Analytica de Negocios
FP&A CONSULTING

PLANNING / MANAGEMENT CONTROL

Why budgeting is key for companies

A budget is not an accounting formality: it turns strategy into decisions, discipline and results.

More than numbers on a spreadsheet

In its simplest definition, a budget is the quantitative expression of an action plan for a given period. But that definition falls short. In practice, the budget is the document that translates strategy into measurable commitments, allocated resources and clear responsibilities. Above all, it is a management-control mechanism that coordinates individual efforts toward the goals of the whole organization.

Its value is not theoretical. McKinsey & Company documented that companies with robust budgeting processes achieve a return on invested capital (ROIC) between 2 and 4 percentage points higher than those without them: the budget forces the organization to prioritize, to say no to less profitable alternatives and to monitor execution with discipline.

Three functions that justify it

The budgeting process fulfills three essential functions in any organization. **Plan:** it forces leadership to think about the future with rigor and sparks strategic conversations about priorities and capabilities. **Coordinate:** it aligns teams with different interests — sales wants to sell more, operations needs capacity, finance protects cash — with a common language to negotiate. **Control:** it sets the standard against which performance is measured; without an approved budget, a company cannot tell whether its result was good, average or poor.

Also — and above all — for SMEs and startups

A costly mistake in young organizations is to think budgeting is only for large corporations. They face the same resource-allocation and decision-making challenges, but with far less room for error.

38% of startups that shut down do so because of cash-flow problems that could have been anticipated with an adequate forecasting process.

Source: CB Insights (2023)

A budget lets them calculate their **runway** (how many months of operation the available cash can sustain), detect a rising **burn rate** in time, and build credibility with investors and banks, which demand solid projections before lending. For established SMEs, it is the gateway to professionalizing management and preparing for credit or a capital injection.

From the rigid budget to the continuous forecast

We live in a VUCA environment — volatile, uncertain, complex and ambiguous — where the assumptions of an annual budget can become obsolete within weeks. That is why high-performing organizations complement the budget with **rolling forecasts**: projections updated month by month. Gartner (2022) reports that 78% of the most financially sound companies already use them.

> *“Strategy without execution is a hallucination. Execution without a solid budget is a gamble.”*

Sources: Anthony & Govindarajan, *Management Control Systems* (2007); Kaplan & Norton, *Execution Premium* (2008); McKinsey & Company, *Finance Best Practices*; Gartner, *Finance Transformation Research* (2022); CB Insights (2023).