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Financial Planning at Small Construction Enterprises at the Formation Stage

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ABSTRACT

Planning is the most important function of management as it is the stage of planning when the main targets of the enterprise are determined and the assessment of the resources necessary for the targets implementation is made. The enterprise within its activities needs different types of resources, however the most important type of resources are financial resources as the availability of other types of resources as well as the opportunity to receive them always depends on the of financial opportunities. Planning of financial resources, determination of their optimum structure, the search of their sources is the most important task of financial management system and financial planning at the enterprise. Financial planning can be carried out with the use of various instruments, the most popular of which is the budgeting system. The advantage of budgeting is the absence of any strict established and fixed rules of planning and accounting as well as the opportunity to regulate forms and to determine indicators for the specific enterprise depending on its requirements. In this article the main features of the construction enterprises which influence the course and features of financial planning are considered. Also the requirements to the budgeting system imposed by the small construction enterprises at a stage of their formation to which, first of all, limitation of funds for planning and conducting the budget accounting belongs are considered in details. The integrated structure of budgets differing in the minimum set of the budget forms is offered as the decision. Some approximate forms of budgets are also developed and presented, however they can be adjusted depending on desire and requirements of the specific enterprise.

Keywords: Planning, Financial Planning, Business Plan, Budget, Budget Management at The Enterprise, The Project Budget, The Budget of Administrative Expenses, The Cost Budget on Salary

JEL Classifications: M41, M21

1. INTRODUCTION

Any modern business organization is the open system being influenced by the set of the environment factors. For this reason the efficiency of functioning of the enterprise depends on such environmental conditions as prices on raw materials, the demand for production types produces by the enterprise, dynamics of preferences of the target audience, changes of the technology and equipment, as well as fashion, the cost and availability of financial resources for the development, etc. The search of

the most effective technology, the determination of the target audience, the development of a product portfolio, methods of the product promotion, the search and allocation resources necessary for functioning of the enterprise is the task of management as the management system at the enterprise. The main functions of management recognized to be classical now were formulated by Fayol and over time they did not almost undergo changes, but received confirmation both in many scientific researches, and in management practice of the business organizations. Among these functions are planning, organization, motivation, coordination

and control (Fayol, 1949). Planning as the management function, determining the activities purposes as well as the means, necessary for their achievement, and also developing methods which are the most effective in the specific situations, is recognized to be the main and the most important function.

It is the stage of planning when we should determine strengths and weaknesses of the enterprise, the area in which the enterprise can be vulnerable or can take a strong position, and also should pledge the competitive advantages and tendencies of development (Hill, 2014). So, then the mission, vision, strategic targets of the enterprise, and the development strategy (investment strategy, marketing strategy, etc.), and also the tactical targets promoting step-by-step movement to the achievement of the strategic targets (Neilsen-Englyst, 2003; Hunger and Wheelen, n.d.; Brookins, n.d.) are determined or adjusted. However different types of recourses are necessary for the implementation of any purposes they are material, labor and financial recourses; respectively, there is a need of their planning. Thus the high quality of planning determined by the volume and quality of necessary and sufficient information makes up the base on which the business idea finally takes place.

As it has been already told, the enterprise in the course of its activities needs different types of resources, however the most important type of resources are financial resources as the availability of other types of resources and the opportunity to receive them always depends on the availability of financial opportunities. Planning of financial resources, determination of their optimum structure, the search of their sources is the most important task of the financial management system and financial planning at the enterprise. It won't be an exaggeration to tell that the quality of financial planning determines the success of the whole project (Kono and Barnes, 2010).

2. METHODOLOGY

2.1. Methods of Financial Planning

Nowadays there are numerous instruments of financial planning which are used and which have already proved their effectiveness. One of these instruments is the business plan which is traditionally created as the document for an investor and the internal action plan for implementation of a specific project used by the managers and the staff of the enterprise.

As the other instrument the expense budget which can include the costs connected with use in the production process of labor power, materials, machines and mechanisms, can act.

One of the most useful instruments of financial planning are budgets which are subdivided into operational and financial ones and form the complete and interconnected budgeting system at the enterprise which uses them.

So, financial planning is the planning of financial resources and funds of money at the enterprise, including determination of amounts and terms of need for financing. The essence of the financial planning is the management of the creation, distribution,

redistribution and the use of financial resources at the enterprise which is implemented in the disaggregated financial plans. Thus financial planning is the component of general planning process, including the development of production and marketing plans.

Financial planning can be carried out at the strategic and tactical level. Strategic financial plan is the instrument of implementation of long-term targets and tasks of the enterprise, and also the investment strategy of. The tactical financial plan is the annual plan of income and expenses of the enterprise (Brydson, n.d.).

The main purpose of the creation of a financial plan is the balancing of income of the enterprise with the necessary expenses. On the basis of information provided by the financial plan, management gets an opportunity of reasonable management of financial resources of the enterprise. This information, valuable for management, represents the set of financial indicators which need to be calculated and predicted by the means of available instruments and by the software (Savchuk, 2002). It is possible to name the level of income and expenses, the extent of deficit, the forecast level of gross and net profit, the forecast level of profitability, etc. as such indicators.

In the practice of financial planning the following methods are applied:

1. Standard method. This method is used for the determination of the need for financial resources on the basis of predefined regulations and technical and economic standard rates, including legislatively established ones (rates of taxes and other obligatory payments, depreciation charge rates, etc.), and as well as ones developed directly at the enterprise. So, for example, in the case of determination of product cost the expense rates for raw materials, fuel, expenses on wages, cost of operation of the equipment (depreciation, maintenance), etc. are used.
2. Method of economic analysis. With its help the dynamics of financial indicators, the tendencies of their change, and internal allowances of increase of the efficiency of the use of financial resources are determined. It is reasonable to apply this method when there are no financial and economic standard rates, and the interrelation of indicators revealed within the analysis is stable and will remain in the planning period.
3. Balance sheet method. This method allows to balance separate (especially significant planned indicators) and is used first of all for forming of the balance sheet.
4. Method of economic-and-mathematical modeling. This method allows to use the whole complex of indicators and relation between these indicators for the determination of the level of influence of change of one of several initial indicators on the resulting financial result.

Practice proves that the most convenient instrument of financial planning at the enterprise, is the system of budgets. It not only helps to coordinate plans in natural indicators to financial plans, but also gives the opportunity to predict cash flow and financial results, and gives the management the sufficient amount of information for the acceptance of reasonable managerial decisions. Besides, the plan-and-fact analysis applied in the budgeting system gives

the operational information on the extent of execution of plans and demonstrates the possible causes of failure that also gives the chance to apply the timely corrective action.

So, budgeting is treated as the production-and-financial planning of activities of the enterprise by the means of creation of budgets for separate divisions and, on their basis, the general budget of the enterprise, for the purpose of determination of their finance costs and results. Budgeting is the basis of acceptance of managerial decisions at the enterprise, of the estimations of all the aspects of solvency of the enterprises, for control and management of material and money resources of the enterprise, for the strengthening of financial discipline and subordination of interests and the targets of specific structural divisions to the strategic targets of the enterprise development in general and to the interests of owners of its equity (Kucherenko, 2010).

2.2. Budgeting Methods

The advantage of budgeting is the fact that any strict established and fixed rules of financial planning are not required. It is carried out on the basis of general methodical principles, but the specific form of budgets, the structure of budgets in the budgeting system and the set of the indicators used depend on the specific situation at the enterprise, that is on the needs of management for certain accuracy and disaggregation for planning. That is the information requirements of management which form the basis of the technique of forming of system of budgets at the specific enterprise. Nevertheless, some generalized methods of development of budgets of the enterprise on which it is necessary to rely in the course of forming of budgets are allocated.

According to the availability of basic data for previous periods the method of zero basis and the method of surplus can be distinguished (Research Paper, 2010).

The method of zero basis is applied, as a rule, in cases when planning is performed for the enterprise at the stage of formation. The process of formation is characterized still by low production volumes as the enterprise only enters the market, respectively; it is characterized by the absence of data the income and expenses for the previous years. All data of the budget are based on the forecast of income acquisition and costs which will be necessary to incur to receive such a level of income (goods production costs, its promotion and administrative expenses). As in such situation there are no retrospective data, planning is based on the existing standard rates or statistics.

The method of a surplus differs from the method of zero basis by the availability of retrospective information. This information provides the chance to analyze planned and actual indicators of budgets, to establish the causes of deviations and not achievement of target indicators. Actual data are the basis for planning on subsequent periods. In this case changes which will happen in comparison with the previous periods are predicted and economic effect of these changes is estimated. That means the indicators of the budget are exposed to adjustment taking into account forecasts of the change in price, changes of nature of the enterprise activities or in the production volume. Thus, the budgets are developed

on the base of surplus of the income and costs from the reached activity level of the enterprise.

According to the tendencies of planned indicators the methods “from top to down,” to “from below up” and “up and down” are distinguished (Bolojan, 2011; Rasmussen et al., 2003; Silingardi, 2014).

The method “from top to down” (top-down) is carried out according to the purposes and restrictions delivered by management of the enterprise on the basis of which the resource allocation exists. Actually the management plans production volumes for planning period and the main financial performance which must be reached by the enterprise during planning period. According to the established planned indicators for the enterprise in general, budgets of large structural divisions (departments, managements) which, in turn, are disaggregated in budgets of specific departments and sites are created. Within such a method the planned information is treated as if it goes down from management level to the level of divisions, is moves from top to down. This method of budgeting is the most widespread among the enterprises having the holding structure consisting of the head (“parent company”) and the affiliated companies. In spite of the fact that the enterprises and organizations included into the holding in many respects keep the economic independence, some functions (such as the function of financial planning and the analysis belongs) are transferred to the parent company (Verstina and Silantieva 2012; Kisel, 2014). In this case the divisions receive the budget which they are obliged to execute.

The method “from below-up” (bottom-up) assumes that the right to plan activities is first of all granted to the divisions. They determine their opportunities for production and the amount of resources necessary for production and the division activities. These private budgets of the divisions become the basis for forming of the consolidated budget of the enterprise in general. Thus, planned information moves on the organizational structure of the enterprise from below up. The advantage of such a method is the realness of the obtained data as in the specific divisions it is possible to determine most precisely the real production capabilities and to consider various nuances. Nevertheless, this method can be criticized for the creation of conditions for artificial overestimate of planned costs and understating of the income. This disadvantage, as a rule, is partially leveled in the course of consolidation of data of private budgets when each of the budgets is adjusted until the general result doesn’t satisfy the management of the enterprise.

As methods “from top to down” and “from below-up” have disadvantages which were named above, in their practice the enterprises try to implement the complex techniques allowing to combine the advantages and to minimize the disadvantages of both methods of budgeting. Such a mixed method is accepted to be called the method “up and down” (down-up). Within the application of this method the main task of the system of financial planning is the reduction in compliance of the targets of the enterprises determined by the management, as well as the specific knowledge of ways of achievement of these targets which the employees and the heads of structural divisions have.

3. RESULTS

3.1. Features of a Budgeting System of the Construction Organization

At each enterprise there can be some specifics of budgeting depending on the subject of financial planning, the system of the financial and non-financial targets. Therefore, speaking about the purpose of budgeting, it is necessary to remember that in each company as managerial technology it can pursue its own aims and use its own means, its own instruments.

As the system of budgets of the enterprise is the flexible instrument of financial planning which can be adjusted according to the needs of the specific enterprise and taking into account its specifics, the stage of lifecycle, the size, information needs of economic and financial nature, studying of modifications of budgeting systems for various organization types becomes the separate scientific task. The solution of this task will allow to use the developed recommendations that will reduce temporary, labor and even finance costs of the enterprise by the development of the technique of budgeting which is adjusted according to the features of business. We face this task in this research within which the authors marked out some features of the budgeting system of the construction enterprises at the formation stage.

The need for the research of budgeting at the construction enterprises at the stage of formation is determined by the features of this stage of lifecycle of the enterprise.

It should be noted that there are some industry features of budgeting in construction already revealed within the scientific researches and confirmed by the real practice of planning. These features concern, first of all, the priority of sequence of drawing up the budgets. Generally development of a complex of the interconnected budgets should be begun with the sales budget. Starting from the results of the marketing researches showing the market share which the enterprise could occupy and basing on the marketing plan which provides the promotion of production sales, the volumes of production are predicted (Wright, n.d.).

Data on the sales plan form the basis for the development of the budget of production which is developed, as a rule, right after the forming of the sales budget. Such sequence of the development of budgets is explained by the principle “it is necessary to make so much, how many you can sell, but not sell that is made.” Accomplishment of the specified principle allows to avoid storage costs of the considerable production surplus and difficulties on sale of the production launched which is not in a great demand for some reasons.

Based on the budget of production cost budgets for material resources, the budget of direct expenses on wage, the budget of general production and administrative expenses are formed. By the means of such sequence the logical and information interrelation of budgets and the indicators included in them is provided that finally it provides the justification of financial budgets - the budget of cash flow, the income and expenditure budget (Edwards, 2014; Chand, n.d.) - and the predicted financial results.

Such sequence of creation of budgets is characteristic for the majority of the industrial enterprises. Nevertheless, the enterprise can always independently determine a set of budgets necessary for it and use both a full range of budgets, and some of them or it can unite some budgets into one budget form for convenience and high informational content.

The complex of budgets of the construction enterprise differs from this general order. The budget of the construction enterprise always begins with the budget of construction (the budget of production of building and construction works). The budget of construction is formed on the basis of the completed estimate calculations which rely on the existing standard rates and therefore can be considered reasonable and high-precision. The sales budget and all other budgets are formed on the basis of data of the budget of construction.

However one more feature, characteristic for the majority of the construction enterprises should be noted. This feature is that the system of budgets should be structured according to the projects. Industrial enterprises can structure their budgets according to the production types, many enterprises which are engaged in other types of activities often structure the budget according to the financial structure and don't carry out structurization according to the projects or types of production. However for the construction enterprises the structurization of budgets according to the projects being carried-out has the special importance owing to a high capital intensity, the material capacity and labor input of each separate project as which certain constructions can be understood. So, on each separate project the budget of construction, the sales budget, the expenditure budget on material resources, the cost budget on compensation and so on should be formed (Jason, n.d.; Ford, n.d.).

For construction business it is especially important to consider the level of profitability and the profitability of the specific project. Besides, in such enterprises external financing is always attracted for the specific project. Respectively, to trace the efficiency of the use and the terms of return of borrowed funds is also convenient for the projects.

3.2. Features of the Budgeting System of the Construction Enterprises at the Formation Stage

As it was mentioned above in the article the budgeting system of the enterprise can be created taking into account the features, the stage of lifecycle and the resources, ensuring work of this planning system. We considered the features of budgeting at the construction enterprise in the previous section. In this section our attention will be concentrated on the construction enterprise at the stage of formation and the features of the system of financial planning and budgeting which can appear at this stage.

First of all, we will mark out the features of the construction enterprises which are at the formation stage. They include:

- The absence of financial data for the previous periods that causes the need of forming the budgets “from scratch” using the method of zero basis.
- Insignificant quantity of the projects which are carried out by the enterprise simultaneously. As a rule, quantity is 2-3

projects. The quantity of projects can gradually grow, but for “young” and only arising enterprises the development very seldom exceeds 10 projects. It means that the branching of the budgeting system according the projects at this stage won't be considerable. It is possible to pledge possibility of simultaneous accounting of 10 projects with the subsequent possibility of scaling and addition of projects in the budgeting system, however at the initial stage even the possibility of simultaneous accounting on 10 projects is the work for the prospect.

- The absence of branched organizational structure that proves the insignificant administrative expenses and the opportunity to integrate the relevant budgets. For example, management and business expenses for the enterprise in general are possible to be united and be treated within one budget form.
- The lack of resources for the organization of a complicated, branched and detailed system of the budget management. The system of the budget accounting of the enterprise can differ according to the information saturation, according to the level of integration of indicators and according to the quantity of the budget forms. However expenses on sale of this system will differ too. So, the budgeting system containing branched budgets and the disaggregated indicators can demand the considerable staff of economists who can expand to 20 or 30 people. The young construction company is not able to afford to pay service such number of specialists. It means the need of creation of such a model of financial planning which would not demand a considerable manpower and could be served by one or two specialists.
- In order to develop the offers for the forming of the system of financial planning within the research some structured interviews of the representatives of the construction enterprises at the formation stage (directors, project managers) were completed. Within these interviews the main requirements and wishes which are imposed by the management of the enterprises to system of financial planning at this stage were revealed. Among them there are such requirements.
- Simplicity, the lack of branched system of budgets which would allow to read easily the information contained in the budget as well as to manage the budget easily without attraction of additional staff.
- Separately provided data on the income and expenses on each of the developed projects, and also on the administrative and other expenses.
- The structure of the income and expenses of the budget should be approved with the representatives of the enterprise for ensuring the necessary detail of data presentation.
- The financial plan should consider availability of own and loan sources of financing.
- The budget should show the remaining cash balance for the end of each specific period or the project in general that will allow to predict the cash gaps and to accept some actions for their prevention.
- It is necessary to calculate the main indicators of economic effect and efficiency.

All these requirements allowed the authors to create some offers about the system of financial planning (budgeting) for the small

construction enterprises at the formation stage. For simplification of the system of budgets it has been offered not to distinguish the budgets of separate divisions, but to divide the consolidated project into the project budgets (the general budget for all projects is created additionally in order to allow the management to estimate both the efficiency of the separate project, and that of the set of the projects carried out by the enterprise), which contain the following data:

- The cash balance for the beginning and the end of every period (the period in this case is understood as a calendar month).
- Cash receipts (both in the form of revenue, and credits and loans).
- Disposal of money (expenses on works, materials, etc. making up cost, and also the payments for loans and credits, payment for the bank guarantees, etc. are specified).
- The main results of the projects: Gross profit, profit to the taxation, income tax, net profit, profitability of the project.

Such project budget combines the features of the cash budget as it demonstrates cash flows of the enterprise through its account, and also the income and expenditure budget as it allows to calculate the performance indicators.

The expenditure budget, connected with the office services of the enterprise, including administrative, management and business expenses in one budget form is separately kept. This budget of administrative expenses is the account (it has no profitable component) and should be considers with taking into accounted the following expense types:

- Office cost (rent, electric power, Internet, telecommunication).
- Management expenses (salary and bonuses of managerial personnel, entertainment expenses).
- Expenses on the fixed functioning of the office (purchase of office equipment and field service, stationery, software, services of banks).
- The one-time payments connected with receipt of licenses, fees, etc.
- Tax payments.

The costs connected with the salaries of the staff of the office are offered to be conducted separately. This will give the opportunity of inundated accounting of the amounts of the salary and bonus paid to the employees within the year. Data on the total amount of salary are used in the budget of administrative expenses.

Office costs for office can “lay down” on the projects equally (for example if the enterprise keeps at the same time 5 projects, each of them assumes on 20% of administrative expenses), or in proportion to project cost (revenues on the project).

The approximate form of the project budget offered for the use at the small construction enterprises at a stage of formation is presented in Table 1.

The offered form of the budget of administrative expenses is presented in Table 2.

4. DISCUSSION

Table 1: The approximate form of the project budget for the small construction enterprise at the formation stage

| Income and expense items | Month | Total |
|---|-------|------------|
| | 1 | (per year) |
| Balance in cash for the beginning of the period | | |
| Cash inflow within the project | | |
| Revenue | | |
| VAT to be paid | | |
| Revenue without VAT taking into account | | |
| compensation | | |
| Loan (internal) | | |
| Credit | | |
| Cash outflow within the project | | |
| Payments to contractors | | |
| Works performed by own efforts | | |
| Cost of materials | | |
| Share of office costs | | |
| Payments for loans, credits, bank to guarantees | | |
| Payment of % for the credits | | |
| Return of the credit sum | | |
| Payment of % for the loans | | |
| Return of the loan | | |
| Payment for the bank guarantee | | |
| Balance in cash for the end of the period | | |
| Gross profit | | |
| Profit to the taxation | | |
| Income tax | | |
| Net profit | | |
| Profitability of the project | | |

VAT: Value added tax

Table 2: Approximate form of the budget of administrative expenses

| Items of the expenses | Month | Total |
|--------------------------------------|-------|------------|
| | 1 | (per year) |
| Office services | | |
| Lease | | |
| Electric power | | |
| Internet | | |
| Intracity telecommunication | | |
| Long-distance telecommunication | | |
| Mobilie communication | | |
| Management expenses | | |
| Expanses on wage | | |
| Wage (with the personal income tax) | | |
| Bonus (with the personal income tax) | | |
| Charges from the wage and bonus | | |
| Purchase of office equipment | | |
| Service of office equipment | | |
| Purchase of office furniture | | |
| Stationery | | |
| Expenses on the software | | |
| Services of the bank (commission) | | |
| Entertainment expenses | | |
| Administrative expenses | | |
| Single payments to SRO | | |
| Monthly payments (contributions) | | |
| Licenses, permissions | | |
| Taxes to the budget | | |
| Property tax | | |
| Transport tax | | |
| Land tax | | |
| Total expenses | | |

SRO: Self regulating organization

The form of the budget of wage is offered as the simple register of wage, bonus and charges connected with wage for all the staff.

Thus, the offered scheme of forming of budgets of the small construction enterprises consists of 3 types of budgets:

- Project budget.
- Budget of administrative expenses.
- The expenditure budget of wage.

The consolidated budget for all projects acts as the consolidated budget (it has the same form as the project budget). It can carry out the functions of the consolidated budget because it considers the general cost level on administrative expenses, including wage.

The advantage of the offered system is its simplicity and laconicism that meets the main requirements of the arising organizations.

Besides, for implementation of planning and expenses according to the offered scheme any professional software isn't required - such a financial model can be easily realized by the means of MS EXCEL program that will allow not only to do calculations in the manual mode, but also to scale the system.

According the results of the research within which the offers on the budgeting system for the construction enterprising at the formation stage were formulated, the developed model was provided to representatives of the arising construction organizations who positively estimated its simplicity, convenience and profitability. It additionally confirms that the offered system of budgets conforms to the requirements which were stated by representatives of the construction enterprises.

5. CONCLUSION

In the conclusion, we will note that the research of the system of financial planning as the most important function of management of the organizations can be carried out with the use of various instruments, the most popular of which has been recently getting the budgeting system. The advantage of budgeting is the absence of the strict established and fixed rules of planning and accounting. The specific form of budgets, their structure and a set of the used indicators depend on the specific situation at the enterprise (its size, lifecycle stage, etc.), to be exact it depends on needs of management for planning of certain accuracy and disaggregation.

Within the research the problem of budgeting of the construction enterprise at the formation stage was delivered and successfully solved. For the solution of the problem information requirements of management of such enterprises and restraining factors to which, first of all, limitation of funds for planning and conducting the budget accounting belongs were revealed.

The integrated structure of budgets differing in the minimum set of the budget forms is offered as the decision. Some approximate forms of budgets are also developed and presented, however they can be adjusted depending on desire and requirements of specific enterprises.

In spite of the fact that the offered scheme of planning received positive assessment of experts (representatives of the enterprises) in case of primary acquaintance, it is necessary to carry out approbation of this scheme at the small enterprises which are at the formation stage. It will allow to reveal the weak points of the offered scheme and to enhance it subsequently.

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