, comprehensive budget management based on operation can promote operation analysis on product difference and find ways to improve operation efficiency by comparing budget objectives with actual implementation. Thus, competitiveness of an enterprise can be greatly upgraded.

B. Contents of comprehensive budget management frame based on operation

1) Objectives of comprehensive budget management based on operation. Essentially, operation management is an instrument for implementing strategic goals of an enterprise. Therefore, budget management based on operation should embody strategic goals of an enterprise and the development of budget should base on the objective of maximizing the value of an enterprise.

So, objectives of comprehensive budget management based on operation can be designed in terms of three levels. In the first level, there is the general budget objective about maximizing the value of an enterprise. In the second level, there are interim budget objectives, including sustaining growth, investment return and risk control. And in the third level, there are specific budget objectives, such as
operating income growth rate, capital investment growth rate, net profit margin, rate of return on equity (ROE), debt-to-asset ratio and net cash to profit ratio. Figure 3-1 shows the objectives of comprehensive budget management based on operation.

![Figure 3-1 Objectives of comprehensive budget management based on operation](image)

The development and appraisal of comprehensive budget management based on operation should be conducted in terms of the above-mentioned six financial ratios. Cost, expense and revenue incurred to each operation center can be calculated in terms of these ratios, which will not only facilitate developing budgets in line with objectives but also favor analyzing the rationality of budgets.

2) Organizational system of comprehensive budget management based on operation.

At present, no special budget management offices are established for many enterprises in China. Instead, budget development, control and check is conducted by planning departments or financial departments. As these departments are not aware of the whole operation chain, the budgets developed are often impractical and thus can not be implemented efficiently.

As far as this situation is concerned, an organizational system for budget management should be established in order to implement comprehensive budget management based on operation successfully. As is shown in Figure 3-2, the organizational system for budget management is generally composed of three departments: budget management council, planning/financial department and operation centers. The budget management council is responsible for the management of general budget, the planning/financial department is responsible for communication and operation centers are to carry out budgets.

![Figure 3-2 Organizational system as to comprehensive budget management based on operation](image)

C. Comprehensive budget management based on operation: and cycle process

1) Flow diagram of comprehensive budget management based on operation. In comprehensive budget management based on operation, each budget center is the main body of budget management. So, the idea of operation management should be considered in development of budgets based on operation. Figure 3-3 shows the flow diagram of comprehensive budget management based on operation.

![Figure 3-3 Flow diagram of comprehensive budget management based on operation](image)

2) Cycle process of comprehensive budget management based on operation. As far as its cycle process is concerned, comprehensive budget management based on operation is similar to traditional comprehensive budget management, including budget development, implementation, control and check and appraisal. As the development of budgets bases on operation costing, budget control and check and appraisal should depend on operation analysis. So, special attention should be paid to the all these four stages.

IV. GUARANTEE MECHANISM NECESSARY FOR EFFECTIVE IMPLEMENTATION OF COMPREHENSIVE BUDGET MANAGEMENT BASED ON OPERATION

In order to implement comprehensive budget management based on operation effectively, it is necessary for enterprises to establish guarantee mechanism in internal control, personnel system, incentive and restraint mechanism, and auditing and monitoring.

1) Establishment of healthy internal financial restraint and incentive mechanism. As an important guarantee mechanism for effective implementation of comprehensive budget mechanism based on operation, healthy internal financial restraint and incentive mechanism should be established. The mechanism of restraints chiefly consists of internal financial system, financial objectives and financial budgets. In addition, the mechanism of incentives should be established and rewards should be correlated to performance.

2) Establishment of effective internal control system. Internal control system play a very important role in enterprise management and it is the key factor deciding on the success of comprehensive budget mechanism based on operation. It chiefly consists of internal accounting control and internal management control. Internal accounting control is intended to guarantee the security of corporate property. Internal management control includes internal administration control and internal check system to guarantee the implementation of business policies and allocation of responsibilities.

3) Establishment of internal auditing system and accounting personnel system. Internal auditing system plays the
dual role of defending the security of property and enhancing the
management of an enterprise. In addition, the trueness of accounting
information directly decides on the success of comprehensive budget
mechanism based on operation, while accounting personnel system
helps to guarantee the trueness of accounting information. Therefore,
the system of accountant accreditation should be implemented.

V. CONCLUSIONS

At present, the idea of reconstructing managerial accounting
based on operation management has acquired more and more
attention in the field of accounting. However, there is not much study
combining operation management and comprehensive budget
management. The authors probe into the establishment of
comprehensive budget management frame based on operation and
guarantee mechanism necessary for the effective implementation of
comprehensive budget management. However, further study should
be made on developing budgets about investment and sales based on
operation beyond the field of production.

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