

6-1958

## Assignment - Budget Director

Sister Elise

Follow this and additional works at: <https://egrove.olemiss.edu/wcpa>



Part of the [Accounting Commons](#), and the [Women's Studies Commons](#)

---

### Recommended Citation

Elise, Sister (1958) "Assignment - Budget Director," *Woman C.P.A.*: Vol. 20 : Iss. 4 , Article 5.  
Available at: <https://egrove.olemiss.edu/wcpa/vol20/iss4/5>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Woman C.P.A. by an authorized editor of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

# ASSIGNMENT—BUDGET DIRECTOR

---

By SISTER ELISE, S. C., Treasurer General of the Sisters of  
Charity of Cincinnati, Ohio

There is a spreading view that budgeting rests on principles which have more in common with human relationship than with rules of accounting; and that, if these principles are applied, successful budget practices are inevitable.

At the outset a definition of "budget" might be in order, and a humorous one, which all financial managers will probably appreciate is this: "A budget is a scientific device for worrying before you spend instead of after." However, a budget may be defined as an estimate of income based upon past performance, present economic conditions and income potential, and a plan to use this income for operations, additions to plant and reduction of debt.

Even the smallest business can use a budget, and most business enterprises are operating from a budget, whether or not it is reduced to writing. Now the logical question is: why do we want to go to all the trouble of a long, tedious and controversial plan if it is recognized that budgeting is being done by so many without a formal written plan? Among the many reasons why a budget should be reduced to writing are these:

1. The budget will measure the actual performance of the business financially and statistically.
2. The budget will build an "esprit de corps" if the proper steps are taken and the key personnel assist in its preparation.
3. The budget will be a control of expenditures.
4. The budget will be a basis for long range planning.
5. The budget will eliminate guesswork because it is planned on intelligent estimates based upon past experience.

Budgeting is a trained, disciplined approach to all problems, which recognizes the need for standards of performance in order to achieve a result. Hence it must be built on a base of good organization; otherwise, favorable attitudes have no chance to operate. But at the same time it lives in an atmosphere of perpetual adjustment to the needs and capacities of people. It thrives on such fundamentals as

recognition of accomplishment, consideration for the rights of individuals, fair play—in other words, enlightened relationships among people.

In exploring budgeting principles as they relate to people, the first consideration should be the motivation for the budget system. Why have one at all? Is the budget a part of a system of over-all planning, in order that all concerned may have a measure of the amounts to be spent, and in order that action may be by design rather than by expediency? Or is the budget a pressure device designed to goad people into greater efforts? It takes a little soul-searching to determine honestly which of these concepts represents the position of a particular management.

It has been shown again and again that high costs which stubbornly resist all efforts of the pressure type will melt away under the warmth of an approach which is attuned to the basic responses of humanity. The attitude to be adopted here is an enlistment of all concerned in a common effort, with a complete explanation of objectives and methods.

Next in the line of exploration of principles is the dependence of budgets on general company planning. Although budgeting can be separately applied to any unit of the business, it is far more effective when it rests on a foundation of integrated planning for the entire operation. In the proper sense, it is only one phase of planning. When the planning concept has been adopted, budgets emerge of necessity—budgets with a purpose as deep as the stream of ideas giving direction and drive to the business itself.

The presence or absence of intelligent planning is reflected to a surprising degree in the effectiveness of the people who are asked to operate with a budget system. And this means all the people—from top executives to production-line workers. Individuals are usually more intuitive than we realize. When a budget is built on sound business planning, they respond to that fact without always knowing why.

As used in this discussion, *planning* refers to the predetermination of a course of action in such detail that every respon-

sible unit of the company may be guided thereby. It includes sales forecasting, production scheduling, expense budgeting, and estimating of manufacturing costs and inventory levels. It involves making advance decisions concerning new product development and introduction, merchandising methods, material procurement, and labor rates. In short, planning implies anticipating all the knotty problems to be met by a business during the planning period—usually a year so far as operations are concerned, longer for financial and developmental activities—in other words, facing the problems and making decisions about them *ahead of time* (subject to later revision if necessary).

These decisions are frequently so hard to make in advance that they border on the impossible. Yet they insure a reasonable net profit as no other method can. And on this planned net profit figure—the apex of the planning structure—depends our ability to attract new capital as needed and to compensate management and shareholders.

One need not elaborate the importance of profit planning, it must be recognized that when budgeting has a hard core of deliberate planning, adhered to by the company's top, middle, and all other management, the budget idea takes on real meaning for all concerned. Without this basis, it can never be completely palatable to those who do not understand how it can benefit them.

Let us examine the effect of the planning process on the people involved in it. In particular, we might first consider the impact on administrative people, for their outlook in the long run determines the attitudes of the larger non-administrative group. What is the planning technique doing to foremen, department managers, division heads? Is it building up or tearing down their confidence in their company's future? Is it affecting favorably or adversely their independence of thought, their self-assurance, their capacity to understand and rely on those around them?

It seems self-evident that planning alone does not afford the entire answer. There is another phase of budgeting which tests the fiber of men even more than planning. I am referring to control, which is the eternal complement of planning. Neither one is useful without the other, and to budget even the smallest unit of a business implies the presence of control also.

It is in the control area that the colossal

mistakes of budgeting are made. It is here that the amateurs have censured their subordinates for exceeding budgets, without realizing that they themselves were to blame for inadequate training. It is here that men have become so frustrated under maladministered budgets that they have resorted to all sorts of tricks to conceal the actual results and have padded their budgets to give themselves breathing room. It is here that staff men have usurped authority; merited pay increases have been denied because of budget limitations; and tales have been carried around supervision and up to the top under the guise of budget reporting.

The list of abuses could be prolonged indefinitely. There are many wrong ways to exercise budget control. There is only one right way. Let us then discard the negative approach, since the assertion of an affirmative truth will dissolve all counterfeits.

Control might be quickly and simply defined as a disciplined effort to follow a plan or explain deviations from it. The effort referred to takes the form of self-discipline—voluntary, unified, and cooperative. The deviations from plan are deliberate, foreknown, and authorized. If they are apparently beyond anyone's ability to prevent—as for instance a failure to reach budgeted sales volume—at least they are spotlighted as early as possible, and management has the chance to take whatever action is indicated. Control is simply the modern form of the old formula, "management by exception."

It is, of course, at the point of deviation from the budget that most of the human problems are born. This is, by design, the central point in the entire system—the moment which demands explanation, instruction, decision, argument, or even discipline, as the case warrants—the flash point for management in action.

Establish the meaning of control, and then put it into practice. In particular this requires the manager of each department to establish his own budget, based on his understanding of the job to be done. Top management may not be able to approve as high a figure as he asks for, but it can reach agreement with him as to what he is expected to accomplish and what it will cost. Having done this, he is responsible for planned performance. If he finds it necessary to exceed the budget, he should discuss this action with his superior and ask for advance approval. A budget is

neither to be considered sacred nor to be taken lightly. Managers will respond with better attitudes when they understand that the use of the budget is to permit them to control their own operations.

Insist on a clear-cut organization structure. A budget system cannot thrive without it. Each department should have a responsible manager, vested with authority commensurate with his responsibilities. He should have a clear understanding both as to the individual to whom he reports and as to the people who report to him. These are well-known precepts.

Arrange for good, common-sense accounting and complete, simple, and prompt explanations of the content of the items. This requires an accounting staff that is more concerned with the operating facts than with the techniques of balancing the books. Extreme care should be devoted to seeing that no supervisor has in his budget any item over which he does not have control. This area is fraught with debatable items and unending technical complications. If your house is not in order in this respect, almost any amount of effort is justified to put it in shape. And unless you are the exception to the rule, it will cost more money initially than you expect to pay, in terms of staff salaries and, perhaps outside consulting services. The cost is usually well justified, however, in the end result.

In the field of cost control, use your budget as a tool to be placed in your foremen's hands—not as a club to be held over their heads. To implement this rule, it may be well to design an educational program. Meetings attended by line and staff supervisors may prove an effective vehicle. Cost reduction must be placed on the basis of mutual effort toward a common aim. The creation of this atmosphere is an essential, definitive step in budget practice.

It is the controller's job to establish, maintain, and coordinate a budgetary system—in fact, a complete system of planning and control. But this work must be accomplished through authorized management. He must not enforce his instructions nor issue orders. He and his staff must be devoted to producing, reporting, and interpreting information—to making the planning and control machinery run. He is wholly a staff executive, and his only honors stem from the confidence of his associates. This he earns by honestly providing the control service and refraining from making operating decisions.

The present era demands a new appraisal of our daily work. The symptoms of budget irritations may point to deeper meanings in the spiritual emancipation of mankind. We are beginning to learn that no tool can be used effectively unless the hand that guides it is rightly motivated. Like all other techniques of business, the budget should be a door open to more satisfying and profitable work—not an instrument of torture.

Then it will be known that what you can do without a budget you can do better with one. It will be seen that the entire planning and control procedure, under whatever name, is a device for freeing men to do their best work—not a machine of restriction and condemnation. This better view is within our grasp today.

Planning is but another word for the vision that sees a creative achievement before it is manifest. Control is but a name for direction. The genius of management cannot fail to turn the budget idea finally into positive channels, so that people individually, as well as business leadership generally, will reap the harvest that it promises.

---

(Continued from page 10)

corn futures and realized a substantial profit on their sale. The Court found that the futures were not purchased for investment or speculation but as "an integral part of its business designed to protect its manufacturing operations against a price increase in its principal raw material and to assure a ready supply for future manufacturing requirements." Therefore the gain was ordinary income.

In any case, it behooves the taxpayer to clearly define his intention when buying a capital asset for other than investment or speculation purposes in some permanent record such as the minutes of the corporation, since the tax disadvantages of capital loss versus ordinary loss are so much more drastic than capital gain versus ordinary income.