

## Budgeting – A burden of the past or tomorrow’s value creator?

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The Budgeting Scan as a First Step towards a  
Faster, Cheaper and Better Budgeting System

# Budgeting - A burden of the past or tomorrow's value creator?

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September 2006

An EyeOn research report

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# Management summary

Is budgeting the cause for frustration of the past or today's source of value? Recent discussions stress that inefficient budgeting systems should be perceived as an opportunity to improve instead of a weakness.

This Budgeting Scan enables the first crucial step towards a cheaper, faster and better budgeting system. It analyses the functions of budgeting in relation to best practices. These best practices have been identified step by step based on general world class standards in the field of budgeting. In this way the Scan tests your budgeting system and identifies specific areas for improvement.

The Budgeting Scan has been validated and implemented at Campina and Teijin Twaron BV. Individual interviews were conducted with Mr. Kuik (Manager Corporate Accounting & Reporting, Campina), Mr. van der Padt (Director Finance & IT Cheese and Butter, Campina), Mr. Föllings (CFO, Teijin Twaron) and Mr. De Glee (Financial Analyst, Teijin Twaron, who validated the budgeting scan and identified specific improvement areas within their companies. EyeOn would like to thank all participants for their interest and contribution.

# 1. Introduction

## 1.1 Overview

### Budgeting- A burden of the past or tomorrow's value creator?

The role of budgeting during the realization of a company's strategy is a controversial issue. Traditionally, rigid budgets are assigned to departments or individual functions for planning purposes and to navigate the organization. In recent years, however, this method of stewardship was strongly criticized and in some cases led to radical process innovations.

Why do companies invest in alternative mechanisms that replace or evolve traditional budgeting? According to an elaborate research (2001), traditional<sup>1</sup> budgeting is time consuming, costly, unresponsive in today's competitive and turbulent environment and causes massive frustration among employees. Other surveys found that employees perceive the budgeting process as 'guesswork', making people feel undervalued, being based on outdated information and focusing on cost reduction, not value creation. In short, there is a great need for new ideas and concepts that lift budgeting to the next level.

**"BP doesn't use the word 'budgeting'. The dog ate my homework... I mean we don't talk about the excuses for poor performance."**  
 – Ellis Armstrong, Vice President, Planning, Performance Measurement and Control BP.

### The Budgeting Scan towards Bottom Line Results

This White Paper presents the Budgeting Scan as a first step towards a fast, efficient and effective process that fulfills the functions of budgeting, while eliminating its potential drawbacks. It does not aim at abolishing the budgeting process altogether (as "beyond budgeting" suggests), but strives for innovation by identifying the areas of improvement. The Scan is conducted through

<sup>1</sup> 'Traditional budgeting' is defined as 'periodic process by which organizations tend to define their forward operational expenditures and forecast incomes'.

a structured questionnaire that assesses to what extent your budgeting system complies with best practices. The results of the scan are threefold. Firstly, they provide an overview of how well the functions of the budgeting system are fulfilled. Secondly, to what extent the process, organization, ICT and culture contribute to these results is assessed. Finally, the results of the Scan map the potential for improvement with respect to speed, cost and quality of your budgeting system.

## 1.2 Outline

This document describes the structure and content of the EyeOn Budgeting Scan along the lines of two cases. Chapter 2 elaborates on the theoretical backbone of the Scan, focusing on a reference model, the underlying best practices and

**"83% of all respondents still plan with Excel!"**  
 - Survey in 'IS-Report', May 2003.

the design of the Scan. Chapter 3 and 4 show two cases of Campina and Teijin Twaron BV, respectively. The results of the Budgeting Scan are introduced at this stage to demonstrate relevance in practice.

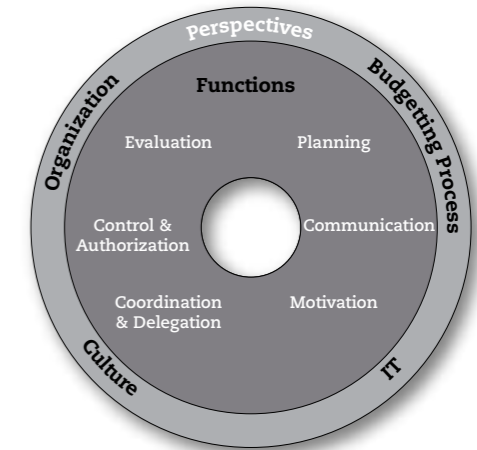
# 2. The Budgeting Scan

## 2.1 The Reference Model

### A functions perspective towards innovation

At first sight, the intuition of a budgeting scan might seem contradictory. Why build upon your existing budgeting process, when it might be criticized? The disadvantages of budgets have been widely discussed by academics and practitioners. Despite these disadvantages, the majority of companies are still using budgets. Only very few (Scandinavian) companies have abolished budgeting. Based on our experience with clients we conclude that companies aim for a responsive budgeting process using fewer resources and thereby freeing up management time. Companies do not intend to abolish budgeting but want to strengthen its functions. The Scan looks at budgeting from a functions perspective and identifies tangible problem areas that induce further actions and improvements. The basic functions of budgeting include: Planning, motivation, communication, control & authorization, evaluation and delegation & coordination. The table below defines each of these fields.

In addition the Scan takes four perspectives on these functions to identify strengths and weakness in the most complete and systematic way. These perspectives are organization, budgeting process, ICT and culture. By taking these perspectives on the functions of budgeting, the Scan identifies to what extent your system corresponds to best practices. The following figure illustrates the core of the reference model on which the matrix of best practices is based.

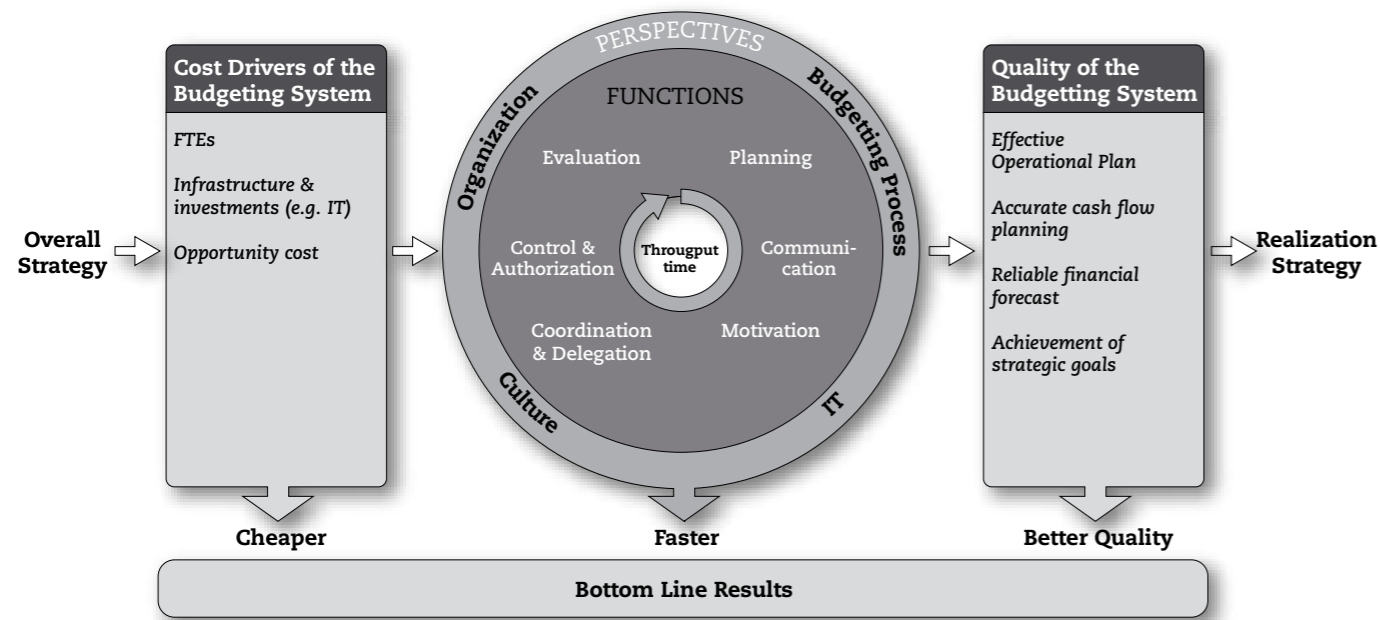


The core of the reference model

Purpose	Explanation
Planning	Financial translation of activities and KPI's from the forthcoming year of the strategic plan.
Motivation	Budgets can be a useful tool for influencing behaviour and motivating managers and individuals to perform in line with the organizational objectives.
Communication	Top management communicates its expectations to lower level management through the budget, so all members of the organization understand these expectations and can coordinate their activities to attain them. Communication also includes the bottom-up stream of information.
Control & Authorization	The budget formally authorizes individual employees to make decisions within the budget given. At the same time the budget functions as a concrete control mechanism.
Evaluation	At the end of the cycle, the actual results and budget will be evaluated. A budget provides information on how well some one is performing in meeting targets.
Delegation & Coordination	With a budget it is possible for those responsible to delegate responsibility to other employees or divisions. In this context the budget serves as a vehicle by which the action of the different departments of an organization are brought together and reconciled into a single plan.

**Inputs, outputs, throughput time and bottom line results.**

To understand how an improved budgeting system creates value for your organization, the core needs to be set into perspective by considering inputs, outputs to the process and throughput time. Generally, budgeting realizes the overall strategy of a firm. On the left hand side of the core, the box lists the costs/inputs of the budgeting procedure. They include full time employees (FTE), infrastructure, investments and opportunity costs. On the right hand side of the model, the outputs of the system are mapped, focusing on their quality. The operational plan, cash flow planning, financial forecasts and achievement



of strategic goals are the main achievements of this process. Finally, the speed of the budgeting procedure is illustrated by the arrow at the centre of the core.

This basis clearly links budgeting and its context with bottom line results. If costs can be reduced, throughput time shortened and the quality enhanced, the budgeting system can constructively contribute to efficient value creation. The figure thus illustrates the functions and perspectives of the budgeting process, shows how it is embedded in the organization and points to the improvement potential with respect to speed, price and quality.

**2.2 Towards Best Practices: What makes World Class?**

**Benchmarking through “best practice”?**

This Budgeting Scan is based on a set of best practices that are applied as benchmarks. A justified criticism to this approach is the issue whether best practices can be commonly defined for all varieties of organizations. How can the quality of a company’s specific budgeting process be measured through universal “Best Practices”?

Organizations have different demands for their budgeting systems. The Scan tool is targeted at companies accounting annual

revenue at a minimum of €50 million Euro. Besides this specification of the target group, the best practices in question are general and straight forward. The questionnaire translates these practices to a practical level while accounting for company specific conditions.

Example: Although Activity Based Budgeting (ABB) is considered as a best practice, the questions investigate if the current method fits the organizational architecture and does not assume that ABB would contribute to a “better” budgeting system in your organization.

**2.3 Best Practices: The 4 Pillars**

A central value provided by the Budgeting Scan is the recognition of best practices in budgeting. To underline the validity of these practices, special attention was devoted to their derivation. Before defining detailed and explicit characteristics of a world-class budgeting system, a general base is elaborated, which incorporates academic sources, up to date reports and EyeOn expertise. The 4 pillars are:

**1) Integration of Strategy and Operations.**

The fundamental purpose of budgeting is to translate overall strategy into operational actions (see reference model). The efficiency and effectiveness of this function are crucial for the quality of the budgeting process.

**2) Goal Orientation: Track external benchmarks.**

A major criticism of budgeting systems, as indicated during the introduction, is that they hamper realization of the goals and objectives of the company. This second pillar builds upon the first, suggesting that strategy should be formalized through the definition of clear goals. In addition, these goals should apply external benchmarks to position the firm’s performance within the market.

**3) Minimization of Complexity: Concentrate on key drivers.**

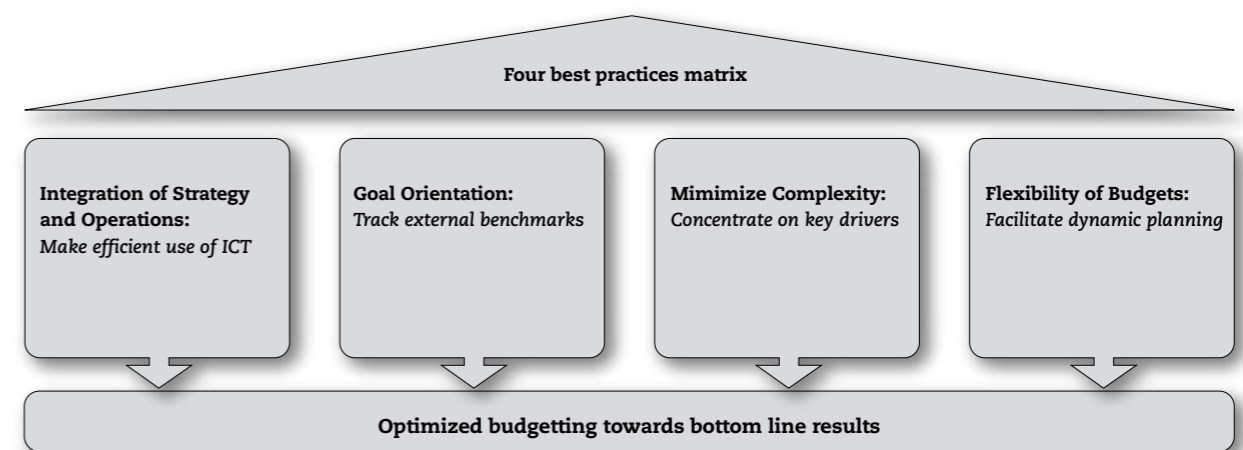
Fuzzy, complex and time intensive procedures often cause frustration, high cost and low response ability. Therefore, best practices suggest that employees should identify key drivers behind complex data. The figures themselves are only a mirror image of the underlying business drivers.

**4) Flexibility of Budgets: Facilitate dynamic planning.**

Traditionally, budgets need to be as rigid as possible to ensure reliable planning and forecasting. While markets become strongly volatile companies require flexible, but goal oriented procedures for budgeting. A dynamic planning process provides the basis for this target.

“Allocate resources from the center is the last fortress of socialism!”  
– Hammel, 1999.

The following figure illustrates the four best practices pillars.



Four best practices matrix

## 2.4 Matrix of best practice in budgeting

### Generally defining what makes world class budgeting

Based on these four pillars, more elaborate best practices were developed guided by the

reference model. As indicated above, The Budgeting Scan builds upon a matrix that combines the four perspectives with the six functions of budgeting. In this way one or more characteristics of world class practice are identified for each quadrant.

	Organization	Budgeting Process	ICT	Culture
Planning	<ul style="list-style-type: none"> <li>Forecasting and modelling needs to be performed independently of financial management.</li> <li>Projects and initiatives are evaluated based on both strategic fit and economic value as part of the budget process.</li> <li>The budgeting approach (ABB, EVA, traditional, ZBB or individual variations) should find the equilibrium between cost and accuracy of the system.</li> </ul>	<ul style="list-style-type: none"> <li>The drivers of sales, profits and expenses should be paramount, not the number itself.</li> <li>Appropriate external benchmarks are used to monitor internal performance relative to peers, competitors, and other standards of performance.</li> <li>Duration of maximal 30 days.</li> <li>Strategic goals not numbers should be paramount.</li> <li>Budgets should be based on consistent, accurate and independent forecasts.</li> <li>Outcomes of the budgeting process should be used for cash forecasting.</li> </ul>	<ul style="list-style-type: none"> <li>ICT-systems should concentrate on accuracy of information not on precision of data.</li> <li>ICT should forecast only major variables indicating different scenarios that are based on clearly defined and flexible assumptions.</li> <li>Equal focus is given to defining the right information, identifying the appropriate users and ensuring that the right information is available when needed: right content, right people, right time.</li> </ul>	<ul style="list-style-type: none"> <li>Planning should be action oriented.</li> <li>New initiatives that are in line with the overall strategy should be funded, independently of the budget</li> <li>Budgeting should induce management to proactively manage strategy, not focus on short term fulfilment of budgetary numbers.</li> </ul>
Motivation	<ul style="list-style-type: none"> <li>A balanced set of performance measures and reward (punishment) systems should lead to the achievement of strategic goals, not the fulfilment of budgetary numbers.</li> </ul>	<ul style="list-style-type: none"> <li>Set goals before the budgeting process begins to create clear guidance.</li> <li>Budgeting should make strategy a continuous and inclusive process that guides and motivates employees.</li> </ul>	<ul style="list-style-type: none"> <li>Data should be perceived as a means to measure strategic advancement, not as a frustrating constraint.</li> <li>Staff should be mainly concerned about analyzing data, not its collection.</li> </ul>	<ul style="list-style-type: none"> <li>Employees should clearly understand and value the budgeting process and not be discouraged by its necessity.</li> <li>Politics and influence are minimized during budgeting organization and processes.</li> </ul>
Communication	<ul style="list-style-type: none"> <li>Top management should take the lead in the budget process and involve all associated employees.</li> </ul>	<ul style="list-style-type: none"> <li>The budgeting process facilitates early identification of business risks and opportunities.</li> <li>Online reporting and budgeting tools play a key role during the budgeting process</li> </ul>	<ul style="list-style-type: none"> <li>ICT-systems should filter and file information, not increase quantity.</li> <li>Information should be customer oriented, leading, predictive and both financial and operational.</li> <li>Cost-revenue databases should quickly supply a single view of the company's key ratios and measures.</li> </ul>	<ul style="list-style-type: none"> <li>Employees should be able to provide direct, clear and open feedback about the budgeting system's outcome, because it is essential regarding its successful implementation.</li> <li>The budgeting system should augment inter-company interaction and foster synergy.</li> <li>Employees should adhere to a given timetable in a disciplined way.</li> </ul>
Control & Authorization	<ul style="list-style-type: none"> <li>Budgeting should result in assignment of decision rights.</li> </ul>	<ul style="list-style-type: none"> <li>Management Information should be used to measure strategic advancement, not to foster budgetary constraints that hold back initiatives.</li> <li>The budgeting process facilitates strategic management and decision making.</li> </ul>	<ul style="list-style-type: none"> <li>Early warning systems should be in place.</li> </ul>	<ul style="list-style-type: none"> <li>Budgets should be a guide to outperform the competitors, not a constraint.</li> <li>Measurement and control should be based on the achievement of strategic milestones, not "actual vs. budget" analyses.</li> </ul>
Evaluation	<ul style="list-style-type: none"> <li>Feedback loops with respect to the organization of budgeting should be in place.</li> </ul>	<ul style="list-style-type: none"> <li>The budgeting process should account for uncertainty, risk, and sensitivity analysis and should capture these results.</li> </ul>	<ul style="list-style-type: none"> <li>ICT-systems should facilitate selective reporting processes supplying key information and channelling information flows, not producing detailed data.</li> </ul>	<ul style="list-style-type: none"> <li>Budgets should create a culture of thrift and continuous improvement, reinforced by long term reward systems.</li> </ul>
Delegation & Coordination	<ul style="list-style-type: none"> <li>Organizational architecture: Need for functioning partition decision rights.</li> </ul>	<ul style="list-style-type: none"> <li>A clear workflow in the budget process should support the delegation &amp; coordination of the overall business goals.</li> <li>The budgeting process should challenge and coach employees, not command them.</li> </ul>	<ul style="list-style-type: none"> <li>All employees should, for good reasons, have access to a shared, regularly updated database.</li> </ul>	<ul style="list-style-type: none"> <li>The system should delegate people and give freedom and responsibility within their span of control, but not control and constrain them.</li> </ul>

## 2.5 Questions, Program Design and Results

The specific Best Practices of the figure on page 9 provide the basis for the questions of the Scan. Each Best practice is assessed by a high level question and several detailed questions. The detailed questions elaborate on the higher level question. The user can answer the question on a three point scale or indicate that it is “not applicable”. The sample question below covers the best practice referring to Planning viewed from an ICT perspective. The background information defines specific terms of the question to avoid misunderstandings.

Nr.	High Level Question	Budgeting function
24.	The forecasts of major business variables are based on clearly defined assumptions.	Planning

### Lower level questions

- Forecasts usually take a lot of time, because numerous figures need to be forecast.
- All forecasts are based on the same assumptions.
- Forecasts include specifications of drivers that (may) cause variances.
- Forecasts guide management to actions.
- Forecasts are only understood by the employees that perform them.
- Different scenarios are never an output of forecasting.
- How confident is management with respect to the forecasts?

### Background Information

Major variables are uncertain values for indicators that are essential to the firm’s business. Such indicators may be inflation, oil price or cost of cash.

This design of the questions results in two forms of the Budgeting Scan, as indicated during the introduction. For standard usage, higher level questions are asked and evaluated. The elaborate Scan also poses the lower-level questions. Ideally, both Scans are performed by means of an interview per participant. The Scan efficiently identifies the bottlenecks of the current budgeting system. In a workshop with all participants the bottlenecks and discussion points can be challenged. A shared and committed improvement plan is one of the objectives of such a workshop.

Besides the choice for a standard scan or an elaborate Scan, the user can restrict the analysis to a selection. If for example ICT is definitely not the cause of an inefficient budgeting system, this part of the Scan can be skipped.

The results of the Scan are threefold. First, the Functions Score provides an overview of how well the separate functions of budgeting are met compared to the Best Practices as defined above. Second, the Matrix of best Practices specifically monitors all individual outcomes. Lastly, the scan indicates whether the budgeting system can be much faster, better and cheaper. Examples of the results are illustrated in Chapter 3 and 4, which elaborate on the validation sessions at Campina and Teijin Twaron.

# 3 Case 1: Campina

## 3.1 Introduction to Campina

Campina produces fast moving consumer goods and next to production it is a marketing focused enterprise. The firm is owned by its main stakeholder, its farmers. Campina develops, produces, and sells dairy products and ingredients for the food and amongst others Pharmaceutical industry. Its products are mainly based on milk, just-in-time delivery and planning is of crucial importance to the firm. Therefore, budgeting plays a major part in steering and controlling the company. Next to the fact that Campina sells 84% of its products in Europe, the firm expands to Asia, the Middle East and America. Recently Campina expanded the Asian market by engaging in a joint venture with Thai Dairy Industries in Thailand. Its turnover was 3.569 billion euros in 2005 and is expected to grow based on product innovations and geographical expansion.

## 3.2 The Scan conducted at Campina

The Budgeting Scan has been conducted at Campina. During individual interviews with Robert Kuik (Manager Corporate Accounting & Controlling) and Andre van der Padt (Director Finance & IT Group Cheese and Butter) the Scan proved to be an excellent starting point for a thorough discussion on the potential improvements in the budgeting procedure at Campina. The Scan adequately reflects the opinions and perception of interviewees as a basis for further discussion and qualitative analysis. Moreover the Scan analyzes the current budgeting procedure at Campina from various perspectives e.g. organization, process, ICT and culture.

### 3.2.1 The 4 Perspectives

One of the distinguishing features of the Scan is that it analyzes the budgeting procedure from various perspectives. It examines the functions of budgeting from an organizational, process, ICT and cultural perspective to gain a comprehensive picture of the budgeting system. Before the individual

results are discussed, these four views are shortly contrasted and presented.

The budgeting system is, according to the answers given, consistently and efficiently organized at Campina. The most essential positive aspect is that top management clearly takes the lead during the organization of budgeting as they provide the overall assumptions regarding key figures and guiding the workflow proactively. In this way the volatility of the markets Campina is faced with, are treated in the budgeting process as effectively as possible. Finance staff evaluates the budgeting procedure yearly. However, more time and effort should be scheduled for evaluation and improvement. This could be included in the formal timetable of the budgeting procedure.

The Budgeting Process is quite positively perceived. As indicated during the organizational paragraph, the way in which volatility is taken into account is a major strength of the process. Frequent updates and flexible input variables foster an almost just in time mirror image of the firm’s financial position. On the other hand preparing budgets with the current level of detail requires considerable effort and management time. It could be considered e.g. to plan sales and margin of products on higher aggregation levels to balance costs and accuracy of the (sales) budgets.

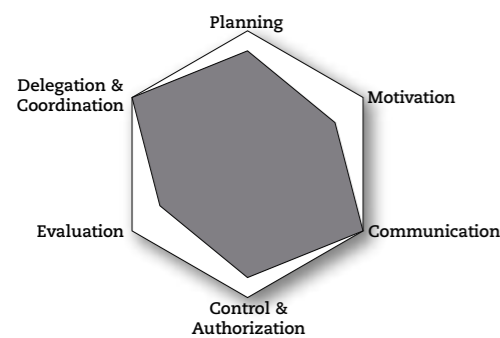
The ICT applications provide sufficient support to the budgeting process. In essence, Campina believes that integrated systems contribute to a faster procedure and improved overviews of the planned performance of the firm.

Lastly, the Culture perspective highlights the overall perception of budgeting within the organization and examines to what extent the organization, process and ICT are embedded in the daily lives of employees. Campina values budget orientation, which implies that all employees are measured according to their compliance with it. The budget is thus closely attached to the culture of the firm. The following section shifts the focus towards

the functions of budgeting and how they comply with best practices in the field of budgeting.

### 3.2.2 Result 1: The Function's Score

This output clusters all results referring to one of the 6 functions and takes its average. Then this score is compared to the maximum possible score which corresponds to best practices. The bigger the blue area is, the larger the fit with best practices. The tendencies in perception of the budgeting system from the two interviews are rather similar. The graph below depicts the results of the interview with Robert Kuik.



The functions Delegation & Coordination, Planning and communication are identified as major strengths of Campina. Campina is convinced that budgets do coordinate and delegate all employees in a way that almost fully complies with best practices. With respect to planning, motivation, delegation & coordination and communication both interviewees share their positive perception of the budgeting system, whereas one of the interviewees is more positive regarding the control & authorization function. The graph above provides a first overview of the quality of the budgeting system. The Budgeting Scan's first outcome does not only indicate a first impression of strengths and weaknesses, but also contrasts opinions and perceptions of the various interviewees. These differences are further discussed and elaborated during a workshop with all participants where potential issues and discussion points can be challenged. Although the perspectives and functions alone provide a first overview of the budgeting scan, the combination of these results identifies actual issues.

### 3.2.3 Result 2: The Matrix

The Matrix combines both sets of results. It investigates the causes and roots of these strengths and weaknesses in more detail. It connects the six functions with the four perspectives. As mentioned above, the functions are evaluated by approaching them from the 4 perspectives relative to best practices. This result links the scores of each question to their best practice and subsequently to their place in the cell. For example, questions 1 to 3 in the Scan examine the first field above in the matrix, referring to how well the organizational aspect contributes to planning of budgeting. To ease the analysis the tool gives the user the opportunity to define boundaries to colour the cell red or green. In this case the lower boundary is 20%, whereas the green fields mark scores that are higher than 80%. This specific illustration of the scores allows distinguishing between strengths and weaknesses. In the case of Campina this outcome was shaped like the following graph (percentages have been removed, all marks shown that were green are illustrated in light gray, none were red).

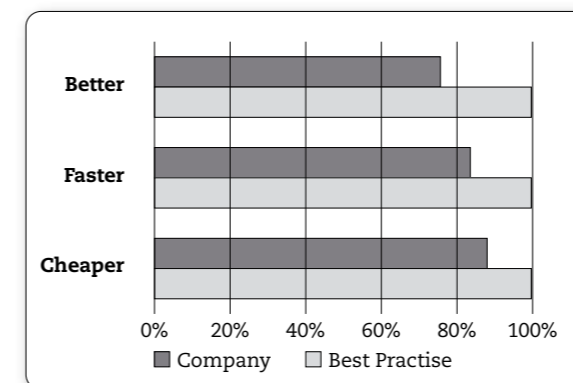
	Organization	Budgeting Process	IT	Culture	Results
Planning					
Motivation					
Communication					
Control & Authorization					
Evaluation					
Delegation & Coordination					
Results					

The green fields point to Campina's strengths regarding coordination and delegation, as well as organization. Communication and motivation are subjects for further discussion, because few or none of the cells are coloured in green, suggesting a lower fit with best practices. This view shows that ICT systems do not optimally contribute to the evaluation of the budgeting system provoking further discussion.

Furthermore, the matrix indicates that Campina does not optimally rate the process (only one green, rest between 20 and 80 %). This quantitative observation can be qualitatively explained. Budgeting starts around July and is approved in December. At this point the assumptions made 5-6 months earlier could no longer hold. This could explain the lower scores in this section. Therefore, it could be beneficial to create a more compact process. It could be worthwhile to refine these results via the Extended Budgeting Scan. The Extended Scan provides more detailed insight and food for discussion.

### 3.2.4 Result 3: The Potential Analysis

The last result offered by the Budgeting Scan is the Potential Analysis. It indicates how much faster, better and cheaper the current system could operate. Each of the questions answered during the Scan refers to one or more of these attributes. According to these classifications the scores per question are clustered and the average per potential is calculated. In this way all scores that affect the costs of the budgeting system form the output below. Again, the company outcome is benchmarked with the best practices, as can be seen in the graph below.



The quality, cost and cycle time of budgeting are interrelated. The above figure suggests that identified improvements impact mainly the quality of budgeting. This is directly correlated with the cycle time of the system that would also be augmented.

## 3.3 Conclusion Campina

This chapter illustrated the outcomes of the Budgeting Scan at Campina. The three results (functions score, matrix and potential analysis) all underline different aspects of the budgeting system. Their sum shapes a complete and diversified image of the budgeting system. Most importantly, Campina definitely recognizes the character of their budgeting system in these results. Campina is satisfied with the quality of its budgeting process. Especially the strength of its process and the coordination and delegation became clear during the interviews. Furthermore, points for improvement were identified including a structural evaluation of the budgeting process and a Control & Authorization mechanism.

**“The Budgeting Scan is a valuable tool that identifies concrete points of improvement. The questions included in the Scan adequately reflect a potential gap between our budgeting procedure and best practices. It will inspire Finance staff when rethinking the current system in use.”**  
- Robert Kuik

**“The tool provides a clear and valuable mirror image of the budgeting system. The Scan helped me to specifically identify areas that might need improvement, but also those that are world class.”**  
- Andre van der Padt



# 4 Case 2: Teijin Twaron

## 4.1 Introduction to Teijin Twaron

Teijin Twaron BV is a subsidiary of the Japanese Teijin Group. The Dutch firm is one of the two major producers of para – aramid fibers (Twaron®) used for many applications such as Optical Fiber Cables, Ballistics, Composites, Elastomer reinforcements and Friction and Sealing. The holding company is strongly involved in Teijin Twaron BV and in the final results of its budgeting practices. Its role is threefold. First, it develops a global strategy and bundles potential synergy effects. Secondly, this should lead to a maximization of group resources and optimal positioning of its subsidiaries. Finally, the Japanese holding clusters the research and developing functions on a global level. Next to these positive intentions, this structure bares some limitations with respect to the budgeting process in The Netherlands. This will be further elaborated in a later paragraph. Teijin Twaron BV employs around 1200 employees and serves more than 1000 customers worldwide. It positions its products in the high quality segment with success, since the firm's products have been sold out for some years now. The main challenge of the company is thus to select the segments to serve, maximize capacity and stabilize this market position for the future. Due to these circumstances, market share and customer maximization is paramount at Teijin Twaron BV, which is also reflected in its budgeting practices as will be shown later. Furthermore, the company is confronted with huge investments which bring uncertainty until full utilization is guaranteed. Since Teijin Twaron's core value driver is the development of new technologies, R&D expenditures take up considerable shares of the overall budget. Nevertheless, the 'Technical Weekly' ('technisch weekblad') ranked Teijin Twaron BV number 18 in The Netherlands regarding its R&D capacity. This does not guarantee future capitalizations of R&D investments of today, however.

## 4.2 The Scan conducted at Teijin Twaron

### 4.2.1 The 4 Perspectives

As mentioned in the first chapter, this Budgeting Scan takes four perspectives to foster a multidisciplinary approach towards integrated improvement. Both employees concur that the organization is again well coached by top management that provides consistent estimates and a sharp timetable. Moreover, the bottom-up approach involves all employees adequately and includes them in decision making. Nevertheless, the organization is by definition dependent on the Japanese headquarters, which approves the Dutch budget at a significantly later point in time than its finalization. Also, the organization could be improved if evaluation were more intensively focused upon.

Interestingly, Teijin Twaron is of the opinion that the Budgeting Process is one of the main strengths of Teijin Twaron. Better planning and communication could contribute to an even stronger budgeting process. During the interviews several opportunities for improvement were mentioned with respect to the financial planning process. One example is the idea to integrate the financial forecasting process with account planning.

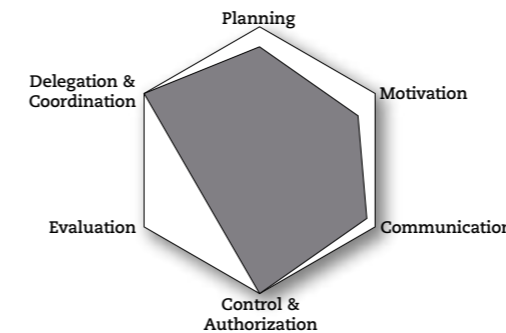
The ICT perspective is somewhat more controversial. The numeric results imply that management is generally satisfied with its tools, but also admits that more integrated systems are likely to be accompanied by improvements. Hence, a first indication that concludes this analysis of the perspectives underlines the potential added value of integrated ICT systems. Given the fact that the current ICT Excel tool is strongly dependent on the knowledge of few employees, an employee independent application could reduce the risk associated with the current situation.

Concerning the Cultural aspect, there is a consensus that it does not harm the efficient functioning of the system. The bottom-up approach involves all relevant managers

and other employees and delegates the responsibility to the right level in the organization. However, especially the motivation of managers could be boosted when value creation is implemented through budgeting. The relevant managers do understand the use of budgeting, but are not specifically keen on this process.

### 4.2.2 Result 1: The Function's Score

After this brief look at the perspective, this section introduces the first formal result of the Budgeting Scan; the



Functions Score. The consolidated results are illustrated in the following graph.

As already indicated during the perspective's analysis, evaluation and to a lesser extent motivation are the core points of self-criticism at Teijin Twaron. The firm's employees mentioned that there is no structural and regular evaluation of the budgeting system. Annually, practical inadequacies are discussed, without essentially revising the method.

Strikingly, the remaining functions including Coordination & delegation, planning, communication and certainly control & authorization score very close to best practices in the Budgeting Scan. Especially delegation & coordination and control & authorization display scores that are very close to a 100% score. An application of the Extended Scan could further fine-tune these findings.

### 4.2.3 Result 2: The Matrix

To test the indications of the functions score, the first result is combined with the perspectives. This could track the origin of the lacking evaluation practice or identify functions that would be improved if the process were optimized. See below the outcome of the Scan (percentages have been removed, all marks shown that were green are illustrated in light gray, one mark that was red is illustrated in dark gray).

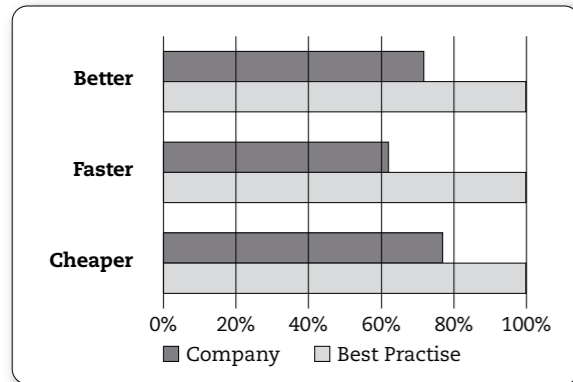
Since the light cells by far outweigh the dark ones, the overall positive result of the first observation is confirmed. On the horizontal axis the same strong scores for delegation & coordination, as well as control and control & authorization are marked with almost full green lines. The weaker point of evaluation can indeed be traced to the organization of the system. Both employees agree that the process itself is evaluated appropriately. Culture scores neutral and ICT remains a controversial case. Again, the Extended Scan would further define the exact sources for potential value creation.

The matrix does not show in which specific areas planning and motivation could be improved. It solely indicates that the budgeting process and ICT tools could be a potential source of value for better planning. Also, the organization and culture could boost the motivation for budgeting.

	Organization	Budgeting Process	IT	Culture	Results
Planning					
Motivation					
Communication					
Control & Authorization					
Evaluation					
Delegation & Coordination					
Results					

#### 4.2.4 Result 3: The Potential Analysis

The final result clusters the questions to examine whether improvements will improve the speed, quality or cost of the budgeting system. The high scores of the first graph imply a smaller potential for improvement than the lower bars of the second figure. As illustrated in the graphs below, value creation is not specifically restricted to one of these three variables. As in the first case, a slight dominance of the potential for a faster system was found.



#### 4.3 Conclusion Teijin Twaron

Teijin Twaron recognizes the characteristics of the budgeting system in the quantitative results. This implies that the questions build a solid bridge between theoretical best practices and practical applications. Furthermore, the difference in emphasis of the results could be successfully combined to concrete insights with respect to strengths and weaknesses of the budgeting system. Teijin Twaron can be satisfied with the quality of its process, since the majority of the budgeting functions score are close to best practice. Specific starting points for improvements were also clearly identified. They include evaluation and motivation, as well as a more integrated ICT system.

**“The scan is a valuable tool and could be the starting point for discussion and improvement. I enjoyed looking at the budgeting system from a different angle and stepping back from my daily routines.”**  
- Drs Jan G. Föllings RA, CFO.

**“I especially enjoyed the multidisciplinary approach of the Budgeting Scan. I found it challenging and fun! The format and style of the interview are a solid framework for a continuous improvement process.”**  
- De Glee, Financial Analyst.

## 5 General Conclusion

This Budgeting Scan bridges the gap between general best practices and tangible opportunities for improvement at your company. It builds upon a reference model that identifies the functions of budgeting examined from four perspectives: ICT, Organization, Culture and Budgeting Process..

The Budgeting Scan renders several results, both descriptive and analytical. Firstly, individual scores for the functions are compared to best practice. The Scan enables users to specifically identify areas that can be improved. The second result generated by this tool assesses the potential for a cheaper, better or faster budgeting system. Herewith, the direct link to value creation of this Budgeting Scan is established.

The purpose of this Scan is to ease the first step towards a thorough improvement of the budgeting system. It helps to specifically identify potential value drivers and point to both the weaknesses and strengths. The applications at Campina and Twaron illustrate that the Scan shapes a realistic and balanced mirror image of the budgeting system. These experiences underline the practical relevance within two essentially different companies.

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## About EyeOn

In 100 days EyeOn delivers structural improvements in speed, efficiency and output reliability of the planning processes. EyeOn is a consulting firm specialized in designing and implementing planning solutions in complex organizations.

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## About Corporate Performance Management – Business Planning Knowledge Network

The knowledge network 'CPM-BP' offers finance professionals a learning network on contemporary trends and best practices in corporate performance management and business planning. CPM-BP enables the members to share experiences and learn from each other via research and benchmark studies whereas members' needs are closely reflected. EyeOn and CPM Partners have initiated the network as per November 2004.

There is a possibility to meet each other in person semi-annually during Round Table sessions. CPM-BP is targeted at large sized companies realizing at least 1 billion Euro sales revenues. The participating companies include among others: ASML, Campina, FEI, Ferro, Heineken, Hero, Nashuatec, Océ, OPG Groep, Royal Philips Electronics, Royal Cosun, Shell and TNT.

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