

Beyond Budgeting - Case Study

Global Exploration (GEX) is a company responsible for worldwide exploration of oil and gas. GEX consists of several sub-units, viz, African segment, Asian segment, and European segment. Approximately 300 people are employed in the company. Worldwide exploration of oil and gas implies working with large projects. The main focus is on generating new projects and a key challenge is to increase the number of wells on a yearly basis.

The company structure is hierarchical and planning is done centrally. At present GEX uses budgets as the primary mechanism of planning and control. Those budgets mainly concentrate on a company's divisions, cost reduction and short-run profit goals. There is a separate division to plan and monitor the company's long-run activities. The finance department sets operational performance targets for the other divisions annually in advance. The divisional performance is assessed based on the achievement of the predetermined targets. In addition to the targets set by the finance department, the Human Resources (HR) department also sets separate targets relating to training and development aspects.

The finance department prepares budgets based on the proposals submitted by the other departments. These proposals are mainly based on the "wish" lists of front line or exploration managers which contain what kind of program they want, how many wells they want to drill, etc. Further, these managers attempt to hide any planning gaps by incorporating unnecessary expense into the estimates.

The divisional managers are not satisfied with the company's current budgeting practices. The budgets set an upper limit and a base amount for expenditures. Managers generally tend to spend whatever amounts the budget authorized, even without a real necessity, because there can be budget cuts in the following year if the full allocation is not spent.

Top management of GEX do not perceive budgeting as an ongoing process that should continuously consider the dynamic environment of the world's oil and gas markets. Instead, they viewed budgeting as an annual one-shot exercise, which committed sizable resources for a considerable period of time. After finalizing the budgets, any amendments required are hardly allowed which has sometimes resulted in losing the opportunities to acquire new oil fields.

Required:

- a)
 - i. **Discuss** negative consequences of budgeting which pose as barriers to gaining competitive advantage in GEX.
 - ii. **Identify and explain** the weaknesses of the existing Performance Measurement System (PMS) in GEX.
- b) **Evaluate** how a beyond budgeting approach could facilitate GEX to overcome the negative consequences identified in part (a).