

Study on the Application and Analysis of Budget Management Pattern of Middle and Small-sized Enterprises in China

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Abstract—Budget management system has been implemented in our country for many years. It is a necessary means of daily production and development of enterprises. But compared with some large-scale enterprises, quite a few middle and small-sized enterprises in China still have the problems of prejudice and insufficient recognition towards budget management system, which lead to the fact that the financial management of some small enterprises is out of control because of lacking effective budget management mechanism and then the problem of business failures happens occasionally. For this problem, this article analyzes the factors that affect the budget management implementation of middle and small-sized enterprises in China at present and carries out some practical application experiences accumulated by enterprises of budget management and draws a conclusion that introducing budget management mechanism is an important means to improve the management level of enterprises and enhance the competitive ability.

Keywords—*financial management; budget management; middle and small-sized*

I. INTRODUCTION

Comprehensive budget management systems of enterprise are all kinds of decision-making action plans implemented by enterprise operator to realize production and operation objectives of the enterprise. It involves the mode of business operation that on the basis of coordination and cooperation of various departments and personnel of the enterprise, through integrating the information of business funds and moderate separation of powers and authorization, enterprises can realize rational resource allocation, improve operating conditions and further reach long-term development.

At present, it is the foundation of the development of most enterprises in China to realize comprehensive budget management and provide strong basic conditions for enterprises to implement strategic management. These enterprises clearly know that only by using comprehensive budget management system can they better coordinate the relations among value chain, supply chain and activity chain and ensure the implement of strategic guideline and the realization of scheduled operation target. At the same time,

comprehensive budget management system can effectively promote and perfect management systems of enterprises, improve the efficiency of coordination works of all departments, continuously improve the level of managers, promote the benign and cyclic development of enterprises. It is more beneficial to find shortcomings in the management, constantly improves element tasks such as consumption standards and cash arrangement and provides fundamental basis to implement corporate supervision. In addition, it not only provides platforms for contributors to supervise reasonably and effectively, but also be beneficial for contributors to perform their duties and good to the evaluation, assessment and rewards and punishments of managers' performance.

II. APPLICATION STATUS AND CHARACTERISTICS OF BUDGET MANAGEMENT OF MIDDLE AND SMALL-SIZED ENTERPRISES IN CHINA

Budget management is planning control and coordination conducted by enterprises for future internal production and operation activities by using value and value form on the basis of scientific market forecasting.

Today, budget management of middle and small-sized enterprises in China has distinguished features. First of all, budget management has comprehensive identity and includes the contents of all aspects from the production to sale and to contra flow of enterprises. Secondly, budget management has strategic factors. Generally speaking, strategic issues of enterprises should analyze dynamic environment, including international and domestic environment, politics, economics and finance, law and natural environment, etc. and budget management can effectively and organically combine the market with enterprises according to enlightenments of these factors. Thirdly, as an institutional budget, budget management is a process of institutionalization and has distinct procedural characters and needs project approval and organization, approval execution, supervision and evaluation, etc. The goal to establish this mechanism is to reduce the risk of budget. Fourthly, the systematicness of budget management can be divided into longitudinal and transverse aspects. Longitudinal systematicness is links such as the organization, executive control, assessment and rewards and punishment of the budget, which jointly constitute a

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complete system that all links connect closely and commonly form the rigidity of budget. The transverse systematicness refers to that the job contents of each department are closely linked. If the budget goal of a department is unfinished, it will affect the budget enforcement of other departments and it must be authorized by competent departments according to specified limits of authority. Fifthly, budget management has the function of monitoring. Budget management cannot only stay on the organization and summarizing of budget issued by budget target. It is more important to truly give play to the authority of budget management and guiding function for business activities through budget enforcement and analysis of budget monitoring and adjusting the assessment and evaluation of budget. At last, it is necessary to reiterate that the budget of marketability itself is to simulate market, so budget management should start from benefit and become market-oriented.

Budget management system has been implemented in large-scale enterprises and now it has become a very important link in routine operational management of enterprises. At present, many operators in middle and small-sized enterprises also have basic concept of budget management. But privately-owned small and medium-sized enterprises have limited scale and manpower and most of them are family enterprises and lack overall awareness of budget management and effective formulation procedure of budget management. They often make budget work become formalistic. In practice, especially for middle and small-sized enterprises that just begin to implement the budget management, they often have the following problems:

- Ignore the corer status of budget management.
- Problems exist in budget making.
- Lack effective budget assessment and incentive system.

From the above application status and feature analysis, it's obvious that modern budget management has integrated many kinds of unified and contradictory functions such as control, evaluation and stimulation. The core problem of choosing budget management pattern lies in how to realize these functions.

III. FACTORS THAT AFFECT THE BUDGET MANAGEMENT APPLICATION OF MIDDLE AND SMALL-SIZED ENTERPRISES IN CHINA

Firstly, based on the development history of budget management in China, on budgetary concept, many middle and small-sized enterprises still remain the idea of planned economy management on the implementation of budget management. Enterprises organize business activities according to planned target issued by superior departments and still lie in the period of experience management and haven't entered the period of scientific management. Some middle and small-sized enterprises think business plan is equivalent to budget management and budget management is equal to budget making. In reality, business plan has essential difference from budget management. Budget making is just a link of budget management. Budget

management is the generic terms of internal management activities or process of enterprises that use the way of budget to quantify the decision-making objectives of enterprises and the resource allocation and realize them. These cognitions on the concept of budget management essentially lead to the fact that the effect of budget management is weakened.

Secondly, middle and small-sized enterprises haven't established the overall awareness of budget management. As a kind of management activity of "the entire personnel, being comprehensive and overall process", budget management demands that each middle-level personnel and grassroots staff in various functional departments of the enterprises should pay attention to it and participate in. In practical work, some enterprises and personnel always think that budget management is just the job that senior members of the enterprises and financial staff should do and has no relationship with other departments and personnel. They haven't fully realized the importance of budget management of promoting the beneficial efficiency in enterprises and lack the idea of integration and the concept of general budget. This wrong understanding is the initial motivation that leads to the situation that budget management cannot be implemented in middle and small-sized enterprises or the implementation effect is not good.

Thirdly, the supervision, assessment and incentive and restraint mechanism of budget in middle and small-sized enterprises in China are not perfect. Supervision and assessment are two essential links in the process of budget management. Budget management is management of the whole process. If there is no strict supervision and assessment, this process isn't complete.

- On supervising ways of budget, it has not established responsibility accounting calculation system and budget audit mechanism that are necessary for budget management and it lacks operative constraint for internal auditing organs and the randomness is strong.
- On budget assessment, middle and small-sized enterprises that implement budget management exist the problems that the assessment department is ambiguous, the evaluation content is not specific, the assessment cannot be institutionalization and the assessment criterion has strong randomness, which lead to the situation that budget assessment cannot ensure the comprehensive implementation of budget management system in enterprises.
- Indicators for performance check is imperfect and becomes formalistic and cannot play proper roles of control and inspiration. Besides, it has not paid enough attention to non-financial index and the process of evaluation cannot give consideration to the whole objectives of the enterprise and local target of responsible organization.
- On incentive and restraint mechanism, it has not established effective incentive and restraint mechanism. Budget management cannot mobilize the enthusiasm of each person in charge very well.

The softening of budget constraint appears in the process of budget implementation. Because it appears the phenomenon of becoming formalistic in the executing process, it is difficult to achieve the anticipated effect of budget management.

Lastly, the typical management mode of many middle and small-sized enterprises is high unification of ownership and right of management. Investors of enterprises are operators at the same time. This mode will inevitably bring negative influence to the budget management of enterprises. Lacking proper understanding and research on theoretical method of budget management, they cannot distinguish their responsibilities and act beyond their authority with disordered management. Besides, financial supervision is undemanding. So budget management cannot play a proper role.

IV. PERFECT THE MEASURES FOR ENTERPRISES TO IMPLEMENT COMPREHENSIVE BUDGET MANAGEMENT

Enhance the knowledge and understanding of comprehensive budget management and make efforts to improve the professional quality of budget managers. Enterprises should strengthen business trainings for their staff to make them grasp how to prepare rightly and budget accurately. At the same time, they should also pay attention to the introduction and cultivation of talents. The following contents and the introduction and cultivation of talents are of equal importance.

A. Build a Strategy-Oriented and Comprehensive Budget Management System T

1) *Deepen the understanding of policy makers in enterprises for strategy-oriented and comprehensive budget management* They should realize strategic budget management has the following characteristics: firstly, it has dynamic and open characteristic. When internal and external environments in the company change, they should make corresponding adjustments and prompt the adjustments of management measures of enterprises through achievement evaluation of multi-index. Secondly, strategic budget management extends its perspective to the whole enterprise and has the characteristic of combination of result control and process control. Thirdly, strategic budget management has personalized characteristic. It attaches importance to enterprise culture and the design of this system takes human factor into more consideration, create cultural atmosphere that can meet the requirements of the development of corporation strategy management and effectively realize control of the whole process.

2) *Enterprises should reconstruct comprehensive budget management system.* On the system, they should establish organizational system of comprehensive budget management and make it clear that board of directors is the decision-making level of comprehensive budget, the management team is the implementation level and subordinate companies are the executive layers to provide organizational guarantee for budget management and embody the highest decision-

making status of boards of directors in comprehensive budget of the enterprise.

B. Design reasonable target system of budget assessment

1) *Confirm two objectives of the design of budget evaluation system.* The first is completion of the target of budget assessment. Reward those who beat the target and punish those who have not reached the standard and encourage that the more practical completion, the better. The second is assessment of budget organization work, that is to say, measure whether the budget making is accurate, reports timely and whether budget implementation control and analysis are effective. On one hand, it is the assessment of completion of budget goal. The assessment of completion of budget goal is to assess the completion status of major economic indicators and furthest ensure the realization of budget goal of the company. Key financial indicators are its main evaluation contents. On the other hand, it is the assessment of budget work, which evaluate the quality of each link of budget management and the purpose is to promote the improvement of budget management level.

2) *Divide indicators of budget assessment into financial indicators and non-financial indicators.* Financial indicators is constituted by indicators that can reflect the ability of value creation (EVA), indicators of debt paying ability, profitability, management ability, rate of income on investment, cash flow and growth ability, etc. Most of these indicators are outcome indicators that can be calculated directly through accounting data. Non-financial indicators include indicators that can reflect customers and market ability, indicators of internal business process, management competence of the company, staff and innovation ability, the relationship between the company and the community, government, customers and suppliers. The design of these indicators can refer to the contents of non-financial indicators in balance score card of four level indicator systems. But the difference is that it pays attention to the governance capability indicators of listed company and adds the indicators of the relationship between the company and suppliers. The strategic and cooperative relations between enterprises and suppliers are not only important contents of the management of supply chain and value chain, but also key areas of the comprehensive evaluation of enterprises.

3) *Monitor the budget through key performance indicator and the principle of budget exception management.* Firstly, enterprises implement the supervision for budget through key performance indicator (KPI). Budget the monitoring report and the budget and merging data of subordinate (holding) subsidiaries, regularly hand in the report to budget management department of the enterprise. Budget management department guides the business sector and the budget control work of functional department and takes the responsibility of reporting executive condition to enterprise leading group. Secondly, the budget management of enterprises implements the principle of exception management. In order to give consideration to the effectiveness of the management and improving the efficiency of management, daily management of enterprises monitors the executive condition of budget by using KPI to

define the early warning area. When alerts appear, monitoring unit has the responsibility to report immediately and solve problems through executing the program of "exception management". The efficiency of finding and dealing with problems is an important indicator of internal management efficiency of the enterprise.

C. Establish Comprehensive Budget Management Information System of Data Sharing (DS)

1) Fully realize the necessity to establish comprehensive budget management information system, which has the following advantages: firstly, it can have real-time update for budget management. Because there is data connection between budget tables, after adjusting the budget, the information system can adjust related contents of budget according to fixed data relations. Secondly, it can timely obtain the implementation data of budget. Thirdly, it can achieve real-time control. Fourthly, it is convenient to inquire and analyze. Because computer has fast speed of data processing and strong ability of data analysis, it is convenient and fast for enterprises to output all kinds of budget sheets, budgeted financial statement, budget variance analysis, schedule analysis sheets of budget, etc. Summarizing the above advantages of comprehensive budget management information system, it basically overcomes a series of application problems that the workload of manual budget making is heavy, and it is difficult to adjust the budget and more difficult to do real-time control. Besides, budget management information system can significantly increase the application value of comprehensive budget management. Establishing comprehensive budget management information system can make the budget work of enterprises become fast and convenient, which not only can reduce the management cost and difficulty of enterprises, but also expand the scope of traditional budget of enterprises and let enterprises put more time on key issues.

2) Design and implementation of comprehensive budget management information system of data sharing. According to the specific situations that enterprises carry out the comprehensive budget management, comprehensive budget management information system can be divided into subsystems such as stock budget, production budget, manufacturing cost budget, product cost budget, marketing budget, budget of period expense, budget of financial statements, cash budget, assessment and management of responsibility center, budget comparison and analysis, etc. Establishing this system helps enterprises to inquire and analyze data and timely update the budget adjustments and obtain budget implementation data to achieve real-time control. It basically overcomes a series of application problems of manual budget making and can realize data sharing and significantly increase the application value of comprehensive budget management.

V. CONCLUSION

Budget management is the general arrangement of enterprises for future overall business plan and it is an important management measure. It can effectively help administrators for the coordinated control of the plan and

performance evaluation. Implementing budget management system is one of the experiences accumulated for many years by some successful enterprises in developed countries and has very important significance for enterprises to raise the standard of management and enhance the competitive ability. Researching, discussing and establishing budget management system that can meet the requirements of the management of modern middle and small-sized enterprises in China is the needs of enterprise management innovation and obligatory duty of the vast theoretical workers and practical workers of finance and accounting and also an important task that need to be solved by financial management of modern enterprises.

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