

Beyond Budgeting

Beyond Budgeting recognizes three separate budget purposes and treats them separately:

- Target setting: A *target* is what we want to happen, reflecting our ambitions.
- Forecasting: A *forecast* is what we think will happen, whether we like what we see or not.
- Resource allocation: *Resource allocation* is about what it takes to make it happen, it is about optimizing scarce resources.

In a conventional budget, these three different purposes are typically addressed in one process which results in one set of numbers: the budget. However, this approach often creates conflicts. For example, when people are asked to make a sales forecast, they often reduce their forecasts to make sure the final number is something they know they will hit or exceed. Another example is a cost forecast that a line manager makes who also knows it is the only chance for getting access to resources for next year. We all know what happens: gaming, sandbagging, lowballing and, of course, biased forecasts as discussed in Chapter 2.

Such conflicts can be solved by separating the three purposes into three different processes, allowing each one to operate with different numbers and be executed in different ways. The following list explores these concepts further:

- Relative targets: should reflect our ambitions but when possible avoid absolute targets; instead the targets should relate to competitors' performance or others we can compare ourselves with. Bjarte Bogsnes, chairman of the Beyond Budgeting Institute, details, "The purpose of such targets should, however, mainly be learning (especially internally), with the gentle performance push as a nice side effect. Nobody likes