



“ZERO BASED BUDGETING AND TRADITIONAL BASED BUDGETING ” WITH SPECIAL REFERENCE TO ASHOK LEYLAND LTD, AT HOSUR.

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ABSTRACT

The Budgeting is a critical financial planning tool for organizations, aiming to allocate resources efficiently and drive strategic goals. Two widely used budgeting methods are Zero-Based Budgeting (ZBB) and Traditional-Based Budgeting (TBB). Traditional-Based Budgeting relies on historical data, where the previous year's budget is used as a baseline, adjusting for inflation, growth, or organizational changes. It is simple, time-efficient, and suitable for stable environments. However, it often perpetuates past inefficiencies and may lack critical evaluation of all expenditures. In contrast, Zero-Based Budgeting starts from a "zero base," requiring each department to justify every expense, regardless of past budgets. It fosters cost discipline, strategic prioritization, and eliminates redundant activities. ZBB is highly effective in dynamic, cost-conscious organizations but can be time-consuming and complex to implement.

Keywords: Zero-Based Budgeting (ZBB), Traditional-Based Budgeting (TBB), financial planning, resource allocation, cost management, budgeting methods, strategic prioritization, expenditure evaluation, organizational efficiency

INTRODUCTION

Zero-Based Budgeting (ZBB) is a method in which every financial expense must be justified for each new budget period. Unlike Traditional Budgeting, which builds upon previous financial allocations, ZBB requires an organization to assess expenditures from a zero base. This ensures that funds are allocated based on necessity and priority rather than historical spending patterns. Organizations that implement ZBB often experience enhanced cost efficiency, as unnecessary expenses can be eliminated. This budgeting approach is particularly beneficial for industries that undergo frequent changes or face financial constraints, as it helps in reallocating funds to high-priority projects. However, ZBB can be time-consuming, requiring extensive analysis, documentation, and involvement from department heads to justify every expense. Despite the effort, it fosters a culture of accountability and strategic planning by aligning spending with organizational goals.

RESEARCH BACKGROUND

Zero-Based Budgeting (ZBB) and Traditional Budgeting (TBB) in the context of Ashok Leyland's Unit 2 in Hosur. Given the company's position as a leading manufacturer in India's commercial vehicle industry, its budgeting practices play a crucial role in ensuring financial efficiency, operational effectiveness, and strategic resource allocation. The study explores the fundamental differences between ZBB, which requires a complete justification for each expenditure, and TBB, which builds upon historical financial patterns. It highlights how ZBB provides a more flexible and dynamic approach to cost management, aligning expenses with current organizational priorities while eliminating unnecessary costs. However, it also acknowledges that ZBB requires extensive documentation and managerial oversight, making its implementation resource-intensive.

COMPANY OVERVIEW: ASHOK LEYLAND UNIT-2

Ashok Leyland, a leading player in India's commercial vehicle manufacturing sector, operates in a highly competitive, cost. Sensitive, and innovation. Driven market. As financial pressures mount due to fluctuating fuel costs, regulatory changes, and evolving customer expectations, budgeting methods must ensure efficiency and alignment with strategic goals. Zero. Based Budgeting (ZBB) has emerged as a progressive alternative to Traditional Budgeting, enabling thorough cost justification and alignment with contemporary priorities such as sustainability and R&D. The study investigates how these methods are applied and balanced at Ashok Leyland's Hosur plant (Unit 2).

IDENTIFIED PROBLEM

- Avoid Wasteful Expenditures** Repeated budget reviews prevent money from drifting towards low- priority projects.
- Maximize Cost Efficiency*Hybrid budgeting provides the cost control of ZBB along with the stability of Traditional Budgeting."
- Cut Time Burden AI and automation automate expense justification, speeding up ZBB and making it more efficient.
- Balance Growth & Cost Reduction** Budget measures must be tied to long-term investments such as expansion and technological upgrades.

OBJECTIVES OF THE STUDY

- To Examine the Role of Technology in Budgeting Integration.
- To Identify Best Practices from Industry Peers.
- To Analyse the Impact on Operational Efficiency.
- To improve financial control and resource allocation
- To evaluate the benefits of zero-based budgeting.

INTRODUCTION

The Review of Literature is an essential section of this study as it provides a comprehensive understanding of the existing body of knowledge on Traditional Based Budgeting (TBB), Zero Based Budgeting (ZBB), and their application in organizations like Ashok Leyland. By examining previous research, theories, and case studies, this section highlights the benefits, limitations, and challenges of both budgeting methods, as well as the potential for integrating them to optimize financial planning and resource allocation.

REVIEW OF LITERATURE

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19. Parker, L. D. (2000) _ Budgeting in the 21st Century: A Review of the Literature. *Financial Accountability & Management*, 16(3), 241-267. This literature review examines the evolution of budgeting practices, focusing on the shift from traditional to more flexible budgeting methods.
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28. Evans, L. (2025) – "Zero-Based Budgeting and Organizational Agility". Evans examines how ZBB enables organizations to remain agile by continuously evaluating and justifying expenditures based on changing business conditions.
29. Baker, K., & Thompson, R. (2025) – "Digital Transformation in Zero-Based Budgeting". This study investigates how digital tools and analytics can enhance the ZBB process, making it more scalable, accurate, and efficient.
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32. Zero-Based Budget System and its Active Role in Choosing the Best Alternative to Rationalise Government Spending The zero-based budget represents a system for preparation of the financial budget which includes all the expenses that must be allocated for each new fiscal year. The budget starts from the "zero points" and any function within the unity government is analysed according to their needs and costs. Then a budget is prepared based on the requirements of the next stage, regardless of whether the budget is more or less than its predecessor.
33. EHIEDU, Victor Chukwunweike(2022)- Application of Budgeting Techniques in Fiscal
34. Institutions. The purpose of this study was to
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37. IMPLEMENTATION budget implementation problem in University of Calabar, Nigeria necessitated this study investigate the application of zero-based budgeting (ZBB) as a management tool for effective university budget implementation in University of Calabar, Nigeria. Abuh Adah1 Aliyu Mamman2(2023)- Assessing the Performance of Incremental Budgeting System Focused and futuristic organizations like Nigerian tertiary institutions are expected to put in place a financial plan of its activities to guide on how to generate financial resources and allocate them to achieve predetermined target or goal in a particular period or year.

38. Cynthia Juma Okotchi(2024)- EFFECT OF BUDGETARY PROCESS ON PERFORMANCE OF COUNTY GOVERNMENTS IN KENYA :
There has
39. been little attention and discussion in the academic literature on the relationship between budgetary process and performance of firms.

RESEARCH GAP

While several studies (e.g., Mukdad Ibrahim, 2019; Chaudhary, 2024) examine the conceptual and short-term impacts of ZBB, there is a lack of longitudinal research tracking long-term performance, efficiency gains, and institutional behavior changes in both public and private sectors after ZBB implementation. Despite the work by Baker & Thompson (2025) on digital transformation in ZBB, most research lacks empirical evidence on how AI, data analytics, and financial software systems practically support or hinder ZBB execution across sectors. Many studies focus on individual sectors (e.g., education, public administration), but few offer comparative analyses across sectors (healthcare, education, defense, private enterprise) to understand how ZBB and TB perform under different operational complexities

RESEARCH METHODOLOGY

The methodology section outlines the approach adopted for conducting the study, which focuses on comparing Zero-Based Budgeting (ZBB) and Traditional-Based Budgeting (TBB) at Ashok Leyland Unit 2. This study relies entirely on secondary data, using historical financial records to understand how different budgeting approaches influence cost control, efficiency, and strategic alignment. The research adopts a comparative and descriptive design, aiming to identify patterns and effectiveness in budget implementation over a five. Year period (2020– 2024).

DATA ANALYSIS AND INTERPRETATION

TABLE NO : 4.1.1
TABLE FOR RETURN OF INVESTMENT

Financial Year	Return on Investment (ROI) Range	Net Profit (₹ Crores)	Total Investment (₹ Crores)
2020	.67.19% to .100%	460	777.10
2021	3% to 6%	240	851.11
2022	3% to 6%	542	998.49
2023	3% to 7.7%	1,377	1,341.01
2024	6% to 7.7%	1,491	1,305.42

INTERPRETATION

During the period of 2020 to 2024, Ashok Leyland demonstrated a robust financial turnaround. ROI increased from negative (.67.19%) in 2020 to 6% in 2024, indicating improved investment efficiency. Net profit, which fell to ₹240 crores in 2020, jumped to ₹1,491 crores in 2024, led by higher sales and cost reduction. Total investment reached an all-time high of ₹1,341.01 crores in 2023, financing R&D, electric vehicles, and production expansion. The firm recovered from the effects of the pandemic successfully, recording historic profitability and business growth by 2024.

CHART NO: 4.1.1
TABLE FOR RETURN OF INVESTMENT

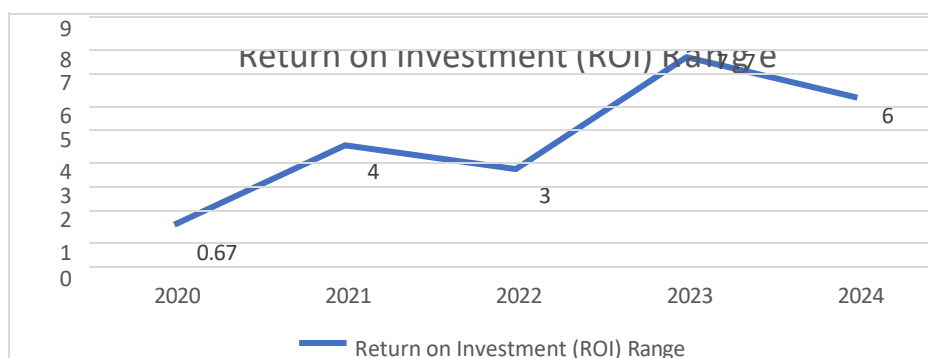
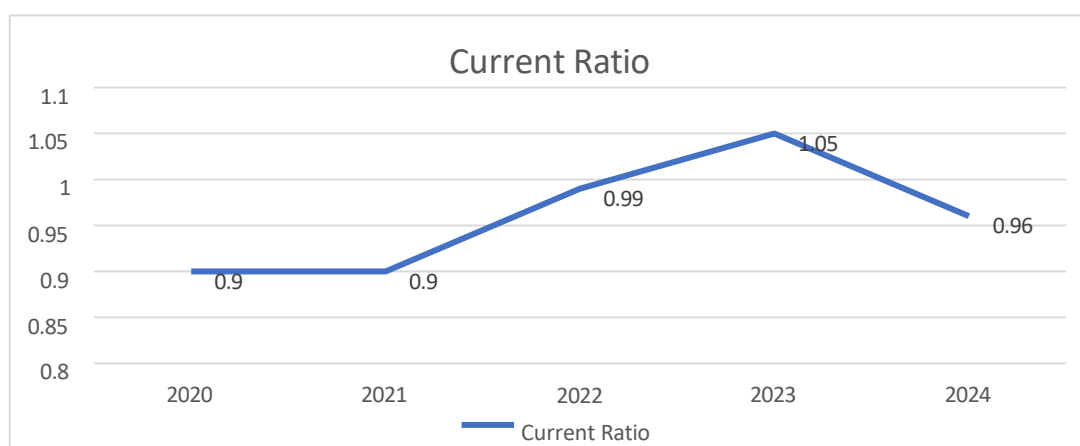


TABLE NO : 4.1.2 TABLE OF CURRENT RATIO

Financial Year	Current Assets (₹ Crores)	Current Liabilities (₹ Crores)	Current Ratio
2020	5,423	6,026	0.90
2021	7,452	8,280	0.90
2022	9,443	9,537	0.99

INTERPRETATION

From 2020 to 2024, the current assets of Ashok Leyland increased to a large extent, reaching ₹11,597 crores during 2023.24, reflecting a good financial position. Current liabilities have also risen high, reaching the highest level of ₹12,080 crores during 2023.24, resulting in the current ratio varying. It rose to 1.05 during 2022.23, reflecting improvement in liquidity, but fell moderately to 0.96 in 2023.24, reflecting an increase in short-term liabilities. In general, liquidity is steady but the company needs to balance liabilities to keep its finances healthy.

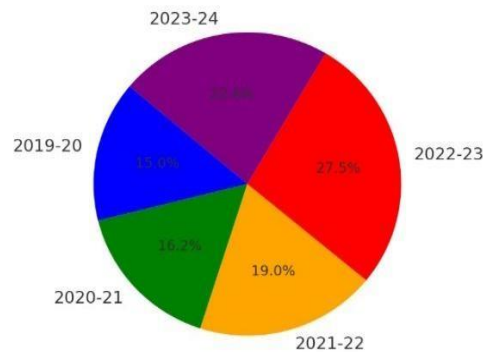
CHART NO : 4.1.2 TABLE OF CURRENT RATIO**TABLE NO : 4.1.3****TABLE FOR INVENTORY TURNOVER RATIO**

Financial Year	Cost of Revenue from Operations (₹ Crores)	Average Inventory (₹ Crores)	Inventory Turnover Ratio
2020	18,500	2,950	6.27
2021	19,200	2,840	6.76
2022	22,100	2,780	7.95
2023	27,500	2,395	11.48
2024	29,300	3,130	9.36

INTERPRETATION

The Inventory Turnover Ratio was trending upwards from 6.27 in 2019.20 to a high of 11.48 in 2022.23, reflecting effective inventory management and robust sales performance. The ratio dipped to 9.36 in 2023.24, reflecting potential inventory buildup or slower sales. An optimal turnover ratio is important to ensure improved cash flow, lower holding costs, and enhanced operating efficiency.

CHART NO: 4.1.3
TABLE FOR INVENTORY TURNOVER RATIO
 Inventory Turnover Ratio Distribution (2020-2024)



SUMMARY OF FINDINGS

The study was about the zero-based budgeting and traditional based budgeting of Ashok Leyland unit 2. The study was undertaken with the objective to analyzes and interpret efficiency of the company in the management of its budgeting, ratio analysis and Inventory

- Through aggressive receivables collection and vendor payments, ZBB enhanced liquidity by increasing cash reserves by 23.79% and reducing trade payables by 28.82%.
- ZBB reduced investments by 11.22% and intangible assets by 4.91% in 2019–2020, reflecting focused capital allocation and elimination of redundant digital assets.
- Traditional budgeting ensured stability with a 4.80% increase in Property, Plant & Equipment, showing its utility in maintaining steady asset expansion.
- ZBB restructured debt by shifting borrowings to long-term, reducing short-term liabilities by 20.67%, aligning with financial resilience.
- Trade receivables increased 101.94% in 2020–2021, under TBB, reflecting a credit-liberal approach to support revenue growth. Despite sales growth, ZBB-led reinvestments caused a 32.31% decline in cash reserves in 2020–2021.
- The combined approach saw a 3.65% growth in assets with reduced capex and goodwill, indicating deliberate expenditure cuts under ZBB.
- A 16.83% drop in goodwill in 2021–2022 reflects impairment reviews, aligning valuations with business performance.
- Cash & Cash Equivalents rose by 37.13%, showcasing ZBB's focus on liquidity optimization. Non-current
- borrowings reduced slightly by 1.72%, maintaining a lean capital structure under ZBB.
- Trade payables increased by 35.41%, reflecting continuous vendor payments and operational consistency. **SUGGESTION**
- Conduct regular audits to reassess budget allocations and eliminate inefficiencies.
- Redirect funds from low-priority sectors to innovation, R&D, and sustainability initiatives.
- Use financial performance benchmarks and data-driven analysis to identify and remove redundant expenditures.
- Implement cost-saving strategies while maintaining operational efficiency.
- Apply Zero-Based Budgeting selectively, focusing on discretionary spending while keeping fixed costs under traditional budgeting.
- Maintain flexibility in financial planning by allocating core operational costs using traditional methods.

- Create dedicated investment funds for expansion-related expenses, such as new technology acquisition and international market entry.
- Integrate the strengths of Zero-Based Budgeting and traditional budgeting to ensure fiscal discipline while enabling strategic investments.
- Allow for periodic budget adjustments to accommodate evolving business priorities.

CONCLUSION

The research into budgeting at Ashok Leyland Unit 2 identifies the differential methods and effects of Zero-Based Budgeting (ZBB) and Traditional Budgeting (TBB) in a volatile and competitive automobile industry. It calls for coordinating budgeting procedures with the business's strategic targets, including innovation, sustainability, and cost reduction.

DIRECTIONS FOR FUTURE RESEARCH

1. Hybrid Budgeting Systems Examine the effectiveness of a mix of ZBB and TBB to tap the strengths of each method for stable yet dynamic financial planning.
2. Sector-Specific Applications Examine the performance of ZBB and TBB across sectors such as healthcare, education, and manufacturing, with a view to sector-specific budgeting requirements and limitations.
3. Role of Technology Analyze the role of AI, automation, and predictive analytics in making it easier to implement ZBB and increasing TBB flexibility.
4. Behavioral Factors Analyze organizational culture, leadership, and attitudes of employees to determine how they impact the implementation and effectiveness of ZBB and TBB.
5. Longitudinal Impact Make studies to evaluate the long-term sustainability of ZBB and TBB in terms of their budget cycles, examining their long-run operational and financial impacts.
6. Developing Economies Examine the issues and potential of ZBB and TBB implementation in scarce-resource environments, with emphasis on political, technical, and economic considerations.

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