Budgeting: From the top-down or bottom up?

There are as many ways to budget as there are organizations in the world, however the two main approaches involve setting the budget from a specified upper limit (top-down) or building budgets from the ground up based on need (bottom-up). This infographic explains the difference between the two major approaches. Budgets can built using either approach or a combination of the two.

TOP-DOWN BUDGETING

Definition

Top-down budgeting starts at the highest level of the organization and works downwards. The top of the organization determines appropriate financial allowance for departments and imposes budget on lower layers of the organization.

Advantages

Can save time for lower management, as they respond to a budget given to them rather than creating one on their own.

One budget is created at one time rather than having to combine budgets from several departments.

Disadvantages

Those who are not directly involved with the day-to-day operations of a department may not be aware of the particular expenses related to the department

Decreased motivation due to lack of ownership of the budget

BOTTOM-UP BUDGETING

Definition

Starts at the lowest level of the organization and works upwards. A budget is decided by lower-level management and then presented to top management for approval.

Advantages

Lower management creates the budget based on the needs of their department

Budget made by those closest to the department

Increased motivation due to ownership of the budget

Upper management can concentrate more on strategy

Budget holders have the opportunity to participate in setting their own budgets (also called participative budgeting)

Disadvantages

Budgets may not be in line with corporate objectives

Budgetary slack: managers set targets that are too easy to achieve

AssetWORKS