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IMPROVING THE BUDGETING PROCESS WITH AGILE METHODOLOGY

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ABSTRACT

The speed of change in today's economy has highlighted the need for businesses to adapt to the extraordinary changes that are taking place. In response to the challenges presented by these changes, many entities have integrated the agile framework into certain functional business areas to improve their operations. The agile framework was originally used in the project management area but has now been successfully used by managers in numerous other business functions.

One key area that managers have been slow to modify is the traditional budgeting process. This is regrettable because traditional budgeting approaches often do not provide the needed flexibility and efficiency to adequately address the uncertainty in today’s business environment. The agile approach to budgeting divides projects into smaller, incremental deliverables that go through repeated iterations. The approach promotes more effective planning, constant improvement and the ability to respond to change. Changing to an agile budgeting method allows for small, continuous changes that increase financial accuracy while accommodating shifting priorities and opportunities. It improves the budgeting process by emphasizing collaboration and communication among stakeholders.

This article discusses the weaknesses of traditional budgeting and summarizes the fundamental principles of the agile framework. It further describes how the agile framework can be applied to the budgeting process. Finally, the article discusses the benefits, challenges and limitations of the agile budgeting approach.

Keywords: Agile, Budgeting, Forecasting, Project Management, Waterfall

INTRODUCTION

The uncertainty in today’s business environment has forced businesses to seek new ways to approach business processes. The annual budgeting process has often been described as one that is time - consuming, expensive, and inefficient. The speed of change in today’s economy has generated a trend toward adopting more flexible and efficient methods of budgeting. This move toward change has been exacerbated by the challenges brought about by the COVID 19 pandemic.

Agile methodology is increasingly being adopted by businesses because it enables entities to respond quickly to a rapidly changing environment. The use of agile methodology to improve the budgeting process is increasingly being considered by businesses. The purpose of this article is to provide an overview of how entities can use agile methodology to improve the budgeting process. The article discusses the weaknesses of traditional budgeting techniques, reviews some of the main characteristics of using the agile framework, and discusses its benefits. Finally, the authors discuss some of the challenges and limitations of agile budgeting.

PROBLEMS WITH TRADITIONAL BUDGETING

Historically, budgeting has followed the project management approach known as the “waterfall model.” It is a linear management approach, where stakeholder requirements are assembled at the beginning of the project, and then a sequential budget plan is created to accommodate those requirements. The waterfall life cycle is a predictive succession-based process where one step or phase of a project is completed before moving to the next step until the entire project is complete. The waterfall model is so named because each phase of the project cascades into the next, flowing steadily down like a waterfall.

Traditional budgeting often begins with the previous year's budget and is than adjusted based on assumed spending for the coming year. It is often difficult to estimate resource needs for a year in advance in today's environment. Thus, one of the shortcomings of the traditional budgeting approach is the difficulty of projecting optimal resource needs and allocation with precision for the next twelve months.

As the budget year progresses, the entity has more knowledge about the year's budget needs and the original budget often becomes outdated. As the budget year continues to advance, deviations from the budget are seen as issues that must be explained by managers responsible for the budget targets. Employees are often micromanaged regarding their expenditures and performance is sometimes reduced to an overemphasis on the achievement of the budgeted amounts. Organizations frequently spend time and effort to prepare midyear or even quarterly revised budgets.

Another problem with traditional budgets is that they are typically used as performance evaluation tools. This provides a motivation for managers to negotiate for the lowest acceptable target. The result is that growth potential is diminished. When budgeted expenses are finalized, employees often see those budgeted expenditures as entitlements to spend the budgeted amounts. This can lead to poor cost controls.

For years, prior to the wide acceptance of agile principles, forecasting plans followed the traditional budgeting process described above. It involved assembling all requirements, creating estimates, and then budgeting the whole year at once. The entity then often waited until the end of the year to know if the projections were accurate. Significant unforeseen circumstances would often develop during the budget year and render portions of the budget or even the entire budget obsolete.

As entities recognized the inefficiencies in this system, they began to look for alternative methods that took into account changes that occurred during the budget year. This eventually led to the development of agile budgeting that takes into account shifting priorities and needs that can occur during the year.

FUNDAMENTAL PRINCIPLES OF THE AGILE FRAMEWORK

The roots of agile as a philosophy originated in the software development industry. As software developers commenced major projects, they were planned in a similar fashion to the traditional budgeting process. Requirements were assembled, estimates were created, and the entire project was developed. Changes in requirements or priorities could often render a project ineffective. Software developers recognized this as an inefficient system and in the 1990s began implementing new methodologies that responded to changes throughout the development process.

The "Agile Manifesto" was created in 2001 by a group of software engineers. This document contained an innovative set of principles and procedures for the development of software. The new approch emphasized collaboration and flexibility in project development. It took into account changing needs and provided a means of delivering pieces of the project over time instead of all at once. The movement enabled software developers to complete their software development projects more efficiently.

As agile development principles were implemented in software project development, managers in other areas of the organization recognized its advantages. The agile approach spread throughout organizations and gave companies the ability to take advantage of market changes and quickly pivot to meet new customer needs.

The agile approach divides projects into smaller, incremental phases that go through repeated iterations to focus on business needs and interests. The approach promoted effective planning, regular inspections, constant improvement and the ability to respond to change. While the roots of agile were in developing software, other industries, disciplines, functions, and professions have adopted the agile philosophy. This includes marketing, sales, construction, event planning, auditing, and now budgeting. The agile development methodology's iterative format features short development cycles designed to produce incremental deliverables on an ongoing basis. It emphasizes collaboration among stakeholders. Typically, it is dedicated to prioritizing tasks and emphasizing value-added activities.

An agile project works in short periods called "sprints." Depending on the project, the time-frame of a sprint can range from a couple of weeks to a few months. The goal is to produce an iteration of the product for review, feedback, and testing that will influence the next sprint's direction.

In today's rapidly changing and highly competitive environment, corporate agility can mean the difference between staying ahead of the competition and losing relevance in the market. Agile can apply to any area of the organization, including budgets. Changing to an agile budgeting method allows for small, continuous changes that increase financial accuracy while accommodating shifting priorities and opportunities.

USING AGILE IN THE BUDGETING PROCESS

Agile budgeting refers to any budgetary method that proactively incorporates organizational changes into the budgeting process. An agile approach to budgeting takes into account changes as they occur to ensure that budgets accurately reflect changing events instead of retaining assumptions made in the past. The agile method emphasizes quick responses when conditions change. Instead of managers creating the budget once at the beginning of the year and left intact when original assumptions are no longer relevant, the agile budget delivers the budget in smaller pieces on a frequent basis.

Agile budgeting doesn't mean that there is no advanced planning, When the original budget is formulated at the beginning of the budget year, the agile budgeting approach seeks to align the budget goals and objectives with the strategic plan of the entity. The budget year is divided into short periods of time, or "sprints." At the conclusion of each sprint, an assessment is conducted to determine whether the budget for the previous sprint was effective and whether allocation revisions are needed in planning the next sprint. The following two critical questions should be addressed when the completed sprint is evaluated.

1. How effective was the budget for the previous sprint? It is useful to have team members brainstorm actions that worked well in this step. Obviously, those activities that were successful will be continued and emphasized in future planning.
2. How could the entity improve the budget process for the next sprint? If problems have occurred or if circumstances have changed, the next sprint can be modified quicky. The continuous shortened feedback loop allows for constant revisions throughout the budget period. The entity is thus able to adapt as new information becomes available. The aim is to produce continuous iterations for review and feedback that will positively influence the next sprint's direction. In this step, members should identify potentially inefficient or non-value-added tasks and discuss what activities should be minimized or eliminated. All aspects of the process are thus continuously prioritized and value-driven. This promotes a more efficient allocation of resources to achieve the entity's most important goals and objectives.

THE BENEFITS OF AGILE BUDGETING

The main benefit of agile budgeting is that it enhances flexibility and promotes change. It gives entities the ability to amend the budget based on continuous feedback. With an agile system, the entity can enhance the speed of its decision-making. It can respond more quickly to market changes, sales, and productivity. Key decision-makers will be able to respond to more quickly to potential opportunities or challenges.

Another benefit of agile budgeting is that it tends to be more people-oriented than the traditional approach. Many conventional systems tend to be heavily process-oriented and are not as sensitive to the people factor. Agile budgeting focuses on collaboration and continuous communication with the parties involved. Communication is informal and more frequent, typically daily. The budget team does not wait until a specific meeting time to communicate and collaborate. If a member of the budget team needs to communicate with another team member, the communication takes place immediately. This approach enhances cooperation across various departments. The agile approach emphasizes the overall business goals, which helps to minimize departmental budget battles. This also promotes an atmosphere where department managers work together and make decisions harmoniously.

CHALLENGES AND LIMITATIONS

Implementing the Agile approach in a company's processes can often bring about resistance. As with implementing any new process, the potential disruptive effect on an entity can be challenging. There will perhaps be some in the organization that will be reluctant to embrace the new approach. Resistance to change is common when substantial disruption to traditional policies and procedures occurs. Any system has the potential to fail without the support of the people who will use it. As a result, organizations must be sensitive to the feelings and concerns of the individuals involved so the new system will be accepted.

For agile budgeting to be successful, it is important to ensure that everyone is on-board with the agile budgeting process. This method of budgeting needs to be embraced by the directors and top management down to ensure that everyone is engaged. There will be a need to educate leaders on the advantages of agile budgeting.

Even though the process seeks to eliminate some traditional manager roles, an agile budget process still needs effective management. The senior budget manager is there to facilitate and move the process along rather than micromanage with top-down directives. In agile budgeting, every team member has input into the budget process.

Another challenge of instituting an agile budgeting system system will be the need for managers and employees to keep pace with the tools required to implement the new system. The core skills needed for effective agile budgeting include communication, collaboration, leadership, building trust, time management, conflict management, and negotiation. This transition may require managers to embrace the idea of added training and education to keep pace with the reality that many business functions must be transformed.

CONCLUSION

In recent years, agile methods have received considerable attention from businesses. This is because agile methods can be adapted to numerous business processes. As companies implement agile ways of working throughout their organizations, an area that is often neglected is budgeting. Budgeting is frequently excluded from agile applications because financial managers are many times reluctant to change from traditional methods. This is unfortunate because a key benefit of agile methodology includes the efficient allocation of resources and the ability to take advantage of sudden changes or new priorities.

The goal of agile budgeting is to enable an organization's leaders to attain continuous improvement by using frequent changes in the budget to ensure that the organization's financial trajectory aligns with strategic goals. The agile budgeting process provides a platform for continuous planning and assessment and allows organizations to be nimble in responding to change.

Managers will need to recognize that the business landscape is changing and evolving rapidly. In today's rapidly-changing environment, organizations must continuously identify financial performance gaps and quickly "course-correct" with operating changes that align with their long-range plans. To successfully respond to this new environment, companies should seriously consider the benefits of implanting an agile budgeting system.

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