



## How to Save Money through Bottoms-Up Budgeting

*To save money, you need to reverse your budget process. Start from the bottom up, not the top down.*

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**I**n terms of your bottom line, spending is just as good as making more. It's good management to spend as little as possible without compromising the quality of what you're doing. It's called efficient use of resources. Or making do with less. Or being cheap. Depends on your perspective.

You're probably thinking, "What does he think we do, intentionally waste money?" No, of course not. But you may not be getting the savings you could, because you are probably going at the budget reduction process the wrong way—from the top down.

I will start with the assumption that you have an organizational budget. If you don't, stop reading and go develop one!

Now that you're back, let's discuss what bottoms-up budgeting is and how

it saves money. (No matter how well-run your organization, you can always save money by using bottoms-up budgeting.)

The term comes from the idea that people at the "bottom" of the organizational chart (those nearest the provision of service) make the best decisions about resource needs and use. We hear and read regularly about pushing decisions as close to the point of service as possible, but most organizations don't think of including spending decisions. That's a mistake. The people who need to develop your budget are those as close to the provision of service as possible. These people know more than you ever can about what their real needs are, how to spend money most effectively, and how to monitor outcomes best. Why? Because it affects their lives on an hour-to-hour basis.

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it should get to keep half  
of the "net."**



# Share the wealth, and there will be more. Be greedy now and the source of those savings will dry up.

## Steps to Bottoms-Up Budgeting

You cannot make a major change in your budgeting process by going to your line managers and staff and saying, "Here, write the budget." To make bottoms-up budgeting work, you need to take the following steps:

### **P**rovide Training and Orientation.

Many staff members have probably never seen the budget, much less understand how it is generated. You need to walk them through the process. Help them understand where your income comes from, what its limitations are, and how expense numbers have been developed in the past.

### **D**elegate Responsibility and Authority.

Bottoms-up budgeting won't work unless you pass both responsibility <I>and<P> authority to your staff. If you ask staff to help you develop the budget and then don't let them manage the implementation, you're no better off (and probably worse) than before. Staff must "own" the budget development process. Once senior staff reviews the budget and the board adopts it, line managers within the programs should authorize line items.

Say, for example, that your board authorizes a \$5,000 line item for supplies for one of your programs. You as an executive should have no control over what the staff buys, as long as the program meets any bidding requirements and stays within its \$5,000 budget. To

make this process work, you may need to rethink your control system and change your check-writing procedures. It's probably a good time for you to look at these areas anyway. Remember, the key is to give authority with responsibility.

### **R**eward Success.

Bottoms-up budgeting will not work without the added component of risk and reward. Staff members who are monitoring budgets must be at risk for their implementation. Thus, their evaluation should incorporate their budget management skills. More important, if staff come in under budget on the expense side, or over budget on the income side, they should be rewarded.

My recommendation is that, when a program beats its budget, it should get to keep half of the "net." In other words, if you are a private school, and your pre-school staff cuts their expenses by \$40,000, they get to keep \$20,000 (at no penalty on next year's budget). They can use this money as they see fit: to buy extra equipment, fund training, allocate funds for a part-time aide, and the like.

This reward system is crucial. Otherwise, staff don't have the incentive to look for bargains or cut costs. If you are giving the staff less than half of their savings, your incentive levels will drop. Don't be greedy as an administrator.

Remember, you just got some "free" savings. Share the wealth, and there will be more. Be greedy now and the source of those savings will dry up.

### **P**rovide Regular Feedback and Reporting.

The only way your staff members can monitor how they are doing is by having your accounting people report back to them. The best format is to have a monthly statement that shows actual income and expenses versus budget for the current month and year to date. Provide such a statement for each program. The administrator in charge of overseeing that program should go over the statement with the line staff and manager—but only question lines with large discrepancies (say, 10% in a monthly line and 5% in a year-to-date line). This communications flow will help everyone be comfortable with the delegation of responsibilities. It will also assure that no program area staff members have concerns or questions that aren't answered.

## Time to Get Started

If you do this kind of budgeting, you will see results. You're likely to see 10-15% savings in non-personnel lines, and even savings in personnel lines in some cases.

I would not suggest, however, that you implement this process wholesale if you have a traditional top-down approach. Try this new approach next year in one or two programs with the highest likelihood of success. Orient all staff to the new approach and, at the end of the year, publicize the results and expand the program.

## People at the "bottom" of the organizational chart make the best decisions about resource use.



Don't expect all staff to welcome this idea. Don't be surprised if they resist when they find out how tough the job is. Be firm in insisting that it's crucial for them to understand the budget and the allocation of resources.

Resistance to change aside, the process works. One Midwestern non-profit credits its success to such a bottoms-up, incentive approach; it grew from \$29 million to over \$100 million in 12 years. While your organization may not see that much impact, you will see savings. At the same time, your staff will be more empowered and have increased ownership of your organization. ■

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\*Available through the Society for Nonprofit Organizations' Resource Center. To order, see the Society's *Resource Center Catalog* or contact the Society at 6314 Odana Road, Suite 1, Madison, Wisconsin 53719 (800-424-7367).

\*\*Available from Corporate Alternatives, inc., 301 W. Cook St., Springfield, Illinois 62704 (217-544-5687).

#### Financial & Accounting Software Resources

*Axcent for Not-for-Profit Organizations software*, Axcent Accounting Software, 4635 South Lakeshore, Tempe, Arizona 85282 (phone 800-292-3681 or 602-838-3030; fax 602-345-4109).

*Blackbaud Fund Accounting software*, Blackbaud, Inc., 4401 Belle Oaks Drive, Charleston, South Carolina, 29405 (phone 800-443-9441; fax 803-740-5410).

*DOS-NETWORKS-UNIX fund accounting software*, Cougar Mountain Software, 2609 Kootenai, Box 6886, Boise, Idaho 83707 (phone 800-388-3038; fax 208-375-4460).

*Echo Management fund accounting system*, Echo Management Group, 1620 Main Street, Center Conway, New Hampshire 03813 (phone 800-635-8209; fax 603-447-2037).

*Fund Accounting software, Advanced Data Systems*, P.O. Box 2130, Bangor, Maine 04402-2130 (800-288-8167). See "10 Tips for Better Fund Accounting," *Nonprofit World*, March-April 1995.

*Fund E-Z fund accounting software*, Fund E-Z Development Corporation, 220 White Plains Road, Tarrytown, New York 10591 (phone 914-332-0900; fax 914-332-0103).

*Fundware Accounting software*, American Fundware Inc., 1385 S. Colorado Blvd., Suite 400, Denver, Colorado 80222 (800-551-4458).

*Kenrick fund accounting software*, Kenrick Technologies, 8760 Manchester Road, St. Louis, Missouri 63144 (phone 800-659-2022; fax 314-963-9432).

*MIP Fund Accounting software*, Micro Information Products, 505 East Huntland Drive,

Suite 340, Austin, Texas 78752-3772 (phone 800-647-3863 or 512-454-5004; fax 512-454-1246).

*Not-for-Profit Accounting software*, Micro Information Products, 505 East Huntland Drive, Suite 340, Austin, Texas 78752-3772 (phone 800-647-3863; fax 512-454-1246).

*Uniform Financial Reporting and Analysis software*, AA Software, 429 S. Huntington Avenue, Boston, Massachusetts 02130 (617-522-6531).