

USING FLEXIBLE BUDGETS TO MANAGE ORGANIZATIONAL PERFORMANCE AND COST

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Abstract. *The budgetary process includes all the management levels, being at the same time an important way of communication regarding the objectives proposed. Depending on the specifics of the activities of some economic entities in the stainless steel industry, it is necessary to elaborate budgets regarding the volume of organizational activity, called flexible budgets. Such budgets represent a forecast of the expenses of an analysis centre, a forecast established for different hypotheses of the activity level. Flexible budgets get adapted to the predictable changes related to the organizational activity volume. The use of flexible budgets facilitates the managerial control, which can be exerted only by comparing the costs foreseen in the budget to those that were actually recorded, following the activities realized, consequently becoming a main tool in managing performance.*

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1. Introduction

Budgeting represents a very important managerial tool for the success of the economic entities, since, on the one hand, it determines the managers to analyze their current activity, reflecting on the future activity and, at the same time, planning their objectives, and, on the other hand, it gives the possibility to analyze performances, by comparing the results obtained to the forecasts. In other words, budgeting represents the managerial tool that can assure the global performance of the economic entity.

C.T. Horngren and his collaborators state in the work *Cost Accounting, a Managerial Emphasis*, that, when intelligently managed, a budget “requires strategic planning and implementing plans; provides a reference framework to assess performance; motivates the managers and the employees; promotes coordination and communication between the company’s subdivisions”[1].

Under the circumstances of the current economy, the economic entities need integrated management systems in order to control costs and to achieve the performances hoped for. They can be achieved by the use of new budgeting forms, such as activity-based budgeting and flexible budgets.

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