



Use of Flexible Budgeting to Face Economic Uncertainty and a Changing Business Environment

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ABSTRACT

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Flexible fencing is an approach in financial planning and financial management designed to deal with economic competition and changing business environments. In a fast-changing and unstable business environment, traditional budgeting methods may be less effective because they tend to be rigid and difficult to adapt to unexpected changes. There are two ways to look at flexible budgets: from a corporate finance standpoint and from a personal finance standpoint. From a company's financial point of view, a flexible budget is a budget plan that adjusts to changes in costs, volumes, and revenues.

Simply put, a company calculates how much budget it has, estimates how much it needs, and how many targets it wants to achieve. Meanwhile, from the point of view of personal finance, flexible budgeting is a method of financial budget planning that is prepared based on financial conditions, income, and expenses. Then adjust it according to changes in spending habits that occurred in the previous year. Usually, personal budgets are adjusted in monthly periods when all kinds of billing cycles occur.

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A. INTRODUCTION

In an era of economic uncertainty and rapid changes in the business environment, effective financial management is becoming increasingly important for organizations. One important aspect of financial management is budgeting, which involves the planning, allocation, and supervision of financial resources. However, in the face of high economic uncertainty and

unpredictable changes in the business environment, traditional budgeting is often not flexible enough to accommodate the necessary changes.

Redburn (2007) reiterates that economic demands can be reduced by projecting future product demand. Management is ready to lay off some employees during times of economic crisis. Management can easily hire additional workers to meet the additional demand for the company's products and services during times of hectic economic progress.

The company uses a flexible budget as a starting point to achieve its goals and objectives. Flexible budgets are accepted by many because they include input from all affected parties. Thus, managers, subordinates, supervisors, and marketing personnel are responsible for their own input in the preparation of the budget. The flexible budget focuses on incorporating innovation during the company's facility upgrades in London, Scandinavia, Ireland, and Continental Europe.

The purpose of this study was to analyze the use of flexible budgeting as an effective strategy for dealing with economic uncertainty and changes in the business environment. In this study, we will explore the concept of flexible budgeting, factors that influence economic uncertainty, and factors that influence changes in the business environment, as well as the relationship between flexible budgeting and economic uncertainty and changes in the business environment.

B. THEORITICAL FRAMEWORK

This research will focus on business organizations in various industry sectors and the extent to which the use of flexible budgeting can help organizations deal with economic uncertainty and changing business environments. The research will include literature analysis, case studies, and discussions to provide a comprehensive understanding of flexible budgeting and its benefits in different contexts.

C. METHOD

To obtain the data and information obtained in the preparation of this article, writing using the library research method is research conducted by

reading or studying management books, literature, and other references that have to do with the problem discussed.

D. FINDINGS AND DISCUSSION

1. Traditional budgeting and flexible budgeting

Traditional budgeting is a budgeting method that is based on static projections and estimates, where budgets are set for specific periods without much room for change. This approach generally focuses on stable conditions and predictability in the business environment. However, when faced with high economic uncertainty and rapid change, traditional budgeting becomes less effective because it cannot adjust to changing conditions.

A traditional budgeting system is a way of preparing budgets that is not based on thinking and analyzing a series of activities that must be carried out to achieve predetermined goals.

The two main characteristics of the traditional budget system approach are the way budgeting is based on the incrementalism approach. The main emphasis and objective of the traditional approach are centralized supervision and accountability. Incrementalism means adding and subtracting the amount of rupiah in existing budget items from the previous year's data. The main problem with the traditional budget system is that it does not pay attention to the concept of value for money (VFM). There are three concepts in VFM, namely economy, efficiency, and effectiveness.

The second characteristic of the traditional budget system is the structure and arrangement of the budget, which is line-item. Line items are based on the nature of receipts and expenditures. The main problem with the traditional budget system is that it is not able to disclose the amount of money spent on each activity. The line-item budget method does not allow items of receipt or expenditure that already exist in the budget structure.

Flexible budgeting, on the other hand, is a more adaptive and responsive approach to changes in the business environment. In flexible budgeting, budget plans can be adjusted and adapted to evolving conditions, giving organizations the ability to respond more effectively to

market and economic changes.

In this case, the role of the flexible budget is as a companion to the static budget to cover expenses outside the plan at the beginning of the year of the company's operation.

The basic characteristics of a flexible budget include the following two things:

1. Budgets are dynamic and adjusted to the level of activity of the company within a certain period of time.
2. Budgets are created for the purpose of funding within the range of an activity, not just one activity.

In its application, there are three forms of flexible budgets that are most often used, namely:

1. Formula Form

This form is a flexible budget drawn up in the form of a formula. Arranged in a form that describes the variable elements and fixed elements clearly owned by each cost item.

2. Table Shape

If you make a flexible budget in the form of a table, you can see how much each post costs. The amount of this cost can be seen at various levels of activity or output. However, in this form, the budget will not show fixed elements or variable elements.

3. Graphic Shapes

The latter form is a graph. For graphic form, it is a flexible budget that is presented with complementary forms from the previous two types of budget forms, namely formula form and table form.

Not only those 3 forms, there is still 1 more form of flexible budget. The form is asset-based.

This form of asset is a method of creating a budget that is based on the calculation and measurement of business activities and associated costs.

2. The Effect of Economic Uncertainty on Business Planning

Economic uncertainty is characteristic of unstable and unpredictable economic conditions. Fluctuations in interest rates, inflation, consumer

demand, and the global political situation can cause economic uncertainty. When facing economic uncertainty, companies often find it difficult to plan business activities and set accurate budgets.

Depending on how much information is known about a situation, business uncertainty can be classified into four levels:

a. Business Uncertainty: A Predictable Future

Here, almost precise predictions can be made about the situation. For example, when a company decides to enter a similar market as the host country, it will have more information to predict potential sales, consumer demand, and product trends. These predictions reduce uncertainty and allow businesses to make better decisions. Some tools for businesses to make forecasts about the market include market segmentation, competition analysis, value chain analysis, and Porter's Five Forces.

b. Business Uncertainty: Future Alternatives

In this case, the business is presented with limited future results. It is still unknown what the outcome will be, but businesses can make rough predictions based on known data. For example, when faced with a number of investment options, a company can calculate the potential return on investment (ROI) of each investment and choose the one that has the highest ROI.

c. Business Uncertainty: Future Range

Here, future outcomes are determined by a set of variables. There are all sorts of future alternatives, not just a few, like at Level 2. For example, when a company enters a new market, the customer base can be at very high or very low levels, or somewhere in between. It is difficult to predict the outcome of every scenario.

d. Business Uncertainty: True Uncertainty

In this case, nothing is known about the future. As a result, uncertainty is at its highest level, and no predictions can be made. For example, the introduction of touch-screen technology by Apple in 2007 caused a lot of uncertainty in the technology industry because most companies at the time were not yet familiar with this technology.

Previous research suggests that economic uncertainty can affect business decision-making and lead to conservative tendencies in budgeting. Flexible budgeting has been identified as one way to address these challenges, as it can help organizations adapt quickly to changing, unstable economic conditions.

3. The Effect of Changes in the Business Environment on Budgeting

A rapidly changing business environment, such as new technological developments, increased competition, or regulatory changes, can cause uncertainty for organizations. Traditional, rigid budgeting may not be able to properly anticipate these environmental changes, thus affecting a company's ability to achieve its strategic goals.

Several studies have highlighted the importance of flexible budgeting in the face of a changing business environment. With flexible budgeting, companies can be more responsive to market changes and make more timely decisions, which can ultimately improve organizational performance.

E. CONCLUSION

Flexible budgeting is a more adaptive and responsive approach to changes in the business environment. In flexible budgeting, budget plans can be adjusted and adapted to evolving conditions, giving organizations the ability to respond more effectively to market and economic changes.

The basic characteristics of a flexible budget include the following two things:

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2. Business Uncertainty: Future Alternatives
3. Business Uncertainty: Future Range
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