

[#01] 10 reasons why budgeting causes significant problems

Are you familiar with the shocking truth about budgeting? Let me explain why budgeting causes significant problems.

There are several compelling reasons why you should take Beyond Budgeting seriously! Below you will find 10 reasons why budgeting and traditional performance management practices cause significant problems and therefore should be replaced.

Did you know that:

1. **Budgeting prevents rapid response.** You need to respond rapidly to unpredictable events but the annual budgeting process was never designed for this purpose.
2. **Budgeting is too detailed and expensive.** Budgeting is highly bureaucratic and very expensive (often absorbing 15-20 percent of management time).
3. **Budgeting is very quickly out-of-date.** Many of the key assumptions change frequently (such as commodity prices, exchange and interest rates and of course customer demand) causing confusion and much rework.
4. **Budgeting is out-of-kilter with the competitive environment.** Today's drivers of success are concerned more with fast response and continuous innovation than managing people and budgets.
5. **Budgeting is divorced from strategy.** Budgets are based on functions and departments rather than strategic themes. The chances of the goals and plans of many disparate functions and department being aligned with a coherent corporate strategy are often negligible.
6. **Budgeting stifles initiative and innovation.** Budgets tend to support an authoritarian management regime that stifles innovation
7. **Budgeting protects non-value-adding costs.** Cost budgets are usually compiled and agreed based on prior year outcomes. There is little time or incentive to understand and challenge the root causes of costs allowing huge amounts of waste to fester and grow.
8. **Budgeting reinforces command and control.** Budgets were designed to enable functional leaders to manage the organization from the center thus local decision-making is usually delegated within strict budgetary controls.
9. **Budgeting demotivates people.** When starting a new job most people are highly motivated to maximize their performance. But soon they learn not to fight the system but to 'go with

the flow'. This means doing little more than their job description specifies and the minimum to achieve their targets. Budgets are aligned with McGregor's Theory X. The assumption is that people will only do the minimum required unless there is an additional incentive to do more.

10. **Budgeting encourages unethical behaviour and increases reputational risk.** Aggressive targets and incentives drive people to meet the numbers at almost any cost. This can lead to unethical selling and 'creative' accounting placing the CEO's (and the company's) reputation in jeopardy.

Best regards,

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PS: In the next of our introductory mails, I will provide you with a list of the main benefits of going Beyond Budgeting.

