

Analysis of Cost Budgeting as a Management Control Tool at Nike Inc.

Tio Pratiwi¹, Ratna Dewi²

^{1,2} Akuntansi, Sekolah Tinggi Ilmu Ekonomi STAN IM

² correspondence: ratnadewi170795@gmail.com

ABSTRACT

The cost budgeting policy emphasizes the preparation of budgets and revenues. A thorough analysis is the first step to ensure that the budget developed accurately reflects the actual situation. This study was conducted at Nike Inc. to determine whether cost control could assist management. The author discovered that the preparation of cost budgets presents a challenge due to the differences (variations) between the budget and actual results, which are reflected in favorable or unfavorable variances. The findings suggest that the role of cost budgeting in Nike Inc.'s management control functions has not yet reached its full potential, as negative deviations are still present. This research explores the role of cost budget analysis as a management control tool at Nike Inc. Effective budgeting plays a crucial role in planning, coordinating, and controlling company resources to achieve organizational objectives. By analyzing the implementation of budgeting and cost management practices at Nike Inc., this article highlights how budgeting serves as a framework for decision-making and performance evaluation. The study uses both qualitative and quantitative approaches, utilizing financial data, reports, and management strategies implemented by Nike Inc. The findings emphasize that cost budget analysis is essential in optimizing resource allocation, minimizing deviations, and aligning operational activities with company objectives. The study underscores the importance of a robust budget control mechanism to maintain financial discipline and enhance overall organizational efficiency.

Keywords: Budget, Costs, Management Control, Nike Inc., Resource Allocation, Financial Performance, Organizational Efficiency.

INTRODUCTION

The planning and cost control reflected in the budget prepared by the company is crucial for maximizing implementation, as the value of the project to be managed is relatively substantial (1). Achieving the company's goals effectively and efficiently with a well-structured budget is also implied in the theory of effectiveness, which suggests that a properly prepared budget serves as an effort to organize the company's plan for managing its financing (2).

The budget acts as a tool for planning and monitoring, where the company's cost planning and allocation are executed carefully and thoughtfully to achieve the company's operational objectives (3). It also reflects how the management, particularly in the financial

sector, controls the available funds and the expected revenue (4). The budget plays an essential role in the early stages of business planning, as it is viewed as a critical support for operations and a measure of success (5).

In the company's operations, the expenses incurred need to be properly budgeted (6). The amount allocated for operational costs differs from the actual expenditures incurred. When preparing a budget, reporting and analysis of cost budgets are necessary, as part of the management control process planned by managers, so the company can achieve its set objectives (7).

Nike Inc's cost planning or operational budget reflects the company's sales outlook, aligning sales targets with customer needs (8). This preparation allows Nike to allocate a budget to

manufacture each product and assess the potential profit or margin that may be gained (9).

The company uses cost management as a crucial strategy to achieve its objectives and save money effectively. The cost budget becomes an essential tool for controlling expenditures to align with the business plan. The cost budget is significant not only for evaluating the responsibility centers within the organization but also as a guide for operations (10).

This indicates that the preparation of a budget and a work plan for a year or even longer involves setting both measurable and unmeasurable costs (11). Therefore, in preparing a budget, the company will achieve its goals by providing a structured work plan that encompasses the operational steps of the company. The work plan and budget are not only guides but also tools for controlling and supervising activities, ensuring that the budgeted costs align with the company's budget (12).

Previous research has shown that PT Berjaya Group Medan's budgeting for controlling the costs incurred by management, for preparing an operational cost budget, revealed that during 2009, actual operational costs exceeded the allocated budget, indicating that cost control was not effective at PT Berjaya Group Medan (13).

The budget serves as a planning guide and a critical oversight tool. Companies can identify potential errors in operational activities by

comparing the budget with actual data and results (14). Operational cost budgeting remains a central focus for monitoring and control, playing a significant role in overseeing company operations and responsibilities, particularly in financial management (15). However, it is important to remember that while an operational budget may be prepared, it does not guarantee that all expenses will align with the planned budget. Continuous attention and adjustments are required to ensure that actual costs and the estimated budget remain in sync (16).

In management, control is a periodic process designed to achieve clear objectives successfully. It includes comparing performance with plans and taking corrective actions to address any errors. Ensuring that the company meets its goals, policies, and established standards is the main objective (17). Control involves four primary tasks: setting performance standards, measuring achieved performance, comparing performance with standards, and making corrections if discrepancies are found. In this context, management uses the budget as one of its control instruments (18).

Nike Inc. is one of the most iconic and influential companies in the global footwear industry, consistently setting benchmarks in terms of style, performance, and innovation. Nike Inc.'s extensive product line and strong brand identity have cultivated a large and loyal customer base worldwide (19). Nike produces high-quality, stylish, and performance-oriented products catering to a diverse range

of consumers, from professional athletes to casual users (20).

Nike's inventory, consisting of footwear, is divided into 38% male products, 32% female products, and 30% unisex products. The distribution of Nike Inc.'s inventory reflects a relatively balanced approach in serving both

male and female consumers, with a significant portion of unisex products designed to appeal to a broader audience (21).

The following table outlines the costs incurred by Nike Inc. during the 2022-2023 fiscal year, as reflected in their financial report:

Table 1: Income statement 2022-2023

Poin	2022			2023		
	Actual	Budget	Change	Actual	Budget	Change
Revenues	\$ 12.825	\$ 12.234	5%	\$ 51.217	\$ 46.710	10%
Cost of Sales	\$ 7.230	\$ 6.731	7%	\$ 28.925	\$ 25.231	15%
Gross profit	\$ 5.595	\$ 5.503	2%	\$ 22.292	\$ 21.479	4%
Gross Margin	43,6%	45,0%		43,5%	46,0%	
Demand creation expense	\$ 1.092	\$ 1.061	3%	\$ 4.060	\$ 3.850	5%
Operating overhead expense	\$ 3.282	\$ 2.974	10%	\$ 12.317	\$ 10.954	12%
Total selling and adm expense	\$ 4.374	\$ 4.035	8%	\$ 16.377	\$ 14.804	11%
% of Revenue	34,1%	33,0%		32,0%	31,7%	
Interest expensen (income) net	-\$ 28	\$ 40		-\$ 6	\$ 205	
Other (income) expense, net	\$ 3	\$ 54		-\$ 280	-\$ 181	
Income before income taxes	\$ 1.246	\$ 1.374	9%	\$ 6.201	\$ 6.651	-7%
Income tax expense (benefit)	\$ 215	-\$ 65	431%	\$ 1.131	\$ 605	87%
Effective tax rate	17,30%	-4,70%		18,20%	9,10%	
Net Income	\$ 1.031	\$ 1.439	-28%	\$ 5.070	\$ 6.046	-16%

Source: Processed data, 2024

Selling and administrative expenses increased by 11 percent, reaching \$16.4 billion. Demand creation costs amounted to \$4.1 billion, reflecting a 5 percent rise compared to the

previous year, primarily due to higher advertising and marketing expenses, as well as increased sports marketing costs. Overhead operational expenses rose by 12 percent,

totaling \$12.3 billion, largely attributed to higher wage-related costs, variable direct expenses associated with NIKE, and increased investments in strategic technology companies (22).

This study differs from previous research in that it focuses on a different object of study, as well as varying periods of observation. Previous research examined PT Berjaya Group Medan from 2008 to 2012, while this study focuses on Nike Inc. with research conducted in 2022-2023. However, the results of this research indicate that actual expenses have exceeded the budgeted figures (23).

Thus, the research question addressed in this study is: How does Nike Inc. implement its cost budgeting as a control tool in alignment with the company's management interests?

The purpose of variance analysis is to identify discrepancies between actual results and the previously set budget, allowing researchers to pinpoint the sources of any deviations. If the actual costs exceed the budgeted ones, it is deemed unfavorable (24). Conversely, if the actual costs are lower than the budget, it is considered favorable. (This leads into the introduction). Therefore, the hypothesis in this

study is that the cost control measures implemented by Nike Inc. align with the interests of the management

METHODS

This study employs a qualitative approach with a budget variance analysis method to compare actual results with the budgeted cost plan (25). The data used is secondary data obtained from the company's financial statements, which are published on the company's website. This approach integrates elements of efficiency (the amount of input required to achieve the desired output) and effectiveness (the extent to which objectives are achieved) (26). Variance analysis helps assess performance by examining whether actual costs are higher or lower than the budget, while also ensuring that the results achieved are optimal. The formula for calculating variance is: $\text{Variance} = (\text{Actual} / \text{Budget}) \times 100\%$.

RESULTS AND DISCUSSION

The following presents the results of the cost budget analysis for Nike Inc. in 2023 as follows:

Table 2: Nike Inc Budget Variance Analysis Results 2023

Cost Name	Budget	Actual	Variance	%
Cost of Goods Sold	\$ 6.731	\$ 7.230	\$ 499	107,4%
Demand Creation Expenses	\$ 1.061	\$ 1.092	\$ 31	102,9%
Operational Overhead Costs	\$ 2.974	\$ 3.282	\$ 308	110,4%
Total	\$ 10.766	\$ 11.604	\$ 838	108%

Source: Processed data, 2024

From the table above, the analysis of the data indicates a discrepancy between the budgeted

costs and their actual realization. In total, there is an unfavorable variance, where the budget

set was lower than the actual costs, with a difference of \$838, or approximately 108%. This variance is observed across all cost categories incurred by Nike Inc., where the budgeted expenses were lower than the actual expenditures. As a result, when the company incurred operational costs, the actual amount was greater than the budgeted amount. This reflects that the company experienced a financial loss in terms of spending compared to the budget set (27).

Looking at all the cost components that experienced this unfavorable variance, it becomes clear that the primary cause of this discrepancy was the setting of a budget amount lower than the actual costs. This suggests that the company (Nike Inc.) did not utilize or implement the budget effectively and efficiently. Based on the analysis above, it is evident that Nike Inc. has not reached an optimal level of budget utilization as a management control tool. The variance identified is unfavorable, indicating that the cost control mechanisms for the budget were not effective at Nike Inc. in 2023 (28).

According to management theory, control is a systematic process undertaken by management to achieve organizational goals efficiently and effectively. The continued emergence of variances signals deficiencies in the planning or implementation of the budget, which needs to be reviewed and corrected within the company's budgeting management system (29).

The results of the budget cost calculations reveal that Nike Inc. has yet to maximize its cost control mechanisms. Therefore, the company's management control over its costs has not been able to assess the effectiveness of its management processes (30). The high variance reflects poor planning and cost control processes, which do not support the achievement of the company's objectives. Consequently, this study emphasizes the need for efficient planning to achieve optimal management control (31).

This indicates that Nike Inc. needs to implement better cost control in order to reduce its expenditures, thereby ensuring that the company can secure a more promising profit (32).

CONCLUSION

Based on the previous analysis and discussion regarding the cost budget at Nike Inc., it can be concluded that the company's budgeting process was ineffective. This is evidenced by the unfavorable cost variances experienced by the company in 2023. The cost budget set for 2023 needs to be revised so that management can take preventive measures to avoid significant over-expenditures, even if the differences remain within controllable limits. Moving forward, the company must exercise greater caution when preparing budgets for future periods to reduce the variance between budgeted and actual costs. By employing this approach, management is expected to better achieve the company's goals and control the budget more efficiently.

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