

Activity 16. Review Budgets

If you don't think an ounce of prevention is worth a pound of cure, consider what happened to Adelphia, Conrad Black, Enron, Tyco and World Com.

Introduction

In management, be it tactical or strategic, budgeting and budget reviews are seldom any manager's favorite activity. They are a "necessary evil", a duty or obligation of responsible managers (and that is not very exciting). However, realities necessitate budget reviews. In the past decade, a growing number of extreme financial abuses by greedy, egocentric executives and senior managers have shown that fiscal responsibility and sound governance is evermore necessary. Increasingly, government agencies and regulatory bodies have intervened to correct the malfeasances of private and public sector managements. Responsible and competent financial performance is being demanded of corporations and governments.

Several high-profile legal actions illustrate the lack of responsible and competent business and government accounting practices. In September, 2002, the founder, his two sons and other senior executives of Adelphia Communications Corp. were indicted and subsequently found guilty of stealing hundreds of millions from the corporation. Using the company as a "personal piggy bank" and looting it led to billions of dollars in losses for shareholders. Paul Waldie, "Adelphia found, two sons charged with fraud", *The Globe and Mail*, July 25, 2002, B1. During a seven year period between 1997 and 2003, Hollinger International Inc. was looted of more than U\$400 million or 95.2 percent of the firm's entire adjusted net income. Richard Blackwell, "Report says Black and Radler looted \$400 million, 95% of Hollinger profit", *The Globe and Mail*, September 1, 2004, B1. Complacent and ineffective board members failed to perform their accounting reviews and "rubber stamped" the illegal activities of senior executives. During the same period, the largest, most complex accounting fraud case in the history of U.S. business involved the Enron Corp., several accounting and financial executives, the Arthur Andersen accounting firm, brokerage companies, banks in Canada and the United States. Cash skimming, fraudulent financial transactions and obstruction of justice were just three categories of crimes committed by management in the energy company and its accounting and financial suppliers.

These three notorious malfeasances and numerous other cases of mismanagement illustrate one important, compelling point: responsible management requires honest, competent financial planning or budgeting and control. Budget preparation, monitoring and reviews are vital to ensuring that such accounting and financial management is achieved. Budget reviews are not merely rational analyses of numbers performed by accountants or computers. They include various, important behavioral attributes, including complying with codes of ethics and high standards of moral conduct, generally accepted accounting principles and practices, defending programs (and egos), frustration, anger, joy, manipulation, bargaining and negotiation. Even political motives are inherent in budget reviews. Several cogent questions have been raised about "budgetary politics" in the State of New York. Charles Brecher, "Management Strategies and Budgetary Politics", *Public Budgeting and Finance*, Volume 5, Issue 3, Autumn, 1985, p. 58. The 1996 defense budget reviews of the United States'

Medium Extended Air Defense System (MEADS) program resulted in the deletion of all funding at one point in 1995. The Senate Armed Services Committee (SASC) was reportedly upset that the Defense Department had negotiated the MEADS program directly with European suppliers and not adequately involved the U.S. Congress. David Hughes, "MEADS moves ahead but funding shaky", *Aviation Week and Space Technology*, Volume 143, Issue 18, October 30, 1995, p. 24. Even in organizations with such dysfunctional behavior, managers are directing greater attention and effort to reviewing performance. In fairness, anyone familiar with the budgets of large organizations such as corporations and governments knows that such documents are voluminous and complicated. Those realities do not negate responsible reviews of budgets, only makes them more essential of time, resources and a commitment to do them well. "Value for money", for all of the stakeholders, is the motto of responsible budget reviewers.

Major allocations of the organization's resources are put into its programs and activities. As a consequence, risk is inherent in their management. Budget reviews help management think and evaluate the "appetite for risk" that the organization has and is willing to support with resources. What are the organization's financial risk tolerances? Is senior management willing to accept a higher level of risk for a higher level of reward? What measures of risk are most important to the organization and its "peak decision makers"? Gary J. Bausom, Raymond Dowling and Bruce P. Hotaling, "Assessing alternative risk financing strategies", *Risk Management*, Volume 42, Issue 8, August, 1995, p.72. How do managers determine risks and use them for establishing measures for evaluating them in their budget reviews?

Risks are so perceptual and subjective. Mountain climbers assign about the same normative measure of risk that a woman would walking through Central Park in New York City or driving in Paris or Florence. Marketing, human resources and R&D managers are less inclined to risk expending resources than their finance and accounting colleagues. However, benefits and cost consciousness are rising continuously. Management must evaluate how the organization's strategies and tactics relate to the organization's financial condition. Increasingly precise financial and other performance standards are being developed and used to evaluate past, present and future programs, activities and resource allocations. Such evaluations manifest the growing importance managers are giving to budgeting and its periodic reviews.

Purposes of budget reviews

Budget reviews serve several purposes. Fundamentally, they are intended to ensure that planned programs and activities are justified, feasible and supported by adequate resources. Clearly, three basic sets of factors are involved in such reviews. One set deals with the planned programs and activities. Another set involves the justification process and substance used to request resources. The third deals with the required resources. Oftentimes, these sets of factors are represented by two or more, sometimes adversarial, factions in the organization. One faction will advocate spending for the activities, e.g., increasing the sales and promotion budget. The other advocates limited, "holding the line" or cutting the spending for such activities. Conflict is inevitable. One way to reconcile such adversarial relations is to focus on the organization's purposes,

objectives and goals and the most effective, efficient and economical ways to achieve them. Even that mandate will have differing views and position about achieving it.

A second purpose of budget reviews is to optimize the payoffs to the organization from the expenditures made by its employees and managers. Optimizing requires the choice of the best of the alternatives but also making adjustments to improve performance. Budget reviews enable managers to make such adjustments and re-allocate resources to meet changing circumstances. Examples are all around us. Dow Corning sells off its consumer products division which includes such well-known products as Corning, Pyrex and Revere so it can focus strategically on fibre optics technology, production and distribution. Seagrams sold nearly \$7 billion of DuPont shares so it could use the proceeds to acquire MCA (Universal Studios) and be in the entertainment business. The Boeing Company and several of the multinational automobile makers have sold off or closed parts production and out-sourced them to specialized parts manufacturers. Such strategic decisions are commonly driven by budget reviews and efforts to optimize performance in the long term.

Accountability provides a third reason for performing budget reviews. While corporations and other business entities commonly cloak their budgeting activities, including reviews, in secrecy for various reasons, governmental organizations provide examples of openness and transparency in their budget processes. For example, the budgeting process of the United States Government starts with the formulation of the President's budget and ends with its Review and Audit "Federal Budget Process", www.doleta.gov/budget/procstep.htm, 12/08/97. One university starts with an internal review by comparing "what we *did* to what we *said* we would do", prepares its departmental budgets and then reviews them separately and collectively before the approvals are made. "Planning to budgetting", www.usfca.edu/planning/planbudj.htm, 12/06/97. The growing demands for responsible management and high integrity governance are compelling managers to review their budgets and resource allocations to ensure that the organization and its stakeholders receive full value for their investments of money, other assets and human efforts.

Approaches to reviewing budgets

In many organizations, notably small business, budget reviews are seldom, if ever, performed. Entrepreneurs, for example, are known for their lack of attention to details, despite the old adage about "the devil is in the detail". In other organizations, such reviews are closely related to the activities in every stage of their management process. Budget reviews are integral to the TSMP. In the Orientation stage, budgets and their reviews influence management's evaluations of its situations, its perceptions of future scenarios, the setting of objectives and goals and the support for the programs and activities necessary to achieve such aims. In the Development stage, the various forms of planning are subject to the realities of preparing and reviewing budgets. Remember: budgets are just plans with numbers. In the Review stage, operations, human resources, organization and policies as well as strategies and tactics are reviewed from a budgetary perspective. While budget reviews may be used to guide decisions in the Implementation stage, they are more likely to be used as a quantitative basis for tracking, guiding and

controlling performance. In the Adaptation stage, budget and their reviews are used to monitor performance, strategies and tactics and as bases for modifying programs, activities and resource allocations, even to the extent of utilizing contingency plans developed for emergency or crisis situations.

Historically, budget reviews tended to be rare, informal and lacking in systematic processes and rigorous methods of evaluation. A common budget review question has been: "what is this (activity, program, equipment, other expenditure) going to cost and what benefits can be expected to result from it?" No magic or mystique is involved; just the basic cost-benefit question. As will be presented subsequently, more complete and rigorous approaches are used.

Every organization and its management have their own approach, timing and talents for budgeting and their reviews. One common approach is based on different categories of *allocations*, e.g., capital, operating, cash and corporate. A second approach is based on *time*, i.e., timing of allocations and the time value of resources allocated. *Performance* evaluations provide a third basis for budget reviews. *Audits* and their accounting methodologies are used to examine budgets and related activities and resource allocation periodically. *Strategy*-based reviews of budgets enable managers to re-allocate resources according to evolving conditions, especially to strategic opportunities. Obviously, different combinations of these approaches are used and plausible for managers. Let's look more thoroughly at some of the approaches used in reviewing budgets.

Allocation-based approaches.

Annual allocations of resources vary greatly; from a few thousand dollars for a small business to billions for corporations and governments. Size of budget often dictates the approach taken to its review. Reviewing a small business, a church or other charity budget is relatively simple. Allocations during a year for categories of expenditures such as advertising, automotive, bank charges, dues, fees and licenses, insurance, office, professional fees, rent, repairs and utilities, provide a basic framework for budgets and their reviews. Comparisons of allocations are made to previous years, months, seasons, other periods of time and sets of circumstances. Allocations may be compared to the performance of the business, similar businesses, industry statistics or norms and other relevant "comparables".

Most computers have a basic budget framework installed in their operating programs. Mine has a business budget template with six categories of income, i.e., sales, interest earned, fees, commissions, rents and royalties, three main expense categories, i.e., selling, administrative and services/utilities, 23 more specific types of expenditures and room for more than 1200 unspecified sub-categories of expenses.

Expenditures may be viewed simply as costs of operating an organization, i.e., of "doing business". Some budget reviews are limited to examining the costs proposed to support specified projects, programs and activities. Others will use cost analyses more

rigorously to determine if proposed expenditures are appropriate and allowable or if some budget issues require more thorough review, analyses or adjustment. Cost analysis involves processes for obtaining cost breakdowns, verifying cost data, evaluating specific costs and examining data to determine the allowability of the costs included in budgets.

While a cost approach to budget review has merits, reviewing budgets in terms of costs and benefits is more balanced, complete and meaningful. Since each strategic alternative should be developed on a basis of expected or probable payoff, contribution or other beneficial results, then the cost-benefit comparison becomes apparent. What benefit(s) can the organization be expected to gain from the expenditures required for each strategy? While that may be the basic question, more complete and rigorous methods of cost-benefit analyses are required in reviewing budgets.

Developing meaningful measures of performance expected to result from resource allocation is vitally important in budget reviews. Such measures relate the allocations of resources to the organization's strategies, programs and specific activities. Establishing statistically significant relations in valid and reliable ways is often difficult, but no less important, to do. In many organizations, allocations made to advertising campaigns and other marketing programs are reviewed in terms of sales statistics, store traffic, market share and other measures of "results". While these criteria may be relatively simple and sometimes suspect, they do provide a starting point and can be improved with increased use, evaluation and refinement. In some situations, statistically significant relationships can be established between allocations and results. For example, in one budget review, the media advertising for three retail drug stores in an Ontario city was analyzed. A lead-lag relationship was charted between ads in two daily newspapers and the stores' sales. This analysis was repeated several times and the results were verified sufficiently that it became a valid and reliable basis for making media advertising allocations for the three stores.

Reviewing the budget allocations of governments and corporations is highly complex and demanding of time, talents and techniques. So many variables are involved that making objective evaluations is very difficult and require exceptional efforts and expertise. Throughout large organizations in the private and public sectors, managements are focusing increasingly on objectives and goals as standards by which to evaluate performance. Such standards are vital in budget reviews. Despite the progress being made, managers still rely to a great extent on the experience and expert judgment of staff, consultants and senior managers, including committees, when reviewing budgets. Budget reviews continue to be highly qualitative and subjective.

Consider the 1997 Budget of the Government of South Africa. In its Budget Review, references are made to "competing claims on scarce resources are evaluated and complex decisions are made about the allocation of funds to programmes ...", towards aligning resources behind the Reconstruction and Development Programme", "capital programmes" and "recurrent programmes" and "redistribution through commitments to poverty relief and social development", "employment creation through investment in

infrastructure and human resource development." You might ask: how can strategic managers operationalize a budget review of such politico-governmental statements?

In reviewing its 1996/7 budget, the South African government structured its approach based on: revised national budget estimates, revenues, expenditures, deficit and financing. Separate votes were held for 38 categories of governmental expenditure, including Education, Finance, Health, Housing, Justice, Labour and other common governmental allocations. Similar approaches are taken by small municipal, medium-sized state legislatures and large national governments. Program plans, expenditures and expected achievements are often used to allocate public resources. In some governmental agencies, allocations are made on a "line" basis. In most governments, the line approach is not feasible and budgets are reviewed on the basis of individual or governmental priorities and political sensitivities.

In business, reviews focus primarily on projected revenues, cash flow and, especially, on expenditures. If conscientious efforts are made, expenditures are controllable, to varying degrees. External revenues and cash inflows are less controllable but oftentimes are responsive to managerial maneuvering of resource allocations. As mentioned previously, managers of small businesses can readily review their budgets based on the main categories of revenues and expenditures used in their annual operating statements. In larger organizations, however, the allocation categories become more numerous and complex. To handle this complexity, managers and accountants develop various allocation frameworks.

One framework is based on organizational structure. Most organizations are structured by product or service departments, divisions or strategic business units. Other organizations structure their budgets by administrative units, their programs, projects and/or functions. Each division or unit has several budgets to prepare and review, e.g., capital, cash and operating. Other costs, such as corporate head office expenses, may be assigned to the units or allocated according to a formula or negotiated agreement.

The negotiation process is repeated at successively higher levels of responsibility centers in the organizational hierarchy, up to the very top. Negotiations at higher levels may result in changes in the detailed budgets. If these changes are significant, the budget is recycled back down the organizational hierarchy for revision. Robert N. Anthony and Glenn A. Welsch, *Fundamentals of Management Accounting*, Homewood, Illinois: Richard D. Irwin, Inc., 1981, p. 469.

While negotiations may be difficult, stress-laden and time consuming, they are often necessary to optimize the alternatives available to management. The lack of negotiation and involvement by management and their directors is one of the main reasons for the financial mismanagement and malfeasances that occurred in Adelphia, Hollinger International, Enron and too many other companies and governmental agencies.

Time-based approaches

Tactical and strategic management is time-based. It has a range of time durations, from long term strategic perspective to medium and short term tactical perspectives. Budget reviews reflect these time orientations and the plans developed for varying

periods as well as accounting, administrative and legislative requirements for reporting on time-specified bases. The City of Sunnyvale, California reviews three time-based budgets, i.e., the two year performance-based budget, a ten year financial plan and a twenty year strategic plan. Other organizations have shorter term, more tactically-based budget reviews. One corporate review process involves:

1. determining the credibility of the current year-end forecast as a starting point;
2. assessing the degree of growth within the annual budget proposal; and
3. analyzing the monthly phasing of the annual goal. Metapraxix Ltd., "annual budget review", www.metapraxix.com, December 12, 1997.

In some organizations, reviews are an integral part of the budgeting process and are performed during most, if not all, of a fiscal year. One university process starts shortly after the fiscal year end on May 31st. Each vice president and dean prepares an annual review of the previous year. These reports include statements of accountability, notably:

- * to what extent did the division and college meet their stated measurable goals and more general, qualitative objectives?; and
- * what were the effects and other results?

During the summer months, administrators at all levels review the aims, priorities, plans, programs and activities that were developed in the Spring to ensure that they still applicable for the Fall budgetting process. This step is intended to make necessary adjustments to plans and decide the priorities for the "target" budget. The adjustments are based on what the University did and what changed from the previous year as determined by the annual review of the previous year's operations.

By September, target budgets are prepared. These budgets are based on the approved presidential priorities, operational plans, previous year's divisional budget, data from Fall term enrollment plus any relevant external environmental information such as allocations by the state legislature, major research grants, changes in political power, governmental administration and their policies toward higher education.

By October, the vice presidents have received target budgets, parameters for changes in revenues and expenditures, analyses of external and internal influences and any other information deemed relevant to prepare the university's composite budget. During October and November, the deans review and finalize departmental and college budgets so that they are collectively within the targets of their divisions.

During December, the university's budget is finalized. Trustees review the budget and approve tuition and fees (revenue) proposals. The following month, the budget is reviewed by an executive planning committee in. Any revisions in the budget are made and approved during February. In March, the budget is approved by the trustees. Any changes in operating plans are made prior to their implementation that starts on June 1st.

Performance-oriented approaches

Performance evaluations are implicit in the allocation and time-based budget reviews. Resource allocations are made with the expectation that rewards will flow from

performing activities specified in organizational plans and programs. In time-based reviews, performance evaluations are made from time to time and/or at specified iterations and with increasingly precise measurements. Benchmarking is used in organizations as diverse as telecommunications companies, financial institutions and medical clinics. At its best, clinical benchmarking involves a melding of total quality management (TQM) and outcome measurement. Susan K. Bellile, "Benchmarking sets standards for clinical improvements", *Health Care Strategic Management*, Volume 13, Issue 2, February, 1995, p. 15. In their efforts to improve new product or service development, some financial institutions have used competitive benchmarks from related service industries. Competitive benchmarking is based on management, staff and/or consultants carefully studying the performance of comparable organizations for the purpose of improving their own performance. Performance measures indicate that organizational success is enhanced by using progressive human resource methods, investments in research and development and money cycle time reduction Stephen A. W. Drew, "Strategic Benchmarking: Innovative practices in financial institutions", *International Journal of Bank Marketing*, Vol. 13, Issue 1, 1995, p. 4 as well as in functional areas and specific operational activities.

To achieve greater preciseness, fiscal managers are increasing their use of activity-based costing (ABC) to identify for what an organization actually expends its resources. ABC is an innovative way to review budgets. As with most innovations, it poses problems when it is initially undertaken. "Companies employing ABC initially are confronted with the formidable task of collecting sufficient information to specify activities and assign costs to those activities." Stephen Bruesewitz and John Talbot, "Implementing ABC in a complex organization", *CMA Magazine*, July-August, 1997. 16. The authors go on to describe the case of a large manufacturer of automotive parts and the difficulties that its management encountered in tracking costs and any productivity improvements and savings being made. To more effectively monitor its allocations of resources, the company implemented ABC to clarify the costs and savings associated with specific strategic programs and their budgets.

The evolution of ABC has resulted in managers making it an integral part of a much larger management control system known as activity-based management (ABM). "It guides efforts to adapt business strategies to meet competitive pressures as well as to improve business operations." Peter B. Tunney, "Activity-based management", *Management Accounting*, January, 1992, p. 20. As a consequence, managers are better able to specify activities to which costs are assigned, monitor and evaluate activity performance relative to budget allocations and managerial objectives and goals.

In the case of J. M. Schneider Inc., a large Canadian food processing company, management launched a Continuous Improvement (CI) program in 1990, the 100th anniversary of the company. The ABC process was an integral part of this program. The company implemented its ABC process in two stages; the pilot project and full implementation. Three steps were followed in the pilot process:

1. identifying the key activities;
2. creating a schematic of the activities flows; and
3. defining and collecting data on costs, capacities and constraints for each of the activities in the process.

These stages were implemented and being used in four other Schneider processing plants by 1994. Rohit Prajapati, "Activity-based Management", *Management Accounting Issues Papers 10*, Hamilton, Ontario: The Society of Management Accountants of Canada, 1995, p. 21. These Papers provide two other case studies of large corporations, namely Volkswagen Canada and the Royal Bank of Canada, that illustrate the successful implementation of the ABM approach.

Audit-oriented approaches

Budget audits are fairly common in democratic governments for several reasons, including:

- * an history of spending abuse and waste, especially in recent times;
- * political demands for control of public spending;
- * professional and regulatory mandates for responsible accounting;
- * democratic institutions are relatively open and transparent; and
- * competitive efforts to improve the performance of agencies and their administrations.

In addition, for decades budgeting has been an integral part of the planning, programming and controlling approach taken by government administrators in several of the leading industrialized nations.

Audits of budgets are rare in businesses of any size. However, the enormous size of some corporate budgets, huge inventories, physical and financial resources, locations scattered around the world, varying ethical standards, the growing use of electronic communications and ever-increasing environmental dynamics and opportunities for abuse, including fraud, has necessitated the use of auditing processes and procedures. My computer's basic business budget enables me to track actual expenditures and compare them to the budget and the amounts over or under budget. Given management's needs to utilize as much of the available resources as possible for optimizing performance and results, the loss or sub-optimal use of resources is rarely a rational option for organizations, unless it is for the avarice desires of management. As the numerous legal actions against corporate and government officials has shown emphatically, such corrupt and deleterious behavior is common and needs to be averted or remedied. Audits are one of the main means for keeping managements "honest".

Marketing, as a major component of organizational budgets, has become an area of auditing. (Entertainment and promotion are usually accounts of marketing budgets.) The dynamic, complex and competitive nature of the environment in which marketing activities are performed is one main reason for using marketing audits. Crisis situations often motivate managers to have marketing audits performed. More progressive managers have marketing audits done to assess how marketing programs, activities and their related expenditures, are measuring up to organizational aims, budgets and other management standards. As long ago as the early 1980s, some Canadian Tire Company franchisees had marketing audits conducted for them. Primarily, the audits were done to determine whether or not customers were satisfied with Canadian Tire products, services and merchandising. Where significant indications of dissatisfaction were discovered, then managers modified the programs, activities and resource allocations of their stores.

Audits may be part of the annual or periodic budget review process or they may be done for some specific purpose such as forensic, marketing or financial investigations. While each audit will have its own plan, the processes commonly used include two main stages: the *investigative* and the *reporting* stages. One marketing audit approach included the following four steps:

1. evaluate the environment of the organization with investigations focussed particularly on politico-economic conditions, technological developments and suppliers;
2. analyses of market conditions, particularly, changes in demographics, lifestyle buying behavior and other key customer attributes, competitors' activities, seasonal, overall trends and significant variances;
3. assessment of the organization's marketing activities, i.e., development, distribution, promotion and selling of products and services and their performance particularly in regard to their competition, budget allocations and management's strategic and tactical targets; and
4. reporting on the audit findings, analyses and proposed courses of action.

Such a generic process can be used quite readily as a budget review sub-process of the STMP, be it for marketing, finance, production, human resources, R&D or other budget areas of an organization. The process should adhere to the auditing concepts of competence, fairness, evidence, materiality, verification, objectivity, due care, reasonable skepticism and judgment. Rodney J. Anderson, *The External Audit: concepts and techniques*, Toronto: Pitman Publishing Company, 1976, pp.122-128. In addition, budgets may be subjected to quality control and other reviews, either as part of the plan of expenditures preview, an audit or the end of a period review.

Strategy-based approaches

Interestingly, the public sector has been very active in the development and use of strategic performance measurement systems that organizations in the private sector are only now beginning to discover and consider. Anthony A. Atkinson and James Q. McCrindell, "Strategic performance measurement in government", *CMA Magazine*, April, 1997, p. 20. In the United States, the Government Performance and Results Act, 1993, provides for the establishment of strategic planning and performance measurement in the federal government with a new focus on results, service quality and customer satisfaction. By fiscal year 1999, the federal government submitted a performance plan for the total budget. By no later than March, 2000, each agency submitted an annual review of program performance and budgets to the President and the Congress for the previous fiscal year.

The acceptance of strategic approaches to the review of plans and budgets are being augmented by an emphasis on achieving objectives beneficial to stakeholders of the organization. Increasingly, these and other strategic elements are being specified and required to justify and support budget submissions. In New Zealand, operational department heads are responsible for ensuring that the key results of their departments measure up to the government's strategic concerns. Atkinson and McCrindell, *ibid*, p. 21. Similarly in

Canada, the federal government is taking a more strategic approach in assessing the government's performance against its budget priorities and objectives.

In terms of more specific strategic components, budget reviews may be conducted from a number of perspectives. From an accounting or control perspective, three types of environmental analysis are inherent in strategic reviews. Marc. J. Epstein, "Tools and Techniques of Environmental Accounting for Business Decisions", *Management Accounting Guideline 40*, Hamilton, Ontario: The Society of Management Accountants of Canada, 1996. *Costing analyses* include allocations of environmental costs, life cycle assessments, hierarchical costs and activity-based costing. *Investment analysis and appraisal* include assessments of total costs, multi-criteria and environmental uncertainty and risk. *Performance analyses* include evaluations of corporate, strategic business units and facilities, individual incentives, environmental multipliers, internal waste taxes and a balanced or systemic measures scorecard. Such reviews can be used to assess the budgetary implications of various environmental forces and conditions related to strategic programs and activities.

Another way of approaching budget reviews strategically is by using *competitive intelligence*. *Strategic analysis* techniques include evaluations based on industry classification, core competencies and capabilities, resources and future scenarios. *Product-oriented* analyses use teardowns (like they do in the automobile industry), life cycles and distinctive attributes. *Customer-oriented* analyses may be based on customer values, value chains and competitive benchmarking. Traditional ratios, sustainable growth rates and competitive costs and benefits are some of the *financial* analyses being used in budget reviews.

Competitive advantage is vital to strategic management. In reviewing budgets, resource allocations need to be evaluated in terms of whether or not they contribute to an organization's competitive advantages. Three of the most accepted strategic frameworks for performing value chain analyses involve the evaluations of industry structure, core competencies and market segmentation. Joseph G. San Miguel, "Value Chain Analysis for Assessing Competitive Advantage", *Management Accounting Guideline 41*, Hamilton, Ontario: The Society of Management Accountants of Canada, 1996. Although value chain analyses is more art than science it does offer an exceptional way to integrate strategic planning and budgeting with managerial accounting reviews in order to achieve the objectives of the organization.

Budget reviews are an important activity in the TSMP. They serve numerous purposes, chief among them is to guide and control the proposed and actual spending by organizations. Given the human frailties of men and women who have access to substantial sums of money and other resources, budget reviews are essential and becoming more imperative with each passing year.

