

Discover the keys to a successful participatory budgeting approach within your organization.

AVOIDING POTENTIAL PITFALLS OF COLLABORATIVE BUDGETING

FOR FINANCE & LEADERSHIP TEAMS



SUCCESSFUL COLLABORATIVE BUDGETING

In this eBook we will address key issues faced by finance & leadership teams surrounding the practical application of collaborative, participatory budgeting.

A collaborative budgeting process – one in which **employees are empowered to make and be held accountable for important decisions** – can be a valuable business strategy. Research shows that participatory budgeting models are able to:

- ✓ Motivate employees
- ✓ Increase performance and satisfaction
- ✓ Help organizations create more realistic, achievable budgets

While the benefits of collaborative budgeting can be extensive, the process doesn't come without some possible challenges.

Read on to learn more about the challenges of collaborative budgeting ...and how to avoid potential pitfalls.

*“A budget is just another version of a mission statement or strategic plan expressed in a different language, the language of numbers. In order for this to be true in practice, **a budget must be the cumulative effort of all who implement the organization’s mission**, including key leaders from all areas of the organization. The idea of including this many people in the budgeting process might be daunting for some financial leaders.”¹*

– Curt Koltz, Finance Director
Nonprofits Assistance Fund

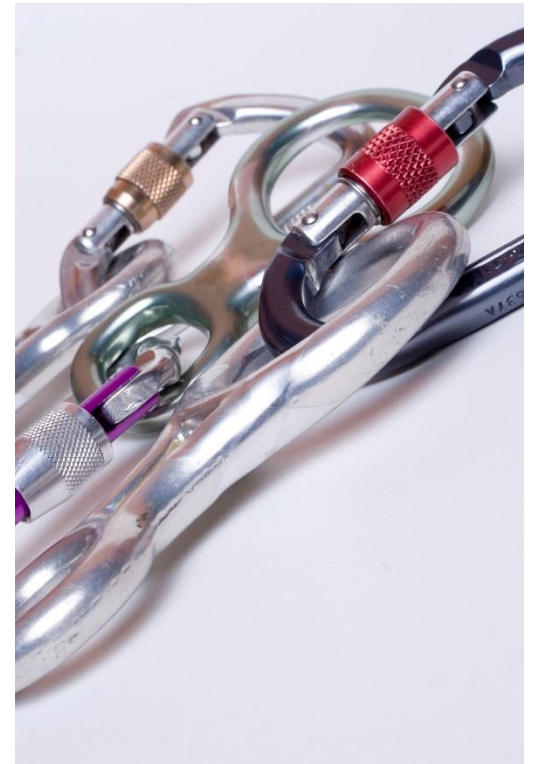


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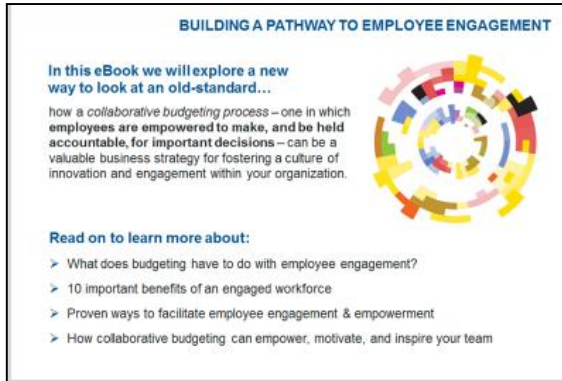
What exactly is collaborative budgeting... and what can it do for your organization?

Collaborative budgeting empowers the people who are impacted by a budget to be actively involved in the budget creation process. Collaborative budgeting is at the core – a communication process. Leadership communicates the strategic plan, objectives and goals. And then the budgeting managers use their individual area of expertise and front-line experience to build a budget designed to achieve that strategy. It is a bottom-up approach that lends to the creation of budgets that are more achievable than top-down budgets imposed on a company by senior management.

This style of budgeting is better for morale and tends to result in greater efforts by employees to achieve what they predicted in their budgets. **A collaborative budgeting model requires employees to own their numbers and to take accountability for their decisions, leading to a stronger sense of connection and commitment to the organization.** ⁸



SUCCESSFUL COLLABORATIVE BUDGETING

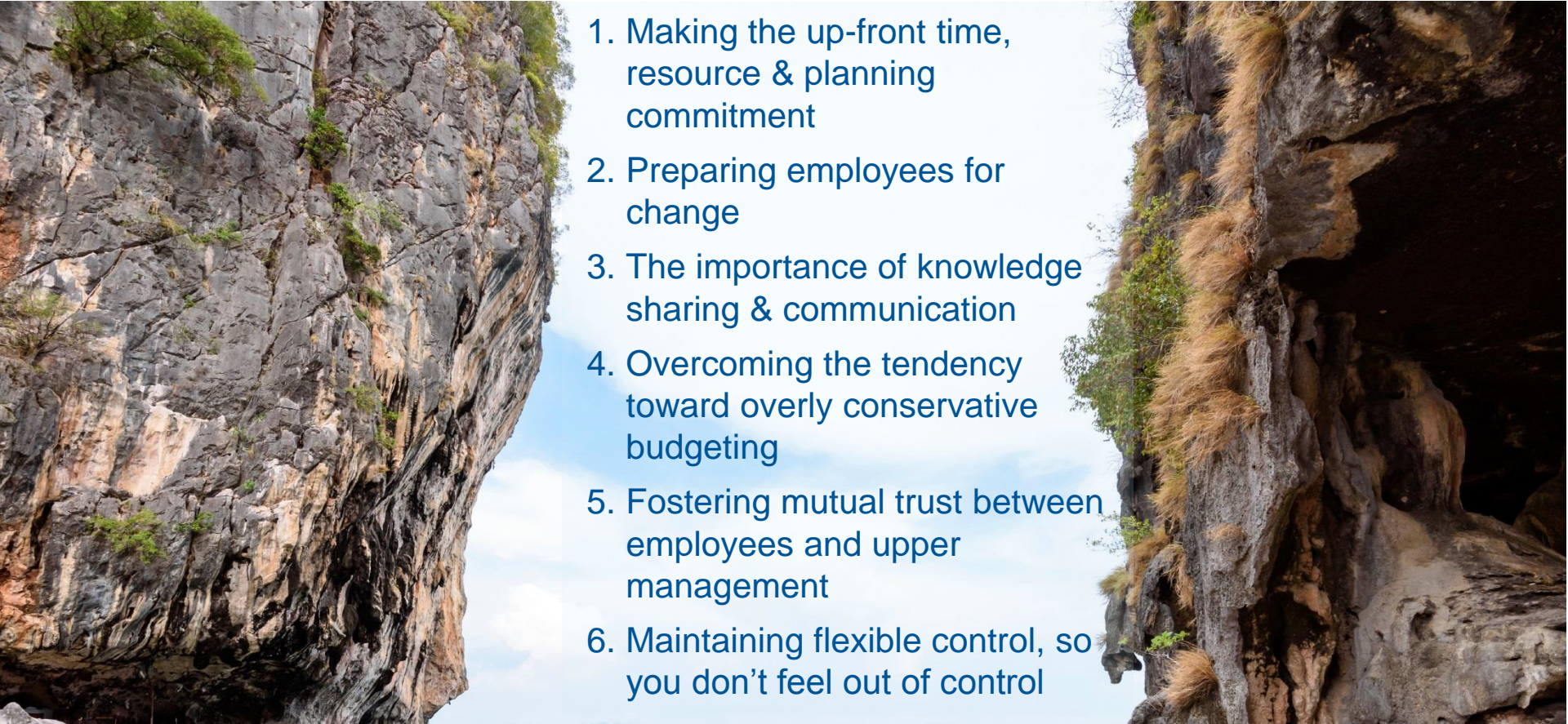


As business writer Lisa McQuerrey explains: “The budgeting process becomes a collaborate effort rather than an us-versus-them approach. Bottom-up promotional budgeting involves lower-level employees outlining their ideas for the wisest uses of funds, explaining their reasoning and having a discussion with management about available resources and expectations.

Following this system, employees are likely to feel their concerns are heard and respected. Even if they don’t ultimately end up with an ideal budget, all parties understand each other's outlook and expectations and can work together to make the most of the budget they have.”⁹

To learn more about the bottom-line benefits of a Collaborative Budgeting approach – including innovation, productivity, customer service and commitment to organizational goals – please download our eBook: [Employee Engagement as a Business Strategy](#)

Six Key Considerations for Collaborative Budgeting

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1. Making the up-front time, resource & planning commitment
 2. Preparing employees for change
 3. The importance of knowledge sharing & communication
 4. Overcoming the tendency toward overly conservative budgeting
 5. Fostering mutual trust between employees and upper management
 6. Maintaining flexible control, so you don't feel out of control

Potential Pitfall #1: Shying Away from the Up-front Commitment

Bottom-up budgets can take longer to create and can cost more in time and effort than a top-down budget because more people are involved in the process.³ This realization can be daunting to leadership teams.

While a collaborative approach may take more time in the up-front planning process, the long-term benefits include more accurate numbers and the ability to accurately forecast throughout the year. In many organizations the budgeting process is so onerous or limited in utility, that it is a once-a-year exercise instead of a living document that is accessed and leveraged throughout the year.

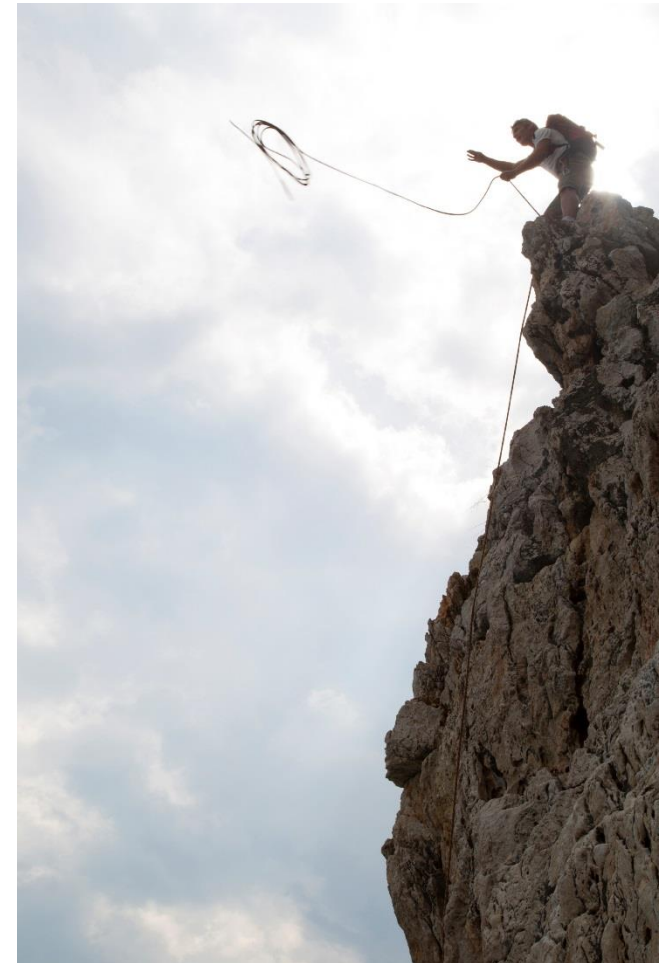
In addition, the benefits of a collaborative approach extend beyond the budgeting & forecasting process to include:

- Improved understanding among staff of the organization's strategic plan – and their role in achieving that plan
- Increased ownership among staff who feel engaged and involved in goal-setting
- And improved performance of both the staff and the overall organization in achieving the those objectives

Potential Pitfall #2: Lack of Employee Preparedness

Some employees may not feel ready for empowerment and may not be able to handle the increased stress that the added responsibility and decision-making will bring.⁴

Advance planning is important to make sure that employees feel completely ready for, and informed of, their new roles and responsibilities prior to any changes. Employees need a clear understanding of their tasks and of the budgeting process – through preparation, guidance and hands-on participation that will enable them to develop confidence and skills.²



Potential Pitfall #3: Inadequate Communication & Knowledge Sharing

Closely related to the point above, employees may not have relevant information or necessary knowledge to inform their participation in budgetary planning. Oftentimes it can be difficult to achieve bidirectional communication between superiors and subordinates.²

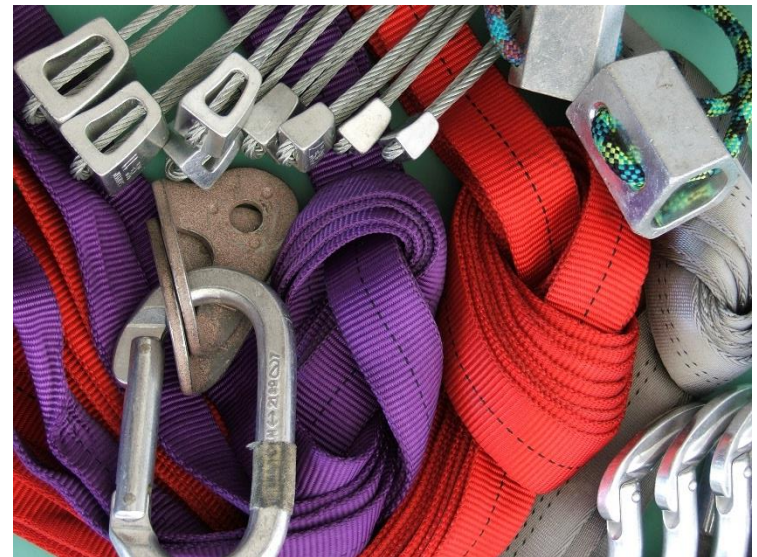
While collaborative budgeting requires participation from all levels of an organization, in order to be successful the process starts with communication from the “top”. Leadership must give employees a clear picture of the organizational goals that impact the budget and of employees’ specific roles in the budgeting process. Providing feedback to employees helps them feel that their contributions are valued and ensures an understanding of why some budget recommendations are accepted and others are not, while increasing their motivation to participate.⁵

Communication from employees to management is equally critical because the employees have day-to-day knowledge and expertise associated with their role. Management may not always know exactly what tasks or responsibilities each employee has and what resources are needed to execute them successfully.

Potential Pitfall #4: An Overly Conservative Approach

When the people originating the budget are also the ones whose performance will be compared to it, there is a tendency for those individuals to adopt a conservative budget as a way to assure the achievement of their budget predictions.³

Collaborative budgeting requires participation and detailed review by members of management. This can be facilitated by ensuring employees capture the reasons behind each decision along the way. These “justification” notes support their numbers and allow senior leaders and finance to quickly and easily make adjustments to the budget as needed.



Potential Pitfall #5: Lack of Trust

Research shows that mutual trust between leadership and employees is essential for an effective participatory budgeting system.² Conflicts can arise when employees don't feel that senior leadership trusts their judgment, or when leaders don't fully trust employees to take ownership over the process.

In order for employees to gain a sense of satisfaction and trust in the budgeting process, leadership must provide appropriately challenging tasks that allow employees to use and demonstrate their skills, abilities, and knowledge. Studies show that bidirectional trust is built when employees are given adequate autonomy in performing their budgeting tasks.²

The good news is that while trust between partners would obviously be beneficial at the outset, research suggests that it may not be a prerequisite but rather something that can grow over time.⁶



Pitfall #6: Loss of Control

By moving to a bottom-up approach, some leaders may feel a loss of financial control. They may offset this feeling by putting undue pressure on the team or by seeking universal success in all employee initiatives or efforts (a “no failure” mentality) since each department had a chance to include input on their budgetary needs.⁷



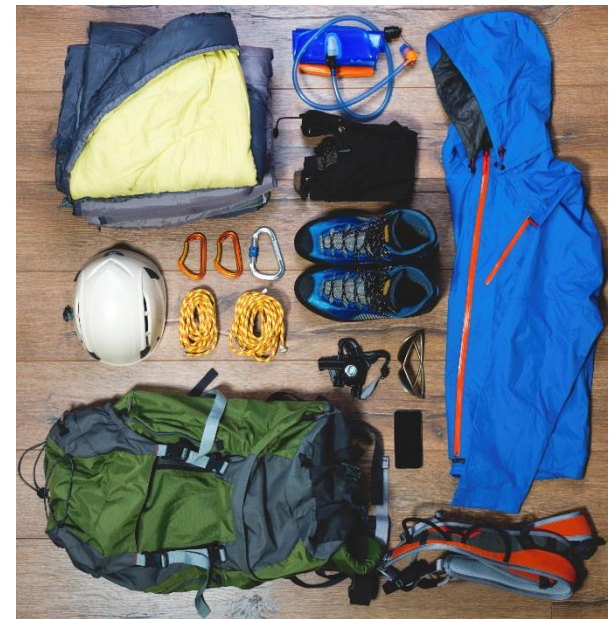
A successful collaborative budgeting process will allow for checks and balances throughout the year, including forecasting check points that make it easy to adjust parameters to align with changing needs. In addition, research would support that there will be failures in the innovation process. While a collaborative budgeting process will not be perfect, it will better prepare the organization with the flexibility to adjust accordingly.

ADDITIONAL STRATEGIES FOR SUCCESS

While many of the requirements for successfully avoiding Collaborative Budgeting Pitfalls were discussed throughout this document, there are several key (and closely related) strategies that will help organizations successfully manage the change process:

ADVANCE PLANNING & DESIGN:

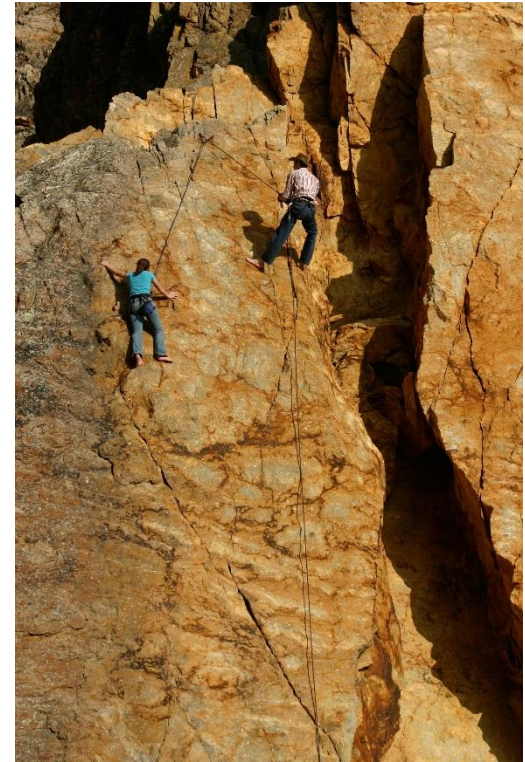
- Assess the skills & workload (potential stress) of employees to determine who will participate
- Ensure leadership is “on board” and prepared to be visibly involved in the process
- Develop a bi-directional communication strategy:
 - *How will the organization’s strategic plan and objectives be communicated?*
 - *How will employees ask questions; how will they capture and communicate their reasons for decisions?*
 - *How will the final decisions/determination on the budget be communicated across the organization?*



ADDITIONAL STRATEGIES FOR SUCCESS

CULTURE OF TRANSPARANCY, TRUST AND FLEXIBILITY:

- Allow subordinates to have real influence in the decision making process
- Explain how final decisions were made and why specific programs or items were eliminated or decreased
- Allow for mistakes - they will be made; addressing mistakes with acceptance (while putting measures in place to ensure they don't happen again) will improve employee trust and engagement



ADDITIONAL STRATEGIES FOR SUCCESS

TECHNOLOGY TO REDUCE RESOURCE IMPACT:

As emphasized throughout this eBook, collaborative budgeting requires adequate staffing and resources. While an investment in technology might seem like “one more expense” – a purpose-built software solution can significantly:

- Decrease time spent by staff on the budgeting and documentation process
- Streamline the process for reviewing numbers and making go/no-go determinations
- Promote proactive, positive communication – ensuring the strategic plan and objectives are communicated and at the heart of each budgeting decision
- Make both the budgeting and forecasting process faster (compensating for the extra time spent “upfront” in planning and collaborating)
- Provide adequate controls for finance while minimizing errors

Collaborative budgeting isn't a good fit for every organization...

While research shows significant benefits for a collaborative budgeting approach – it isn't right for every organization, and sometimes that just means it's not the right approach for right now. Reasons might include:



- *If leadership isn't willing or able to participate*
- *When a culture of trust is missing between management and staff*
- *If there are a lack of sustainable communication channels*
- *If there are too few staff*
- *Or the available staff are unable to provide relevant, meaningful input due to role or skill level*
- *When there isn't time to adequately plan the collaborative budgeting implementation*

Summarized here, Gabriela Lidia Tănase provides a balanced review of the advantages and disadvantages of a participatory budgeting process in a 2013 article published in JEERBE². ([Click here](#) to see the full comparison in Table I, p6)

PROS & CONS

Advantages	Disadvantages*
Establishes positive communication	Bidirectional organizational communication can be difficult to accomplish
Maintains useful information exchange	Identifying key staff participants and encouraging honest communication can be challenging
Efficient resource allocation	Both superiors and subordinates have to have an open attitude
Reliable, accurate, realistic budgets	Participation must occur at higher levels which can be difficult to achieve
Encourages a more positive attitude towards budgets, leadership & organization	Subordinates may try to manipulate budgets and resource allocation to their benefit
Motivates staff	Management must prepare staff that not all requests can be honored
Increases employee satisfaction	In some cases staff may not have relevant information or adequate knowledge to participate
Clarification of work tasks	Participation may be viewed as a chore
Reduces role ambiguity	Increased responsibility may drive stress
Increases organizational commitment	Implementation involves costs
Increases accountability	The process takes time and effort
Increases dedication to achieving objectives	Mutual trust is essential
Helps establish more realistic, achievable objectives	
Improves individual performance	
Improves organizational performance	

* Implementing a collaborative budgeting process can actually address many of these disadvantages – resolving these issues altogether – or actually turning them to an organizational advantage

“Although participatory budgeting is not easy to implement, we believe the benefits of their use outweigh all disadvantages. The participatory budgeting process can improve the performance of subordinates and the overall performance of the entity.”



Gabriela Lidia Tănase (2013)

“An Overall Analysis of Participatory Budgeting Advantages and Essential Factors for an Effective Implementation in Economic Entities,”
Journal of Eastern Europe Research in Business and Economics,
Vol. 2013 (2013), Article ID 201920, DOI: 10.5171/2013.201920.

BENEFITS OF COLLABORATIVE BUDGETING

The benefits of a collaborative budgeting approach far outweigh the avoidable pitfalls – with positives including:

- ✓ **Increased Engagement:** When upper management requests budgetary input from employees, it fosters teamwork, cohesiveness, and trust – all vital elements of business success.⁸
- ✓ **Increased Motivation:** Budget holders are more likely to enjoy working to achieve a budget that they have been involved in setting, rather than one that has been imposed on them from above.⁸
- ✓ **Improved Quality of Forecasts:** Managers who are doing a job on a day-to-day basis are likely to have a better idea of what is achievable and what is likely to happen in the forthcoming period.⁸
- ✓ **Better Results:** As the executor of the budget, the manager is likely better able to control the costs than anyone else in the company.⁸

About XLerant

Helping Organizations Transform the Budgeting Process Into a Strategy for Employee Engagement

XLerant, Inc. helps organizations move towards a more employee-centric, empowered workplace with BudgetPak, a cloud-based budgeting solution. BudgetPak's user-centered design and built-in intelligence pave the way for engagement and empowerment by giving employees the tools for flexible and reliable budgeting, forecasting, and reporting. This user-friendly solution does more than make the process easier – it provides a platform for communication of the organization's annual objectives and ensures managers are building their budgets against those objectives.

Because BudgetPak doesn't force users to think in a restricted 'row and column' Excel format, it is a much more engaging experience for the non-financial crowd. At the same time, BudgetPak allows the Finance team to control the aspects of the budget that are important to them within a straight-forward finance-friendly format and direct integration with Excel for analysis in a familiar environment.

XLerant offers a full suite of modules built into BudgetPak including expense planning, revenue planning, headcount, salary planning and asset planning, as well as approval workflow, what-if scenarios, out of the box reporting, variance reporting, and custom reports. A unique feature called ActionPaks allows users to budget multiple line items at the same time for their department-specific projects and initiatives.

"We believe a system that has budget intelligence built into its core makes for a more robust and user friendly process for everyone involved – which ultimately delivers more meaningful results."

- Joanne E. Brunn
CEO, XLerant

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Contact us to learn more and find out how we are helping organizations like yours develop an effective approach to collaborative budgeting.

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